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**PROCEDURAL
MORTGAGE LENDING GUIDE**
February, 1993 -- English Version

by

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HOUSING FINANCE PROJECT

THE PROCEDURAL MORTGAGE LENDING GUIDE

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PURPOSE:

The purpose of The Procedural Mortgage Lending Guide is to serve as a reference source to Participating Bank personnel. It details Bud Bank requirements for eligible Participating Banks and the mortgage loans to be collateralized in favor of the Bud Bank, as well as the documentation, file maintenance, servicing and reporting responsibilities of the Participating Bank.

Bud Bank will keep Participating Banks (Pbs) informed of all policies, procedures and requirements changes through updates to the Guide.

TERMS:

Throughout this Guide, the terms defined below will be used:

Bank - a legally authorized entity seeking approval to participate in this program.

Beneficiary - recipient of the funds of the mortgage loan or construction loan.

Bud Bank, S.A. - (Bud Bank) - The on-lender for funds under the U.S. AID Housing Guaranty (HG) Program and the World Bank Program.

Cession - A clause assigning the rights to the proceeds of an insurance policy to the I acknowledged by the insurance company.

Collateral - a title to property. PB will have a first lien position in property financed with mortgage sub-loan proceeds.

Community Association Project - (Community Association) A Cooperative, Condominium or Planned Unit Development Project.

Financing Agreement - Collectively Construction Financing Agreements and Mortgage Financing Agreements.

Guaranteed Wechsel in Blanko - wechsel in blanko signed in addition to issuer by the third person who guarantees payment under Wechsel entitling person or entity indicated in wechsel to vindicate a claim through simplified civil procedure against issuer and/or guarantor.

Guides -

The Procedural Mortgage Lending Guide (The Mortgage Guide) - Program requirements for mortgage credits.

The Construction Lending Guide (The Construction Guide) -Program requirements for construction credits.

Housing Finance Project Office - (HFPO) - a department under the authority of MOSEC or any successor thereof which is responsible for the implementation of the HG and World Bank Housing Programs.

Margin - The difference between the interest rate charged the Beneficiary and the base interest rate of the National Bank of Poland to be at least 300 basis points.

Ministry of Spatial Economy and Construction - (MOSEC) - or any successor thereof.

Mortgage - A legal interest in a property. The PB will have a first lien position in the properties financed with mortgage loan proceeds. When registered, this document creates the right to take property upon default of the mortgage sub-loan contract.

Mortgage Financing Agreement - Any agreement entered into between Bud Bank and a PB for the purpose of financing mortgage Sub-loans.

Mortgage Fund - (Fund) means the fund to be established within Bud Bank for the purpose of providing a stable source of long term funds for housing investments.

Mortgage Loan Rate Index - The base interest rate (refinance rate or its successors) of the National Bank of Poland.

Mortgage Sub-loan - (Mortgage loan) - A loan made or proposed to be made by a PB to a household for a Mortgage Sub-project.

Mortgage Sub-Loan Contract - (Loan Contract) - The agreement between the Beneficiary and the PB which explains all the terms and conditions of the mortgage sub-loan.

Mortgage Sub-project - (house project) A specific construction and/or purchase by an individual household utilizing the proceeds of a Mortgage Sub-loan.

Multi-family Projects - Flats, apartment buildings and complexes or estates of single family units.

Official Government Statistics Wage Index, or its successor, - Wage Change Index in Six Branches of Economy - (The National Wage Index) - an index set by the Chairman of the Central Statistical Office and currently in use to determine the amount of change in the beneficiary's repayment of a mortgage loan.

Participating Bank - (PB) - Any banking institution which the Bud Bank has approved to participate in Bud Bank programs; for example, HG and World Bank Programs.

Perpetual Ground Lease - ("Perpetual Usufruct") - the right to use and exploit the land owned by the State Treasury or local community (Gmina) to the exclusion of other persons and to transfer such right to other parties. Generally Ground Lease is established for 99 years; in exceptional cases it may be established for shorter period not less than 40 years. Perpetual usufructuary becomes the owner of buildings erected by him on land leased from the State Treasury or local community.

Statement of Mortgages - A listing of mortgage sub-loans and related information submitted to the Bud Bank with a request for loan proceeds to refund part or all of the monies disbursed by the PB to the Beneficiaries of the mortgage sub-loans.

Subintabulat - The instrument to be used to secure the Bud Bank's interest in the mortgage collateralized by the PB. Mortgage established over a claim secured by a mortgage. Repayment of such claim may be made only to the creditor who is a Beneficiary of the subintabulat.

Sub-loan - means collectively, construction Sub-loans and Mortgage Sub-loans

Weksel - A promissory note entitling person or entity indicated in Weksel to vindicate a claim through simplified court enforcement procedure. Weksel has to include the following elements:

- * word "weksel" in the text of the document
- * unconditional promise to pay specified amount of money
- * determined time and place of payment
- * name of person to whom or upon whose order payment is to be made
- * indication of date and place of issuance and
- * signature of issuer.

Weksel in Blanko - Weksel signed by issuer which does not specify an amount promised to be paid and time of payment.

Zlotys - the currency of the Beneficiary

1 PARTICIPATING BANK APPROVAL AND ELIGIBILITY

This Section consists of four parts:

1. **PB Approval** -- discusses the eligibility criteria and the material that should be submitted as part of a PB's application package.
2. **Contractual Relationship** -- discusses the terms of the Agreement; a PB's basic duties and responsibilities; the spread a PB must build into the mortgage rate in order to compensate the PB for its servicing activities; the imposition of penalty fees, and the formal sanctions we may use if a PB's performance is unsatisfactory.
3. **Maintaining Eligibility** -- discusses the requirements that must be met for a PB to maintain its eligibility and the business obligations that a PB must consider in the overall conduct of its mortgage operations. It also includes requirements for complying with applicable laws and government regulations, for avoiding conflicts of interest, and for establishing a quality control system.
4. **Mortgage Loan Files and Records** -- discusses the ownership and custody of mortgage files and records, including the PB's responsibility for establishing and maintaining individual mortgage files and for maintaining accurate accounting and mortgage payment records.

1.1 Participating bank approval

Banks who wish to participate in the Program must be approved by Bud Bank. Approval is based upon the bank's financial condition, its ability to originate and service mortgages funded under this Program, and other relevant factors pertaining to a bank's ability to do business under the Program. Once approved, the Bank is ready to enter into an Agreement which sets forth the contractual relationship between the PB and the Bud Bank and the terms and conditions of the loan used by the PB to refund it for mortgage sub-loans originated and serviced according to the requirements of the Program.

1.1.1 Eligibility Criteria:

To become a PB, the Bank must:

- * not have more than a 10% ownership interest in the Bud Bank

- * have or show evidence of a business plan demonstrating a commitment to originating and servicing of mortgage sub-loans;
- * demonstrate the ability to originate and service the types of mortgages eligible under this Program. This can be demonstrated in a variety of ways, such as, but not limited to, a proven record of experience, experience of critical staff members, or acceptable participation in Bud Bank training classes;
- * authorized by the National Bank of Poland;
- * comply with all eligible banking requirements;
- * have an acceptable financial capability;
- * maintain quality control and management systems to evaluate and monitor the overall quality of the mortgage origination and servicing activities;
- * submit an independent certified audit for the most recent fiscal year to Bud Bank;
- * have demonstrated an ability to establish a separate account for each mortgage utilizing Bud Bank funds; and
- * have its procedures to be used under this Program approved by the Bud Bank.

1.1.2 Application Procedures:

Banks interested in obtaining approval and becoming Pbs to originate and service mortgages should contact the Bud Bank. The Bud Bank will send:

- * An Application for Participating Bank Approval;
- * An Authorization for Verification of Financial and Business Information;
- * A draft Mortgage Financing Agreement and relevant Bud Bank policies, and procedures.

A bank will be pre-approved based upon the application review. A bank will not become a PB until it has entered into its first Mortgage Financing Agreement. However, if the PB is ready at the time of application to enter into an Agreement

(having considered the loan terms and conditions), the Bud Bank will send two original Agreements and eliminate pre-approval.

1.1.3 Review Fee:

The actual cost to the Bud Bank of analysis and approval of a Participating Bank shall be covered by the relevant PB

1.1.4 Application Package:

The Bank must complete the appropriate application forms in detail and have an authorized representative of the bank sign the application on behalf of the bank. The Bank must include the following information with its application.

1. A narrative describing the general scope and history the bank's operations;
2. A statement of the applicant's legal authority to originate and service mortgages;
3. A list of principal officers' names, titles, and areas of responsibility.
4. A list of ownership interests, identifying holders of a 10% or more interest.
5. The Authorization for Verification of Financial and Business Information executed by an authorized representative of the bank.
6. Information on the Bank's loan portfolio; the sources used to originate loans; the composition of its portfolio and current principal balance of the portfolio; short description of the procedure for underwriting and servicing of mortgage loans, if applicable.
7. Year-end financial statements for the most recent year and, if available, for the previous year, certified by an independent public accountant.
8. A brief description of the management procedures and quality control systems.
9. Commitment to cover the application review fee.
10. A letter signed by an authorized representative of the bank accepting the contractual relationship terms contained in the draft Agreement. If the Bank is ready to enter into a final Agreement, the Bank should send the two original Agreements executed by an authorized representative of the bank.

11. If available, a sample mortgage file originated and serviced by the Bank. If the Bank has not originated any mortgages, then, if available, a sample sub-loan file for any other sub-loan originated and serviced by the Bank.
12. Copies of the most recent annual report made to the National Bank of Poland.

In all correspondence between the PB and the Bud Bank, the identification number assigned to the bank by National Bank of Poland shall be used.

1.2 Contractual relationship

A Bank becomes a PB upon the execution by both parties of the first Mortgage Financing Agreement which establishes the terms and conditions of the contractual relationship and the terms and conditions of the first Financing Agreement. The continuation of that relationship depends on both parties honoring the mutual promises contained in this and future Financing Agreement(s) and on the PB satisfying the requirements contained in the Guide.

1.2.1 Mortgage Financing Agreement Contractual Relationship Provisions:

The first Financing Agreement contains detailed provisions regarding the contractual relationship between the Bud Bank and the PB. These provisions are incorporated in all future Agreements. These provisions:

- * establish the bank as an approved PB
- * provide the terms and conditions of the Financing Agreement from the Bud Bank to the PB secured by eligible mortgage sub-loans
- * establish the bank as an approved servicer of mortgage sub-loans accepted as security for the Financing Agreement provided to the PB
- * provide the terms and conditions for servicing
- * incorporate by reference the terms of the Guide

The Guide specifically states the types of mortgage that are eligible under Program. All mortgages collateralized as security under the Program must:

- * be a Dual Index Mortgage (DIM)

- * have a margin or spread of at least 3 percentage points above the index rate;
- * have a loan-to-value ratio of 75 per cent or less
- * be no more than one year old
- * be to a Beneficiary who meets all credit criteria established by the Bud Bank for these mortgages
- * the property must be for first-time occupancy
- * be for the purchase of a house as a primary residence
- * be for the purchase of a housing unit of no more than 100 square meters of useable area (apartment and multi-family) or 150 square meters of useable area for single family houses, rowhouses, duplexes and quadraplexes
- * be a Beneficiary that is a Polish citizen
- * be secured by a property that was completed after September 30, 1991 if in a multi-unit structure if the Financing Agreement funding the mortgage uses resources from the Housing Guaranty Program or started after January 1, 1992 if resources are from the World Bank Program.

1.2.2 Warranties:

The Agreement and Guides list specific warranties a lender makes to the Bud Bank. These contractual warranties are not limited to matters that the lender had knowledge of. The PB warrants that the mortgage sub-loans meets all applicable requirements in the Guide and the Agreement.

The PB may be required to make other warranties. All warranties apply until the Financing Agreement is completely paid back.

The PB's breach of a specific warranty entitles the Bud Bank to the applicable rights and remedies for that breach--irrespective of the provisions and conditions of any other warranty and regardless of whether or not the facts or circumstances giving rise to the breach would also give rise to a breach of any other warranty. These rights and remedies may be exercised separately for each breach of a specific warranty, concurrently, or successively with the exercise of any other rights and remedies described in the Guide or allowed by law.

The PB must indemnify and hold the Bud Bank (and its successors and assigns) harmless against all losses, damages, judgments, and legal fees based on (or resulting from) breach of its warranties or representations. If a warranty made by the PB is untrue, the PB may be required to pay back the related Financing Agreement for which the mortgage sub-loans are collateral. The Bud Bank may also enforce any other applicable rights and remedies, including but not limited to requiring the PB to substitute an eligible mortgage sub-loan for one determined to be defective collateral.

1.2.3 Additional Warranties:

The PB must make the following warranties in addition to those provided in the Agreement:

- * The PB has the staff and facilities to service the collateralized sub-loan in accordance with Bud Bank requirements.
- * When a mortgage is secured by a unit in a community association form of housing (cooperative, condominium or Planned Unit Development), the PE warrants that this community association meets any requirements for such housing contained in the Guide, unless such requirement has been waived by the Bud Bank for the specific project.

Additionally, if the structure is a multi-unit structure, it must have been completed after September 30, 1991 to be eligible for a Loan funded with resources from the Housing Guaranty Program or started after January 1, 1992 if resources are from the World Bank.

- * When the PB collateralizes a mortgage sub-loan secured by a perpetual ground lease, it warrants:
 - the lease is valid, in good standing, and conforms to all Guide requirements for ground leases
 - all rents and other payments that have become due under the lease have been paid properly
 - the beneficiary is not in default under any provision of the lease; and
 - the lease does not provide for its forfeiture or termination for any reason except the non-payment of lease rents.
- * The subintabulat will be registered prior to refunding. Bud Bank reserves the right to require repayment of the agreement in proportion to the balance of any mortgage sub-loan financing not registered within 30 days of settlement of the Mortgage Sub-loan Contract.

1.2.4 Special PB Obligations:

It is the intent of Bud Bank and the PB that acceptable mortgage sub-loans will serve as collateral for loan funds advanced from the Bud Bank to the PB. Although the mortgage sub-loans remain the property of the PB, it is the express intent of both parties, that the request by the PB that the Bud Bank accept the subintabulat as collateral be interpreted as a collateralization by the PB to Bud Bank of all related mortgage sub-loans to secure a debt or other obligation of the PB. The PB is responsible for any deficiencies not covered by the aforementioned collateral.

1.2.5 Assignment of Servicing:

If the PB uses another PB to perform some of its servicing functions, it is still accountable for any actions taken (or not taken when required) by these companies.

After a mortgage sub-loan becomes collateral for a Financing Agreement, all subsequent assignments of servicing related to that mortgage must be approved by the Bud Bank before the servicing can be transferred.

1.2.6 Servicing Compensation:

As compensation for servicing, the PB must charge the Beneficiaries of mortgage sub-loans a higher interest rate than the Bud Bank charges the PB on the Financing Agreement to the PB. The PB is also permitted to retain late charges and fees charged for special services from the Beneficiary as additional servicing income. The margin over the index must include at least 300 basis points for the Bud Bank and an additional spread for the PB.

A PB (or the servicer of record) may not sell -- or otherwise assign, transfer, or pledge -- its servicing compensation or any portion of it) or enter into any agreement that would result in the disposal, assignment, transfer, or pledge of that income.

1.2.7 PBs' Basic Duties and Responsibilities:

PBs perform their origination and servicing functions under the Agreement as an independent contractor, not as an agent or representative of Bud Bank. PBs are obligated to use sound business judgment in all aspects of their operations to ensure that they have adequate staff and facilities to originate and service quality mortgage sub-loans; to protect against fraud, misrepresentations, or negligence by any parties involved in the mortgage sub-loan origination process; and to provide mortgagors with assistance when it is requested.

PB's are responsible for underwriting decisions on mortgage sub-loans collateralized under a Financing Agreement. They are responsible for ensuring that mortgage sub-loans under the Bud Bank's programs meet Bud Bank eligibility requirements. Mortgages collateralized to the Bud Bank must conform to the requirements contained throughout this Guide. To assure that its staff is knowledgeable in all aspects of mortgage origination and servicing, the PB must have fully documented written procedures and implement measures-- such as periodic reviews of mortgage originations-- to determine that those procedures are operational.

1.2.8 Changes in PB's Organization:

The PB must send the Bud Bank written notice at least 30 days prior to any contemplated major changes in its articles of association.

The PB must provide official notice within 10 business days of these major changes:

- * capital or organization and staff;
- * the resignation or termination of any senior management personnel;
- * any mergers, consolidations, or reorganizations;
- * any substantial (greater than 10%) changes in ownership;
- * any change in corporate name or address; or
- * any material and adverse change in the PB's financial position.

The PB must include with its notice copies of any filings with the NBP under the Banking Law requirements.

1.2.9 Imposition of Penalty Fees

If the PB is not satisfactorily fulfilling these eligibility requirements or failing to comply with the Agreement and Guide, and, therefore, is in breach of the Agreement, a variety of remedies can be pursued either to correct a specific problem or to improve the PB's overall performance, in lieu of exercising the right to terminate the Agreement. Possible remedies include requiring the PB to indemnify the Bud Bank for a loss, imposing a formal sanction against the PB, or imposing a fee.

The PB may be charged a fee, or have imposed upon it other remedies, for such failures as late submission of annual financial statements. The PB must submit its annual financial statements to the Bud Bank by May 31st but not later than 14 days after the statutory time limit for compliance.

1.2.10 Loan Payoff or Mortgage Substitution Requirements:

The PB may be required to repay the Finance Agreement due to its breach of any warranty, under the terms of any applicable Agreement or Guide provisions, or because of servicing deficiencies that have had a materially adverse effect on the property's value.

When repayment is required, the PB must pay Bud Bank the funds that are due within 10 days of this demand. If the PB believes that this demand is not justified, the PB must provide the Bud Bank with a written explanation for its position within 10 days after demand for repayment is made. However, if the Bud Bank subsequently has to take legal action to enforce this repayment right, the PB will be liable for legal costs and related expenses.

1.2.11 Warranty Violations:

The Bud Bank will review a percentage of the mortgage sub-loans to ensure that they meet all eligibility criteria and underwriting standards. If this review discloses that a mortgage sub-loan did not meet these standards, the PB will be required to either correct the violation, repay the portion of the Financing Agreement which is collateralized by the relevant mortgage sub-loan(s), or substitute another mortgage sub-loan. The fact that a mortgage sub-loan has passed this quality control review or any other review, however, does not in any way limit the right to require repayment if a warranty breach is discovered later.

1.2.12 Imposition of Sanctions:

The Agreement establishes the basic legal relationship between a PB and the Bud Bank. This relationship and the mutual responsibilities it includes are predicated on sound and ethical practices by both parties. If any act, omission, or failure of performance by the PB constitutes a breach of the Agreement, the Agreement and this relationship may be terminated for cause or other sanctions may be imposed. Generally, before such actions are taken, the PB will be given notice and have an opportunity to submit a written response explaining any mitigating circumstances or specific proposal to satisfy performance problems.

1.2.13 Suspension:

A PB may be suspended from participation in any future Bud Bank Agreement. The PB will be given specific actions that must be taken before the suspension can be lifted.

1.2.14 Termination for Cause:

The PB may be terminated for cause if the required improvement in its performance is not achieved during the period in which its participation is suspended. The PB may also be terminated without suspension. Reasons for termination include, but are not limited

to, failure to follow the requirements of the Guide, to meet financial requirements, or to meet any of the other eligibility requirements specified in the Agreement and Guide.

1.3 Maintaining Eligibility

This section concentrates on the PB's specific administrative responsibilities and business obligations that must be covered in the overall conduct of its mortgage operations.

1.3.1 Internal Audit and Quality Control Systems:

The PB must maintain adequate internal audit and management control systems to:

- * assure that the mortgage sub-loans are originated and serviced in accordance with sound banking and accounting principles;
- * guard against errors and omissions by its officers, employees, or other authorized persons; and
- * guard against dishonest, fraudulent, or negligent acts.

Every PB requesting approval must have a quality control system in place that verifies the existence and accuracy of legal documents, credit documentation, property appraisals, and underwriting decisions. The system should assure that mortgage sub-loans conform to Bud Bank policy and procedures and be capable of evaluating and monitoring the overall quality of mortgage production.

1.3.2 Financial Statements and Reports:

The PB must be financially capable of fulfilling its obligations under its Financing Agreement from the Bud Bank. The PB must submit annual financial statements prepared in accordance with effective regulations, certified by an independent auditing firm and must be submitted to Bud Bank by May 31st but not later than 14 days after the statutory time limit for compliance. The penalty fee for a late statement may also be required to submit special reports related to the financial information about their operations. A PB's privileges may be suspended if these reports are not submitted within the time frame required.

The financial statements must include:

- * a balance sheet
- * an income statement
- * a statement of retained earnings

- a statement of additional paid-in capital
- a statement of changes in financial position
- all related explanatory notes, and
- the latest audit report
- most recent annual National Bank of Poland reports.

In certain cases, Bud Bank may request the PB to submit certain information and reports related to financial operations. Should the PB refuse to submit the requested information, it may be suspended from participation in the program.

1.3.3 Interest Rate and Payment Changes:

The PB must certify that it has made all of the required interest rate and/or monthly payment adjustments and that all adjustments were made in accordance with the mortgage sub-loan terms.

1.3.4 Compliance with Applicable Laws:

The PB is responsible for being in compliance with applicable regulations that apply to any of its business practices. PBs must also ensure that properties securing collateralized mortgage sub-loan comply with local zoning and other regulations.

1.4 Mortgage sub-loan files and records

The PB is responsible for establishing and maintaining individual mortgage sub-loan files and for maintaining accurate accounting and beneficiary payment records. Each mortgage sub-loan must be clearly identified. The Bud Bank has the right to examine at any reasonable time, any and all records that pertain to Bud Bank collateral and all accounting reports associated with those mortgage sub-loans and mortgagor remittances, and any other reports and documentation that are considered to be necessary to assure that the PB is in compliance with Bud Bank requirements.

1.4.1 Ownership of Mortgage Loan Files and Records

All mortgage sub-loan papers and documents, that are reasonably required to originate and subsequently service a mortgage sub-loan properly will be the property of the PB. In the event of default under the provisions of this Guide, Agreement(s) or any other contractual agreements between the PB and the Bud Bank, the Bud Bank will have the right to retrieve these files and records.

1.4.2 Access to Records:

In the case of default, the PB must deliver all mortgage sub-loan records and documents to the BUD Bank or its designee; otherwise, if requested in writing, the PB must deliver copies of all mortgage sub-loan records and documents. If the PB has microfilmed or condensed any of the records, it must reproduce them at its own expense. If the PB fails to provide the records or give a reasonable explanation or any evidence showing that the requirement was satisfied, the Bud Bank can take any action that is authorized under the Agreement or the Guide for the PB's breach of Bud Bank requirements.

1.4.3 Types of Records:

Mortgage file and records include the individual mortgage sub-loan files and permanent mortgage sub-loan account records, and accounting system reports. The PB must establish an individual mortgage sub-loan file when it originates a mortgage. The accounts and records relating to mortgages must be maintained in accordance with sound and generally accepted accounting principles and in such a manner as will permit Bud Bank examination and auditing at any time.

The PB must also retain records showing the flow of funds from the mortgage sub-loans to the Bud Bank and make these records available when requested.

Specifically, Bud Bank's examination and audit will consist of:

- * monitoring all monthly accounting reports;
- * review of procedures applied by the loan servicing branch or in the office of the Custodian of Documents by Branch Internal Audit Staff;
- * conducting, from time to time, in-depth audits of the financial records and procedures -- including, but not limited to, the examination of financial records and underwriting standards; and
- * performing spot-check reviews of mortgage sub-loan agreements on a random sample basis.

1.4.4 Individual Mortgage Sub-Loan Files:

The PB must establish an individual file for each collateralized mortgage sub-loan. Among other things, the file must include:

- * A checklist of all documents included in the file;
- * Original of the Mortgage Sub-loan Contract, the Financing Agreement, extracts from the Book of Land and Mortgages and originals of other documents related to loan security; and

- * Copies of the pertinent underwriting documents.

1.4.5 Mortgage Loan Payment Records:

The PB servicing the mortgage sub-loan must also maintain permanent mortgage sub-loan account records for each collateralized mortgage sub-loan it services. The PB's accounting system must be able to produce detailed information on:

- * All transactions that affect the mortgage sub-loan;
- * The financial status of the mortgage sub-loan; and
- * The amount and timing of capitalized interest.

1.4.6 Underwriting Performance Reviews:

A sample of collateralized mortgages sub-loans will be reviewed to ensure that they meet all underwriting and eligibility requirements. The first 25 mortgage sub-loans will also be reviewed.

1.4.7 Review Process:

The review will encompass a complete review of the credit, legal, and property documents and possibly reverification of this information. The review should prove that all documentation needed to support the PBs underwriting decision is in each file and demonstrates the Beneficiary's ability to repay the loan, his willingness to repay the sub-loan, and evidence that the property has sufficient value to support the sub-loan.

1.4.8 File/Record Retention:

Loan files and records pertaining to mortgage sub-loans must be retained for three (3) years after the mortgage sub-loan has been fully repaid by the Beneficiary.

2 FILE DOCUMENTATION

The PB must maintain separate files for each mortgage sub-loan to be collateralized in favor of the Bud Bank. These files must have certain documentation as described in the following section.

2.1 Loan application documents

2.1.1 Loan application:

All initial loan applications shall be completed, signed and dated by the Beneficiary and the PB at the onset of processing. The loan application should disclose:

1. The amount of the loan requested,
2. The location of the property,
3. The purpose of the loan (e.g. purchase of new unit, construction, or rehabilitation of existing home)
4. The household income,
5. The purchase price or cost to construct the property.
6. All outstanding debts and obligations of the Beneficiaries (loan payments, child support, alimony, lease payments, etc.).
7. Names, addresses and individual incomes of all Beneficiaries.
8. Marital status of all Beneficiaries.
9. Any real estate assets or businesses owned by any of the Beneficiaries.
10. Any bankruptcies, judgments or other credit problems applicable to any of the Beneficiaries.
11. Current housing expense (rent, utilities, etc) presently being paid by Beneficiaries.
12. Projected utility, tax, insurance payments and other housing expenses for the new property.

13. All dependents, whether residing with Beneficiaries or not, who the Beneficiary is obligated to support completely or in part.
14. Any continuing medical expenses for which the Beneficiaries are responsible.

The PB should review the application for completeness and reasonableness. A precursory review should be made in the Beneficiary's presence to ascertain if there is any reason the mortgage loan requested would not be eligible under the Bud Bank's programs.

2.1.2 General eligibility guidelines:

2.1.2.1 Eligible Individuals:

Individuals living alone
Married Couples
Individuals choosing to form a household

Polish citizens or individuals with permanent resident status in Poland and intend to occupy the property as their primary residence

A member of a cooperative who has or can obtain title to the ownership interests and occupancy rights of the desired unit and will have the right to resell it.

2.1.2.2 Eligible Properties:

Newly built units constructed with funds provided, in part, by the Bud Bank under the terms of The Construction Guide or newly built units that meet the eligibility requirements for construction projects detailed in the Construction Guide.

Units in multi-family buildings with 100 square meters or less of usable area including all rooms in the unit but not the thickness of the walls nor separate garages, storage areas or service areas or,

Units that are rowhouses, semi-detached houses, or single family houses with 150 square meters or less of usable area, excluding garages, storage areas, service areas and walls

Units with newly constructed improvements financed under the terms of the Construction Guide.

Completion of construction already under way on an eligible property for an amount less than 25% of the current appraised value of the property. Improvements of 25% or more of the current appraised value of the property must be financed by a construction sub-loan.

Eligible properties must be registered in the Book of Land and Mortgages without disputed ownership.

For mortgage loans refunded with World Bank Resources, construction of the mortgage sub-projects must not have started before January 1, 1992.

For mortgage loans refunded with HG Resources, construction must have been completed after September 30, 1991.

2.1.2.3 Ineligible Properties:

Vacation homes and other units not intended to be a primary residence of the Beneficiary.

Commercial properties.

2.1.2.4 Eligible Loan Amounts and Income:

A loan amount that is the lower of 75% of the market value of the property or 36 times the gross household income.

Income that is verifiable and regular. Household income includes:

Income of all Beneficiaries who are currently living together, plan to live together in the unit to be purchased, contribute or will contribute on a regular basis to meeting the household's expenses and will be on the application form and who will sign the sub-loan agreement.

2.1.2.5 Acceptable sources of income are:

Salaries and customary bonuses from full-time employment,

Verifiable income from part-time or additional employment,

Payments from pension plans or for medical disabilities ("renta") and

Other sources that provide verifiable and regular income to the household.

2.2 Income verification:

2.2.1 Salaried Employees:

A Statement of Income from the employer showing at least the prior quarter's income. Four quarters of income is preferred. The Beneficiary can provide an income tax statement for the last year if they want to demonstrate additional income.

All documents must clearly show the Beneficiary's name, gross income for the period covered and the person's title and signature confirming the information.

2.2.2 Other Than Salaried Employees (Entrepreneurs):
(An individual who owns 25% or more of a business is considered self-employed)

Individual tax statements for a minimum of three quarters and when available for the past two years.

Copies of business tax statements for a minimum of three quarters and when available for the past two years.

Information regarding the regularity of credit repayment (personal credit references).

Financial statements of the business for the prior two years.

Pro Forma balance sheets, profit and loss statements and cash flow statements for the next two year period.

Commercial or business credit references.

If the last three items are not available, then a letter of explanation regarding why this statement is not available.

2.3 Source of funds verification:

The PB must verify the sources of the Beneficiary's downpayment and related mortgage loan fees or costs. Acceptable documentation includes:

- * A receipt from the Seller for the deposit made on the property, or a Sales Agreement or Purchase Contract that indicates the amount of the deposit made by the Beneficiary
- * Letter from a bank verifying funds in a bank account or a recent bank statement
- * A statement (gift letter) from a family member or other donor. The gift letter should be certified by a notary and state whether repayment of the funds is expected. The donor's funds must be verified by a letter from a bank or a recent bank statement.

2.4 Purchase contract or sales agreement:

A purchase contract or sales agreement should be obtained from the Beneficiary, which contains the following information:

- ” The names and addresses of the seller and purchaser,
- * A description of the unit, including its address, legal description and general characteristics, including the number of square meters,
- * The purchase price of the unit, as agreed to by the seller and purchaser, and
- * Any special conditions or terms affecting the sale of the unit or validity of the Purchase Contract.
- * The deposit made by the purchaser.

The Purchase Contract or Sales Agreement must be signed by the Beneficiary and the seller or an authorized agent of the Seller.

2.5 Land ownership evidence:

The owner of the land should obtain proof of ownership of the land in the form of an extra from the Book of Land and Mortgages, which is to be provided by the Beneficiary to the Bank. Such extract should indicate that the Seller, not the Beneficiary, is the owner of the land. This documentation should be included with the loan application.

Under Section 3 there should not be any limitations or liabilities shown that would impair the Bank's or the Beneficiary's ability to sell the land at a future date or that would negatively impact the marketability and thereby the value of the property.

If the property is subject to a perpetual land lease, an additional statement from the local government regarding the legal status of previous owners is recommended to insure future claim disputes do not arise from former displaced owners.

If there are any existing mortgages or liens against the property, they must be released or subordinated to the PB either prior to the disbursement of the mortgage loan proceeds or with the loan proceeds.

2.6 Appraisal:

An independent appraiser, should determine the market value of the property to be financed. He must provide a written statement saying he has no interest in the subject property or the

transaction. The appraiser should be knowledgeable and experienced in the valuation of properties similar to the property to be financed. The appraiser must also be on the list of appraisers maintained by the Ministry of Construction.

2.7 New construction related documentation:

A Beneficiary may seek a mortgage loan rather than a construction loan for purposes of completing construction already under way if the value of the proposed improvements is less than 25% of current appraised value of the property and the Beneficiary will subsequently occupy the property as a permanent residence:

1. A list of the building costs.
2. Construction Loan Permit issued by the local authority.
3. A Karta Kontroli (Construction Progress Report) showing materials and construction work already complete at the site and the value of same. This valuation should be performed by someone knowledgeable in construction and related costs.

An analysis should be performed by PB staff or advisors knowledgeable in construction lending to determine the builder's experience and expertise in building units similar to the one to be financed.

Building costs should also be studied for reasonableness. Questions should be raised if the costs seem either too high or too low (too low could indicate over optimism or inferior materials).

2.8 Mortgage sub-loan agreement:

The PB should complete a sub-loan agreement which details all the terms and conditions of the loan. The sub-loan agreement must be signed by a PB representative and the Beneficiary. All the terms, conditions and requirements should be carefully explained to the Beneficiary. It is particularly important that the Beneficiary understand the features of the DIM, the eviction and foreclosure rights of the PB against the property and other PB remedies relating to guarantors and additional collateral.

The sub-loan contract should stipulate any additional collateral the Beneficiary will be required to pledge to the PB. Additional conditions or requirements to the sub-loan contract may be required based upon the underwriting review.

Provisions should be made which require the Beneficiary to disclose to the Bank any change in personal or business status that could either impair the Bank's lien position or the Beneficiary's ability to repay the sub-loan. Examples of events that should be disclosed to the PB are:

- * Inability to pay workers' salaries or general deterioration of an owned business
- * Significant medical expenses or death of a Beneficiary
- * Divorce, especially if child support or alimony payments are required
- * Increases in taxes or unpaid taxes
- * Foreclosure or bankruptcy proceedings
- * Additional borrowings for personal or business expenditures.
- * Deterioration of any collateral property or guarantor's personal property
- * Unemployment or reduction of salary

The sub-loan contract must require that the Beneficiary continue to pay for hazard insurance coverage and all tax obligations (both related and unrelated to the property being financed). The Beneficiary must provide evidence of payment of taxes and insurance to the PB at least annually.

Evidence of payment of land lease dues must also be provided to the PB routinely.

2.9 Verification of other debts:

The Beneficiary should list all outstanding existing credits on the sub-loan applications. The creditors (banks, suppliers, etc) should be contacted directly by the PB to determine the status of each sub-loan. Information on the amount of credit extended, the length of time the Beneficiary has had an account relationship with the creditor and the payment record (whether payments have been made as agreed) should be obtained, preferably in writing.

The nature of credits (for business or personal purposes), the aggregate amount in relation to the Beneficiary's income and asset levels, and the trend (is the amount of debt increasing or decreasing) should be considered in the analysis of the Beneficiary's ability to handle additional debt obligations.

It is also suggested that the Beneficiary sign a statement that all outstanding debt has been disclosed on the application and that he will disclose any future debt incurred to the PB.

The Beneficiary should also list any loans on which he is a guarantor on behalf of someone else.

2.10 Verification of additional collateral:

If it is determined that additional security for the sub-loan is required in the form of guarantors, income certificates as discussed above should be obtained from each guarantor. The guarantor should also be interviewed as to whether he or she has made other guaranties on behalf of individuals or has outstanding credits that might reduce his or her ability to repay the sub-loan in the event of a default by the Beneficiary.

A weksel in blanko with a "Statement From the Guarantor" should be completed and left with the PB. The "Statement From the Guarantor" gives the PB the right to fill in the blank of the weksel in blanko. Any other necessary documentation to assure the PB's interest in the guarantor's assets should also be completed.

If the guarantor is married, a statement from the spouse consenting to the guaranty should be obtained.

The PB may also wish to accept assignments of life insurance policies, guaranties from other banks or businesses, or pledges of financial assets such as bank deposit accounts. In all such cases the PBs must have all documents needed to obtain the collateralized assets and apply them toward the outstanding sub-loan balance prior to disbursement of the sub-loan funds to or on behalf of the Beneficiary.

2.11 Insurance evidence:

The Beneficiary should provide the PB with evidence of hazard insurance in the amount equal to the property value minus land cost.

The policy should have a clause reflecting the PB's right to insurance proceeds should the property be damaged.

A copy of the insurance policy should be retained in the file. Copies of subsequent policies should be obtained and kept in the file as well in order to document uninterrupted coverage on the property financed.

2.12 Tax payment evidence:

The Beneficiary must provide the PB with evidence of payment of all taxes due including personal income taxes, real estate taxes, land lease payments due the state or local governments, business taxes and any other applicable state or local government fees or taxes.

2.13 Disclosures:

2.13.1 Sub-Loan Denial:

If a sub-loan request is denied for any reason, the applicant must be notified, in writing, promptly. If the cause of the denial could be remedied (the applicant could offer additional collateral or pay off existing liens against the property) this should be disclosed in the denial letter. Preferably such recommendations would be made to the applicant prior to the final credit decision to provide an opportunity to approve the sub-loan request.

Two copies of the Letter of Mortgage Sub-loan Denial should be sent to the applicant with a request to return one signed copy to the PB for the mortgage loan file. Only one applicant's signature, in the case of multiple applicants, is required.

2.13.2 Sub-Loan Approval:

If the sub-loan is approved, the PB should issue two copies of the Letter of Mortgage Sub-Loan Approval to the Beneficiary who keeps one copy and returns a signed copy to the PB for the mortgage loan file. Again only one Beneficiary signature is required on the mortgage loan file copy.

The approval letter must contain the following information:

- * The approved mortgage amount, disbursement procedures and the Beneficiary's repayment obligations.
- * All credit terms and conditions, including the initial interest rate on the mortgage sub-loan, the frequency and basis for making periodic adjustments to the interest rate.
- * Address of the property to be financed.
- * All documents and other items (including the downpayment and any closing costs and fees) that must be brought to closing.
- * The date, time and place for the loan closing.
- * Any conditions that must be met prior to the loan closing.

2.14 Lien recordation:

The PB's mortgage credit should be entered in Section 4 of the Book of Land and Mortgages. An agent of the PE should be responsible for obtaining a release of lien if the previous owner had a mortgage against the property that was paid off by the PB's loan and for registration of the PB's mortgage with the Notary. A copy of the extract from the Book of Land and Mortgages should be delivered directly to the Bank by the Beneficiary reflecting the PB's Mortgage under Section 4.

PB personnel should prepare an Application for the Registration of the Mortgage in addition to the Mortgage Sub-Loan Contract for filing with the Notary in order to register the PB's lien on the property. When an Application for the Registration of the Mortgage is required, it must contain the specific payment dates on the loan (for example, the 15th of November, the 15th of February, etc.) and must have the Beneficiary's agreement to submit to execution if payments are not made as agreed.

2.15 Lien assignments:

The PB must assign its right and interest in the mortgage sub-loan and any additional collateral securing the mortgage sub-loan to the favor of the Bud Bank, S.A.. Assignment of the interest in the mortgage should be effected through the jurisdictional notary at the time the PB's mortgage is registered by use of a subintabulat. An additional mortgage established for the maximum outstanding principal amount that may result from capitalized interest must be simultaneously registered.

The registration of the mortgage, the "mortgage established up to a specified amount", and the subintabulat should result in the PB having first lien on the property and the Bud Bank having security interest in the mortgage securing the mortgage sub-loan.

3 UNDERWRITING GUIDELINES

For every collateralized mortgage sub-loan, the PB should establish that:

- * the Beneficiary has the ability to repay the debt;
- * the property and collateral is sufficient security for the mortgage; and
- * there are no existing obligations of the Beneficiary which are in default that could jeopardize the lien position. Examples of such obligations are:

Past-due alimony support payments
Past-due wages owed to employees
Past-due property and other taxes

3.1 Credit documentation

Generally, the documentation that supports the request for approval of the Beneficiary's credit should be on standard Bud Bank forms. However, equivalent credit forms may be used if they provide all of the essential information that is contained on Bud Bank forms and Bud Bank specifically provides for the acceptability of certain alternative documentation. The documents in the application package must be legible originals that do not have any alterations, erasures, or "whiteouts". Facsimiles or photocopies are not acceptable substitutes for original documents, unless Bud Bank specifically provides for their acceptance. The application package should

also include any other information needed to verify, clarify, or substantiate information in Beneficiary's application.

3.1.1 Standard credit documentation:

Credit documents must reflect the current status of the Beneficiary. Employment and income statement forms should be obtained within 60 days prior to the disbursement of the loan funds. Appraisals on existing properties should be performed within 60 days prior to disbursement of the mortgage loan proceeds. When the documents are older, the PB must obtain updated written statements. The documents listed above are the base credit documents. Other information may be required and obtained to further support the credit decision.

3.1.2 Verification of employment and income:

Income verification is necessary to determine the Beneficiary's ability to repay and must be documented for all household members who will be contributing funds toward the monthly mortgage payment.

3.1.2.1 Self-Employed Beneficiaries:

Every effort should be made to determine the viability of the Beneficiary's business. Financial Statements should be analyzed for trends. Growth in sales, revenue and most importantly, net profits are favorable trends. Reductions in outstanding debt, faster turnover of inventories and improving cash flows are also positive factors. Growth in sales or locations alone are not indicative of success if not accompanied by increasing profits. Profit margins (sales revenues minus cost of goods sold) should also be stable or increasing.

The PB must consider the length of time that the Beneficiary has been self-employed in this business, the stability and growth of the business, and the Beneficiary's personal business assets.

Net income shown on the financial statements should match that reflected on the Tax Office Statements received.

The Beneficiary should document in any other way feasible to the PB the stability of the his source of income.

For Beneficiaries whose source of income is irregular, such as artists or actors, the income tax return must be used to verify the annual income.

3.1.2.2 Salaried Employees:

The Certificate of Income or Tax Office Statement must identify clearly the gross income for the periods covered.

The Certificate of Income should be completed by the Personnel Department of the employer or if one does not exist, by the Beneficiary's supervisor.

The Certificate of Income and Tax Statement should be compared and any differences explained by the Beneficiary.

If the Beneficiary has multiple jobs, a Certificate of Income should be obtained from each employer as well as a statement from the employer as to whether this job is permanent or temporary.

If the Beneficiary has seasonal or part-time jobs, Tax Statements should be obtained for as many quarters as possible to substantiate the consistency of such employment. The average monthly income can be calculated by dividing the gross annually income from such jobs by twelve.

3.1.3 Verification of funds available for closing:

Acceptable sources of funds are listed above. The PB must ascertain that the Beneficiary has sufficient cash to make the required downpayment and pay any related land registry fees, closing costs or other loan related expenses. A reserve of funds should remain equal to at least two monthly payments after payment of all transaction costs.

If bank account verifications are obtained, they must be delivered by the Beneficiary from his bank and must show the Beneficiary's name, address, account number, date the account was opened, balance on statement date and the average balance over the preceding quarter. Any discrepancy indicating an unusually large deposit should be explained. The Beneficiary must have a minimum downpayment of 25% of the value of the property from his own funds. Borrowed funds are not acceptable for the downpayment.

Gift funds from a family member or other donor are permissible. A gift letter must be obtained from the donor which states the amount of the gift, the purpose of the gift and whether repayment is expected, (if so, the funds are a loan, not a gift and are not an acceptable source of funds). The letter must show the donor's name, address and relationship to the Beneficiary and must be notarized.

The gift funds must be verified. Bank statements reflecting the funds in the donor's account or canceled checks in the amount of the gift with matching deposit receipts from the Beneficiary's bank account are acceptable verifications of the gift funds.

Expected income from the sale of an existing home can be used to qualify the loan.

Proof of deposits made with the seller (as the downpayment) within five days submitting an application for a mortgage is acceptable. The source of the funds must be verified if possible and must be an amount that is reasonable in relationship to the Beneficiary's income and position.

3.1.4 Verification of payment history on previous housing:

The PB must require submission of receipts for housing payments for the past 12 months. As an example, these will include property taxes, maintenance fees, utilities and the other applicable housing-related expenses.

3.1.5 Credit verification:

The PB must document the Beneficiary's payment history for all credit obligations. Such documentation should include all debts the Beneficiary has had payments obligations on within the past two years. Direct confirmation from banks and other lenders, in writing, is the best means of establishing a credit history that is acceptable to Bud Bank.

The Union of Banks default records should be checked for the names of Beneficiaries on the mortgage loan application and the names of any businesses owned by Beneficiaries either jointly or independently.

3.1.6 Guarantors:

If the PB is unable to establish consistent monthly income and/or credit history, a credit approval decision may still be justified if the Beneficiary is able to find family members or others willing to sign a weksel in blanko or surety. By doing so, the co-signers will be obligating themselves to repay the mortgage loan if the Beneficiary does not.

The same procedures outlined above for income and employment and source of funds verification should be used to determine the income stability and financial capacity of the guarantor to meet the Beneficiary's obligation in the event of default.

The guarantor should also receive full explanation of the terms of the mortgage loan and the DIM loan contract and the full extent of the liability assumed if the Beneficiary defaults. It is imperative that the guarantor be notified promptly if the Beneficiary's mortgage loan becomes delinquent.

3.2 Appraisal standards for participating banks when participating in Bud Bank Programs

Participating Banks are required to obtain a current market value appraisal when underwriting requests for mortgage sub-loans to be made to eligible purchasers.

For the purpose of these standards an appraisal is defined as "the current market value as estimated by a state certified appraiser who has personally inspected the property in and out

and who has no present or contemplated future interest in the property appraised". The appraiser should have previous experience in valuing the type of property and should be knowledgeable about other properties of the same kind in the geographical area.

Market value is defined as "The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of the title from seller to buyer under conditions whereby:

- (1) buyers and sellers are typically motivated;
- (2) both parties are well informed or well advised, and each acting in what he considers his own best interest;
- (3) a reasonable time is allowed for exposure in the open market;
- (4) payment is made in terms of cash in Polish zlotys or in terms of financial arrangement comparable thereto; and
- (5) the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale".

The appraisal assignment should be given in writing instructing the appraiser to prepare a written report to be submitted within a specified time indicating the estimate of value and reflecting the following information which is required to establish the estimate of value.

3.2.1 Property

- * Common and legal description
- * Site information
 - zoning
 - topography (size, shape, & soil condition)
 - utilities (electric, gas, water, & sewer)
 - access (sidewalks and streets)
- * Improvements (detached, cooperative, condominium, row house, etc.)
 - description of exterior
 - description of construction
 - description of interior including room sizes and computation of total living area.
 - heating (gas, oil, coal, electric, etc.)
 - age
 - condition
 - real estate tax assessment
 - certify that home has been built according to plans and specification approved by bank
- * Negative conditions

Comments concerning any condition which in the appraisers opinion may affect the value of the property such as:

- possible toxic materials
- noxious fumes
- proximity to power facilities

3.2.2 Community

* Gmina

* Commentary about the area within a one (1) mile radius of the subject

- access (highways & public transportation)
- convenience factors (shopping, schools, medical facilities, etc.)
- predominant occupancy (residential, business, retail, industrial, farms, etc.)

* Sales of vacant land and of homes during the preceding year.

* Planned development.

* Demographic information on the city/town, where the project is located:

- number of inhabitants, including professionally active,
- number of households, their average size

* Information on the status of housing construction:

- number and structure of housing units (by size)
- standard of the stock (age, utilities, size of buildings)
- size of housing construction (for the last three years)
- number of sales-purchase transactions, obtained from the Office and from a real estate agency;

* Description of similar projects currently under construction in this area, with price of 1m², manner of construction and purchase of apartment or houses and description of the projects.

* Economic information on the population;

- average salaries and incomes (data from Tax Office and statistic services);
- number of unemployed and, registered during the last three years (data for the three subsequent years).

3.2.3 Estimate of value

To derive the value of the property the appraiser must use each of the following methods. Each must be fully substantiated.

* Sales comparison.

The appraiser should select at least (3) properties which are similar to the subject which have been sold during the previous year. After making adjustments for location, condition, and other physical features a value should be indicated for the subject.

* Cost estimate.

An estimate of the current cost to build on exact replica of the improvements less depreciation and plus the cost of the land.

* Income

While this method is not given as much importance as the previous two methods it can assist the appraiser in some situations. It is assumed in this method that the same market will influence both the sales price and the rental price and therefore, will tend to move up and down at the same rate. The appraiser must determine a gross rent multiplier (GRM) and multiply an assumed or actual monthly rent to determine the value. To arrive at a G.R.M. the appraiser must find a comparable property which is leased and has been recently sold. The sale price is divided by the monthly rent resulting in the multiplier, for example

$$\frac{\text{sale price } \text{Zl. } 1,275,000,000}{\text{monthly rent } 9,000,000} = 142 \text{ G.R.M.}$$

G.R.M.		monthly rent	value
	x		=
142		Zl. 9,000,000	Zl. 1,275,000,000

Having employed all three approaches the appraiser must reconcile the results. The estimate of each approach will not be the same and the final estimate of market value must be substantiated indicating the appraisers judgement, analyses, and reason for the conclusion. The appraisal must be dated and signed by the appraisers. To the extent available the following exhibits should be included with the appraisal.

- site plan
- location map
- photographs (exterior and interior)
- floor plans indicating dimension by room with computation showing total living area.
- photographs of each property used as a comparable in the sales comparison approach 1

3.3 Commitment to refund mortgage financing agreements

The commitment process is designed to match the PB's need to have its pipeline of mortgage sub-loans refunded by the Bud Bank on a timely basis with the Bud Bank's requirement to have advance notice of refunding Financing Agreements.

PBs notify the Bud Bank of their anticipated quarterly funding requirements during the first five business days of each month. Using the Mortgage Commitment Form, PBs specify the exact amount of the Financing Agreement they want disbursed on the first day of the following month. Additionally, PBs estimate their refunding requirements for the next two months.

Mortgage and construction commitments will be separately recorded. Key terms and information requirements of the mortgage commitment are:

- Total commitment amount at the Bud Bank's participation percentage for the quarter plus monthly totals. For the current month, also indicate the construction start and completion dates for the mortgaged property and whether there is any additional collateral to the property obtained by the PB.
- Bud Bank's interest rate charged to the PBs is not locked-in until the actual disbursement date.
- If the actual Financing Agreement varies from the current month's committed amount plus or minus 5%, Bud Bank may, at its option, charge a 10% fee against the amount outstanding. However, projections for the remaining two months may be modified by the PB when it makes its commitment the following month.
- If there are consistent and substantial discrepancies between the PBs' projections and the amount refunded each month, a written explanation may be requested.

The Mortgage Commitment Form, with additional information supplied by the Bud Bank, will be returned to the PB. A number will be assigned to the commitment and the source of funds will be identified (AID or World Bank). PB's should record the commitment number on the corresponding Statement of Mortgage, due by the 25th of the month.

3.4 Mortgage financing agreements

To aid in familiarizing newly eligible PBs with the Housing Financing Program, Bud Bank provide assistance to ensure compliance with program requirements. Bud Bank will assist, if requested, in underwriting the first three mortgage sub-loans that the PB originates and will aid in document preparation as needed.

Bud Bank pre-approval for Mortgage Financing Agreements is not required. On an on-going basis, PBs make the origination decision and prepare the Financing Agreement using a model contract. Two signed copies of the Agreement are sent to Bud Bank for its signature.

If the terms and conditions of the sub-loans differ from the program requirements in the Guide, PBs may request a waiver by contacting Bud Bank. If approved, Bud Bank will prepare the Financing Agreement.

4 PACKAGING

As settlement nears, PBs determine whether to request refunding for one or a pool of mortgage sub-loans. Once the decision is made, the PB prepares a Mortgage Financing Agreement and sends it to the Bud Bank for signature. Concurrently, packaging -- the process of reviewing the Mortgage Sub-loan Contracts to ensure that they meet Bud Bank guidelines and preparing the documents necessary for refunding -- may begin.

The PB must first review the legal and credit documents and the terms of the Mortgage Sub-loan Contracts to verify that they meet Bud Bank's eligibility requirements. If any documentation is found to be deficient or missing, it must be corrected or obtained prior to delivery to the Bud Bank.

4.1 The Statement of Mortgages

After determining that eligible mortgage sub-loans have complete and accurate documentation, the PB should prepare a Statement of Mortgages. The refunding amount requested on the Statement of Mortgages must reflect the original mortgage sub-loans' principal balances, adjusted by the Bud Bank's participation percentage. In addition to recording summarized information for all sub-loans included in the package, the Statement of Mortgages records information for each sub-loan. At a minimum, the following data is requested:

1. Beneficiary(s) name
2. Names of Guarantors, if applicable
3. Original Sub-Loan Amount
4. Payment Amount
5. Initial Interest Rate
6. The PB's Margin
7. The Size of the Unit (usable area in Square Meters)
8. The First Interest Rate Change Date
9. The First Payment Due Date
10. The First Payment Change Date
11. The Property Type
12. The Property Address
13. The Loan-To-Value
14. The Refunding amount requested by the PB
15. Mortgage Purpose - Purchase or Renovation
16. Construction start and completion dates
17. Rewrite of construction loans (take-outs)

4.2 Repayment of construction sub-loans and booking mortgage sub-loans

4.2.1 Mortgage Sub-loans Secured by Flats

The amount of loan proceeds requested on the Statement of Mortgage should be the difference between the applicable portion of the outstanding construction sub-loan for the individual completed unit and the projected balance of the mortgage sub-loan on the first day of the following month multiplied by the percent of refunding requested (this amount may not be more than 36 times the household income of the Beneficiaries of the mortgage sub-loan).

For example: If a construction sub-loan has been made to a Beneficiary for construction of a community association and the portion of the outstanding construction sub-loan attributable to the unit collateralizing the mortgage sub-loan is Z1.600,000,000 and the amount of the projected mortgage sub-loan outstanding balance as of the first day of the following month is Z1.800,000,000, then the Statement of Mortgage submitted by the PB should request funding of the difference (i.e., Z1.200.000.000) if the Bud Bank loan to the PB is being funded by HG resources and 80% of that amount (i.e., Z1. 160,000,000) if it is being funded with World Bank resources.

4.2.2 Mortgage Sub-loans Secured by Single-family Units

The amount of mortgage sub-loan proceeds requested on the Statement of Mortgage must not be more than 36 times the current household income regardless of the outstanding construction sub-loan balance. If the projected outstanding principal balance of the mortgage sub-loan on the first day of the following month exceeds the outstanding balance of the construction sub-loan, a portion of the construction sub-loan must be repaid by the Beneficiaries from other sources prior to the settlement of the mortgage sub-loan. If the balance of the construction sub-loan being repaid and the projected balance of the mortgage sub-loan are equal, no additional funds will be available to the PB making the mortgage sub-loan.

4.3 Loan Proceeds

Disbursements will occur on the first day of the month following receipt of the PB's collateral package (Financing Agreement, Statement of Mortgages, copy of Extract from the Book of Land and Mortgages, etc.). All documentation must be received no later the 25th of the month (or the preceding business day if the 25th falls on the weekend) in order for disbursement to occur. Missing this deadline will delay funding until the first day of the second month.

4.4 Documentation

In addition to the Mortgage Financing Agreement and the Statement of Mortgages, the PB should forward to the Bud Bank the following documents for each mortgage sub-loan to be refunded:

- A copy of the Mortgage Loan Contract
- A copy of the appraisal

- * A copy of the Extract from the Book of Land and Mortgages showing the PB's mortgage interest in the property
- * A copy of the Extract from the Book of Land and Mortgages showing the Bud Bank's interest in the PB's mortgage (subintabulat)
- * A copy of any applicable weksels in blanko or other forms of collateral
- * A copy of the subintabulat
- * A copy of the closing documents which show the PB's disbursement of loan proceeds
- * A copy of the loan application

5 FUNDING

Upon receipt of the Statement of Mortgages, and related documentation the Bud Bank will review the collateral package for completeness and accuracy. Bud Bank will then verify all calculations of amounts requested by the PB. Any problems discovered in documentation or calculations will be promptly reported to the PB which will have until the 25th of the month to submit corrections to Bud Bank. If the request for loan proceeds is in order by the 25th (or preceding business day), the Bud Bank will have the requested loan proceeds transferred to the account of the PB at the National Bank of Poland.

If upon review of the documents submitted with the Statement of Mortgage, Bud Bank determines that a mortgage sub-loan is ineligible, that mortgage sub-loan must be deleted from a revised Statement of Mortgages and a new loan proceeds request amount calculated.

The PB may resubmit such ineligible mortgage sub-loans on subsequent Statement of Mortgages, provided that the necessary actions have been taken to make the mortgages eligible to Bud Bank.

- * Mortgage sub-loan contract;
- * Weksels in blanko, if applicable;
- * Extract from Book of Land and Mortgages reflecting the seller's title to the property;
- * Mortgage and Subintabulat reflecting the PB's request for reservation of first priority positions in the Book of Land and Mortgages in favor of the PB and Bud Bank;
- * Plat or Survey;
- * Denial or Approval Letter;
- * Purchase Contract or Sales Agreement;
- * Community Association Declaration and Bylaws, if applicable;
- * Settlement Statement;
- * Any required building permits or local government approvals necessary for acquisition, subdivision and/or construction of improvements on the proper

6.3.2 Review/Reverification of Sub-loan Agreement Documentation:

1. The following review/reverification activity must be taken:

- * The PB must review the mortgage application for completeness and signatures;
- * The PB must obtain written reverification of employment, income, deposits and sources of funds for the downpayment and closing costs on mortgage loans;
- * Credit information should be updated if possible through the reverification with creditors of the status of outstanding personal and business loans or business lines of credit from suppliers;
- * The value conclusion, the neighborhood and subject property analyses, the appropriateness of the comparables, and the overall quality of the appraisal should be reviewed.

The PB should obtain a spot-check appraisal (prepared by a qualified independent appraiser) for one out of every ten mortgages chosen for review (10% of the 10% selected). The spot-check appraisal may consist of either a new appraisal or a field review. At a minimum the field review must include an exterior inspection of the subject property and the comparables, as well as a thorough analysis -- with emphasis on the accuracy of the factual data on the appraisal report.

2. **Underwriting Decisions.** The PB must determine that the mortgage loan was properly underwritten and that sound underwriting judgments were made. Mortgages must be reviewed for compliance with Bud Bank's mortgage eligibility criteria, and with its underwriting guidelines and standards. The PB also must determine that any conditions the underwriter established were satisfied.
3. **Record Keeping.** The PB should maintain accurate and detailed records and should document all corrective actions taken. Records should be made available to the Bud Bank on request. The PB should design its reporting procedures so that they are useful as an internal management tool to evaluate and monitor production quality.

6.4 Results of Investigation/Follow-Up

The system should provide for the regular reporting of quality control findings and any significant variances to Bud Bank.

To minimize the recurrence of problems, PBs should be sure that discrepancies are analyzed thoroughly, that appropriate steps for corrective actions are instituted, and that follow-up procedures are well-communicated within departments.

7 REPORTING REQUIREMENTS

7.1 Organizational Changes

The PB must report to the Bud Bank any of the following events:

- * The resignation, replacement or addition of any senior management personnel;
- * Any mergers, consolidations, or reorganizations;
- * Any substantial change (greater than 10%) in ownership or management;
- * Any change in corporate name;
- * A significant change in financial position
- * Any failure to comply with regulatory or government requirements
- * A significant change in portfolio delinquency rates on any type of loan (consumer, commercial or mortgages)

7.2 Procedural Changes

The PB must report to the Bud Bank:

- * Any major change in business strategy (for example a move from mortgage lending to construction lending in multi-family projects);
- * Any significant revisions to underwriting guidelines or change in underwriting personnel;
- * Any significant changes to accounting procedures or a change in independent accounting firms.
- * Any significant changes to the quality control procedures or personnel

7.3 Annual Reports

- * An annual audit of books, records, and individual sub-loan accounts must be performed by an independent outside audit firm in accordance with generally accepted audit standards. The results of these audits must be reported to Bud Bank no later than six months following completion of such audit;
- * Annual financial statements prepared by an independent accounting firm in accordance with generally acceptable accounting procedures must be submitted to Bud Bank by May 31st but not later than 14 days after the statutory time limit for compliance.

- * On or before October 31 each year, the PB must report to Bud Bank:
 1. An estimate of new refunding requests from the PB to the Bud Bank for each of the next four quarters for new Financing Agreements.
 2. An explanatory report of differences in last year's projections for refunding requests during the current year and actual requests submitted.

7.4 Monthly Reports

- * A Status Report showing monthly and cumulative financial and statistical data for items as: property type (community association unit, single family detached, rowhouse, etc.); household income; usable area; location; a narrative summary of mortgage sub-loans funded by Bud Bank programs secured by properties with energy conservation features and/or which utilized new construction techniques and technology. The features, techniques and technology should be briefly described.
- * Projected refunding requests for new mortgage Financing Agreements for each month of the subsequent quarter.
- * All routine accounting and other servicing reports;

7.5 Optional Reports

- * Any results of survey or evaluations of demand by property type, household income levels, property design, construction techniques or property location.
- * Any problems experienced with Bud Bank program requirements or guidelines.
- * Any suggestions for improvements or modifications to program requirements or guidelines.

7.6 Other Reports

- * Any reports that Bud Bank, or its successor, may request from time to time;
- * All files and documents requested in Bud Bank's post purchase review procedures.

8 SERVICING MORTGAGE SUB-LOANS

8.1 Accounting

The Beneficiary's monthly sub-loan payment may consist of principal, interest and any applicable late charges.

Application of Monthly Payments

Monthly payments are used first to pay accrued interest, then to reduce the amount of outstanding principal and finally to pay any applicable late charges. If the monthly payment to the PB is less than the amount of interest that is due for the month, then the unpaid interest is added to the sub-loan balance. Thereafter, interest is calculated on the new sub-loan balance.

Allocation of Payments Not Made on Time

When more than one payment is received, each month's payment should be applied separately. There may be instances in which different interest accrual rates apply to the payments. In those cases, the interest calculation must be based on the interest accrual rate in effect for each of the payments.

Additional Principal Payments

At any time, the Beneficiary can choose to make a lump sum payment to repay the mortgage sub-loan partially or fully without penalty provided the sub-loan is current. These payments are used first to repay capitalized interest and then to reduce the outstanding sub-loan balance.

8.2 Custodial bank accounts

General

The PB must hold in a custodial bank account any funds it receives for mortgages that are collateralized in favor of Bud Bank. Each month the PB must provide Bud Bank with a status report of the monies that have accumulated in the custodial accounts as of the end of the month. Separate custodial accounts are used for construction and mortgage sub-loans.

Principal and Interest (P&I) Accounts

The title of the account should read:

"(PB's Name) as agent, trustee, and/or bailee for the Bud Bank and/or payments to various Beneficiaries (Custodial Account)"

Funds in the P&I account relate to the principal and interest remittances due on the sub-loans that are collateralized with Bud Bank. In addition to scheduled payments

P&I installments, the PB will also deposit into the custodial account any P&I due to Bud Bank on sub-loans that the PB is required to repurchase.

All funds related to the principal and interest payments that are received for a mortgage sub-loan must be credited to the P&I account by the next business day after they are received. The PB must maintain records identifying each Beneficiary, the amount of each Beneficiary's payment, and the custodial account into which each payment is deposited.

The PB may withdraw funds from the P&I account for these purposes only: to remit the funds due Bud Bank and the PB on the remittance date(s); to remove amounts that have been deposited in error; to remove fees, charges, and other amounts that are deposited into the account on a temporary basis; and to clear and terminate the account.

Reconcile Custodial Accounts

Each month, the PB must reconcile its individual accounting records to the custodial account bank statements.

8.3 Accounting and reporting to the Bud Bank

Accounting Records and System

The PB must maintain permanent mortgage sub-loan accounting records for each collateralized mortgage. The records must indicate the portion of the mortgage sub-loan collateralized and contain the complete Bud Bank sub-loan number assigned to the mortgage sub-loan.

The PB's accounting system must be able to produce an account transcript for each mortgage sub-loan, itemizing the following in chronological order:

- o the date, amount, and breakdown of principal, interest, and capitalized interest;
- o the date to which the payment is paid; and
- o the date, amount, and nature of each disbursement, advance, adjustment, or other transaction affecting the amounts due from or to the Beneficiary.
- o providing the current outstanding principal balance and capitalized interest of the mortgage sub-loan;

Reporting and Accounting Method

At the current time, the Bud Bank will require the PB to use a reporting method which documents key statistical and operational details on each sub-loan individually. The

report data will include at minimum the sub-loan account number, last paid installment (LPI), date, current rate of interest applicable to sub-loan, amount of capitalized interest "year-to-date" and for "life-of-loan", amount of delinquent principal. The Bud Bank reserves the right to change the method of reporting, the method of accounting, or the report detail, at any time.

Report Cutoff Date

The monthly accounting cycle will run from the 1st day of the month through the end of the month. The cutoff day is considered to be the last working day of the month (month-end).

Required Monthly Reports

Reports are due to the Bud Bank within 7 business days of the cutoff date.

- o Remittance Shortage/Overage Report
- o Trial Balance Report (reflecting the actual balances of the loans, due dates, etc.)
- o DIM Change Report (reflects rate and payment changes on all sub-loans due to change the next month).

Bud Bank will send to the PB an Error Report consisting of a list of sub-loans for which there is a discrepancy between the PB's reported data and the Bud Bank records.

Amount and Timing of Remittance

The PB shall remit to the Bud Bank all sub-loan payments and additional principal payments received from Beneficiaries through the cut-off date, each calendar month. Said remittance will be in accordance with the Bud Bank's participation percentage, which will be 80 percent and the applicable Bud Bank interest rate of interest.

The rate of interest due to the Bud Bank will always be lower than the interest rate paid to PB's by the Beneficiary. This difference in the rates of interest will be retained by the PB as servicing income, in order to compensate the PB for incurred operational and administrative costs of servicing the sub-loans.

If no payments are collected in a given calendar month, the PB may advance funds to keep the Financing Agreement current. If Bud Bank does not receive its payment due from the PB, the uncollected interest will be capitalized to the principal balance of the Financing Agreement. Remittances are due no later than 5 business days after the cut-off date.

8.4 Paid in full

General

Whenever a Beneficiary intends to pay off a sub-loan, the PB must make sure that the final payment is enough to satisfy all principal, interest, and any advances that may have been made.

Calculating Interest

Interest charged to the Beneficiary should always be calculated on the outstanding principal balance of the mortgage sub-loan as of the last paid installment date, using the current interest accrual rate.

To determine the period of time for which interest will be assessed, PB's should include the first day following the LPI date but exclude the day on which payoff funds are expected to be received in the PB's office.

Disbursement of Payoff Funds

The PB must remit payoff funds to the Bud Bank via wire transfer no later than 5 business days after the date funds are received by the PB. The payoff amount forwarded to Bud Bank must be in accordance with its participation percentage (80% or less) and Bud Bank's rate of interest.

Release of Mortgage

No later than 5 business days after payoff funds are received and allocated to the sub-loan, the PB must make available to the Beneficiary a "Release of Mortgage" which will effectively remove the PB's lien interest. The Bud Bank must provide the necessary documentation to eliminate its subintabulat lien.

8.5 Collections

Requirements of the Collection System

The Bud Bank expects the PB's collection system to include the following:

- o an accounting system that immediately alerts the PB when a mortgage is delinquent;
- o personnel familiar with Bud Bank procedures and requirements;
- o counselling procedures to advise Beneficiaries on how to avoid or cure delinquencies;

- o guidelines for the individual analysis of each delinquency;
- o instructions and adequate controls for sending delinquent notices, assessing late charges, and maintaining collection histories;
- o management review procedures to evaluate both the Beneficiary's actions; the PB's efforts before a final decision is made to accept some form of repayment arrangement or to start foreclosure proceedings;
- o personnel familiar with the economic conditions of the areas the PB services; and an understanding of how these will affect collection efforts.

Late Charges

The PB may collect and keep any late charges that may be assessed on the sub-loan, as specified by the sub-loan contract.

Late Payment Notices

The PB should send the Beneficiary a late payment notice no later than the 10th day of the month if the sub-loan payment has not been received. This notice should state that the sub-loan payment is overdue and that a late charge has been assessed.

Telephone Contact

Telephone contact with the delinquent Beneficiary should begin by the 17th day of delinquency, or earlier, for a Beneficiary with a history of paying late. The primary purpose of the telephone contact is to emphasize the terms of the mortgage contract, to determine the reason for the delinquency, and to try to gain the Beneficiary's commitment (including a specific date and amount) to bring the sub-loan current. If the PB determines that the Beneficiary is acting in good faith, but is experiencing a temporary hardship, it may want to discuss relief provisions outlined in this section.

Letters

Once the loan is two consecutive sub-loan payments late, the PB should send an individually prepared collection letter stating that the account is seriously overdue and late charges have been assessed on all overdue payments.

Face to Face Interviews

Once the mortgage has become 45 days delinquent, the PB must conduct a face-to-face interview with the Beneficiary and all other parties to the sub-loan, including guarantors. Jointly, all parties should analyze the situation and seek alternatives to legal action to remedy the problem. During the interview, the PB should try to determine the reason

for the delinquency (including whether it is temporary or permanent), and the Beneficiary's attitude toward the delinquency. The PB should obtain a declaration letter from the Beneficiary disclosing family income, debt obligations and known liens resulting from unpaid taxes, alimony, etc. If the Beneficiary has a legitimate reason for the delinquency, the PB should discuss the availability of relief provisions, if appropriate.

The PB may conduct additional face-to-face interviews with the Beneficiary, if appropriate. At a minimum, the PB must attempt one face-to-face interview with the Beneficiary before initiating any foreclosure action.

Property Inspections

Prior to Foreclosure

- o If the mortgage sub-loan is in default and the property is vacant, the PB should inspect it every 30 days.
- o If the mortgage sub-loan is current but the PB has reason to believe the property may be in jeopardy, it should order an inspection.
- o If the PB discovers that the property is subject to an environmental hazard, contact the Bud Bank immediately and prior to proceeding with foreclosure action.
- o Whenever a Beneficiary does not make a payment within fifty to sixty days of the due date, the property should be inspected to ensure that it is being properly maintained. The PB may use the property inspection as an opportunity to conduct a face-to-face interview with the Beneficiary, if one was not previously conducted.
- o The PB should inspect the property before it places a delinquent Beneficiary under a relief provision, and then reinspect as often as necessary to protect the security interest, but at least once a year. If the Beneficiary becomes delinquent under the repayment plan, the PB should inspect the property more often.
- o The PB must inspect the property prior to the institution of foreclosure.

During the Foreclosure Process

A property inspection must be completed on a property inspection form and submitted to Bud Bank monthly. If an inspection reveals that the property has been damaged, the PB should consider postponing the foreclosure sale to settle any claim with the hazard insurer.

Property Maintenance

Prior to Foreclosure

If an inspection reveals the property to be vacant, the PB must take reasonable action to protect and preserve it from vandalism to the extent allowed by local laws. This may include securing doors and windows to prevent unauthorized entry; replacing broken glass; weatherproofing against freezing as required; and providing mowing the grass as necessary.

If, at any time, the PB determines that emergency repairs are required to protect the security interest, it must advance the funds necessary to pay for repairs to a property that secures a delinquent mortgage loan. The PB should arrange for the Beneficiary to repay this advance, either in installments or as part of the full amount required to reinstate the sub-loan.

During the Foreclosure Process

Throughout the foreclosure process, the PB is responsible for performing all property maintenance functions to assure that the condition and appearance of the property is maintained satisfactorily. In addition, the PB should notify Bud Bank immediately about any damage to the property or injury to a person on the property.

Notification to The Union Of Banks

The PB must report all delinquent sub-loans to The Union Of Banks.

Methods to Cure Delinquencies

1. The PB should consider waiving or deferring penalty interest for those Beneficiaries that experience temporary hardships, such as a short-term illness or disability.
2. The PB can accept a partial payment if the Beneficiary can pay the balance within 30 days. If the Beneficiary will be unable to make full payments for an extended period of time, the PB may consider offering some type of relief provision.
3. If the property is being rented, the PB should try to collect the rental income and apply it toward the delinquent payment if:
 - o other arrangements to repay the delinquency cannot be made;
 - o law does not prohibit the collection of rents in this situation; and

- c. this action will not result in new rights for the occupant that might affect the ability to foreclose at a later date.

8.6 Relief provisions

General

If the PB determines that the delinquency is the result of a temporary condition such as illness, death in family, or unexpected expenses, and that the Beneficiary is acting in good faith, it should consider granting a relief provision to the Beneficiary. Prior to granting any relief provision, the PB must first conduct a property inspection to confirm that the property is being properly maintained.

Temporary Indulgence

Temporary Indulgence is the act of refraining from taking legal action when a mortgage sub-loan is delinquent but expected to become current within 30 days. The PB must believe the Beneficiary will be financially able to bring the account current by paying the delinquent installment(s) within 30 days. Temporary indulgence may be granted when:

- a. a sale or rental of the property is pending;
- b. an insurance settlement is being negotiated;
- c. additional time is needed to formalize a repayment plan under other viable relief provisions; or
- d. the mortgage payments are in transit and need to be traced.

Informal Liquidating Plan

The PB may consider a verbal liquidating plan if the delinquency results from a temporary hardship that no longer appears to be a problem and the delinquency involves fewer than three monthly payments. The Beneficiary must immediately make payments in addition to regular monthly payments to cure the delinquency. If the PB believes the Beneficiary should be granted this relief, explain to him/her their responsibilities, obtain financial information needed to develop the repayment plan and stress the consequences of not meeting the terms of the repayment plan.

Formal Repayment Plan:

The PB may consider a formal liquidating plan when the plan involves more than three monthly payments and the delinquency results from a temporary hardship that no longer appears to be a problem. The plan should be in writing and state the terms, including

the amount due, payment dates, and the date the delinquency will be cured. The terms for repayment under the plan may include:

1. Monthly payments that are multiples of the regular installment;
2. regular payments one month and multiple payments the next;
3. payments to be made more often than monthly; or
4. any other variation in the timing or amount of the payment that will cure the delinquency in the shortest possible time-preferably within six months of the initial delinquent payment.

Special Forbearance Agreements

A special forbearance agreement is a formal contract to suspend or reduce the monthly payments for a specific period not to exceed eighteen months. The Beneficiary must be able to resume regular mortgage payments after the forbearance. All special forbearance agreements must be approved by the Bud Bank prior to implementation.

- a. A written special forbearance agreement may be considered where the default results from circumstances beyond the Beneficiary's control. These delinquencies may be the result of:
 1. Beneficiary's death or the death of a contributor to the monthly mortgage payment;
 2. illness or natural disaster the Beneficiary is not insured for;
 3. substantial reduction in income that the Beneficiary could not prevent; or
 4. some other unusual circumstance that is documented and would warrant a relief provision.

- b. The following conditions must be met:
 1. The default is curable.
 2. The agreement outlines specific dates for repayment and the exact amounts to be paid.
 3. The PB obtains a declaration (credit information relating to income and debts) from the Beneficiary to determine his financial position and the ability to meet the terms of the repayment plan.
 4. The PB obtains the necessary approvals from Bud Bank.
 5. The PB inspects the property before executing the agreement, and reinspects it at least every 60 days.
 6. The agreement allows foreclosure proceedings to begin immediately in the event of further default under the agreement.

Special forbearance agreements must always be in writing. They should clearly set out the period of reduced or suspended payments, the schedule for making additional payments when the Beneficiary resumes regular monthly payments, and the date on which the forbearance will end.

Sale of Property

If a delinquency cannot be cured through forbearance or any of the other suggested means, and it is apparent that the home must be sold, such a recommendation should be made.

Notification of Intent To Take Legal Action

In the event the Beneficiary either fails to comply with the PB's request for an interview or does not make a third consecutive monthly payment, or agrees to bring the loan current through relief measures or other means are not fulfilled in a timely manner, the PB must notify the Beneficiary in writing (Breach Letter) that the credit is terminated and if full past due amounts are not paid within 14 days from the date of the letter, the PB will begin foreclosure proceedings. The PB must simultaneously notify the Bud Bank that the Breach Letter has been sent to the Beneficiary.

8.7 Foreclosure alternatives

Deed in Lieu of Foreclosure

A deed-in-lieu is a deed given by the Beneficiary to a PB to satisfy a debt and avoid foreclosure. It is also called a voluntary conveyance. The PB should consider accepting a voluntary deed in lieu of foreclosure when:

- o the mortgage is seriously delinquent;
- o there is not sufficient other collateral to cover the deficit after the foreclosure sale; and
- o the property is not subject to excessive priority mortgages held by others.

The PB must conduct proper due diligence to determine that all other liabilities and liens are limited to the property securing the mortgage loan. This process includes requiring a declaration from the Beneficiary disclosing all debts and known liens, letters from tax offices stating that taxes have been paid, and if applicable, a spouse letter indicating that there is no unpaid alimony or child support.

To request Bud Bank approval, the PB should send Bud Bank a request accompanied by all due diligence information, loan status information and a letter from the Beneficiary requesting acceptance of the deed-in-lieu and providing information to document his or her financial hardship. Once Bud Bank has reviewed the request, they will advise PB in writing of their decision. If Bud Bank denies the request, the PP may

proceed with the deed-in-lieu as long as it immediately satisfies its debt with Bud Bank.
If the Bud Bank approves the Deed-in-Lieu, the PB must follow procedures as outlined in managing REO property. Interest will cease to accrue on the loan to the Bud Bank.

Sub-Loan Modifications

Modifications may be considered for Beneficiaries who have experienced a permanent or long-term reduction in income that affects their ability to continue making their monthly mortgage payments. The PB must obtain Bud Bank's approval prior to modifying any mortgage sub-loan.

The PB may call Bud Bank to discuss the relative merits of a particular case before it submits its application package. To request Bud Bank approval of a modification, PB should send Bud Bank a completed workout proposal and a letter from the Beneficiary requesting the modification and providing information to document his or her financial hardship.

Once Bud Bank has reviewed PB's package and reached a decision, they will work with the PB to develop modified mortgage terms that meet the Beneficiary's financial ability to pay. In instances where the Beneficiary's indexed payments substantially exceed 25% of the actual household income due to reasons beyond the Beneficiary's control, the Bud Bank may consider capitalizing delinquent payments and lowering the monthly payment to no less than 25% of the Beneficiary's household income. Once Bud Bank approves the modification, they will send PB a letter that confirms their approval and the terms of the modification.

8.8 Foreclosure

Foreclosure Recommendation

Generally, foreclosure proceedings for a mortgage sub-loan can begin whenever at least three full monthly installments are past due. In addition, foreclosure proceedings for any mortgage sub-loan may be started immediately if:

- o the Beneficiary was advised in writing of the relief provisions that were available (including deed-in-lieu) and his or her written response indicated a lack of interest in the mortgage obligation; or
- o income from rental of the property is not being applied to the mortgage payments.

PB's should not begin foreclosure proceedings for any mortgage sub-loan if they become aware of environmental hazards that affect the security property. Instead, they should

immediately contact Bud Bank in order to come to a decision about how to resolve the matter.

Prerequisite To Foreclose

Whenever a Beneficiary shows a disregard for the mortgage obligation or is unable to make the mortgage payments the PB must protect the security investment by taking prudent action. However, the PB should not take action to foreclose a mortgage sub-loan until it has made every reasonable effort to cure the delinquency through special relief provisions, and alternatives and to conduct a personal face-to-face interview with the Beneficiary. The PB also must have inspected and determined a market value of the property.

Before the ninetieth day of delinquency, the PB should decide the most appropriate method of liquidating the delinquent mortgage and advise Bud Bank. As allowed by governmental law, the PB should obtain all information relating to priority lien positions to adequately evaluate the consequences of foreclosure action.

The PB should have a foreclosure committee comprised of management that makes the decision to foreclose only after thoroughly reviewing the case and the recommendations of the collection staff who have been in contact with the Beneficiary.

Other Execution

The PB should check with all applicable court and administrative offices to determine if other creditors are in the process of execution against the Beneficiary. If the PB determines that other executions are currently in progress, they should enter immediately into those execution proceedings that affect the security interest of the Bud Bank.

Timing Restrictions

In the event the PB has not instituted foreclosure proceedings after six full consecutive monthly payments have not been made by the Beneficiary, it must submit a request for extension from the Bud Bank. This extension must define the reasons the PB's request the proposal for bringing the mortgage loan current including specifics on the amount and dates the delinquency will be repaid and exact date the mortgage loan can be expected to be brought current. The Bud Bank may either approve or deny the extension. If it denies the extension, the PB may either repay its loan in full with the Bud Bank and continue its efforts with the Beneficiary or institute foreclosure proceeding with the Beneficiary.

Submission to Attorney

The PB should initiate litigation for foreclosure by submitting the mortgage sub-loan to its designated attorney. It is necessary to ensure that the foreclosure actions that are taken are in accordance with the mortgage sub-loan contract and government law. The PB should have an internal set of management control procedures that monitor the progress of foreclosure to ensure that the foreclosure is handled timely.

Execution of Other Collateral

The PB must pursue execution of all other forms of security (i.e., Guarantied Wechsel in Blanko and additional collateral) through the Administrative Execution process.

Bud Bank Payoff

If at anytime the Bud Bank believes the PB is not handling the foreclosure or disposition of the REO in a proper and expeditious manner, it may demand repayment of the loan in full. If the PB opts to payoff the Bud Bank Agreement prior to submission of the mortgage sub-loan for foreclosure, it will not be necessary to obtain foreclosure approval from the Bud Bank.

8.9 Reinstating sub-loans out of foreclosure

Full Reinstatements or Payoffs

Until the auction, the sub-loan may be cured by paying it in full including all foreclosure expenses or the PB can accept a full reinstatement of the mortgage sub-loan from the Beneficiary or through an approved assumption by accepting:

- o all delinquent mortgage payments (bearing interest at the rate applicable on the date they became due);
- o plus any funds that were advanced to pay taxes and insurance premiums;
- o plus all legal fees incurred.

Partial Reinstatement

Until the auction, a partial reinstatement may be accepted if the PB believes the Beneficiary has the proper attitude toward the debt and will be able to bring the mortgage sub-loan current within a reasonable time. The written repayment agreement must state the terms, and include the action the PB will take to resume foreclosure proceedings if the Beneficiary fails to meet the terms of the plan. This must be prior approved by the Bud Bank.

Third Party Bid

The PB must immediately notify the Bud Bank of any successful third party auction bid. The PB must pay off the collateralized Bud Bank loan no later than five business days after receipt of the third party sale proceeds.

PB's Purchase at Auction

The PB must report the acquisition of a property by means of the Auction on any sub-loan collateralized to Bud Bank.

Monthly Foreclosure Progress Reporting

The PB must provide the Bud Bank a monthly progress report on all sub-loans in the process of foreclosure. Additionally, it must notify the Bud Bank when any of the events listed below occur:

- o determination of market value;
- o any disputes or complaints made by Beneficiaries during the court proceeding;
- o date(s) and results of any and all auctions;
- o final distribution of auction proceeds; and
- o any other action or proceeding relevant to the foreclosure process or other executions such as with guaranteed Wechsel in Blanko.

8.10 Managing REO property

General

If the PB acquires the property through the auction process, the PB will be responsible for marketing, inspecting, maintaining, securing and rehabilitating the REO.

Inspections

The PB must make regular inspections of the conditions and occupancy of each acquired property and report to the Bud Bank in writing at least monthly.

If any inspection indicates property damage that would be covered under the hazard insurance policy, the PB should immediately file an insurance claim. The PB is responsible for monitoring receipt of the claim proceeds and monitoring any required repairs.

Eviction

Immediately after obtaining occupied property through the auction process, the P^r must apply to the court for a Writ of Eviction.

Hazard Insurance and Taxes

The PB should ensure that hazard insurance is maintained on the property in the name of the PB and pay the premiums as they come due. The PB should request that the tax office change the name of the ownership to reflect the PB and pay the appropriate taxes and assessments as they come due.

If the acquired property is part of a community association, the PB should contact the management company to assure that all future bills for owners' association assessments or fees are sent to the PB, and pay the bills as they become due.

Rents

The PB must collect rent from any tenant that signed a rental agreement and pass through those payments to Bud Bank.

Utilities

The PB must contact the utility companies to have all bills for utility services directed to the PB and pay the bills as they come due.

Property Preservation

The PB's responsibilities include:

- o re-keying the property, if necessary, and providing one set to the real estate broker;
- o coordinating access to the property by all parties, such as property inspectors, vendors making repairs;
- o maintaining the condition and appearance of the property by doing such things as cleaning, removing trash, cutting grass, etc., in a manner that preserves the property's value and prevents deferred maintenance;
- o obtaining and reviewing Bids on estimated repair work and hiring vendors to accomplish the work authorized by Bud Bank; and
- o inspecting and taking photographs of the completed repair work and paying appropriate invoices.

Monthly Status Reports

The PB should provide the Bud Bank with monthly status reports on all REOs. These status reports should include information on the condition of the property and the broker's status of the real estate listing.

Bud Bank Payoff

Assuming the PB did not pay off the collateralized sub-loan at the time of foreclosure, the proceeds of the closing should go to Bud Bank. Upon closing, the PB is responsible for funding the difference in the closing proceeds and the payoff of the mortgage sub-loan collateralized with the Bud Bank.

Other Execution

The PB, should pursue execution of all other personal property belonging to the Beneficiary to cover any monetary deficiencies resulting from the default and subsequent foreclosure.

8.11 Property insurance, taxes and land leases

8.11.1 Hazard insurance

General Information

Hazard Insurance provides coverage that compensates for physical damage to a property by fire, wind, or other natural disasters. Each Beneficiary has the right to select his or her own insurance carrier to provide hazard insurance for the mortgaged property. It is the PB's responsibility to make sure that adequate hazard insurance coverage on mortgaged properties is in effect at all times. The general method to accomplish this is described below.

Policy Requirements

When a mortgage loan is closed, the PB must require the Beneficiary to present a policy providing fire and extended coverage and offering protection against other hazards customary in the area. Some basic requirements are:

- o Policies must be written by a company approved to do business by the government of Poland and be approved by the PB.
- o Policies must be written for a term of one or more years and be accompanied by a paid invoice.
- o Policies should be in an amount equal to the full insurable value of all improvements or the amount of the loan balance, whichever is less.

- o Policies must contain the standard cession customarily used in the area where the property is located. The cession makes losses under the policy payable to the PB.

Although only fire insurance is required, PB's should encourage the use of a contents policy which provides insurance coverage on the Beneficiary's personal property.

The PB must retain the policy(ies) along with a paid receipt on all mortgage loans.

Community Associations

Individual insurance policies are not required on mortgage loans in Community Associations, instead coverage is required of the entire Community Association. The premiums are paid by the individual unit owners to the Community Association as part of its monthly fee.

The PB must maintain in its files a "master" or "blanket" type of insurance policy for all Community Association loans it services. The insurance policy must at least protect against loss or damage by fire and all other hazards that are normally covered in a Community Association Blanket policy. Coverage does not need to include land, foundations, excavations, or other items that are usually excluded from insurance coverage. The policy must cover any fixtures and equipments if they are financed as part of the mortgage sub-loan. The insurance policy must also contain the standard cession clause naming the PB.

Although the PB is not responsible for paying premiums on the policy, it is responsible to verify that coverage required on the Community Association is being maintained. This is accomplished by maintaining a master policy for each condominium with an endorsement reflecting all the insured units.

Continuation of Coverage

The Beneficiary is responsible for the payment of his insurance policy, the PB must require the Beneficiary to submit a new policy with a paid receipt prior to expiration of the old policy. A file of policies and policy endorsement should be maintained on all mortgage sub-loans.

The PB should maintain insurance records according to expiration date. This may be accomplished through either an automated system or a manual insurance record card system. In any event, filings must be kept on a current basis and periodic checks should be made to ensure accuracy. Accurate information on all renewals should be

maintained on the PB's record cards or computer system. The PB is responsible to ensure all renewal information is checked for acceptability and insure that the PB is included in the cession.

Insurance Loss

As soon as the PB learns of a casualty loss, it must contact the Beneficiary to get complete details on the damage and discuss plans for having the property repaired. If the PB is unable to contact the Beneficiary, it should determine the extent of the damage and the required repairs and obtain information from the insurance carrier detailing the extent and description of loss.

When there is significant damage to the property, the PB must closely monitor the filing of the proof of loss with the insurance carrier, the repairs to the property, and the disbursement of the insurance proceeds. In order to insure there is no delay in claim payment from the insurance carrier, the PB should take the appropriate action to assure that the proof of loss is filed within the time period specified in the insurance policy and that the loss draft includes the name of PB as co-payee.

The PB has the following responsibilities:

- o help the Beneficiary obtain bids to repair the property;
- o review and approve the final plans for the repairs;
- o monitor the repairs to see that they conform with the approved plans; and
- o disburse the insurance proceeds. If repairs are extensive, the PB should consider making progress payments as portions of the work are completed;

In addition, in certain circumstances, the PB must submit a Report of Hazard Insurance Loss to the Bud Bank. This document should be filed when:

- o the property is in the foreclosure process;
- o the property has suffered a near total or total loss;
- o the insurance proceeds are greater than the cost of restoring the property to its original form; or
- o the PB believes the insurance proceeds should be applied to the mortgage loan rather than to repairing the property.

The Report of Hazard Insurance Loss should include:

- o the status of the mortgage loan;
- o the nature of the loss (partial, near-total, or total);

- o photographs of the damaged property;
- o a complete accounting of all outstanding funds (unpaid principal balance, advances, late installments, etc.);
- o the cost of repairs; and
- o a statement on how the loss proceeds will be applied.

Uninsured Losses

It is not always possible to protect against uninsured losses, such as those caused by natural disasters not customarily covered in standard hazard policies. In such cases, the PB should work with the Beneficiary to determine the extent of the damage and develop plans for repairing the property. The PB should also secure the property, if it is abandoned and, as soon as possible, submit a complete report of the damage to the Bud Bank.

If the damage is extensive, the PB should consider any reasonable forbearance plans or modification agreements that the Beneficiary proposes, and submit the appropriate request to the Bud Bank for approval.

8.12 Taxes/land leases

General

The PB must maintain a reliable system for determining that property tax and land lease payments are current and paid on all loans collateralized to the Bud Bank. This system must not only include data regarding the prompt payment of real estate taxes but also any special assessments upon the property.

Property Taxes (Land Leases) and Special Assessments

An area of special concern is the possibility of tax liens being placed on mortgage property. Generally, tax liens take priority over mortgage liens even if the mortgage lien is recorded first. If delinquent taxes must be paid ahead of the mortgage lien, there is an increased risk that there will not be sufficient funds to pay off the mortgage loan. Therefore, having accurate tax information is an important function of the PB.

The PB must maintain complete tax information on all sub-loans serviced. Whatever system is established for this function, it must assure prompt payment of all property taxes and/or special assessments. If these bills are not paid when due, substantial penalties may be added and a lien may be recorded against a property that could seriously affect the interest of the Beneficiary, the PB, and the Bud Bank. Handling the verification of tax payments is an important responsibility of the PB.

To fulfill this responsibility, personnel of the PB must be familiar with local tax structures and practices of tax assessors and collectors. They must know the source of tax bills and special assessments for local improvements.

Obtaining and Recording Receipts

The PB must require the Beneficiary to submit a paid tax receipt for each annual or quarterly installment.

The PB should maintain tax records through either an automated system or a manual tax record card system. All tax records must be reviewed during the tax paying season to be sure that no bills remain unpaid. When Beneficiaries fail to respond, a check must be made with the tax office to make sure no outstanding taxes remain unpaid. The PB must take required actions to insure tax payments are brought current. If the PB must pay taxes to preserve its security interest and that of Bud Bank, those funds should be recovered from the Beneficiary.

8.13 Process loan assumptions

General

An assumption is a transaction in which the purchaser (transferee) of real property takes over the seller's (transferor) existing mortgage. The transfer of a mortgage can be as simple as permitting a relative to take over a property and mortgage sub-loan or it can involve the sale of a home to an unrelated buyer who then assumes the mortgage sub-loan. The mortgage contract contains a provision that prohibits transfer of the mortgage sub-loan without prior approval of the PB.

Approval Process

Before approving a transfer, the PB should review the new Beneficiary's creditworthiness and financial capability. This process includes requiring a declaration from the transferee disclosing all debts and known liens, letters from tax offices stating that taxes have been paid, and if applicable, a Spouse letter indicating that there is no unpaid alimony. The transferee should be reviewed following the same procedures as underwriting a new mortgage sub-loan. If necessary, the PB may request additional collateral or guarantors. If approved, the PB should send the transferee an acceptance letter.

The PB must deny the mortgage sub-loan transfer if the transferee (new Beneficiary) does not meet the credit requirements. In such cases, the PB should inform the property

owner and transferee of the reasons for denying the requested transfer, or of any special conditions placed on the mortgage transfer by the PB underwriter.

Release of Liability

A Release from Liability is a formal agreement absolving a Beneficiary from responsibility under a mortgage sub-loan because another party has agreed to assume the mortgage obligations. If the Seller requests a Release of Liability, in addition to approving the creditworthiness of the Buyer, the PB must request an updated extract to ensure no superior liens have been entered since the first mortgage entry. If the assumption is approved, the Release Agreement must be signed by the Bud Bank.

Release of Additional Collateral

If the original Beneficiary has additional collateral supporting the mortgage, it may be released provided that the new Beneficiary has satisfactory creditworthiness.

Notify Required Parties

The PB should notify the hazard insurance carrier, the tax authorities, and any other interested parties that the mortgage sub-loan is being transferred and request a cession for the new insurance policy.

Transfer of Mortgage Sub-Loan Without PB Consent

If the PB learns of a mortgage transfer after-the-fact, the PB should notify the transferor and the transferee in writing that the mortgage sub-loan is due and payable. The transferee may be given 30 days in which to pay the mortgage sub-loan balance in full or to apply and qualify for a new mortgage sub-loan. If the transferee fails to pay off the sub-loan and does not apply for a new mortgage, the PB may begin foreclosure proceedings with prior approval from the Bud Bank.

8.14 Protection of security

General

The PB is responsible for protecting the liens on the property securing the loans that are collateralized to Bud Bank. The PB's responsibilities toward the protection of the security include:

- o insuring payment of taxes, land leases, or other assessments that could become a lien against the property and maintaining accurate records on the status;

- o making periodic inspections of the property to prevent unnecessary deterioration that may result from neglect or vandalism and advancing funds necessary to protect the property value;
- o taking actions to offset the effects of the attachment of liens or other legal actions; and
- o maintaining the integrity of both the PB and Bud Bank's rights under the mortgage sub-loan by appropriate enforcement of its terms related to monthly payment schedules, partial releases of the security, etc..

Property Inspections

Property inspections may be necessary to assure that the physical condition of a property is satisfactory, and that there are no apparent hazardous conditions affecting the property. The PB normally does not need to inspect the property that is security for a current mortgage as long as the mortgage sub-loan remains current.

When to Inspect

The PB should inspect a property any time it suspects that it is in disrepair, or that it is vacant and may be abandoned. The PB will seldom be in a position to regularly check on all properties to determine this. However, there are several situations that could alert the PB that a property inspection is needed. For example, a request for an address change from the property owner may be a signal that the property has been vacated or even abandoned. In such a case, a property inspection may be warranted.

A property inspection should be documented on a property inspection report form.

Properties in Disrepair

When an inspection reveals any condition that is detrimental to the property's value or shows the need for urgent repairs, the PB should remind the Beneficiaries of their obligation to maintain the property. Depending on their willingness and ability to arrange for the repairs, the PB may need to take additional steps.

If the Beneficiaries agree to arrange for the necessary repairs, the PB should follow up until the repairs are completed, giving what help and guidance it can. If the Beneficiaries are willing but financially unable to make the necessary repairs, the PB should advance its funds to make the necessary repairs and make arrangements with the Beneficiaries to repay the advance. If the Beneficiaries refuse to make necessary repairs that are of an emergency nature, the PB should advance its funds and make the repairs immediately. The PB should contact both the Bud Bank and its attorney to determine the best way of collecting the funds.

Vacant and Abandoned Properties

When an inspection reveals that a property is vacant and may have been abandoned, the PB should try to locate the Beneficiaries to determine the reason for the vacancy. The PB must also arrange to protect the property from vandalism and the elements to the extent that the local law allows. If the Beneficiary cannot be found and the mortgage is delinquent, the PB should consider recommending foreclosure to Bud Bank.

Community Association

When mortgage loans are made that are secured by flats in a community association, the association agrees to give the PB prompt notice of any change in its insurance coverage or of any documentation or casualty loss that may have a material effect on the project or on the security interest. Upon receiving such notification, the PB should immediately contact the Bud Bank.

Notices of Liens or Legal Actions

The PB must take all reasonable actions to prevent new liens that would be superior to the mortgage lien from being attached against the property. If the PB becomes aware that any new superior lien has been attached, the PB must notify Bud Bank immediately.

The PB must take all reasonable action to alert itself of any legal or financial action-bankruptcy, probate proceedings, execution, etc. affecting the property or the Beneficiary's ability to repay the debt. This includes a daily review of the newspaper for bankruptcy and other forms of litigation. Additionally, the PB should make routine visits to courts that have jurisdiction over various Beneficiaries to review the Commercial Register for bankruptcy other adverse actions affecting the Beneficiary's business activities. If the PB learns of such proceedings or actions, it should immediately notify the Bud Bank.

Quality Control Program

The PB should have a system of internal controls that sets standards, measures performance, and determines compliance with applicable legal requirements and Bud Bank requirements.

Partial Releases

Certain events may result in a portion of the property being released as security for the mortgage. Some of these events are:

- a. division of a property; and
- b. taking a portion of the property by eminent domain.

Other events that also result in a release of the security include: the release of personal property from the mortgage or a substitution of the security property or collateral.

When the PB receives a request for partial release, the PB and the Beneficiary must complete the Application for Partial Release. The request may or may not involve a cash payment to the Beneficiary as payment for the released security. Considerations for release may be made in the following circumstances.

Situations Involving Cash Consideration

- a. The value of the property released is no greater than the amount of the cash paid in consideration for the release and the total cash received will be applied to the outstanding debt. The Beneficiary may keep a portion of the cash if it will be used to pay expenses in obtaining the release.

If the released property is significant, the PB must require an appraisal (at the Beneficiary's expense) showing the value of the property before and after the release.

Releases Involving No Cash

- a. This may be approved if the value of the remaining property is enhanced or at least not diminished, by the release; or if another property of substantially equal value and comparable use is substituted for the released property.

The PB must also make sure that the priority of the mortgage lien will not be affected by any claims of subordinate lienholders.

The partial release must be approved by the Bud Bank.

8.15 Dual Index Mortgages (DIM)

General

A Dual Index Mortgage (DIM) is a mortgage that requires periodic interest rate changes based on the movement in the Interest Index (Base Interest Rate of The National Bank of Poland) and an increase of the mortgage payments based on the movement in the National Wage Index. The PB must enforce each DIM according to its terms. This includes making periodic interest rate and payment adjustments. The PB must change the mortgage interest rate and monthly payment to the fullest extent

permitted or required, maintaining at all time the mortgage margin specified in the mortgage documents.

DIM Terminology

- o Interest Base: The base used for the DIM is the Base Interest Rate of the National Bank of Poland.
- o Interest Rate: The rate at which interest accrues on the mortgage. It is the sum of the interest index and the mortgage margin (rounded as appropriate).
- o Interest Rate Change Date: The effective date on which a new interest rate begins to accrue for a DIM. The change date occurs every month if the interest base changes by more than 1/8 of 1%.
- o Payment Change Date: The effective date on which a new payment amount is required on a DIM. The change date occurs every three months if the National Wage Index changes.
- o Mortgage Margin: The amount the PB adds to the interest index value to calculate the new interest rate at each adjustment.
- o Payment Index: The index used to compute the new monthly sub-loan payment amount. This index is announced by the Main Statistical Office, and is known as "The National Wage Index" but also described as the "Wage Index in Six Branches of Economy" (Official Statistical Index of Wages) or Its Successors".
- o New Monthly Payment: This is the monthly payment adjusted quarterly as the result of change in the payment index.
- o Household Income: The household income is defined as verifiable and regular income from all sources of all family members or persons who: are currently living together in the unit collateralizing the mortgage loan, contribute on a regular basis to meeting the household's expenses, and are on the application and mortgage title. Decreases in household composition or income that occur after the loan has been granted, as a result of divorce, death or other circumstances, do not change the obligation of the Beneficiary to repay the mortgage loan on its original terms, nor do they affect the monthly payment.

Calculation of the New Interest Rate

Each month, the interest rate on the DIM will change if the interest base changes by more than 1/8 of 1 %.

Determine the Appropriate Index

Take the most recently published value for the interest rate base as of the last business day of the second month preceding the interest change date.

Calculate the Interest Rate

Add the mortgage margin specified in the mortgage contract to the index value. If the mortgage contract provides for rounding, this result should be rounded to the nearest percentage specified in that document.

Calculation of the New Payment Amount

Each quarter, the monthly sub-loan payment on the DIM will change if there is a change in the National Wage Index.

Determine the Appropriate Index

Take the most recently published value for payment index as of the last business day of the third month preceding the payment change date.

Calculate the New Monthly Payment Amount

Multiply the current monthly sub-loan payment by the index. This should result in the new monthly sub-loan payment amount. For example if the current monthly income was 6,400,000 Zl., and the index value was 105% then the new monthly sub-loan payment would be 6,720,000 Zl. (6,400,000 times 105%). If the index remains unchanged or reports a decrease, the monthly sub-loan payment remains unchanged or decreases, respectively. If the monthly payment is insufficient to pay the interest due that month, then the unpaid interest is capitalized to the outstanding principal balance.

Notifications

The PB must give the Beneficiary 45 days notice prior to any change in their monthly payment and 30 days prior notice to any interest change. The notice should include:

- o the interest rate and the date it becomes effective;
- o the new monthly sub-loan payment amount and the date it becomes effective;

- o the amount of interest that will be added back to the loan (capitalized) using the new monthly sub-loan payment amount;
- o an explanation of the method used to determine the new interest rate and new monthly sub-loan payment;
- o the Beneficiary's option to pay more than the new sub-long monthly payment amount; and
- o the dates of the next interest rate and sub-loan payment changes.