

## Reserve Requirements for NHSA's Recourse Loan Program

In order to sell mortgage loans with recourse (loans that are funded and underwritten by a NeighborWorks® organization and that must be repurchased or replaced with loans of equivalent value if they become 90 days delinquent), NHSA has a standard reserve requirement, which ensures that each NeighborWorks organization has sufficient resources to meet its recourse agreement.

Under NHSA's **standard reserve requirement**, the reserve may be provided in either performing loans or cash as follows:

1. The NeighborWorks organization must maintain performing loans in its portfolio equal to 50% of the value of the loan sale. As a **part** of this 50% reserve requirement, the NeighborWorks organization must contingently assign to NHSA, as a secured reserve, loans totaling 20% of the outstanding balance of all loans purchased and held by NHSA. These loans are packaged and submitted to NHSA with a sales package, but the NeighborWorks organization maintains ownership of the loans (the assignment of security instrument is signed and notarized but not recorded - the note must be endorsed to NHSA, but the NeighborWorks organization retains the monthly payment due under the loan as well as the legal ownership of the loan); or
2. Cash equal to 20% of the amount of the loans sold. The cash reserve is held by NHSA, which pays 3% interest on the reserve to the NeighborWorks organization on a quarterly basis.

Recourse loans are sold under the terms and conditions of NHSA's Revised Loan Sales and Servicing Agreement for first-time sellers. NeighborWorks organizations must provide NHSA with quarterly financial statements.

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In order to enhance leverage opportunities for those NeighborWorks organizations that have established a record of strong performance (sales of loans that perform well and timely remittance of the monthly loan transmittals on the loans that the NeighborWorks organization services for NHSA), NHSA has established an enhanced leverage reserve requirement. Prior approval by NHSA's Loan Products Committee is required for a NeighborWorks organization to participate.

Under NHSA's **enhanced leverage reserve requirement**, the reserve may be provided in either performing loans or cash as follows:

1. Performing loans equal to 20% of the value of the loan sale. These loans are packaged and submitted to NHSA with a sales package, but the NeighborWorks organization maintains ownership of the loans (the assignment of security instrument is signed and notarized but not recorded - the note must be endorsed to NHSA, but the NeighborWorks organization retains the monthly payment due under the loan as well as the legal ownership of the loan); or
2. Cash equal to 10% of the amount of the loans sold. The cash reserve is held by NHSA, which pays 3% interest on the reserve to the NeighborWorks organization on a quarterly basis.

Under the enhanced leverage reserve requirement, all loans that have paid on time for 24 consecutive months will no longer require reserves. The recourse requirement, however, is never dropped. NHSA will review the status of each portfolio quarterly, and then notify NeighborWorks organizations of any changes in their reserve requirements.

Recourse loans purchased from NeighborWorks organizations meeting the performance requirements of the enhanced reserve requirement are sold under the terms and conditions of NHSA's Revised Loan Sales and Servicing Agreement dated February 15, 2005, for repeat sellers. NeighborWorks organizations must provide NHSA with quarterly financial statements.

If you have any questions about the application of NHSA's recourse reserve requirements, please contact Li Mei Lau at [Limeilau@nhsfamerica.org](mailto:Limeilau@nhsfamerica.org). or (510) 2874228.