



**NHSA**  
**Loan Underwriting Standards**  
**Financial System Criteria**

Other Criteria for Participating in the NHSA Secondary Market

The NeighborWorks® Organization (NWO) must not discriminate based upon race, color, religion, age, marital status, national origin, sex, receipt of public assistance, handicap, familial status, or the fact that a customer has exercised one or more rights under the consumer Credit Protection Act.

The NWO must operate in compliance with federal, state, and local laws and regulations.

The NWO must be in compliance with the terms and conditions of existing agreements with NHSA.

- Seller must maintain accurate payment records prepared in accordance with accepted accounting principles consistently applied, reflecting all receipts and disbursements as to each mortgage.
- In the event of insurance settlements, the seller has promptly notified NHSA of any losses and performed its duties under section 401C of the agreement.
- Seller has regularly provided NHSA with monthly payments for all loans purchased. Payment must be received at NHSA by the 15<sup>th</sup> day of the month for all funds collected during the previous month.
- Seller has consistently provided NHSA substitution loans within 45 days after loans have become 90 days delinquent.

The NeighborWorks® Organization (NWO) must have authorization to sell the loans from the funding sources. Seller must be the sole owner of the mortgage, and must have full legal authority, and must have taken all required corporate action, and obtained any consent required to sell, transfer, and assign the mortgage to NHSA.

Funders of the loan must be aware that the loans are sold with recourse and that the NWO maintains the requirement to replace or repurchase the loans if the NWO relies on assets of the funds for replacement or repurchase.

The NWO must demonstrate that it is intending to use the proceeds of the sales to continue to provide housing financing to the residents of its community.

The NWO must maintain adequate reserves for replacement of delinquent loans. Replacement is defined as performing loans and cash in each loan fund equal to or great than 50% of the outstanding balance of loans sold to NHSA.

The seller must generate a monthly delinquency report and have established collection procedures. Upon request from NHSA, the seller is required to submit those procedures for review.

If providing first mortgages, the accounting system of the NWO provides for the escrow of taxes and insurance payments and the payment of appropriate expenses.

The seller must provide each client with an annual review of their escrow and an annual change in escrow payments. The seller must maintain escrow payments received by clients in a separate trust account. The seller must provide each loan client with an annual IRS form 1099 for interest paid.

Additionally, adequate staffing (including contract accounting staff) must be capable of and be presently providing the following:

### **FINANCIAL REPORTS**

Financial reports include:

- Monthly financial statements (including separate loan fund accounts by funding source)
- Income-expense budget with year-to-date comparison
- If receiving CDBG funding, the NWO must prepare a report that represents expenses related to services being provided under the CDBG contract (required for receipt of CDBG funds)
- Monthly subsidiary journal, reflecting principal and interest payments received, and escrows for taxes and insurance when escrow is being collected by the NWO, must be maintained current for each loan client

### **AUDIT**

An audit must be provided that includes:

- A review of contract compliance for all loan activity accounts
- A management letter with acceptable management responses
- No negative findings from a contract compliance audit by any funders unless adequate responses were completed

### **FINANCIAL CAPABILITY**

The NWO may be required to demonstrate financial capacity to continue operation. An income and expense budget, and a cash flow for projects and operating expenses over an 18 month period, that demonstrates adequate income to meet projected operating expenses, using realistic assumptions, is an important tool to assure adequate financial capacity.