

761 CMR 20.00: ELIGIBILITY GUIDE

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20.01: Eligible Seller/Servicer

The Seller or Servicer of a Mortgage Loan in which MHMFA purchases a Loan Participation shall:

(1) be a corporation duly organized and validly existing under the Laws of the state or commonwealth in which it is organized and shall be in good standing in the Commonwealth of Massachusetts and shall have the power and authority, corporate and otherwise, to own its properties and carry on its business as now being conducted, and shall be duly qualified to do such business in the Commonwealth and wherever such qualification is required.

(2) be a Mortgage Lender as that term is defined in the Massachusetts Home Mortgage Finance Agency Act constituting St. 1974, c. 846, as amended;

(3) not be under any cease and desist order or other order of a similar nature, temporary or permanent, or any federal or state authority, not have any proceedings in progress or to its knowledge contemplated which would, if successful, lead to the issuance of any such order. Seller/Servicer shall maintain offices in The Commonwealth of Massachusetts;

(4) have obtained the consent or approval of any government instrumentality if such consent or approval is required for the Mortgage Lender to submit a Commitment Application or sell Loan Participations to MHMFA.

20.02: FNMA, FHLMC Approved Seller/Servicers

(1) if the Mortgage Lender sells or services any FHA or VA Mortgage Loans for MHMFA under this Agreement, it is an approved seller and servicer of FHA insured or VA guaranteed Mortgage Loans to and for FHLMC or FNMA, or it has obtained a written waiver from MHMFA from the requirements of 761 CMR 20.02 (1);

(2) if a Mortgage Lender sells or services any FHA Mortgage Loans for MHMFA under this Agreement, it is an FHA approved mortgagee;

(3) if a Mortgage Lender sells or services any VA Mortgage Loans from MHMFA under this Agreement, it is:

- a. a "Supervised Lender" as classified by VA under Section 500 (d) of the Servicemen's Readjustment Act; or
- b. an FHA approved mortgagee.

20.03: Fidelity Coverage (or Direct Surety Bonds); and Mortgagee and Fiduciary Policies

Each Seller or Servicer must maintain in effect at all times and at their expense a Fidelity Bond (or Direct Surety Bond) and a Mortgagee and Fiduciary Policy with coverages for (a) Mortgagee Errors and Omissions and (b) Mortgage Impairment (including errors and omissions), issued by a company which falls into a financial category, as designated in Best's Key Rating Guides, of Class VI or better and is specifically licensed or authorized by law to transact business in the Commonwealth, and on a policy form acceptable to MHMFA covering all officers, employees and other persons duly authorized by Seller or Servicer to act on behalf of Seller or Servicer. Fidelity coverage (or Direct Surety Bonds) and the Errors and Omissions coverage may be in the form of individual bonds or a blanket bond, covering all such persons and insuring Servicer, Seller and MHMFA as applicable, against loss arising from dishonest, criminal, fraudulent or negligent acts and errors and omissions of such persons. Mortgage Impairment coverage must insure Seller, Servicer and MHMFA as applicable against loss arising out of loss or damage to real property which results from a lack of insufficient of insurance covering loss or damage by fire or other peril.

No provision of 761 CMR 20.03 requiring Seller or Servicer to maintain bond or insurance coverage shall operate to diminish, restrict or otherwise limit Seller or Servicer's responsibilities and obligations as set forth in the Loan Servicing Agreement and Loan Participation Agreement. Deviations from the requirements of 761 CMR 20.03 will be considered by MHMFA upon request.

(1) Amount of Coverage Required.

(a) Fidelity Coverage or Direct Surety Bond -- Each Seller or Servicer shall maintain Fidelity Coverage or furnish a Direct Surety Bond on policy forms normally used by sellers or servicers of the same class as Seller/Servicer, in a minimum amount equal to percentage of its total servicing portfolio (i.e., loans originated or serviced for itself and others) in accordance with the following formula:

0.4 %	first	\$	50,000,000.00	of principal originated or serviced
0.2 %	next		50,000,000.00	of principal originated or serviced
0.15 %	next		400,000,000.00	of principal originated or serviced
0.125 %	next		500,000,000.00	of principal originated or serviced
0.1 %	over		1,000,000,000.00	of principal originated or serviced

Sellers or Servicers required to maintain fidelity coverage by an agency of the federal or state government shall maintain the higher amount of coverage where there is a discrepancy between the amount required under 761 CMR 20.03 and that required by the federal or state government agency. A deductible clause in the amount of \$1,000 or 0.1% of the face amount of Fidelity Coverage, whichever is higher, is permissible.

(b) Mortgagee and Fiduciary Policy -- Each Seller or Servicer shall maintain a Mortgagee and Fiduciary Policy on policy forms normally used by sellers and servicers of the same class as Seller/Servicer in a minimum amount equal to \$1,000,000. Seller/Servicer's coverage may contain a clause limiting coverage to \$100,000 for any loss which the Seller/Servicer shall become legally obligated to pay on account of any single claim made against it because of a negligent act, errors or omissions of Seller or Servicer (or its employees) for failure to pay hazard insurance, real estate taxes or special assessments on mortgage property.

(2) Reports. Upon request, the amount, kind and underwriter of Servicer's Fidelity or Direct Surety Bond and Mortgagee & Fiduciary Policy shall be reported by Seller or Servicer to MHMFA and adjustments in the amount of coverage may be required at that time.

20.03: continued

(3) Cancellation of Coverage or Refusal to Renew. Seller or Servicer shall promptly notify MHMFA if a Fidelity or Direct Surety Bond or Errors and Omissions Policy is cancelled for any reason. Seller or Servicer shall promptly notify MHMFA of any insurer's refusal to renew a Fidelity or Direct Surety Bond or Mortgagee and Fiduciary Policy at the expiration of a premium period. Seller or Servicer shall also notify MHMFA of any additional restrictive terms required by any insurer as a condition of renewal.

(4) Embezzlement, Fraud and Claims Against Underwriter or Surety. Seller or Servicer shall promptly report to MHMFA all cases of embezzlement, fraud, criminal or dishonest acts related to its loan origination or servicing activities by any employee, officer or agent of Seller or Servicer and claims made against any underwriter or surety.

20.04: Seller/Servicer to Satisfy FHA, VA and MI Insurance Requirements

Under the Servicing Agreement and the Loan Participation Agreement, Seller or Servicer is obligated to satisfy and comply with all requirements of the FHA, VA or private mortgage insurance with respect to Mortgage Loans serviced for MHMFA and in which MHMFA purchases a Loan Participation. Elsewhere in this Operations Manual, reference to FHA, VA and private mortgage insurance requirements is made and some guidance is given as to the nature of the requirements. However, it is Seller or Servicer's responsibility to see that all applicable FHA, VA or private mortgage insurance requirements are satisfied, so that the full benefit of the FHA insurance, VA guaranty or private insurance shall inure to MHMFA and Seller, as their interest appear.

20.05: Conflicts of Interest; Seller or Servicer's Access to Privileged Information Concerning Borrower's Accounts

Through normal origination and servicing activities, including the servicing of delinquencies, Seller and Servicer sometimes obtain privileged information concerning the Borrower and/or mortgaged properties. Such privileged information shall not be used by Seller or Servicer or by its officers, employees, agents or affiliates in any way which can be construed to represent a conflict of interest or an unfair advantage to the user. All such information shall be used in a manner consistent with any applicable laws or regulations regarding disclosure of credit information. Seller or Servicer shall not acquire, nor permit, to its knowledge, its officers, employees, agents or affiliates to acquire any property which secures a Mortgage Loan in which MHMFA owns a Loan Participation, unless MHMFA has informed Seller or Servicer in writing that it does not object to such acquisition.

20.06: Changes in Servicer's Organization; Event of Default

Seller or Servicer shall immediately notify MHMFA of any contemplated major changes in its organization, including, but not limited to, resignation of key personnel assigned to originate or service Mortgage Loans in which MHMFA purchases Loan Participations, mergers or consolidations, changes of name or corporate charter or, if Seller or Servicer is a corporation with less than 100 stockholders, a change of ownership of one-third or more of the stock of Seller or Servicer or of any parent corporation if Seller or Servicer is a wholly owned subsidiary of another corporation. Seller or Servicer shall immediately notify MHMFA of any event of default, as described in the Loan Servicing Agreement and Loan Participation Agreement.

20.07: Auditor's Report Relating to Servicer's Condition

Within 90 days after the end of the Seller and Servicer's fiscal year, Seller or Servicer shall furnish to MHMFA an auditor's report on the form provided at the end of this Guide, relating to Seller or Servicer's financial statements and operations in accordance with the requirements of the Uniform Single Audit Program for Mortgage Bankers.

761 CMR: MASSACHUSETTS HOME MORTGAGE FINANCE AGENCY

REGULATORY AUTHORITY

761 CMR 20.00: St. 1974, c. 846.