Appendix 2 of Attachment 2, Exhibit A:

Loan Servicing Policies and Procedures for the
Stream Protection Program

The County of Humboldt, hereinafter called "Lender", has adopted these policies and procedures in order to preserve its financial interest in properties, whose "Borrowers" have been assisted with public funds from the Stream Protection Program. The Lender will, to the greatest extent possible, follow these policies and procedures but each loan will be evaluated and handled on a case-by-case basis. The Lender has formulated this document to comply with state and federal regulations regarding the use of these public funds and any property restrictions associated with them.

The policies and procedures are broken down into the follow areas:

1. Making required monthly payments or voluntary payments on a loan's principal and interest
2. Required payment of property taxes and insurance
3. Required Request for Notice of Default on all second mortgages
4. Loans with annual occupancy restrictions and certifications
5. Required noticing and limitations on any changes in title or use of property
6. Required noticing and process for requesting a subordination during a refinance
7. Processing of foreclosure in case of default on the loan, and
8. Short sales

1. <u>Loan Repayments:</u>
   The Lender will collect monthly payments from those borrowers who are obligated to do so under Notes, which are amortized promissory notes. Late fees will be charged for payments received after the assigned monthly date.

   For Notes, which are deferred payment loans; the Lender may accept voluntary payments on the loan. Loan payments will be credited to the interest first and then to principal. The borrower may repay the loan balance at any time with no penalty.

   All loan payments are payable to the Lender. The currently maintains loan amortization software. The Lender may, at its discretion, enter into an agreement with a third party to collect and distribute payments and/or complete all loan servicing aspects of the Program.

   The Lender will maintain a financial record-keeping system to calculate interest and principal and record payments. These payments will post first to outstanding interest and then to principal. Payments shall be deposited and accounted for in the Lenders Environmental Compliance and Equity Fund Account. Program loan payments will me made out to the County of Humboldt and sent to the below address:

   County of Humboldt

Planning and Building Department
3015 H Street
Eureka, CA 95501

When the Lender receives Program Income and/or repaid funds they will be expended on another eligible as specified in the Stream Protection Program Fund Re-Use Plan.

When all debt to the lender has been satisfied, a Notice of Reconveyance will be issued to the borrower. The Notice of Reconveyance will release without warranty, all the estate, title and interest acquired by the Lender under the Deed of Trust for that property.

2. <u>Payment of Property Taxes and Insurance</u>: As part of keeping the loan from going into default, borrower must maintain property insurance coverage naming the Lender as loss payee in first position or additional insured if the loan is a junior lien. If borrower fails to maintain the necessary insurance, the Lender may take out forced place insurance to cover the property while the Borrower puts a new insurance policy in place. All costs for installing the necessary insurance will be added to the loan balance at time of installation of Borrower's new insurance.

   When a property is located in a 100-year flood plain, the Borrower will be required to carry the necessary flood insurance. A certificate of insurance for flood and for standard property insurance will be required at close of escrow. The lender will verify the insurance on an annual basis.

   Property taxes must be kept current during the term of the loan. If the Borrower fails to maintain payment of property taxes, then the lender may pay the taxes current and add the balance of the tax payment plus any penalties to the balance of the loan.

3. <u>Required Request for Notice of Default</u>: When the Borrower's loan is in second position behind an existing first mortgage, it is the Lender's policy to prepare and record a "Request for Notice of Default" for each senior lien in front of Lender's loan. This document requires any senior lien holder listed in the notice to notify the lender of initiation of a foreclosure action. The Lender will then have time to contact the Borrower and assist them in bringing the first loan current. The Lender can also monitor the foreclosure process and go through the necessary analysis to determine if the loan can be made whole or preserved. When the Lender is in a third position and receives notification of foreclosure from only one senior lien holder, it is in their best interest to contact any other senior lien holders regarding the status of their loans.

4. <u>Required Noticing and Restrictions on Any Changes of Title or Occupancy</u>: In all cases where there is a change in title or occupancy or use, the Borrower must notify the Lender in writing of any change within thirty days of any change. Lender and Borrower will work

together to ensure the property is kept in compliance with the original Program terms and conditions.

The voluntary or involuntary transfer of title to any interest in the real property, except a transfer to a Borrower's heirs, causes the whole of the unpaid principal and interest, plus applicable fees, charges and penalties, to be immediately due and payable in full.

If a transfer of the property occurs through inheritance, the heir may be provided the opportunity to assume the loan provided the heir meets all program qualifications. All such changes are subject to the review and approval by the Lender.

5. Requests for Subordinations: When a Borrower wishes to refinance the property, they must send a subordination request to the Lender. The Lender will only subordinate their loan when there is no "cash out" as part of the refinance. Cash out means there are no additional charges on the transaction above loan and escrow closing fees. There can be no third party debt pay offs or additional encumbrance on the property above traditional refinance transaction costs. Furthermore, the refinance should lower the housing cost of the household with a lower interest rate and the total indebtedness on the property should not exceed the current market value.

   Upon receiving the proper documentation from the refinance lender, the request will be considered for review and approval. Upon approval, the escrow company will provide the proper subordination document for execution and recordation by the Lender.

6. Process for Loan Foreclosure: Upon any condition of loan default the Lender will send out a letter to the Borrower notifying them of the default situation. Defaults include: 1) non payment; 2) lack of insurance or property tax payment; 4) change in title or use without approval; 5) default on senior loans. If the default situation continues then the Lender may start a formal process of foreclosure.

   A. Lender as Senior Lien Holder: When a senior lien holder starts a foreclosure process and the Lender is notified via a Request for Notice of Default, the Lender, who is the junior lien holder, may cancel the foreclosure proceedings by "reinstating" the senior lien holder. The reinstatement amount or payoff amount must be obtained by contacting the senior lien holder. This amount will include all delinquent payments, late charges and fees to date. Lender must confer with Borrower to determine if, upon paying the senior lien holder current, the Borrower can provide future payments. If this is the case then the Lender may cure the foreclosure and add the costs to the balance of the loan with a Notice of Additional Advance on the existing note.

      If the Lender determines, based on information on the reinstatement amount and status of borrower, that bringing the loan current will not preserve the loan, then staff must determine if it is cost effective to protect their position by paying off the senior lien holder in total and restructure the debt such that the unit is made affordable to the

Borrower. If the Lender does not have sufficient funds to pay the senior lien holder in full, then they may choose to cure the senior lien holder and foreclose on the property them selves. As long as there is sufficient value in the property, the Lender can afford to pay for the foreclosure process and pay off the senior lien holder and retain some or all of their investment.

If the Lender decides to reinstate, the senior lien holder will accept the amount to reinstate the loan up until five days prior to the set "foreclosure sale date." This "foreclosure sale date" usually occurs about four to six months from the date of recording of the "Notice of Default." If the Lender fails to reinstate the senior lien holder before five days prior to the foreclosure sale date, the senior lien holder would then require a full pay off of the balance, plus costs, to cancel foreclosure. If the Lender determines the reinstatement and maintenance of the property not to be cost effective and allows the senior lien holder to complete foreclosure, the Lender's lien may be eliminated due to insufficient sales proceeds.

B. Lender as Junior Lien Holder: When the Lender is in first position as a senior lien holder and monthly payments are required, active collection efforts will begin on any loan that is thirty-one or more days in arrears. Attempts will be made to assist the homeowner in bringing and keeping the loan current. These attempts will be conveyed in an increasingly urgent manner until loan payments have reached ninety days in arrears, at which time the Lender may consider foreclosure. Lender’s staff will consider the following factors before initiating foreclosure:

1. Can the loan be cured and can the rates and terms be adjusted to allow for affordable payments such that foreclosure is not necessary?

2. Can the Borrower refinance with a private lender and pay off the Lender?

3. Can the Borrower sell the property and pay off the Lender?

4. Does the balance warrant foreclosure? (If the balance is under $5,000, the expense to foreclose may not be worth pursuing.)

5. Will the sales price of property "as is" cover the principal balance owing, necessary advances, (maintain fire insurance, maintain or bring current delinquent property taxes, monthly yard maintenance, periodic inspections of property to prevent vandalism, etc.) foreclosure, and marketing costs?

If the balance is substantial and all of the above factors have been considered, the Lender may opt to initiate foreclosure. The Borrower must receive, by certified mail, a thirty-day notification of foreclosure initiation. This notification must include the exact amount of funds to be remitted to the Lender to prevent foreclosure (such as, funds to bring a delinquent BMIR current or pay off a DPSPL).

At the end of thirty days, the Lender should contact a reputable foreclosure service or local title company to prepare and record foreclosure documents and make all necessary notifications to the owner and junior lien holders. The service will advise the Lender of all required documentation to initiate foreclosure (Note and Deed of Trust usually) and funds required from the owner to cancel foreclosure proceedings. The service will keep the Lender informed of the progress of the foreclosure proceedings.

When the process is completed, and the property has "reverted to the beneficiary" at the foreclosure sale, the Lender could sell the home themselves under a homebuyer program or use it for an affordable rental property managed by a local housing authority or use it for transitional housing facility or other eligible use. The Lender could contract with a local real estate broker to list and sell the home and use those funds for program income eligible uses.

7. Short Sales: A short sale occurs when the sales price of a home is less than the total amount of liens encumbering the property. To close, a short sale must have approval from all lenders acknowledging that the sales price will not cover a portion of their existing loan amount. Short sales are usually begun when a homeowner contacts a listing agent to sell (maybe due to homeowner's difficulty in making their mortgage payments) and it is determined that the sales price will not satisfy all liens. The listing agent will want to continue the process, assuming they can get one or more of the lien holders to "forgive" a portion or the entire lien amount. This may or my not be the best answer for the household.

   Any transaction that involves a shortage in the repayment of the Promissory Note amount requires County's review prior to the State Recipient's approval of the short sale.

   The Short Sale Request form (available online) must be submitted electronically to the County Stream Protection Program Representative along with a Preliminary Title Report (current ALTA polices may also be used). Additional supporting documentation may be required after the request forma and preliminary title report have been received.

   The County will review and approve/disapprove the Request, which outlines the circumstances of a household's short sale, but not the short sale itself. Since the State Recipient is the lien holder, all short sale transaction terms must be negotiated and approved by the State Recipient. The Short Sale Request, County approval and al supporting documents must be maintained by the County in the project file.