MONTANA
BOARD OF INVESTMENTS

BOARD ADOPTED POLICY

POLICY NUMBER: 70.750

EFFECTIVE DATE: November 30, 2021

TITLE: Residential Loan Program

SUPERSEDES: Governance Manual February 2021

BOARD ADOPTION: November 30, 2021

REVIEWED:

I. Residential Loan Program

A. General Parameters for the Board's Mortgage Loans

1. Interest rates, effective for a one-week period, are posted each Thursday.
2. Interest rates may be locked in for thirty (30) and sixty (60) calendar day reservation period during the one-week posting period.
3. Interest rates may be locked for a one hundred and eighty (180) and two hundred and forty (240) calendar day reservation period at the rate during the one-week posting period for take-out loans on residences under construction.
4. Conventional loans shall be submitted by means of Automated Underwriting through FHLMC or FNMA only, subject to the Board's criteria.
5. Residential loans must be secured by property owned by fee simple interest and located in Montana.
6. Maximum loan term is thirty (30) years, and each loan must be amortized monthly over the loan term.
7. FHLMC underwriting guidelines are used to evaluate all conforming conventional loans.
8. For loans requiring private mortgage insurance after July 29, 1999, the Board will consider cancellation when the Homeowners Protection Act and/or FHLMC guidelines have been met.

B. Yield Requirements

1. Interest rates, effective for a one-week period, will be posted each Thursday.
2. The posted rates reflect net yield to the Board and are exclusive of any Participant fees for servicing.
3. The net yield requirements on property that is not the primary residence of one of the borrowers will be one-quarter of one percent (25 basis points) above the residential rates.

C. Reservations

1. Participants may lock interest rates for a thirty (30) calendar day or sixty (60) calendar day reservation period at the rate last set.
2. Participants may lock interest rates for a one hundred and eighty (180) calendar day or two hundred and forty (240) calendar day reservation period at the rate last set for take-out loans on residences under construction.
3. A loan must be offered, underwritten, accepted, and closed by the Participant during the reservation period.

4. Delivery is mandatory. All documentation required for delivery under the commitment letter must be delivered to the Board as a complete package by the delivery due date. The delivery date shall be no later than sixty (60) days after expiration of the stated reservation period.
5. The Board reserves the right to take whatever action it deems appropriate to protect its interests and enforce its rights in the event of a late or non-delivery of documentation required under the commitment letter, including, but not limited to, assessing late delivery fees of up to fifty (50) basis points of the committed amount.
6. The Board will process Mortgage reservations through “Lender online” or fax a written confirmation to Participants within five (5) business days of receipt. A reservation number will be assigned for each confirmed reservation and the number will be permanently used by the Board and the Participant to identify the Reservation and the Loan.

D. Take-Out Loans for Residences Under Construction

1. The first reservation period for a construction loan may be extended in thirty (30) day increments up to a maximum of three hundred and sixty (360) days upon written request.
2. The Board will adjust to the higher of the original reservation rate or the prevailing interest at the time of the request to compensate for changes in its interest rate from the original commitment.

E. General Requirements 1 - 4 Family Residential Loans

1. The following requirements apply to all residential loans purchased by the Board:
   a) Mortgages must be secured by property owned by fee simple interest and located within the State of Montana.
   b) Only loans secured by a first mortgages on real property will be considered for purchase.
   c) The minimum size loan that the Board will purchase is $20,000.
   d) The maximum term for a loan offering is thirty (30) years. Each loan must be amortized monthly over the loan term.
   e) Mortgage offerings will be purchased on a net yield basis, with consideration given to the amount of funds available for investment and the return available on other permissible investments at the time of offering.
   f) In computing the yield to maturity, twelve (12) years average life estimate will be used for residential mortgages amortized for sixteen (16) years or more, and eight (8) years average life estimate for residential mortgages amortized for fifteen (15) years or less.
   g) Partial release of secured property will be considered. The Participant should provide a recommendation and furnish all necessary information and items in the form of a written request including the reasons for the partial release; anticipated use of the land; the legal description of the land to be released and survey, if required. The Board will not assume any costs associated with the release.
   h) The Participant must notify the Board of any transfer of ownership on a loan purchased by the Board. Transfers include, but are not limited to, sales on contract and wraparounds.
   i) The Participant must enforce the "due-on-sale" clause where it exists for all transfers and sales. The acceleration of the due date may be waived upon approval by the Board and upon written agreement on the rate of interest payable on the remaining amount.
   j) The Participant may not change the interest rate or Participant fee rate without written approval.
   k) All loans submitted for purchase to the Board from Board members or Board staff shall first be approved by the Board before the loan is committed and funded.

F. Conventional Loans – Appraisals

1. Licensed Montana appraisers are required. In submitting the appraisal, the Participant certifies that the appraiser is competent, has the appropriate experience, lacks a conflict of interest regarding the appraised property and that the appraisal report has been made in conformity with USPAP.
2. If the appraisal is not acceptable, another appraisal may be requested of the Participant.
3. Participants are responsible for the selection of appraisers and are solely accountable for the quality of the appraiser's work.
4. The following specific appraisal formats and requirements will be required for different classes of real property:
   a) Freddie Mac/Federal National Mortgage Association or Fannie Mae (Fannie Mae) Quantitative Analysis Appraisal Report Form 2055 on a previously occupied single-family owner-occupied residence.
   b) A uniform residential appraisal report is mandatory if required by the Desktop Underwriter finding report or Loan Prospector's feedback report. All appraisals must include internal/external inspections.

G. Conventional Loans - Underwriting

1. Only conforming conventional loans offerings utilizing Automated Underwriting through FHLMC or FNMA will be accepted subject to the following:
   a) Credit approval must be at least Accept or Approve Eligible.
   b) Freddie Mac/Fannie Mae Quantitative Analysis Appraisal Report Form 2055 on a previously occupied single-family owner-occupied residence.
      (1) A uniform residential appraisal report is mandatory if required by the Desktop Underwriter finding report or Loan Prospector's feedback report.
      (2) All appraisals must include internal/external inspections.
   c) Review and approval of qualified appraisal of the subject property by the Board.
   d) Investor-owned properties are ineligible for Automated Underwriting.
2. Freddie Mac underwriting guidelines will be used in evaluating all conforming conventional loans.
3. A manufactured home will be considered if it meets all FHA and Freddie Mac underwriting requirements, but is subject to the following limitations:
   a) No single-wide manufactured homes.
   b) Must have been built after June 15, 1976.
   c) Foundations must meet FHA requirements.
4. By submitting the loan application, the Participant warrants that the property is or will be in finished condition prior to the Board's purchase of the loan.
5. Escrow impound requirements will be based on Freddie Mac policy.

6. Unique characteristics that affect the marketability of a particular property in a particular community will be considered in determining whether the Board will require a lower loan-to-value ratio.

H. Conventional Loans - Restrictions

1. Ineligible loans include:

   a) Loans to trusts.

   b) Loans with conservation easements.

   c) A single lot (surveyed from a larger parcel) which does not abut a public road or is not in a neighborhood of like properties; determined on a case-by-case basis.

   d) Property which is in significant disrepair as determined in the appraisal or home inspection report.

2. Sweat equity will be considered in cases where the value of the work performed by the borrower is verified at the time of application by an estimate from an independent contractor experienced in the type of work performed who is not involved in the construction of the property.

   a) The borrower must verify his or her qualifications for satisfactorily completing the work. In no event will sweat equity be allowed to exceed the lesser of fifty percent (50%) of the total equity requirement, or ten percent (10%) of the appraised value.

   b) A separate inspection of work performed by the borrower may be required.

3. Second-home property will be considered at a maximum loan-to-value of sixty-five percent (65%) if approved by FHLMC or FNMA automated underwriting guidelines.

4. Condominium projects will be considered if ninety percent (90%) of the units have been sold, all phases or add-ons to the project have been completed and the homeowner's association has been controlled by the unit owners, other than the developer, for at least two (2) years.

5. Condominium projects less than two (2) years old will be considered if unit owners are in complete control of the homeowner's association, the project is one hundred percent (100%) complete, including recreational facilities and common areas and the project is not subject to further phasing or annexation. The project must also have FNMA or FHLMC approval.

I. Conventional Loans - Private Mortgage Insurance

1. For loans requiring private mortgage insurance prior to July 29, 1999, the Board will consider cancellation when the following requirements are met and a written request to cancel is submitted to the Board by the Participant:

   a) The Board must have held the loan for at least three years unless a substantial cash reduction has been applied to principal or substantial improvements have been made to the property.

   b) Submission of a current acceptable appraisal prepared by an approved appraiser. The current appraisal must be performed within one hundred and twenty (120) days of the date on which the Participant receives the Borrower's request to cancel mortgage insurance.

   c) the loan balance as a percent of the lower of original cost or current appraised value must not exceed original approved exposure to the Board, not to exceed eighty percent (80%).

   d) The Borrower's payment history must, as it applies to the age of the Mortgage, show:

      (1) No payment thirty (30) days or more past due in the last twelve (12) months, and

      (2) No payment sixty (60) days or more past due in the last twenty-four (24) months.

   e) Automatic Cancellation

      (1) The cancellation point shall be at the midpoint of the amortization period.

(2) All principal, interest, and escrow payments with a due date prior to the midpoint must be paid by the midpoint in order for mortgage insurance to be canceled.

(3) The requirements for the automatic cancellation of mortgage insurance are mandatory effective January 2, 2001.

f) For loans requiring private mortgage insurance after July 29, 1999, the Board will consider cancellation when the requirements of the Homeowners Protection Act and/or the Freddie Mac guidelines have been met.

J. Conventional Loans - Title Insurance

1. The following requirements apply to all residential loans purchased by the Board.

a) The title agent must have a title plant or access to a title plant.

b) The underwriter company must be registered with the State Auditor/Insurance Commissioner.

c) “Curbstoning” is not acceptable.

K. Hazard Insurance

1. The following requirements apply to all residential loans purchased by the Board.

a) The insurance company must be rated by A.M. Best as B+ or better.

b) Re-insurance companies are not acceptable.

c) On loans with loan-to-values greater than fifty percent (50%), the maximum deductible is $1,000.

d) On loans with loan to values less than fifty percent (50%), the maximum deductible is subject to Freddie Mac requirements and Board approval.

e) Guaranteed replacement cost for the loan amount or value of improvement whichever is lesser.

L. General Requirements - FHA and VA Loans

1. Maximum exposure to the Board shall not exceed sixty-five percent (65%) of VA offerings.

2. Each VA offering must include any combination of a down payment and VA guarantee, which equals at least thirty-five percent (35%) of the lower of cost or appraisal.

3. Automated Underwritten loans are acceptable for purchase.

4. Streamline refinances are eligible for purchase.

M. Conventional, FHA, and VA Loan Assumptions.

1. Conventional loans may not be assumed.

2. FHA and VA loans may be assumed without payment of a fee.

N. Participant - Loan Delinquency

1. The Participant shall service the Mortgage Loans in accordance with acceptable mortgage practices.

2. The Participant must monitor the delinquent portfolio in a prompt and efficient manner.

3. The Participant must vary collections efforts in order to accommodate hardship cases and should avoid establishment of fixed procedures, which may be ineffective in counseling borrowers who are frequently delinquent.

4. Modifications of repayment terms and conditions must be approved by the Board.
5. The Participant must establish a definite commitment with the delinquent borrower to cure the delinquency.
6. The Participant must submit, by the 25th of the month, a Loan Service Report, to be provided by the Board, for all loans in arrears sixty (60) days or more.
7. The Participant must also submit, by the 25th of each month, a Supplemental Loan Service Report until the loan is either current or liquidated
8. The Participant must also submit, by the 25th of each month, a property inspection report, to be provided by the Board, for all loans in arrears ninety (90) days or more.
9. The Participant must also submit a supplemental property inspection report every sixty (60) days until the loan is either current or liquidated
10. The Participant must comply with all requirements imposed by federal agencies or private mortgage insurers guaranteeing or insuring the loan.
11. Copies of all required notices must be furnished to the Board.

O. Participant - Loan Foreclosure

1. The Participant shall, upon the request and under the direction of the Board, assist in the foreclosure or other acquisition of the property securing the collection of any applicable mortgage insurance.
2. The Participant must manage and protect the mortgaged property from waste.
3. As directed by the Board, the Participant shall manage, operate, improve, rent and sell such real estate.
4. Upon the sale of such real estate, on terms as specified by the buyer, if payments are deferred and payable under contract or mortgage, the Participant shall service the same until completely liquidated, upon the terms provided for the servicing of mortgages.
5. The Board will reimburse the Participant for the Board's portion of reasonable out-of-pocket expenses incurred during the liquidation of the mortgaged property provided that such items are made part of the claim, and upon receipt of the Cash Disbursement Request Form, to be provided by the Board.
6. If warranty violations or deficiencies exist, the Participant may be required to repurchase the Board's interest in the loan including accrued interest.

P. Remittance and Reporting

1. The Participant shall transmit by Electronic Funds Transfer (EFT) all funds applicable to the monthly payment of principal and interest on the Mortgage Loans serviced by the Participant by the 25th of each month.
2. Remittances shall be reported and submitted to the Board of Housing on the Reconciliation Statement of Mortgage Loans and Exception Reporting Forms.
   a) These forms, prepared by the Participant, are based on an Exception Reporting system of accounting and detail all mortgage loan activity for the reporting period from the twenty-first day of the previous month to the twentieth day of the current month.
   b) The Participant shall transmit the Reconciliation Statement to the Board of Housing, subject to the warranty in the Servicing Agreement.

Q. Remedies

1. The Participant shall repurchase any Mortgage Loan purchased by the Board in accordance with the Servicing Agreement if the Board determines at any time with respect to such Mortgage Loan that:
   a) Any representation herein was untrue when made.
   b) Any warranty or term hereunder has been breached.
   c) A misstatement of a material fact by the Participant exists in any of the documents for such Mortgage Loan to include items listed in Schedule A of the Commitment Letter.
2. The Participant shall certify that the mortgage loan documents are true and accurate copies of their respective original documents.
   a) The review by the Board of all loan documents or documents required under the Commitment Letter and Schedule A does not constitute the concurrence by the Board of the accuracy, validity, or legality of the documents presented.
   b) The examination of said documents by the Board and/or legal counsel shall not constitute a waiver of any warranty, representation, or term thereof.
3. The Participant hereby waives the defense of any statute of limitation that could otherwise be raised in defense of any repurchase obligation or damage to the Board.

R. Funding

1. Funding will occur on the 15th and 25th of the month.