SCOMM
#50:14

ALASKA MORTGAGE BANKERS ASSOCIATION
P.O. BOX 4-2691/ANCHORAGE, ALASKA 99503

January 25, 1985

Mr. Willis Kirkpatrick
Director of Banking, Securities and Corporations
Department of Commerce and Economic Development
Pouch D
Juneau, Alaska 99811

Dear Mr. Kirkpatrick:

The Alaska Mortgage Bankers Association has reviewed House Bill 51 and Senate Bill 6, relating to Interest on Escrows.

Banks, of their own volition, do not require funds held in escrow on mortgage loans. This is only one requirement of the investors purchasing the mortgages, with which banks must comply in order to originate and sell mortgage loans.

The bills are discriminatory, in that they would affect banks only; escrows on mortgage loans are held not only by banks, but by Credit Unions, Savings and Loan Associations, Savings Banks and Mortgage Companies. Requiring only banks to pay interest on escrows would give non-bank institutions an unfair advantage and a disadvantage to non-bank borrowers.

The bills also would require banks to pay interest at the rate of interest charged to the borrower on a mortgage loan. Since Alaska lenders sell the majority of loans to investors, such as Alaska Housing Finance Corporation, and service the loans for the investors for a set fee, the rate of interest paid on the loan is not relevant to the escrow. This requirement would create a real computer nightmare if it is even possible, adding to the cost of performing escrow functions.

Banks have never wanted to collect reserves (escrows) on mortgage loans. During the Depression in the 1930s, many borrowers lost their homes due to inability to pay taxes. The federal government and lending institutions determined there should be a better way, and collection of reserves on a monthly basis evolved, in great part as a result of the Housing Act of 1934, which created FHA. Reserve accounts have helped standardize mortgage loans, which has resulted in loans requiring minimal down payments and lower interest rates than would otherwise be available, thus making homeownership available to more people.

AHFC, which purchases some 75-80% of all mortgage loans in Alaska, requires collection of reserves. Without the assurance that funds are available to pay taxes and insurance, we question whether AHFC could sell their bonds, and if so, at what price. The cost to Alaska homebuyers would definitely increase.

The bills would exempt those loans where escrows are required by federal law or regulation; this would exempt FHA and VA loans, and possibly loans sold to Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC). As AHFC now sells its' loans to FNMA, these could possibly also be exempted. The majority of loans in Alaska could therefore come under exemption.

Lenders holding escrow funds in connection with mortgage loans perform significant services which accrue to the benefit of the borrowers, local tax authorities, insurers and mortgage investors.

1) Collection of taxes and insurance monthly.
2) Collection of assessments in certain instances.
3) Obtaining tax bills and paying in a timely manner.
4) Payment of assessments in a timely manner.
5) Payment of insurance premiums to assure coverage.
6) Analyzing sufficiency of escrow accounts and adjusting payments as necessary due to changes in taxes, insurance and assessments.
7) Answering questions and complaints including those regarding increases in taxes which should more properly be directed to taxing authorities.
8) Distributing an annual statement of account.
9) Advancing lenders' own funds when necessary to insure timely payment of taxes and insurance. Repayment of these advances are often spread over a period of time, without charge, to ease the financial burden to the borrower.

The cost of administering escrow accounts is significant. Lenders currently absorb this cost because it is partially offset by non-interest bearing deposits. Should lenders be required to continue the escrow function and to pay interest on the escrows, the full cost of performing the services required would necessarily be passed on to the borrowers.

The Alaska Mortgage Bankers Association urges thoughtful consideration of these bills prior to any action. At this time, we urge these bills be rejected.

Please keep us advised of any hearings.

Sincerely,

Paula Cranmer
President
Alaska Mortgage Bankers Association

attachment: Membership list, Alaska Mortgage Bankers Assoc.

Introduced: 1/14/85
Referred: 1/16/85 House Special Committee on
State Loans and Finance

IN THE HOUSE BY DUNCAN, SUND AND MARROU

HOUSE BILL NO. 51

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act requiring banks to pay interest on money in reserve accounts held in connection with mortgage loans."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 06.05 is amended by adding a new section to read:

Sec. 06.05.285. INTEREST ON RESERVE ACCOUNTS. (a) A bank that requires the payment of money by a borrower into an escrow or similar reserve account for the payment of taxes, insurance premiums, or home owner's association dues in connection with a mortgage loan shall pay interest on the money in that account unless the account is required by federal law or regulation. The rate of interest paid on money in a reserve account shall equal the rate of interest charged to the borrower for the mortgage loan and shall be computed on the average monthly balance in that account on the first of each month.

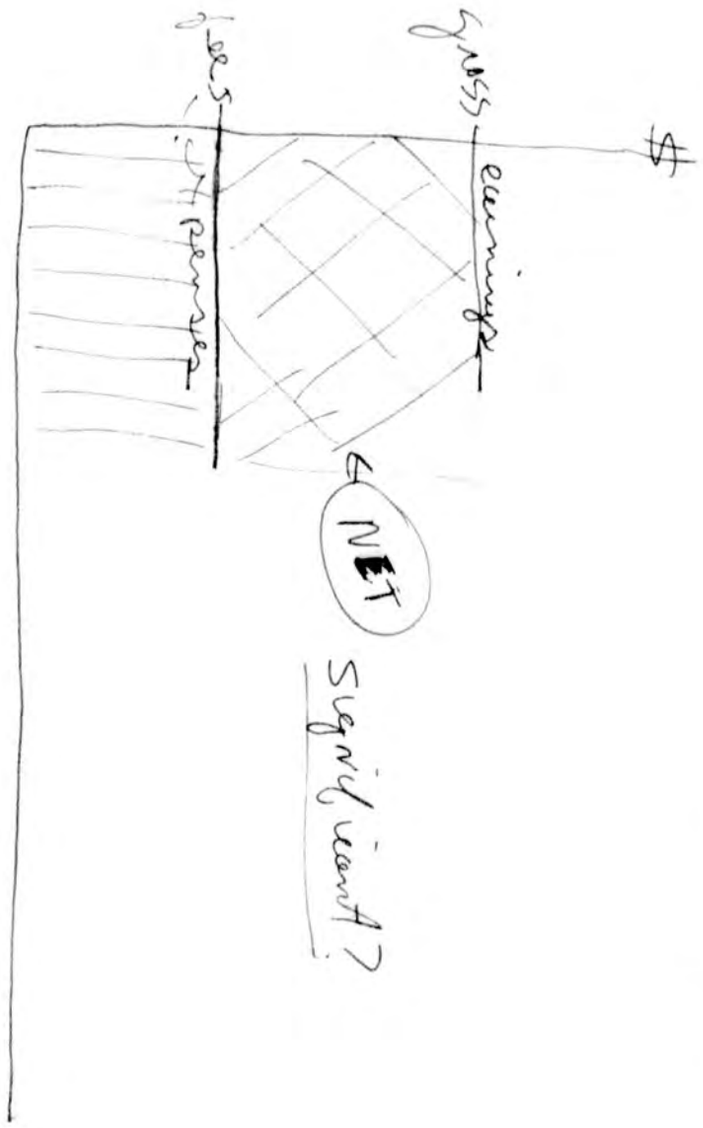
(b) Interest earned on money in a reserve account shall be annually credited to the remaining principal balance on the mortgage loan, or at the election of the borrower, shall be paid to the borrower.

* Sec. 2. AS 06.05.285 enacted in sec. 1 of this Act applies to escrow and similar reserve accounts established before the effective date of this Act, as well as to accounts established after the effective date of this Act, with interest to be paid beginning on the effective date of this Act on money in those accounts.

sec 3 + allow fees to be collected

Question -

How much net income do the Banks recieve from interest rate on the "float".



Significant?

what is Done w/ $?

MORTGAGE ESCROW ACCOUNTS

(States which require the payment of interest on escrow accounts are marked with an asterisk.)

ARKANSAS, Stat. Ann. Secs. 67-2217 and 2218

Requires escrow funds be held separate from company accts.

All monies paid to a mortgage loan company (required to be licensed under state law) for the payment of taxes or insurance premiums on property secured by a loan made by the company shall be deposited in an insured account and kept separate, distinct and apart from funds belonging to the mortgage loan company. The company shall, upon reasonable notice, account to the mortgagor and to the Commissioner for all funds in the account. Such funds are not subject to execution or attachment on any claim against the company.

***CALIFORNIA,** Civil Code, Secs. 2954 - 2955

Impound accounts maintained in connection with mortgages secured by single-family, owner-occupied dwellings are optional unless: (1) required by state or federal regulatory authority; (2) the state or federal government makes, guarantees or insures the loan; (3) the borrower or purchaser is delinquent in paying two consecutive tax installments; (4) the original principal amount of the loan is 90 percent or more of the appraised value of the property; or (5) whenever the combined principal balance of all loans secured by the real property exceeds 80 percent of the appraised value of the property securing the loans.

Every mortgagor is entitled to receive one itemized accounting of the impound account per year and may request additional similar accountings for one or more months upon written request and advance payment of a set fee. Any increase in monthly payments must be preceded by an itemized accounting, a statement of the new monthly rate and an explanation of the cause of the increase. Violation of these provisions is punishable by a fine of not less than $25 nor more than $100. Lenders are responsible for making timely payments of property taxes and insurance premiums.

Requires 2% min. interest

Every bank, savings and loan association, credit union or any other person or organization making loans secured by real property containing a 1-4 family residence shall pay a minimum 2 percent simple interest charge on impound account funds collected in connection with such loans. Interest is payable annually or upon termination of the account, whichever is earlier. Lenders may not impose any fee in connection with the maintenance or disbursement of an account that will reduce the effective interest rate below 2 percent per annum. Exempted from the interest requirement are monies <u>required</u> by a state or federal regulatory authority to be placed by a financial institution other than a bank in a non-interest-bearing demand trust fund account at a bank.

Home policies?

All monies held in impound accounts for the payment of taxes or insurance premiums shall be retained in the state and, if invested, may only be invested within the state. (62 Op. Att'y Gen. 351 ruled that this provision is constitutional.)

Special Note:

For several years Section 2954.8 of the Civil Code has required the payment of 2 percent interest on impounds unless the impounds were kept in non-interest bearing accounts. Most mortgage bankers were required by the Real Estate Commissioner's Regulations to keep the money in "demand" accounts which do not pay interest. Therefore they were not required to pay interest on impound accounts.

A. B. 575, effective January 1, 1980, changed Section 2954.8 to provide that interest must be paid unless the funds are required to be kept in non-interest bearing accounts. Effective February 16, 1980, the California Real Estate Commissioner's regulations were changed to permit impounds to be placed in interest-bearing accounts. The Commissioner has adopted a new Section 2830.1 to read:

Section 2830.1, Interest on Impounds. A real estate broker who receives funds in trust from or on behalf of an obligor for the payment of property taxes, assessments, insurance or other purposes relating to real property containing only a one to four family residence shall not be precluded by provisions of Section 2830 from depositing and maintaining said fund in an interest-bearing account in a bank, savings and loan association or other financial institution provided that the account is insured by an agency of the federal government.

This, in effect, removed the exemption that had applied to mortgage bankers.

COLORADO, Rev. Stat. 39-1-119

?? Escrow account balances may not exceed three months' total escrow charges.

•CONNECTICUT, Gen. Stat. Sec. 49-2a et. seq.

4% Minimum

Credited to insurance - Better than Compound Alaska Title

Requires each bank, trust company, savings and loan association, mutual savings bank, insurance company and other mortgagee or mortgage servicing company holding funds of a mortgagor in an escrow account to pay interest on such funds at a rate not less than 4 percent per annum. These provisions apply to mortgages secured by 1-4 unit, owner-occupied residences and housing cooperatives occupied solely by the shareholders. Interest payments shall be annually credited towards the payment of taxes and insurance premiums in the ensuing year. If the debt is paid prior to the end of the year, the interest to the date of payment shall be paid to the mortgagor. Violation of these provisions by a mortgagee or mortgage servicing company shall result in a fine not to exceed $100 for each offense.

Interest may not be required to be paid on escrow accounts where (1) there is a contract between the parties, entered into before October 1, 1975, which contains an express disclaimer on the part of the mortgagee to pay such interest; (2) the payment of such interest would violate a federal law or regulation, or (3) the account is maintained with a mortgage servicing company, neither affiliated with nor owned in whole or in part by the mortgagee, under a written contract or any mortgage agreement, entered into before October 1, 1975, that does not permit the company to earn or receive a return from the investment of such accounts; or (4) the account is maintained in connection with a loan entered into on and after October 1, 1977, which is serviced or held for sale for not more than one year by a

mortgage servicing company, neither affiliated with nor owned in whole or in part by the purchaser of the mortgage loan.

A rate of 2 percent per annum applies where a contract that contained an express provision to pay 2 percent was entered into prior to October 1, 1977.

DISTRICT OF COLUMBIA, Code Ann. Sec. 28-3301 (b)(4)

Any loan which is secured by a mortgage or deed of trust on residential real property shall be subject to the following provision... (4) any borrower who has made a down payment equaling 20 percent or more of the total purchase price of the property is not required by the lender to make advance payments of real estate taxes or casualty insurance premiums to enable the lender to have funds on hand for disbursement for payment of such taxes or insurance premiums. Lenders are required to inform borrowers, in writing, of this right to pay such taxes and insurance premiums directly.

Requires borrower consent to collect escrow on 80% or less loan/value

FLORIDA, Stat. Ann. Sec. 501.137

All lenders of money whose loans are secured by mortgages on real estate located in the State and who maintain escrow accounts for the payment of property taxes shall promptly pay taxes when they become due and adequate escrow funds are deposited so that the maximum tax discount available may be obtained. If the escrow account is deficient, the lender must notify the depositor within fifteen days after receipt of the tax notification. Each mortgagee must issue an annual statement of the escrow account to the mortgagor at the expiration of the annual accounting period.

***GUAM,** Laws 1980, Bill No. 419

Requires interest to be paid on home mortgage escrow accounts at a rate not less than that paid on regular passbook savings accounts by a Guam bank or savings and loan association. The law applies to mortgage escrow accounts established pursuant to mortgages executed both before and after the effective date of the law, September 1, 1980.

HAWAII, Rev. Stat. Sec. 449-16.5

In all escrow agreements involving the sale of real property . . . in which an escrow depository acts as a fiduciary party holding the funds in escrow, any interest earned on such funds shall accrue to the credit of the purchaser unless otherwise instructed in writing by the purchaser and seller in the escrow agreement. (This section does not apply to banks, trust companies, building and loans, savings and loans or insurance companies, when acting as escrow depositories.)

IDAHO, Code Sec. 26-1931(8)

Limits the collection of escrow to one-half of the estimated annual requirement. If funds are placed in a savings account, interest must be paid on those funds.

ILLINOIS, Ann. Stat. Ch. 17 Secs. 4901-5001

Mortgage lenders may, in lieu of establishing an escrow account, permit a borrower to pledge an interest-bearing savings account with the lender in an amount sufficient to secure the payment of anticipated taxes. "Mortgage Lender" - banks, savings and loan associations, building and loan associations, or other institution, association, partnership, corporation or person who extends the loan of monies for the purpose of enabling another to purchase a residence.

When a mortgage loan is reduced to 65 percent of its original amount by timely payments of the borrower, a mortgage lender must notify the borrower that he may terminate the escrow account or elect to continue the account until he requests a termination, or until the loan is paid in full, whichever occurs first. Borrowers shall not have this right of termination in conjunction with mortgages insured, guaranteed, supplemented or assisted by the state or the federal government that require an escrow arrangement for their continuation.

If, after terminating an escrow account, the borrower does not furnish to the lender sufficient evidence of timely payment of taxes, the lender, after verifying the nonpayment, may reestablish an escrow arrangement with the borrower within thirty days after the payment due date.

All lenders must furnish to borrowers written notice of the requirements of this act at the date of closing. Failure of any lender operating within the state to comply with the provisions of this act shall entitle the borrower to actual damages in a court action.

Mortgage lenders using the capitalization method of accounting (crediting tax payments directly to the loan principal upon receipt and increasing the loan balance when the taxes are paid) are exempted from the provisions of this act.

ILLINOIS, Ann. Stat. Ch. 17 Sec. 2301

Mortgage bankers, licensed to do business in Illinois, are required to place all monies received during the course of business: (1) in escrow with an escrow agent located and doing business in Illinois, or (2) deposit the funds in a trust or escrow bank account maintained by the mortgage banker with a bank located and doing business in Illinois. Violation of this requirement will result in suspension or revocation of the mortgage bankers' license and a fine of up to $10,000.

***IOWA**, Code Ann. Sec. 524.822

Effective July 1, 1982, banks, savings and loan associations and credit unions that maintain escrow accounts in connection with loans secured by one- to two-family, owner-occupied dwellings, must pay interest to the borrower on those funds at the rate the institution pays to depositors of funds in ordinary savings accounts. Interest must be calculated on a daily basis and a written annual accounting of all account transactions must be delivered to each mortgagor.

A state bank may act as an escrow agent with respect to real property and shall act as a fiduciary for all such funds. A bank maintaining such an account, whether or not the mortgage has been assigned to a third person, shall deliver to the

mortgagor a written summary of all transactions made during each calendar year. Credit unions and savings and loan associations are also authorized to act as escrow agents, but only in connection with real property loans made by the institution.

KANSAS, Stat. Ann. Sec. 2.02(4)(b)(iv)

Limits the collection of escrow funds by savings and loan associations to one-half of the estimated annual taxes and insurance premiums.

KENTUCKY, Rev. Stat. Sec. 294.130

If escrow funds placed in interest-bearing acct, borrower receives interest.

All monies paid to a mortgage loan company (required to be licensed under Chapter 294) for the payment of taxes or insurance premiums on property secured by a loan made or serviced by the company shall be deposited in an insured account and kept separate, distinct and apart from funds belonging to the mortgage loan company. Any interest earned on the funds shall belong to the borrower and will be applied to the expenses that will be paid from such account. The mortgage company must, upon reasonable notice, account for all funds deposited by a borrower and, upon reasonable notice, account to the Commissioner of Banking and Securities for all funds deposited. Escrow account funds are not subject to execution or attachment on any claim against the mortgage company.

LOUISIANA, Rev. Stat. Sec. 6:828

Savings and loan associations are permitted to require borrowers to pay monthly, in advance, the equivalent of one-twelfth of the estimated annual taxes, insurance premiums and other expenses upon real estate securing a loan so as to enable the association to pay such charges as they become due from the funds so received. The funds are to be held, without interest, for the credit of the borrower.

***MAINE**, Rev. Stat. Ann. Art. 9-B Sec. 429

Where a financial institution (trust company, savings bank, savings and loan, industrial bank or credit union) maintains an escrow account for the payment of taxes in connection with a first purchase money mortgage on a 1-4 family dwelling located in the state, the institution must: (1) pay the mortgagor quarterly dividends or interest at a rate at least 1/2 of the highest annual interest rate paid by that institution on regular savings accounts. Such interest may not be reduced by any service or maintenance charge on the account; or (2) to the extent of the account, pay the appropriate taxing authority when the taxes are due.

Interest shall be computed on the daily balances in the account from the date of receipt to the date of disbursement and be credited to the account as of the last business day of each calendar quarter or fiscal year. Mortgagors must be given an annual statement showing interest credited on the account during that period.

***MARYLAND, Comm. Law, Secs. 12-109, 12-109.1**

Requires any bank, savings bank or savings and loan association doing business in Maryland that lends money secured by a first mortgage or first deed of trust on any interest in residential real property and creates or is the assignee of an escrow account in connection with such a loan, to pay interest on the funds at a rate which is the greater of: (a) 3 percent per annum simple interest or; (b) the rate regularly paid by the lending institution on regular passbook saving accounts. All interest shall be computed on the average monthly balance and credited annually to the borrower's account. The lending institution must provide an annual statement of the account balance. This section applies only to loans made after May 31, 1974.

These provisions do not apply to institutions which provide for the payment of taxes, insurance or other expenses under the direct reduction method by which these expenses when paid by the lender, are added to the outstanding principal balance of the loan.

? Loans purchased by an out-of-state lender through FNMA, GNMA or the FHLMC are exempted if the purchasing lender elects to service the loan.

Funds held in escrow accounts may not be used to reduce the loan principal or to pay interest or other loan charges except upon foreclosure or release unless there is periodically an overage in the account. In these cases, the borrower shall be given, at least annually, the option of receiving a refund, applying the overage to the payment of principal and interest or leaving the excess amount in the account. If the borrower does not reply to the lender's notice of these options within sixty days, the lender must return the overage to the borrower.

***MASSACHUSETTS,** Ann. Laws, Ch. 183, Sec. 61

Requires a mortgagee doing business in the commonwealth and holding a first mortgage or lien on a 1-4 unit, owner-occupied dwelling who requires advance payments for the payment of real estate taxes to pay interest on such funds. Interest shall be paid at least annually at a rate and in a manner to be determined by the mortgagee. Mortgagees must file an annual statement with the commissioner of banks showing the amount of profit or loss from the investment of the escrow funds. If the lender shows a net loss from these investments, the commissioner may grant an exemption from the interest requirement. These provisions apply only to advance deposits for the payment of taxes on mortgaged property made after July 1, 1975.

MICHIGAN, Comp. Laws Sec. 565.161

Any mortgagee or agent receiving escrow funds from a mortgagor for the payment of taxes, insurance premiums or improvements to the property, must furnish the mortgagor with an annual statement of the escrow account within sixty days of the close of the calendar year.

The annual statement is not required where the mortgagor is provided with a monthly billing form or mortgage passbook that lists the account balance and records tax expenditures. Mortgagees will be liable for any fees or penalties

incurred by the mortgagor as a result of failure to make timely payments of taxes when due.

Sec. 438.31(c)(12) - An interest bearing deposit account held in a depository institution may be established as a condition of the making of a mortgage or land contract where the primary security is an owner-occupied dwelling. The account shall be pledged to the lender as additional security for the mortgage or land contract. The lender may make withdrawals as agreed upon in the mortgage and such withdrawals will be applied against the periodic payments otherwise due from the borrower pursuant to the terms of the mortgage. All interest earned on the pledged deposit amount shall be credited to the account. Lenders who make five or more mortgages in any one calendar year may not require the establishment of such an escrow account on more than 20 percent of mortgages made during the year. (This provision expires on April 1, 1985.)

•MINNESOTA, Stat. Ann. Sec. 47.20 (9)

Requires all banks, trust companies, savings and loan associations, mortgage banks, mutual savings banks, insurance companies, credit unions or assignees of the above that require a mortgagors' funds to be paid into an escrow or similar account for payment of taxes or insurance in connection with a mortgage on a 1-4 family, owner-occupied residence in the state to pay interest on the funds at a rate not less than 5 percent per annum. Interest shall be computed on the average monthly balance on the first of each month and be annually credited to the remaining balance on the mortgage or, at the election of the mortgagee, be paid to the mortgagor, or credited to the escrow account. If the interest exceeds the remaining balance, the excess shall be paid to the mortgagor. The payment of interest is not required if the escrow is mandatory under federal law, is maintained in connection with a conventional loan in an original principal amount in excess of 80 percent of the lender's appraised value at the time the loan is made, or if the loan is insured or guaranteed by HUD, the VA or the FmHA.

Lenders not requiring the maintenance of an escrow account may permit a mortgagor to elect to maintain a non-interest bearing escrow account to be serviced by the mortgagee at no extra charge if the mortgagor is also offered the option of managing the payment of insurance and taxes himself or opening a passbook savings account for that purpose. A mortgagee that is not a depository institution offering passbook savings accounts shall notify its mortgagors, (1) that they may open accounts at a depository institution and (2) of the current maximum legal interest rate on such accounts. These options do not apply to escrow accounts which are specifically exempted from the interest paying requirements.

Lenders are specifically prohibited from charging a direct fee for the administration of escrow accounts and are required to make timely payments of tax and insurance bills provided that there are sufficient funds in the account. Failure to make such payments shall subject the mortgagee to liability for all damages caused.

Mortgagors must be promptly notified of any account shortages.

MONTANA, Code Ann. Secs. 71-1-113 through 71-1-115

Limits escrow accounts to no more than 110 percent of the projected amount needed unless parties agree in writing to a larger amount.

Lending institutions that maintain reserve accounts for the payment of taxes and insurance premiums in connection with a mortgage on real property must keep itemized records of such accounts and annually mail a statement of total receipts and disbursements to each borrower.

NEBRASKA, Rev. Stat. Sec. 8-330

Building and loan associations may pay interest on funds held in an escrow account for the payment of taxes, insurance and similar payments, if agreed to in writing by the borrower and association.

Sec. 45-101.05 - Lenders are prohibited from requiring a borrower to deposit, in any one month, an amount larger than one-twelfth of the total yearly amount of estimated taxes and insurance premiums.

NEVADA, Rev. Stat. Secs. 645B.165, 645B.170, 645B.180

All money paid to a mortgage company (licensed under Chapter 645B) for the payment of taxes and insurance shall be deposited in a bank and kept separate, distinct and apart from funds belonging to the company and shall be designated as an "impound trust account". The company shall, upon reasonable notice account for any funds paid by a mortgagor and, upon reasonable notice, account to the commissioner of savings associations for all funds held in the impound trust account. Such funds are not subject to execution or attachment on any claim against the mortgage company.

***NEW HAMPSHIRE**, Rev. Stat. Secs. 384.16c - 384.16e

Any bank which requires or accepts monies for deposit in escrow accounts maintained for the payment of taxes, insurance premiums or other expenses related to loans on property secured by a real estate mortgage shall credit each account with interest at a rate of not less than 2 percent below the rate paid on regular savings deposits in said bank. (Effective January 1, 1974.)

Any company that is in the business of making loans for the purpose of financing the acquisition of single-family homes and which requires or accepts money for deposit in escrow accounts maintained for the payment of taxes, insurance premiums or other related expenses must credit each such escrow account with interest at a rate of not less than 4 percent per annum. (Effective January 1, 1984.)

NEW MEXICO, Stat, Ann. Sec. 48-7-8

Mortgagees may impose a monthly charge to be held in escrow for the payment of taxes, insurance premiums and other charges under the terms of a mortgage. Any

balance exceeding two months' total escrow charges shall, upon the demand of the mortgagor but not more than once each year, be credited to the principal amount of the mortgage within sixty days of the demand. Failure of mortgagee to credit such excess shall cause a penalty at the rate of 6 percent per year, payable to the mortgagor.

*NEW YORK, McKinneys Banking Law, Section 14-b, General Obligation Law, Section 5-601

Requires any mortgage investing institution (bank, trust company, savings bank, savings and loan association, private bank, investment company, insurance company or other entity which makes, extends or hold mortgage loans) that maintains an escrow account in connection with a loan secured by a 1-6 family, owner-occupied residence or on any property owned by a cooperative apartment corporation to pay interest at a rate not less than 2 percent per annum or a rate prescribed by the banking board, whichever is higher. The banking board shall prescribe the method or basis of computing interest and and the minimum rate paid shall be a net rate over and above any service charges imposed. Interest shall be computed on daily balances and credited to the account as of the last business day of each quarter of the calendar year or the bank's fiscal year. Service charges in connection with the maintenance of an escrow account are prohibited unless expressly authorized in a loan contract executed prior to this act's effective date (1974).

Interest is not required where: (1) there is a contract between the mortgagor and the mortgage investing institution entered into before the effective date of the act (1974) which contains an express disclaimer of an obligation on the part of the mortgage investing institution to pay interest on such accounts; (2) the payment of such interest would violate any federal law or regulation or (3) such accounts are maintained with a mortgage servicing company, neither affiliated with nor owned in whole or in part by the mortgage investing institution, under a written contract, entered into before the effective date of this act, which contract does not permit the mortgage investing institution to earn or receive a return from the investment of such accounts.

Earnest Money or Purchase

Lien Law, Section 71-a(3)-Requires that any initial advance pursuant to a residential real estate sale or construction contract on a residential condominium on not more than a two-family residence be placed in an interest-bearing escrow account in a bank, trust company or savings and loan association. Alternatively, the recipient of the advance may post a bond guaranteeing the return of the money otherwise required to be held in escrow. A boldface statement of the purchaser's right to demand an escrow or bond must be contained in the contract of sale.

*OREGON, Rev. Stat. Secs. 86.205 - 86.275

Lenders (any person who makes, extends or holds a real estate loan agreement including, but not limited to, mortgagees, beneficiaries under trust deeds and vendors under conditional land sale contracts) who require a lender's security provision in connection with a real estate loan agreement shall require either a direct reduction provision, an escrow account or a pledge of an interest-bearing savings account in an amount not to exceed the maximum amount which a lender may require a borrower to deposit in an escrow account and bearing interest at a rate not less than the rate required on an escrow account.

Interest on escrow accounts shall be paid quarterly at a rate not less than 3/4's of 1 percent less than the normal passbook rate and in no event less than 4½ *percent. If a lender does not offer an open passbook, the rate of interest shall be 4½ percent. Interest shall be computed on the average monthly balance of the account. This requirement does not apply to loan agreements entered into prior to September 1, 1975.

Lenders are prohibited from imposing a service charge in connection with an interest-bearing escrow account. Escrow accounts may be terminated when the principal balance of a mortgage loan falls below 85 percent of the purchase price or original appraised value, whichever is less.

If a lender fails to pay the borrower's taxes in time to take advantage of any authorized discounts, the lender shall credit to the account an amount equal to the discount plus any accrued interest on the unpaid property taxes to the date the taxes are paid. If the lender's failure to make the timely payments is willful or if the lender fails to credit the borrower's account with the correct amount, the borrower shall have a cause of action against the lender to recover an amount equal to fifteen times the amount of discount that the borrower should have received, plus any interest that would have accrued. Borrowers recovering damages shall be entitled to attorney fees as determined by the court in addition to costs and necessary disbursements. Violation by the lender of any of these provisions shall render the lender's security provision voidable at the option of the borrower, and make the lender liable to the borrower in an amount equal to actual damages or $100, whichever is greater, and court costs and attorney fees in the case of a successful action by the borrower.

These provisions do <u>not</u> apply to a loan agreement which is serviced or held for sale within one year by a mortgage servicing company neither affiliated with nor owned in whole or in part by the purchaser and which is made or held by a purchaser whose principal place of business is outside of the state.

*Prior to October 25, 1983, the minimum rate of interest that must be paid was 4 percent per annum.

*RHODE ISLAND, Gen. Laws Ann. Sec. 19-5-22

Requires all banks, trust companies, savings and loan associations, mutual savings banks, insurance companies and other mortgagees holding funds of a mortgagor in escrow for the payment of taxes and insurance premiums to pay or credit interest on such funds at a rate not less than 2 percent per annum. This requirement is effective July 1, 1979, and applies to escrows maintained in connection with mortgage loans secured by 1-4 unit, owner-occupied residential properties located in the state. Interest shall be credited annually toward the payment of taxes and insurance premiums in the ensuing year. If the mortgage debt is paid prior to June 30th in any year, the interest to the date of payment shall be paid to the mortgagor. These provisions may not be waived and violation of this act by a mortgagee will result in a fine not to exceed $100. FmHA, HUD, VA or privately insured mortgages are exempt. The bank commissioner is empowered to make rules and regulations necessary to carry out these provisions and shall furnish forms to mortgagees for the purpose of reporting to mortgagors the interest due.

Exempts most loans

***UTAH, Code Ann. Secs. 7-17-1 et. seq.**

Applies to any person who regularly makes, extends or holds real estate loans and includes, but is not limited to, mortgagees, beneficiaries under trust deeds and vendors under conditional land sales contracts who regularly require or maintain reserve accounts. (Effective June 30, 1979)

Each lender is required to pay at least 5.25 percent interest per annum on mandatory reserve accounts maintained in connection with a mortgage secured by a 1-4 unit owner-occupied residence. Interest shall be computed on the average of the month end balances at the end of the calendar year. Within sixty days after the end of each calendar year, the interest shall be credited to the remaining principal balance on the loan, paid to the borrower or credited to the account, at the election of the lender. In the event of payoff of the loan, the interest must be paid or credited to the borrower within thirty days after the payoff date. Lenders may not require or impose a service charge for the administration of the account. Payment of interest is <u>not</u> required: (1) if the account is required by a governmental insurer or guarantor; (2) the original principal amount of the loan exceeded 80 percent of the appraised value of the property at the time the loan was made (when the principal balance of the loan is paid down to 80 percent, this exception shall not apply) or (3) if such payment of interest is prohibited by federal law. Lenders not requiring the establishment of reserve accounts shall offer the following options to the borrower: (1) borrower may maintain a non-interest-bearing account to be serviced by the lender at no charge to the borrower, or (2) borrower may manage the payment of insurance premiums and taxes from his own account. If the borrower selects option (2) and is delinquent more than once in the payment of the taxes or insurance premiums, the lender may require a reserve account without interest or other compensation for the use of the funds.

Lenders must furnish an itemized statement to the borrower, within sixty days after the end of each calendar year, showing monies received for interest and principal repayment and received and held in or disbursed from a reserve account. Negligent failure by the lender to make timely payments for taxes and insurance premiums shall subject the lender to liability for all damages directly resulting from the failure. Failure of the borrower to promptly deliver all notices of tax assessments or assigns shall relieve the lender from such liability. A lender who violates this act is liable to the borrower for actual damages suffered or $100, whichever is greater. If an action is commenced, the prevailing party may be awarded reasonable attorney's fees. No action may be brought more than one year after the date of the violation.

Sec. 7-7-33(6) - A savings and loan association may require (subject to the above provisions) a borrower to pay monthly, in advance, equivalent of one-twelfth of the estimated annual taxes, assessments, insurance premiums, and other charges upon the real estate securing the loan. If the association advances its own funds, that amount shall be secured by the mortgage or trust deed with the same priority as the original amount advanced under the mortgage or trust deed.

VERMONT, Stat, Ann. T.9 Sec. 44

Agreements to maintain with the lender non-interest bearing reserves or deposits with which to pay when due taxes and insurance premiums shall not be construed to be interest or a prohibited charge.

VIRGINIA, Code Sec. 6.1-2.8

Any bank or lender maintaining escrow accounts for the payment of taxes and insurance which, upon receipt of a notice thereof, fails to make timely payment and incurs a penalty or late charge or a cancellation for nonpayment if there are sufficient funds in the account at least five days before the payment due date, shall be liable for the penalty or late charge assessed and for any loss as a result of the property being uninsured for nonpayment. Lenders must give written notice to any obligor of the payment of such penalty or late charge within five days after payment is made.

***WISCONSIN**, Stat. Ann. Sec. 138.051(5)

Requires a bank, credit union or mutual savings bank which originates a loan and which requires an escrow to assure the payment of taxes or insurance premiums to pay interest on the outstanding principal balance of the escrow of not less than 5.25 percent per annum.

Sec. 138.052(5), effective January 1, 1983, requires a bank, credit union, mutual savings bank, savings and loan association or mortgage banker which originates a loan and requires an escrow to assume the payment of taxes or insurance premiums to pay interest on the outstanding principal balance of the escrow of not less than 5.25 percent unless the escrow funds are held by a third party in a non-interest-bearing account (effectively exempting mortgage bankers from this requirement.)

Parties may agree to waive payment of all or part of the interest if more than 75 percent of the lender's interest in the loan is sold to a third party who is not a person related to the lender and the escrow funds are held by a third party.

Alaska State Legislature

House of Representatives

Committee on Loans

POUCH V
JUNEAU, ALASKA 99811

PHONE
(907) 465-4919
(907) 465-4920

AGENDA

TUESDAY, 2/12/85, 3:30 p.m.
Room 124 (House Judiciary)

* HB 51 "An Act requiring banks to pay interest on money in reserve accounts held in connection with mortgage loans."

* HB 59 "An Act making a special appropriation to the Department of Natural Resources, division of parks, for the youth hostel loan fund; and providing for an effective date."

* HB 61 "An Act relating to loans for youth hostels"

For more information, contact John Hartle, room 411, 465-4919.

* Indicates first public hearing

why / August assessment specific / failure to pay taxes PASSBOOK SAVINGS OR LESS

Introduced: 1/14/85
Referred: 1/16/85 House Special Committee on
State Loans and Finance

CAN'T BELIEVE IT

IN THE HOUSE BY DUNCAN, SUND AND MARROU

HOUSE BILL NO. 51

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act requiring banks to pay interest on money in reserve accounts held in connection with mortgage loans."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 06.05 is amended by adding a new section to read:

Sec. 06.05.285. INTEREST ON RESERVE ACCOUNTS. (a) A bank that requires the payment of money by a borrower into an escrow or similar reserve account for the payment of taxes, insurance premiums, or home owner's association dues in connection with a mortgage loan shall pay interest on the money in that account unless the account is required by federal law or regulation. The rate of interest paid on money in a reserve account shall equal the rate of interest charged to the borrower for the mortgage loan and shall be computed on the average monthly balance in that account on the first of each month.

(b) Interest earned on money in a reserve account shall be annually credited to the remaining principal balance on the mortgage loan, or at the election of the borrower, shall be paid to the borrower.

* Sec. 2. AS 06.05.285 enacted in sec. 1 of this Act applies to escrow and similar reserve accounts established before the effective date of this Act, as well as to accounts established after the effective date of this Act, with interest to be paid beginning on the effective date of this Act on money in those accounts.

Alaska State Legislature

House of Representatives

Committee on Loans

POUCH V
JUNEAU, ALASKA 99811

PHONE
(907) 465-4919
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AGENDA

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Alaska State Legislature

SENATOR
ARLISS STURGULEWSKI
Chairman, Senate Resources Committee
Vice-Chairman, Senate Health, Education and Social Services Committee
Member, Senate Community and Regional Affairs Committee



Senate

2957 SHELDON JACKSON STREET
ANCHORAGE, ALASKA 99508

While in Juneau
POUCH V
JUNEAU, ALASKA 99811
(907) 465-3818

M E M O R A N D U M April 18, 1985

TO: Representative John Sund
Chairman, Committee on State Loans

FROM: Senator Arliss Sturgulewski

RE: Attached material from Al Bruck

Al Bruck of Anchorage, a valued constituent of mine, has sent me material relevant to House Bill 51 which will be of interest to your committee. Copies are attached for your information. I appreciate any information or assistance you can offer to Mr. Bruck on the matter.

cc: Al Bruck

P.O. Box 100678
Anchorage, Alaska 99510

March 12, 1985

The Honorable Arliss Sturgulewski
Alaska State Senate
Pouch V
Juneau, Alaska 99811

Dear Senator Sturgulewski:

House Bill 51, an Act requiring banks to pay interest on money on reserve accounts, is of considerable interest to me, and I solicit your support for this bill.

I would, however, suggest that it be applied equally to all types of loans and would therefore recommend that the phrase starting on line 15... "unless the account is required by federal law or reputation" be deleted.

As an attachment I have provided a simple example of the magnitude of the problem using my own situation, which can be considered modest at best. It is readily apparent that lending institutions have the use of a very significant amount of "free" money.

Sincerely yours,

A. B. Bruck

cc: Steve Rieger
House of Representatives

ATTACHMENT
Ref. HB 51

EXAMPLE OF RESERVE BALANCES AVAILABLE FOR BANK USE

	Payments	Balance
Reserve Account Balance 2/28/85		1045.72
March 1 Payment (Reserve only)	238.38	1284.10
April 1 Payment (Reserve only)	238.38	1522.48
May 1 " " "	238.38	1760.86
June 1 " " "	238.38	1999.24
1st half tax prior to June 15	[714.83]	1284.41
July 1 Payment (Reserve only)	238.38	1522.79
August 1 " " "	238.38	1761.17
2nd half tax prior to August 15	[714.83]	1046.34
September 1 Payment (Reserve only)	238.38	1284.72
September Assessment	[74.18]	1210.54
October 1 Payment (Reserve Only)	238.38	1448.92
November 1 Payment (Reserve Only)	238.38	1687.30
Hazard Insurance	[750.00]	937.30
Mortgage Loan Insurance	[225.38]	711.92
December 1 Payment (Reserve Only)	238.38	950.30
Reserve Account Balance 12/31/85		$950.30

A B BRUCK
LOIS E BRUCK

ALASKA MUTUAL BANK
LOAN NUMBER 200217

ANALYSIS DATE 02/28/85

PRESENT MONTHLY DEPOSIT	FUNDS ARE COLLECTED IN YOUR ESCROW ACCOUNT FOR THESE ITEMS	NEXT DUE DATE MO	NEXT DUE DATE YR	TERM IN MOS	ESTIMATED AMOUNT OF NEXT DISBURSEMENT	NEW MONTHLY ESCROW DEPOSIT	ESCROW REQUIRED NO MOS	ESCROW REQUIRED ITEM BALANCE
119.14	FIRST HALF TAXES	05	85	12	714.83	59.57	10	595.70
	SECOND HALF TAXES	08	85	12	714.83	59.57	07	416.99
6.18	ASSESSMENTS	09	85	12	74.18	6.18	06	37.08
55.25	HAZARD INSURANCE	11	85	12	750.00	62.50	04	250.00
	ESTIMATED			12	225.38	18.78		
.93	SHORTAGE				254.25	31.78		

ESCROW BALANCE	1045.52	BAL REQD TO BE ON DEPOSIT	1299.77	SHORT	-254.25	NEW PAYMENT

PRINCIPAL & INTEREST	+ SERVICE CHARGE	+ NEW MONTHLY ESCROW	+ OPTIONAL INSURANCES	+ OTHER	= AMOUNT	EFFECTIVE DATE
269.50		238.38			507.88	03-01-85

YOUR NEW PAYMENTS CONSIST OF THE ITEMS SHOWN ABOVE.

You are hereby notified that the property described on the face of this notice has been reappraised for the current year.

Alaska Statutes require that a person receiving an assessment notice shall advise the Assessor of errors or omissions in the assessment of his/her property. Failure to so advise will not negate the tax.

If, after reveiwing the current values, you feel that the appraisal is in excess of fair market value, you may contact the Assessor's office for an appraisal review. If, after the review, you still feel that your property has been over appraised, **you may request a petition of appeal to the Board of Equalization.** Either a letter requesting a petition, or a completed petition, must be received by the Assessor's office prior to the date shown on the face of this notice. Alaska law requires that the written appeal be in the form which the Board may require, otherwise the right of appeal ceases, unless the Board finds that the taxpayer was unable to comply.

The Board of Equalization will begin meeting in April. You will be notified as to the place and date of the hearing for your appeal. If you are unable to attend the meeting, the Board will proceed in your absence.

Statements for the first one half tax payments are mailed prior to May 15th and become delinquent and subject to penalty on June 15th, Statements for the second one half tax payments are mailed prior to July 15th and become delinquent and subject to penalty on August 15th.

It is your responsibility to notify the Assessor's office in writing if there is an error in your name or address. Do not notify the Collector's office.

THIS IS A VALUATION NOTICE – NOT A TAX STATEMENT.

Introduced: 1/14/85
Referred: 1/16/85 House Special Committee on
State Loans and Finance

IN THE HOUSE BY DUNCAN, SUND AND MARROU

HOUSE BILL NO. 51

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act requiring banks to pay interest on money in reserve accounts held in connection with mortgage loans."

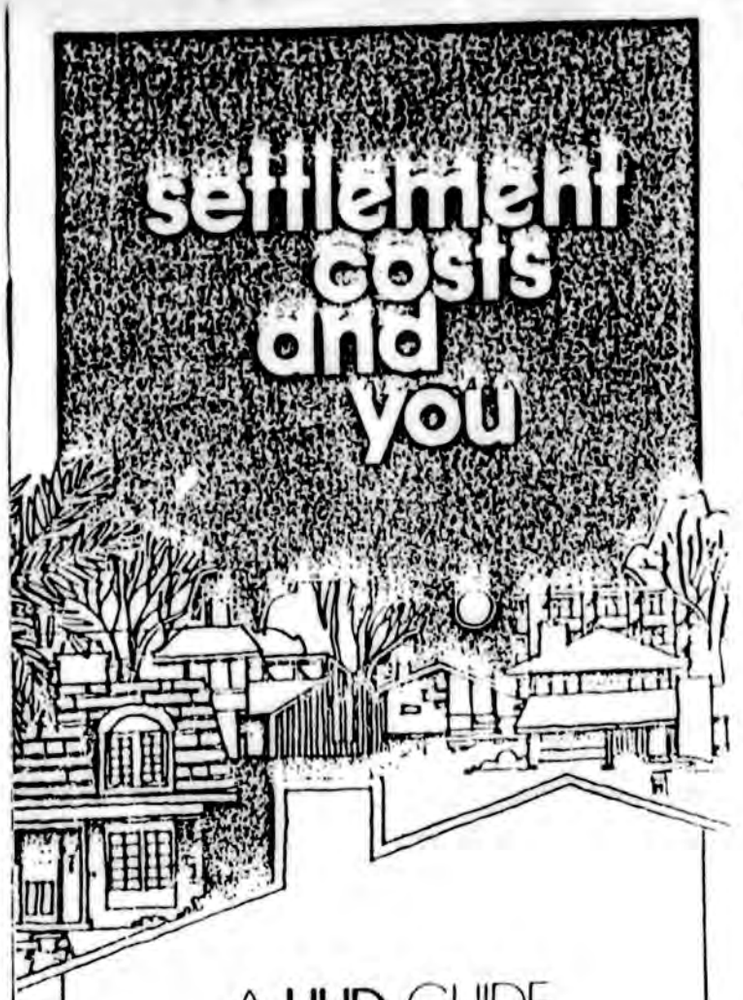
BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 06.05 is amended by adding a new section to read:

Sec. 06.05.285. INTEREST ON RESERVE ACCOUNTS. (a) A bank that requires the payment of money by a borrower into an escrow or similar reserve account for the payment of taxes, insurance premiums, or home owner's association dues in connection with a mortgage loan shall pay interest on the money in that account unless the account is required by federal law or regulation. The rate of interest paid on money in a reserve account shall equal the rate of interest charged to the borrower for the mortgage loan and shall be computed on the average monthly balance in that account on the first of each month.

(b) Interest earned on money in a reserve account shall be annually credited to the remaining principal balance on the mortgage loan, or at the election of the borrower, shall be paid to the borrower.

* Sec. 2. AS 06.05.285 enacted in sec. 1 of this Act applies to escrow and similar reserve accounts established before the effective date of this Act, as well as to accounts established after the effective date of this Act, with interest to be paid beginning on the effective date of this Act on money in those accounts.



A HUD GUIDE
FOR
HOME BUYERS

Alaska Mutual Bank
POUCH 4-9003
ANCHORAGE, ALASKA 99509

300. CASH AT SETTLEMENT FROM/TO BUYER

Remaining are the summary lines which are 301-303 for the borrower (and 601-603 for the seller). Subtracting line 302 (gross amount paid by or for the borrower) from line 301 (gross amount due from the borrower) results in the net cash the borrower must pay at settlement.

RESERVE ACCOUNTS

In most instances, a monthly mortgage payment is made up of a payment on the principal amount of the mortgage debt which reduces the balance due on the loan, an interest payment which is the charge for use of the borrowed funds, and a reserve payment (also known as an escrow or impound payment) which represents approximately one-twelfth of the estimated annual insurance premiums, property taxes, assessments and other recurring charges.

When settlement occurs you may need to make an initial deposit into the reserve account; otherwise, your regular monthly deposits to it will not accumulate enough to pay the taxes, insurance or other charges when they fall due. Under RESPA, the maximum amount the lender can require borrowers or prospective borrowers to deposit into a reserve account at settlement is a total gross amount not to exceed the sum of: (a) an amount that would have been sufficient to pay taxes, insurance premiums, or other charges which would have been paid under normal lending practices, and *ending* on the *due date* of the first full monthly mortgage installment payment, plus (b) an additional amount not in excess of one-sixth (2 months) of the estimated total amount of taxes, insurance premiums and other charges to be paid on the dates indicated above during any twelve month period to follow.

An illustration will help clarify this calculation. Assume the following set of facts on a loan, and that taxes are paid at the end of the period against which taxes are assessed.

Example:

Settlement date	April 30, 1977
Due Date of first mortgage loan repayment	June 1, 1977
Taxes due yearly	$360.00
Monthly tax accrual	$ 30.00
Due date for taxes	December 1st for the calendar year

The reserve amount for category (a) is $180.00. This represents the amount of taxes accruing between December 1, 1976 (the last tax due date) and May 30, 1977 ($30.00 x 6 months). Reserve amounts chargeable under category (b) could be up to two months advance payment times $30.00 or a total of $60.00. Therefore, total reserve deposits for taxes at settlement would be a maximum of $240.00. Changing the due date for taxes and/or the first mortgage payment results in a different reserve amount for the same illustration.

The same procedure is used to determine the maximum amounts that can be collected by the lender for insurance premiums or other charges. You need to know the charges and due dates in order to compute the amounts.

Once you begin your monthly mortgage payments, you cannot be required to pay more than one-twelfth of the annual taxes and other charges each month, unless a larger payment is necessary to make up for a deficit in your account or to maintain the cushion of the one-sixth of annual charges mentioned in (b) above. A deficit may be caused, for example, if your taxes or insurance premiums are raised.

You should note that the above monthly mortgage payments reserve limitations apply to all RESPA covered mortgage loans whether they were originated before or after the implementation of RESPA.

ADJUSTMENTS BETWEEN BUYER AND SELLER

The previous section dealt with setting up and maintaining your reserve account with the lender. At settlement it is also

Department of Commerce & Economic Development / POSITION PAPER

HB 51 "An Act requiring banks to pay interest on money in reserve accounts held in connection with mortgage loans."

The safety and soundness of state-chartered financial institutions is not affected by provisions of HB 51. There would be only minor review time involved in examinations to determine compliance.

The committee may wish to consider having these types of interest rate provisions under AS 45.45 and include all mortgage lenders except the State housing programs.

/s/ Loren H. Lounsbury, Commissioner

Date: 2/12/85

1588We21285c

STATE OF ALASKA 1985 LEGISLATIVE SESSION

FISCAL NOTE

Revision Date:

REQUEST

Bill/Resolution No.: HB 51

Title: Interest on money in reserve accounts

Sponsor: Duncan, Sund & Marrou

Requestor:

Date of Request:

FISCAL DETAIL

Agency Affected: Commerce & Econ. Dev.

Program Category Affected: Banking and Securities

BRU, Program or Subprogram(s) Affected: Banking and Securities

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY	-0-	-0-	-0-	-0-	-0-	-0-

ANALYSIS: Attach a separate page if necessary

Prepared By: N. T. Lusk Phone: 465-2521

Division: Division of Banking and Securities Date:

Approved by Commissioner: Loren H. Lounsbury Date: 2/12/85

Agency: Commerce & Economic Development

Distribution (by Agency preparing fiscal note):

Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

7/1/84

1588Wal2985a

FNMA

PART 1 GENERAL REQUIREMENTS FOR 1ST MORTGAGES

In general, all 1st mortgages sold to us must be acceptable to other institutional investors and informed buyers in the community where the mortgaged property is located.

In addition, mortgages must meet certain requirements before we will purchase them. Our general eligibility requirements for FHA, VA and conventional 1st mortgages follow in this Part. The specific eligibility requirements for certain types of mortgages—including 2nd mortgages—are described in Parts 2 through 9 of this Chapter.

Sec 101 Origination and Ownership of Mortgage

A Lender may deliver a mortgage that has been originated by another Lender. However, the selling Lender is responsible for meeting all of our requirements, and must own the mortgage on the date it is delivered to us.

Sec 102 "Open-End" Advances

We will purchase a mortgage that includes an "open-end" advance provision only if the provision gives us the option not to make any advances. If the Lender has already made an advance, the mortgage is eligible for purchase.

Sec 103 Monthly Payments (also see Sec 209, 309, 509 and 705)

Generally, the mortgage must fully amortize over its term, through level monthly installments of principal and interest, payable the 1st day of each month. However, mortgages, and growing equity mortgages—that do not provide for level monthly payments over the full mortgage term.

Since we will not decline submissions for purchase because of slight differences in payment calculations, the Lender may use any widely-accepted amortization tables or formulas. We include in our Servicing Guide the formulas that we use to calculate fixed installments and to amortize a mortgage.

Sec 104 Escrow Deposit Accounts (also see Sec 205, 412 and 905)

Mortgages must provide for the monthly deposit of escrow funds to pay taxes, ground rents, special assessments, mortgage insurance premiums and hazard insurance premiums as they come due. For VA and conventional mortgages, the Lender may waive this requirement, but the standard escrow provision must remain in the mortgage documents.

Whenever the Lender waives the right to collect escrows, it must retain our right to enforce the requirement if the borrower fails to act responsibly.

We do not require escrow deposits to cover hazard insurance premiums for individual condominium or PUD units when the project containing the unit is covered by a blanket hazard insurance policy purchased by the owners' association.

Sec 105 Payment Status (also see Sec 906)

Payments on the mortgage must be current at the time of delivery. The 1st payment made to us must be a full installment of principal and interest.

We will accept delivery of a 1- to 4-family mortgage up to 45 days from the due date of the last paid installment. For example, if the due date of the last paid installment was April 1, we will accept the mortgage at any time through May 15. If the mortgage is delivered on May 16, it will not be acceptable until the May 1 payment is applied.

If the mortgage is new and no installment has been applied when the mortgage is delivered, the Lender should report the 1st day of the month preceding the due date of the 1st full installment as the "interest paid-to" date. The 45-day limit will then be clocked from this date.

Sec 106 Lien Requirements (also see Sec 205, 409, 514, 806 and 907)

The lien of the security instrument must be a 1st and paramount lien on the mortgagor's estate in the real property and on any personal property identified in the instrument. It may be subject only to liens for taxes and special assessments that are not in arrears and to conditions, restrictions and encumbrances that we do not consider as material. The Lender must provide documentation to show that the current installments of taxes and assessments (which may have been attached as prior liens but are not now in arrears) have been paid or that sufficient deposits are being collected to pay them.

106.01 Borrower's Estate. In most cases, the borrower must own the property in fee simple. However, we will purchase mortgages secured by leasehold estates in areas where they have received market acceptance.

Generally, leasehold estates must have a remaining term that equals or exceeds the remaining term of the mortgage. In most cases, the term of the estate should run, or be renewable at the borrower's option, for at least 10 years beyond the maturity date of the mortgage, unless fee simple title will vest in the borrower (or the owners' association if the mortgage is on a PUD unit) at an earlier date. However, the term may vary for different types of mortgages. When the term of the leasehold estate differs from those normally used in the area, the Lender should contact the local regional office to determine if it is acceptable.

Sec 412 Special Assessments

If special assessments are not paid at the time of closing, the maximum mortgage otherwise available must be reduced by the principal amount of the unpaid special assessment.

In addition, any improvement to the premises that results from the assessment must be included in the appraised value of the property. The mortgagor's monthly payment should include 1/12th of the estimated annual payment toward the assessments.

Sec 413 Payment of Settlement Costs

Certain prepaid settlement costs must be paid by the purchaser of the property in order for the mortgage to be eligible for purchase. They are

- **interest charges covering any period after the settlement date;**
- **real estate taxes covering any period after the settlement date;**
- **hazard insurance premiums; and**
- **escrow accruals required for renewal of mortgage insurance premium.**

Other costs may be paid by the property seller or purchaser. However, if any costs normally the responsibility of the purchaser are paid by the seller, the Lender must advise the appraiser.

Sec 414 Trade Equities

The property seller may take the borrower's existing property in trade as all or part of the down payment, as long as the borrower's equity contribution is a true value consideration. This contribution is usually determined by subtracting the outstanding mortgage balance of the property being traded, plus any transfer costs, from the lesser of the property's appraised value or the trade-in value agreed to by both parties.

Sec 415 Subordinate Financing

We will consider purchasing mortgages subject to subordinate financing as long as that lien is clearly subordinate to our 1st mortgage lien. Lenders must disclose subordinate financing repayment terms when applying for a mortgage insurance commitment.

When the subordinate financing repayment terms provide for regular monthly payments, they must remain constant for each 12-month period over the term of the mortgage. In addition, the change in the monthly payment at the end of each 12-month period cannot exceed 7½%.

If the subordinate financing will not fully amortize under a level monthly payment plan, it may not have a maturity or call option date of less than 5 years.

We will not permit subordinate financing on a cooperative share loan.

FNMA

PART 2 DEPOSIT ACCOUNTS, TAXES AND INSURANCE

Generally, the mortgages we purchase require that a portion of the mortgagor's monthly payment be put into an escrow deposit account so that funds will be available to pay taxes, special assessments, hazard insurance premiums, mortgage insurance premiums, ground rents and similar items when they come due.

The Servicer may waive the escrow deposit account requirement on individual cases. The waiver should be in writing and should clearly state that it may be revoked at the Servicer's option. Even when the escrow deposit account requirement has been waived, the Servicer remains responsible for the timely payment of the taxes and insurance premiums. If the mortgagor fails to pay the taxes or does not keep the insurance in force, the Servicer should revoke the waiver and begin collecting monthly deposits for the escrow deposit account.

We do not require the Servicer of a 2nd mortgage to maintain an escrow account. However, to assure that the expenses for the 2nd mortgage are paid promptly—particularly when the Servicer of the 1st mortgage does not collect escrow funds—the Servicer may establish an escrow account if it wishes.

Sec 201 Administration of Escrow Deposit Accounts

The Servicer must assume full responsibility for administering the mortgagor's escrow deposit account. It must estimate the monthly deposit required to assure that funds will be available to pay each expense as it comes due. Each year, it should analyze the account to determine that the balance is adequate and, if necessary, make any adjustments required to meet the estimated future charges.

201.01 Additional Deposits. The Servicer may collect deposits for items that we do not require (such as disability or credit life insurance). If it does, the Servicer must

- identify in its records the purpose and the recipient of the additional deposits;
- accept the monthly payment even if it does not include these additional deposits;
- collect any shortages in these deposits from the mortgagor. The regular deposit account funds may not be used to cover these shortages; and
- separate the amount of the additional deposits from the installment we require on the mortgagor's monthly billing or payment coupon.

201.02 Advances. When the borrower's deposit account does not have enough funds to cover a particular expense, the Servicer should request the mortgagor to pay the additional amount. If the borrower's payment cannot be received in time to avoid a penalty, the Servicer should advance its own funds.

When the Servicer has to advance its own funds, the mortgagor should be billed for that amount. If the mortgagor does not repay the advance, his or her subsequent

mortgage payments may be used to repay the Servicer if local law does not prohibit it. If the advance involves $500 or more and was necessary to protect our interest in the property, the Servicer of a whole mortgage may submit a Cash Disbursement Request (Form 571) to request us to reimburse it for the advance. In that case, any repayments subsequently made by the mortgagor would be sent to us.

201.03 Annual Analysis. The Servicer must analyze the account each year to determine its status and to estimate the funds needed for the coming year. After analyzing the account, the Servicer can adjust the monthly deposits to the account according to different situations.

- If there is a shortage in the account, the Servicer may either request the mortgagor to pay it in full, or take the shortage into account when it establishes the monthly escrow deposits for the next year.
- If there is an overage, the Servicer may refund it to the mortgagor if the mortgage is current or take it into account when the monthly escrow deposits for the next year are established. If the mortgage is delinquent, the Servicer should request the mortgagor to apply the overage toward the delinquency.

When the monthly payment changes as a result of the escrow analysis, the Servicer should give the mortgagor reasonable notice of the new payment.

201.04 Interest on Escrow. Some jurisdictions require that interest be paid on the funds in the mortgagor's escrow deposit account. When these requirements apply to mortgages that we own, the Servicer must pay the interest. The Servicer may also voluntarily pay the interest.

Normally, we will not reimburse the Servicer for required or voluntary interest payments. However, if we are holding a portion of the escrow deposit funds, we will reimburse the Servicer for our share of any required interest payments. In that case, the Servicer should submit a Request for Disbursement of Excess Escrow Funds or Interest on Escrow Accounts (Form 843) within 30 days after it pays the interest.

201.05 Annual Statement. At the beginning of each year, the Servicer must send the mortgagor a statement of activity in his or her mortgage account during the past year. The statement should include

- the escrow deposit account balance at the beginning of the year, any deposits to or withdrawals from the account during the year, and the account balance at year-end;
- the amount of interest that the mortgagor paid during the year;
- the amount of real estate taxes paid during the year;
- the unpaid principal balance of the mortgage at the end of the year;

- the amount by which the mortgage balance increased during the year as a result of negative amortization (when applicable); and
- the amount of interest paid (or credited) to the mortgagor as "interest on escrow".

In addition, the Servicer must provide a detailed analysis of all transactions relating to a mortgagor's monthly payments and escrow deposit account whenever the mortgagor requests it. The Servicer cannot charge the mortgagor for the annual statement or the detailed analysis.

Sec 202 Taxes and Assessments

The Servicer must maintain accurate records on the status of real estate taxes, ground rents or any other assessments that could become a lien against the property. The Servicer should always pay these expenses before any penalty date. Whenever funds are available, the Servicer should pay these expenses early enough to take advantage of the maximum discounts allowed. If a penalty is incurred for late payments of taxes—and the mortgagor was a factor in delaying the payment—the Servicer may collect the penalty from the mortgagor. Otherwise, the Servicer must pay the penalty from its own funds.

When the owners' association of a PUD or condominium project in which the Servicer services mortgages notifies the Servicer that a mortgagor is 60 days delinquent in the payment of assessments or charges levied by the association, the Servicer should advance the funds to pay the charges if necessary to protect our interest in the mortgage.

Sec 203 FHA and Conventional Mortgage Insurance

The Servicer must keep in effect the FHA or conventional mortgage insurance that existed when we purchased the mortgage. However, there are special situations that may affect the continuation of mortgage insurance coverage.

203.01 FHA Mortgage Insurance. The Servicer may consider a mortgagor's written request to cancel the FHA mortgage insurance if the borrower has a satisfactory payment record and our interests will continue to be adequately protected.

Before agreeing to cancel the insurance, the Servicer should obtain a current appraisal of the property. Then, if the property clearly meets the standards that we would require for a new conventional mortgage and the unpaid balance of the mortgage is not greater than 80% of the property's value, the Servicer may cancel the insurance.

The appraisal is not necessary if the Servicer believes that the mortgage balance is substantially less than 80% of the current property value.

203.02 FHA Coinsured Mortgages. If the mortgage is current, FHA coinsured mortgages are automatically converted to full insurance when the 60th monthly

payment is made. The Servicer does not have to notify us of this automatic change, but should contact us in cases where the conversion is not automatic. For example, when a mortgage is under a special relief provision on the date the 60th monthly payment is scheduled to occur, the Servicer should request HUD to convert it to full insurance if the mortgage is current under the terms of the relief provision. If HUD agrees to the conversion, the Servicer should then notify us.

If the Servicer cannot continue its coinsurance obligations because of its dissolution or bankruptcy, it should notify HUD and provide a list of all coinsured mortgages in its FNMA portfolio. When HUD acknowledges that the mortgages will be converted to full insurance, the Servicer should send us the list of mortgages and a copy of HUD's acknowledgement.

203.03 Conventional Mortgage Insurance. Servicers may cancel insurance coverage on a 1st mortgage when the balance has been paid down to 80% of the original value of the property. Coverage on a 2nd mortgage can be cancelled when the combined loan amount for the 1st and 2nd mortgages has been paid down to 65% of the property's original value. If the Servicer thinks that the property may have depreciated in value since the original appraisal, it may require the mortgagor to submit a current appraisal for the property before it cancels the coverage. If a mortgagor whose payments are current requests cancellation of coverage and the property has retained its value, the Servicer must cancel the coverage.

The Servicer may also approve a mortgagor's request to cancel the conventional mortgage insurance on a 1st mortgage if the mortgagor has a satisfactory payment record and a new appraisal indicates tha the mortgage balance is below 80% of the current value of the property. Requests to cancel coverage on a 2nd mortgage—based on a new appraised value—may be approved only if the borrower has had an acceptable payment record for at least 1 year. In either case, the new appraisal should be made a part of the permanent mortgage records.

At any time, the mortgagor can replace the original policy with equivalent mortgage insurance from another acceptable mortgage insurer. The Servicer must promptly send our local regional office the new original insurance policy or certificate. When the coverage expires or is cancelled, we will return the original insurance policy or certificate if the mortgage insurer requires us to do so.

Sec 204 Hazard and Flood Insurance

The Servicer must make sure that the hazard and flood insurance coverages that were required when we purchased the mortgage are maintained. Those requirements are described in Chapter One, Part 1, of our Lending Guide. If the mortgage covers a PUD, cooperative or condominium unit, the Servicer should also verify that the coverages required of the owners' association or cooperative corporation—hazard, flood, liability and fidelity—are being maintained. These requirements are discussed in

Chapter Three of the Lending Guide. In addition, the insurance that HUD requires for FHA-insured home improvement loans must be kept in force.

A Servicer may act as an insurance broker or agent to sell insurance to the mortgagor. Any activities relating to this role are outside the scope of the Servicer's authority to act on our behalf. As a result, we will not reimburse the Servicer for any fees or costs resulting from claims on coverages that exceed our requirements. In addition, the Servicer must reimburse us for any fees or costs that we incur in response to any action or defense the mortgagor might bring in connection with this coverage.

204.01 Replacement Policies. The mortgagor can modify the existing insurance coverage or replace it with a policy from another acceptable company. If the mortgagor allows the insurance coverage to lapse, the Servicer should immediately obtain new coverage that meets our basic requirements. If necessary, the Servicer should advance its own funds to pay the premium.

The owners' association of a PUD or condominium project or the cooperative corporation of a cooperative project may also have its existing insurance coverage modified or replaced with a policy from another insurance company. In this case, the owners' association or cooperative corporation must give the Servicer notice of the change so that the Servicer can determine if the coverage adequately protects our interests.

204.02 Changes in Coverage. Certain things may happen to make the existing insurance coverage inadequate to protect our interests or to cause us to be over-insured in some cases. When either situation occurs, the coverage should be changed.

When a property becomes vacant, the Servicer should add the proper endorsement to change a homeowner's policy to a fire and extended coverage policy.

The mortgagor may discontinue flood insurance coverage if the property is no longer included in a flood zone because the flood plain has been redefined. On the other hand, if the redefinition of a flood plain will result in the property being included in a flood zone, the Servicer must notify the mortgagor to obtain coverage to protect against possible damage. If the mortgagor refuses to obtain the required coverage, the Servicer should contact the regional office for further instructions.

204.03 Evidence of Insurance. Unless the Servicer is covered by mortgage impairment insurance or mortgagee interest insurance, it must keep the original insurance policy in its custody. Instead of holding the complete policy, the Servicer may accept a short form certificate of insurance if it shows all of the necessary information and is signed by the insurer. A complete text of the full policy must be available in the Servicer's office.

Many condominium or cooperative units are covered by "master" or "blanket" policies instead of individual policies. This is also true for some PUD units. In these cases, the Servicer may maintain a copy of the current "master" or "blanket" policy and a certificate of insurance showing that the individual unit is covered under the policy.

Regardless of the form used as evidence of insurance, the Servicer must be able to give us copies of the individual insurance policies if we need them.

204.04 Notice of Loss. When we purchase the mortgage on a condominium, cooperative or PUD unit, the owners' association or cooperative corporation of the project agrees to give the Servicer prompt notice of any change in its insurance coverage or of any condemnation or casualty loss that may have a material effect on the project or on our security. Therefore, the Servicer should send a notice, identifying the units it is servicing, to the owners' association of each condominium or PUD project and the cooperative corporation of each cooperative project in which it services mortgages.

Sec 205 Insurance Loss Settlements

As soon as the Servicer of a whole mortgage learns of a casualty loss, it should contact the mortgagor to get complete details on the damage and discuss plans for having the property repaired. If the Servicer is unable to contact the mortgagor, it should determine the extent of the damage and the required repairs, and submit to our local regional office a recommendation regarding the restoration of the damaged property.

When a property is damaged, the Servicer must closely monitor the filing of the claim with the insurance carrier, the repairs to the property and the disbursement of the insurance proceeds. The Servicer's responsibilities include

- helping the mortgagor to determine the nature of the needed repairs and to get the necessary bids;
- reviewing and approving the final plans for repair;
- submitting a Report of Hazard Insurance Loss (Form 176) to our local regional office for approval if
  - —the mortgage is in foreclosure or the property has been acquired through foreclosure or a deed in lieu of foreclosure,
  - —the insured improvements have suffered a total or near-total loss,
  - —the insurance proceeds are greater than the cost of restoring the property to its original condition, or
  - —the Servicer believes that the insurance proceeds should be applied to the mortgage debt instead of being used to repair the property;
- inspecting the repairs to see that they comply with the final plans;
- getting the proper lien releases; and
- disbursing the proceeds.

If the Servicer of a 2nd mortgage can determine that the repairs were made in a satisfactory manner, it does not have to inspect the property. However, it should include in the individual mortgage file documentation describing the quality of the workmanship.

In cases involving extensive repairs, the Servicer should consider making progress payments as portions of the work are completed.

Sec 206 Uninsured Losses

When a disaster (such as an earthquake, flood or tornado) results in an uninsured loss to the property, the Servicer should

- determine the extent of the damage;
- secure the property, if it is abandoned;
- develop plans for repairing the property; and
- send a complete report of the damage to our local regional office.

The Servicer should help the mortgagor file for any disaster relief aid that may be available. If the damage is extensive, the Servicer should agree to any reasonable forbearance plans or modification agreements that the mortgagor proposes.

a different office in special instructions to the Servicer. When used in connection with accounting transactions, the applicable Freddie Mac regional office is the Freddie Mac regional office serving the state where the Seller's principal office is located.

6103

Borrower

The borrower is the party obligated to repay the indebtedness secured by the mortgaged premises. For a home mortgage or HIL, the borrower must be an individual or individuals.

6104

Condominium unit; condominium project

A condominium unit is a single family dwelling located in a condominium project.

A condominium project is real estate that includes the separate ownership in fee (or on an acceptable leasehold estate) of a specified residential unit with an undivided interest in the real estate designated for common ownership solely by unit owners.

6105

Date of the Seller's offer

The date of the Seller's offer is the date the Seller telephones Freddie Mac offering to sell mortgages to Freddie Mac. Freddie Mac will insert this date on the purchase contract in the applicable space for each offer Freddie Mac accepts.

6106

Delinquency

Delinquency occurs when any part of the borrower's monthly payment of principal, interest, and escrow under the mortgage is past due and unpaid after the due date.

6107

Delivery date

The delivery date is the date Freddie Mac receives a Contract Delivery Summary (Form 381) and either a Mortgage Submission Voucher (Form 13SF or 13 Multi) completed for each mortgage or a Mortgage Loan Submission Schedule (Form 11), together with any other documentation required to be delivered to Freddie Mac before payment by Freddie Mac. Delivery to Freddie Mac occurs when the applicable Freddie Mac regional office takes possession of all documentation required to be submitted. The posting of such documentation with the U.S. Postal Service or any other mail service does not constitute delivery to Freddie Mac.

6108

Due date

The due date is the date on which the borrower's monthly payment is due, as stated in the mortgage documents.

6109

Escrow

Escrow includes all funds collected to cover expenses to be paid

under the mortgage, including, but not limited to, taxes, special assessments, ground rents, and other charges that are or may become first liens on the mortgaged premises, as well as hazard insurance premiums and mortgage insurance premiums.

6110

FHA; FHA mortgage

FHA is the Federal Housing Administration. An FHA mortgage is a mortgage insured by the FHA.

6111

Home improvement loan

A home improvement loan is a home mortgage to finance permanent improvements for energy conservation, solar installation, rehabilitation, modernization, or addition.

6112

Home mortgage

A home mortgage is a mortgage on real estate on which there is located a structure designed principally for residential use by no more than four families.

6113

MI

An MI is a mortgage insurer approved by Freddie Mac.

6114

Minimum gross yield

The minimum gross yield is the sum of the Freddie Mac required net yield plus the Freddie Mac required minimum servicing spread.

6115

Minimum servicing spread

The minimum servicing spread is the minimum amount of the interest income retained by the Servicer as compensation for servicing mortgages purchased in whole by Freddie Mac.

6116

Mortgage

A mortgage is a loan secured by a lien on real estate held in fee simple or on an acceptable leasehold estate; when used alone, and unless the context indicates otherwise, the term "mortgage" includes home mortgages, multifamily mortgages, and home improvement loans.

6117

Mortgaged premises

The mortgaged premises are the land and improvements thereon subject to the lien of a mortgage.

6118

Mortgages purchased in whole or in part

Mortgages purchased in whole have been purchased in their entirety by Freddie Mac. Mortgages purchased in part are mortgages in which Freddie Mac has purchased or retained a participation interest.

separate agreement, incorporating this guide by reference. In such a case, the term "purchase documents" means the separate agreement and this guide.

6124

Real estate owned (REO)

Real estate owned (REO) is property acquired through foreclosure or deed in lieu of foreclosure.

6125

Required net yield

The required net yield is the amount of interest Freddie Mac receives from each mortgage purchased as stated in the purchase contract.

6126

Seller

A Seller is a mortgage lender approved to sell mortgages to Freddie Mac.

6127

Servicer

A Servicer is a mortgage lender approved to service mortgages purchased by Freddie Mac. The Servicer may be the Seller, a wholly owned subsidiary of the Seller, a subsidiary of the Seller and other Sellers, a servicing agent of the Seller (under section 6201), or a transferee of the Seller (under section 6311).

6128

Servicing

Servicing is the performance of applicable obligations described in the purchase documents, including tasks necessary to maintain mortgages sold to Freddie Mac in a manner that protects Freddie Mac's interests.

6129

Servicing agent

A servicing agent is a Servicer unaffiliated with the Seller that has received Freddie Mac's authorization to act on the Seller's behalf in servicing mortgages purchased by Freddie Mac.

6130

Transfer of ownership

For the purposes of chapters 69 and 73, transfer of ownership means, but is not limited to mean, the conveyance of the mortgaged premises or any right, title, or interest in the mortgaged premises, whether legal or equitable, voluntary or involuntary, by any of the following methods:

- outright sale
- deed
- installment sale contract
- land contract
- contract for deed
- leasehold interest with a term greater than three years
- lease-option contract
- land trust

relieve the Seller of its responsibilities to Freddie Mac under the purchase documents.

6202

Servicing facilities and duties

The Servicer must maintain servicing facilities with staff trained to adequately service mortgages according to the requirements in the purchase documents. The Servicer's staff must be familiar with all regulations and requirements affecting mortgages serviced for Freddie Mac. These regulations and requirements include, but are not limited to, those issued by Freddie Mac, FHA, VA, MIs, and local or federal agencies having jurisdiction. The Servicer must perform all duties of the mortgagee under the security instrument, FHA insurance, VA guaranty, and mortgage insurance policy.

6203

Borrower inquiries

If asked by the borrower, the Servicer must inform the borrower whether Freddie Mac has purchased the borrower's mortgage. If Freddie Mac has purchased the mortgage, the Servicer must explain to the borrower that it services the mortgage for Freddie Mac. The Servicer must answer the borrower's inquiries and not refer or advise the borrower to contact Freddie Mac directly concerning the mortgage. Borrowers must be given prompt, clear, and accurate information about whether their mortgages are assumable, and if they are, on what terms the assumption will be allowed and how long those terms will apply.

6204

Mortgage file

(a) Contents. The Servicer must maintain an individual file for each mortgage. The file must contain all documents required to be held by the Seller, as stated in the *Sellers' Guide FHA/VA*, Section 3.302 or in section 2415 of this guide, as well as all legal notices, correspondence, forms, and reports concerning the mortgage. The file must contain the originals of all documents submitted to Freddie Mac (except when the original documents are retained by Freddie Mac). When the Servicer possesses the original note, the note may be segregated from the file if it is maintained in a fireproof storage area. The Servicer must also maintain adequate records of collection efforts and make the records available for Freddie Mac's inspection on request. At a minimum, the records must show:

- the dates that letters and notices were mailed;
- results of conversations with the borrower;
- dates of personal contacts;
- dates and results of property inspections; and
- reasons for prior and current defaults.

Where applicable law or local custom requires the original security instrument to secure its release, the Servicer agrees to maintain a certified copy of the original security instrument, complete with recordation notation.

(b) Maintenance. The Servicer must prudently maintain all mortgage files, related documents, and records held pursuant to this section and the purchase documents. Each file must be clearly marked to indicate Freddie Mac's percentage of interest in the mortgage and the Freddie Mac loan number assigned to it.

The Servicer agrees to maintain the entire mortgage file while Freddie Mac retains any interest in the mortgage and for at least three years from the date Freddie Mac's interest in the mortgage is satisfied. If the mortgage is accelerated, the Servicer must maintain the entire file at least six years from the date Freddie Mac's interest in the mortgage is satisfied.

(c) Microfilm copies. Instead of maintaining the original documents required by this section, all documents (except the security instrument and the note) may be maintained in the form of microfilm or microfiche provided that

- the copies were made in the regular course of business pursuant to a written policy of the Servicer applying to all its mortgage files;
- the copies were made by a process that accurately reproduces or forms a durable medium for reproducing the original;
- the copies are satisfactorily identified;
- the Servicer maintains the copies in a manner that permits ready transfer to legible hard copies of the material relating to the mortgages serviced for Freddie Mac;
- reader/copiers that can be used by Freddie Mac representatives are kept in the same offices where the copies are kept.

(d) Damage or loss. The Servicer must bear the entire cost of restoring mortgage files and related documents and records damaged or lost for any reason.

(e) Inspection by Freddie Mac. When Freddie Mac requests, either before or after termination of servicing, the Servicer must permit Freddie Mac at any time during normal business hours to inspect the mortgage files and all of the Servicer's records pertaining to mortgage operations related to Freddie Mac.

6205

Reports

The Servicer must submit all servicing reports for any mortgage to the applicable Freddie Mac regional office at the time and in the form requested by Freddie Mac.

Whether there is any delinquency in the mortgage serviced for Freddie Mac or not, the Servicer must provide Freddie Mac with a monthly Summary of Delinquencies and Foreclosures (Form 100, exhibit 80) for each state where mortgaged premises are located. The report must be received by Freddie Mac within eight business days after the last day of each month.

Mortgage impairment or mortgagee interest insurance is acceptable if it provides errors and omissions coverage on substantially the same terms as stated above. Deductibles may not exceed the higher of $10,000 or 2.5 percent of the liability per occurrence.

(b) Reports. In connection with its fidelity and mortgage errors and omissions coverage, the Servicer must

- obtain evidence of the insurer's agreement to notify Freddie Mac 30 days or more before canceling, reducing, not renewing, or restrictively modifying any coverage for any reason;
- promptly advise Freddie Mac of any embezzlement, fraud, dishonesty, errors, or omissions within its organization, whether Freddie Mac's funds are involved or a claim is filed with the insurer, if the ensuing loss exceeds the deductible amounts allowed in sections 6402-6403.

6404

General property insurance requirements

The Servicer must ensure that the mortgaged premises are covered by insurance meeting the requirements in this and subsequent sections.

(a) Licensing of insurer. All insurers and reinsurers must be licensed, or otherwise authorized by law, to conduct business in the jurisdictions where the mortgaged premises are located.

(b) Assessments. Insurance contracts must provide that no assessment may be made against the Servicer or Freddie Mac and that any assessment made against others may not become a lien on the mortgaged premises superior to the outstanding liens.

(c) Rating of insurer. The required insurance must be underwritten by an insurer currently rated B/VI or better in Best's Insurance Reports. The following alternatives are acceptable:

- the insurer has a rating of A/V or better;
- the insurer is reinsured by a company rated B/VI or better. In this case, both the insurer and reinsurer must execute an Assumption of Liability Agreement or a similar endorsement providing for 100 percent reinsurance of the insurer's policy and requiring the reinsurer to give the borrower, Servicer, and insurer 90-day written notice before cancelling or otherwise terminating the reinsurance (this agreement must be attached to the insurance policy); or
- the coverage is underwritten by Lloyd's of London or by a Fair Access to Insurance Requirements (FAIR) or beach and windstorm plan.

6405

Hazard insurance

(a) 1–4 family properties. At a minimum, the mortgaged premises must be protected against loss or damage from fire and other perils covered within the scope of standard extended coverage. Insurance must at least equal the lesser of 100 percent of the insurable value of the improvements or the unpaid balance of the mortgage. For a HIL, insurance must be at least equal to the

lesser of 100 percent of the insurable value of the improvements or the aggregate unpaid balance of the HIL and all outstanding superior liens on the mortgaged premises. The insurance may not be less, however, than the minimum amount required under the terms of coverage to fully compensate for any damage or loss on a replacement cost basis. The Servicer must ensure that the mortgaged premises are adequately covered even when vacant and, where necessary and available, must obtain a vacancy permit endorsement.

Deductibles may not exceed the lower of $1,000 or 1 percent of the applicable amount of coverage.

(b) Planned unit developments. Requirements for 1–4 family and multifamily properties apply to similar residential properties within a planned unit development (PUD).

If the individual units are covered by insurance purchased by their respective owners, the PUD homeowners' association must maintain "all risk" coverage for common areas and property for 100 percent of their insurable value and providing for loss or damage settlement on a replacement cost basis. The association must also obtain any additional coverage commonly required by private mortgage investors for developments similar in construction, location, and use, including the following where applicable and available:

- agreed amount
- demolition cost
- increased cost of construction
- boiler and machinery

The insurer's minimum liability per accident under boiler and machinery coverage must equal the insurable value of the building housing such boiler or machinery or $2 million, whichever is less.

Deductibles may not exceed the lower of $10,000 or 1 percent of the applicable amount of coverage. Funds for such deductibles must be included in the association's reserves and be so designated.

Freddie Mac will also accept blanket insurance covering all units in the PUD as well as insurable common areas and property, if called for in the PUD's constituent documents. Such coverage must meet the requirements applicable to each PUD unit and those applicable to insurable common areas and property. Deductibles are allowed under this blanket coverage provided that the deductible for losses to an individual unit does not exceed the lower of $1,000 or 1 percent of the unit's insurable value. Funds for any deductibles must be included in the association's reserves and be so designated.

The PUD's insurance policy must name the insured in substantially the same language indicated below:

"Association of Owners of the ... Planned Unit Development for the use and benefit of the individual owners (designated by name, if required by law or the constituent documents)."

(c) Condominiums. The condominium owners' association must maintain blanket "all risk" coverage for the following:

- general and limited common elements within the condominium;
- fixtures, machinery, equipment, and supplies maintained for the service of the condominium;
- fixtures, improvements, alterations, and equipment within the individual units.

Coverage must be for 100 percent of the insurable value of the common elements or property described above and provide for loss or damage settlement on a replacement cost basis.

The additional coverages required of PUD homeowners' associations are also required of condominium owners' associations where applicable and available.

Deductibles may not exceed the lower of $10,000 or 1 percent of the applicable amount of coverage. Funds for such deductibles must be included in the association's reserves and be so designated.

The insurance policy of the condominium owners' association must name the insured in substantially the same language indicated below:

"Association of Owners of the ... Condominium for the use and benefit of the individual owners (designated by name, if required by law or the constituent documents)."

(d) Multifamily properties. At a minimum, the mortgaged premises must be protected against loss or damage from fire and other perils covered within the scope of standard extended coverage. Insurance must at least equal the lesser of 100 percent of the insurable value of the improvements or the unpaid balance of the mortgage. The insurance may not be less, however, than the minimum amount required under the terms of coverage to fully compensate for any damage or loss on a replacement cost basis.

Deductibles may not exceed the lower of $10,000 or 1 percent of the applicable amount of coverage.

The additional coverages required of PUD and condominium owners' associations are also required for multifamily properties.

Further, rent loss coverage must be in force, providing for insurer's liability in an amount equal to the gross rentals for at least 6 months for buildings not more than three stories high and at least 12 months for buildings higher than three stories.

6405

Flood Insurance

If the area where the mortgaged premises are located has been identified by the Secretary of Housing and Urban Development (HUD) or the Director of the Federal Emergency Management Agency (FEMA) as a Special Flood Hazard Area, the Servicer must ensure that flood insurance is maintained and that it provides coverage at least equivalent to that provided under the National Flood Insurance Program (NFIP) in the amount specified later in this section.

The Servicer may waive the flood insurance requirement if

- the land or a portion of it is in a Special Flood Hazard Area but the dwelling is not; or
- the borrower has provided the Servicer with a Letter of Map Amendment from FEMA excluding the dwelling or the entire property from a Special Flood Hazard Area.

(a) 1–4 family properties. Building coverage must be maintained in an amount at least equal to the least of the following:

- the maximum available under the NFIP's regular program;
- the maximum available under the NFIP's emergency program if the regular program is not yet in effect in the area where the mortgaged premises are located;
- the minimum amount required under the terms of coverage to compensate for any damage or loss on a replacement cost basis, or the unpaid balance of the mortgage (in the case of a HIL, the aggregate unpaid principal balance of the HIL and all outstanding superior liens on the mortgaged premises) if replacement cost compensation is not available for the type of building insured.

Deductibles may not exceed the lower of $1,000 or 1 percent of the amount of coverage.

(b) Individual PUD units. Flood insurance requirements for 1–4 family and multifamily properties apply to similar residential properties within a PUD.

(c) PUD homeowners' associations. The PUD homeowners' association must maintain coverage on common areas and property for 100 percent of their insurable value. Deductibles may not exceed the lower of $5,000 or 1 percent of the applicable amount of coverage. Funds for such deductibles must be included in the association's reserves and must be so designated.

(d) Individual condominium units. Flood insurance requirements for townhouses and rowhouses are those applicable to 1–4 family properties. Flood insurance is not required for individual units within a high-rise or vertical condominium.

(e) Condominium owners' associations. The condominium owners' association must maintain coverage for detached common elements and property for 100 percent of their insurable value.

If the condominium consists of high-rise or other vertical dwelling units, the condominium association must maintain coverage that meets the following requirements:

- The amount of buildings coverage must equal 100 percent of the insurable value of the common elements and property, including any machinery and equipment that are part of the buildings.
- The contents coverage must equal 100 percent of the insurable value of all contents, including machinery and equipment not part of the buildings, that are owned in common by the association members.
- Deductibles may not exceed the lower of $5,000 or 1 percent of the applicable amount of coverage.
- Funds for such deductibles must be included in the association's reserves and be so designated.
- A separate condominium association endorsement is required if not already a part of the policy.

(f) Multifamily properties. If the entire property is in a Special Flood Hazard Area, the aggregate amount of flood insurance must equal, at a minimum, the lesser of the insurable value of all buildings or the unpaid balance of the mortgage.

If only part of the property is in a Special Flood Hazard Area, insurable buildings exposed to flood hazards must be covered by flood insurance in an aggregate amount equal, at a minimum, to the lesser of the insurable value of the exposed buildings or that prorated portion of the unpaid balance of the mortgage on the entire property determined by the ratio of the square foot area of the exposed buildings to the total square footage of all buildings comprising the property.

Deductibles may not exceed the lower of $5,000 or 1 percent of the applicable amount of coverage.

6407

Liability Insurance requirements

(a) Planned unit developments and condominiums. The PUD or condominium owners' association must carry comprehensive general liability (CGL) insurance covering all common areas, common elements, commercial spaces, and public ways in the PUD or condominium.

If not already included in the terms of the CGL coverage, there must be a "severability of interest" endorsement precluding the insurer's denial of a unit owner's claim because of negligent acts by the association or other unit owners.

The association must also carry any additional coverage commonly required by private mortgage investors for developments similar in construction, location, and use, including the following where applicable and available:

- contingent liability from operation of building laws
- comprehensive automobile liability

- bailee's liability
- elevator collision liability
- garage keeper's liability
- host liquor liability
- workers' compensation and employer's liability
- contractual liability

The insurer's limit of liability per occurrence for personal injury, bodily injury, or property damage under the terms of the above coverages must be at least $1 million.

(b) Multifamily properties. A multifamily rental property must be covered by liability insurance to the extent required of a PUD or condominium owners' association.

6408

Fidelity insurance requirements for planned unit developments and condominiums

The PUD or condominium owners' association must carry fidelity insurance covering losses resulting from dishonest or fraudulent acts committed by the association's directors, managers, trustees, employees, or volunteers who manage the funds collected and held for the benefit of the PUD or condominium unit owners. This coverage must have the following characteristics:

- the coverage must equal the maximum amount of funds in the association's custody at any one time but must be no less than the sum of three months of assessments on the entire project plus reserves;
- the PUD or condominium owners' association must be named as the insured;
- a professional management firm must be insured to the same extent as a PUD or condominium owners' association managing its own operation and must submit evidence of such coverage to the association.

6409

Mortgage clause

All insurance policies must have the standard mortgage clause commonly used by private institutional mortgage investors. Such clause must provide that the insurer will notify the named mortgagee at least 10 days before any reduction in coverage or cancellation of the policy.

If the mortgage is owned in whole by Freddie Mac, "(name of Servicer), its successors and assigns" should be named as mortgagee instead of Federal Home Loan Mortgage Corporation. In deed-of-trust jurisdictions, the mortgagee should be designated as "(name of Servicer), its successors and assigns, beneficiary."

The mortgage clause of insurance policies obtained by PUD or condominium owners' associations must be endorsed to fully protect Freddie Mac's interest or the interests of Freddie Mac and the Servicer where applicable.

Regardless of how the mortgage clause is endorsed, the Servicer must arrange for all insurance drafts, notices, policies, invoices, etc., to be delivered directly to the Servicer. If the Federal Home Loan Mortgage Corporation must be named as mortgagee, the endorsement must show the Servicer's address in lieu of Freddie Mac's, as shown in the example below:

Federal Home Loan Mortgage Corporation
c/o ABC Savings and Loan Association
100 Main Street
Hometown, USA 12345

When a mortgage clause is not applicable (e.g., in a separate policy of comprehensive general liability), a certificate of insurance must be provided to the Servicer. This certificate must contain the information required for certificates or other evidence of insurance in section 6410, with the Servicer named as certificate holder instead of the mortgagee.

6410

Evidence of Insurance

For each property securing a mortgage owned by Freddie Mac, the Servicer must maintain the following documentation:

- for 1–4 family properties, an original of the hazard insurance policy, flood insurance policy (if applicable), and any related endorsement;
- for properties covered under a blanket PUD or condominium association policy, an original of the blanket policy, any flood insurance policy, and any related endorsement;
- for multifamily properties, an original of the blanket policy, any flood insurance policy, and any related endorsement.

Microfilm or microfiche copies of the required policies are acceptable if they meet the requirements of section 6204.

In lieu of a policy, the Servicer may maintain a certificate or other evidence of insurance showing at least the following information:

- named insured and mortgagee (named insured association, unit owner, and unit owner mortgagee if a PUD or condominium unit);
- property address;
- type, amount, and effective dates of coverage;
- deductible amount;
- any endorsement or optional coverage obtained and made part of the original policy;
- insurer's agreement to provide at least 10 days' notice to the mortgagee (or applicable unit owner mortgagee if for a PUD or condominium unit) before any reduction in coverage or cancellation of the policy; and
- signature of an authorized representative of the insurer, if required by law.

The Policy Declarations page of an NFIP policy is acceptable evidence of flood insurance.

The Servicer must possess a specimen of each policy and endorsement for which a certificate or other evidence of insurance is maintained in lieu of the policy or endorsement.

The Servicer must carry mortgage impairment or mortgagee interest insurance if it elects not to maintain the documentation described above. The mortgage impairment or mortgagee interest policy must meet the following requirements:

- be underwritten by an insurer currently rated B/IX or better in Best's Insurance Reports (policies issued by Lloyd's of London are also acceptable) and licensed or otherwise authorized by law to conduct business in the jurisdictions where the properties are located;
- provide coverage for the Servicer and/or Freddie Mac;
- provide coverage in scope and amounts at least equal to those required under section 6403;
- provide for at least 180 days' written notice to the Servicer and, if applicable, Freddie Mac before canceling or terminating the coverage;
- be approved by any regulatory authority to which the Servicer is subject, if such approval is required.

In addition to all other remedies of Freddie Mac provided for in the purchase documents, the Servicer will indemnify Freddie Mac for any loss Freddie Mac sustains due to the Servicer's failure to verify that the required insurance is in force on the mortgaged premises. The Servicer's obligation shall in no way be limited to the amount of coverage in force under a mortgage impairment or mortgagee interest policy.

6411

Insurance charges

Premiums for insurance covering the mortgaged premises will be paid when due by borrowers or the Servicer if the Servicer collects escrows for such purposes.

Premiums for insurance obtained by a PUD or condominium owners' association for the benefit of the PUD or condominium project will be paid by the association as a common expense assessable to all unit owners.

6412

Changes in insurance requirements

The Servicer must require the borrower to obtain appropriate insurance coverage in accordance with the terms of the security instrument when the following conditions exist:

- the Servicer becomes aware that existing coverage does not adequately protect the mortgaged premises;
- the area where the mortgaged premises are located was not subject to flood insurance requirements at inception of the

mortgage or when Freddie Mac purchased the mortgage, but has now been classified as a Special Flood Hazard Area and the Servicer has become aware of such classification.

The Servicer will follow up to verify that adequate coverage has been obtained and remains in force. If the borrower does not obtain such coverage, the Servicer must do so. The Servicer will then adjust the borrower's escrow payments accordingly or bill the borrower to recover the advance if the Servicer does not maintain an escrow account for the borrower. If the borrower refuses to reimburse the Servicer, the Servicer may recommend acceleration to Freddie Mac for the borrower's default under the terms of the security instrument.

If the additional coverage cannot be obtained, the Servicer will immediately make appropriate recommendations to Freddie Mac.

The Servicer may authorize the borrower to discontinue flood insurance coverage upon verification of map revision or receipt of a Letter of Map Amendment from FEMA.

6413

Insurance loss settlements

Upon notification of loss or damage to the mortgaged premises, the Servicer will monitor and coordinate the claim process with the borrower and the insurer. The Servicer must take appropriate action to

- verify the extent of the loss or damage;
- ensure judicious disbursement of insurance proceeds for the necessary repairs;
- protect the priority of the mortgage by obtaining waivers of materialman's or mechanic's liens; and
- document completion of the repairs.

The Servicer may be named as loss payee on insurance drafts and must comply with any applicable law and, where applicable, any requirement of the FHA, VA, or MI. Details concerning the loss or damage and disposition of the insurance proceeds must be recorded in the loan file.

The Servicer need not submit a report and related recommendations to Freddie Mac unless

- the mortgage is in foreclosure or the mortgaged premises have been acquired by the Servicer through foreclosure or deed in lieu of foreclosure;
- the insured improvements have suffered a total or near total loss;
- the Servicer wishes to apply insurance proceeds to the mortgage debt instead of repairing the property; or
- insurance proceeds exceed the amounts required to restore the property to its original condition.

6414

Natural disaster losses

When a natural disaster (earthquake, flood, tornado, etc.) results in losses or damages to the mortgaged premises, the Servicer must promptly

- ascertain the number of such mortgaged premises;
- determine the extent of the losses or damages;
- secure any abandoned mortgaged premises;
- assist the affected borrower in filing for any disaster relief aid available;
- assist the affected borrower through counseling and any appropriate repayment plan as provided under sections 6510-6513;
- notify the applicable Freddie Mac regional office with appropriate recommendations.

6415

Mortgage insurance requirements

†The mortgage insurance required under sections 1406 and 1601 may be canceled at the Servicer's option and the collection of mortgage insurance premiums discontinued when the conditions below are met.

(a) Owner-occupied properties. Mortgage insurance coverage may be canceled when the unpaid balance of the mortgage is reduced to 80 percent or less of the original purchase price or original appraised value, whichever is less, and the borrower has a history of timely payments.

Mortgage insurance coverage may also be canceled upon transfer of ownership, if the unpaid balance of the mortgage is reduced to 80 percent or less of the current purchase price or current appraised value, whichever is less. This appraised value must be based on an appraisal made within 60 days by an appraiser acceptable to the Servicer, using the applicable Freddie Mac appraisal report form.

(b) Nonowner-occupied properties. Mortgage insurance coverage may be canceled when the unpaid balance of the mortgage is reduced to 65 percent or less of the original purchase price or original appraised value, whichever is less, and the borrower has a history of timely payments.

Mortgage insurance coverage may also be canceled upon transfer of ownership, if the unpaid balance of the mortgage is reduced to 65 percent or less of the current purchase price or current appraised value as explained above, whichever is less.

discontinued, all fees and costs incurred are to be collected from the borrower unless prohibited by law, in which case Freddie Mac will share the expenses with the Servicer in proportion to Freddie Mac's interest in the mortgage.

(e) Foreclosure instruments. The Servicer must prepare and forward with the foreclosure recommendation any necessary papers for execution by Freddie Mac. When appropriate, the Servicer will request the note from Freddie Mac. If the note is sent to the Servicer, the Servicer will be responsible for its safe storage and must return it to Freddie Mac promptly should the foreclosure proceedings be discontinued.

(f) Servicing. Freddie Mac reserves the right to direct the Servicer to relinquish servicing of a mortgage in default and resume servicing when appropriate.

6603

Action during foreclosure

(a) Protection of the mortgaged premises. The Servicer must take appropriate action during the foreclosure process to protect the mortgaged premises. The Servicer must obtain Freddie Mac's prior approval for any expenditure over $500 to protect the property. When delaying protective action might result in impairment of the mortgaged premises, the Servicer should call the applicable Freddie Mac regional office for immediate approval. Freddie Mac will send the Servicer a confirmation of the cost and nature of the protective action approved.

(b) Escrow funds. The Servicer must retain the borrower's escrow funds and unapplied funds, if any. The Servicer must obtain bills for and effect payment of all expenses to be paid under the security instrument. Such expenses include taxes, special assessments, ground rents, and other charges that are or may become first liens on the mortgaged premises. If the borrower's escrow funds are insufficient to pay these items as they become due during foreclosure, the Servicer must advance funds to pay these expenses when and to the extent necessary to protect Freddie Mac's interest.

(c) Buydown account. Any funds remaining in the buydown account of a mortgage in foreclosure must be disposed of according to the terms of the buydown agreement. The funds must not be automatically applied to reduce the principal balance of the borrower's mortgage or to reduce any other of the borrower's obligations under the mortgage. The funds may be so applied with the borrower's consent when the application of funds is sought.

(d) Inspection. The Servicer must inspect the mortgaged premises at least monthly and more frequently when circumstances warrant.

68

Home mortgage and HIL servicing: partial prepayment (curtailment); escrow; adverse matters

6801

Partial prepayments (curtailments)

Partial prepayments of principal in any amount may be accepted by the Servicer according to the terms of the note. Upon request by the borrower, the monthly principal and interest installments may be reduced provided that

- the monthly payments (including payments to superior lienholders, for a HIL) are current;
- there is no extension of the maturity date of the note;
- FHA, VA, or MI approval is obtained, if applicable;
- the rate of interest stated in the note remains unchanged.

If the monthly payments are reduced, a modification agreement must be prepared and executed by or consented to in writing by all necessary parties, such as the holder of the note, the borrower and any comaker, guarantor, surety, or other obligor. Freddie Mac need not approve any modification meeting these requirements.

Freddie Mac's execution of any document submitted by the Servicer does not imply that it has reviewed the document for legal adequacy. This is the Servicer's responsibility. When required by local law or practice, the Servicer must obtain the consent of any statutory or contractual lienholder and binding confirmation by the title insurer that no loss in the dignity of the lien is incurred. The Servicer must make any necessary recordation. To the extent of local law and practice, the Servicer may require the borrower to reimburse the Servicer's costs and pay expenses incurred in preparing or recording the modification agreement. For mortgages purchased in whole by Freddie Mac, the Servicer must send the original modification agreement to Freddie Mac for its records. See section 8011 for Freddie Mac's accounting requirements regarding this subject.

6802

Escrow for taxes, ground rents, assessments, and other charges

The FNMA/FHLMC uniform security instruments provide for the collection of escrow, subject to applicable law, unless waived by the lender. If escrow is being collected when the mortgage is

purchased by Freddie Mac, the Servicer must continue to collect one-twelfth of the yearly charge for escrow with each monthly installment of principal and interest. The Servicer may, if requested by the borrower, also collect and administer funds to pay expenses not provided for in the mortgage, such as life insurance on the borrower. The escrow must be held in an account insured by an agency of the United States.

The Servicer must obtain bills for and pay all escrow items before the applicable penalty or termination date. The Servicer must maintain adequate records to prove payment of all taxes, ground rents, assessments, and other charges that are or may become first liens on the mortgaged premises.

At least annually, the Servicer must compute the required escrow payment based on reasonable estimates of assessments and bills to determine that sufficient funds are being collected to meet all escrow payments. If the amount held in escrow by the Servicer, together with the future monthly installments of escrow, exceeds the amount required to pay charges as they fall due, the Servicer must either repay the excess promptly to the borrower (if there is no default under the terms of the security instrument) or credit the excess to the borrower by a reduction in monthly escrow installments. Any interest payable to the borrower for escrow or any other funds held by the Servicer, whether due to contractual agreement or operation of law, must be paid by the Servicer at its own expense.

If the amount held in escrow by the Servicer is deemed insufficient to pay charges when due, the Servicer should obtain the necessary additional funds from the borrower before the latest date on which the charges may be paid prior to penalty, lapse of insurance policies, etc. If the borrower fails to remit the deficient amount, or if there is insufficient time to obtain the amount, the Servicer must pay any charges due and reflect a shortage in the borrower's escrow account.

The Servicer may, without Freddie Mac's approval, start collecting escrow not previously required. The Servicer may discontinue collecting escrow if

- the mortgage has not been delinquent for 30 days or more at any time during the previous 6 months;
- the Servicer retains the right to resume collection of escrow if there is any nonpayment of the items for which escrow had previously been collected.

If the Servicer chooses not to collect escrow or if the terms of the security instrument or applicable law do not provide for collection of escrow, the Servicer must require proof of payment of all taxes, ground rents, assessments, and other charges or use other means commonly employed by private institutional mortgage investors to satisfy itself that those items are promptly paid. The Servicer must notify Freddie Mac immediately of any

charge not promptly paid and recommend to Freddie Mac a course of action to be followed in this event.

6803

Adverse matters: notice of liens, vacancy, waste, etc.

It is the Servicer's responsibility to act in the most timely, efficient, and responsible manner to protect the interests of Freddie Mac, or the respective interests of the Servicer and Freddie Mac. The Servicer must exercise diligence to prevent any losses, and must immediately advise and make appropriate recommendations to the applicable Freddie Mac regional office, on notification or discovery of any of the following conditions:

- attachment of prior liens to the mortgaged premises (for a HIL, prior liens other than those on record at the origination of the HIL);
- vacancy of the mortgaged premises;
- deterioration of, waste of, or lack of repair to the mortgaged premises;
- default under the terms of the security instrument, note, superior lien obligations (HILs only), condominium or PUD constituent documents, or similar borrower's obligations;
- sale or transfer of the mortgaged premises not approved by the Servicer;
- litigation involving the mortgaged premises that may adversely affect the secured position of Freddie Mac or the Servicer and Freddie Mac; or
- any other situation that may have an adverse impact on the mortgage.

For each case, the Servicer must maintain accurate records of any of these conditions, detailing its actions to prevent losses.

6804

Adverse matters: bankruptcies

The Servicer must take appropriate action to best protect Freddie Mac's interest in the mortgaged premises during state insolvency or federal bankruptcy proceedings in which the borrower is the "debtor." The Servicer is responsible to effectively handle such mortgages. The Servicer should act with the advice of competent legal counsel well-versed in the Bankruptcy Reform Act of 1978 and other relevant areas of law.

(a) Attorney's fees. The amount of the attorney's fees incurred in connection with the proceedings must be consistent with fees commonly charged for similar services in the area where the mortgaged premises are located. The Servicer should attempt to obtain payment of the attorney's fees and costs resulting from the proceedings directly from the borrower or from the bankruptcy court.

(b) Notification to Freddie Mac. The Servicer is not required to submit to Freddie Mac any special notice regarding such proceedings involving a mortgage purchased by Freddie Mac. However, if a mortgage involved in such proceedings is delin-

quent, the Servicer must report to Freddie Mac according to section 6205 by submitting Form 102. The following additional items should be included in the Servicer's comments on Form 102 when a delinquent borrower is involved in such proceedings:

- the date the petition was filed;
- the Chapter of the Bankruptcy Act or citation to relevant law cited in the petition;
- the date the Servicer received notification of the proceedings;
- a copy of the proof of claim, including the date it was filed;
- a list of all lienholders and any unpaid taxes or assessments;
- a copy of the Chapter 11 or 13 Plan, if accepted.

Follow-up reports should be submitted monthly to update the status of the case. If a Freddie Mac mortgage is current when the bankruptcy petition is filed and the mortgage remains current, no notification need be submitted to Freddie Mac.

6805

Adverse matters: reimbursement of expenses

In any situation described in sections 6803-6804, expenses incurred by the Servicer to comply with Freddie Mac's instructions will be reimbursed to the Servicer in proportion to Freddie Mac's interest in the mortgage, unless collection from the borrower is allowed under applicable law. Freddie Mac's prior written approval of these expenses is required under the same circumstances as described in chapters 66-67. Any reimbursement will not prejudice any rights Freddie Mac may have against a Seller or Servicer with respect to the sale or servicing of the mortgage.

When delaying protective action might result in impairment of the mortgaged premises, the Servicer should call the applicable Freddie Mac regional office for immediate approval. Freddie Mac will send the Servicer a confirmation of the cost and nature of the protective action approved.

70

Multifamily mortgage servicing

7001

Inspection of property; financial statements

A periodic inspection of the mortgaged premises and a review of the profit and loss statements for the mortgaged premises are important tools in preventing default of a multifamily mortgage. Annually, the Servicer must inspect the mortgaged premises and, when permitted by the mortgage documents, obtain a rent roll and a signed profit-and-loss statement for the mortgaged premises. The Servicer must forward copies of the inspection report, rent roll, and profit-and-loss statement to Freddie Mac for any mortgage with an original amount of $250,000 or more. Any inspection report or profit-and-loss statement that indicates deferred maintenance, an operating loss, or any other potential servicing problem must be forwarded to the applicable Freddie Mac regional office, regardless of loan balance.

Freddie Mac reserves the right to require more frequent inspections when loans are delinquent or when Freddie Mac deems necessary. Where commonly required by private institutional mortgage investors, profit-and-loss statements must be prepared by a certified public accountant.

7002

Reserves for replacements and other escrows

The Servicer must hold and administer in accordance with the applicable documents all funds or bonds that constitute the reserve for replacements, working capital deposits, escrow for latent defects, operational deficiency deposits, or other escrow required by the mortgage, the security instrument, and other related documents.

If the applicable documents provide that a fund shall be in cash, or obligations of, or securities fully guaranteed as to principal and interest by the United States, Freddie Mac authorizes the Servicer to accept monthly deposits in either cash or bonds, provided such bonds are in bearer form. If the borrower proposes to substitute bonds for cash already deposited in such a

fund, the Servicer may approve the substitution, provided the amount of cash disbursement to the borrower from the fund does not exceed the market value of the bonds, as computed on the basis of the price quoted for such bonds on the date they are received by the Servicer. Before the bonds are deposited in the fund, the Servicer must obtain written general authority from the borrower to permit the Servicer, acting for Freddie Mac, to sell or redeem such bonds at any time and deposit the cash proceeds, less brokerage fees, in the fund. The Servicer must require additional deposits in the event of a decrease of more than 5 percent in the market value of the bonds, if permissible under the applicable agreement.

The Servicer may not purchase bonds or disburse cash from the fund to the borrower to purchase bonds. The Servicer must collect interest on the bonds as it becomes due and, if the borrower is not in default, must promptly pay the interest to the borrower. In addition, the Servicer must collect the principal of the bonds as they mature. Only to collect the interest and proceeds of the bonds may the Servicer release the bonds. If it becomes necessary to convert the bonds into cash to carry out the purpose of a fund, the Servicer must request, in writing, Freddie Mac's written approval. After obtaining the written approval and notifying the borrower, the Servicer may effect the conversion.

7003

General requirements for dealing with delinquencies

The Servicer should treat each delinquency individually, based on its knowledge of the borrower, the location and type of mortgaged premises, and the extent of the delinquency. Generally, the Servicer may assume that it is dealing with a knowledgeable real estate investor. If it becomes apparent that this is not so, the Servicer must emphasize to the borrower the seriousness of not promptly paying all mortgage installments when due.

The Servicer must contact the borrower on or before the 10th day after a payment is due and remains unpaid to ascertain the reason for the late payment and the borrower's intentions for curing the delinquency. Any promise for payment must be followed closely, and the borrower must be contacted immediately if payment is not received when promised. When contacting a delinquent borrower, the Servicer must try to obtain a current rent roll with the names of all tenants, the amount of rent for each unit, the date to which rent has been paid, and the details of all leases.

Before the 20th day after the payment due date, the Servicer must inspect the mortgaged premises unless it has received a promise of payment. An immediate inspection is required when a payment promise has been broken. The mortgaged premises must be inspected monthly after the loan becomes more than one month delinquent. Inspection reports must accompany the monthly servicing reports that the Servicer sends to Freddie

FED VA

b. **Interest on Advances.** Interest on advances made pursuant to VA Regulation 4313 may not be in excess of the rate reported by the lender when requesting evidence of guaranty or insurance.

c. **Late Charge.** A late charge, not to exceed 4 percent of any installment paid more than 15 days after due date, is permitted, if the loan instruments so provided. If a payment is due on the first day of the month, a late charge cannot be claimed unless the payment is first received after the 16th day of the month; i.e., the 17th or later. Late charges must not be deducted from regular installment payments and are collectible only on installments actually paid. **(Also see sec. F, par. 7.)**

7. **FEES AND CHARGES**

a. **Allowable Fees And Charges.** In making a guaranteed or insured loan, no charge may be made against, or paid by the borrower except those expressly permitted under schedules established in advance by VA. The approved schedule for a particular area is available at the VA regional office serving the specific area involved and lenders should obtain this particular schedule prior to the closing of any loans. In general, however, the veteran may pay reasonable and customary amounts for any of the following items:

(1) Fee of VA appraiser and compliance inspector if designated by VA, except appraisal fees incurred for the predetermination of reasonable value requested by other than veteran or lender.

(2) Recording fees or recording taxes or other charges incident to recordation.

(3) Credit report.

(4) That portion of taxes, assessments, and other similar items for the current year chargeable to the borrower and an initial deposit (lump-sum payment) for the tax and insurance escrow account.

(5) Hazard insurance as required by VA Regulation 4326.

(6) Survey, if required by lender or veteran; except that any charge for a survey in connection with a loan under VA Regulation 4358 (Condominium Loans) must have the prior approval of VA.

(7) Title examination and title insurance, if any.

(8) Such other items authorized in advance by VA as proper in a particular local situation.

(9) A lender may also charge and the veteran may pay a flat charge not exceeding 1 percent of the loan amount provided that this flat charge shall be in lieu of all other charges relating to costs of origination not expressly specified and allowed in this schedule.

(10) If the lender makes advances to a veteran during the progress of construction, alteration, improvement or repair (either under a commitment of the VA to issue a guaranty certificate or insurance credit upon completion, or if the lender would be entitled to guaranty or insurance on such advances when reported under automatic procedure) the lender may make a charge against the veteran of not exceeding 2 percent of the amount of the loan for its services in supervising the making of advances and the progress of construction notwithstanding that the holdback or final advance is not actually paid out until after the construction, alteration, improvement, or repair is fully completed; provided that the major portion (51 percent or more) of the loan proceeds is paid out during the actual progress of the construction, alterations, improvement or repair. Such charge may be in addition to the 1 percent charge described in subparagraph (9) above.

(11) In construction, alteration, improvement or repair loans, including supplemental loans made pursuant to VA Regulation 4355, when no charge is permissible under provisions of subparagraph (10) above, the lender may charge and the veteran may pay a flat sum not exceeding 1 percent of the loan amount. Such charge may be in addition to the 1 percent allowed under subparagraph (9) above.

(12) **Allowable Discounts**

(a) The veteran-borrower, subject to the limitations below, may pay a discount required by a lender when the loan proceeds will be used as follows:

(b) The letter of credit is assigned to a third-party escrow agent or trustee. Ordinarily, this will be the mortgagee who must be either a supervised lender or an FHA approved mortgagee. However, if there is an identity of interest between the builder and the mortgagee, it is necessary to obtain an independent third party as trustee. The trustee is obligated to complete all delayed work in a manner acceptable to VA if the builder fails to do so.

(c) A trust agreement setting forth the duties, obligation and responsibilities of the trustee is required. For this purpose, VA Form 26-1849 or VA Form 26-6378, as appropriate, may be used. The trust agreements and the letters of credit are reviewed by the VA District Counsel.

(d) A letter of credit, to be acceptable, must be irrevocable and must be a valid and binding obligation of the issuing bank. It must be for a term extending at least 6 months beyond the final date for completion of the improvements specified in the escrow agreement. It should be clearly understood that if the builder fails to perform and it is intended that the issuer of the letter of credit be called upon to pay, the holder of the letter must make demand prior to expiration of the term of the letter of credit. The issuer has no liability after that date. Approval by VA of any request for an extension will be conditioned upon receipt of written assurance that the supporting letter of credit is likewise extended for a term ending not less than 90 days after the new date for performance by the builder. However, no extension will be granted except for the most cogent reasons.

(e) The builder will be required to furnish a copy of the letter of credit and trust agreement for the regional office files. A letter of credit file will be established for each subdivision covered thereby and a control will be maintained on the balance of credit available. A VA Form 26-1847 must be executed by the veteran to reflect that the property is included in the section or subdivision covered by the letter of credit and trust agreement which has been accepted by the VA.

(f) A letter of credit accepted by FHA conforming to the standards set forth here will also be acceptable for VA purposes, provided the escrow agent or trustee agrees to keep the VA apprised of all sums charged against the letter of credit for VA and FHA loans so that control may be maintained on the balance of credit available.

g. **Relation to FHA.** If funds for the completion of postponed improvements exterior to the dwelling units are withheld in an escrow account established under FHA procedure, the amount may be considered for VA purposes as available for completion of the improvements provided. When an agreement assuring completion of offsite improvements has been entered into between the FHA and a local governmental authority, such an agreement will be acceptable provided the VA has approved it.

13. **COLLECTION FOR TAXES, INSURANCE AND ASSESSMENTS.** The loan instrument may provide that a proportion of the annual taxes, ground rents, special assessments, and fire and other hazard insurance premiums shall be paid with each regular amortization payment and that failure to make such payments will constitute a default.

14. **HAZARD INSURANCE**

a. **General.** Hazard insurance must be procured and maintained in an amount sufficient to protect the property which is the security for a loan against the risks or hazards to which it may be subjected to the extent customary in the locality. Ordinarily, this requirement would be met by maintaining insurance for fire protection and such extended coverage as is customary in the area where the property is located, in an amount at least equal to the outstanding loan balance or the insurable value of the improvements, whichever is less. Insurance value generally is defined as the reproduction cost of the improvements less physical depreciation.

b. **Flood Insurance.** Effective July 1, 1975, or within 1 year after formal identification, whichever is later, no loan may be guaranteed or insured when the security is located in an identified flood-prone area, unless the community has qualified for the National Flood Insurance Program by adopting effective land use and land management controls, and the individual security for the loan is covered by flood insurance. Flood insurance will be required in an amount equal to the outstanding loan balance or the maximum limit of coverage available through the National Flood Insurance Program, whichever is less.

c. If insurance becomes unavailable, the fact should be reported to the VA for determination as to a waiver or declaration of the loan to be in default.

d. All moneys received under such policies covering payment for insured losses must be applied to the restoration of the security or to the loan balance.

e. **Insurance Less Than Mortgage.** If a mortgagee wishes to obtain hazard insurance for an amount less than the mortgage balance, the lender may request information about the land value from the appropriate VA office. Such lender must request this on its own form which will be endorsed by VA to show the land value and then will be returned to the lender. In prior approval cases, the request should be made with the loan application package. In automatic cases, the request can be made at any time after the issuance of the CRV.

15. **SECURITY FOR LOANS**

a. Any loan for the purchase of real property or a leasehold estate as limited in the regulations must be secured by a first lien on the property.

b. Any loan for the alteration, repair or improvement of real property and for more than $1,000 and more than 40 percent of the reasonable value of the property or estate before alteration, repair or improvement, must be secured by a first lien, except a lien of lesser dignity will suffice if it is immediately junior to the lien securing the original guaranteed or insured loan.

c. Any loan for the alteration, repair or improvement of real property and for more than $1,000, but 40 percent or less of the prior reasonable value of the property, shall be secured by a first or second lien.

d. Any loan for $1,000 or less for the alteration, repair or improvement of real property need not be secured and, in lieu of a title examination, the lender may obtain a statement from the borrower that he or she has an interest in the property not less than prescribed in VA Regulation 4350(A).

16. **INTEREST IN REAL ESTATE.** Any loan for the purchase of any interest in residential realty, or for the cost of any construction, alteration, repair or improvement of realty owned by the veteran will be eligible for guaranty or insurance only if the veteran has or will become vested with an estate in the property no less than a fee simple estate, legal or equitable; a leasehold estate running or renewable at the option of the lessee for a period of not less than 14 years from the maturity of the loan, or to any earlier date at which the fee simple title will vest in the lessee, which is assignable or transferable, if the same be subjected to the lien; or a life estate, provided that the remainder and reversionary interests are subjected to the lien. In rare instances a leasehold which is not freely assignable may, on a prior approval basis, be accepted by the VA.

17. **JOINT OBLIGORS**

a. **Prior Approval.** The prior approval of the VA is necessary in respect to the guaranty or insurance of any loan made to an eligible veteran, whether made solely to the veteran, or to the veteran and another and the veteran is to acquire only an undivided interest in the property; i.e., when title to the property is to be vested in the names of the veteran and a person other than his or her spouse.

b. **Effect of Spouse.** The prior approval of the VA is not required in respect to the guaranty or insurance of a loan when there is a joinder of a veteran and spouse in the ownership of residential property. In such cases, the full amount of the loan may be the basis for guaranty or insurance. If both spouses are eligible veterans, either or both may utilize available entitlement within the limitations on the maximum proportion of a loan which may be guaranteed or insured and on the maximum entitlement available to each.

c. **Computation of Entitlement.** In respect to a joint loan to two or more persons (other than when a veteran and spouse are to join in the ownership of residential property), one or more of whom, but not necessarily all, are eligible veterans, the guaranty or insurance will be computed on and will relate to only that portion of the loan allocable to the veteran which represents the proper contribution of that veteran to the transaction. The amount of the loan shown on the evidence of guaranty will be only the veteran's portion of the loan.

lender determines that such declaration will impair or limit any rights of the lender under any mortgage insurance policy.

8. Additional Security Rider (Pledged Account Mortgage).

This rider must be a part of the deed of trust for any Pledged Account Mortgage (PAM) loan. The rider specifies the savings/share account pledged as additional security for the loan.

(b) Appraisal Reports. AHFC accepts appraisal reports completed on the current FNMA/FHLMC Residential Appraisal Report, AHFC Appraisal Reports, VA Certificates of Reasonable Value, or FHA Conditional Commitments, as applicable.

Please refer to various sections of this guide for detailed descriptions of required appraisal reports.

.02 Amortization and Deposit Requirements.

AHFC requires full amortization of the mortgage amount over the term of the loan by level installment of principal and interest payable the first day of each month. Loans structured with the Alaskan Building Equity (ABE) will have periodic increases in monthly payments with the entire increase applied to principal reduction.

AHFC will usually require that deposits for taxes, ground rents, special assessments, fire and other hazard insurance premiums, and mortgage insurance premiums, if applicable, be paid with the regular monthly payments.

Part 1. Custodial Accounting.

6001.1 General.

The Servicer must establish appropriate custodial accounts for the deposit of funds collected in connection with AHFC mortgages. All accounts and related records will be maintained in accordance with sound and generally accepted accounting practices and in such a manner as will permit representatives of AHFC, at any time, to examine and audit such accounts and records.

The Servicer must establish and maintain separate custodial accounts for each mortgage payment reporting system. The two systems currently in effect are:

1) Aggregate Exception System (AES)

2) Actual Loan Collection System (ALCS)

The Servicer may elect to combine the custodial accounts provided the Servicer maintains detailed records sufficient to identify each payment reporting system's contribution to the combined account. Mortgage reserve payments should be maintained in an account separate from principal and interest.

6001.2 Custodial Account Requirements.

The following conditions apply to the establishment and maintenance of custodial accounts:

1) The accounts must be established with a depository institution (commercial bank, mutual savings bank, savings and loan association or credit union), the

deposits of which are insured by FDIC, FSLIC, or NCUA. A Servicer whose accounts are insured by FSLIC or FDIC may establish and maintain custodial accounts within its own internal operating account.

2) The accounts are to be denominated in the name of the Servicer acting as agent for borrower payments in order to show that the accounts are custodial in nature. The Lender must maintain records identifying each borrower, the amount of each borrower's payment and the account into which each payment is deposited.

3) AHFC must be notified each time there is a change in account number or depository. The notification should include account title, account number, depository name and address, and effective date of change.

4) The Servicer must establish a reasonable daily cutoff of its work to ensure that collections are credited to the appropriate custodial account no later than the business day following their receipt; and,

5) Upon sale of a mortgage to AHFC by the Servicer, the Servicer must transfer any funds on hand related to mortgages to the appropriate custodial accounts.

6001.3 Clearing Accounts

Where the systems and procedures of the Servicer necessitate the use of clearing accounts, all such clearing accounts will be governed by the following conditions:

1) The titles of such accounts must reflect that they are custodial in nature and the depository in which the accounts are maintained must be informed, in writing, that they are custodial accounts;

2) A check drawn on a custodial account and its deposit to a disbursement clearing account must be concurrent with or prior to the issuance of any checks on the clearing account;

3) A single clearing account must not be utilized as both a collection and disbursement clearing account;

4) The accounts must be established with depository institutions, the accounts of which are insured by FDIC, FSLIC, or NCUA; and

5) The Servicer must maintain adequate records and audit trails to support all credits to, and charges from, the mortgagors' payment records and accounts.

S.O.A. - CSRA
HOUSING ASST DIV

Use Of Loan

Home mortgage loans approved under the Housing Loan Program can be used to purchase, construct, improve or renovate a year-round residence designed for use as a single family or duplex residence. The structure must serve as the borrower's principal residence. **Vacation homes, fishing cabins, similar seasonal properties, condominiums, and mobile homes are not eligible.**

Borrowers who receive a home mortgage loan under this program will not be eligible to receive another loan under the program unless the original loan has been paid off or assumed by another purchaser with the Division's approval.

Borrowers with an owner-occupied home mortgage under Alaska Housing Finance Corporation will not be eligible to receive another loan under this program unless the AHFC loan is paid off.

Assumption

updated 8-3-84

(AT END OF MANUAL - AFTER PAGE 64)

Loans made under the Housing Loan Program may not be assumed unless the subsequent purchaser of the property meets borrower eligibility requirements and **the assumption is approved by the Division.**

If the subsequent purchaser is not eligible to receive a veteran's interest rate reduction, the regular interest rate in effect at the time the original loan was made will be charged.

The Division must determine that the assumptor(s) is not currently obligated for a Division or AHFC loan.

Fees/Costs

Direct Loans - Construction/Purchase

- Loan Origination Fee - One (1) percent of the principal loan amount approved by the Division **may** be charged to the borrowers.
- Extension Fee - on request, a construction commitment contract may be extended for 30 days. A fee of one-eighth (1/8) of one (1) percent **may** be charged to the borrower for this service.

- Tax Service Registration Fee - $30.00 on the first $100,000, plus $2.50 for each additional $50,000.00.
- Recording Fees.
- Deed Preparation (Attorney's Fees).
- Homeowners Dues (Subdivision, etc.).
- Survey.
- Appraisal.
- Reserve For Hazard Insurance - Flood Insurance.
- Reserve for Taxes.
- Tax Pro-Ration.
- Title Insurance (ALTA policy or standard policy).
- Credit Report.

Insurance

The housing for which the loans are made under this program must be insured against loss equal to or exceeding the unpaid principal balance of the loan less the value of the land, but not less than the replacement cost of the residential structure. **The Division shall be named loss payee on the insurance policy.** Insurance coverage must include:

- Extended coverage.
- Loss by fire.
- Loss by flood, if the structure is located in a federally designated, 100-year flood plain.

For homes which are located in areas where fire and/or hazard insurance are not normally available, the borrower may be assisted by the Division's Field Office Staff in securing other sources of insurance. Also, the Director of the Division has the authority to waive, in full or in part, any insurance requirements if the borrower can show the cost is unreasonably high.

Health/Safety

The Division may not originate or purchase a loan for any property that poses a health or safety threat to occupants unless the threat will be eliminated as a result of the application of loan proceeds. Such a threat is considered to exist if:

- Exterior walls, roof, floor, foundation, or other weight bearing members are structurally unsound.
- Any on-site water supply system is contaminated or in danger of becoming contaminated by sewage, refuse, excessive micro-organisms, or other pollutants.
- Any on-site sewage system does not provide adequate sanitary disposal of waste and/or poses an on-site or off-site contamination threat to water supplies.

11.
Closing - Direct Loans

The closing for any Direct Loan will be conducted by the Housing Assistance Division closing staff utilizing the Division-approved closing documents for the program.

The borrower must be present to execute the closing documents. In cases where the borrower cannot be present because of inclement weather, distance, or other factors, an alternative arrangement will be made for closing.

A Division representative who is authorized to execute Note purchase documents on behalf of the Division also must be present.

Closing Documents

At the loan closing, the following documents will be executed by the borrower:

- Mortgage note in favor of the lender (Form **DCRA-HA-17**).
- Deed of trust in favor of the lender (Form **DCRA-HA-18**).
- Warranty deed (Form **DCRA-HA-20**).
- Waiver and release of liability of the Division (Form **DCRA-HA-20A**).
- Monthly payment estimate (Form **DCRA-HA-21**).
- Loan Settlement Form (Form **DCRA-HA-22**).

Additional Documents

Other exhibits to the closing will include, when required:

- Fire insurance policy with the lender as mortgagee (Loss Payee).
- Hazard insurance policy.
- Flood insurance policy.
- Construction insurance (covering builder's risk) policy or binder.

Key Documents

At the closing, an authorized representative of the Division will execute the closing documents:

- Note.
- Deed of Trust.

Closing Costs

At the time of closing, the borrower will pay closing costs, including the following:

- Fire, hazard and flood insurance premiums, if required.
- First installment on tax reserve.
- First installment on insurance reserve.
- Down payment.
- Other applicable charges for appraisal, filing, recording, or the survey.
- Real estate commission, if applicable.
- Title insurance fee.
- Other charges related to the loan, as outlined on the Loan Settlement Form (Form **DCRA-HA-22**).

Disbursements

The disbursements may include items such as:

- Origination fee.
- Interest adjustment.
- Alaska realty tax.
- Recording fees.
- Hazard/flood insurance reserves.
- Tax pro-ration.
- Survey.
- Appraisal.
- Title insurance.
- Deed preparation.
- Credit report.

A state certified warrant (check) for the loan principal along with the cashier's check from the borrower for the total closing costs will be deposited into a bank controlled checking account. Funds from this account will be disbursed according to the instructions in the closing documents.

Actions After Closing

When the Direct Loan is closed, the Division will:

- Secure title clearance.
- Record the closing documents with the title company.

The closing documents will be recorded simultaneously.

Construction Loans

An interim loan can be executed while construction is

taking place on residential units financed as new construction. At the completion of the construction phase, the permanent mortgage loan for new construction will be closed.

The interest rate for the interim loan during the construction phase will be the same as that established for the permanent loan.

12.
Closing - Indirect Loans

Closing

The closing for any Indirect Loan will be conducted by the participating private financial institution.

The borrower must be present to execute the closing documents. In cases where the borrower cannot be present because of inclement weather, distance, or other factors, an alternative arrangement will be made for closing.

Action After Closing

When the Indirect Loan is closed, the participating lender will:

- Secure title clearance.
- Record the closing documents with the title company and assign them to the Division.
- Prepare the loan package for submission to the Division for loan purchase.

13.
Loan Purchase Procedures - Indirect Loans

The Loan Purchase Agreement is an agreement between the Division and the lender in which the Division agrees to purchase Notes originated by the lender. Every Note purchased by the Division will be closed with a commitment contract executed by the Division in accordance with this program handbook, and fully executed Note Purchase Folder.

Non-Recourse Purchase. The Division will purchase Notes evidencing loans approved under the Housing Assistance Loan Program on a non-recourse basis, subject to the conditions of the Note Purchase Agreement.

Commitment Date. The commitment date to purchase the loan is the date which the completed loan file must be delivered to the Division's Anchorage office.

Purchase Date. The purchase date shall be that date upon which the participating private financial institution receives the funds after the Division approves the Note Purchase Folder. The Division will purchase only closed loans with fully completed documentation.

Purchase Price. The price paid by the Division for the mortgage loan Note will be equal to the face amount of the Note.

Loan Purchase Checklist

The Loan Purchase Checklist (Form **DCRA-HA-23A**) is used to assist lenders and the Division staff in making sure all necessary documents are executed for a loan purchase. Included on the checklist are the following documents:

- Promissory Note, which must bear the endorsement "Pay to the order of State of Alaska, Department of Community and Regional Affairs, Housing Assistance Division, Without Recourse." The Note must be an original.

- Waiver and Release of Liability of the Department, properly executed.

- Deed of Trust, along with the additional standard form rider when the security instrument covers property located in a planned unit development project.

- Assignment of Deed of Trust to "State of Alaska, Department of Community Affairs, Housing Assistance Division" -- duly recorded.

- Title Insurance Policy copy, including 100 and 116 endorsements to an ALTA policy.

- Survey, certified by a licensed surveyor or engineer if not included in the title policy.

- Inspection certificates by the seller, or other evidence of compliance with any condition on the appraisal report or the Division's commitment contract.

- Certification by the appraiser, in cases of recently completed property, that the improvements to the property have been completed in substantial compliance with the plans and specifications reviewed by the appraiser for the preparation of the appraisal report. Deviation from the plans and specifications must be explained in detail and the effect of such noncompliance on the original estimate of value must be reported. If the original appraiser is unavailable, the certification must be made by another appraiser acceptable to the Division. Minor items not affecting livability, whether on or off site, may be incomplete on delivery provided that the seller assumes the responsibility for establishing an escrow to guarantee timely completion.

- Photographs of completed property, if the property has been approved as proposed construction. Include

front and rear views, and a street scene with the property indicated with an arrow.

- Settlement sheets (copies).
- Hazard insurance policy or binder (copies).
- Flood insurance policy or binder (copies), if applicable.
- Security agreement (nonowner-occupied).
- Uniform Commercial Code financing statements (nonowner occupied).
- Certification that funds were used only for building materials and/or contract labor for new construction, renovation, and building materials loans (Form **DCRA-HA-35C**).

Loan Purchase

Participating lenders must submit a completed Note Purchase Folder (Form **DCRA-HA-23**) to the Housing Assistance Division for review and approval before an Indirect Loan is accepted. The following steps can occur:

Loan Purchase Rejection. If the Division finds the loan unacceptable, it will so advise the participating lender in writing of the reasons for the rejection.

Loan Purchase Approval. If the Division accepts the loan, it will:

- Issue a loan purchase approval letter indicating that funds for the purchase have been ordered and when they can be expected.
- Complete and execute a **Loan Purchase Voucher** (Form **DCRA-HA-16**) and forward it to the Administrative Services Division of the Department of Community and Regional Affairs for transmittal to the Department of Revenue, Housing Assistance Loan Account.

FORM DCRA-HA-1 (SAMPLE ONLY)

ESTIMATED CLOSING COSTS

Purchase Price _____ Buyer _____

Loan Amount _____ Seller _____

Rate _____ Term _____ Date _____

Loan To Value Ratio _____

Down Payment		_____
Hazard Ins. Premium		_____
Flood Ins. Premium		_____
Tax Reserve	_____	
Hazard Ins. Reserve	_____	
M.I.P. Reserve	_____	
Flood Ins. Reserve	_____	
Total Reserve		_____
Credit Report		_____
Warranty Deed	_____	
Private Mortgage Insurance	_____	_____
Bank Fee	_____	_____
Commitment Fee	_____	_____
Appraisal Fee	_____	_____
Filing & Recording Fees	_____	_____
Tax Registration	_____	_____
Mortgagees Title Insurance	_____	_____
Owners Title Insurance	_____	_____
Assessments	_____	_____
Discount	_____	_____
Real Estate Commission	_____	_____
Survey	_____	_____
Daily Interest		_____
Other	_____	_____
APPROXIMATE TOTALS	_____	_____

Payments to begin	_____	_____
Principal and Interest		_____
1/12 annual Mortgage Insurance		_____
1/12 annual Fire Insurance		_____
1/12 annual Taxes		_____
1/12 annual Flood Insurance		_____

TOTAL MONTHLY PAYMENT: $ _____

RESPA BOOKLET RECEIVED AND ESTIMATE OF CLOSING COSTS ACKNOWLEDGED:

_____ _____ DATE _____

Borrower

FORM DCRA-HA-22 (SAMPLE ONLY)

CLOSING STATEMENT FOR MORTGAGOR

Loan Number_____ Date of Closing_____

Mortgagor(s)_____

Mailing Address_____

Address of Security Property_____

CREDITS

Loan Amount..... $_____

..... _____

On Deposit..... _____

TOTAL NET CREDITS $_____

DEBITS

Closing costs:

Title Insurance Premium..... $_____

Tax Registration Fee..... _____

Recording Fees..... _____

As-Built Survey..... _____

Credit Report..... _____

Appraisal Fee..... _____

Bank Service Charge..... _____

Legal Expenses..... _____ $_____

Other disbursements:

Interest_____to_____ _____

Balance of Purchase Price due... _____

Insurance Premium Due..... _____

Mortgage Reserves..... _____

_____ _____

_____ _____

_____ _____

TOTAL PREPAID ITEMS $_____

TOTAL DISBURSEMENTS $_____

Net amount to mortgagor(+) or net amount due DCRA (-) $_____

TOTAL DEBITS $_____

First payment due_____ APPROVED_____
For DCRA

Principal & Interest$_____ _____
Reserves _____ Mortgagor
TOTAL _____

Taxes___Ins._____ _____
Mortgagor

IX. PURCHASE PROCEDURES

Requests for funds must be accompanied by the documents listed on the appropriate checklist based on loan type (Exhibits F, G, H and I) in the order shown.

A. Standard documents for all loan types:

1. Original Note and one copy.

2. Verification that Assignment of Deed of Trust to Seafirst has been recorded or sent for recording (must be obtained prior to release of funds). Certified copy of documents going for recording (with copies of signatures) should be in file.

3. All taxes due, prior to or within 15 days after assignment of the loan to Seafirst, shall be paid by the broker/closer in closing, thereby holding Seafirst harmless against any and all liability, cost, damage or expense that may be suffered or incurred by reason of any failure to pay such taxes.

4. Any impound advances and/or prepaid interest buydown fees shall be net funded at the time the loan is purchased. Impounds must be collected in an amount sufficient to pay the taxes and insurance when they are next due.

5. Tax Service must be ordered and paid for by closing agent. Use Transamerica Tax Service in California, Colorado and Utah; Realty Tax (Ticor) in all other states. On Seconds, and nonreserve loans, request type "B" Service (delinquency), on all others request type "C" (tax reserve).

   See Exhibit F (pg. 1) attached for Tax Schedule by state and Exhibit F (pg. 2 & 3) for examples of the contracts with Ticor and Transamerica.

6. HUD-1 or estimated costs (original within three days).

7. Truth-in-Lending Disclosure with signatures and an Itemization of the Prepaid Finance Charge. Notice of Right to Cancel and Acknowledgement of Non-Rescission, if appropriate.

8. Binder or original hazard policy with first year premium paid and Lender's Loss Payable Endorsement. Hazard policy must have coverage equal to loan amount or have 100% replacement cost coverage for the structure. The mortgagor's last name must be correct, and if possible, the whole names should read the same as the Deed of Trust. Property address must read the same as Deed of Trust. Loss Payee may read Seafirst Mortgage Corporation and/or assigns, or originating lender with copy of change to agent.

9. Flood insurance determination and policy, if flood insurance is required. (Policy may follow in 15 days if copy of application for insurance is in file).

10. Preliminary Title Report: Check the property address if shown on the sketch and legal against the Deed of Trust for accuracy.

11. Purchase Agreement/Deposit Receipt: If the loan is not insured, check to see that any special agreements between buyer and seller regarding payment of closing costs agree with final closing statement.

12. Appraisal: Applicable appraisal must be in file, with evidence that any conditions set by the appraiser have been met. Conventional appraisal (or completion certification) must be no more than 90 days old at time of closing.

13. Letter to Borrower advising them of sale of the loan. Not required on concurrent fundings.

14. All forms required for compliance with state and federal regulations, i.e., good faith, fair lending, truth-in-lending, Initial ARM Disclosure, etc.

15. Original, signed, handwritten application.

B. Government Loans:

1. The credit package must be included in the file consisting of the same documents listed in Section C, 2 (A-E) except the Underwriters Loan Analysis Form.

2. A copy of the LGC/MIC request must be in file.

3. Certificate of Loan Disbursement (VA-1876) or (VA 1820) Report of Home Loan Processed on Automatic Basis.

4. Firm Commitment - Check percent of entitlement on VA loans to be sure it is sufficient for FNMA/GNMA requirements. File must contain documentation to satisfy any conditions indicated on the commitment.

5. Photos are not required.

6. FHA 92080 - only on warehouse purchases.

C. Conventional Loans:

1. PMI Certificate if required.

2. Credit Package Accompanied by Completed Underwriter's Loan Analysis Form.

A. Application: The employment and deposit information is checked against the verifications of employment and deposit to make sure they are all in the file. Mortgage Ratings should be in the file for any other real estate indicated on the application. Application must be signed by Lender's representative above typed name on line provided. On balloon loans, the Comptroller's Notice must be attached (Balloon Info. Form GS6954).

B. Credit Report: Employment information and debts are checked against the application. All slow accounts, judgements and bankruptcies must have a written explanation in the file. If mortgage ratings on other property indicate late payments, obtain an explanation for this also. The Credit Report may be no more than 90 days old at time of closing.

C. Employment Verification: Verifications are checked against application to ensure they are all in the file. At least two years of employment must be verified and lapses of employment must have a letter of explanation. Tax returns must be signed by Borrower. Employment Verification must be no more than 90 days old at time of closing.

D. Deposit Verification: Verifications are checked against application to ensure that we have one for each account listed. Must be signed by depository, and no more than 90 days old at closing.

E. The file is checked to make sure that any miscellaneous items such as divorce finals, rental agreements, etc., are in the file when applicable.

F. If the loan is an ARM, the file should contain evidence that the Initial ARM disclosure appropriate for the particular ARM loan was provided to the borrower with the application or earlier. Acknowledgement from the borrower of the form will suffice, or a copy of the form used with an indication of date provided must be in the file.

DEED OF TRUST

AHFC
H.O.

THIS DEED OF TRUST is made this 19 ,

among the Trustor (herein "Borrower"),

(herein "Trustee"), and the Beneficiary

a corporation organized and existing under the laws of , whose address is (herein "Lender").

BORROWER, in consideration of the indebtedness herein recited and the trust herein created, irrevocably grants and conveys to Trustee, in trust, with power of sale, the following described property located in the

Recording District Judicial District,

State of Alaska.

which has the address of

[Street] [Borrower's Post Office Address, if Different] (herein "Property

[City] [State and Zip Code]
Address");

TOGETHER with all the improvements now or hereafter erected on the property, and all easements, rights, appurtenances, rents (subject however to the rights and authorities given herein to Lender to collect and apply such rents), royalties, mineral, oil and gas rights and profits, water, water rights, and water stock, and all fixtures now or hereafter attached to the property, all of which, including replacements and additions thereto, shall be deemed to be and remain a part of the property covered by this Deed of Trust; and all of the foregoing, together with said property (or the leasehold estate if this Deed of Trust is on a leasehold) are herein referred to as the "Property";

TO SECURE to Lender (a) the repayment of the indebtedness evidenced by Borrower's note dated (herein "Note"), in the principal sum of Dollars, with interest thereon, providing for monthly installments of principal and interest, with the balance of the indebtedness, if not sooner paid, due and payable on ; the payment of all other sums, with interest thereon, advanced in accordance herewith to protect the security of this Deed of Trust; and the performance of the covenants and agreements of Borrower herein contained; (b) the repayment of any future advances, with interest thereon, made to Borrower by Lender pursuant to paragraph 21 hereof (herein "Future Advances"); and (c) any amounts declared

owing under an Assistance Agreement dated 19 , and any successor agreements thereto.

Borrower covenants that Borrower is lawfully seised of the estate hereby conveyed and has the right to grant and convey the Property, that the Property is unencumbered, and that Borrower will warrant and defend generally the title to the Property against all claims and demands, subject to any declarations, easements or restrictions listed in a schedule of exceptions to coverage in any title insurance policy insuring Lender's interest in the Property.

UNIFORM COVENANTS. Borrower and Lender covenant and agree as follows:

1. **Payment of Principal and Interest.** Borrower shall promptly pay when due the principal of and interest on the indebtedness evidenced by the Note, prepayment and late charges as provided in the Note, and the principal of and interest on any Future Advances secured by this Deed of Trust.

2. **Funds for Taxes and Insurance.** Subject to applicable law or to a written waiver by Lender, Borrower shall pay to Lender on the day monthly installments of principal and interest are payable under the Note, until the Note is paid in full, a sum (herein "Funds") equal to one-twelfth of the yearly taxes and assessments which may attain priority over this Deed of Trust, and ground rents on the Property, if any, plus one-twelfth of yearly premium installments for hazard insurance, plus one-twelfth of yearly premium installments for mortgage insurance, if any, all as reasonably estimated initially and from time to time by Lender on the basis of assessments and bills and reasonable estimates thereof.

The Funds shall be held in an institution the deposits or accounts of which are insured or guaranteed by a Federal or state agency (including Lender if Lender is such an institution). Lender shall apply the Funds to pay said taxes, assessments, insurance premiums and ground rents. Lender may not charge for so holding and applying the Funds, analyzing said account or verifying and compiling said assessments and bills, unless Lender pays Borrower interest on the Funds, and applicable law permits Lender to make such a charge. Borrower and Lender may agree in writing at the time of execution of this Deed of Trust that interest on the Funds shall be paid to Borrower, and unless such agreement is made or applicable law requires such interest to be paid, Lender shall not be required to pay Borrower any interest or earnings on the Funds. Lender shall give to Borrower, without charge, an annual accounting of the Funds showing credits and debits to the Funds and the purpose for which each debit to the Funds was made. The Funds are pledged as additional security for the sums secured by this Deed of Trust.

If the amount of the Funds held by Lender, together with the future monthly installments of Funds payable prior to the due dates of taxes, assessments, insurance premiums and ground rents, shall exceed the amount required to pay said taxes, assessments, insurance premiums and ground rents as they fall due, such excess shall be, at the Borrower's option, either promptly repaid to Borrower or credited to Borrower on monthly installments of Funds. If the amount of the Funds held by Lender shall not be sufficient to pay taxes, assessments, insurance premiums and ground rents as they fall due, Borrower shall pay to Lender any amount necessary to make up the deficiency within 30 days from the date notice is mailed by Lender to Borrower requesting payment thereof.

Upon payment in full of all sums secured by this Deed of Trust, Lender shall promptly refund to Borrower any Funds held by Lender. If under paragraph 18 hereof the Property is sold or the Property is otherwise acquired by Lender, Lender shall apply, no later than immediately prior to the sale of the Property or its acquisition by Lender, any Funds held by Lender at the time of application as a credit against the sums secured by this Deed of Trust.

3. **Application of Payments.** Unless applicable law provides otherwise, all payments received by Lender under the Note and paragraphs 1 and 2 hereof shall by applied by Lender first in payment of amounts payable to Lender by Borrower under paragraph 2 hereof, then to interest payable on the Note, then to the principal of the Note, and then to interest and principal on any Future Advances.

4. **Charges; Liens.** Borrower shall pay all taxes, assessments and other charges, fines and impositions attributable to the Property which may attain a priority over this Deed of Trust, and leasehold payments or ground rents, if any, in the manner provided under paragraph 2 hereof or, if not paid in such manner, by Borrower making payment, when due, directly to the payee thereof. Borrower shall promptly furnish to Lender all notices of amounts due under this paragraph, and in the event Borrower shall make payment directly, Borrower shall promptly furnish to Lender receipts evidencing such payments. Borrower shall promptly discharge any lien which has priority over this Deed of Trust; provided, that Borrower shall not be required to discharge any such lien so long as Borrower shall agree in writing to the payment of the obligation secured by such lien in a manner acceptable to Lender, or shall in good faith contest such lien by, or defend enforcement of such lien in legal proceedings which operate to prevent the enforcement of the lien or forfeiture of the Property or any part thereof.

5. **Hazard Insurance.** Borrower shall keep the improvements now existing or hereafter erected on the Property insured against loss by fire, hazards included within the term "extended coverage", and such other hazards as Lender may require and in such amounts and for such periods as Lender may require; provided, that Lender shall not require that the amount of such coverage exceed that amount of coverage required to pay the sums secured by this Deed of Trust.

The insurance carrier providing the insurance shall be chosen by Borrower subject to approval by Lender; provided, that such approval shall not be unreasonably withheld. All premiums on insurance policies shall be paid in the manner provided under paragraph 2 hereof or, if not paid in such manner, by Borrower making payment, when due, directly to the insurance carrier.

All insurance policies and renewals thereof shall be in form acceptable to Lender and shall include a standard mortgage clause in favor of and in form acceptable to Lender. Lender shall have the right to hold the policies and renewals thereof, and Borrower shall promptly furnish to Lender all renewal notices and all receipts of paid premiums. In the event of loss, Borrower shall give prompt notice to the insurance carrier and Lender. Lender may make proof of loss if not made promptly by Borrower.

Unless Lender and Borrower otherwise agree in writing, insurance proceeds shall be applied to restoration or repair of the Property damaged, provided such restoration or repair is economically feasible and the security of this Deed of Trust is not thereby impaired. If such restoration or repair is not economically feasible or if the security of this Deed of Trust would be impaired, the insurance proceeds shall be applied to the sums secured by this Deed of Trust, with the excess, if any, paid to Borrower. If the Property is abandoned by Borrower, or if Borrower fails to respond to Lender within 30 days from the date notice is mailed by Lender to Borrower that the insurance carrier offers to settle a claim for insurance benefits, Lender is authorized to collect and apply the insurance proceeds at Lender's option either to restoration or repair of the Property or to the sums secured by this Deed of Trust.

Unless Lender and Borrower otherwise agree in writing, any such application of proceeds to principal shall not extend or postpone the due date of the monthly installments referred to in paragraphs 1 and 2 hereof or change the amount of such installments. If under paragraph 18 hereof the Property is acquired by Lender, all right, title and interest of Borrower in and to any insurance policies and in and to the proceeds thereof resulting from damage to the Property prior to the sale or acquisition shall pass to Lender to the extent of the sums secured by this Deed of Trust immediately prior to such sale or acquisition.

6. **Preservation and Maintenance of Property; Leaseholds; Condominiums; Planned Unit Developments.** Borrower shall keep the Property in good repair and shall not commit waste or permit impairment or deterioration of the Property and shall comply with the provisions of any lease if this Deed of Trust is on a leasehold. If this Deed of Trust is on a unit in a condominium or a planned unit development, Borrower shall perform all of Borrower's obligations under the declaration or covenants creating or governing the condominium or planned unit development, the by-laws and regulations of the condominium or planned unit development, and constituent documents. If a condominium or planned unit development rider is executed by Borrower and recorded together with this Deed of Trust, the covenants and agreements of such rider shall be incorporated into and shall amend and supplement the covenants and agreements of this Deed of Trust as if the rider were a part hereof.

7. **Protection of Lender's Security.** If Borrower fails to perform the covenants and agreements contained in this Deed of Trust, or if any action or proceeding is commenced which materially affects Lender's interest in the Property, including, but not limited to, eminent domain, insolvency, code enforcement, or arrangements or proceedings involving a bankrupt or decedent, then Lender at Lender's option, upon notice to Borrower, may make such appearances, disburse such sums and take such action as is necessary to protect Lender's interest, including, but not limited to, disbursement of reasonable attorney's fees and entry upon the Property to make repairs. If Lender required mortgage insurance as a condition of making the loan secured by this Deed of Trust, Borrower shall pay the premiums required to maintain such insurance in effect until such time as the requirements for such insurance terminates in accordance with Borrower's and Lender's written agreement or applicable law. Borrower shall pay the amount of all mortgage insurance premiums in the manner provided under paragraph 2 hereof.

Any amounts disbursed by Lender pursuant to this paragraph 7, with interest thereon, shall become additional indebtedness of Borrower secured by this Deed of Trust. Unless Borrower and Lender agree to other terms of payment, such amounts shall be payable upon notice from Lender to Borrower requesting payment thereof, and shall bear interest from the date of disbursement at the rate payable from time to time on outstanding principal under the Note unless payment of interest at such rate would be contrary to applicable law, in which event such amounts shall bear interest at the highest rate permissible under applicable law. Nothing contained in this paragraph 7 shall require Lender to incur any expense or take any action hereunder.

8. **Inspection.** Lender may make or cause to be made reasonable entries upon and inspections

of the Property, provided that Lender shall give Borrower notice prior to any such inspection specifying reasonable cause therefore related to Lender's interest in the Property.

9. **Condemnation.** The proceeds of any award or claim for damages, direct or consequential, in connection with any condemnation or other taking of the Property, or part thereof, or for conveyance in lieu of condemnation, are hereby assigned and shall be paid to Lender.

In the event of a total taking of the Property, the proceeds shall be applied to the sums secured by this Deed of Trust, with the excess, if any, paid to Borrower. In the event of a partial taking of the Property, unless Borrower and Lender otherwise agree in writing, there shall be applied to the sums secured by this Deed of Trust such proportion of the proceeds as is equal to that proportion which the amount of the sums secured by this Deed of Trust immediately prior to the date of taking bears to the fair market value of the Property immediately prior to the date of taking, with the balance of the proceeds paid to Borrower.

If the Property is abandoned by Borrower, or if, after notice by Lender to Borrower that the condemnor offers to make an award or settle a claim for damages, Borrower fails to respond to Lender within 30 days after the date such notice is mailed, Lender is authorized to collect and apply the proceeds, at Lender's option, either to restoration or repair of the Property or to the sums secured by this Deed of Trust.

Unless Lender and Borrower otherwise agree in writing, any such application of proceeds to principal shall not extend or postpone the due date of the monthly installments referred to in paragraphs 1 and 2 hereof or change the amount of such installments.

10. **Borrower Not Released.** Extension of the time for payment or modification of amortization of the sums secured by this Deed of Trust granted by Lender to any successor in interest of Borrower shall not operate to release, in any manner, the liability of the original Borrower and Borrower's successors in interest. Lender shall not be required to commence proceedings against such successor or refuse to extend time for payment or otherwise modify amortization of the sums secured by this Deed of Trust by reason of any demand made by the original Borrower and Borrower's successors in interest.

11. **Forbearance by Lender Not a Waiver.** Any forbearance by Lender in exercising any right or remedy hereunder, or otherwise afforded by applicable law, shall not be a waiver of or preclude the exercise of any such right or remedy. The procurement of insurance or the payment of taxes or other liens or charges by Lender shall not be a waiver of Lender's right to accelerate the maturity of the indebtedness secured by this Deed of Trust.

12. **Remedies Cumulative.** All remedies provided in this Deed of Trust are distinct and cumulative to any other right or remedy under this Deed of Trust or afforded by law or equity, and may be exercised concurrently, independently or successively.

13. **Successors and Assigns Bound; Joint and Several Liability; Captions.** The covenants and agreements herein contained shall bind, and the rights hereunder shall inure to, the respective successors and assigns of Lender and Borrower, subject to the provisions of paragraph 17 hereof. All covenants and agreements of Borrower shall be joint and several. The captions and headings of the paragraphs of this Deed of Trust are for convenience only and are not be be used to interpret or define the provisions hereof.

14. **Notice.** Except for any notice required under applicable law to be given in another manner, (a) any notice to Borrower provided for in this Deed of Trust shall be given by mailing such notice by certified mail addressed to Borrower at the Property Address or at such other address as Borrower may designate by notice to Lender as provided herein, and (b) any notice to Lender shall be given by certified mail, return receipt requested, to Lender's address stated herein or to such other address as Lender may designate by notice to Borrower as provided herein. Any notice provided for in this Deed of Trust shall be deemed to have been given to Borrower or Lender when given in the manner designated herein.

15. **Uniform Deed of Trust; Governing Law; Severability.** This form of deed of trust combines uniform covenants for national use and non-uniform covenants with limited variations by jurisdiction to constitute a uniform security instrument covering real property. This Deed of Trust shall be governed by the law of the jurisdiction in which the Property is located. In the event that any provision or clause of this Deed of Trust or the Note conflicts with applicable law, such conflict shall not affect other provisions of this Deed of Trust or the Note which can be given effect without the conflicting provision, and to this end the provisions of the Deed of Trust and the Note are declared to be severable.

16. **Borrower's Copy.** Borrower shall be furnished a conformed copy of the Note and of this Deed of Trust at the time of execution or after recordation hereof.

17. **Transfer of the Property.** Lender may, at Lender's option, declare all the sums secured by this Deed of Trust to be immediately due and payable if either (1) the property ceases to be

the principal residence of the Borrower, or (2) if all or any part of the Property or an interest therein is sold or transferred by Borrower without Lender's prior written consent excluding (a) the creation of a lien or encumbrance subordinate to this Deed of Trust, (b) the creation of a purchase money security interest for household appliances, (c) a transfer by devise, descent or by operation of law upon the death of a joint tenant or (d) the grant of any leasehold interest of three years or less not containing an option to purchase.

If Lender exercises such option to accelerate, Lender shall mail Borrower notice of acceleration in accordance with paragraph 12 hereof. Such notice shall provide a period of not less than

30 days from the date the notice is mailed within which Borrower may pay the sums declared due. If Borrower fails to pay such sums prior to the expiration of such period, Lender may without further notice or demand on Borrower, invoke any remedies permitted by paragraph 18 hereof.

NON-UNIFORM COVENANTS. Borrower and Lender further covenant and agree as follows:

18. **Acceleration; Remedies.** Except as provided in paragraph 17 hereof, upon Borrower's breach of any covenant or agreement of Borrower in this Deed of Trust, including the covenants to pay when due any sums secured by this Deed of Trust, Lender prior to acceleration shall mail notice to Borrower as provided in paragraph 14 hereof specifying: (1) the breach; (2) the action required to cure such breach; (3) a date, not less than 30 days from the date the notice is mailed to Borrower, by which such breach must be cured; and (4) that failure to cure such breach on or before the date specified in the notice may result in acceleration of the sums secured by this Deed of Trust and sale of the Property. The notice shall further inform Borrower of the right to reinstate after acceleration and the right to bring a court action to assert the non-existence of a default or any other defense of Borrower to acceleration and sale. If the breach is not cured on or before the date specified in the notice, Lender at Lender's option may declare all of the sums secured by this Deed of Trust to be immediately due and payable without further demand, and those remedies permitted by applicable law may be invoked. Lender shall be entitled to collect all reasonable costs and expenses incurred in pursuing the remedies provided in this paragraph 18, including, but not limited to, reasonable attorney's fees.

If the power of sale is invoked, Trustee shall execute a written notice of the occurrence of an event of default and of the election to cause the Property to be sold and shall record such notice in each Recording District in which the Property or some part thereof is located. Lender or Trustee shall mail copies of such notice to the persons and in the manner prescribed by applicable law. Trustee shall give public notice of sale to the persons and in the manner prescribed by applicable law. After the lapse of such time as may be required by applicable law, Trustee, without demand on Borrower, shall sell the Property at public auction to the highest bidder at the time and place and under the terms designated in the notice of sale in one or more parcels and in such order as Trustee may determine. Trustee may postpone sale of all or any parcel of the Property by public announcement at the time and place of any previously scheduled sale. Lender or Lender's designee may purchase the Property at any sale.

Trustee shall deliver to the purchaser Trustee's deed conveying the Property so sold without any covenant or warranty, expressed or implied. The recitals in the Trustee's deed shall be prima facie evidence of the truth of the statements made therein. Trustee shall apply the proceeds of the sale in the following order: (a) to all reasonable costs and expenses of the sale, including but not limited to, reasonable Trustee's and attorney's fees and costs of title evidence; (b) to all sums secured by this Deed of Trust; and (c) the excess, if any, to the person or persons legally entitled thereto.

19. **Borrower's Right to Reinstate.** Notwithstanding Lender's acceleration of the sums secured by this Deed of Trust, Borrower shall have the right to have any proceedings begun by Lender to enforce this Deed of Trust discontinued at any time prior to the earlier to occur of (I) the sale of the Property pursuant to the power of sale contained in this Deed of Trust or (II) entry of a judgment enforcing this Deed of Trust if: (a) Borrower pays Lender all sums which would be then due under this Deed of Trust, the Note and notes securing Future Advances, if any, had no acceleration occurred; (b) Borrower cures all breaches of any other covenants or agreements of Borrower contained in this Deed of Trust; (c) Borrower pays all reasonable expenses incurred by Trustee in enforcing the covenants and agreements of Borrower contained in this Deed of Trust and in enforcing Trustee's remedies as provided in paragraph 18 hereof, including, but not limited to, reasonable attorney's fees; and (d) Borrower takes such action as Lender may reasonably require to assure that the lien of this Deed of Trust, Lender's interest in the Property and Borrower's obligation to pay the sums secured by this Deed of Trust shall continue unimpaired. Upon such payment and cure by Borrower, this Deed of Trust and the obligations secured hereby shall remain in full force and effect as if no acceleration had occurred.

20. **Assignment of Rents; Appointment of Receiver; Lender in Possession.** As additional security hereunder, Borrower hereby assigns to Lender the rents of the Property, provided that Borrower shall, prior to acceleration under paragraph 18 hereof or abandonment of the Property, have the right to collect and retain such rents as they become due and payable.

Upon acceleration under paragraph 18 hereof or abandonment of the Property, Lender, in person, by agent or by judicially appointed receiver, shall be entitled to enter upon, take possession of and manage the Property and to collect the rents of the Property including those past due. All rents collected by Lender or the receiver shall be applied first to payment of the costs of management of the Property and collection of rents, including, but not limited to, receiver's fees, premiums on receiver's bonds and reasonable attorney's fees, and then to the sums secured by this Deed of Trust. Lender and the receiver shall be liable to account only for those rents actually received.

21. **Future Advances.** Upon request of Borrower, Lender, at Lender's option prior to full reconveyance of the Property by Trustee to Borrower, may make Future Advances to Borrower. Such Future Advances, with interest thereon, shall be secured by this Deed of Trust when evidenced by promissory notes saying that said notes are secured hereby.

22. **Reconveyance.** Upon payment of all sums secured by this Deed of Trust, Lender shall request Trustee to reconvey the Property and shall surrender this Deed of Trust and all notes evidencing indebtedness secured by this Deed of Trust to Trustee. Trustee shall reconvey the Property without warranty and without charge to the person or persons legally entitled thereto. Such person or persons shall pay all costs of recordation, if any.

23. **Substitute Trustee.** Lender, at Lender's option, may from time to time remove Trustee and appoint a successor trustee to any Trustee appointed hereunder. Without conveyance of the Property, the successor trustee shall succeed to all the title, power and duties conferred upon the Trustee herein and by applicable law.

IN WITNESS WHEREOF, Borrower has executed this Deed of Trust.

_____ _____

Borrower -Borrower

_____ _____

Borrower -Borrower

STATE OF ALASKA,.....Judicial District ss:

On this day of , 19 , before me, the undersigned, a Notary Public in and for the State of Alaska, personally appeared

to me known and known to me to be the person(s) named as Trustor(s) in the foregoing deed, and acknowledged to me that ..he.. executed the same freely and voluntarily for the uses and purposes therein mentioned.

Witness my hand and official seal the day and year in this certificate first above written.

My Commission expires: _____

Notary Public for Alaska

REQUEST FOR RECONVEYANCE

TO TRUSTEE:

The undersigned is the holder of the note or notes secured by this Deed of Trust. Said note or notes, together with all other indebtedness secured by this Deed of Trust, have been paid in full. You are hereby directed to cancel said note or notes and this Deed of Trust, which are delivered hereby, and to reconvey, without warranty, all the estate now held by you under this Deed of Trust to the person or persons legally entitled thereto.

Date:..... .....

_____ (Space Below This Line Reserved for Lender and Recorder) _____

AHFC Homeownership Assistance Deed of Trust

[Space Above This Line For Recording Data]

AMB LOAN NO._____

DEED OF TRUST

THIS DEED OF TRUST ("Security Instrument") is made on ....., 19 ..... The Trustor is ..... ("Borrower"). The trustee is ..... ("Trustee"). The beneficiary is **ALASKA MUTUAL BANK**, which is organized and existing under the laws of **STATE OF ALASKA**, and whose address is **601 West Fifth Avenue, Anchorage, Alaska 99501** ("Lender"). Borrower owes Lender the principal sum of ..... Dollars (U.S. $ .....). This debt is evidenced by Borrower's note dated the same date as this Security Instrument ("Note"), which provides for monthly payments, with the full debt, if not paid earlier, due and payable on ..... This Security Instrument secures to Lender: (a) the repayment of the debt evidenced by the Note, with interest, and all renewals, extensions and modifications; (b) the payment of all other sums, with interest, advanced under paragraph 7 to protect the security of this Security Instrument; and (c) the performance of Borrower's covenants and agreements under this Security Instrument and the Note. For this purpose, Borrower irrevocably grants and conveys to Trustee, in trust, with power of sale, the following described property located in the ..... Recording District, ... Judicial District, Alaska:

which has the address of ....., ...
[Street] [Borrower's Post Office Address, if Different]

....., Alaska ..... ("Property Address");
[City] [Zip Code]

TOGETHER WITH all the improvements now or hereafter erected on the property, and all easements, rights, appurtenances, rents, royalties, mineral, oil and gas rights and profits, water rights and stock and all fixtures now or hereafter a part of the property. All replacements and additions shall also be covered by this Security Instrument. All of the foregoing is referred to in this Security Instrument as the "Property."

BORROWER COVENANTS that Borrower is lawfully seised of the estate hereby conveyed and has the right to grant and convey the Property and that the Property is unencumbered, except for encumbrances of record. Borrower warrants and will defend generally the title to the Property against all claims and demands, subject to any encumbrances of record.

THIS SECURITY INSTRUMENT combines uniform covenants for national use and non-uniform covenants with limited variations by jurisdiction to constitute a uniform security instrument covering real property.

[Space Above This Line For Recording Data]

AMB LOAN NO._____

DEED OF TRUST

THIS DEED OF TRUST ("Security Instrument") is made on ....., 19..... The Trustor is ..... ("Borrower"). The trustee is ..... ("Trustee"). The beneficiary is **ALASKA MUTUAL BANK,** which is organized and existing under the laws of **STATE OF ALASKA,** and whose address is **601 West Fifth Avenue, Anchorage, Alaska 99501** ("Lender"). Borrower owes Lender the principal sum of ..... Dollars (U.S. $.....). This debt is evidenced by Borrower's note dated the same date as this Security Instrument ("Note"), which provides for monthly payments, with the full debt, if not paid earlier, due and payable on ..... This Security Instrument secures to Lender: (a) the repayment of the debt evidenced by the Note, with interest, and all renewals, extensions and modifications; (b) the payment of all other sums, with interest, advanced under paragraph 7 to protect the security of this Security Instrument; and (c) the performance of Borrower's covenants and agreements under this Security Instrument and the Note. For this purpose, Borrower irrevocably grants and conveys to Trustee, in trust, with power of sale, the following described property located in the ..... Recording District, ... Judicial District, Alaska:

which has the address of ....., ...
[Street] [Borrower's Post Office Address, if Different]

....., Alaska ..... ("Property Address");
[City] [Zip Code]

TOGETHER WITH all the improvements now or hereafter erected on the property, and all easements, rights, appurtenances, rents, royalties, mineral, oil and gas rights and profits, water rights and stock and all fixtures now or hereafter a part of the property. All replacements and additions shall also be covered by this Security Instrument. All of the foregoing is referred to in this Security Instrument as the "Property."

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THIS SECURITY INSTRUMENT combines uniform covenants for national use and non-uniform covenants with limited variations by jurisdiction to constitute a uniform security instrument covering real property.

UNIFORM COVENANTS. Borrower and Lender covenant and agree as follows:

1. Payment of Principal and Interest; Prepayment and Late Charges. Borrower shall promptly pay when due the principal of and interest on the debt evidenced by the Note and any prepayment and late charges due under the Note.

2. Funds for Taxes and Insurance. Subject to applicable law or to a written waiver by Lender, Borrower shall pay to Lender on the day monthly payments are due under the Note, until the Note is paid in full, a sum ("Funds") equal to one-twelfth of: (a) yearly taxes and assessments which may attain priority over this Security Instrument; (b) yearly leasehold payments or ground rents on the Property, if any; (c) yearly hazard insurance premiums; and (d) yearly mortgage insurance premiums, if any. These items are called "escrow items." Lender may estimate the Funds due on the basis of current data and reasonable estimates of future escrow items.

The Funds shall be held in an institution the deposits or accounts of which are insured or guaranteed by a federal or state agency (including Lender if Lender is such an institution). Lender shall apply the Funds to pay the escrow items. Lender may not charge for holding and applying the Funds, analyzing the account or verifying the escrow items, unless Lender pays Borrower interest on the Funds and applicable law permits Lender to make such a charge. Borrower and Lender may agree in writing that interest shall be paid on the Funds. Unless an agreement is made or applicable law requires interest to be paid, Lender shall not be required to pay Borrower any interest or earnings on the Funds. Lender shall give to Borrower, without charge, an annual accounting of the Funds showing credits and debits to the Funds and the purpose for which each debit to the Funds was made. The Funds are pledged as additional security for the sums secured by this Security Instrument.

If the amount of the Funds held by Lender, together with the future monthly payments of Funds payable prior to the due dates of the escrow items, shall exceed the amount required to pay the escrow items when due, the excess shall be, at Borrower's option, either promptly repaid to Borrower or credited to Borrower on monthly payments of Funds. If the amount of the Funds held by Lender is not sufficient to pay the escrow items when due, Borrower shall pay to Lender any amount necessary to make up the deficiency in one or more payments as required by Lender.

Upon payment in full of all sums secured by this Security Instrument, Lender shall promptly refund to Borrower any Funds held by Lender. If under paragraph 19 the Property is sold or acquired by Lender, Lender shall apply, no later than immediately prior to the sale of the Property or its acquisition by Lender, any Funds held by Lender at the time of application as a credit against the sums secured by this Security Instrument.

3. Application of Payments. Unless applicable law provides otherwise, all payments received by Lender under paragraphs 1 and 2 shall be applied: first, to late charges due under the Note; second, to prepayment charges due under the Note; third, to amounts payable under paragraph 2; fourth, to interest due; and last, to principal due.

4. Charges; Liens. Borrower shall pay all taxes, assessments, charges, fines and impositions attributable to the Property which may attain priority over this Security Instrument, and leasehold payments or ground rents, if any. Borrower shall pay these obligations in the manner provided in paragraph 2, or if not paid in that manner, Borrower shall pay them on time directly to the person owed payment. Borrower shall promptly furnish to Lender all notices of amounts to be paid under this paragraph. If Borrower makes these payments directly, Borrower shall promptly furnish to Lender receipts evidencing the payments.

Borrower shall promptly discharge any lien which has priority over this Security Instrument unless Borrower: (a) agrees in writing to the payment of the obligation secured by the lien in a manner acceptable to Lender; (b) contests in good faith the lien by, or defends against enforcement of the lien in, legal proceedings which in the Lender's opinion operate to prevent the enforcement of the lien or forfeiture of any part of the Property; or (c) secures from the holder of the lien an agreement satisfactory to Lender subordinating the lien to this Security Instrument. If Lender determines that any part of the Property is subject to a lien which may attain priority over this Security Instrument, Lender may give Borrower a notice identifying the lien. Borrower shall satisfy the lien or take one or more of the actions set forth above within 10 days of the giving of notice.

5. Hazard Insurance. Borrower shall keep the improvements now existing or hereafter erected on the Property insured against loss by fire, hazards included within the term "extended coverage" and any other hazards for which Lender requires insurance. This insurance shall be maintained in the amounts and for the periods that Lender requires. The insurance carrier providing the insurance shall be chosen by Borrower subject to Lender's approval which shall not be unreasonably withheld.

All insurance policies and renewals shall be acceptable to Lender and shall include a standard mortgage clause. Lender shall have the right to hold the policies and renewals. If Lender requires, Borrower shall promptly give to Lender all receipts of paid premiums and renewal notices. In the event of loss, Borrower shall give prompt notice to the insurance carrier and Lender. Lender may make proof of loss if not made promptly by Borrower.

Unless Lender and Borrower otherwise agree in writing, insurance proceeds shall be applied to restoration or repair of the Property damaged, if the restoration or repair is economically feasible and Lender's security is not lessened. If the restoration or repair is not economically feasible or Lender's security would be lessened, the insurance proceeds shall be applied to the sums secured by this Security Instrument, whether or not then due, with any excess paid to Borrower. If Borrower abandons the Property, or does not answer within 30 days a notice from Lender that the insurance carrier has offered to settle a claim, then Lender may collect the insurance proceeds. Lender may use the proceeds to repair or restore the Property or to pay sums secured by this Security Instrument, whether or not then due. The 30-day period will begin when the notice is given.

Unless Lender and Borrower otherwise agree in writing, any application of proceeds to principal shall not extend or postpone the due date of the monthly payments referred to in paragraphs 1 and 2 or change the amount of the payments. If under paragraph 19 the Property is acquired by Lender, Borrower's right to any insurance policies and proceeds resulting from damage to the Property prior to the acquisition shall pass to Lender to the extent of the sums secured by this Security Instrument immediately prior to the acquisition.

6. Preservation and Maintenance of Property; Leaseholds. Borrower shall not destroy, damage or substantially change the Property, allow the Property to deteriorate or commit waste. If this Security Instrument is on a leasehold, Borrower shall comply with the provisions of the lease, and if Borrower acquires fee title to the Property, the leasehold and fee title shall not merge unless Lender agrees to the merger in writing.

7. Protection of Lender's Rights in the Property; Mortgage Insurance. If Borrower fails to perform the covenants and agreements contained in this Security Instrument, or there is a legal proceeding that may significantly affect Lender's rights in the Property (such as a proceeding in bankruptcy, probate, for condemnation or to enforce laws or regulations), then Lender may do and pay for whatever is necessary to protect the value of the Property and Lender's rights in the Property. Lender's actions may include paying any sums secured by a lien which has priority over this Security Instrument, appearing in court, paying reasonable attorneys' fees and entering on the Property to make repairs. Although Lender may take action under this paragraph 7, Lender does not have to do so.

Any amounts disbursed by Lender under this paragraph 7 shall become additional debt of Borrower secured by this Security Instrument. Unless Borrower and Lender agree to other terms of payment, these amounts shall bear interest from the date of disbursement at the Note rate and shall be payable, with interest, upon notice from Lender to Borrower requesting payment.

(Space Above This Line For Recording Data)

AMB LOAN NO._____

DEED OF TRUST

THIS DEED OF TRUST ("Security Instrument") is made on ....., 19..... The Trustor is ..... ("Borrower"). The trustee is ..... ("Trustee"). The beneficiary is **ALASKA MUTUAL BANK,** which is organized and existing under the laws of **STATE OF ALASKA,** and whose address is **601 West Fifth Avenue, Anchorage, Alaska 99501** ("Lender"). Borrower owes Lender the principal sum of ..... Dollars (U.S. $.....). This debt is evidenced by Borrower's note dated the same date as this Security Instrument ("Note"), which provides for monthly payments, with the full debt, if not paid earlier, due and payable on ..... This Security Instrument secures to Lender: (a) the repayment of the debt evidenced by the Note, with interest, and all renewals, extensions and modifications; (b) the payment of all other sums, with interest, advanced under paragraph 7 to protect the security of this Security Instrument; and (c) the performance of Borrower's covenants and agreements under this Security Instrument and the Note. For this purpose, Borrower irrevocably grants and conveys to Trustee, in trust, with power of sale, the following described property located in the ..... Recording District, ... Judicial District, Alaska:

which has the address of ....., ...
[Street] [Borrower's Post Office Address, if Different]

....., Alaska ..... ("Property Address");
[City] [Zip Code]

TOGETHER WITH all the improvements now or hereafter erected on the property, and all easements, rights, appurtenances, rents, royalties, mineral, oil and gas rights and profits, water rights and stock and all fixtures now or hereafter a part of the property. All replacements and additions shall also be covered by this Security Instrument. All of the foregoing is referred to in this Security Instrument as the "Property."

BORROWER COVENANTS that Borrower is lawfully seised of the estate hereby conveyed and has the right to grant and convey the Property and that the Property is unencumbered, except for encumbrances of record. Borrower warrants and will defend generally the title to the Property against all claims and demands, subject to any encumbrances of record.

THIS SECURITY INSTRUMENT combines uniform covenants for national use and non-uniform covenants with limited variations by jurisdiction to constitute a uniform security instrument covering real property.

UNIFORM COVENANTS. Borrower and Lender covenant and agree as follows:

1. Payment of Principal and Interest; Prepayment and Late Charges. Borrower shall promptly pay when due the principal of and interest on the debt evidenced by the Note and any prepayment and late charges due under the Note.

2. Funds for Taxes and Insurance. Subject to applicable law or to a written waiver by Lender, Borrower shall pay to Lender on the day monthly payments are due under the Note, until the Note is paid in full, a sum ("Funds") equal to one-twelfth of: (a) yearly taxes and assessments which may attain priority over this Security Instrument; (b) yearly leasehold payments or ground rents on the Property, if any; (c) yearly hazard insurance premiums; and (d) yearly mortgage insurance premiums, if any. These items are called "escrow items." Lender may estimate the Funds due on the basis of current data and reasonable estimates of future escrow items.

The Funds shall be held in an institution the deposits or accounts of which are insured or guaranteed by a federal or state agency (including Lender if Lender is such an institution). Lender shall apply the Funds to pay the escrow items. Lender may not charge for holding and applying the Funds, analyzing the account or verifying the escrow items, unless Lender pays Borrower interest on the Funds and applicable law permits Lender to make such a charge. Borrower and Lender may agree in writing that interest shall be paid on the Funds. Unless an agreement is made or applicable law requires interest to be paid, Lender shall not be required to pay Borrower any interest or earnings on the Funds. Lender shall give to Borrower, without charge, an annual accounting of the Funds showing credits and debits to the Funds and the purpose for which each debit to the Funds was made. The Funds are pledged as additional security for the sums secured by this Security Instrument.

If the amount of the Funds held by Lender, together with the future monthly payments of Funds payable prior to the due dates of the escrow items, shall exceed the amount required to pay the escrow items when due, the excess shall be, at Borrower's option, either promptly repaid to Borrower or credited to Borrower on monthly payments of Funds. If the amount of the Funds held by Lender is not sufficient to pay the escrow items when due, Borrower shall pay to Lender any amount necessary to make up the deficiency in one or more payments as required by Lender.

Upon payment in full of all sums secured by this Security Instrument, Lender shall promptly refund to Borrower any Funds held by Lender. If under paragraph 19 the Property is sold or acquired by Lender, Lender shall apply, no later than immediately prior to the sale of the Property or its acquisition by Lender, any Funds held by Lender at the time of application as a credit against the sums secured by this Security Instrument.

3. Application of Payments. Unless applicable law provides otherwise, all payments received by Lender under paragraphs 1 and 2 shall be applied: first, to late charges due under the Note; second, to prepayment charges due under the Note; third, to amounts payable under paragraph 2; fourth, to interest due; and last, to principal due.

4. Charges; Liens. Borrower shall pay all taxes, assessments, charges, fines and impositions attributable to the Property which may attain priority over this Security Instrument, and leasehold payments or ground rents, if any. Borrower shall pay these obligations in the manner provided in paragraph 2, or if not paid in that manner, Borrower shall pay them on time directly to the person owed payment. Borrower shall promptly furnish to Lender all notices of amounts to be paid under this paragraph. If Borrower makes these payments directly, Borrower shall promptly furnish to Lender receipts evidencing the payments.

Borrower shall promptly discharge any lien which has priority over this Security Instrument unless Borrower: (a) agrees in writing to the payment of the obligation secured by the lien in a manner acceptable to Lender; (b) contests in good faith the lien by, or defends against enforcement of the lien in, legal proceedings which in the Lender's opinion operate to prevent the enforcement of the lien or forfeiture of any part of the Property; or (c) secures from the holder of the lien an agreement satisfactory to Lender subordinating the lien to this Security Instrument. If Lender determines that any part of the Property is subject to a lien which may attain priority over this Security Instrument, Lender may give Borrower a notice identifying the lien. Borrower shall satisfy the lien or take one or more of the actions set forth above within 10 days of the giving of notice.

5. Hazard Insurance. Borrower shall keep the improvements now existing or hereafter erected on the Property insured against loss by fire, hazards included within the term "extended coverage" and any other hazards for which Lender requires insurance. This insurance shall be maintained in the amounts and for the periods that Lender requires. The insurance carrier providing the insurance shall be chosen by Borrower subject to Lender's approval which shall not be unreasonably withheld.

All insurance policies and renewals shall be acceptable to Lender and shall include a standard mortgage clause. Lender shall have the right to hold the policies and renewals. If Lender requires, Borrower shall promptly give to Lender all receipts of paid premiums and renewal notices. In the event of loss, Borrower shall give prompt notice to the insurance carrier and Lender. Lender may make proof of loss if not made promptly by Borrower.

Unless Lender and Borrower otherwise agree in writing, insurance proceeds shall be applied to restoration or repair of the Property damaged, if the restoration or repair is economically feasible and Lender's security is not lessened. If the restoration or repair is not economically feasible or Lender's security would be lessened, the insurance proceeds shall be applied to the sums secured by this Security Instrument, whether or not then due, with any excess paid to Borrower. If Borrower abandons the Property, or does not answer within 30 days a notice from Lender that the insurance carrier has offered to settle a claim, then Lender may collect the insurance proceeds. Lender may use the proceeds to repair or restore the Property or to pay sums secured by this Security Instrument, whether or not then due. The 30-day period will begin when the notice is given.

Unless Lender and Borrower otherwise agree in writing, any application of proceeds to principal shall not extend or postpone the due date of the monthly payments referred to in paragraphs 1 and 2 or change the amount of the payments. If under paragraph 19 the Property is acquired by Lender, Borrower's right to any insurance policies and proceeds resulting from damage to the Property prior to the acquisition shall pass to Lender to the extent of the sums secured by this Security Instrument immediately prior to the acquisition.

6. Preservation and Maintenance of Property; Leaseholds. Borrower shall not destroy, damage or substantially change the Property, allow the Property to deteriorate or commit waste. If this Security Instrument is on a leasehold, Borrower shall comply with the provisions of the lease, and if Borrower acquires fee title to the Property, the leasehold and fee title shall not merge unless Lender agrees to the merger in writing.

7. Protection of Lender's Rights in the Property; Mortgage Insurance. If Borrower fails to perform the covenants and agreements contained in this Security Instrument, or there is a legal proceeding that may significantly affect Lender's rights in the Property (such as a proceeding in bankruptcy, probate, for condemnation or to enforce laws or regulations), then Lender may do and pay for whatever is necessary to protect the value of the Property and Lender's rights in the Property. Lender's actions may include paying any sums secured by a lien which has priority over this Security Instrument, appearing in court, paying reasonable attorneys' fees and entering on the Property to make repairs. Although Lender may take action under this paragraph 7, Lender does not have to do so.

Any amounts disbursed by Lender under this paragraph 7 shall become additional debt of Borrower secured by this Security Instrument. Unless Borrower and Lender agree to other terms of payment, these amounts shall bear interest from the date of disbursement at the Note rate and shall be payable, with interest, upon notice from Lender to Borrower requesting payment.

HB51

STATE OF ALASKA

SALES AND SERVICING AGREEMENT

I. THIS AGREEMENT is made and entered into as of June 2, 1983 in the State of Alaska between Alaska Mutual Bank (employer identification number 92-00283-15) herein called "Seller-servicer", and STATE OF ALASKA DEPARTMENT OF REVENUE, herein called "Buyer", for mutual consideration herein evidenced.

II. This agreement under which the Buyer, having conditions of purchase, may offer to buy and the Seller-servicer, having met the conditions of purchase may offer to sell first mortgage loans on residential or commercial real estate, herinafter called collectively "mortgages" and individually "the mortgage", shall govern the sale and transfer of such mortgages by Seller-servicer to Buyer, and the servicing and other incidents thereof, and each such mortgage shall be subject to warranties, representations and agreements herein. The Buyer's conditions to purchase are set forth in the document transmitted concurrently with the mortgage funds from the Buyer to the Seller-servicer. Basic conditions to purchase are established at the time of each commitment in an attachment called "Commitment Requirements". In addition, the Seller-servicer shall underwrite all loans for the Buyer using standard industry practices as given by either FNMA or FHLMC guidelines. Approval prior to closing will be required. These standards will be amended only upon written notice from the Seller-servicer with justification and the acceptance in writing from the Buyer of the amendment(s).

III. Seller-servicer represents and warrants as to each such mortgage offered for sale under this Agreement that:

A. The mortgage has been duly executed by the mortgagor, acknowledged and recorded, is valid, and is a first lien on the real property held in fee simple.

B. The Seller-servicer is the sole owner of the mortgage and has authority to sell, transfer, and assign the same on the terms herein set forth; and there has been no assignment, sale, hypothecation thereof by Seller-servicer except the usual past hypothecation of the papers in connection with Seller-servicer's normal banking transactions in the conduct of its business; and that the sale is free and clear of claims or encumbrances of any type.

C. The full principal amount of the mortgages has been advanced to the mortgagor, either by payment direct to him or by payment made on his request or approval; the unpaid principal balance is as stated; all costs, fees and expenses incurred in making, closing, and recording the mortgage have been paid, no part of the mortgage property has been released from the lien of the mortgage; the terms of the mortgage have in no way been changed or modified, and the mortgage is current and there has not been any prior default.

D. Each mortgage which the Seller-servicer represents to be insured by the Federal Housing Administration (FHA), or by a private mortgage insurance company, or to be guaranteed by the Veterans Administration (VA) or Small Business Administration (SBA) guaranteed portion is so insured or guaranteed.

E. The mortgage was originated and has been serviced since the date of its origination by the Seller-servicer or the mortgage in a new loan package submitted for commitment to purchase before the loan is closed.

F. The security for the mortgage is real property located in the State of Alaska.

G. All applicable State and Federal rules and regulations have been complied with, and all conditions within the control of the Seller-servicer as to the validity of the insurance or guaranty as requir . by the National Housing Act of 1934, as amended, and the rules and regulations thereunder, or as required by the Servicemen's Readjustment Act of 1944, or the Small Business Act of 1953, as amended, and the rules and regulations thereunder, or by the private mortgage insurance companies, have been properly satisfied, and said insurance or guaranty is valid and enforceable.

H. Each mortgage which shall have qualified for mortgage assistance or rent assistance program of the National Housing Act of 1934, the Housing and Urban Development Act of 1965 or the United States Housing Act, shall contain such provisions as shall be required in order to establish and maintain the qualification of the mortgage for such assistance or subsidy payments, and all such assistance or subsidy payments shall be current and there shall not have been any prior default in the payment thereof.

I. There is in force a paid-up title insurance policy on the mortgage issued by an accredited title company in an amount at least equal to the outstanding principal balance of the mortgage.

J. There is in force for each such loan, hazard insurance policies meeting the specification of Clause VIII.

K. The assignment, if any, of the mortgage from the Seller-servicer to the Buyer is valid and sufficient.

L. All documents submitted in connection with obtaining the mortgage, any insurance thereon or any assistance or subsidy payments in respect thereof and the purchase by the Buyer hereunder are genuine, and all other representations as to each such mortgage are true and correct and meet the requirements and specifications of all parts of this Agreement.

IV. The Seller-servicer agrees to perform all acts necessary to perfect title to the mortgages in the Buyer, and shall sell, assign and deliver to the Buyer with respect to the purchase of each such mortgage the following supporting documents where applicable, all subject to the approval of the Buyer and its legal counsel as to the proper form and execution:

A. Mortgage note properly endorsed by the Seller-servicer without recourse, and if an FHA or a mortgage insurance company insured mortgage, duly endorsed by Federal Housing Commissioner or the mortgage insurance company, and if a VA or SBA guaranteed mortgage, accompanied by the Loan Guaranty Certificate duly executed by the Veterans' Administration or Small Business Administration.

B. Mortgage, accompanied by those documents and instruments necessary to record and perfect ownership thereof in the Buyer.

C. Appraisal report of an appraiser whose qualifications are acceptable to the Buyer with pictures and when applicable a completion certificate.

D. Mortgagee title insurance policy, with any exceptions therein subject to approval of Buyer's legal counsel, and proper assignment thereof if required in event a mortgage assignment is being placed of record.

E. Survey of premises identifying property by address and legal description, this being required only if title policy contains an exception as to boundary and building line restrictions.

F. If an FHA mortgage, application, commitment, amortization schedule, notice of transfer and all required documents of a similar nature; if a VA or SBA mortgage, all such required documents of a similar nature.

G. Hazard insurance certificates that meet the specifications of Clause VIII.

H. Statement showing unpaid principal balance on mortgage, amount of periodic installments and date to which interest is paid.

I. Certified copy of resolution of Seller-servicer authorizing sale of the mortgage.

J. Evidence of authority of Seller-servicer to act as a servicer of FHA, VA and SBA mortgages.

K. Individual Participation Certificates are required on all participation loans.

L. Original private mortgage insurance certificate endorsed to Buyer.

V. The Seller-servicer shall comply with, and shall use its best efforts to cause each mortgagor to comply with all applicable state and federal rules and regulations or requirements of the mortgage insurance companies, including those requiring the giving of notice. Where applicable, the Seller-servicer shall comply with the National Housing Act of 1934, as from time to time amended, the Housing and Urban Development Act of 1965, the United States Housing Act and with the Servicemen's Readjustment Act of 1944 and Small Business Act of 1953, as amended, and with all rules and regulations issued under either, and with the requirements of mortgage insurance companies, including the giving of all notices and submitting of all claims required to be given or submitted to the Federal Housing

Administration, the Veterans Administration, the Small Business Administration, or to the mortgage insurance companies to the end that the full benefit of either the Federal Housing Administration insurance, the guaranty of the Veterans Administration, or Small Business Administration, or the mortgage insurance will insure to the Buyer. The seller-servicer will forward copies of all such notices or claims to the Buyer.

VI. The Seller-servicer agrees to repurchase any mortgage covered by this agreement within one year after date of the Buyer's remittance if any misstatement of material fact is disclosed by actual inspections by the Buyer or its representative, or otherwise, for an amount equal to its then unpaid principal based on the same percentage rate at which it originally was purchased, plus accrued interest and costs incurred by the Buyer for action taken, but this provision shall not apply to FHA insured, VA guaranteed, SBA guaranteed, or mortgage insurance company insured mortgages. In the case of insured or guaranteed mortgages, if the FHA insurance, the VA guaranty, SBA guaranty, or the insurance of a mortgage insurance company with respect to any of the mortgages lapses as a result of the Seller-servicer's act or omission, the Seller-servicer upon the Buyer's request shall repurchase such mortgage for an amount equal to its then unpaid principal based on the same percentage rate at which it originally was purchased, plus accrued interest and costs incurred by the Buyer for action taken, and remit the aggregate of said amounts to the Buyer.

VII. The Seller-servicer, at its own expense, shall keep in force during the term of this agreement or any extension thereof, a Fidelity Bond and a policy or policies of insurance, covering errors and omissions on the part of any and all of their employees involved with the mortgages bought, sold, serviced or assigned under this contract. The Bond or Bonds shall insure the Buyer against loss arising from dishonest, criminal or fraudulent acts of any above referenced employee of the Seller-servicer.

VIII. The Seller-servicer shall see that the improvements on the premises, securing each mortgage, are kept insured by hazard insurance policies issued by a company acceptable to the Buyer in an amount at least equal to the outstanding principal of the mortgage or the full insurable value of the improvements, whichever is less, and of a type at least as protective as fire and extended coverage, containing a mortgagee clause naming the Buyer as an insured, substantially in the form of the standard New York mortgagee clause, and containing suitable provisions for payment on all present and future mortgages on such premises in order of precedence. Seller-servicer shall hold for the Buyer's account such policies and renewals thereof.

IX. The Seller-servicer shall furnish a detailed statement of its financial condition, not later than ninety days after the close of the Seller-servicer's fiscal year, and give the Buyer or its authorized representative opportunity at any time during business hours to examine the Seller-servicer's books and records. The Seller-servicer agrees to keep records satisfactory to the Buyer pertaining to each mortgage, and such records shall be the property of the Buyer and upon termination of this Agreement, shall be delivered to the Buyer.

X. Until the principal and interest of each such mortgage is paid in full the Seller-servicer shall:

A. Proceed diligently to collect all payments due under the terms of each mortgage as they become due.

B. Keep a complete and accurate account of and properly apply all sums collected by it from the mortgagor on account of each such mortgage for principal and interest, taxes, assessments, and other public charges, hazard insurance premiums and FHA insurance or private mortgage

insurance premiums, and upon request to furnish Buyer with evidence acceptable to the Buyer of all expenditures for taxes, assessments and other public charges, hazard insurance premiums and FHA insurance or private mortgage insurance premiums. In the event any mortgagor fails to make a payment to said Seller-servicer required to be made under the terms of said mortgage, Seller-servicer agrees to notify the Buyer of such fact within thirty days after the same shall have become due and payable.

C. Deposit all funds received in respect of such mortgage, subject to withdrawal on demand, in a segregated trust or custodial account in a state or national bank, the deposits of which are insured by the Federal Deposit Insurance Corporation. Such account shall be held by Seller-servicer as trustee or custodian and the Seller-servicer shall maintain detailed records to show the respective interests of each individual mortgagor in the account. Each such account shall be established and maintained in a manner which complies with the applicable rules and regulations of the Federal Deposit Insurance Corporations.

D. From the funds so deposited, (1) pay promptly to the proper parties when and if due FHA, VA, SBA and private mortgage insurance premiums, taxes, special assessments, ground rents, and premiums on hazard insurance, and (2) pay and report, within five working days of the established cut off, to the Buyer all amounts of principal and interest due to it under its participation in the mortgage, and (3) on loan payoffs pay and report to the Buyer within five working days of the payoff all amounts of principal and interest due to it under the mortgage. Any amount not timely remitted, shall bear interest payable to the Buyer at the interest rate of the note(s) per day times the balance from the date that such remittance was actually postmarked. (4) Submit monthly reports which consist

of a Summary of Remittance, Principal Trial Balance, and Delinquency Reports for all loans over thirty days delinquent.

(5) Retain as full compensation for all services performed hereunder, the earned portion of the servicing fee per annum agreed to in the commitment for each specific loan or block of loans, plus "late charges", if any collected, from the mortgagor pursuant to the terms of the mortgage.

E. Have prior written approval from the buyer to modify any Notes or Deeds of Trust.

F. Upon request submit to the Buyer an audit of the balance in each such trust account, together with a certificate that all disbursements were made for proper purposes, and that all payments required to be made hereunder have been made, with exceptions, if any.

G. Perform such other customary duties, furnish such other reports and execute such other documents in connection with its duties hereunder as the Buyer from time to time reasonably may require.

XI. The Seller-servicer shall use due diligence to ascertain, and shall forthwith notify the Buyer of the failure of any mortgagor to perform any obligations under the mortgage, and also of any of the following which might come to the attention of the Seller-servicer;

A. The vacating of or any change in the occupancy of any premises securing a mortgage.

B. The sale or transfer of any such premises, to the degree of liability of original mortgagor. If original mortgagor has been released from liability a credit package on new mortgagor must be furnished buyer.

C. The death, bankruptcy or insolvency of a mortgagor.

D. Any loss or damage to any such premises, in which event, in addition to notifying the Buyer, the Seller-servicer shall also promptly notify the insurance companies concerned.

E. Any lack of repair or any other deterioration or waste suffered or committed in respect of the premises covered by the mortgage. It is understood, however, that the Seller-servicer shall not be obligated to give notice to the Buyer of any facts other than those of which the Seller-servicer shall have actual notice, and those of which it would, except for its negligence, have had notice.

F. Any loss of eligibility of the mortgagor, either in whole or in part, for any mortgage assistance or rent subsidy payments under any programs providing therefore and for which the mortgage has qualified.

XII. The Seller-servicer shall not accept any prepayment of mortgage principal, except as permitted by the terms of the mortgage, nor waive, modify, release or consent to postponement on the part of the mortgagor of any term or provision of the mortgage without the written consent of the Buyer.

XIII. The Seller-servicer shall be required to reinspect only those properties on which the mortgage becomes sixty or more days delinquent. The Seller-servicer must notify the Buyer in writing of all action taken to collect the delinquencies and list methods and recommendations to bring the loans current or for foreclosure.

XIV. The Seller-servicer shall upon the request and under the direction of the Buyer assist in the foreclosure or other acquisition of the property securing any mortgage, the transfer of such property to the FHA or VA and the collection of any applicable mortgage insurance, and pending completion of these steps, protect such property from waste and strip. At

the option of the Buyer, Buyer may assign such mortgage to the Seller-servicer which shall then conduct all such proceedings in its own name, promptly thereafter assigning or conveying to the Buyer any title, equity, or other property or right acquired by such proceedings. Seller-servicer will take title to the property in the name designated by the Buyer. Buyer agrees to reimburse the Seller-servicer for its reasonable out-of-pocket expenses so incurred, including attorney's fees mutually agreed upon in advance at the percentage of Buyers participation in the mortgage. All property foreclosed in the name of the Buyer will be managed by the Seller-servicer or an approved management firm. The Buyer will be advised of all management efforts monthly. The Seller-servicer will be required to interpret all legal requirements and financial obligations for each loan foreclosed on.

XV. In the event the Buyer shall assign its interest under the terms of this contract and in the mortgages to a third party, the assignee shall accede to all of the rights and obligations hereunder of the Buyer and this Agreement shall remain in full force and effect, and the Seller-servicer shall remit all principal and interest installments payable under the mortgages so assigned directly to such third party after deduction of the service fee as herein provided. The obligation to make direct remittances to such third party shall arise upon thirty days written notice of such assignment given by the Buyer to the Seller-servicer.

XVI. Compensation of the Seller-servicer shall be as agreed at the time each mortgage is accepted and as evidenced by each commitment to purchase made by the Buyer. Such compensation shall be earned, computed and payable as of the time interest on each

individual mortgage is paid to Buyer, except that the compensation represented by late charges, if any, shall be retained as paid by the mortgagor. Compensation shall be earned and computed only upon mortgages on which payment of principal and interest actually occurs. No additional compensation shall be payable to the Seller-servicer in the event of termination of this Agreement, except as provided in Clause XVII.

XVII. The Buyer may, by notice to the Seller-servicer, terminate this Agreement as to mortgages being serviced if:

A. The Seller-servicer becomes insolvent or bankrupt or is placed under conservatorship or receivership.

B. The Seller-servicer assigns or attempts to assign the rights and obligations hereunder, or there is a transfer of a controlling interest in Seller-servicer, without written consent of the Buyer.

C. The Seller-servicer fails to take positive action to correct any deficiency in the performance of its obligations hereunder within sixty days after the Buyer has given Seller-servicer written notice of such deficiency.

D. In any event, and without cause, upon sixty days written notice and payment to the Seller-servicer of a sum equal to 1/2 of 1 percent of the aggregate principal amounts then outstanding of all of the mortgages subject to this Agreement.

XVIII. This Agreement may be terminated as to the future acceptance of mortgages by either party at any time upon giving thirty days written notice of termination to the other party, but such termination shall not in any respect change or modify the obligation of the Seller-servicer to service mortgages then already accepted, and the Seller-servicer shall continue to service such mortgages unless the Buyer shall act pursuant to Clause XVII hereof.

XIX. Upon any termination of this Agreement under Clause XVII the Seller-servicer shall account for and turn over to the Buyer all funds collected under each mortgage, less only the compensation then due the Seller-servicer, and deliver to the Buyer or its representative all records and documents relating to each such mortgage described in Clauses IV and VIII that it may have in its possession.

XX. The words "mortgage" and "mortgages" as used herein shall include mortgages, security deeds, trust deeds, and deeds of trust, and the words "mortgagor" and "mortgagors" shall be deemed to mean mortgagors, trustors of trust deeds and deeds of trust, and the grantors of any security deeds, it being agreed that the appointment of any trustees under any trust deeds or deeds of trust shall be subject to the approval of the Buyer.

XXI. In the event of a dispute between the Buyer and the Seller-servicer or any of their assigns, said dispute will initially be reviewed and if possible settled by reference to this contract, and its addendum(s), and if this contract or its addendum(s) are ambiguous or silent on the point or points in question, the prevailing conditions in the industry as set forth in a current updated copy of the Servicer's Guide, issued by the Federal National Mortgage Association, shall apply.

XXII. This document contains the entire agreement between the parties hereto and cannot be modified in any respect except by an amendment in riting signed by both parties. The invalidity of any portion of this Agreement shall in no way affect the

balance thereof. This Agreement shall remain in effect until the Buyer's interests in all of the mortgages referred to, including the underlying security, are liquidated completely.

XXIII. From the effective date of this agreement all other agreements and its addendums are superseded by this agreement. All State of Alaska statutes and amendments to statutes effecting mortgage investments will automatically be an integral part of this Agreement and will, when applicable, replace any phraseology in this Agreement. Outstanding commitments to purchase effected by amendments will be honored. (State of Alaska Statutes, Exhibit A -PERS, Exhibit B - TRS)

IN WITNESS WHEREOF, each party has caused its seal to be affixed hereto and this instrument to be signed in its name on its behalf by its proper officials duly authorized.

Effective this 2nd day of June, 1983.

SELLER-SERVICER:

Alaska Mutual Bank

By _____

Wesley W. Clubb

Title Vice President

Date June 2, 1983

(SEAL)

BUYER:

State of Alaska, Department of Revenue

By _____

Title Deputy Commissioner

Date 6-8-83

Exhibit A

PUBLIC EMPLOYEES RETIREMENT SYSTEM

Effect of amendments. — The 1977 amendment in subsection (b), substituted "record" for "[illegible]" in the first sentences of paragraphs (1) and (2), deleted "shall be credited as of the date of deduction or payment, as the case may be" from the end of the first sentences of paragraphs (1) and (2), substituted "retirement" for "granting a pension" near the beginning of the third sentence of paragraph (1), deleted "an employee's" preceding "retirement, the amount," in the fourth sentence of paragraph (2), substituted "savings account" for "contribution account" in two places in the fourth sentence of paragraph (2), and deleted an exception from the end of the second sentence of paragraph (3). The amendment also, in paragraph (4) of subsection (b), deleted "credited with all contributions of employers for the purposes of meeting their respective proportion of the total administrative expenses of the system during each fiscal year, and it shall be" following "This account shall be" near the beginning of the second sentence and rewrote the third sentence.

Sec. 39.35.110. Investments. (a) When, in the opinion of the commissioner of administration, there is on hand in the pension fund a surplus over and above a reasonably safe amount to take care of current demands upon the fund, the surplus, or so much of it as in the judgment of the commissioner of administration is considered proper, may be invested at competitive national market rates by the commissioner of revenue in

(1) Repealed by § 15 ch 122 SLA 1980.

(2) Repealed by § 15 ch 122 SLA 1980.

(3) Repealed by § 15 ch 122 SLA 1980.

(4) Repealed by § 15 ch 122 SLA 1980.

(5) shares of federally chartered savings and loan associations in Alaska, to the extent that the investment is insured by the federal government or an agency of the federal government;

(6) deposits with mutual savings banks in Alaska, to the extent that the investment is insured by the federal government or an agency of the federal government;

(7) deposits with state and national banks in Alaska to the extent that the investment is insured by the federal government or an agency of the federal government;

(8) Repealed by § 15 ch 122 SLA 1980.

(9) the guaranteed portion of Small Business Administration loans;

(10) first lien real estate mortgages guaranteed by the federal Veterans Administration;

(11) notes secured by mortgages of commercial or residential buildings if the mortgages are insured by a private mortgage insurance corporation which is authorized to do business in Alaska and has combined capital, surplus and reserves aggregating at least $20,000,000; however,

(A) no mortgage insurance is necessary for commercial loans having loan-to-value ratios of less than 50 percent and the minimum coverage of other commercial loans shall be 10 percent for those having a loan-to-value ratio of 50-60 percent and 15 percent for those having a loan-to-value ratio greater than 60 percent but no more than 75 percent, and

(B) no mortgage insurance is necessary for residential loans having a loan-to-value ratio of less than 70 percent and the minimum coverage of other residential loans shall be 10 percent for those having a loan-to-value ratio greater than 70 percent but less than 90 percent and 20 percent for those having a loan-to-value ratio of 90 percent;

(12) conventional residential mortgages if the originating financial institution retains at least 25 percent of the mortgage for a minimum of two years;

(13) notes secured by mortgages of commercial buildings if the originating financial institution retains at least 25 percent of the mortgage until maturity;

(14) FHA guaranteed portion of business and industrial loans made under the Rural Development Act of 1972;

(15) Repealed by § 15 ch 122 SLA 1980.

(16) Repealed by § 15 ch 122 SLA 1980.

(17) bankers' acceptances which are eligible for discount at the Federal Reserve Bank and certificates of deposit issued by United States domestic banks which are members of the Federal Deposit Insurance Corporation if a generally recognized secondary market exists for the certificates of deposit;

(18) obligations of, or obligations insured by or guaranteed by, the United States or agencies or instrumentalities of the United States;

(19) obligations secured by reserves paid in by the United States or agencies or instrumentalities of the United States or obligations of corporations in which the United States is a shareholder or member;

(20) corporate debt securities with a minimum rating of "A" or an equivalent rating by a nationally recognized rating organization;

(21) preferred and common stock of companies which have paid dividends in each of the three years immediately preceding the investment;

(22) commercial paper bearing the highest rating of a nationally recognized rating organization;

(23) securities of foreign governments, foreign governmental agencies, and foreign corporations the principal, interest or dividends on which are payable in either United States dollars or foreign currencies; however, investments under this paragraph may not exceed 10 percent of the total investments of the pension fund;

(24) foreign time deposits of both United States-owned and foreign-owned banks and trust companies denominated in either United States dollars or foreign currencies; however, investments under this paragraph may not exceed 20 percent of the total investments of the pension fund;

(25) gold bullion certified as to fineness of at least 9½ percent; however, investments under this paragraph may not exceed 10 percent of the total investments of the pension fund; the commissioner of revenue shall purchase gold bullion produced in Alaska to the extent

T39 Alaska TO-4-32-1239

that Alaska gold bullion is available if it can be obtained at a price comparable to out-of-state sources.

(b) Repealed by § 15 ch 122 SLA 1980.

(c) In making investments the commissioner of revenue shall exercise the judgment and care under the circumstances then prevailing which an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income. However, no more than 50 percent of the pension fund may be invested at a given time in corporate stocks and debt securities, nor may more than five percent of the voting stock of one corporation be owned. Stocks eligible for purchase are restricted to stocks which, except for bank stocks and insurance stocks, are listed upon an exchange registered with the Federal Securities and Exchange Commission.

(d) Except as provided in this section, the commissioner of revenue may

(1) invest and reinvest the principal and income of the pension fund without distinction between principal and income;

(2) sell, exchange, convey, transfer, or otherwise dispose of an investment of the pension fund held in the name of the system by private contract or at public auction;

(3) vote upon a stock, bond, or other security; give a general or special proxy or power of attorney with or without power of substitution; exercise a conversion privilege, subscription right, or other option and make payments incidental to it; consent to or participate in a corporate reorganization or other change affecting corporate securities, delegate discretionary power, pay an assessment or charge in connection with the delegation; and generally exercise any of the powers of an owner with respect to stocks, bonds, securities, or other investments held in the pension fund;

(4) make, execute, acknowledge, and deliver documents of transfer and conveyance and instruments necessary or appropriate to carry out the powers granted;

(5) register investments held in the pension fund in the name of the system;

(6) do all acts whether or not expressly authorized which are considered necessary or proper for the protection of the investments held in the pension fund.

(e) To qualify as a mortgage which may be purchased under (a)(11), (12), or (1. of this section,

(1) the originating financial institution must certify that the mortgage being sold has been made in compliar e with law and that liens supporting the mortgage have been perfected;

(2) the mortgage may not have been held by the originating financial institution for a period greater than 90 days.

(f) When more than one-half of one per cent of the aggregate of all loans purchased from a financial institution becomes delinquent for 60 days, the pension fund shall discontinue purchasing loans from that financial institution until the delinquency is reduced to less than one-half of one per cent.

(g) Repealed by § 15 ch 122 SLA 1980.

(h) The commissioner of revenue may enter into futures contracts for the sale of investments purchased under (a) of this section only for the purpose of hedging an existing equivalent ownership position in the investments.

(i) The commissioner of revenue may transfer at any time a portion of the assets of the pension fund to a trust which is qualified under sec. 401(a) of the Internal Revenue Code (26 U.S.C. sec. 401(a)) and exempt from taxation under sec. 501(a) of the Internal Revenue Code (26 U.S.C. sec. 501(a)) and which is maintained as a medium for pooling a portion of the funds of pension and profit-sharing trusts for diversifying investments in real estate and interests in real estate.

(j) The commissioner of revenue may enter into a contract or trust agreement necessary to effectuate the transfer of assets of the pension fund or to maintain the assets of the pension fund to be transferred to a trust under (i) of this section. (§ 37 ch 143 SLA 1960; am § 1 ch 129 SLA 1961; am § 1 ch 150 SLA 1962; am § 2 ch 4 SLA 1964; am §§ 1 — 3 ch 80 SLA 1964; am § 1 ch 111 SLA 1964; am § 1 ch 56 SLA 1967; am § 4 ch 73 SLA 1969; am §§ 3, 4 ch 17 SLA 1970; am § 2 ch 112 SLA 1972; am §§ 3, 4 ch 25 SLA 1974; am §§ 3, 4 ch 59 SLA 1977; am §§ 7 — 10, 15 ch 122 SLA 1980)

Cross references. — As to custody and investment of the teachers retirement fund, see AS 14.25.180. As to investment of surplus funds of the state, see AS 37.10.070.

Effect of amendments. — The 1977 amendment, in subsection (a), inserted "private mortgage insurance" in paragraph (11), added the language beginning "however, (A) no mortgage insurance is necessary" to the end of that paragraph, and added paragraphs (16) and (17).

The 1980 amendment, in subsection (a), inserted "at competitive national market rates" near the end of the introductory paragraph, repealed former paragraphs (1) — (4), (8), and (15) and (16), substituted "the" for "such" preceding "investment" in paragraphs (5) and (6), substituted "of the federal government" for "thereof" at the end of paragraphs (5) and (6), substituted "buildings" for "real estate or other security" near the beginning of the introductory paragraph of paragraph (11), substituted "buildings" for "real estate" and added "until maturity" in paragraph (13), and "negotiable time" preceding "certificates of deposit" in paragraph (17), substituted "United States domestic" for "commercial" near the middle of paragraph (17), added the material at the end of paragraph (17), which begins: "which are members of" and ends: "certificates of deposit," and added paragraphs (18) — (25). The amendment, in subsection (c), substituted "an institutional investor" for "a man," and "large investments entrusted to it" for "his own affairs" near the beginning of the subsection, deleted "his" following "permanent disposition of" and "the" preceding "probable safety of capital" near the middle of the subsection, inserted "safety of capital as well as probable" preceding "income" and deleted "from

them as well as the probable safety of his capital" at the end of the first sentence, deleted "mutual funds and" preceding "corporate stocks" near the beginning of the second sentence, substituted "debt securities" for "bonds," and "may" for "any" near the middle of the second sentence, substituted "and" for a comma following "bank stocks," and deleted "and shares in mutual funds" following "insurance stocks" near the middle of the third sentence; rewrote subsection (e); added subsections (h) — (j); and repealed subsections (b) and (g).

Article 2. Membership.

Section
120. Commencement of participation
125. Participation of elected officials
130. [Repealed]
140. [Repealed]
150. Reemployment of retired employees
153. Army and air national guard employees
154. North Pacific Fishery Management Council employees
155. [Obsolete]
157. [Obsolete]
158. Administrative director of courts

Sec. 39.35.120. Commencement of participation. (a) An employee of the state shall be included in this system upon commencement of his employment with the state, or on January 1, 1961, whichever is later. An employee of a political subdivision or public organization which becomes an employer shall be included in the system on the effective date of the employer's participation or the date of the employee's commencement of employment with the employer, whichever is later.

(b) **[Effective until January 1, 1981]** Inclusion in the system is a condition of employment for an employee except an elected official.

[Effective January 1, 1981] Inclusion in the system is a condition of employment for an employee except as otherwise provided for an elected official. (§ 4 ch 143 SLA 1960; am § 1 ch 155 SLA 1966; am § 28 ch 13 SLA 1980; am § 27 ch 146 SLA 1980)

Effect of amendments. — The first 1980 amendment deleted "or quasi-public" preceding "organization" near the beginning of the second sentence in subsection (a).

The second 1980 amendment, effective January 1, 1981, inserted "as otherwise provided for" preceding "an elected official" near the end of subsection (b).

Negotiability of retirement system benefits. — Given subsection (b) of this section and AS 39.35.170, which make inclusion in the public employees retirement system (AS 39.35) a condition of employment for state employees and contributions to it mandatory, the conclusion is that the legislature intended the statutory provisions of the public employees retirement system to apply to all state employees, and benefits under the public employees retirement system may not be negotiated under the Public Employment Relations Act (AS 23.40.070 — 23.40.260). January 23, 1978, Op. Att'y Gen.

Sec. 39.35.125. Participation of elected officials. [Effective until January 1, 1981] (a) An elected official, other than a state legislator who is an active member of the teachers' retirement system, may be included in the system if, within 60 days after taking the oath of his office or within 60 days after May 12, 1966

Exhibit B

TEACHERS RETIREMENT SYSTEM

(d) The board may impose conditions on granting a waiver which it considers equitable. These conditions may include requiring the member or beneficiary to make additional contributions to the system.

(e) The board may reconsider a ruling under this section upon request of the member or beneficiary or the administrator if the request is received within 30 days after the initial ruling. Any modification of the initial ruling must be made within 30 days after receipt of a request for reconsideration.

(f) Rulings and modifications of rulings under this section must be by a majority of a quorum of the board.

(g) Rulings on appeals and requests for reconsideration under this section may be appealed by an aggrieved member or beneficiary to the superior court for abuse of discretion. (§ 1 ch 81 SLA 1979)

Sec. 14.25.177. Effect of amendments. (a) An amendment to this chapter is not retroactive unless its retroactivity is expressly stated in the amendment.

(b) The monthly amount of a benefit payable under this chapter shall be determined in accordance with the provisions of this chapter in effect on the date of termination of the member's last segment of employment. (§ 4 ch 169 SLA 1976; am § 21 ch 13 SLA 1980)

Effect of amendment. — The 1980 amendment, effective July 1, 1980, [illegible]

Sec. 14.25.180. Custody and investment.

(b) When, in the opinion of the commissioner of administration, there is on hand in the retirement fund a surplus over and above a reasonably safe amount to take care of current demands upon the fund, the surplus or so much of it as in the judgment of the commissioner of administration is considered proper may be invested at competitive national market rates by the commissioner of revenue in

(1) (repealed);

(2) (repealed);

(3) (repealed);

(4) shares of federally chartered savings and loan associations in Alaska, to the extent that the investment is insured by the federal government or by an agency of the federal government;

(5) deposits with mutual savings banks in Alaska, to the extent that the investment is insured by the federal government or an agency of the federal government;

(6) deposits with state and national banks in Alaska to the extent that the investment is insured by the federal government or an agency of the federal government;

(7) (repealed);

(8) (deleted);

(9) the guaranteed portion of Small Business Administration loans;

(10) first lien real estate mortgages guaranteed by the federal Veterans Administration;

(11) notes secured by mortgages of commercial or residential buildings if the mortgages are insured by a private mortgage insurance corporation which is authorized to do business in Alaska and has combined capital, surplus and reserves aggregating at least $20,000,000; however,

(A) no mortgage insurance is necessary for commercial loans having loan-to-value ratios of less than 50 percent and the minimum coverage of other commercial loans shall be 10 percent for those having a loan-to-value ratio of 50-60 percent and 15 percent for those having a loan-to-value ratio greater than 60 percent but no more than 75 percent, and

(B) no mortgage insurance is necessary for residential loans having a loan-to-value ratio of less than 70 percent and the minimum coverage of other residential loans shall be 10 percent for those having a loan-to-value ratio greater than 70 percent but less than 90 percent and 20 percent for those having a loan-to-value ratio of 90 percent;

(12) conventional residential mortgages if the originating financial institution retains at least 25 percent of the mortgage for a minimum of two years;

(13) notes secured by mortgages of commercial buildings if the originating financial institution retains at least 25 percent of the mortgage until maturity;

(14) FHA guaranteed portion of business and industrial loans made under the Rural Development Act of 1972;

(15) (repealed);

(16) (repealed);

(17) bankers' acceptances which are eligible for discount at the Federal Reserve Bank and certificates of deposit issued by United States domestic banks which are members of the Federal Deposit Insurance Corporation if a generally recognized secondary market exists for the certificates of deposit;

(18) obligations of, or obligations insured by or guaranteed by, the United States or agencies or instrumentalities of the United States;

(19) obligations secured by reserves paid in by the United States or agencies or instrumentalities of the United States or obligations of corporations in which the United States is a shareholder or member;

(20) corporate debt securities with a minimum rating of "A" or an equivalent rating by a nationally recognized rating organization;

(21) preferred and common stock of companies which have paid dividends in each of the three years immediately preceding the investment;

(22) commercial paper bearing the highest rating of a nationally recognized rating organization;

(23) securities of foreign governments, foreign governmental agencies, and foreign corporations the principal, interest or dividends on which are payable in either United States dollars or foreign currencies; however, investments under this paragraph may not exceed 10 percent of the total investments of the retirement fund;

(24) foreign time deposits of both United States-owned and foreign-owned banks and trust companies denominated in either United States dollars or foreign currencies; however, investments under this paragraph may not exceed 20 percent of the total investments of the retirement fund;

(25) gold bullion certified as to fineness of at least 99-½ percent; however, investments under this paragraph may not exceed 10 percent of the total investments of the retirement fund; the commissioner of revenue shall purchase gold bullion produced in Alaska to the extent that Alaska gold bullion is available if it can be obtained at a price comparable to out-of-state sources.

(c) In making investments the commissioner of revenue shall exercise the judgment and care under the circumstances then prevailing which an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income. However, no more than 50 percent of the retirement fund may be invested at any given time in corporate stocks and debt securities, nor may more than five percent of the voting stock of a corporation be owned. Stocks eligible for purchase are restricted to stocks which, except for bank stocks and insurance stocks, are listed upon an exchange registered with the Federal Securities and Exchange Commission.

(d) Except as provided above, the commissioner of revenue may:

(1) invest and reinvest the principal and income of the retirement fund without distinction between principal and income;

(2) sell, exchange, convey, transfer or otherwise dispose of any investment of the retirement fund held in the name of the system by private contract or at public auction;

(3) vote stocks, bonds or other securities; give general or special proxies or powers of attorney with or without power of substitution; exercise conversion privileges, subscription rights or other options and make payments incidental thereto; consent to or otherwise participate in corporate reorganizations or other changes affecting corporate securities and delegate discretionary powers and pay assessments or charges in connection therewith; and generally exercise the powers of an owner with respect to stocks, bonds, securities or other investments held in the retirement fund;

(4) make, execute, acknowledge and deliver documents of transfer and conveyance and other instruments necessary or appropriate to carry out the powers granted by this subsection;

(5) register investments held in the retirement fund in the name of the system;

(6) do all acts whether or not expressly authorized which he considers necessary or proper for the protection of the investments held in the retirement fund.

(e) To qualify as a mortgage which may be purchased under (b)(11), (12) or (13) of this section,

(1) the originating financial institution must certify that the mortgage has been made in compliance with law and that liens supporting the mortgage have been perfected;

(2) the mortgage may not have been held by the originating financial institution for a period greater than 90 days.

(g) The commissioner of revenue may enter into futures contracts for the sale of investments purchased under (b) of this section only for the purpose of hedging an existing equivalent ownership position in the investments.

(h) The commissioner of revenue may transfer at any time a portion of the assets of the retirement fund to a trust which is qualified under sec. 401(a) of the Internal Revenue Code (26 U.S.C. sec. 401(a)) and exempt from taxation under sec. 501(a) of the Internal Revenue Code (26 U.S.C. sec. 501(a)) and which is maintained as a medium for pooling a portion of the funds of pension and profit-sharing trusts for diversifying investments in real estate and interests in real estate.

(i) The commissioner of revenue may enter into a contract or trust agreement necessary to effectuate the transfer of assets of the retirement fund or to maintain the assets of the retirement fund to be transferred to a trust under (h) of this section.

(am §§ 1, 2 ch 59 SLA 1977; am §§ 1 — 5 ch 122 SLA 1980)

Cross references. — As to investment of surplus funds, see AS 37.10.070. As to investments, see AS 39.35.110.

Effect of amendments.

The 1977 amendment, in subsection (b), inserted "private mortgage insurance" in paragraph (11), added the language beginning "however, (A) no mortgage insurance is necessary" to the end of that paragraph, and added paragraphs (16) and (17).

The 1980 amendment, effective July 1, 1980, in subsection (b), inserted "at competitive national market rates" in the introductory language; deleted paragraphs (1) — (3), (7), and (15) and (16), relating to certain governmental bonds or other interest-bearing obligations and securities, certain first lien real estate mortgage securities, corporation bonds and preferred and common stocks, loans guaranteed by the division of veteran's affairs, guaranteed portion of loans made under the Federal Ship Financing Act of 1972, and certain Canadian bonds, debentures, notes or other obligations, respectively; substituted "buildings" for "real estate or other security" in the introductory language of paragraph (11); substituted "buildings" for "real estate" and inserted "until maturity" in paragraph (13); deleted "negotiable time" preceding "certificates" and substituted the language beginning "United States domestic banks" for "commercial banks" in paragraph (17); and added paragraphs (18) — (25). In subsection (c), the amendment substituted "an institutional

investor" for "men," "exercises" for "exercise," "large investments entrusted to it" for "their own affairs" and "probable safety of capital as well as probable income" for "the probable income therefrom as well as the probable safety of their capital" in the first sentence, deleted "their" preceding "funds" in the first sentence, and substituted "debt securities" for "bonds" and "a corporation" for "any corporation" in the second sentence. In addition, the amendment inserted "held in the retirement fund" in paragraph (5) of subsection (d), rewrote subsection (e), and added subsections (g) — (i).

Sec. 14.25.200. Exemption from taxation and process. Benefits and other amounts held in the retirement fund on behalf of the members are exempt from Alaska state and municipal taxes and are not subject to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, charge, garnishment, execution or levy of any kind, either voluntary or involuntary before they are received by the person entitled to the amount under the terms of the system, and any attempt to anticipate, alienate, sell, transfer, assign, pledge, encumber, charge, or otherwise dispose of any right to amounts accrued in the retirement fund is void. (§ 22 ch 145 SLA 1955; am § 17 ch 89 SLA 1960; am § 13 ch 84 SLA 1969; am § 22 ch 13 SLA 1980)

Effect of amendment. — The 1980 amendment, effective July 1, 1980, substituted "Benefits" for "Teachers' retirement salaries" at the beginning of the section, substituted "members" for "teachers" following "on behalf of the" near the beginning of the section, inserted "Alaska" preceding "state and municipal taxes" near the beginning of the section, and substituted "is void" for "shall be void" at the end of the section.

As the rest of the section was not affected by the amendment, it is not set out.

Cited in Gutterman v. First Nat'l Bank, Sup. Ct. Op. No. 1876 (File No. 3996), 597 P.2d 969 (1979).

Sec. 14.25.205. Time limit for application. If no application for benefits or for refund has been filed with the administrator by July 1 following the date on which an inactive member (except a member on leave of absence without pay) would attain age 75, or if no application for benefits or for refund has been filed with the administrator within the 50 years following the most recent date on which the person was an active member, no benefits or refunds may be paid under this chapter and the member's records may be destroyed. (§ 14 ch 84 SLA 1969; am § 23 ch 13 SLA 1980)

Effect of amendment. — The 1980 amendment, effective July 1, 1980, rewrote the section.

Sec. 14.25.220. Definitions. In this chapter, unless the context requires otherwise,

(1) "active member" means a member who is employed by an employer, is receiving compensation on a full-time or part-time basis and is making contributions to the system, or a member making contributions under AS 14.20.330 or 14.20.345;

STATE OF ALASKA

SALES AND SERVICING AGREEMENT ADDENDUM

In conjunction with and as an addendum to the Agreement between Alaska Mutual Bank, (employer identification number 92-00283-15) herein called "Seller-servicer", and the State of Alaska Department of Revenue, herein called "Buyer", and dated June 2, 1983, the following uniform guidelines regarding the submission, purchase, and servicing of mortgages are hereby established and made part of said Agreement. Because it addresses specific procedures and the format of reports, this addendum should be distributed to all sections of the Seller-servicer mortgage department. All correspondence and inquiries should be directed to the attention of the Mortgage Section at:

Alaska Department of Revenue
Treasury Division
Pouch SB
Juneau, Alaska 99811
907/465-2354 - 907/465-2353

All correspondence to Buyer must bear the loan name, fund name (PERS-TRS-SPFM-MOP-BLIP), loan type (FHA-VA-SBA-CONV), interest rate, percent of participation, brief legal description of property, if available, and all previous owners (if applicable).

GENERAL REQUIREMENTS

All loans submitted for purchase must have private mortgage insurance, 25% bank participation, FHA insurance, VA guarantee or SBA guarantee, if required. No take-out refinances will be purchased. Loan to value ratios will be established by investment program in a separate requirement letter. All loans will be purchased at par unless advised otherwise. Usury rate applies on loans under $100,000. Specific conditions to purchase will be detailed in a "Commitment Requirement" attachment sent out at the time of each general commitment. Standard industry underwriting criteria will apply as detailed by FNMA or FHLMC.

REQUIREMENTS FOR COMMITMENT TO PURCHASE

Commitment fee requirements will be established by investment program and when applicable must accompany the original loan submission package. This fee is non-refundable, except as noted below, and no loan substitutions may be made. Deposit of commitment check does not mean the loan is approved. Official notification will be sent regarding commitment. Commitment fee will only be returned or credit given on loans refused. Buyer will not commit to purchase and/or honor existing commitments to purchase mortgages from any Seller-servicer when they exceed the delinquency ratio established by individual Alaska statutes. Buyer will commit to purchase and/or honor existing commitments to purchase mortgages when the delinquency is reduced to these requirements.

Requests for commitments and/or purchase must include, but is not necessarily limited to, copies of the following documents:

RESIDENTIAL

1. Loan application (including gross interest rate and service rate) (Must be a standard industry form such as FNMA #1003)
2. Copy of Private Mortgage Insurance application (if applicable)
3. Original appraisal (with plat layout and original pictures)
4. Credit report and credit letters
5. Earnest money agreement
6. Verification of all bank accounts
7. Employment verification
8. Tax returns (if self-employed)
9. Financial statements (if applicable)
10. Other pertinent information

COMMERCIAL

1. Offering sheet - containing but not necessarily limited to the following information:
   a. Borrower(s)
   b. Loan amount
   c. Purpose of loan
   d. Gross interest rate and service rate

e. Fee

f. Terms

g. Account relationship with Bank

h. Financial data (Assets - Liabilities - Net Worth)

i. Security (Land - Improvements)

j. Income statement - projected

k. Analysis:

- Loan to value ratio
- Debt service
- Debt service coverage
- Default ratio
- Loan per square foot
- Gross rent multiple
- Mortgage multiple
- Other ratios if applicable

l. Participants

m. Recommendations

n. Other pertinent information

2. Loan application

3. Maps/plats

4. Original photos

5. Plans and specifications

6. Appraisal

7. Financial statement for 3 years - Balance Sheets, Profit and Loss Statements

8. Credit report and credit letters

9. Bank balance verifications

10. Federal tax returns for 3 years if applicable

11. Private Mortgage Insurance application if applicable

12. Earnest Money Agreement if applicable

REQUIREMENTS FOR PURCHASE

The following documents must be delivered to Buyer by the 10th of the month for purchase by the end of that month.

In the event questions arise as to settlement date Buyer must be contacted before the delivery schedule is prepared.

DELIVERY SCHEDULE

The Delivery Schedule must be completed by the Seller-servicer for each mortgage sale to Buyer using the form supplied by Buyer (sample A & B). The Delivery Schedule will be audited by the Buyer before purchased, and in the event it is not prepared timely purchase will be delayed until the following month. All requested information must be supplied. Numbered columns are explained as follows:

1. Price column is used to indicate the percentage of participation.
2. Service rate will be established by each investment program.
3. Per diem interest rate is computed on a 360 or 365 day basis. Please indicate which when the delivery schedule is prepared.
4. The amount in column (3) times the days in the next column equal the amount in this column. Accrued or prepaid interest must be computed in order to eliminate adjustments to the first payment.
5. Service fees are computed according to the information in column (2). Each interest group (ie. 9.625% @ 100% @ 3/8 of 1%) must be totaled with a grand total at the end of the schedule to verify the amount of the total sale.
6. Columns (A), (B), (C), and (D) must foot and cross foot.

FINAL LOAN DOCUMENTS

Final loan documents must be delivered to Buyer at time of purchase or within 60 days of closing and endorsed when applicable:

1. Note

   (a) Endorsed as follows:

   Pay to the order of the State of Alaska
   Department of Revenue _____
   _____
   without recourse this _____day of
   _____, 19___.
   Bank_____
   Name_____
   Title_____

2. Deed of Trust -recorded
3. Assignment of Deed of Trust - recorded (one for each mortgage)

4. Title Insurance (conformed copy) ALTA policy whenever possible.

5. Certificate of Hazard Insurance Coverage

6. Mortgage Insurance or Guarantee Certificate (if required)

   a. Private Mortgage Insurance

   b. FHA or VA certificate

7. When applicable original completion certificate from the appraiser with pictures

8. Participation Certificate (one for each participation loan)

Original documents are required on items 1 through 7 for all 100% loans. Copies of all documents of items 1 through 7 are required for participation loans plus original pictures and Participation Certificate.

REQUIREMENTS FOR SERVICING

All mortgages will be serviced by Seller-servicer from one office, unless special arrangements are made at the time of purchase or commitment.

REPORTING

A. SETTLEMENT REMITTANCE SUMMARY:

The Settlement Remittance Summary is required with each remittance and must include the following information that pertains to the % of Buyer participation:

1. Loan type
2. Percent of participation
3. Interest rate
4. Service rate
5. Interest collected
6. Service fee withheld
7. Net interest
8. Principal collected
9. Net principal and interest (sum of 7 and 8, above)
10. All columns must foot and crossfoot.

Normal monthly remittance must be received by the Buyer within five working days of cutoff using the Settlement Remittance Summary form designed by Buyer (sample C). List all 100% participation loan groups

first with lowest rate on top. Then list participation percentages in declining order. Columns must foot and crossfoot and must balance with the Principal Trial Balance report attached. All "adjustments" must be explained giving at least the same amount of detail listed in the upper part of the form. (Use space provided)

B. PRINCIPAL TRIAL BALANCE

A monthly Principal Trial Balance report is required that includes the following information that pertains only to the % of Buyer participation:

1. Loan type
2. Gross Interest Rate
3. Service Rate (eg. 3/8 of 1% or .375)
4. Loan number
5. Names of borrowers
6. Beginning principal balances on manual reports
7. Ending principal balances
8. Interest paid through or to date
9. Amount of interest collected
10. Amount of principal collected

The Principal Trial Balance form designed by the Buyer (sample D) or an appropriate computerized report with at least the same type of information provided may be used at the option of the Seller-servicer.

The Principal Trial Balance report must include a balance on all mortgages with the last interest paid to date whether or not a payment has been made that month. These trial balances must be prepared on an individual group basis. (see definition of group page 9) The percentage of participation must be listed (across from the words "State Participation only" on manual reports). The interest rate shown must be the gross paid before deduction of service charge; the service rate must also be noted. Columns must foot and crossfoot and page totals must agree with the figures brought forward to the Settlement Remittance Summary which serves as the cover page to the remittance package.

The information required in the Principal Trial Balance can be provided by computerized reports with such titles as "Serviced Loan

Report", "Monthly Remittance Report", and "Investor Remittance Report" in conjunction with a simple Principal Trial Balance. However, all information listed above must be provided. Loan names must appear on one of these reports. Loan numbers alone are not acceptable. The loan names may be added by hand or typed in.

C. DELINQUENCY REPORTS

The Seller-servicer must submit monthly a separate Delinquency Report for each Loan Type and Fund which contains at a minimum certain standard information (sample E). Other formats are acceptable provided that the information described below is included.

In the event that no loans are delinquent at the end of any reporting period, the Seller-servicer must submit a Delinquency Report indicating "-0- loans delinquent."

Each report must be self contained and show the following type of information:

1. Fund name (PERS, TRS, SPFM, BLIP, MOP)
2. Type of loan (FHA-VA, SBA, CONV)
3. Loan number
4. Loan name
5. Gross interest rate
6. % of participation
7. Service fee rate
8. Interest date: (one or the other, never both)
   a. Paid to date
   b. Paid through date
9. Principal balance outstanding (NOT the amount of P & I delinquent) on % of Buyer participation only.
10. Total number of days delinquent - list number of days delinquent in their respective columns
    a. 30 - 60 days
    b. 61 - 90 days
    c. Over 90 days

11. Collection efforts and comments - if any loan exceeds 60 days delinquent then a separate explanation is required detailing why the loan is delinquent and the method your institution is using to bring the loan current. On those loans over 90 days delinquent a separate letter must also be sent to the Mortgage Investment Officer stating cause to proceed or not to proceed with foreclosure.

D. PAYOFFS AND PARTIAL PAYOFFS

All payoffs must be received by the Buyer within five working days of the date of the payoff and must be remitted <u>separate</u> from the normal monthly remittances. The information required on each payoff is as follows: (See Sample G)

1. Current loan name
2. All previous owners
3. Bank loan number
4. SBA, VA or FHA loan number
5. Fund (PERS, TRS, SPFM, BLIP, MOP)
6. Type (CONV, FHA-VA, SBA)
7. Gross interest rate
8. Service fee rate
9. Percentage of participation
10. Short legal description (when available)
11. Interest paid from and to dates
12. Total principal paid on % of Buyer participation
13. Total interest paid on % of Buyer participation
14. Service fee charged
15. A detailed name and address to return the paid off loan file along with signed request for full reconveyance when applicable.

If those payoffs and partial payoffs are not received by the Buyer within five working days a late charge at the "interest rate of the loan times the balance" will be charged the Seller-servicer for the excess days it took to remit the money to Buyer.

Payoffs in the form of Seller-servicer repurchases or buy-backs require prior written authorization from Buyer.

E. NOTICE OF ASSUMPTION

Notice of assumptions must be sent timely for all loans the Buyer owns. This notice must detail old owner, new owner, type of liability, new mailing address, fund and type of loan. If original mortgagor has a release of liability a credit package for the new mortgagor must be furnished Buyer. The Buyer reserves the right to increase the interest rate. Each investment program will designate when the Buyer must give prior written approval for each assumption.

F. HAZARD INSURANCE

A Certificate of Hazard Insurance Coverage (Sample F) must be sent to Buyer at closing and in the event of a reduction in coverage that is not at least equal to the unpaid principal balance of the mortgage.

G. LOAN MODIFICATIONS

All loan modifications must have prior written approval from the Buyer. A loan modification, recast, reamortization or extention requires a change in one or more of the provisions of the mortgage. These changes may require a new document to be executed and recorded and an updated title policy. Delinquent interest will be capitalized and considered as collected. All recast worksheets and, when applicable, financial statements must be provided to the Buyer along with a written justification from a bank officer. Modifications must not extend beyond the life of the original mortgage. A reamortization of monthly payments and/or a balloon payment at maturity will be required

Loan modifications due to substantial curtailments will be reviewed on an individual basis and must be approved by the Buyer.

Modifications effecting FHA, VA and SBA loans must also meet the minimum requirements of that agency.

H. FORECLOSURES AND FORECLOSED LOANS

All loans over 90 days delinquent are subject to foreclosure proceedings with the prior written approval of the Buyer. Justification to proceed or not to proceed with the foreclosure along with detailed alternate collections methods must be in writing to the Buyer monthly. These requests will be reviewed by the Buyer and the Seller-servicer will be notified in writing of the results.

Foreclosure proceedings and interpretation of legal requirements are the responsibility of the Seller-servicer as well as notifying the Buyer of all their legal obligations for satisfaction of tax and other liens against the property.

Bankruptcy filing must be brought to the attention of the Buyer immediately. Filing to have property set aside from the bankruptcy will be an automatic process by the Seller-servicer.

Buyers title policy will be required at the end of litigation if the Buyer is the successful bidder in the foreclosure proceedings.

An accounting statement for expenses incurred during and immediately after the foreclosure (ie. attorney, property taxes, insurance, reserve balances, lock-up and other security precautions, etc.) is required by the Buyer within thirty (30) days. A copy of the private mortgage insurance claim is also required by the Buyer from the Seller-servicer within sixty (60) days of the date of the foreclosure. Filing extentions for private mortgage insurance claims must have written approval of the insurance company.

Management of foreclosed property is the responsibility of the Seller-servicer. The property must be secured from strip and waste and hazard insurance must be maintained. If the private mortgage insurance company pays the claim, the property must be listed for sale and a diligent effort made to sell the property as soon as possible. Monthly status reports wil' be required on all foreclosed loans.

DEFINITIONS

FUNDS:	PERS - Public Employees Retirement System
	TRS - Teachers Retirements System
TYPE:	CONV - Conventional Loans
	FHA-VA - Federal Housing Administration - Veterans Administration
	SBA - Small Business Administration
% of PARTICIPATION:	That portion of the mortgage that the State of Alaska owns for one of the above funds, e.g., 100%; 90%; 75%; etc.
GROUP:	A loan group is a Fund, Type, Interest Rate, @ Service Rate and % of Participation, e.g., PERS-CONV-9.50% @ 3/8 of 1%, 100 Part.

From the effective date of this agreement all other agreements and its addendums are superseded by this agreement. All State of Alaska statutes and amendments to statutes effecting mortgage investments will automatically be an integral part of this Agreement and will, when applicable, replace any phraseology in this Agreement. Outstanding commitments to purchase effected by amendments will be honored. (State of Alaska Statutes, Exhibit A--PERS, Exhibit B--TRS)

IN WITNESS WHEREOF, each party has caused its seal to be affixed hereto and this instrument to be signed in its name on its behalf by its proper officials duly authorized.

Effective this 2nd day of June, 19 83.

SELLER-SERVICER:

Alaska Mutual Bank

By Wesley W. Clubb

Wesley W. Clubb

Title Vice President

(SEAL)

Date June 2, 1983

BUYER:

State of Alaska, Department of Revenue

By Walton B. Parker

Title Deputy Commissioner

Date 6-8-83

Sample

DELIVERY SCHEDULE - LOANS PURCHASED BY STATE OF ALASKA, COMMISSIONER OF REVENUE, FOR:

Date Submitted 1-5-80 (possibility of four funds) FUND

Page 1 of 2 YOUR BANK NAME (Bank Name) 1-25-80 (Purchase Date)

Loan Number Mortgagor and Property Address	Int. Rate	Original Loan Amount	Present Loan Balance	1 Price	Premium (Discount)	2 Service Rate	(A) NET BALANCE	Interest Paid To Date	3 Per Diem Int. 360	Add'l # of Days Int.	4 (B) Amount of Accrued → (Pre Paid) → Interest	5 (C) Service Fee (00.00) → 00.00	(=D) TOTAL PRICE PAID
SMITH, Juno #1898 402 Main Stree Juneau	9.625	100,000.00	99,876.49	100	-0-	3/8 of 1	99,876.49	12-10-79	26.70	46	1,228.20	(47.85)	101,056.84
HANDS, Hank #1908 102 Seward St. Juneau	9.625	75,000.00	75,000.00	100	-0-	3/8 of 1	75,000.00	1-1-80	20.05	24	492.00	(19.17)	75,472.83
TOTAL							174,876.49				1,720.20	(67.02)	176,529.67
ALEX, Dick #1977 Douglas Hwy Anchorage	9.625	125,000.00	125,000.00	100	-0-	1/4 of 1	125,000.00	1-1-80	33.42	24	802.08	(31.25)	125,770.83
DiVINCI, Leo #1965 Tulip Drive Fairbanks	10.50	285,000.00	285,000.00	75	-0-	1/4 of 1	213,750.00	2-1-80	62.34	(7)	(436.38)	10.39	213,324.01
HOMEMAKER, Suz #1060 1 Home Street Nome	10.50	325,000.00	325,000.00	75	-0-	1/4 of 1	243,750.00	1-1-80	71.09	24	1,706.16	(40.62)	245,415.54
TOTAL							457,500.00				1,269.78	(30.23)	458,739.55

DELIVERY SCHEDULE - LOANS PURCHASED BY STATE OF ALASKA, COMMISSIONER OF REVENUE, FOR:

Date Submitted 1-5-80 — (possibility of four funds) — FUND

YOUR BANK NAME (Bank Name) — 1-25-80 (Purchase Date)

Loan Number Mortgagor and Property Address	Int. Rate	Original Loan Amount	Present Loan Balance	Price	Premium (Discount)	Service Rate	NET BALANCE	Interest Paid To Date	Per Diem Int.	Add'l # of Days Int.	Amount of Accrued (Pre Paid) Interest	Service Fee (00.00) 00.00	TOTAL PRICE PAID
Weight Reduction Clinic #1206 Turnagain Arm Anchorage	10.75	325,000.00	325,000.00	100	-0-	1/8 of 1	325,000.00	1-1-80	97.05	24	2,329.20	(27.08)	327,302.12
TOTAL LOAN SALE							1,082,376.49				6,121.26	(155.58)	1,088,342.17

Sample B

Submission Prepared By 907-276-0000

SETTLEMENT REMITTANCE SUMMARY

TO: ALASKA DEPARTMENT OF REVENUE
TREASURY DIVISION, MORTGAGE LOAN SECTION
POUCH S B
JUNEAU, ALASKA 99811

Settlement Date 1-00-80

We are enclosing check # 010101 in the amount of $ 43,283.18 covering collections due as detailed below for:

_____ ALASKA HOUSING FINANCE CORP (SPFM)
_____ BANK LOAN INCENTIVE PROGRAM (BLIP)
XXX MORTGAGE OPTION PROGRAM (MOP)
_____ PUBLIC EMPLOYEES RETIREMENT SYSTEM (P
_____ TEACHERS RETIREMENT SYSTEM (TRS)

Recapitulation of Principal and Interest collected (exclusive of mortgages paid in full).

SERVICER Bank Name

ADDRESS _____

_____, Alaska 99_____

BY Jan Smith

TITLE Supervisor Loan Servicing

Type	% Part	Int. Rate	Service Fee Rate	Interest Collected	Service Fee Withheld	NET Interest	Principal Collected	NET P & I
CONV	100	9.50	3/8 of 1%	11,506.56	454.21	11,052.35	1,074.84	12,127.1
CONV	100	9.875	3/8 of 1%	10,115.51	384.13	9,731.38	1,321.20	11,052.5
CONV	100	10.00	3/8 of 1%	7,090.20	265.88	6,824.32	482.64	7,306.9
CONV	75	10.25	3/8 of 1%	482.64	11.77	470.87	35.11	505.9
CONV	75	10.25	1/4 of 1%	8,323.19	203.00	8,120.19	593.94	8,714.1
CONV	50	9.75	3/8 of 1%	1,414.55	54.41	1,360.14	177.77	1,537.9
CONV	25	10.00	1/4 of 1%	1,936.80	48.42	1,888.38	150.05	2,038.4
			TOTAL	40,869.45	1,421.82	39,447.63	3,835.55	43,283.1

This is an example of possible reporting technique and not necessarily a factual representation. Some institutions with large volumns of groups may have separate reports for whole loans and participations.

Total Principal	$ 3,835.55
Total Interest	40,869.45
LESS SERVICE FEE	(1,421.82
Net P & I	$ 43,283.18
←Detail ADJUSTMENTS	-0-
BALANCE HEREWITH	$ 43,283.18

Sample C

PRINCIPAL TRIAL BALANCE

ON MORTGAGE LOANS
Serviced for State of Alaska
Department of Revenue, Treasury Division
Mortgage Loan Section, Pouch SB, Juneau, Alaska 99811

SERVICED BY YOUR BANK NAME DATE 1-00-80

Mailing Address

TYPE MOP-CONV INTEREST RATE 10.00% SERVICING RATE 3/8 of 1

STATE PARTICIPATION ONLY: 100 %

LOAN NO.	LOAN NAME	MORTGAGE BALANCE BEFORE PAYMENT	INT. PAID TO DATE	INTEREST PAID	PRINCIPAL PAYMENT	MORTGAGE BALA AFTER PAYMEN
0101	Al Calley	78,096.35	1-1-80	650.80	42.18	78,054.17
0106	Joe Smith	76,251.69	12-1-79	-0-	-0-	76,251.69
1109	Ivy Green	123,605.10	1-1-80	1,030.04	69.93	123,535.17
1216	Al Jonese	179,425.89 curtailment	1-1-80	1,495.22	69.72 100.00	179,256.17
1333	Wm Crabtree	65,360.80	2-1-80	544.67	35.28	65,325.52
1875	June Washboard	154,632.78	1-1-80	1,288.61	71.39	154,561.39
2063	Ole Olsen	83,265.44	11-1-79 12-1-79 1-1-80	693.88 693.62 693.36	31.12 31.38 31.64	83,171.30
TOTALS		760,638.05	Sample D	7,090.20	482.64	760,153.

State of Alaska, Department of Revenue
Mortgage Loan Section, Pouch SB, Juneau
FUND: _____ PERS XXXX TRS
_____ AHFC-SPFM _____ BLIP
_____ MOP

DELINQUENCY REPORT

_____
Bank Name

TYPE: ____ FHA-VA ____ SBA XXXX Conv.

PERIOD ENDED March 19,1980 Page 1 of 1

Loan Number	Loan Name	Interest Rate	Service Rate	Percent Part.	Last Interest Date Paid To	Last Interest Date Paid Thru	Principal Balance Outstanding	Total Days Delinq. 30-60	61-90	* CUTOFF Over 90	Collection Efforts & Comments on 61 days & over
301	Tom Foolery	12.00	3/8 of 1	100	1-1-80		85,575.34		79		Payments being brought current tru forebearance
212	Dick James	11.375	3/8 of 1	75	11-1-79		74,360.12			139	Foreclosure in Process, sale set for June 4, 1980
415	Harry Travel Trailers	10.00	1/4 of 1	37.5	2-1-80		175,451.01	49			

* Some banks do not report delinquencies to the day of cut-off or settlement but rather to the date of the last scheduled payment due. Please indiciate above which policy your bank is using.

When this form is prepared and there are any questions please contact the Mortgage Accountant for information.

Sample E

CERTIFICATE OF HAZARD INSURANCE COVERAGE

Anchorage, ALASKA

January 1, 1980

TO: STATE OF ALASKA-COMMISSIONER OF REVENUE FOR THE
Teachers Retirement System

This is to certify that the insurance policy described below is on file with
Y O U R B A N K N A M E, Anchorage, Alaska
and is in full force and effect on this date persuant to the terms of our servicing contract and addendum.

INSURED Leo & Mona Lisa DiVinci

PROPERTY ADDRESS Tulip Drive

LEGAL DESCRIPTION Lot 1 of Block D, Florentine West Subdivision

AMOUNT ON BUILDINGS $ 300,000.00 EXTENDED COVERAGE yes

OTHER $ Earthquake - Flood 380,000.00

DATE OF POLICY January 1, 1980 EXPIRATION DATE Auto renewal January 1st

INSURANCE COMPANY Firemans Fund

POLICY NUMBER AG-136-974

MORTGAGE CLAUSE TO State of Alaska, Department of Revenue, Teachers Retirement System

AND: Y O U R B A N K N A M E

INSURANCE AGENCY Sistine Chapter, Great Italian Insurance Company

THIS POLICY REPLACES: new policy

Insurance coverage, at least equal to the unpaid principal balance of the mortgage will be kept in force during the life of the loan, either by renewals or replacement policies.

Bank Name

BY: _____

(Title)

Dep. Rev. 3-4-80

Sample 7

PAYOFF REMITTANCE

Date Prepared: 2/4/80

TO: Alaska Department of Revenue
Treasury Division, Mortgage Loan Section
Pouch SB
Juneau, AK 99811

SERVICER: First National Bank of Alaska

Pouch Z

Anchorage, Alaska 99501

Original mortgagors name and/or name/names of assumers in order: Mudd, Johnny & Frankie

Spade, Sam S. (original Mortgagor)

Fund: PERS-CONV

Legal Description: Lot 3 Block 5 Boothill Estates

Loan Number: 543-1900

Interest Rate: 10.50%

Service Fee Rate: 3/8 of 1%

Participation Amount: 75%

Last Interest Paid to Date: 1/1/80

Payoff Date: 2/3/80

Interest, Number of Days: 33

Factor 360/365: 360

Principal Amount	52,473.12
Interest Amount	505.05
Service Fee	(18.04)
Total Remittance	52,960.13

By: Sally Short

Title: Note Clerk

04-803 (NEW 11/80)

Sample G

DELIVERY SCHEDULE - LOANS PURCHASED BY STATE OF ALASKA, COMMISSIONER OF REVENUE, FOR:

Date Submitted_____ _____ FUND

Page ____ of ____ _____ _____

(Bank Name) (Purchase Date)

Loan Number Mortgagor and Property Address	Int. Rate	Original Loan Amount	Present Loan Balance	Price	Premium (Discount)	Service Rate	NET BALANCE	Interest Paid To Date	Per Diem Int.	Add'l # of Days Int.	Amount of Accrued ——→ (Pre Paid)——→ Interest	Service Fee (00.00) 00.00	TOTAL PRICE PAID

7/76 04-792

SETTLEMENT REMITTANCE SUMMARY

TO: ALASKA DEPARTMENT OF REVENUE
TREASURY DIVISION, MORTGAGE LOAN SECTION
POUCH S B
JUNEAU, ALASKA 99811

Settlement Date _____

We are enclosing check # _____ in the amount of $ _____ covering collections due as detailed below for:

_____ ALASKA HOUSING FINANCE CORP (SPFM)
_____ BANK LOAN INCENTIVE PROGRAM (BLIP)
_____ MORTGAGE OPTION PROGRAM (MOP)
_____ PUBLIC EMPLOYEES RETIREMENT SYSTEM (PE
_____ TEACHERS RETIREMENT SYSTEM (TRS)

Recapitulation of Principal and Interest collected (exclusive of mortgages paid in full).

SERVICER _____ BY _____

ADDRESS _____ TITLE _____

_____, Alaska 99_____

Type	% Part	Int. Rate	Service Fee Rate	Interest Collected	Service Fee Withheld	NET Interest	Principal Collected	NET P & I
			TOTAL					

Total Principal $ _____

Total Interest _____

LESS SERVICE FEE (_____

Net P & I $ _____
←Detail
ADJUSTMENTS _____

BALANCE HEREWITH $ _____

PRINCIPAL TRIAL BALANCE

ON MORTGAGE LOANS
Serviced for State of Alaska
Department of Revenue, Treasury Division
Mortgage Loan Section, Pouch S8, Juneau, Alaska 99811

SERVICED BY _____ DATE _____

_____

TYPE _____ INTEREST RATE _____ SERVICING RATE _____

STATE PARTICIPATION ONLY: _____% Page _____ of _____

LOAN NO.	LOAN NAME	MORTGAGE BALANCE BEFORE PAYMENT	INT. PAID TO DATE	INTEREST PAID	PRINCIPAL PAYMENT	MORTGAGE BALA AFTER PAYMEN
TOTALS						

tate of Alaska, Department of Revenue
ortgage Loan Section, Pouch SB, Juneau

DELINQUENCY REPORT

TYPE: ____FHA-VA ____SBA ____Conv.

FUND: _____PERS _____TRS

_____MOP _____BLIP _____ Bank Name

PERIOD ENDED _____ Page __of__

_____APFC

Loan Number	Loan Name	Interest Rate	Service Rate	Percent Part.	Last Interest Date Paid To	Last Interest Date Paid Thru	Principal Balance Outstanding	Total Days Delinq. 30-60	61-90	Over 90	Collection Efforts & Comments on 61 days & over

CERTIFICATE OF HAZARD INSURANCE COVERAGE

_____, ALASKA

_____, 19____

TO: STATE OF ALASKA-COMMISSIONER OF REVENUE FOR THE _____

_____

This is to certify that the insurance policy described below is on file with

_____, _____, Alaska

and is in full force and effect on this date persuant to the terms of our servicing contract and addendum.

INSURED _____

PROPERTY ADDRESS _____

LEGAL DESCRIPTION _____

_____

AMOUNT ON BUILDINGS $_____ EXTENDED COVERAGE_____

OTHER $_____

DATE OF POLICY_____ EXPIRATION DATE_____

INSURANCE COMPANY_____

POLICY NUMBER_____

MORTGAGE CLAUSE TO_____

AND: _____

INSURANCE AGENCY_____

THIS POLICY REPLACES:_____

Insurance coverage, at least equal to the unpaid principal balance of the mortgage will be kept in force during the life of the loan, either by renewals or replacement policies.

_____
Bank Name

BY:_____

_____
(Title)

Dep. Rev. 3-4-80

PAYOFF REMITTANCE

Date Prepared: _____

TO: Alaska Department of Revenue
Treasury Division, Mortgage Loan Section
Pouch SB
Juneau, AK 99811

SERVICER: _____

_____

_____, _____

Original mortgagors name and/or
name/names of assumers in order: _____

_____

_____

Fund: _____

Legal Description: _____

Loan Number: _____

Interest Rate: _____

Service Fee Rate: _____

Participation Amount: _____

Last Interest Paid to Date: _____

Payoff Date: _____

Interest, Number of Days: _____

Factor 360/365: _____

Principal Amount	_____
Interest Amount	_____
Service Fee	(_____)
Total Remittance	_____

By: _____

Title: _____

04-803 (NEW 11/80)

Exhibit A

PUBLIC EMPLOYEES RETIREMENT SYSTEM

Effect of amendments. — The 1977 amendment in subsection (b), substituted "record" for "[illegible]" in the first sentences of paragraphs (1) and (2), deleted "shall be credited as of the date of deduction or payment, as the case may be" from the end of the first sentences of paragraphs (1) and (2), substituted "retirement" for "granting a pension" near the beginning of the third sentence of paragraph (1), deleted "an employee's" preceding "retirement, the amount," in the fourth sentence of paragraph (2), substituted "savings account" for "contribution account" in two places in the fourth sentence of paragraph (2), and deleted an exception from the end of the second sentence of paragraph (3). The amendment also, in paragraph (4) of subsection (b), deleted "credited with all contributions of employers for the purposes of meeting their respective proportion of the total administrative expenses of the system during each fiscal year, and it shall be" following "This account shall be" near the beginning of the second sentence and rewrote the third sentence.

Sec. 39.35.110. Investments. (a) When, in the opinion of the commissioner of administration, there is on hand in the pension fund a surplus over and above a reasonably safe amount to take care of current demands upon the fund, the surplus, or so much of it as in the judgment of the commissioner of administration is considered proper, may be invested at competitive national market rates by the commissioner of revenue in

(1) Repealed by § 15 ch 122 SLA 1980.

(2) Repealed by § 15 ch 122 SLA 1980.

(3) Repealed by § 15 ch 122 SLA 1980.

(4) Repealed by § 15 ch 122 SLA 1980.

(5) shares of federally chartered savings and loan associations in Alaska, to the extent that the investment is insured by the federal government or an agency of the federal government;

(6) deposits with mutual savings banks in Alaska, to the extent that the investment is insured by the federal government or an agency of the federal government;

(7) deposits with state and national banks in Alaska to the extent that the investment is insured by the federal government or an agency of the federal government;

(8) Repealed by § 15 ch 122 SLA 1980.

(9) the guaranteed portion of Small Business Administration loans;

(10) first lien real estate mortgages guaranteed by the federal Veterans Administration;

(11) notes secured by mortgages of commercial or residential buildings if the mortgages are insured by a private mortgage insurance corporation which is authorized to do business in Alaska and has combined capital, surplus and reserves aggregating at least $20,000,000; however,

(A) no mortgage insurance is necessary for commercial loans having loan-to-value ratios of less than 50 percent and the minimum coverage of other commercial loans shall be 10 percent for those having a loan-to-value ratio of 50-60 percent and 15 percent for those having a loan-to-value ratio greater than 60 percent but no more than 75 percent, and

(B) no mortgage insurance is necessary for residential loans having a loan-to-value ratio of less than 70 percent and the minimum coverage of other residential loans shall be 10 percent for those having a loan-to-value ratio greater than 70 percent but less than 90 percent and 20 percent for those having a loan-to-value ratio of 90 percent;

(12) conventional residential mortgages if the originating financial institution retains at least 25 percent of the mortgage for a minimum of two years;

(13) notes secured by mortgages of commercial buildings if the originating financial institution retains at least 25 percent of the mortgage until maturity;

(14) FHA guaranteed portion of business and industrial loans made under the Rural Development Act of 1972;

(15) Repealed by § 15 ch 122 SLA 1980.

(16) Repealed by § 15 ch 122 SLA 1980.

(17) bankers' acceptances which are eligible for discount at the Federal Reserve Bank and certificates of deposit issued by United States domestic banks which are members of the Federal Deposit Insurance Corporation if a generally recognized secondary market exists for the certificates of deposit;

(18) obligations of, or obligations insured by or guaranteed by, the United States or agencies or instrumentalities of the United States;

(19) obligations secured by reserves paid in by the United States or agencies or instrumentalities of the United States or obligations of corporations in which the United States is a shareholder or member;

(20) corporate debt securities with a minimum rating of "A" or an equivalent rating by a nationally recognized rating organization;

(21) preferred and common stock of companies which have paid dividends in each of the three years immediately preceding the investment;

(22) commercial paper bearing the highest rating of a nationally recognized rating organization;

(23) securities of foreign governments, foreign governmental agencies, and foreign corporations the principal, interest or dividends on which are payable in either United States dollars or foreign currencies; however, investments under this paragraph may not exceed 10 percent of the total investments of the pension fund;

(24) foreign time deposits of both United States-owned and foreign-owned banks and trust companies denominated in either United States dollars or foreign currencies; however, investments under this paragraph may not exceed 20 percent of the total investments of the pension fund;

(25) gold bullion certified as to fineness of at least 9½ percent; however, investments under this paragraph may not exceed 10 percent of the total investments of the pension fund; the commissioner of revenue shall purchase gold bullion produced in Alaska to the extent

T39 Alaska, TO-4-32-1239

that Alaska gold bullion is available if it can be obtained at a price comparable to out-of-state sources.

(b) Repealed by § 15 ch 122 SLA 1980.

(c) In making investments the commissioner of revenue shall exercise the judgment and care under the circumstances then prevailing which an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income. However, no more than 50 percent of the pension fund may be invested at a given time in corporate stocks and debt securities, nor may more than five percent of the voting stock of one corporation be owned. Stocks eligible for purchase are restricted to stocks which, except for bank stocks and insurance stocks, are listed upon an exchange registered with the Federal Securities and Exchange Commission.

(d) Except as provided in this section, the commissioner of revenue may

(1) invest and reinvest the principal and income of the pension fund without distinction between principal and income;

(2) sell, exchange, convey, transfer, or otherwise dispose of an investment of the pension fund held in the name of the system by private contract or at public auction;

(3) vote upon a stock, bond, or other security; give a general or special proxy or power of attorney with or without power of substitution; exercise a conversion privilege, subscription right, or other option and make payments incidental to it; consent to or participate in a corporate reorganization or other change affecting corporate securities, delegate discretionary power, pay an assessment or charge in connection with the delegation; and generally exercise any of the powers of an owner with respect to stocks, bonds, securities, or other investments held in the pension fund;

(4) make, execute, acknowledge, and deliver documents of transfer and conveyance and instruments necessary or appropriate to carry out the powers granted;

(5) register investments held in the pension fund in the name of the system;

(6) do all acts whether or not expressly authorized which are considered necessary or proper for the protection of the investments held in the pension fund.

(e) To qualify as a mortgage which may be purchased under (a)(11), (12), or (13) of this section,

(1) the originating financial institution must certify that the mortgage being sold has been made in compliance with law and that liens supporting the mortgage have been perfected;

(2) the mortgage may not have been held by the originating financial institution for a period greater than 90 days.

(f) When more than one-half of one per cent of the aggregate of all loans purchased from a financial institution becomes delinquent for 60 days, the pension fund shall discontinue purchasing loans from that financial institution until the delinquency is reduced to less than one-half of one per cent.

(g) Repealed by § 15 ch 122 SLA 1980.

(h) The commissioner of revenue may enter into futures contracts for the sale of investments purchased under (a) of this section only for the purpose of hedging an existing equivalent ownership position in the investments.

(i) The commissioner of revenue may transfer at any time a portion of the assets of the pension fund to a trust which is qualified under sec. 401(a) of the Internal Revenue Code (26 U.S.C. sec. 401(a)) and exempt from taxation under sec. 501(a) of the Internal Revenue Code (26 U.S.C. sec. 501(a)) and which is maintained as a medium for pooling a portion of the funds of pension and profit-sharing trusts for diversifying investments in real estate and interests in real estate.

(j) The commissioner of revenue may enter into a contract or trust agreement necessary to effectuate the transfer of assets of the pension fund or to maintain the assets of the pension fund to be transferred to a trust under (i) of this section. (§ 37 ch 143 SLA 1960; am § 1 ch 129 SLA 1961; am § 1 ch 150 SLA 1962; am § 2 ch 4 SLA 1964; am §§ 1 — 3 ch 80 SLA 1964; am § 1 ch 111 SLA 1964; am § 1 ch 56 SLA 1967; am § 4 ch 73 SLA 1969; am §§ 3, 4 ch 17 SLA 1970; am § 2 ch 112 SLA 1972; am §§ 3, 4 ch 25 SLA 1974; am §§ 3, 4 ch 59 SLA 1977; am §§ 7 — 10, 15 ch 122 SLA 1980)

Cross references. — As to custody and investment of the teachers retirement fund, see AS 14.25.180. As to investment of surplus funds of the state, see AS 37.10.070.

Effect of amendments. — The 1977 amendment, in subsection (a), inserted "private mortgage insurance" in paragraph (11), added the language beginning "however, (A) no mortgage insurance is necessary" to the end of that paragraph, and added paragraphs (16) and (17).

The 1980 amendment, in subsection (a), inserted "at competitive national market rates" near the end of the introductory paragraph, repealed former paragraphs (1) — (4), (8), and (15) and (16), substituted "the" for "such" preceding "investment" in paragraphs (5) and (6), substituted "of the federal government" for "thereof" at the end of paragraphs (5) and (6), substituted "buildings" for "real estate or other security" near the beginning of the introductory paragraph of paragraph (11), substituted "buildings" for "real estate" and added "until maturity" in paragraph (13), and "negotiable time" preceding "certificates of deposit" in paragraph (17), substituted "United States domestic" for "commercial" near the middle of paragraph (17), added the material at the end of paragraph (17), which begins: "which are members of" and ends: "certificates of deposit," and added paragraphs (18) — (25). The amendment, in subsection (c), substituted "an institutional investor" for "a man," and "large investments entrusted to it" for "his own affairs" near the beginning of the subsection, deleted "his" following "permanent disposition of" and "the" preceding "probable safety of capital" near the middle of the subsection, inserted "safety of capital as well as probable" preceding "income" and deleted "from

them as well as the probable safety of his capital" at the end of the first senten... deleted "mutual funds and" preceding "corporate stocks" near the beginning of the second sentence, substituted "debt securities" for "bonds," and "may" for "any" near the middle of the second sentence, substituted "and" for a comma following "bank stocks," and deleted "and shares in mutual funds" following "insurance stocks" near the middle of the third sentence; rewrote subsection (e); added subsections (h) — (j); and repealed subsections (b) and (g).

Article 2. Membership.

Section
120. Commencement of participation
125. Participation of elected officials
[Repealed]
[Repealed]
150. ...e-employment of retired employees
153. A...y and air national guard em...oyees
154. North Pacific Fishery Management Council employees
155. [Obsolete]
157. [Obsolete]
158. Administrative director of courts

Sec. 39.3...120. Commencement of participation. (a) An employee of ...e state shall be included in this system upon commencement ...f his employment with the state, or on January 1, 1961, whichever is later. An employee of a political subdivision or public organization ...hich becomes an employer shall be included in the system on the effe...e date of the employer's participation or the date of the employee's ...ommencement of employment with the employer, whichever is late...

(b) **[Effective until Janua... 1, 1981]** Inclusion in the system is a condition of employment for an ...ployee except an elected official.

[Effective January 1, 1981] I...lusion in the system is a condition of employment for an employee exce...t as otherwise provided for an elected official. (§ 4 ch 143 SLA 1960; ...m § 1 ch 155 SLA 1966; am § 28 ch 13 SLA 1980; am § 27 ch 146 SL... 1980)

Effect of amendments. — The first 1980 amendment deleted "or quasi-public" preceding "organization" near the beginning of the second sentence in subsection (a).

The second 1980 amendment, effective January 1, 1981, inserted "as otherwise provided for" preceding "an elected official" near the end of subsection (b).

Negotiability of retirement system benefits. — Given subsection (b) of this section and AS 39.35.170, which make inclusion in the public employees retirement s...tem (AS 39.35) a condition of employment for state employees and contributions t... it mandatory, the conclusion is that t... legislature intended the statutory provi...ns of the public employees retirement s...tem to apply to all state employees, and b...efits under the public employees retiremen...system may not be negotiated under ...e Public Employment Relations Act (AS ...40.070 — 23.40.260). January 23, 1978, ... Att'y Gen.

Sec. 39.35.125. Participation of elected officials. [Effective until January 1, 1981] (a) An elected official, other than a state legislator who is an active member of the teachers' retirement system, may be included in the system if, within 60 days after taking the oath of his office or within 60 days after May 12, 1966

Exhibit B

TEACHERS RETIREMENT SYSTEM

(d) The board may impose conditions on granting a waiver which it considers equitable. These conditions may include requiring the member or beneficiary to make additional contributions to the system.

(e) The board may reconsider a ruling under this section upon request of the member or beneficiary or the administrator if the request is received within 30 days after the initial ruling. Any modification of the initial ruling must be made within 30 days after receipt of a request for reconsideration.

(f) Rulings and modifications of rulings under this section must be by a majority of a quorum of the board.

(g) Rulings on appeals and requests for reconsideration under this section may be appealed by an aggrieved member or beneficiary to the superior court for abuse of discretion. (§ 1 ch 81 SLA 1979)

Sec. 14.25.177. Effect of amendments. (a) An amendment to this chapter is not retroactive unless its retroactivity is expressly stated in the amendment.

(b) The monthly amount of a benefit payable under this chapter shall be determined in accordance with the provisions of this chapter in effect on the date of termination of the member's last segment of employment. (§ 4 ch 169 SLA 1976; am § 21 ch 13 SLA 1980)

Effect of amendment. — The 1980 amendment, effective July 1, 1980, rewrote the section.

Sec. 14.25.180. Custody and investment.

(b) When, in the opinion of the commissioner of administration, there is on hand in the retirement fund a surplus over and above a reasonably safe amount to take care of current demands upon the fund, the surplus or so much of it as in the judgment of the commissioner of administration is considered proper may be invested at competitive national market rates by the commissioner of revenue in

(1) (repealed);

(2) (repealed);

(3) (repealed);

(4) shares of federally chartered savings and loan associations in Alaska, to the extent that the investment is insured by the federal government or by an agency of the federal government;

(5) deposits with mutual savings banks in Alaska, to the extent that the investment is insured by the federal government or an agency of the federal government;

(6) deposits with state and national banks in Alaska to the extent that the investment is insured by the federal government or an agency of the federal government;

(7) (repealed);

(8) (deleted);

(9) the guaranteed portion of Small Business Administration loans;

(10) first lien real estate mortgages guaranteed by the federal Veterans Administration;

(11) notes secured by mortgages of commercial or residential buildings if the mortgages are insured by a private mortgage insurance corporation which is authorized to do business in Alaska and has combined capital, surplus and reserves aggregating at least $20,000,000; however,

(A) no mortgage insurance is necessary for commercial loans having loan-to-value ratios of less than 50 percent and the minimum coverage of other commercial loans shall be 10 percent for those having a loan-to-value ratio of 50-60 percent and 15 percent for those having a loan-to-value ratio greater than 60 percent but no more than 75 percent, and

(B) no mortgage insurance is necessary for residential loans having a loan-to-value ratio of less than 70 percent and the minimum coverage of other residential loans shall be 10 percent for those having a loan-to-value ratio greater than 70 percent but less than 90 percent and 20 percent for those having a loan-to-value ratio of 90 percent;

(12) conventional residential mortgages if the originating financial institution retains at least 25 percent of the mortgage for a minimum of two years;

(13) notes secured by mortgages of commercial buildings if the originating financial institution retains at least 25 percent of the mortgage until maturity;

(14) FHA guaranteed portion of business and industrial loans made under the Rural Development Act of 1972;

(15) (repealed);

(16) (repealed);

(17) bankers' acceptances which are eligible for discount at the Federal Reserve Bank and certificates of deposit issued by United States domestic banks which are members of the Federal Deposit Insurance Corporation if a generally recognized secondary market exists for the certificates of deposit;

(18) obligations of, or obligations insured by or guaranteed by, the United States or agencies or instrumentalities of the United States;

(19) obligations secured by reserves paid in by the United States or agencies or instrumentalities of the United States or obligations of corporations in which the United States is a shareholder or member;

(20) corporate debt securities with a minimum rating of "A" or an equivalent rating by a nationally recognized rating organization;

(21) preferred and common stock of companies which have paid dividends in each of the three years immediately preceding the investment;

(22) commercial paper bearing the highest rating of a nationally recognized rating organization;

(23) securities of foreign governments, foreign governmental agencies, and foreign corporations the principal, interest or dividends on which are payable in either United States dollars or foreign currencies; however, investments under this paragraph may not exceed 10 percent of the total investments of the retirement fund;

(24) foreign time deposits of both United States-owned and foreign-owned banks and trust companies denominated in either United States dollars or foreign currencies; however, investments under this paragraph may not exceed 20 percent of the total investments of the retirement fund;

(25) gold bullion certified as to fineness of at least 99-½ percent; however, investments under this paragraph may not exceed 10 percent of the total investments of the retirement fund; the commissioner of revenue shall purchase gold bullion produced in Alaska to the extent that Alaska gold bullion is available if it can be obtained at a price comparable to out-of-state sources.

(c) In making investments the commissioner of revenue shall exercise the judgment and care under the circumstances then prevailing which an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income. However, no more than 50 percent of the retirement fund may be invested at any given time in corporate stocks and debt securities, nor may more than five percent of the voting stock of a corporation be owned. Stocks eligible for purchase are restricted to stocks which, except for bank stocks and insurance stocks, are listed upon an exchange registered with the Federal Securities and Exchange Commission.

(d) Except as provided above, the commissioner of revenue may:

(1) invest and reinvest the principal and income of the retirement fund without distinction between principal and income;

(2) sell, exchange, convey, transfer or otherwise dispose of any investment of the retirement fund held in the name of the system by private contract or at public auction;

(3) vote stocks, bonds or other securities; give general or special proxies or powers of attorney with or without power of substitution; exercise conversion privileges, subscription rights or other options and make payments incidental thereto; consent to or otherwise participate in corporate reorganizations or other changes affecting corporate securities and delegate discretionary powers and pay assessments or charges in connection therewith; and generally exercise the powers of an owner with respect to stocks, bonds, securities or other investments held in the retirement fund;

(4) make, execute, acknowledge and deliver documents of transfer and conveyance and other instruments necessary or appropriate to carry out the powers granted by this subsection;

(5) register investments held in the retirement fund in the name of the system;

(6) do all acts whether or not expressly authorized which he considers necessary or proper for the protection of the investments held in the retirement fund.

(e) To qualify as a mortgage which may be purchased under (b)(11), (12) or (13) of this section,

(1) the originating financial institution must certify that the mortgage has been made in compliance with law and that liens supporting the mortgage have been perfected;

(2) the mortgage may not have been held by the originating financial institution for a period greater than 90 days.

(g) The commissioner of revenue may enter into futures contracts for the sale of investments purchased under (b) of this section only for the purpose of hedging an existing equivalent ownership position in the investments.

(h) The commissioner of revenue may transfer at any time a portion of the assets of the retirement fund to a trust which is qualified under sec. 401(a) of the Internal Revenue Code (26 U.S.C. sec. 401(a)) and exempt from taxation under sec. 501(a) of the Internal Revenue Code (26 U.S.C. sec. 501(a)) and which is maintained as a medium for pooling a portion of the funds of pension and profit-sharing trusts for diversifying investments in real estate and interests in real estate.

(i) The commissioner of revenue may enter into a contract or trust agreement necessary to effectuate the transfer of assets of the retirement fund or to maintain the assets of the retirement fund to be transferred to a trust under (h) of this section.

(am §§ 1, 2 ch 59 SLA 1977; am §§ 1 — 5 ch 122 SLA 1980)

Cross references. — As to investment of surplus funds, see AS 37.10.070. As to investments, see AS 39.35.110.

Effect of amendments.

The 1977 amendment, in subsection (b), inserted "private mortgage insurance" in paragraph (11), added the language beginning "however, (A) no mortgage insurance is necessary" to the end of that paragraph, and added paragraphs (16) and (17).

The 1980 amendment, effective July 1, 1980, in subsection (b), inserted "at competitive national market rates" in the introductory language; deleted paragraphs (1) — (3), (7), and (15) and (16), relating to certain governmental bonds or other interest-bearing obligations and securities, certain first lien real estate mortgage securities, corporation bonds and preferred and common stocks, loans guaranteed by the division of veterans affairs, guaranteed portion of loans made under the Federal Ship Financing Act of 1972, and certain Canadian bonds, debentures, notes or other obligations, respectively; substituted "buildings" for "real estate or other security" in the introductory language of paragraph (11); substituted "buildings" for "real estate" and inserted "until maturity" in paragraph (13); deleted "negotiable time" preceding "certificates" and substituted the language beginning "United States domestic banks" for "commercial banks" in paragraph (17); and added paragraphs (18) — (25). In subsection (c), the amendment substituted "an institutional

investor" for "men," "exercises" for "exercise," "large investments entrusted to it" for "their own affairs" and "probable safety of capital as well as probable income" for "the probable income therefrom as well as the probable safety of their capital" in the first sentence, deleted "their" preceding "funds" in the first sentence, and substituted "debt securities" for "bonds" and "a corporation" for "any corporation" in the second sentence. In addition, the amendment inserted "held in the retirement fund" in paragraph (5) of subsection (d), rewrote subsection (e), and added subsections (g) — (i).

Sec. 14.25.200. Exemption from taxation and process. Benefits and other amounts held in the retirement fund on behalf of the members are exempt from Alaska state and municipal taxes and are not subject to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, charge, garnishment, execution or levy of any kind, either voluntary or involuntary before they are received by the person entitled to the amount under the terms of the system, and any attempt to anticipate, alienate, sell, transfer, assign, pledge, encumber, charge, or otherwise dispose of any right to amounts accrued in the retirement fund is void. (§ 22 ch 145 SLA 1955; am § 17 ch 89 SLA 1960; am § 13 ch 84 SLA 1969; am § 22 ch 13 SLA 1980)

Effect of amendment. — The 1980 amendment, effective July 1, 1980, substituted "Benefits" for "Teachers' retirement salaries" at the beginning of the section, substituted "members" for "teachers" following "on behalf of the" near the beginning of the section, inserted "Alaska" preceding "state and municipal taxes" near the beginning of the section, and substituted "is void" for "shall be void" at the end of the section.

As the rest of the section was not affected by the amendment, it is not set out.

Cited in Gutterman v. First Nat'l Bank, Sup. Ct. Op. No. 1873 (File No. 3996), 597 P.2d 969 (1979).

Sec. 14.25.205. Time limit for application. If no application for benefits or for refund has been filed with the administrator by July 1 following the date on which an inactive member (except a member on leave of absence without pay) would attain age 75, or if no application for benefits or for refund has been filed with the administrator within the 50 years following the most recent date on which the person was an active member, no benefits or refunds may be paid under this chapter and the member's records may be destroyed. (§ 14 ch 84 SLA 1969; am § 23 ch 13 SLA 1980)

Effect of amendment. — The 1980 amendment, effective July 1, 1980, rewrote the section.

Sec. 14.25.220. Definitions. In this chapter, unless the context requires otherwise,

(1) "active member" means a member who is employed by an employer, is receiving compensation on a full-time or part-time basis, and is making contributions to the system, or a member making contributions under AS 14.20.330 or 14.20.345;

ALASKA PERMANENT FUND CORPORATION

SALES AND SERVICING AGREEMENT ADDENDUM

In conjunction with and as an addendum to the Agreement between ALASKA MUTUAL BANK, (employer identification number 92 00283-15) herein called "Seller-servicer", and the Alaska Permanent Fund Corporation, herein called "Buyer", and dated OCTOBER 29, 1982, the following uniform guidelines regarding the submission, purchase, and servicing of mortgages are hereby established and made part of said Agreement. Because it addresses specific procedures and the format of reports, this addendum should be distributed to all sections of the Seller-servicer mortgage department. All correspondence and inquiries should be directed to the attention of the Mortgage Section at:

Alaska Department of Revenue
Treasury Division
Pouch SB
Juneau, Alaska 99811
(907) 465-2354 - (907) 465-2353

All correspondence to Buyer must bear the loan name, fund name (Alaska Permanent Fund Corporation), loan type (FHA-VA, SBA, FmHA, CONV, CONV-ARM), interest rate, anniversary group, percent of participation, brief legal description of property, if available, and all previous owners, if applicable.

GENERAL REQUIREMENTS

All loans submitted for purchase must have private mortgage insurance, 25% bank participation, FHA insurance, FmHA insurance, VA guarantee or SBA guarantee, if required. No take-out refinances will be purchased. Loan to value ratios will be established by investment program in a separate requirement letter or regulations. All loans will be purchased at par unless advised otherwise. Usury rate applies on loans under $25,000. Specific conditions to purchase will be detailed in a "Commitment Requirement" or "Regulations" sent out at the time of each general commitment. Standard industry underwriting criteria for each type of loan will apply as detailed by FNMA or FHLMC.

REQUIREMENTS FOR COMMITMENT TO PURCHASE

Commitment fee requirements will be established by investment program and when applicable must accompany the original loan submission package.

This fee is non-refundable, except as noted below, and no loan substitutions may be made. Deposit of commitment check does not mean the loan is approved. Official notification will be sent regarding commitment. Commitment fee will only be returned or credit given on loans refused. Buyer will not commit to purchase and/or honor existing commitments to purchase mortgages from any Seller-servicer when they exceed the delinquency ratio established by Alaska Statutes §37.13.120 (Exhibit A) and Buyer Regulations (Exhibit B) Buyer will commit to purchase and/or honor existing commitments to purchase mortgages when the delinquency is reduced to these requirements.

LOAN SUBMISSION FOR COMMITMENT

Requests for commitments and/or purchase must include, but is not necessarily limited to, copies of the following documents:

A. RESIDENTIAL

1. Loan application (including gross interest rate and service rate) (Must be a standard industry form such as FNMA #1003)
2. Conventional Mortgage type must be indicated at time of submission depending on investment program available:

   CONV - fixed rate mortgages

   CONV-ARM - Adjustable Rate Mortgages or Variable Rate Mortgages
3. Copy of Private Mortgage Insurance application (if applicable)
4. Original appraisal (with plat layout, original pictures and signature)
5. Credit report and credit letters
6. Earnest money agreement
7. Verification of all bank accounts
8. Employment verification
9. Tax returns (if self-employed)
10. Financial statements (if applicable)
11. Other pertinent information

B. COMMERCIAL

1. Offering sheet - containing but not necessarily limited to the following information:
   a. Borrower(s)
   b. Loan amount

c. Purpose of loan

d. Gross interest rate and service rate

e. Fee

f. Terms

g. Account relationship with Bank

h. Financial data (Assets - Liabilities - Net Worth)

i. Security (Land - Improvements)

j. Income statement - projected

k. Analysis:

- Loan to value ratio
- Debt service
- Debt service coverage
- Default ratio
- Loan per square foot
- Gross rent multiple
- Mortgage multiple
- Other ratios if applicable

l. Participants

m. Recommendations

n. Other pertinent information

2. Loan application

3. Maps/plats

4. Original photos

5. Plans and specifications

6. Appraisal

7. Financial statement for 3 years - Balance Sheets, Profit and Loss Statements

8. Credit report and credit letters

9. Bank balance verifications

10. Federal tax returns for 3 years (if applicable)

11. Private Mortgage Insurance application (if applicable)

12. Earnest Money Agreement (if applicable)

REQUIREMENTS FOR PURCHASE

The following documents must be delivered to Buyer by the 10th of the month for purchase on the last working day of the month.

In the event questions arise as to settlement date Buyer must be contacted before the delivery schedule is prepared.

SUBMISSION FOR PURCHASE

A. DELIVERY SCHEDULE

The Delivery Schedule must be completed by the Seller-servicer for each mortgage sale to Buyer using the form supplied by Buyer (Exhibit C & D). The Delivery Schedule will be audited by the Buyer before purchased, and in the event it is not prepared timely purchase will be delayed until the following month. The Seller-servicer will provide a name and phone number of a contact in the lower left hand corner on the TOTAL page of the Delivery Schedule in case of questions arising during the audit of the Delivery Schedule. All requested information must be supplied. Do not put CONV-ARM and regular CONV mortgages on the same Delivery Schedule.

Numbered columns are explained as follows:

1. Price column is used to indicate the percentage of participation.
2. Service rate will be established by each investment program.
3. Per diem interest rate is computed on a 360 or 365 day basis. Please indicate which when the delivery schedule is prepared.
4. The amount in column (3) times the days in the next column equal the amount in column (4). Accrued or prepaid interest must be computed in order to eliminate adjustments to the first payment.
5. Service fees are computed according to the information in column (2). Each interest group (ie. 9.625% @ 100% @ 3/8 of 1%) must be totaled with a grand total at the end of the schedule to verify the amount of the total sale.
6. Columns (A), (B), (C), and (D) must foot and cross foot.
7. In the case of Adjustable Rate Mortgages the Anniversary Group "A" or "B" must be indicated along with the interest rate.

B. FINAL LOAN DOCUMENTS

Final loan documents must be delivered to Buyer at time of purchase or within 60 days of closing and endorsed to the "Alaska Permanent Fund Corporation":

1. Note

(a) Endorsed as follows:

Pay to the order of the Alaska Permanent Fund Corporation without recourse this _____ day of _____, 19__.
Bank _____
Name _____
Title _____

2. Deed of Trust - recorded

3. Assignment of Deed of Trust - assigned (one for each mortgage) to the Alaska Permanent Fund Corporation and recorded

4. Title Insurance (conformed copy) ALTA policy whenever possible (endorsed)

5. Certificate of Hazard Insurance Coverage (endorsed) (Exhibit E)

6. Mortgage Insurance or Guarantee Certificate (if required) (endorsed)

   a. Private Mortgage Insurance

   b. FHA, VA, or FmHA certificate

   c. SBA guarantee

7. When applicable original completion certificate from the appraiser with pictures and signature

8. Participation Certificate (one for each participation loan) (Exhibit F)

Original documents are required on items 1 through 7 for all 100% loans. Copies of all documents of items 1 through 7 are required for participation loans plus original pictures and Participation Certificate.

REQUIREMENTS FOR SERVICING

All mortgages will be serviced by Seller-servicer from one office, unless special arrangements are made at the time of purchase or commitment.

REPORTING

A. SETTLEMENT REMITTANCE SUMMARY:

The Settlement Remittance Summary is required with each remittance and must include the followng information that pertains to the percent of the Buyer participation:

1. Loan type

2. Percent of participation

3. Interest rate and Anniversary Group "A" or "B" on ARM loans

4. Service rate

5. Interest collected

6. Service fee withheld

7. Net interest

8. Principal collected

9. Net principal and interest (sum of 7 and 8, above)

10. All columns must foot and crossfoot.

The normal monthly cutoff will be @ close of business 18th of each month and remittance must be received by Buyer within five working days of cutoff using the Settlement Remittance Summary form designed by Buyer (Exhibit G). A penalty will be assessed on late remittances by taking "the amount of the remittance times the average interest rate available for that remittance." Holidays, weekends, weather delays and postmark's will be taken into consideration. List all 100% participation loan groups first with lowest rate on top. Then list participation percentages in declining order. Columns must foot and crossfoot and must balance with the Principal Trial Balance report attached. All "adjustments" must be explained giving at least the same amount of detailed information listed in the upper part of the form. (Use space provided)

B. PRINCIPAL TRIAL BALANCE

A monthly Principal Trial Balance report is required that includes the following information that pertains only to the percent of Buyer participation:

1. Loan type and fund
2. Gross Interest Rate and Anniversary Group "A" or "B" on ARM loans
3. Service Rate (eg. 3/8 of 1% or .375)
4. Participation percent (other than 100% on computerized reports)
5. Loan number
6. Names of borrowers
7. Beginning principal balances (on manual reports)
8. Ending principal balances
9. Interest paid through or to date
10. Amount of interest collected
11. Amount of principal collected
12. Seller-servicer name and report date

The Principal Trial Balance form is required (Exhibit H) designed by the Buyer or an appropriate computerized report, with at least the same type of information provided, may be used at the option of the Seller-servicer.

The Principal Trial Balance report must include a balance on all

mortgages with the last interest paid to date whether or not a payment has been made that month. These trial balances must be prepared on an individual group basis. (see definition of group page 14) The percentage of participation must be listed (across from the words "Participation only" on manual reports). The interest rate shown must be the gross paid before deduction of service charge; the service rate must also be noted. Columns must foot and crossfoot and page totals must agree with the figures brought forward to the Settlement Remittance Summary which serves as the cover page to the remittance package.

The information required on the Principal Trial Balance can be provided by a computerized report or group of reports with such titles as "Serviced Loan Report", "Monthly Remittance Report", "Investor Trial Balance", "Investor Group Reconciliation", "Payment Journals", "Monthly Statement of Mortgage Accounts", and "Investor Remittance Report" in conjunction with a simple Principal Trial Balance. However, all information listed above must be provided. Loan names must appear on one of these reports. Loan numbers alone are not acceptable. The loan names must be added by hand or typed in if not on computerized reports.

C. DELINQUENCY REPORTS

The Seller-servicer must submit monthly a separate Delinquency Report for each loan Type and Fund which contains at a minimum certain standard information (Exhibit I). Other computerized formats such as "Investor Delinquency Service Loan Report", and "Investor Statement of Arrears" are acceptable provided that the information described below is included.

In the event that no loans are delinquent at the end of any reporting period, the Seller-servicer must submit a Delinquency Report indicating "-0- loans delinquent."

Each report must be self contained and show the following type of information:

1. Fund name (Alaska Permanent Fund Corporation)
2. Type of loan (FHA-VA, FmHA, SBA, CONV, CONV-ARM)
3. Loan number
4. Loan name
5. Gross interest rate and Anniversary Group "A" or "B" on ARM loans (ie 16.00% B)
6. Percent of participation

7. Service fee rate

8. Last interest paid to date

   a. 30 - 60 days

   b. 61 - 90 days

   c. Over 90 days

9. Principal balance outstanding (NOT the amount of P & I delinquent) on percent of Buyer participation only.

10. Total number of days delinquent - list number of days delinquent in their respective columns

   a. 30 - 60 days

   b. 61 - 90 days

   c. Over 90 days

11. Collection efforts and comments - if any loan exceeds 60 days delinquent then a separate explanation is required detailing why the loan is delinquent and the method, as Seller-servicer, you are using to bring the loan current. On those loans over 90 days delinquent a separate letter must also be sent to the Buyer stating cause to proceed or not to proceed with foreclosure. If computerized report are utilized then these comments must be added by hand. A separate report to the Buyer with this information is required if hand edits are not made.

D. PAYOFFS

All payoffs must be received by the Buyer within five working days of the date of the payoff and must be remitted separate from the normal monthly remittances. The information required on each payoff is as follows: (Exhibit J)

1. Current loan name

2. All previous owners

3. Bank loan number

4. SBA, FmHA, VA or FHA loan number

5. Fund (Alaska Permanent Fund Corporation)

6. Type (CONV, CONV-ARM, FHA-VA, FmHA, SBA)

7. Gross interest rate and Anniversary Group "A" or "B" if ARM loans

8. Service fee rate

9. Percentage of participation

10. Short legal description (when available)

11. Interest paid from and to dates

12. Total principal paid on percent of Buyer participation

13. Total interest paid on percent of Buyer participation

14. Service fee charged

15. A detailed name and address to return the paid off loan file along with signed request for full reconveyance when applicable.

If these payoffs are not received by the Buyer within five working days of the date of the payoff a late charge at the "interest rate of the loan times the balance" will be charged the Seller-servicer for the excess days it took to remit the money to Buyer.

Payoffs in the form of Seller-servicer repurchase, subsitution or buy-backs require prior written authorization from Buyer. (See Section J FORECLOSURE for details)

E. CURTAILMENTS AND PARTIAL PAYOFFS

Curtailments and Partial Payoffs of $5,000 or more must be received by the Buyer within five working days of the date of the curtailment and remitted separate from the normal monthly remittances. The information required on each curtailment is the same as for payoffs.

Requests for partial release of collateral must have prior written approval of Buyer and must contain pertinent documentation that establishes the value of the remaining collateral that meets loan to value ratio and PMI and other insurance requirements of each program.

When applicable documentation to perfect proper title in the collateral must accompany transmittal of funds to Buyer. A penalty will be assesed on late remittances in the same manner as payoffs.

F. NOTICE OF ASSUMPTION

Notice of Assumptions must be sent timely for all loans the Buyer owns. This notice must detail old owner, new owner, degree of liability, new mailing address, fund, type of loan, when applicable interest rate change (from and to) and effective date. Assumptions of FHA, VA and SBA loans and mortgages must follow federal regulations when in contradiction to the following requirements. All other assumptions will require credit work ups held by the Seller-servicer. The original mortgagor will not be released from liability. Owner occupied loans are only assumable on an owner occupied basis. The Buyer reserves the right to increase the

interest rate or deny assumptions per the "Due on Sale Clause" (CONV and CONV-ARM). In addition, regulations will govern policy for each program.

G. HAZARD INSURANCE

A Certificate of Hazard Insurance Coverage (Exhibit E) must be sent to Buyer at closing and in the event of a reduction in coverage. Coverage must be at least equal to the unpaid principal balance of the mortgage. The Buyer must be notified in writing of all damage claims for $10,000 or more.

H. LOAN MODIFICATION

All loan modifications must have prior written approval from the Buyer. A loan modification, recast, reamortization or extension requires a change in one or more of the provisions of the mortgage. These changes may require a new document to be executed and recorded and an updated title policy. Delinquent interest may be capitalized and considered as collected. All recast worksheets and, when applicable, financial statements must be provided to the Buyer along with a written justification from a bank officer. Modifications must not extend beyond the life of the original mortgage. A reamortization of monthly payments and/or a balloon payment at maturity will be required.

Loan modifications due to substantial curtailments will be reviewed on an individual basis and must be approved by the Buyer.

Modifications effecting FHA, VA, FmHA and SBA loans must also meet the minimum requirements of that agency. Modifications of loans with private mortgage insurance coverage must also have the approval of the private mortgage insurance company.

I. MANAGEMENT OF DELINQUENT LOANS

Seller-servicer will be held accountable for management of delinquent loans within Alaska Statute and adopted Regulation limits in order to continue to sell loans to Buyer. (See Alaska Statute §37.13.120 and Buyer Regulations for ratio details) (Exhibits A & B)

Seller-servicer may utilize with prior approval of Buyer, these management options to rectify delinquency problems inorder to continue to sell loans to Buyer:

1. Repurchase of delinquent principal, interest and expenses paid by Buyer on a given date each month
2. Substitution or Swap of loans with equal or greater interest rate within $10,000 of total of delinquent loan(s)

3. Deed in Lieu of Foreclosure may facilitate foreclosure time but will only be acceptable to the Buyer after extensive title search

4. Loan modification (See Section H MODIFICATIONS for details)

J. FORECLOSURES AND FORECLOSED LOANS

All loans over 90 days delinquent are subject to foreclosure proceedings with the prior written approval of the Buyer. Justification to proceed or not to proceed with the foreclosure along with detailed alternate collections methods and forebearance recommendations must be in writing to the Buyer monthly. (See Section C DELINQUENCY for details) These requests will be reviewed by the Buyer and the Seller-servicer will be notified in writing of the Buyers opinion and concurrence with recommendations.

Foreclosure proceedings and interpretation of legal requirements are the responsibility of the Seller-servicer as well as notifying the Buyer of all their legal obligations for satisfaction of tax and other liens against the property.

Bankruptcy filing must be brought to the attention of the Buyer immediately. Filing to have property set aside from the bankruptcy will be an automatic process of the Seller-servicer, unless Seller-servicer recommends another course of action that is acceptable to the Buyer. Buyer must be notified by Seller-servicer of Bankruptcy hearings and result of hearing.

Buyers title policy will be required at the end of litigation if the Buyer is the successful bidder in the foreclosure proceedings.

An accounting statement with receipts for expenses incurred during and immediately after the foreclosure (ie. attorney, property taxes, insurance, reserve balances, lock-up and other security precautions, etc.) is required by the Buyer within thirty (30) days. A copy of the private mortgage insurance claim is also required by the Buyer from the Seller-servicer within sixty (60) days of the date of the foreclosure. Filing extensions for private mortgage insurance claims must have written approval of the insurance company.

Management of foreclosed property is the responsibility of the Seller-servicer. The property must be secured from strip and waste and hazard insurance must be maintained. If the private mortgage insurance company pays the claim, then the property must be appraised and listed

for sale by Seller-servicer or listing agent, with the approval of Buyer and a diligent effort made to sell the property as soon as possible. Monthly status reports will be required on all foreclosed loans. The Buyer will be available to consult with the Seller-servicer on management of the foreclosed property and has the final authority for disposition of the property. Buyer will sign all property management contracts, listing agreements, earnest money agreements, counter offers, agreement to occupy and loan closing papers on 100% participation loans. Documents for Participation Loans will be singed by Seller-servicer with concurrence of Buyer.

SPECIAL REQUIREMENTS SERVICING

CONVENTIONAL ADJUSTABLE RATE MORTGAGES

The Seller-servicer will service Adjustable Rate Mortgages (ARM) or Variable Rate Mortgages (VRM), from Federal Savings and Loan Associations, for the Buyer by utilizing regulations issued by the Office of the Comptroller of the Currency (OCC) and rulings by Federal Home Loan Bank Board (FHLBB), when applicable, if those regulations are not in conflict with the Sales and Service Agreement, Addendum or Regulations issued by the Buyer.

DISCLOSURES

Applicants for ARM mortgages must be given an information sheet on characteristics of ARM mortgages, potential interest rate changes, index used and its history, maximum yearly increases and decreases, carryover, frequency of rate change and due-on-sale clause. The Seller-servicer is held responsible for meeting disclosure requirements per Federal and State regulations.

ANNIVERSARY DATE AND GROUP

Initial adjustment period must be for a minimum of twelve months and for those mortgages closed during the months of March thru August must be scheduled to adjust on the first day of September (Group B) of the following year, and mortgages closed during the months of September thru February must be scheduled to adjust on the first day of March (Group A) of the following year.

RATE AND PAYMENT CHANGE NOTIFICATION

Seller-servicer must send Notice of regular interest rate change, and effective rate change either increase or decrease, to the borrower at

least 30 days but not more than 45 days before the change is to take effect. All areas of disclosure as addressed by FNMA or FHLMA guidelines must be included in this notice. The Seller-servicer must also notify the Buyer of interest rate changes and effective gross interest rate changes so that the Buyer can also make necessary adjustment to its individual loan files and accounting records.

NEGATIVE AMORTIZATION - LOAN TERM

The Buyer will not allow negative amortization or extension of loan term for this ARM program.

DEFINITIONS

FUND:	APFC	- Alaska Permanent Fund Corporation
TYPE:	CONV	- Conventional Loan
	CONV-ARM	- Conventional - Adjustable Rate Mortgage includes Variable Rate Mortgage - VRM program with Federal Savings and Loan Associations
	FHA	- Federal Housing Administration
	VA	- Veterans Administration
	SBA	- Small Business Administration
	FmHA	- Farmers' Home Administration
ANNIVERSARY GROUP:	"A" - April	- Loans closed October - March of previous year
	"B" - October	- Loans closed April - September of previous year
PERCENT of PARTICIPATION:	That portion of the mortgage that the Alaska Permanent Fund Corporation owns for one of the above types, e.g., 100%, 90%; 75%, etc.	
GROUP:	A loan group is a Fund, Type, Interest Rate, @ Service Rate and % of Participation, e.g., APFC-CONV-9.50% @ 3/8 of 1%, 100 Part.	

From the effective date of this addendum all other addendums are superseded. All State of Alaska statutes and amendments to statutes (Exhibit A) effecting mortgage investments and all Regulations and adopted changes to regulations effecting mortgage investment and policy (Exhibit B) for the Buyer (Alaska Permanent Fund Corporation) will automatically be an integral part of this Agreement and will, when applicable, replace any phraseology in this Agreement. Outstanding commitments to purchase effected by amendments will be honored.

IN WITNESS WHEREOF, each party has caused its seal to be affixed hereto and this instrument to be signed in its name on its behalf by its proper officials duly authorized.

Effective this 29th day of OCTOBER, 1982.

SELLER-SERVICER:

ALASKA MUTUAL BANK

By _____
WESLEY W CHILES

Title VICE PRESIDENT

Date OCTOBER 29 1982

(SEAL)

BUYER.

State of Alaska, Department of Revenue
for Alaska Permanent Fund Corporation

By Peter A. Brushre

Title Acting Executive Director

Date November 15, 1982

made with money lent to the Commercial Fishing and Agriculture Bank under this subsection may not be guaranteed under (a)(4) of this section.

(e) In this section, "commercial bank" means a bank chartered by the United States or by a state of the United States."

Section 3, ch. 32, SLA 1980, effective May 14, 1980, provides: "The legislature finds that the Alaska Renewable Resources Corporation has complied with all requirements for an investment of $3,500,000 in Ball Brothers, Inc., an Alaska corporation, except for the requirement in AS 37.12.080(b) that no financial assistance of more than $1,500,000 may be provided to a single project or applicant unless the legislature has approved the investment by concurrent resolution. The legislature further finds that approval of the investment is in the public interest. Notwithstanding the provisions of AS 37.12.080(b) requiring approval by concurrent resolution, the investment in the amount of $3,500,000 is approved and the corporation is authorized to make the proposed investment in Ball Brothers, Inc., an Alaska corporation."

Chapter 13. Alaska Permanent Fund.

Section

10. Alaska permanent fund
20. Findings
30. Purpose
40. Alaska Permanent Fund Corporation
50. Composition and qualifications of board of trustees
60. Term of office
70. Removal and vacancies
80. Quorum
90. Compensation of board members
100. Corporation staff
110. Conflicts of interest
120. Investment responsibilities of the board
130. Gains and losses
140. Income
150. Board budget
160. Audits
170. Reports and publications
180. Tax exemption
190. Political activities
200. Public access to information
210. Definitions

Effective date of chapter. — Section 11, ch. 18, SLA 1980, makes this chapter effective April 9, 1980, in accordance with AS 01.10.070(c).

Sec. 37.13.010. Alaska permanent fund. (a) Under art. IX, § 15 of the state constitution, there is established as a separate fund the Alaska permanent fund. The Alaska permanent fund consists of

(1) 25 percent of all mineral lease rentals, royalties, royalty sale proceeds, net profit shares under AS 38.05.180(f) and (g), and federal mineral revenue sharing payments received by the state from mineral leases issued on or before December 1, 1979, and 25 percent of all bonuses received by the state from mineral leases issued on or before February 15, 1980;

(2) 50 percent of all mineral lease rentals, royalties, royalty sale proceeds, net profit shares under AS 38.05.180(f) and (g), and federal mineral revenue sharing payments received by the state from mineral leases issued after December 1, 1979, and 50 percent of all bonuses received by the state from mineral leases issued after February 15, 1980;

(3) any other money appropriated to or otherwise allocated by law to the Alaska permanent fund.

(b) Payments due the Alaska permanent fund under (a) of this section shall be made to the fund once each month.

(c) The Alaska permanent fund shall be managed by the Alaska Permanent Fund Corporation established in this chapter. (§ 5 ch 18 SLA 1980)

Legislative history report. — For the Free Conference Committee Report on ch. 18, SLA 1980 (FCCSSB 161), see 1980 House Journal, Supplement No. 7, April 2, 1980.

Sec. 37.13.020. Findings. The people of the state, by constitutional amendment, have required the placement of at least 25 percent of all mineral lease rentals, royalties, royalty sale proceeds, and federal mineral revenue sharing payments and bonuses received by the state into a permanent fund. The legislature finds with respect to the Alaska Permanent Fund Corporation that

(1) the corporation should provide a means of conserving a portion of the state's revenues from mineral resources to benefit all generations of Alaskans;

(2) the corporation's goal should be to maintain safety of principal while maximizing total return;

(3) the corporation should be used as a savings device managed to allow the maximum use of disposable income from the corporation for purposes designated by law. (§ 5 ch 18 SLA 1980)

Sec. 37.13.030. Purpose. It is the purpose of this chapter to provide a mechanism for the management and investment of those permanent fund assets allocated to the Alaska Permanent Fund Corporation in a manner consistent with the findings in AS 37.13.020. (§ 5 ch 13 SLA 1980)

Sec. 37.13.040. Alaska Permanent Fund Corporation. There is established the Alaska Permanent Fund Corporation. The corporation is a public corporation and government instrumentality in the Department of Revenue managed by the board of trustees. The purpose of the board is to manage and invest the assets of the corporation in accordance with this chapter. (§ 5 ch 18 SLA 1980)

Sec. 37.13.050. Composition and qualifications of board of trustees. (a) The Board of Trustees of the Alaska Permanent Fund Corporation consists of six members appointed by the governor. Three of the members shall be heads of principal departments of state government, one of whom shall be the commissioner of revenue. Three members shall be appointed by the governor from the public and may not hold any other state or federal office, position or employment, either elective or appointive, except as a member of the armed forces

of either the United States or of this state. Members other than the commissioner of revenue shall be separately confirmed by a majority of the members of the legislature in joint session.

(b) The three public members of the board shall have recognized competence and wide experience in finance, investments, or other business management-related fields.

(c) The board shall annually elect a chairman from among its members. (§ 5 ch 18 SLA 1980)

Sec. 37.13.060. Term of office. The members of the board shall be appointed for terms of three years, and they may be reappointed subject to confirmation by a majority of the members of the legislature in joint session. Terms shall be staggered. Initial terms for members other than the commissioner of revenue shall be two members serving for one year, two members serving for two years, and one member serving for three years. (§ 5 ch 18 SLA 1980)

Sec. 37.13.070. Removal and vacancies. (a) The governor may remove a member of the board from office. However, the removal of a member of the board is subject to disapproval by a vote of a majority of the members of the legislature at the first joint session held 10 or more days after the legislature receives notice of the removal from the governor. A removal by the governor shall be in writing and shall state the reason for the removal. A member who is removed by the governor may not participate in board business and may not be counted for purposes of establishing a quorum between the time he receives written notice of his removal from the governor and the time that the legislature's power to disapprove the removal under this subsection expires. If the legislature disapproves the removal of a board member, the board member shall be reinstated.

(b) A vacancy on the board shall be promptly filled by appointment by the governor and confirmation by a majority of the members of the legislature in joint session. An appointee to a vacancy shall hold office for the balance of the term for which his predecessor on the board was appointed. If a vacancy arises on the board while the legislature is not in session, the governor may appoint an interim board member who shall exercise the powers of a board member until the legislature fails to confirm the appointment of the interim board member.

(c) A vacancy on the board does not impair the authority of a quorum of the board to exercise all the powers and perform all the duties of the board. (§ 5 ch 18 SLA 1980)

Sec. 37.13.080. Quorum. Four members of the board constitute a quorum for the transaction of business and the exercise of the powers and duties of the board. (§ 5 ch 18 SLA 1980)

Sec. 37.13.090. Compensation of board members. Public members of the board receive an honorarium of $400 for each meeting

day if they attend the meeting. All members of the board are entitled to per diem and travel allowances as provided by law for members of state boards and commissions. (§ 5 ch 18 SLA 1980)

Sec. 37.13.100. Corporation staff. The board may employ and determine the salary of an executive director. The executive director may, with the approval of the board, select and employ additional staff as necessary. No employee of the corporation, including the executive director, may be a member of the board. The executive director and the other employees of the board are in the exempt service under AS 39.25. (§ 5 ch 18 SLA 1980)

Sec. 37.13.110. Conflicts of interest. (a) Members of the board and the executive director are subject to the provisions of AS 39.50.

(b) If a member of the board or an employee of the corporation acquires, owns or controls an interest, direct or indirect, in an entity or project in which corporation assets are invested, he shall immediately disclose the interest to the board. The disclosure is a matter of public record and shall be included in the minutes of the board meeting next following the disclosure. (§ 5 ch 18 SLA 1980)

Sec. 37.13.120. Investment responsibilities of the board. (a) The prudent-man rule shall be applied by the board in the management and investment of Alaska permanent fund assets. The prudent-man rule as applied to investments of the corporation means that in making investments the board shall exercise the judgment and care under the circumstances then prevailing which an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income.

(b) The corporation assets shall only be used for income-producing investments.

(c) The board shall maintain a reasonable diversification among investments unless under the circumstances it is clearly prudent not to do so.

(d) The board shall submit long-range and quarterly investment reports to the Legislative Budget and Audit Committee.

(e) The corporation may not borrow funds or guarantee from principal of the Alaska permanent fund the obligations of others.

(f) The board may enter into and enforce all contracts necessary, convenient or desirable for purposes of the corporation.

(g) Subject to the limitations in (h) and (i) of this section, the board may invest corporation assets in

(1) obligations of, or obligations insured by or guaranteed by, the United States or agencies or instrumentalities of the United States;

(2) obligations secured by reserves paid in by the United States or agencies or instrumentalities of the United States or obligations of

less than 90 percent, and the minimum coverage shall be 20 percent for loans having a loan-to-value ratio of 90 percent or more.

(h) The board may enter into future contracts for the sale of investments purchased under (g) of this section only for the purpose of hedging an existing equivalent ownership position in these securities.

(i) Investments under (g)(8) of this section may not exceed 25 percent of the total investments of the Alaska permanent fund. Investments under (g)(16) of this section may not exceed in the aggregate 15 percent of the total investments of the Alaska permanent fund.

(j) The assets of the Alaska permanent fund may not be used for the purchase of bonds of a corporation, upon which any regular interest payment has been defaulted within five years before purchase, except bonds never in default but which have been outstanding for less than five years.

(k) The board shall establish and from time to time as necessary modify guidelines for the investment of the assets of the corporation. Before adoption of any guidelines the guidelines shall be reported to the Legislative Budget and Audit Committee for review and comment.

(l) The board shall invest the assets of the corporation in in-state investments to the extent in-state investments are available if the in-state investments

(1) have a risk level and expected yield comparable to alternate investment opportunities; and

(2) are included in the list of permissible investments in (g) of this section. (§ 5 ch 18 SLA 1980)

Editor's note. — Section 9, ch. 18, SLA 1980, effective April 9, 1980, provides: "TRANSITION. The commissioner of revenue shall transfer the Alaska permanent fund to the Alaska Permanent Fund Corporation established by this act after request for transfer is made by the board of trustees of the corporation. Notwithstanding AS 37.10.065(a), the commissioner of revenue may invest the money in the Alaska permanent fund in the investments described in AS 37.13.120(g) subject to the limitations of AS 37.13.120(h) and (i)."

Sec. 37.13.130. Gains and losses. At the end of each fiscal year, the total amount of losses on the sales of securities, not offset by gains on the sales of securities during that year, shall be computed, with a portion of these losses to be deducted each fiscal year from the income and the resulting amount of income added to the principal of the Alaska permanent fund. Losses taken on the sales of securities shall be accumulated over a period equal to the average remaining life of the securities sold, unless these losses are offset by gains on future sales of securities. In any fiscal year in which the gains on the sales of securities exceed the losses on the sales of securities, the excess shall be added to the principal of the Alaska permanent fund. (§ 5 ch 18 SLA 1980)

corporations in which the United States is a shareholder or member;

(3) certificates of deposit issued by United States domestic banks which are members of the Federal Deposit Insurance Corporation for which a generally recognized secondary market exists or which are fully secured at all times as to payment of principal and interest by investments described in (1), (2), (8) or (12) — (16) of this subsection; the security pledged under this paragraph shall be at least equal to the face value of the deposit and the board may require substitution of collateral;

(4) shares of federally chartered savings and loans associations in Alaska which are fully secured at all times as to payments of principal and interest by investments described in (1), (2) of this subsection;

(5) savings certificates issued by state chartered savings and loan associations in Alaska which are fully secured at all times as to payments of principal and interest by investments described in (1), (2) of this subsection;

(6) deposits with mutual savings banks in Alaska which are fully secured at all times as to payments of principal and interest by investments described in (1), (2) of this subsection;

(7) fixed-term certificates of indebtedness of federally insured credit unions which are fully secured at all times as to payments of principal and interest by investments described in (1), (2) of this subsection;

(8) corporate debt securities which are rated AA or better by a nationally recognized rating service;

(9) short-term corporate promissory notes of the highest ratings assigned by a nationally recognized rating service;

(10) bankers' acceptances drawn on and accepted by United States banks each of which have a combined capital and surplus aggregating at least $200,000,000;

(11) repurchase agreements, the securities underlying the agreements being any of the items in (1) — (3) and (8) — (10) of this subsection;

(12) the guaranteed portion of Federal Small Business Administration loans;

(13) the portion of first lien real estate mortgages guaranteed by the Federal Veterans Association;

(14) the portions of business and industrial loans made under the Rural Development Act of 1972 which are guaranteed by the Farmer's Home Administration;

(15) the guaranteed portion of Farmer's Home Administration loans;

(16) notes secured by mortgages of residential real estate if the mortgages are insured by a private mortgage insurance corporation which is authorized to do business in Alaska and has combined capital, surplus and reserves aggregating at least $20,000,000; the minimum coverage shall be 10 percent for loans having a loan-to-value ratio of

Sec. 37.13.140. Income. The interest received in a year is the income of the corporation for that year. The income available for disbursement shall be determined on an averaging basis. For the first five years, income will be the simple averaging of the annual current return at cost. Subsequently, there will be a moving average current return, in which the latest fiscal year will replace the oldest year. The income available for disbursement will be the lesser of the latest fiscal year's income, or the average annual current income for the past five fiscal years of the Alaska permanent fund at cost, and after adjustment for capital losses charged to that fiscal year. (§ 5 ch 18 SLA 1980)

Sec. 37.13.150. Board budget. The operating budget of the board is from the general fund and is subject to the Executive Budget Act (AS 37.07). (§ 5 ch 18 SLA 1980)

Sec. 37.13.160. Audits. The Legislative Budget and Audit Committee shall provide for an annual post audit and annual operational and performance evaluations of the corporation's investments and investment programs. (§ 5 ch 18 SLA 1980)

Cross reference. — For the responsibilities of the Legislative Budget and Audit Committee, see AS 24.20.206.

Sec. 37.13.170. Reports and publications. By September 30 of each year, the board shall publish a report of the corporation for distribution to the governor, legislature, and the public. The report shall be written in easily understandable language. The report must include financial statements audited by independent outside auditors, a statement of the amount of money received by the Alaska permanent fund from each investment during the period covered, a statement of investments of the corporation including an appraisal at market value, a description of corporation investment activity during the period covered by the report, a comparison of the corporation performance with the intended goals contained in AS 37.13.020, an examination of the impact of the investment criteria of this chapter on the corporation portfolio with recommendations of any needed changes, and any other information the board believes would be of interest to the governor, the legislature, and the public. The annual income statement and balance sheet of the corporation shall be published in at least one newspaper in each judicial district. The income statement and balance sheet for the two fiscal years preceding the publication of the election pamphlet under AS 15.58 shall be included in that pamphlet. (§ 5 ch 18 SLA 1980)

Sec. 37.13.180. Tax exemption. The corporation is exempt from all taxes and assessments in the state. All security instruments issued by the corporation, their transfer, and their income are exempt from all taxes and assessments in the state. (§ 5 ch 18 SLA 1980)

Sec. 37.13.190. Political activities. The resources of the corporation may not be used to finance or influence political activities. (§ 5 ch 18 SLA 1980)

Sec. 37.13.200. Public access to information. Information in the possession of the corporation is a public record, except that information which discloses the particulars of the business or affairs of a private enterprise or investor is confidential and is not a public record. Confidential information may be disclosed only for the purposes of an official law enforcement investigation or when its production is required in a court proceeding. These restrictions do not prohibit the publication of statistics presented in a manner that prevents the identification of particular reports, items, persons, or enterprises. (§ 5 ch 18 SLA 1980)

Sec. 37.13.210. Definitions. In this chapter,

(1) "board" means the Board of Trustees of the Alaska Permanent Fund Corporation;

(2) "corporation" means the Alaska Permanent Fund Corporation. (§ 5 ch 18 SLA 1980)

Chapter 15. State Bonding Act.

Article 1. General Obligation Bonds.

Section

30. Interest rate and maturity
210. Refunding bonds

Sec. 37.15.010. Full faith and credit for general obligation bonds.

Revisor's note.

The following laws relate to issuance of general obligation bonds under the provisions of this chapter.

Chapter 95, SLA 1978 provides for the issuance of bonds in the amount of $33,290,000 for erosion and flood control, port facilities development, and small boat landing and harbor projects.

Chapter 122, SLA 1978 provides for the issuance of bonds in the amount of $25,000,000 for health facilities, senior citizens centers and pioneers homes.

Chapter 137, SLA 1978 provides for the issuance of bonds in the amount of $33,666,000 for educational facilities, vocational education and the University of Alaska.

Chapter 138, SLA 1978 provides for the issuance of bonds in the amount of $88,450,000 for highways, ferries, airports, local service roads and trails construction, transportation project planning and construction of maintenance facilities.

Chapter 139, SLA 1978 provides for the issuance of bonds in the amount of $30,504,000 for correctional and public safety facilities.

Chapter 140, SLA 1978 provides for the issuance of bonds in the amount of $26,965,000 for fisheries management and development facilities.

Chapter 145, SLA 1978 provides for the issuance of bonds in the amount of $27,640,000 for water supply and sewerage systems.

Chapter 91, SLA 1980 provides for the issuance of bonds in the amount of $7,718,800 for fisheries facilities.

Chapter 97, SLA 1980 provides for the issuance of bonds in the amount of

LAWS OF ALASKA

1982

Source

CSSSSB 684(Fin) am

Chapter No.

81

AN ACT

Relating to the investment and management of the Alaska permanent fund and to the computation of the income of the fund available for distribution; and providing for an effective date.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

THE ACT FOLLOWS ON PAGE 1, LINE 11

UNDERLINED MATERIAL INDICATES TEXT THAT IS BEING ADDED TO THE LAW AND BRACKETED MATERIAL IN CAPITAL LETTERS INDICATES DELETIONS FROM THE LAW; COMPLETELY NEW TEXT OR MATERIAL REPEALED AND RE-ENACTED IS IDENTIFIED IN THE INTRODUCTORY LINE OF EACH BILL SECTION.

Approved by the Governor: June 3, 1982
Actual Effective Date: July 1, 1982

Chapter 81

AN ACT

Relating to the investment and management of the Alaska permanent fund and to the computation of the income of the fund available for distribution; and providing for an effective date.

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* Section 1. AS 37.13.050 is amended to read:

Sec. 37.13.050. COMPOSITION AND QUALIFICATIONS OF BOARD OF TRUSTEES. (a) The Board of Trustees of the Alaska Permanent Fund Corporation consists of six members appointed by the governor. Two [THREE] of the members shall be heads of principal departments of state government, one of whom shall be the commissioner of revenue. Four [THREE] members shall be appointed by the governor from the public and may not hold any other state or federal office, position or employment, either elective or appointive, except as a member of the armed forces of either the United States or of this state. [MEMBERS OTHER THAN THE COMMISSIONER OF REVENUE SHALL BE SEPARATELY CONFIRMED BY A MAJORITY OF THE MEMBERS OF THE LEGISLATURE IN JOINT SESSION.]

(b) The four [THREE] public members of the board shall have recognized competence and wide experience in finance, investments, or other business management-related fields.

(c) The board shall annually elect a chairman from among its members.

* Sec. 2. AS 37.13.060 is amended to read:

Sec. 37.13.060. TERM OF OFFICE. The public members of the

board shall be appointed for terms of four [THREE] years, and they may be reappointed [SUBJECT TO CONFIRMATION BY A MAJORITY OF THE MEMBERS OF THE LEGISLATURE IN JOINT SESSION]. The terms of the public members [TERMS] shall be staggered so that no more than one term of a public member expires each year. [INITIAL TERMS FOR MEMBERS OTHER THAN THE COMMISSIONER OF REVENUE SHALL BE TWO MEMBERS SERVING FOR ONE YEAR, TWO MEMBERS SERVING FOR TWO YEARS, AND ONE MEMBER SERVING FOR THREE YEARS.]

* Sec. 3. AS 37.13.070 is amended to read:

Sec. 37.13.070. REMOVAL AND VACANCIES. (a) The governor may remove a member of the board from office. [HOWEVER, THE REMOVAL OF A MEMBER OF THE BOARD IS SUBJECT TO DISAPPROVAL BY A VOTE OF A MAJORITY OF THE MEMBERS OF THE LEGISLATURE AT THE FIRST JOINT SESSION HELD 10 OR MORE DAYS AFTER THE LEGISLATURE RECEIVES NOTICE OF THE REMOVAL FROM THE GOVERNOR.] A removal by the governor shall be in writing and shall state the reason for the removal. A member who is removed by the governor may not participate in board business and may not be counted for purposes of establishing a quorum after [BETWEEN THE TIME] he receives written notice of his removal from the governor [AND THE TIME THAT THE LEGISLATURE'S POWER TO DISAPPROVE THE REMOVAL UNDER THIS SUBSECTION EXPIRES. IF THE LEGISLATURE DISAPPROVES THE REMOVAL OF A BOARD MEMBER, THE BOARD MEMBER SHALL BE REINSTATED].

(b) A vacancy on the board shall be promptly filled by appointment by the governor [AND CONFIRMATION BY A MAJORITY OF THE MEMBERS OF THE LEGISLATURE IN JOINT SESSION]. An appointee to a vacancy shall hold office for the balance of the term for which his predecessor on the board was appointed. [IF A VACANCY ARISES ON THE BOARD WHILE THE LEGISLATURE IS NOT IN SESSION, THE GOVERNOR MAY APPOINT AN INTERIM BOARD MEMBER WHO SHALL EXERCISE THE POWERS OF A BOARD MEMBER UNTIL THE LEGISLATURE FAILS TO CONFIRM THE APPOINTMENT OF THE INTERIM BOARD MEMBER.]

(c) A vacancy on the board does not impair the authority of a quorum of the board to exercise all the powers and perform all the duties of the board.

* Sec. 4. AS 37.13.090 is amended to read:

Sec. 37.13.090. COMPENSATION OF BOARD MEMBERS. Public members of the board receive an honorarium of $400 for each day spent at a meeting of the board or at a meeting of a subcommittee of the board or at a public meeting as a representative of the board. Members [MEETING DAY IF THEY ATTEND THE MEETING. ALL MEMBERS] of the board are entitled to per diem and travel allowances as provided by law for members of state boards and commissions.

* Sec. 5. AS 37.13.120(g) is amended to read:

(g) Subject to the limitations contained in [(h) AND (i) OF] this section, the board may invest corporation assets at such competitive national market rates or prices as are applicable to each investment only in

(1) obligations of, or obligations insured by or guaranteed by, the United States or agencies or instrumentalities of the United States;

(2) obligations secured by reserves paid in by the United States or agencies or instrumentalities of the United States or obligations of corporations in which the United States is a shareholder or member;

(3) certificates of deposit and term deposits of [ISSUED BY] United States domestic banks which are members of the Federal Deposit Insurance Corporation and [FOR] which may be readily sold in a [GENERALLY RECOGNIZED] secondary market at prices reflecting fair value [EXISTS] or which are fully secured at all times as to payment of principal and interest as [BY INVESTMENTS] described in (m) [(1), (2), (8) OR (10) -

(16)] of this section [SUBSECTION; THE SECURITY PLEDGED UNDER THIS PARAGRAPH SHALL BE AT LEAST EQUAL TO THE FACE VALUE OF THE DEPOSIT AND THE BOARD MAY REQUIRE SUBSTITUTION OF COLLATERAL];

(4) certificates of deposit and term deposits [SHARES] of federally chartered savings and loan [LOANS] associations in Alaska which may be readily sold in a secondary market at prices reflecting fair value or which are fully secured at all times as to payments of principal and interest as [BY INVESTMENTS] described in (m) [(1), (2)] of this section [SUBSECTION];

(5) [SAVINGS] certificates of deposit and term deposits of [ISSUED BY] state chartered savings and loan associations in Alaska which may be readily sold in a secondary market at prices reflecting fair value or which are fully secured at all times as to payments of principal and interest as [BY INVESTMENTS] described in (m) [(1), (2)] of this section [SUBSECTION];

(6) certificates of deposit and term deposits of [DEPOSITS WITH] mutual savings banks in Alaska which may be readily sold in a secondary market at prices reflecting fair value or which are fully secured at all times as to payments of principal and interest as [BY INVESTMENTS] described in (m) [(1), (2)] of this section [SUBSECTION];

(7) fixed-term certificates of indebtedness of federally insured credit unions in Alaska which may be readily sold in a secondary market at prices reflecting fair value or which are fully secured at all times as to payments of principal and interest as [BY INVESTMENTS] described in (m) [(1), (2)] of this section [SUBSECTION];

(8) corporate debt securities which are rated AA or better by a nationally recognized rating service;

(9) short-term corporate promissory notes of the highest ratings assigned by a nationally recognized rating service;

(10) bankers' acceptances drawn on and accepted by United States banks each of which have a combined capital and surplus aggregating at least $200,000,000;

(11) repurchase agreements, the securities underlying the agreements being any of the items in (1) - (3) and (8) - (10) of this subsection;

(12) the guaranteed portion of Federal Small Business Administration loans;

(13) the portion of first lien real estate mortgages guaranteed by the Federal Veterans Administration [ASSOCIATION];

(14) the portions of business and industrial loans made under the Rural Development Act of 1972 which are guaranteed by the Farmers Home Administration;

(15) the guaranteed portion of Farmers Home Administration loans;

(16) notes secured by mortgages granting a first lien on commercial or [OF] residential real estate improved by completed buildings if the mortgages are insured by a private mortgage insurance corporation which is authorized to do business in Alaska and has combined capital and [,] surplus [AND RESERVES] aggregating at least $20,000,000, and if loan-to-value ratios do not exceed 75 percent for commercial mortgages and 90 percent for residential mortgages; however, [THE MINIMUM COVERAGE SHALL BE 10 PERCENT FOR LOANS HAVING A LOAN-TO-VALUE RATIO OF LESS THAN 90 PERCENT, AND THE MINIMUM COVERAGE SHALL BE 20 PERCENT FOR LOANS HAVING A LOAN-TO-VALUE RATIO OF 90 PERCENT OR MORE.]

(A) no mortgage insurance is necessary for commercial loans having loan-to-value ratios of less than 50 percent and the minimum coverage of other commercial loans shall be 10 percent for those having a loan-to-value ratio of 50 - 60 percent and 15 percent

for those having a loan-to-value ratio greater than 60 percent but no more than 75 percent, and

(B) no mortgage insurance is necessary for residential loans having a loan-to-value ratio of less than 70 percent and the minimum coverage of other residential loans shall be 10 percent for those having a loan-to-value ratio greater than 70 percent but less than 90 percent and 20 percent for those having a loan-to-value ratio of 90 percent;

(17) notes secured by mortgages granting a first lien on commercial real estate improved by completed buildings if the originating financial institution retains at least 25 percent of the mortgage until maturity;

(18) preferred and common stock of corporations incorporated in the United States;

(19) certificates of deposit, term deposits, or bankers' acceptances, which are issued by a United States bank or trust company located in a foreign country and are denominated in United States currency, if either (A) they may be readily sold in a secondary market at prices reflecting fair value, or (B) the issuing bank or trust company has capital and surplus at the date of issue equaling at least $500,000,000; investments made under this paragraph are not subject to the collateral requirements for domestic certificates under (m) of this section;

(20) equity interests in, and debt obligations secured by mortgages granting a first lien on, real estate improved by completed and substantially rented buildings and located in the United States, if these investments are made

(A) in a corporation, partnership, trust, or other entity in which, at the conclusion of each investment transaction,

at least 60 percent of the beneficial ownership interests are held by other institutional investors, and which is organized and operated for the purpose of making real estate investments by a bank, insurance company, or other manager of institutional funds which has had at least five years of experience in the management of real estate investments of institutional investors; or

(B) in conjunction with and on substantially the same terms as an entity described in (A) of this paragraph.

* Sec. 6. AS 37.13.120(1) is repealed and reenacted to read:

(1) At the time of each investment, the aggregate investment of the Alaska permanent fund in each stated category of investment may not exceed the following stated percentage of the total investments of the fund: mortgages under (g)(16) of this section, 15 percent; real estate investments under (g)(20) of this section, 15 percent; foreign certificates of deposit or the equivalent under (g)(19) of this section, 20 percent; corporate stocks and debt securities under (g)(8), (9), and (18) of this section, 50 percent. The Alaska permanent fund may at no time own more than five percent of the voting stock of a corporation. Domestic stocks, except for bank and insurance company stocks, must be listed at the date of purchase on an exchange registered with the Securities and Exchange Commission.

* Sec. 7. AS 37.13.120 is amended by adding a new subsection to read:

(m) Certificates of deposit or the equivalent instruments which are not of a quality that may be readily sold in a secondary market at prices reflecting fair value must be secured by a pledge as collateral of investments authorized for the Alaska permanent fund under (g)(1), (2), (8), or (12) - (17) of this section, which investments have value at least equal to the face value of the certificate of deposit. The board may require substitution of collateral in order to ensure continued

satisfaction of the requirements set out in this subsection.

* Sec. 8. AS 37.13.140 is repealed and reenacted to read:

Sec. 37.13.140. INCOME. Net income of the corporation must be computed annually as of the last day of the fiscal year in accordance with generally accepted accounting principles, excluding any unrealized gains or losses. Income available for distribution equals the average net income of the corporation for the last five fiscal years, including the fiscal year just ended, but may not exceed net income of the corporation for the fiscal year just ended plus the balance in the undistributed income account described in AS 37.13.145.

* Sec. 9. AS 37.13 is amended by adding a new section to read:

Sec. 37.13.145. DISPOSITION OF INCOME. At the end of each fiscal year, an amount sufficient to offset the effect of inflation on principal of the Alaska permanent fund during that year, as measured by a nationally recognized index, shall be transferred from net income as defined in AS 37.13.140, excluding income on the undistributed income account in the Alaska permanent fund, to the principal of the Alaska permanent fund for reinvestment. The balance of the net income as defined in AS 37.13.140 shall be transferred to the undistributed income account in the Alaska permanent fund. Money in the undistributed income account shall be invested in investments authorized under AS 37.13.120. Income from the investment of the undistributed income account shall be treated as an addition to that account.

* Sec. 10. AS 37.13.150 is amended to read:

Sec. 37.13.150. CORPORATION [BOARD] BUDGET. The revenues generated by the corporation's investments must be identified as the source of the operating budget of the corporation in the state's operating budget under [BOARD IS FROM THE GENERAL FUND AND IS SUBJECT TO] the Executive Budget Act (AS 37.07). The unexpended balance of the corpora-

tion's annual operating budget does not lapse at the end of the fiscal year but shall be treated as income under AS 37.13.140.

* Sec. 11. AS 37.13.160 is amended to read:

Sec. 37.13.160. AUDITS. The Legislative Budget and Audit Committee may [SHALL] provide for an annual post audit and annual operational and performance evaluations of the corporation's investments and investment programs.

* Sec. 12. AS 37.13 is amended by adding a new section to read:

Sec. 37.13.205. REGULATIONS. The board may adopt regulations under the Administrative Procedure Act (AS 44.62) to interpret and implement this chapter.

* Sec. 13. AS 37.13.130 is repealed.

* Sec. 14. Transition to four-year terms for members of the board of trustees of the Alaska Permanent Fund Corporation as provided in AS 37.13.060 as amended in sec. 2 of this Act shall be implemented as follows: at the expiration of the present term of each public member, the governor shall appoint a replacement, or reappoint the present member, for a term of four years. Within 90 days after the effective date of this Act, the governor shall appoint a public member to replace one of the two present heads of principal departments other than the commissioner of revenue, to serve for a term of four years or less, which term expires in a year when no other public member's term expires. The head of a principal department who is to be replaced shall continue to serve on the board until the appointment of a replacement.

* Sec. 15. TRANSITION. (a) All income earned by the Alaska permanent fund before the effective date of this Act that is not income available for disbursement shall be transferred to the undistributed income account established in AS 37.13.145 added by sec. 9 of this Act. However, the amount transferred under this section shall be reduced by an amount equal to one-

half of the income available for disbursement for fiscal year 1983.

(b) The amount equal to the reduction in income under (a) of this section shall be transferred to the general fund.

(c) In this section "income available for disbursement" shall be determined as set out in AS 37.13.140 before amendment by this Act.

* Sec. 16. This Act takes effect July 1, 1982.

RESOLUTION OF THE BOARD OF TRUSTEES OF
THE ALASKA PERMANENT FUND CORPORATION
TO ADOPT AN EMERGENCY REGULATION

Resolution No. 82-3

WHEREAS, the terms of adjustable rate mortgages authorized to be purchased by the corporation and set out in 15 AAC 137.030 do not match the terms provided under any existing program for making adjustable rate mortgage loans; and

WHEREAS, many mortgage lenders are regulated by federal agencies or officials, including the Comptroller of Currency and the Federal Home Loan Bank Board, and these federal agencies must review and approve the form of deeds of trust, promissory notes, and other documents related to a mortgage loan before regulated mortgage lenders can make a mortgage loan; and

WHEREAS, the corporation has committed to purchase the mortgage loans to be made to several specific prospective borrowers, and the deeds of trust, promissory notes, and other documents conforming to the terms of 15 AAC 137.030 are not available; and

WHEREAS, there are several existing programs for adjustable rate mortgages for which the necessary forms are available and have been reviewed and approved by the appropriate regulatory agencies; and

WHEREAS, the purchase of the adjustable rate mortgages as to which the corporation has made a commitment may be completed using existing forms if the regulations adopted by the Board of Trustees are amended; and

WHEREAS, the Board of Trustees has discussed this issue and approved a proposed draft regulation; and

WHEREAS, the adoption of this regulation will avoid a lengthy delay in the purchase of mortgages as to which the corporation has made a commitment and is therefore necessary for the immediate preservation of the general welfare;

BE IT RESOLVED that the Acting Executive Director is authorized and directed to adopt the draft regulations as emergency regulations in accordance with the Administrative Procedure Act (AS 44.62), and to take any steps necessary for their adoption as permanent regulations.

PASSED AND APPROVED by the Board of Trustees of the Alaska Permanent Fund Corporation this 5th day of August, 1982.

By: Thomas K. Williams

Thomas K. Williams
Vice-Chairman

Attest: Peter A. Bushre

Peter A. Bushre
Acting Executive Director

PROPOSED AMENDMENT TO CURRENT REGULATIONS
TO PERMIT PURCHASE OF CONVENTIONAL ARM'S
(UNDER FNMA PROGRAM 8).

Register , 1982 REVENUE 15 AAC 137.010
15 AAC 137.040

TITLE 15. REVENUE

CHAPTER 137. RECEIPT, CUSTODY, INVESTMENT AND MANAGEMENT OF STATE FUNDS

ARTICLE 1. ALASKA PERMANENT FUND CORPORATION

Section
010. Scope of 15 AAC 137.010 - 15 AAC 137.200
020. Repealed
030. Conventional Residential mortgages
040. General terms and conditions for loans and mortgages
200. Definitions

15 AAC 137.010. SCOPE OF 15 AAC 137.010 - 15 AAC 137.200. 15 AAC 137.010 - 15 AAC 137.200 apply to investments of the corporation in federally guaranteed and insured loans and mortgages and conventional residential mortgages and in certificates of deposit. (Eff. 02/05/81, Reg. 77; am. / / , Reg.)

Authority: AS 37.13.120

15 AAC 137.020. FEDERALLY GUARANTEED LOANS & MORTGAGES. Repealed / /

15 AAC 137.030. CONVENTIONAL RESIDENTIAL MORTGAGES. Under AS 37.13.120 (g) (16) and (17) the corporation may purchase adjustable rate conventional residential mortgages which meet the following requirements:

(1) a mortgage must be for an owner-occupied one-to-four unit dwelling;

(2) a loan-to value ratio must be no more than 90 percent for a single-family dwelling up to $150,000, 80 percent for single-family dwelling over $150,000, and 80 percent for a two-to-four unit dwelling; and

(3) a mortgage must be covered by insurance which meets the requirements of AS 37.13.120 (g) and which the corporation finds to be adequate to assure marketability of the mortgage. (Eff. 02/05/81, Register 77; am. / / , Reg. ; am. / / , Register)

Authority: AS 37.13.120

15 AAC 137.040. GENERAL TERMS AND CONDITIONS FOR LOANS AND MORTGAGES.

(a) The selection of any loan or mortgage will be made on the basis of its individual merits and its overall suitability as part of the investment portfolio.

(b) The net interest rate received by the corporation on a loan or mortgage must satisfy the applicable requirement among the following:

(1) on a loan or mortgage which is guaranteed or insured by the Fm.H.A., F.H.A., S.B.A., or V.A., and is authorized for purchase by the corporation under AS 37.13.120 (g) (12) - (15), the minimum interest rate is the rate set by Fm.H.A., F.H.A., S.B.A., or V.A., respectively, and in effect at the time the corporation makes a final commitment to purchase the loan or mortgage; and

(2) on an adjustable rate conventional residential mortgage the minimum initial interest rate is the rate of the FHLBB Series of Loans Recently Closed on Existing Homes prevailing at the time the corporation makes a final commitment to purchase the mortgage.

(c) The interest rate on a conventional adjustable rate mortgage purchased by the corporation must be adjusted once each year as of March 1 or September 1, whichever is nearer the anniversary of the loan closing date, on the basis of annual change of the FHLBB Series for Loans Recentaly Closed on Existing Homes; however, no change may increase or decrease the interest rate by more than 2.00%. When the annual change in the FHLBB index would result in a change of more than 2.00% in the interest rate, the excess change in the index will be carried over and used as a basis for a subsequent adjustment during any year when the adjustment to that interest rate would otherwise be less than 2.00%.

(d) A commitment by the corporation to purchase a loan or mortgage is contingent on payment to the corporation of a commitment fee of not less than 1.0 percent of the par value of the loan or mortgage proposed for purchase within six months, plus an additional fee of not less than .1667 percent for each additional month of commitment up to a maximum total commitment period of one year. Payment of a commitment fee guarantees that

the initial interest rate on a loan or mortgage if purchased by the corporation will be the rate quoted by the corporation on the date of commitment, and that money will be available to purchase the loan on a regular loan purchase date during the period of commitment.

(e) All loans or mortgages purchased by the corporation from a single seller must be serviced by the seller from one office. The seller's service fees may not exceed the following:

(1) for federally insured or guaranteed loans or mortgages:

(A) under $300,000: .375 percent;

(B) $300,000 and above: .25 percent;

(2) for adjustable rate conventional residential mortgages:

Any loan amount: .50 percent.

(f) A conventional residential mortgage purchased by the corporation must be payable in full immediately upon transfer of ownership of the property securing the mortgage.

(g) Loans or mortgages will be pruchased no more often than once a month at a time set by the corporation.

(h) The seller of a loan or mortgage offered to the corporation must provide the following:

(1) the original loan application;

(2) original appraisal with photographs;

(3) credit report;

(4) deposit verfications;

(5) employment verifications;
(6) earnest money agreement;

(7) credit verifications;

(8) tax returns (three years), if self-employed;

(9) financial statement, if self-employed;

(10) a copy of any audited financial statement if one was required by the S.B.A. or any other public or private entity to make, insure, or guarantee the loan or mortgage; and

(11) any other documents requested by the corporation.

(i) Except for construction loan take-outs, no refinancing loans or mortgages will be purchased by the corporation.

(j) No loans or mortgages will be purchased from an institution which has a current, over 60-day delinquency status for more than .5 percent of all loans purchased from it by the corporation until that delinquency status is reduced to .5 percent or less.

(k) Any loan or mortgage which was an authorized investment under this chapter as it existed at the date of final commitment to purchase the loan or mortgage may be held by the corporation for the full term of the loan or mortgage. (Eff. 02/05/81, Register 77; am. / / , Reg. ; am. / / , Reg.)

Authority: AS 37.13.120

15 AAC 137.200 DEFINITIONS. In 15 AAC 137.010 - 15 AAC 137.200,

(1) "certificate of deposit" includes:

(A) certificates of deposit;

(B) shares of federally-chartered savings and loan associations in the form of time certificates;

(C) savings certificates issued by state-chartered savings and loan associations;

(D) deposits with mutual savings banks in Alaska in the form of time certificates;

(E) fixed-term certificates of indebtedness,

as those terms are used in AS 37.13.120 (g) (3) - (7);

(2) "corporation" means the Alaska Permanent Fund Corporation;

(3) "Fm.H.A." means the federal Farmers' Home Administration;

(4) "F.H.A." means the Federal Housing Administration;

(5) "loan" means lending of money secured by collateral;

(6) "mortgage" means a loan secured by a first lien security interest in real property improved by one or more completed buildings;

(7) "FHLBB" means the Federal Home Loan Bank Board;

(8) "S.B.A." means the federal Small Business Administration;

(9) "V.A." means the federal Veterans Administration;

(10) "average remaining life" means the figure obtained as follows: for each investment sold at a loss during the fiscal year, the loss is multiplied by the remaining life; the sum of these products is divided by the total loss for that fiscal year;

(11) "gain" means the amount by which the principal proceeds of the sale of an investment exceed the cost of the investment;

(12) "investment" means any transfer or expenditure of money or other assets made for the purpose of obtaining an income or profit;

(13) "loss" means the amount by which the cost of an investment exceeds the principal proceeds of the sale of the investment; and

(14) "remaining life" means the number of years remaining until the maturity date of an investment.

(Eff. 02/05/81, Register 77; am. 05/31/81, Reg. 78;
am. / / , Reg. ; am. / / , Reg.)

Authority: AS 37.13.120
AS 37.13.130
AS 37.13.140

Mortgage Loan Section, Pouch SB, Juneau
October 5, 1982
(Date Submitted)

Page 1 of 2

ALASKA PERMANENT FUND CORP
(F U N D)
Y O U R B A N K N A M E
(Bank Name)

Conv-ARM-
(Loan Type)
October 29, 1982
(Purchase Date)

Loan Number Mortgagor Property Address Date Loan Closed	Int. Rate & ARM Aniv. Group	Original Loan Amount	Present Loan Balance	Price	Premium (Discount)	SERVICE RATE	NET BALANCE	Interest Paid To Date	Per Diem Int.	Add'l # of Days Int.	Amount of Accrued (Pre Paid) Interest	Service (00.00) 00.00 Fee	TOTAL PRICE PAID
#1898 Smith, Juno 402 Main St Juneau, Ak 8-1-82	15.75% group B	100,000.00	99,876.49	100	-0-	1/2 of 1%	99,876.49	9-01-82	43.70	58	2,534.37	(80.46)	102,330.40
#1908 Hands, Hank 102 Seward St Juneau, Ak 8-15-82	15.75% group B	75,000.00	75,000.00	100	-0-	1/2 of 1%	75,000.00	10-01-82	32.81	28	918.75	(29.17)	75,889.58
TOTAL							174,876.49				3,453.12	(109.63)	178,219.98
#1977 Bell, Alex G. Douglas Hwy Anchorage, Ak 8-1-82	16.00% group B	125,000.00	125,000.00	100	-0-	1/2 of 1%	125,000.00	9-01-82	55.56	58	3,222.22	(100.69)	128,121.53
#1965 DiVinci, Leo Slip River Dr Fairbanks, Ak 8-15-82	16.125% group B	285,000.00	285,000.00	100	-0-	1/2 of 1%	285,000.00	10-01-82	127.66	28	3,574.38	(110.83)	288,463.55
#1060 Homemaker, Suze 10 Douning St Nome, Ak 8-21-82	16.125% group B	125,000.00	125,000.00	100	-0-	1/2 of 1%	125,000.00	10-01-82	55.99	28	1,567.71	(48.61)	126,519.10
TOTAL							410,000.00				5,142.09	(159.44)	414,982.65
	(#7)			(#1)		(#2)	(A)		(#3)		(#4) & (B)	(#5) & (C)	(=D)

Mortgage Loan Section, Pouch SB, Juneau

October 5, 1982
(Date Submitted)

Page 2 of 2

ALASKA PERMANENT FUND CORP
(F U N D)
Y O U R B A N K N A M E
(Bank Name)

Conv-ARM
(Loan Type)
October 29, 1982
(Purchase Date)

Loan Number Mortgagor Property Address Date Loan Closed	Int. Rate & ARM Aniv. Group	Original Loan Amount	Present Loan Balance	Price	Premium (Discount)	SERVICE RATE	NET BALANCE	Interest Paid To Date	Per Diem Int.	Add'l # of Days Int.	Amount of Accrued (Pre Paid) Interest	Service (00.00) 00.00 Fee	TOTAL PRICE PAID
#1206 Living, High & So Lo Turnaround Dr Anchorage, Ak 10-5-82	16.00 group A	325,000.00	325,000.00	100	-0-	1/2 of 1%	325,000.00	11-01-82	144.44	(3)	(433.33)	13.54	324,580.21
TOTAL LOAN SALE							1,034,876.49				11,384.10	(356.22)	1,045,904.37

Ms. Real Jonesey, Supervisor Loan Servicing
Submission Prepared By
PHONE NUMBER (907) 465-2354

D O N O T put Conv-ARM and regular CONV mortgages on the same Delivery Schedules. Separate FUNDS and loan TYPES require separate Delivery Schedules.

CERTIFICATE OF HAZARD INSURANCE COVERAGE

Anchorage (City), Alaska (State)

January 1, 1982

TO: Alaska Permanent Fund Corporation

This is to certify that the insurance policy described below is on file with

Y O U R B A N K N A M E, Anchorage (City), Alaska (State)

and is in full force and effect on this date persuant to the terms of our servicing contract and addendum.

INSURED Leo and Mona Lisa DiVinci

PROPERTY ADDRESS Tulip Drive

LEGAL DESCRIPTION Lot 1 of Block D, Florentine West Subdivision

AMOUNT ON BUILDING $ 300,000.00 EXTENDED COVERAGE yes

OTHER $ 380,000.00 Earthquake - Flood

DATE OF POLICY January 1, 1982 EXPIRATION DATE Auto renewal January 1st

INSURANCE COMPANY Firemans Fund

POLICY NUMBER AG-136-974

MORTGAGE CLAUSE TO Alaska Permanent Fund Corporation

AND: Y O U R B A N K N A M E

INSURANCE AGENCY Sistine Chapter, Great Italian Insurance Company

THIS POLICY REPLACES: new policy

Insurance coverage, at least equal to the unpaid principal balance of the mortgage will be kept in force during the life of the loan, either by renewals or replacement policies.

(Bank Name)

BY: _____

(Title)

Dep. Rev. 7-13-82

LOAN PARTICIPATION AND SERVICING AGREEMENT

THIS AGREEMENT is made and entered into as of _____, 1981 by and between _____, (hereinafter called "Lender") and the Alaska Industrial Development Authority (hereinafter called "Purchaser").

W I T N E S S E T H:

WHEREAS, the Alaska Industrial Development Authority is a public corporation and a public body corporate and politic constituting an instrumentality of the State of Alaska within the Department of Commerce and Economic Development, but with a separate and independent legal existence created under and pursuant to Chapter 88, Title 44 of the Alaska Statutes, as amended (the "Act"); and

WHEREAS, Purchaser is authorized pursuant to the Act to enter into this Agreement; and

WHEREAS, _____ ("Lender") is a _____ duly organized and existing under the laws of the _____ with its principal office at _____; and

WHEREAS, Lender has offered to Purchaser an opportunity to participate in certain loans secured by liens on real property and/or liens on tangible personal property and the Purchaser has evidenced an interest in acquiring a participating interest in these loans and the collateral securing said loans; and

WHEREAS, the Lender has provided to the Purchaser evidence of bonding required pursuant to 3 AAC 99.300 (b) and that such a bond is in full force and effect;

NOW, THEREFORE, in consideration of the foregoing, the mutual covenants and conditions contained herein and for other good and valuable consideration, receipt of which is hereby acknowledged, the parties hereto agree as follows:

ARTICLE I
General

Section 101. General. This Agreement shall govern the sale and transfer by Lender to Purchaser of an undivided participating interest and an undivided participation ownership in each and every loan, as to which such participating interest is offered for sale by Lender and accepted by Purchaser, except insofar as the terms hereof shall be modified, amplified or amended by the terms of any written amendment hereto or by the terms of a written offer and acceptance signed by both parties in connection with any particular loan, such written offer and acceptance to be in the form of a Commitment or a Participation Certificate, the form of which is attached hereto, marked Exhibit "A", and incorporated herein by this reference, and that Purchaser has not, nor shall in any event take part, be active in, or be responsible for the negotiations and preliminary steps leading to the consummation of loans which now or may hereafter become the subject of participation purchases by Purchaser hereunder. In addition, this Agreement governs the servicing by Lender of the loans described above.

ARTICLE II
Definitions

Section 201. Definitions. The following terms as used herein shall be construed in accordance with and controlled by the following definitions:

ARTICLE VII
Interests of the Parties

Section 701. Payment of Interest to Purchaser. Purchaser's share of interest to be remitted by Lender shall be originally computed from the date of receipt by Lender from Purchaser of the purchase price for such participation interest, and Purchaser's share of interest shall thereafter be computed by Lender as of the first day of each calendar month and be remitted by Lender to Purchaser, together with the Participation Report, not later than the twentieth (20th) of each calendar month. All interest shall be computed on a 365 day factor basis. In the event of default in the payment of principal or interest to Lender on any participation loan, then as to such loan Lender shall not be required to remit principal or interest until collected from the loan debtor.

Section 702. Payment of Principal. Purchaser shall receive its proportionate share of all payments made by mortgagor as principal payments. Said payments shall not be included in determinng Purchaser's net return as set forth on the Participation Certificate and shall be paid to Purchaser in addition thereto.

In the event of default on any mortgage loan covered by this Agreement, Purchaser and Lender shall share ratably on a Participation Basis any expenditures necessary to maintain and preserve the position of the parties hereto with regard to such loan, including, without limitation, expenditures for taxes, insurance premiums, prevention of waste, repairs, maintenance, and attorney's fees. Reimbursement of such expenditures from the Purchaser will not be due until final liquidation of the loan, except where such liquidation takes more than 6 months, Purchaser will make payment of its prorata share of costs to Lender on a semiannual basis.

ARTICLE VIII
Compensation for Lender

Section 801. Fees. As compensation for its administration of loans under this Agreement, Lender shall retain a servicing fee of three eights of one percent (.375%) of the unpaid balance, from the interest collected.

Fees for changes of ownership, late charges, modifications, or other supplemental services rendered and any other fees and charges received by Lender in connection with loans under this Agreement not specifically reserved to the Purchaser hereunder or committed to be paid to Purchaser by the terms of the Participation Certificate negotiated with reference to the particular loan involved shall be retained by Lender. Prepayment penalties shall be shared pro rata by the parties.

Section 802. Retention of Reserves. All funds received from the borrower or from any other source, or retained as part of the loan proceeds for the purpose of paying taxes, insurance premiums to maintain the insurance coverage as set forth above, installments on bonds and other improvement assessments or for the purpose of guaranteeing their repair or completion of improvements to the subject real property, shall be retained by Lender and disbursed by Lender at such time, and from time to time, as Lender in its discretion shall deem necessary.

ARTICLE IX
Insurance/Taxes

Section 901. General. Unless waived in writing by the Purchaser, the Lender shall require that the Mortgaged Premises (excluding land) are, at all times relevant herein, adequately and properly insured and all taxes and assessments are paid promptly. Such insurance shall be evidenced by an insurance policy:

(b) Certificate of Completion: Prior to disbursement of loan proceeds, Lender shall provide certification from the appraiser that the project was substantially completed according to the plans and specifications relied on by the appraiser and a certification from a registered architect or professional engineer that the property offered as security for the loan is structurally sound, if local construction inspections and an occupancy certificate are not available.

(c) Cost of Construction and Use of Proceeds: Prior to disbursement, Lender will make proper showing satisfactory to Authority that all costs of construction have been paid in full and that the amount of bond proceeds does not exceed costs of construction as determined by the Authority after examination of relevant documentation (certification of costs as a specific dollar amount).

(d) Insurance: Prior to closing, Borrower shall deliver to the Lender at Borrower's expense and in a form and issued by a company satisfactory to the Authority, with premiums thereof fully prepaid, the following insurance which will be maintained throughout the term of the loan as applicable:

1) An ALTA Title Insurance policy insuring that the Lender has a valid first lien on the real property described, free of encumbrances or other exceptions to title, other than those approved and accepted in writing by the Authority. In the event that the secured property described herein is located in special flood hazard areas, Borrower shall provide the Lender with a flood insurance policy as required by the Flood Protection Act.

2) A physical hazard insurance policy covering the perils of fire, extended coverage, vandalism and optional perils.

3) A public liability insurance policy covering Borrower and the property taken as security herein.

4) A full Marine and/or Aircraft insurance policy including breach of warranty.

The amount of insurance shall be in an amount equal to ninety percent (90%) of the full replacement value of all buildings, building improvements, contents, aircraft, vessels or equipment. Lender shall be named a loss payee with a loss payable endorsement. Such an endorsement shall be issued to the Lender and provide thirty (30) days written notice to be sent to Lender of any cancellation or material change in policy.

(e) Survey: Prior to the closing of this loan, Lender shall be provided a survey prepared by a registered surveyor delineating lot lines, locating improvements including water, gas, electric and sewer lines, easements and parking areas and showing other physical matters affecting the title and use of the premises, including the existence of any encroachments and recorded or visible easements. The survey should also contain a certificate setting forth the building number of square feet within said description. The legal description in the survey shall be indentical with the description in the security instruments and title policy.

(f) Laws: The Borrower will construct improvements of a first class quality in compliance with all applicable ordinances, building codes and zoning, environmental, ecological and any other applicable laws and regulations and provide Lender with a certificate of occupancy upon completion.

Initial:

Lender

Borrower

Borrower

[AIDA Multi-Family Conventional]
8-28-82

DEED OF TRUST NOTE

Anchorage, Alaska

$_____ _____, 19___

_____ (the "Maker"), a _____ duly organized under the laws of the State of _____, FOR VALUE RECEIVED, hereby PROMISES TO PAY TO THE ORDER OF _____ (the "Holder"), a lending institution duly organized and existing under the laws of _____ and having offices in the State of Alaska, the principal sum of _____ DOLLARS, or so much as may be advanced hereunder, together with interest on the unpaid principal balance owing hereunder at the rate provided for herein. All payments shall be in lawful money of the United States and shall be paid at the office of the Holder in _____, Alaska, or at such other place as the Holder hereof may designate in writing.

The indebtedness evidenced hereby, together with interest thereon at the rate set forth herein, shall be paid as follows:

Rate and Payment of Interest

General Terms and Conditions

This Note is subject to mandatory prepayment without any premium but with accrued interest on the amount prepaid to the date of prepayment in whole or in part with insurance or condemnation proceeds as provided in the Deed of Trust, hereinafter mentioned, and in whole, at any time, upon the acceleration hereof pursuant to the Deed of Trust.

If default is made in the payment of any installment of the principal of or interest on this Note and the same is placed in the hands of an attorney for collection, or if suit is filed hereon, or proceedings are had in bankruptcy, probate, receivership, reorganization, arrangement or other judicial proceedings for the establishment or collection of any amount called for hereunder, or any amount payable or to be payable hereunder is collected through any such proceedings, the Maker agrees to pay to the Holder hereof all reasonable costs of collection, including attorney's fees.

In the event that any payment of principal and/or interest or portion thereof is not paid within fifteen (15) days of the date it is due, the Holder hereof may collect, and the Maker agrees to pay with such payment, a "late charge" of 4 cents ($0.4) for each dollar so overdue as liquidated damages for the additional expense of handling such delinquent payments.

The Maker and all endorsers or guarantors hereof expressly waive demand and presentation for payment, notice of nonpayment, protest, notice of protest, notice of dishonor, bringing of suit, and diligence in taking any action to collect any amounts called for hereunder and in the handling of properties, rights or collateral at any time existing in connection herewith.

Default in payment of any installment of principal or interest or in the performance of any of the covenants or conditions of the hereinafter described Deed of Trust or any other agreements securing this Note shall, at the option of the Holder of this Note, without notice or demand, render the whole amount of principal and interest then unpaid immediately due and payable. Failure to exercise this option shall not constitute a waiver of the right to exercise the same at any other time. A prepayment fee shall also be payable in the event of a default hereunder, or under the Deed of Trust or other documents securing this Note occurring on or after the Purchase Date, which default results in a foreclosure and sale of the property secured by such Deed of Trust in the same manner as if the Maker had elected to prepay this Note. In the event that such foreclosure and sale occur prior to the date upon which prepayment has been reserved as otherwise provided in this Note, the Maker agrees to pay a prepayment fee equal to seven percent (7%).

In the event the payee consults an attorney regarding the enforcement of any of its rights under this Note or the Deed of Trust or if this Note is placed in the hands of an attorney for collection or if suit be brought to enforce this Note or the Deed of Trust, the Maker promises to pay all costs thereof, including attorney's fees. Said cost and attorney's fees shall include, without limitation, costs and attorney's fees incurred in any appeal or in any proceedings under any present or future federal Bankruptcy Act or state receivership. The Maker and endorser severally waive presentment, protest and demand, notice of protest, demand of dishonor, and nonpayment of this Note, and expressly agree that this Note, or any payment thereunder, may be extended from time to time without in any way affecting the liability of the Maker and endorser thereof.

The Deed of Trust contains certain provisions restricting the conveyance, transfer or further encumbrance of the property encumbered by the Deed of Trust without the prior written consent of the Holder hereof.

This Note is to be governed by and construed in accordance with the laws of the State of Alaska. In the event of any action hereon or for the enforcement hereof or in event of the referring of this Note for collecton, the Maker promises to pay all costs pertaining to the security herefor and all sums required to be paid under any security instrument securing indebtedness hereunder.

FEDERAL GUARANTY UNDERWRITING

If the prescribed date of payment of any of the principal of or interest hereon is a Saturday or Sunday or legal holiday at the location of the principal office of Holder or place of payment of this Note, such payment shall be due on the next succeeding business day.

This Note has been issued, executed and delivered in connection with the financing of a multi-family rental residential project located on the real property described in that certain Deed of Trust, as of the date hereof made from the Maker to the Trustee thereunder, for the benefit of the _____ _____, and is entitled to the benefit and security of said Deed of Trust, which is a lien upon the property therein described.

Reference is hereby made to the Deed of Trust and the Tax Exempt Compliance Agreement, dated as of the date hereof by and among _____, the Trustee and the Maker for the provisions relating to the acceleration of the indebtedness evidenced hereby upon the occurrence of certain events stated therein, and for all other relevant purposes.

If for any reason whatsoever the interest contracted for, paid or received on this Note shall exceed the maximum nonusurious amount (if any) prescribed by law, the Holder hereof shall refund to the Maker, or, at the Holder's option, credit against the principal hereof, such portion of said interest as shall be necessary to cause the interest contracted for, paid and received hereon to equal the maximum nonusurious amount permitted by law. All sums paid or agreed to be paid to the Holder hereof for the use, forbearance or detention of the indebtedness evidenced hereby, to the extent permitted by law, shall be amortized, prorated, allocated and spread throughout the full term hereof.

This Note has been issued, executed and delivered in the State of Alaska and shall be governed by and construed in accordance with the laws of the State of Alaska.

_____
Name of Maker

By _____
Title _____

If the prescribed date of payment of any of the principal of or interest hereon is a Saturday or Sunday or legal holiday at the location of the principal office of Holder or place of payment of this Note, such payment shall be due on the next succeeding business day.

This Note has been issued, executed and delivered in connection with the financing of a multi-family rental residential project located on the real property described in that certain Deed of Trust, as of the date hereof made from the Maker to the Trustee thereunder, for the benefit of the _____ _____, and is entitled to the benefit and security of said Deed of Trust, which is a lien upon the property therein described.

Reference is hereby made to the Deed of Trust and the Tax Exempt Compliance Agreement, dated as of the date hereof by and among _____, the Trustee and the Maker for the provisions relating to the acceleration of the indebtedness evidenced hereby upon the occurrence of certain events stated therein, and for all other relevant purposes.

If for any reason whatsoever the interest contracted for, paid or received on this Note shall exceed the maximum nonusurious amount (if any) prescribed by law, the Holder hereof shall refund to the Maker, or, at the Holder's option, credit against the principal hereof, such portion of said interest as shall be necessary to cause the interest contracted for, paid and received hereon to equal the maximum nonusurious amount permitted by law. All sums paid or agreed to be paid to the Holder hereof for the use, forbearance or detention of the indebtedness evidenced hereby, to the extent permitted by law, shall be amortized, prorated, allocated and spread throughout the full term hereof.

This Note has been issued, executed and delivered in the State of Alaska and shall be governed by and construed in accordance with the laws of the State of Alaska.

_____
Name of Maker

By _____
Title _____

ADVANCES OF PRINCIPAL

Amount	Date	Notation Made By

[AIDA Multi-Family Conventional]
9-14-82

DEED OF TRUST
SECURITY AGREEMENT
AND ASSIGNMENT OF LEASES AND RENTS

THIS DEED OF TRUST, SECURITY AGREEMENT AND ASSIGNMENT OF LEASES AND RENTS (hereinafter called "Deed of Trust") is made this ___ day of _____, 19___, between _____ _____ whose address is _____ (the "Grantor"); _____ whose address is _____ (the "Trustee") and _____(the "Beneficiary"). whose address is _____ _____.

NOW, THEREFORE, in order to secure the repayment of all amounts due and payable by the Grantor under the Deed of Trust Note, described herein as the same shall become due and payable according to its tenor, and to secure the performance and observance of all the provisions therein and herein contained, and for and in consideration of the indebtedness herein recited, the Grantor by these presents does irrevocably grant, bargain, sell, and convey to the Trustee in trust, with power of sale, all of the following contained in Granting Clauses I to VI inclusive (all of which are hereinafter sometimes collectively called the "Premises"):

GRANTING CLAUSE I

Land. The *[leasehold estate pursuant to a lease (herein "ground lease") dated _____, between _____ and _____ recorded in _____] following described real property and all right, title and interest now owned or hereafter acquired by the Grantor in and on the same, located in the _____ Recording District: _____ Judicial District, State of Alaska:

GRANTING CLAUSE II

Additional Bargained Property. All and singular the lands, tenements, privileges, water rights, hereditaments and appurtenances thereto belonging or in anywise appertaining, and the reversion and reversions, remainder and remainders, rents, issues and profits thereof, and all the estate, right, title, claim, interest and demand whatsoever of the Grantor, either in law or equity, of, in and to the bargained property; TO HAVE AND TO HOLD said property bargained and described, together with all and singular the lands, tenements, privileges, water rights, hereditaments and appurtenances thereto belonging or in anywise appertaining, and the reversion and reversions, remainder and remainders, rents, issues and profits thereof, and all of the estate, right, title, claim and demands whatsoever of the Gran-

*For ground lease only

tor, either in law or in equity, of, in and to the above bargained property, forever as security for the faithful performance of the promissory note secured hereby and as security for the faithful performance of each and all of the covenants, agreements, terms and conditions of this Deed of Trust, SUBJECT, HOWEVER, to the right, power, and authority hereinafter given to and conferred upon Beneficiary to collect and apply such rents, issues and profits; and

GRANTING CLAUSE III

Access Rights. All the estate and rights of Grantor in and to said property and in and to land lying in streets and roads adjoining said property, and all access rights and easements appertaining thereto; and

GRANTING CLAUSE IV

Fixtures. All buildings, structures, improvements, fixtures and articles of property now or hereafter attached to, or used or adapted for use in the operation of, the said property, including but without being limited to, all heating and incinerating apparatus and equipment, piping and plumbing fixtures, and ~~shrubbery~~ and plants; and including also all interest of any owner of the said property in any of such items hereafter at any time acquired under conditional sale contract, chattel mortgage or other title retaining or security instrument, all of which property mentioned in this paragraph shall be deemed part of the realty and not severable wholly or in part without material injury to the freehold; and

GRANTING CLAUSE V

Encumbrances. All of Grantor's rights further to encumber said property for debt except with the prior written consent of Beneficiary; Grantor hereby (i) representing as a special inducement to the Beneficiary to make this loan that as of the date hereof there are no encumbrances to secure debt junior to this Deed of Trust and (ii) covenanting that there are to be none as of the date when this Deed of Trust becomes of record, except in either case encumbrances having the prior written approval of Beneficiary.

GRANTING CLAUSE VI

Assignment of Rents and Other Rights and Interests of Trustor in or Appurtenant to the Land and the Fixtures and Properties. All right, title and interest of Grantor now owned or hereafter acquired, in and to all the singular and tenements, hereditaments, privileges, easements, franchises, leases and subleases, licenses, and appurtenances belonging or in any way appertaining to the property described in the preceding Granting Clauses, and the reversions, remainders, rents, issues and profits thereof, including all interest of the Grantor as landlord in and to all present and future licenses, leases, tenancies and occupancies of space in the Improvements and in each and every sublease of the entire or any part of the Land, and all the estate, right, title and interest, claim and demand whatsoever in law or in equity, which the Grantor now has or may hereafter acquire in and to such property, including, without limiting the generality of the foregoing, any award in condemnation and the proceeds of any policy of insurance relating to the Premises.

All of the above-described property and interest therein are hereinafter referred to as the "Premises."

THIS DEED IS GIVEN FOR THE PURPOSE OF SECURING PERFORMANCE of each agreement of Grantor incorporated by reference or contained herein and payment *[of the sum of _____ DOLLARS with interest thereon] according to the terms of a Deed of Trust Note (hereinafter called "Note") of even date herewith, payable to Beneficiary or order and made by Grantor; all renewals, modifications or extensions thereof; and also such further sums as may be advanced or loaned by Beneficiary to Grantor, or any of their successors or assigns, together with interest thereon at such rate as shall be agreed upon; and also any amounts outstanding under any other securing instruments now or hereafter executed by the Grantor in favor of the Beneficiary.

THIS CONVEYANCE is made in trust, and these presents are upon this express condition, that if the Grantor, or its successors or assigns, pays the sum of money and the interest thereon stated in the Note and secured by this Deed of Trust, and otherwise performs all of its obligations as provided hereunder, and under the Security Documents and other documents evidencing or securing the Note, then this Deed of Trust and the estate hereby granted shall cease, determine and be void, and the Trustee shall reconvey without warranty the property then held hereunder. The grantee in such reconveyance may be described as "the person or persons legally entitled thereto." Neither the Beneficiary nor the Trustee shall be required to bear any expense or cost in connection with such reconveyance or the recording thereof.

THE GRANTOR WARRANTS that (i) it is lawfully possessed and is the lawful owner of the Land; (ii) the real property is free and clear of any deed of trust, mortgage, lien, charge or encumbrance thereon or affecting the title thereto prior to this Deed of Trust (other than as are specifically set forth in this Deed of Trust and Permitted Encumbrances); (iii) it is well and truly seized of the property described in Granting Clauses I, II, III, IV, V and VI hereof, free and clear of any liens and encumbrances except as expressly set forth in this Deed of Trust; (iv) except for the assignment contained herein, there is no present assignment of the rents and payments described under Granting Clause VI hereof; (v) it will maintain and preserve the lien of this Deed of Trust until the indebtedness secured hereby has been paid in full; (vi) it has good right and lawful authority to mortgage and pledge the Mortgaged Property, as provided in and by this Deed of Trust and the execution, delivery and performance of the Deed of Trust will not violate, conflict with, breach or constitute a default under any Legal Requirement; and (vii) that it will forever warrant and defend the same against any and all claims and demands whatsoever, except as are specifically set forth in this Deed of Trust.

DEFINITIONS. In addition to all other words defined herein, and unless a different meaning or intent clearly appears from the context, the following terms have the following defined meanings:

Beneficiary means the above defined Beneficiary, and the subsequent holder or holders, from time to time, of the Note.

Buildings means any and all buildings, open parking areas and other improvements, and any and all additions, alterations or appurtenances thereto, now or at any time hereafter situated, placed or constructed upon the above described real estate or any part thereof.

*For 1st Deed of Trust only

Deed Restrictions means that certain deed and Deed Restrictions of even date herewith by and between the Owner, pertaining to the site of the Project and the Project.

Event of Default means any happening or occurrence described in paragraph 26.

Fixtures means all materials, supplies, equipment, apparatus and other items now or hereafter attached to, installed in or used, whether temporarily or permanently, in connection with any of the Improvements, as hereinafter defined, or the Land, as hereafter defined, and all renewals, replacements, substitutions thereof and additions thereto, including, but not limited to, any and all partitions, ducts, shafts, pipes, radiators, conduit, wiring, window screens and shades, drapes, carpeting and other floor coverings, awnings, motors, engines, boilers, pumps, transformers, generators, fans, blowers, vents, switchboards, elevators, escalators, compressors, furnaces, cleaning, alarm and sprinkler systems, fire extinguishing apparatus, water tanks, swimming pools, heating, ventilating, pumping, laundry, incinerating, air conditioning and other cooling systems, water, gas and electrical equipment, disposals, dishwashers, refrigerators and ranges, cafeteria equipment, recreational equipment and facilities of all kinds, all of which property and things, to the extent permitted by law, are hereby declared to be permitted accessions to the Land.

Governmental Authority means any and all governmental or quasi-governmental entities of any nature whatsoever, whether federal, state, county, district, city or otherwise, and whether now or hereafter in existence.

Guaranty (individually and/or collectively, as the context may require) means that or those instructions of Guaranty of even date herewith, if any from the Guarantor to the Beneficiary guaranteeing the repaying of the indebtedness and the satisfaction of, or continued compliance with, the Obligations.

Impositions means all rates, charges and penalties, including deposits, insurance, taxes and fines, including regular and special assessments, both as to realty and as to personalty, water, gas, sewer, garbage, electricity, telephone and other utilities, any easement, license or agreement payments maintained for the benefit of the Premises, and all other charges or taxes and any interest, costs or penalties with respect thereto of any nature whatsoever which may now or hereafter be assessed, levied or imposed upon the Premises or the ownership, use, occupancy and enjoyment thereof.

Improvements means any and all buildings, structures, sidewalks, parking areas, ~~fixtures~~, and other improvements, and any and all additions, alterations or appurtenances thereto, and any and all plans, specifications, feasibility studies, cost estimates, permits, licenses and certificates now or at any time hereafter placed or constructed upon the Land or any part thereof.

Indebtedness means the principal of, interest on and all other amounts, payments, penalties and premiums due under or secured by the Note and the other Security Documents.

Land means the real estate and all improvements and fixtures and all rights, titles and interests appurtenant thereto, any and all surveys, engineering studies, appraisal reports, permits, licenses and certificates now or hereafter acquired, situated as more particularly described in Granting Clause I hereof, hereditaments, prescriptions, profits and advantages thereto in any way belonging.

Leases means all leases, including oil, gas and other mineral leases, subleases, licenses, concessions, contracts or other agreements, whether written or oral, now or hereafter in effect, which grant a possessory interest in and to or the rights to use any portion of the Premises or which relate to the use or construction of the Improvements.

Legal Requirements means any and all of the following that may now or hereafter be applicable to the Trustor or the Premises:

(1) Judicial decisions, statutes, rulings, rules, regulations, permits, certificates or ordinances of any Governmental Authority;

(2) Grantor's Articles of Incorporation, Bylaws and any other agreements pertaining to the form of the Grantor's business entity;

(3) Leases;

(4) Easements, privileges, restrictions and any other incorporeal rights of record; and

(5) Other written agreement or promises of any nature.

Note means the promissory note of even date herewith executed by the Grantor and payable to the order of the Beneficiary as provided therein.

Obligations means any and all of the covenants, warranties, representations and other obligations (other than to repay the Indebtedness) made or undertaken by the Grantor, a Guarantor or others to the Beneficiary, the Trustee or others as set forth in the Security Documents, the Deed Restrictions and the Tax-Exempt Compliance Agreement or any lease, sublease or other agreement pursuant to which, Grantor is granted a possessory interest in the Land.

Obligated Party means any maker, co-maker, guarantor, surety, endorser, or other party, other than the Trustor, directly or indirectly obligated or primarily or secondarily liable for any part of the Indebtedness or the performance of any of the Obligations.

Permitted Encumbrances means the outstanding liens, easements, building lines, restrictions, security interest and other matters (if any) as may be reflected on any Exhibit attached hereto and the lien and security interest created by the Security Documents.

Personalty means all of the right, title and interest of Grantor in and to all furniture, furnishings, equipment, machinery, goods, general intangibles, money, accounts, contract rights, inventory and all other personal property (other than the Fixtures) of any kind or character as defined in and subject to the provisions of [AS 45.09.101 et. seq.], now or hereafter located upon, within or about the Land and the Buildings, together with all accessories, replacements and substitutions thereto or therefor and the proceeds thereof.

Premises means the Land, Improvements, Fixtures, Leases and Rents, as herein defined, together with all or any part of and any interest in the following:

(1) Rights, privileges, tenemants, hereditaments, rights-of-way, easements, appendages and appurtenances in any way pertaining thereto, and rights, titles and interests of the Grantor in and to any streets, alleys, driveways and strips of land adjoining the Land or any part thereof;

(2) Additions, substitutions, replacements and revisions thereof and thereto and all remainders therein; and

(3) All of the Grantor's right, title and interest in and to any award, remuneration, settlement or compensation heretofore made or hereafter to be made by any Governmental Authority to the present or any subsequent owner of the Land, Buildings, Fixtures or Personalty, including those for any vacation of, or change of grade in, any streets affecting the Land or Buildings; and

(4) Other security and collateral of any nature whatsoever, now or hereafter given for the repayment of the Indebtedness or the performance and discharge of the Obligations.

As used in this Deed of Trust, the term Premises shall be expressly defined as meaning all, or where the context permits or requires, any portion of the above and all or, where the context permits or requires, any interest therein.

Tax-Exempt Compliance Agreement means that certain Agreement so-entitled of even date herewith by and among the Grantor, the Beneficiary and Alaska Industrial Development Authority, relating to the Land and the Buildings.

Rents means all of the rents, revenues, income, proceeds, profits and other benefits paid or payable by parties to the Leases other than the Grantor for using, leasing, licensing, possessing, operating from, residing in, or otherwise enjoying the Property.

Security Documents means any construction loan agreement and any permanent loan takeout agreement, by and between the Grantor and the Beneficiary, relating to the Land and the Buildings; the Note; this Deed of Trust; any other Security Agreement and any other Financing Statement; the Guaranty; and any and all other documents now or hereafter executed by the Grantor, a Guarantor or any other person or party to evidence or secure the payment of the Indebtedness or the performance and discharge of the Obligations.

The Grantor represents, warrants, covenants and agrees as follows:

1. Validity of Loan Instruments. The execution, delivery and performance by the Grantor of the Security Documents (other than the Guaranty), and the borrowing evidenced by the Note, (a) are within the Grantor's powers and have been duly authorized by the Grantor, (b) have received all (if any) requisite prior governmental approval in order to be legally binding and enforceable in accordance with the terms thereof, (c) will not violate, be in conflict with, result in a breach of or constitute (with due notice or lapse of time, or both) a default under, any Legal Requirement or result in the creation or imposition of any lien, charge or encumbrance of any nature whatsoever upon any of the Grantor's or the Guarantor's property or assets,

except as contemplated by the provisions of the Security Documents. The Security Documents constitute the legal, valid and binding obligations of the Grantor, any Guarantor and others obligated under the terms of the Security Documents, in accordance with their respective terms.

2. Deed of Trust/Security Agreement. When and if a Grantor and Beneficiary shall respectively become the debtor and secured party in any Uniform Commercial Code Financing Statement affecting property either referred to or described herein, or in any way connected with the use and enjoyment of these Premises, this Deed of Trust shall be deemed a Security Agreement as defined in said Uniform Commercial Code and the remedies for any violation of the covenants, terms and conditions of the agreements herein contained shall be (i) as prescribed herein, or (ii) by general law, or (iii) as to such part of the security which is also reflected in said Financing Statement by the specific statutory consequences now or hereafter enacted and specified in the Uniform Commercial Code, all at Beneficiary's sole election. Grantor and Beneficiary agree that the filing of such a Financing Statement in the records normally having to do with personal property shall never be construed as in anywise derogating from or impairing this declaration and hereby stated intention of the parties hereto, that everything used in connection with the production of income from the Premises and/or adapted for use therein and/or which is described or reflected in this Deed of Trust is, and at all times and for all purposes and in all proceedings both legal or equitable shall be, regarded as part of the real estate irrespective of whether (i) any such item is physically attached to the improvements, (ii) serial numbers are used for the better identification of certain equipment items capable of being thus identified in a recital contained in this Deed of Trust or in any list filed with the Beneficiary, or (iii) any such item is referred to or reflected in any such Financing Statement so filed at any time.

3. Payment of Debts, Secured Assessments and Liens. The Grantor shall pay all debts and money secured hereby, when from any cause the same shall become due to keep the Premises free from statutory and governmental liens of any kind, except those liens which are payable in installments as provided in paragraph 5. There are no liens or encumbrances against or upon the premises and none superior to this Deed of Trust will be created or suffered to be created by the Grantor during the life of this Deed of Trust. The Grantor has good right to make this Deed of Trust and will forever warrant and defend said Premises unto the Beneficiary, its successors and assigns, against every person whomsoever lawfully claiming or to claim the same or any part thereof. The Grantor upon request by mail will furnish a written statement duly acknowledged of the amount due on this Deed of Trust and whether any offsets or defenses exist against the debt secured hereby.

4. Tax-Exempt Compliance Agreement. The Grantor will comply fully with and perform each and all of its covenants, obligations and agreements set forth in the Tax-Exempt Compliance Agreement after its execution and delivery.

5. Reserves for Taxes, Insurance and Special Assessments. The Grantor shall pay together with and in addition to the monthly payments of principal and interest payable under the terms of the said Note, on the date set forth therein for the making of monthly payments each month, until said Note is fully paid, a sum, as estimated by the Beneficiary, equal to one-twelfth (1/12th) of the yearly ground rents, taxes, special assessments, and insurance premiums affecting the Premises,

Grantor agreeing to deliver promptly to Beneficiary all bills and notices thereof, such sums to be held by the Beneficiary to pay said ground rents, premiums, taxes and special assessments. All payments mentioned in this paragraph and all payments to be made under said Note shall be added together and the aggregate amount thereof shall be paid by the Grantor each month in a single payment to be applied by Beneficiary to the following items in the order set forth: (a) ground rents, if any, taxes, special assessments, fire and other hazard insurance premiums; (b) interest on the Note secured hereby; and, (c) amortization of the principal of said Note. Upon demand of Beneficiary, Grantor shall promptly pay such additional sums as are necessary to make up deficiency in the amount necessary to pay such ground rents, taxes, assessments, insurance premiums, and other similar charges in a timely manner, and any deficiency in such amounts shall constitute an event of default under this Deed of Trust. The arrangement provided for in this paragraph 5 is solely for the added protection of the Beneficiary and entails no responsibility on the Beneficiary's part beyond the allowing of due credit, without payment of interest or income to the Grantor, for the sums actually received by it. Those sums received, but not immediately required for payment of the items set forth above, may be invested or otherwise used by the Beneficiary without payment to the Grantor until such time as payment of the items set forth above is required. Upon assignment of this Deed of Trust by the Beneficiary, any funds on hand shall be turned over to the assignee and any responsibility of the assignor with respect thereto shall terminate. Each transfer of the Premises shall automatically transfer to the grantee all rights of the Grantor with respect to any funds accumulated hereunder.

6. Excess or Insufficient Reserves for Taxes, Insurance and Special Assessments. If the total of the payments (herein called "Reserves") made under paragraph 5 hereof relating to reserves for ground rents, taxes, special assessments, and premiums on insurance policies, shall exceed the amount of payments actually made by Beneficiary for the purposes set forth in paragraph 5, plus such amounts as have been reasonably accumulated in such Reserves toward payments therefrom next to become due, such excess may, provided no default then exists under the terms of this instrument nor under the terms of the Note hereby secured, but not otherwise, be credited by Beneficiary in payment of subsequent aggregate, but not partial, payments required to be made under paragraph 5 hereof, or, at the option of the Beneficiary, refunded to the Grantor or his successor in interest as may appear upon the records of the Beneficiary. If, however, at any time in Beneficiary's judgment, the amount of the reserves shall be insufficient to pay at least 30 days before due all ground rents, insurance premiums, taxes and assessments, then the Grantor shall pay to Beneficiary any amount necessary to make up the deficiency within thirty (30) days after written notice to Grantor stating the amount of the deficiency. In the event there is a default under any of the provisions of the Note or this Deed of Trust and thereafter a sale of the Premises in accordance with the provisions hereof, or if the Beneficiary at his option acquires the Premises otherwise after default, the Beneficiary may, at its option, at the time of acceleration of the indebtedness or at the time of commencement of such proceedings or at the time the Premises are otherwise acquired, apply the balance then remaining in the funds accumulated under paragraph 5, less such sums as will become due and payable during the pendency of the proceedings, as a credit against the amounts secured hereby.

7. Reserves for Repair and Replacement. Grantor shall pay each month at the same time as, but in addition to, the required payments of interest and principal, one-twelfth of one

percent (1/12 of 1%) of original cost of all improvements as a reserve for replacement and maintenance of said amounts. Disbursements, withdrawals, investments and termination of the requirement shall be as fixed in an agreement between Grantor and Beneficiary.

8. Direct Payment of Taxes. At the Beneficiary's option, the Grantor shall pay all ground rents, insurance premiums, taxes, assessments and other charges, fines and impositions attributable to the Premises in the manner provided in paragraph 5 hereof, or by the Grantor making payment, when, due, directly to the party entitled thereto. The Grantor shall furnish promptly to the Beneficiary all notices of amounts due under this paragraph, and in the event the Grantor shall make payment directly, the Grantor shall promptly (but in no event less than fifteen (15) days prior to delinquency) furnish to the Beneficiary receipts evidencing such payments.

9. Late Charges. In the event that any payment or portion thereof is not paid within fifteen (15 days commencing with the date it is due, the Beneficiary may collect, and the Grantor agrees to pay with such payment, a "late charge" of four cents ($.04) for each dollar so overdue as liquidated damages for the additional expenses of handling such delinquent payments.

10. Maintenance and Preservation of Premises. The Grantor agrees to maintain the buildings and other improvements on the Premises in a rentable and tenantable condition and state of repair, to neither commit nor suffer any waste, to promptly comply with all Legal Requirements and covenants, conditions and restrictions respecting said Premises or the use thereof, and to pay all fees or charges of any kind in connection therewith. The Beneficiary may recover as damages for any breach of this covenant the amount it would cost to put the Premises in the condition called for herein. In the event of breach of any requirement of this paragraph, the Beneficiary may, in addition to any other rights or remedies, at any time thereafter declare the whole of said principal sum immediately due and payable. Proof of impairment of security shall be unnecessary in any suit or proceeding under this paragraph. Grantor shall permit Beneficiary or its agents the opportunity to inspect the Premises, including the interior of any structures, at reasonable times and after reasonable notice.

11. Restoration. The Grantor shall restore promptly and in good workmanlike manner any building or improvement which may be damaged or destroyed thereon, and pay when due all costs incurred therefor.

12. Alteration or Removal of Property. No building or other improvement on the Premises shall be structurally altered, removed or demolished, without the Beneficiary's prior written consent, nor shall any fixture or chattel covered by this Deed of Trust and adapted to the proper use and enjoyment of the Premises be removed at any time without like consent unless actually replaced by an article of equal suitability, owned by the Grantor, free and clear of any lien or security interest except such as may be approved in writing by the Beneficiary.

13. Insurance. Grantor will at all times provide, maintain and keep in force:

(a) Policies of insurance insuring the Premises against loss or damage by fire and lightning; against loss or damage by other risks embraced by coverage of the type now known as the broad form of extended coverage, including, but not limited to,

riot and civil commotion, vandalism and malicious mischief; and against such other risks or hazards as Beneficiary from time to time reasonably may designate in an amount sufficient to prevent Beneficiary or Grantor from becoming a co-insurer under the terms of the applicable policies, but in any event in an amount not less than 100% of the then full replacement costs of the Improvements (exclusive of the cost of excavations, foundations and footings below the lowest basement floor) without deduction for physical depreciation, and each such policy shall contain a Replacement Cost Endorsement, if ava able;

(b) Flood insurance upon the Premises in the event that such insurance is available pursuant to the provisions of the Flood Disaster Protection Act of 1973 or other applicable legislation. Beneficiary shall reserve the right to require that Grantor secure flood insurance in excess of the amount provided by the Flood Disaster Protection Act of 1973 if such insurance is commercially available up to the amount provided in paragraph (a) hereof;

(c) Boiler and pressure vessel insurance, including air ta..., pressure piping and major air conditioning equipment, provided the building which constitutes a part of the Property contains equipment of the nature ordinarily covered by such insurance, in such an amount as Beneficiary may require;

(d) War risk insurance upon the Premises as and when such insurance is obtainable from the United States of America or any agency or instrumentality thereof at a reasonable premium, in an amount not less than 100% of the then full replacement cost of the Improvements (exclusive of the cost of excavations, foundations and footings below the lowest basement floor) without deduction for physical depreciation, to the extent obtainable, and if not so obtainable, in the maximum amount obtainable; and

(e) Such other insurance (including earthquake insurance) in such amounts as may from time to time be reasonably required by Beneficiary against the same or other insurable hazards which at the time are commonly insured against in the case of premises similarly situated, due regard being given to the height and type of buildings thereon and their construction, use and occupancy.

All policies for such insurance shall be issued by companies approved by Beneficiary, shall be subject to the approval of Beneficiary as to amount, content and forms of policies and expiration dates, shall contain a Non-Contributory Standard Mortgagee Clause and the Loss Payment Endorsement or their equivalents, in favor of Beneficiary, and and shall provide that the proceeds thereof shall be payable to Beneficiary (to the extent of its interest). Grantor hereby assigns to Beneficiary all insurance proceeds which it may be entitled to receive, and such proceeds shall be delivered to and held by Beneficiary to be applied, at the sole discretion and option of Beneficiary, (i) to the reduction of the unpaid principal of the indebtedness secured by this Deed of Trust; or (ii) so long as Grantor is not in default hereunder (except as set forth in paragraph 18 hereof) to the restoration of the Premises or any portion of the Premises that has been damaged or destroyed to the same condition, character and value as nearly as may be to that as existed prior to such damage or destruction. In the event that Beneficiary has elected to allow the proceeds to be used for restoration and, in Beneficiary's sole judgment, the insurance proceeds are not sufficient to fully accomplish such restoration (unless Grantor promptly on demand deposits with Beneficiary the additional amounts necessary to accomplish such restoration), Beneficiary

shall apply the insurance proceeds upon any indebtedness secured hereby. Such application or release shall not cure or waive any default or notice of default hereunder or invalidate any act done pursuant to such notice. If Beneficiary agrees to utilize the proceeds for the restoration of the Premises, and if the Premises is restored at a cost less than the available insurance proceeds, then such excess proceeds shall, if Grantor is not then in default hereunder, be paid over to Grantor. In the event of the foreclosure of this Deed of Trust or other transfer of the title to the Premises in extinguishment, in whole or in part, of the indebtedness secured hereby, all right, title and interest of Grantor in and to any insurance policy or premiums or payment in satisfaction of claims or any other rights thereunder then in force shall pass to the purchaser or grantee notwithstanding the amount of any bid at such foreclosure sale.

Nothing contained herein shall prevent accrual of interest as provided in the Note and on any portion of the proceeds to be applied to the principal balance due under the Note until such proceeds are actually received and applied.

After the happening of any casualty, whether or not required to be insured against under the policies to be provided by Grantor hereunder, Grantor shall give prompt written notice thereof to Beneficiary.

At least thirty (30) days prior to expiration of any policy required to be provided by Grantor hereunder, Grantor shall furnish Beneficiary with appropriate proof of issuance of a policy continuing in force the insurance covered with the original of each policy required to be provided by Grantor hereunder, which policy shall provide that it shall not be modified or canceled without thirty (30) days' written receipt for the payment of premiums on such insurance policies or other evidence of such payment reasonably satisfactory to Beneficiary in the event that such premiums have not been paid to Beneficiary or Beneficiary's agent pursuant to paragraph 6 hereof. In the event that Grantor does not deposit with Beneficiary a new policy of insurance with evidence of payment of premium thereon at least thirty (30) days prior to the expiration of any expiring policy, then Beneficiary may, but shall not be obligated to, procure such insurance and pay the premium therefor, and Grantor agrees to repay to Beneficiary the premiums thereon promptly on demand.

14. Defense of Actions and Indemnification and Attorney's Fees and Costs. Should Beneficiary or Trustee elect to appear in or defend any suit, action or proceeding that might affect the value of this security instrument or the security itself or the rights and powers of Beneficiary or Trustee; or be made a party to such by reason of this Deed of Trust, or elect to prosecute such action as appears necessary to preserve said value, the Grantor will, at all times, indemnify from, and, or reimburse Beneficiary or Trustee for any and all loss, damage, expense or cost, including cost of evidence of title and attorney's fees, arising out of or incurred in connection with any such suit, action or proceeding, and the sum of such expenditures shall be secured hereby and shall be due and payable on demand to pay costs of suit, cost of evidence of title and a reasonable attorney's fee in any proceeding or suit brought by Beneficiary to enforce this Deed of Trust or any portion hereof.

15. Payment of Taxes, Assessments, Liens and Encumbrances. The Grantor shall pay in full at least thirty (30) days before delinquent all rents, taxes, assessments and encumbrances, charges or liens with interest, that may now or hereafter be levied, assessed or claimed upon the Premises or any part there-

of, which at any time appear to be prior or superior thereto for which provision has not been made heretofore, and upon request will exhibit to Beneficiary official receipts therefor, and to pay all taxes imposed upon, reasonable costs, fees and expenses of this Deed of Trust. On default under this paragraph Beneficiary may, at its option, pay, or pay out of Reserves accumulated under paragraph 5, any such sums, without waiver of any other right of Beneficiary by reason of such default of Grantor, and Beneficiary shall not be liable to Grantor for a failure to exercise any such option.

16. Repayment of Advances. The Grantor shall repay immediately on written notice to Grantor all sums expended or advanced hereunder by or on behalf of Beneficiary or Trustee, with interest from the date of such advance or expenditure at the rate of twelve percent (12%) per annum until paid, and the repayment thereof shall be secured hereby. Failure to repay such expenditure or advance and interest thereon within ten (10) days of the mailing of such notice will, at Beneficiary's option, constitute an event of default hereunder; or, Beneficiary may, at its option, commence an action against Grantor for the recovery of such expenditure or advance and interest thereon, and in such event Grantor agrees to pay, in addition to the amount of such expenditure or advance, all costs and expenses incurred in such action together with a reasonable attorney's fee.

17. Beneficiary's Right to Defend Action and Cure of Certain Defaults. The Beneficiary may appear in and defend any action or proceeding at law or in equity or in bankruptcy purporting to affect the Premises or the security hereof and in such event (except where the purported defect affecting the security hereof arises or results from any act or omission of the Beneficiary), the Beneficiary shall be allowed and paid all the Beneficiary's costs, charges and expenses, including cost of evidence of title and attorney's fees in a reasonable amount, incurred in such action or proceeding in which the Beneficiary may appear.

Should Grantor fail to make any payment or to do any act as herein provided, then Beneficiary or Trustee, but without obligation so to do and without notice to or demand upon Grantor and without releasing Grantor from any obligation hereof, may: make or do the same in such manner and to such extent as either may deem necessary to protect the security hereof, Beneficiary or Trustee being authorized to enter upon the Premises for such purposes; commence, appear in and defend any action or proceeding purporting to affect the security hereof or the rights or powers of Beneficiary or Trustee; pay, purchase, contest, or compromise any encumbrance, charge or lien which in the judgment of either appears to be prior or superior hereto; and in exercising any such power, incur any liability, expend whatever amounts in its absolute discretion it may deem necessary therefor including cost of evidence of title, comply counsel, and pay his reasonable fees.

The Grantor hereby agrees to pay on demand all of the Beneficiary's costs, charges, expenses and amounts referred to above in this paragraph, including cost of evidence of title and attorney's fees in a reasonable amount incurred in such action or which the Beneficiary may appear. All costs, charges and expenses so incurred, together with interest thereon as aforesaid, shall be secured by the lien of this Deed of Trust.

18. Leases.

(a) The Grantor shall fully comply with all of the terms, conditions and provisions of all leases on said Premises

WHEN RECORDED MAIL TO

SPACE ABOVE THIS LINE FOR RECORDER'S USE

MULTIFAMILY DEED OF TRUST,
ASSIGNMENT OF RENTS AND SECURITY AGREEMENT
(Security for Construction Loan Agreement)

THIS DEED OF TRUST (herein "Instrument") is made this ..... day of ....., 19....., among the Trustor/Grantor, ...
.....,
whose address is .....
(herein "Borrower"), ...
..... (herein "Trustee"), and
the Beneficiary, ...
.....,
a ..... organized and existing under the laws of .....,
whose address is .....
..... (herein "Lender").

BORROWER, in consideration of the indebtedness herein recited and the trust herein created, irrevocably grants, conveys and assigns to Trustee, in trust, with power of sale, [the leasehold estate pursuant to a lease (herein "ground lease") dated ....., between .....
.....and .....,
recorded in .....
..... in and to*] the following described property located in the
..... Recording District, ...
Judicial District, State of Alaska:

** Delete bracketed material if not completed.*

TOGETHER with all buildings, improvements and tenements now or hereafter erected on the property, and all heretofore or hereafter vacated alleys and streets abutting the property, and all easements, rights, appurtenances, rents (subject however to the assignment of rents to Lender herein), royalties, mineral, oil and gas rights and profits, water, water rights, and water stock appurtenant to the property, and all fixtures, machinery, equipment, engines, boilers, incinerators, building materials, appliances and goods of every nature whatsoever now or hereafter located in, or on, or used, or intended to be used in connection with the property, including, but not limited to, those for the purposes of supplying or distributing heating, cooling, electricity, gas, water, air and light; and all elevators, and related machinery and equipment, fire prevention and extinguishing apparatus, security and access control apparatus, plumbing, bath tubs, water heaters, water closets, sinks, ranges, stoves, refrigerators, dishwashers, disposals, washers, dryers, awnings, storm windows, storm doors, screens, blinds, shades, curtains and curtain rods, mirrors, cabinets, panelling, rugs, attached floor coverings, furniture, pictures, antennas, trees and plants, and .....
.....
.....; all of which, including replacements and additions thereto, shall be deemed to be and remain a part of the real property covered by this Instrument; and all of the foregoing, together with said property (or the leasehold estate in the event this Instrument is on a leasehold) are herein referred to as the "Property".

TO SECURE TO LENDER (a) the repayment of the indebtedness evidenced by Borrower's note dated ..... (herein "Note") in the principal sum of .....
..... Dollars, with interest thereon, with the balance of the indebtedness, if not sooner paid, due and payable on ....., and all renewals, extensions and modifications thereof; (b) the repayment of any future advances, with interest thereon, made by Lender to Borrower pursuant to paragraph 30 hereof (herein "Future Advances"); (c) the performance of the covenants and agreements of Borrower contained in a Construction Loan Agreement between Lender and Borrower dated ....., 19....., if any, as provided in paragraph 25 hereof; (d) the payment of all other sums, with interest thereon, advanced in accordance herewith to protect the security of this Instrument; and (e) the performance of the covenants and agreements of Borrower herein contained.

Borrower covenants that Borrower is lawfully seised of the estate hereby conveyed and has the right to grant, convey and assign the Property (and, if this Instrument is on a leasehold, that the ground lease is in full force and effect without modification except as noted above and without default on the part of either lessor or lessee thereunder), that the Property is unencumbered, and that Borrower will warrant and defend generally the title to the Property against all claims and demands, subject to any easements and restrictions listed in a schedule of exceptions to coverage in any title insurance policy insuring Lender's interest in the Property.

Uniform Covenants. Borrower and Lender covenant and agree as follows:

1. PAYMENT OF PRINCIPAL AND INTEREST. Borrower shall promptly pay when due the principal of and interest on the indebtedness evidenced by the Note, any prepayment and late charges provided in the Note and all other sums secured by this Instrument.

2. FUNDS FOR TAXES, INSURANCE AND OTHER CHARGES. Subject to applicable law or to a written waiver by Lender, Borrower shall pay to Lender on the day monthly installments of principal or interest are payable under the Note (or on another day designated in writing by Lender), until the Note is paid in full, a sum (herein "Funds") equal to one-twelfth of (a) the yearly water and sewer rates and taxes and assessments which may be levied on the Property, (b) the yearly ground rents, if any, (c) the yearly premium installments for fire and other hazard insurance, rent loss insurance and such other insurance covering the Property as Lender may require pursuant to paragraph 5 hereof, (d) the yearly premium installments for mortgage insurance, if any, and (e) if this Instrument is on a leasehold, the yearly fixed rents, if any, under the ground lease, all as reasonably estimated initially and from time to time by Lender on the basis of assessments and bills and reasonable estimates thereof. Any waiver by Lender of a requirement that Borrower pay such Funds may be revoked by Lender, in Lender's sole discretion, at any time upon notice in writing to Borrower. Lender may require Borrower to pay to Lender, in advance, such other Funds for other taxes, charges, premiums, assessments and impositions in connection with Borrower or the Property which Lender shall reasonably deem necessary to protect Lender's interests (herein "Other Impositions"). Unless otherwise provided by applicable law, Lender may require Funds for Other Impositions to be paid by Borrower in a lump sum or in periodic installments, at Lender's option.

The Funds shall be held in an institution(s) the deposits or accounts of which are insured or guaranteed by a Federal or state agency (including Lender if Lender is such an institution). Lender shall apply the Funds to pay said rates, rents, taxes, assessments, insurance premiums and Other Impositions so long as Borrower is not in breach of any covenant or agreement of Borrower in this Instrument. Lender shall make no charge for so holding and applying the Funds, analyzing said account or for verifying and compiling said assessments and bills, unless Lender pays Borrower interest, earnings or profits on the Funds and applicable law permits Lender to make such a charge. Borrower and Lender may agree in writing at the time of execution of this Instrument that interest on the Funds shall be paid to Borrower, and unless such agreement is made or applicable law requires interest, earnings or profits to be paid, Lender shall not be required to pay Borrower any interest, earnings or profits on the Funds. Lender shall give to Borrower, without charge, an annual accounting of the Funds in Lender's normal format showing credits and debits to the Funds and the purpose for which each debit to the Funds was made. The Funds are pledged as additional security for the sums secured by this Instrument.

If the amount of the Funds held by Lender at the time of the annual accounting thereof shall exceed the amount deemed necessary by Lender to provide for the payment of water and sewer rates, taxes, assessments, insurance premiums, rents and Other Impositions, as they fall due, such excess shall be credited to Borrower on the next monthly installment or installments of Funds due. If at any time the amount of the Funds held by Lender shall be less than the amount deemed necessary by Lender to pay water and sewer rates, taxes, assessments, insurance premiums, rents and Other Impositions, as they fall due, Borrower shall pay to Lender any amount necessary to make up the deficiency within thirty days after notice from Lender to Borrower requesting payment thereof.

Upon Borrower's breach of any covenant or agreement of Borrower in this Instrument, Lender may apply, in any amount and in any order as Lender shall determine in Lender's sole discretion, any Funds held by Lender at the time of application (i) to pay rates, rents, taxes, assessments, insurance premiums and Other Impositions which are now or will hereafter become due, or (ii) as a credit against sums secured by this Instrument. Upon payment in full of all sums secured by this Instrument, Lender shall promptly refund to Borrower any Funds held by Lender.

3. APPLICATION OF PAYMENTS. Unless applicable law provides otherwise, all payments received by Lender from Borrower under the Note or this Instrument shall be applied by Lender in the following order of priority: (i) amounts payable to Lender by Borrower under paragraph 2 hereof; (ii) interest payable on the Note; (iii) principal of the Note; (iv) interest payable on advances made pursuant to paragraph 8 hereof; (v) principal of advances made pursuant to paragraph 8 hereof; (vi) interest payable on any Future Advance, provided that if more than one Future Advance is outstanding, Lender may apply payments received among the amounts of interest payable on the Future Advances in such order as Lender, in Lender's sole discretion, may determine; (vii) principal of any Future Advance, provided that if more than one Future Advance is outstanding, Lender may apply payments received among the principal balances of the Future Advances in such order as Lender, in Lender's sole discretion, may determine; and (viii) any other sums secured by this Instrument in such order as Lender, at Lender's option, may determine; provided, however, that Lender may, at Lender's option, apply any sums payable pursuant to paragraph 8 hereof prior to interest on and principal of the Note, but such application shall not otherwise affect the order of priority of application specified in this paragraph 3.

4. CHARGES; LIENS. Borrower shall pay all water and sewer rates, rents, taxes, assessments, premiums, and Other Impositions attributable to the Property at Lender's option in the manner provided under paragraph 2 hereof or, if not paid in such manner, by Borrower making payment, when due, directly to the payee thereof, or in such other manner as Lender may designate in writing. Borrower shall promptly furnish to Lender all notices of amounts due under this paragraph 4, and in the event Borrower shall make payment directly, Borrower shall promptly furnish to Lender receipts evidencing such payments. Borrower shall promptly discharge any lien which has, or may have, priority over or equality with, the lien of this Instrument, and Borrower shall pay, when due, the claims of all persons supplying labor or materials to or in connection with the Property. Without Lender's prior written permission, Borrower shall not allow any lien inferior to this Instrument to be perfected against the Property.

5. HAZARD INSURANCE. Borrower shall keep the improvements now existing or hereafter erected on the Property insured by carriers at all times satisfactory to Lender against loss by fire, hazards included within the term "extended coverage", rent loss and such other hazards, casualties, liabilities and contingencies as Lender (and, if this Instrument is on a leasehold, the ground lease) shall require and in such amounts and for such periods as Lender shall require. All premiums on insurance policies shall be paid, at Lender's option, in the manner provided under paragraph 2 hereof, or by Borrower making payment, when due, directly to the carrier, or in such other manner as Lender may designate in writing.

All insurance policies and renewals thereof shall be in a form acceptable to Lender and shall include a standard mortgage clause in favor of and in form acceptable to Lender. Lender shall have the right to hold the policies, and Borrower shall promptly furnish to Lender all renewal notices and all receipts of paid premiums. At least thirty days prior to the expiration date of a policy, Borrower shall deliver to Lender a renewal policy in form satisfactory to Lender. If this Instrument is on a leasehold, Borrower shall furnish Lender a duplicate of all policies, renewal notices, renewal policies and receipts of paid premiums if, by virtue of the ground lease, the originals thereof may not be supplied by Borrower to Lender.

In the event of loss, Borrower shall give immediate written notice to the insurance carrier and to Lender. Borrower hereby authorizes and empowers Lender as attorney-in-fact for Borrower to make proof of loss, to adjust and compromise any claim under insurance policies, to appear in and prosecute any action arising from such insurance policies, to collect and receive insurance proceeds, and to deduct therefrom Lender's expenses incurred in the collection of such proceeds; provided however, that nothing contained in this paragraph 5 shall require Lender to incur any expense or take any action hereunder. Borrower further authorizes Lender, at Lender's option, (a) to hold the balance of such proceeds to be used to reimburse Borrower for the cost of reconstruction or repair of the Property or (b) to apply the balance of such proceeds to the payment of the sums secured by this Instrument, whether or not then due, in the order of application set forth in paragraph 3 hereof (subject, however, to the rights of the lessor under the ground lease if this Instrument is on a leasehold).

If the insurance proceeds are held by Lender to reimburse Borrower for the cost of restoration and repair of the Property, the Property shall be restored to the equivalent of its original condition or such other condition as Lender may approve in writing. Lender may, at Lender's option, condition disbursement of said proceeds on Lender's approval of such plans and specifications of an architect satisfactory to Lender, contractor's cost estimates, architect's certificates, waivers of liens, sworn statements of mechanics and materialmen and such other evidence of costs, percentage completion of construction, application of payments, and satisfaction of liens as Lender may reasonably require. If the insurance proceeds are applied to the payment of the sums secured by this Instrument, any such application of proceeds to principal shall not extend or postpone the due dates of the monthly installments referred to in paragraphs 1 and 2 hereof or change the amounts of such installments. If the Property is sold pursuant to paragraph 27 hereof or if Lender acquires title to the Property, Lender shall have all of the right, title and interest of Borrower in and to any insurance policies and unearned premiums thereon and in and to the proceeds resulting from any damage to the Property prior to such sale or acquisition.

6. PRESERVATION AND MAINTENANCE OF PROPERTY; LEASEHOLDS. Borrower (a) shall not commit waste or permit impairment or deterioration of the Property, (b) shall not abandon the Property, (c) shall restore or repair promptly and in a good and workmanlike manner all

or any part of the Property to the equivalent of its original condition, or such other condition as Lender may approve in writing, in the event of any damage, injury or loss thereto, whether or not insurance proceeds are available to cover in whole or in part the costs of such restoration or repair, (d) shall keep the Property, including improvements, fixtures, equipment, machinery and appliances thereon in good repair and shall replace fixtures, equipment, machinery and appliances on the Property when necessary to keep such items in good repair, (e) shall comply with all laws, ordinances, regulations and requirements of any governmental body applicable to the Property, (f) shall provide for professional management of the Property by a residential rental property manager satisfactory to Lender pursuant to a contract approved by Lender in writing, unless such requirement shall be waived by Lender in writing, (g) shall generally operate and maintain the Property in a manner to ensure maximum rentals, and (h) shall give notice in writing to Lender of and, unless otherwise directed in writing by Lender, appear in and defend any action or proceeding purporting to affect the Property, the security of this Instrument or the rights or powers of Lender. Neither Borrower nor any tenant or other person shall remove, demolish or alter any improvement now existing or hereafter erected on the Property or any fixture, equipment, machinery or appliance in or on the Property except when incident to the replacement of fixtures, equipment, machinery and appliances with items of like kind.

If this Instrument is on a leasehold, Borrower (i) shall comply with the provisions of the ground lease, (ii) shall give immediate written notice to Lender of any default by lessor under the ground lease or of any notice received by Borrower from such lessor of any default under the ground lease by Borrower, (iii) shall exercise any option to renew or extend the ground lease and give written confirmation thereof to Lender within thirty days after such option becomes exercisable, (iv) shall give immediate written notice to Lender of the commencement of any remedial proceedings under the ground lease by any party thereto and, if required by Lender, shall permit Lender as Borrower's attorney-in-fact to control and act for Borrower in any such remedial proceedings and (v) shall within thirty days after request by Lender obtain from the lessor under the ground lease and deliver to Lender the lessor's estoppel certificate required thereunder, if any. Borrower hereby expressly transfers and assigns to Lender the benefit of all covenants contained in the ground lease, whether or not such covenants run with the land, but Lender shall have no liability with respect to such covenants nor any other covenants contained in the ground lease.

Borrower shall not surrender the leasehold estate and interests herein conveyed nor terminate or cancel the ground lease creating said estate and interests, and Borrower shall not, without the express written consent of Lender, alter or amend said ground lease. Borrower covenants and agrees that there shall not be a merger of the ground lease, or of the leasehold estate created thereby, with the fee estate covered by the ground lease by reason of said leasehold estate or said fee estate, or any part of either, coming into common ownership, unless Lender shall consent in writing to such merger; if Borrower shall acquire such fee estate, then this Instrument shall simultaneously and without further action be spread so as to become a lien on such fee estate.

7. USE OF PROPERTY. Unless required by applicable law or unless Lender has otherwise agreed in writing, Borrower shall not allow changes in the use for which all or any part of the Property was intended at the time this Instrument was executed. Borrower shall not initiate or acquiesce in a change in the zoning classification of the Property without Lender's prior written consent.

8. PROTECTION OF LENDER'S SECURITY. If Borrower fails to perform the covenants and agreements contained in this Instrument, or if any action or proceeding is commenced which affects the Property or title thereto or the interest of Lender therein, including, but not limited to, eminent domain, insolvency, code enforcement, or arrangements or proceedings involving a bankrupt or decedent, then Lender at Lender's option may make such appearances, disburse such sums and take such action as Lender deems necessary, in its sole discretion, to protect Lender's interest, including, but not limited to, (i) disbursement of attorney's fees, (ii) entry upon the Property to make repairs, (iii) procurement of satisfactory insurance as provided in paragraph 5 hereof, and (iv) if this Instrument is on a leasehold, exercise of any option to renew or extend the ground lease on behalf of Borrower and the curing of any default of Borrower in the terms and conditions of the ground lease.

Any amounts disbursed by Lender pursuant to this paragraph 8, with interest thereon, shall become additional indebtedness of Borrower secured by this Instrument. Unless Borrower and Lender agree to other terms of payment, such amounts shall be immediately due and payable and shall bear interest from the date of disbursement at the rate stated in the Note unless collection from Borrower of interest at such rate would be contrary to applicable law, in which event such amounts shall bear interest at the highest rate which may be collected from Borrower under applicable law. Borrower hereby covenants and agrees that Lender shall be subrogated to the lien of any mortgage or other lien discharged, in whole or in part, by the indebtedness secured hereby. Nothing contained in this paragraph 8 shall require Lender to incur any expense or take any action hereunder.

9. INSPECTION. Lender may make or cause to be made reasonable entries upon and inspections of the Property.

10. BOOKS AND RECORDS. Borrower shall keep and maintain at all times at Borrower's address stated below, or such other place as Lender may approve in writing, complete and accurate books of accounts and records adequate to reflect correctly the results of the operation of the Property and copies of all written contracts, leases and other instruments which affect the Property. Such books, records, contracts, leases and other instruments shall be subject to examination and inspection at any reasonable time by Lender. Upon Lender's request, Borrower shall furnish to Lender, within one hundred and twenty days after the end of each fiscal year of Borrower, a balance sheet, a statement of income and expenses of the Property and a statement of changes in financial position, each in reasonable detail and certified by Borrower and, if Lender shall require, by an independent certified public accountant. Borrower shall furnish, together with the foregoing financial statements and at any other time upon Lender's request, a rent schedule for the Property, certified by Borrower, showing the name of each tenant, and for each tenant, the space occupied, the lease expiration date, the rent payable and the rent paid.

11. CONDEMNATION. Borrower shall promptly notify Lender of any action or proceeding relating to any condemnation or other taking, whether direct or indirect, of the Property, or part thereof, and Borrower shall appear in and prosecute any such action or proceeding unless otherwise directed by Lender in writing. Borrower authorizes Lender, at Lender's option, as attorney-in-fact for Borrower, to commence, appear in and prosecute, in Lender's or Borrower's name, any action or proceeding relating to any condemnation or other taking of the Property, whether direct or indirect, and to settle or compromise any claim in connection with such condemnation or other taking. The proceeds of any award, payment or claim for damages, direct or consequential, in connection with any condemnation or other taking, whether direct or indirect, of the Property, or part thereof, or for conveyances in lieu of condemnation, are hereby assigned to and shall be paid to Lender subject, if this Instrument is on a leasehold, to the rights of lessor under the ground lease.

Borrower authorizes Lender to apply such awards, payments, proceeds or damages, after the deduction of Lender's expenses incurred in the collection of such amounts, at Lender's option, to restoration or repair of the Property or to payment of the sums secured by this Instrument, whether or not then due, in the order of application set forth in paragraph 3 hereof, with the balance, if any, to Borrower. Unless Borrower and Lender otherwise agree in writing, any application of proceeds to principal shall not extend or postpone the due date of the monthly installments referred to in paragraphs 1 and 2 hereof or change the amount of such installments. Borrower agrees to execute such further evidence of assignment of any awards, proceeds, damages or claims arising in connection with such condemnation or taking as Lender may require.

12. BORROWER AND LIEN NOT RELEASED. From time to time, Lender may, at Lender's option, without giving notice to or obtaining the consent of Borrower, Borrower's successors or assigns or of any junior lienholder or guarantors, without liability on Lender's part and notwithstanding Borrower's breach of any covenant or agreement of Borrower in this Instrument, extend the time for payment of said indebtedness or any part thereof, reduce the payments thereon, release anyone liable on any of said indebtedness, accept a renewal note or notes therefor, modify the terms and time of payment of said indebtedness, release from the lien of this Instrument any part of the Property, take or release other or additional security, reconvey any part of the Property, consent to any map or plan of the Property, consent to the granting of any easement, join in any extension or subordination agreement, and agree in writing with Borrower to modify the rate of interest or period of amortization of the Note or change the amount of the monthly installments payable thereunder. Any actions taken by Lender pursuant to the terms of this paragraph 12 shall not affect the obligation of Borrower or Borrower's successors or assigns to pay the sums secured by this Instrument and to observe the covenants of Borrower contained herein, shall not affect the guaranty of any person, corporation, partnership or other entity for payment of the indebtedness secured hereby, and shall not affect the lien or priority of lien hereof on the Property. Borrower shall pay Lender a reasonable service charge, together with such title insurance premiums and attorney's fees as may be incurred at Lender's option, for any such action if taken at Borrower's request.

13. FORBEARANCE BY LENDER NOT A WAIVER. Any forbearance by Lender in exercising any right or remedy hereunder, or otherwise afforded by applicable law, shall not be a waiver of or preclude the exercise of any right or remedy. The acceptance by Lender of payment of any sum secured by this Instrument after the due date of such payment shall not be a waiver of Lender's right to either require prompt payment when due of all other sums so secured or to declare a default for failure to make prompt payment. The procurement of insurance or the payment of taxes or other liens or charges by Lender shall not be a waiver of Lender's right to accelerate the maturity of the indebtedess secured by this Instrument, nor shall Lender's receipt of any awards, proceeds or damages under paragraphs 5 and 11 hereof operate to cure or waive Borrower's default in payment of sums secured by this Instrument.

14. ESTOPPEL CERTIFICATE. Borrower shall within ten days of a written request from Lender furnish Lender with a written statement, duly acknowledged, setting forth the sums secured by this Instrument and any right of set-off, counterclaim or other defense which exists against such sums and the obligations of this Instrument.

15. UNIFORM COMMERCIAL CODE SECURITY AGREEMENT. This Instrument is intended to be a security agreement pursuant to the Uniform Commercial Code for any of the items specified above as part of the Property which, under applicable law, may be subject to a security interest pursuant to the Uniform Commercial Code, and Borrower hereby grants Lender a security interest in said items. Borrower agrees that Lender may file this Instrument, or a reproduction thereof, in the real estate records or other appropriate index, as a financing statement for any of the items specified above as part of the Property. Any reproduction of this Instrument or of any other security agreement or financing statement shall be sufficient as a financing statement. In addition, Borrower agrees to execute and deliver to Lender, upon Lender's request, any financing statements, as well as extensions, renewals and amendments thereof, and reproductions of this Instrument in such form as Lender may require to perfect a security interest with respect to said items. Borrower shall pay all costs of filing such financing statements and any extensions, renewals, amendments and releases thereof, and shall pay all reasonable costs and expenses of any record searches for financing statements Lender may reasonably require. Without the prior written consent of Lender, Borrower shall not create or suffer to be created pursuant to the Uniform Commercial Code any other security interest in said items, including replacements and additions thereto. Upon Borrower's breach of any covenant or agreement of Borrower contained in this Instrument, including the covenants to pay when due all sums secured by this Instrument, Lender shall have the remedies of a secured party under the Uniform Commercial Code and, at Lender's option, may also invoke the remedies provided in paragraph 27 of this Instrument as to such items. In exercising any of said remedies, Lender may proceed against the items of real property and any items of personal property specified above as part of the Property separately or together and in any order whatsoever, without in any way affecting the availability of Lender's remedies under the Uniform Commercial Code or of the remedies provided in paragraph 27 of this Instrument.

16. LEASES OF THE PROPERTY. As used in this paragraph 16, the word "lease" shall mean "sublease" if this Instrument is on a leasehold. Borrower shall comply with and observe Borrower's obligations as landlord under all leases of the Property or any part thereof. Borrower will not lease any portion of the Property for non-residential use except with the prior written approval of Lender. Borrower, at Lender's request, shall furnish Lender with executed copies of all leases now existing or hereafter made of all or any part of the Property, and all leases now or hereafter entered into will be in form and substance subject to the approval of Lender. All leases of the Property shall specifically provide that such leases are subordinate to this Instrument; that the tenant attorns to Lender, such attornment to be effective upon Lender's acquisition of title to the Property; that the tenant agrees to execute such further evidences of attornment as Lender may from time to time request; that the attornment of the tenant shall not be terminated by foreclosure; and that Lender may, at Lender's option, accept or reject such attornments. Borrower shall not, without Lender's written consent, execute, modify, surrender or terminate, either orally or in writing, any lease now existing or hereafter made of all or any part of the Property providing for a term of three years or more, permit an assignment or sublease of such a lease without Lender's written consent, or request or consent to the subordination of any lease of all or any part of the Property to any lien subordinate to this Instrument. If Borrower becomes aware that any tenant proposes to do, or is doing, any act or thing which may give rise to any right of set-off against rent, Borrower shall (i) take such steps as shall be reasonably calculated to prevent the accrual of any right to a set-off against rent, (ii) notify Lender thereof and of the amount of said set-offs, and (iii) within ten days after such accrual, reimburse the tenant who shall have acquired such right to set-off or take such other steps as shall effectively discharge such set-off and as shall assure that rents thereafter due shall continue to be payable without set-off or deduction.

Upon Lender's request, Borrower shall assign to Lender, by written instrument satisfactory to Lender, all leases now existing or hereafter made of all or any part of the Property and all security deposits made by tenants in connection with such leases of the Property. Upon assignment by Borrower to Lender of any leases of the Property, Lender shall have all of the rights and powers possessed by Borrower prior to such assignment and Lender shall have the right to modify, extend or terminate such existing leases and to execute new leases, in Lender's sole discretion.

17. REMEDIES CUMULATIVE. Each remedy provided in this Instrument is distinct and cumulative to all other rights or remedies under this Instrument or afforded by law or equity, and may be exercised concurrently, independently, or successively, in any order whatsoever.

18. ACCELERATION IN CASE OF BORROWER'S INSOLVENCY. If Borrower shall voluntarily file a petition under the Federal Bankruptcy Act, as such Act may from time to time be amended, or under any similar or successor Federal statute relating to bankruptcy, insolvency, arrangements or reorganizations, or under any state bankruptcy or insolvency act, or file an answer in an involuntary proceeding admitting insolvency or inability to pay debts, or if Borrower shall fail to obtain a vacation or stay of involuntary proceedings brought for the reorganization, dissolution or liquidation of Borrower, or if Borrower shall be adjudged a bankrupt, or if a trustee or receiver shall be appointed for Borrower or Borrower's property, or if the Property shall become subject to the jurisdiction of a Federal bankruptcy court or similar state court, or if Borrower shall make an assignment for the benefit of Borrower's creditors, or if there is an attachment, execution or other judicial seizure of any portion of Borrower's assets and such seizure is not discharged within ten days, then Lender may, at Lender's option, declare all of the sums secured by this Instrument to be immediately due and payable without prior notice to Borrower, and Lender may invoke any remedies permitted by paragraph 27 of this Instrument. Any attorney's fees and other expenses incurred by Lender in connection with Borrower's bankruptcy or any of the other aforesaid events shall be additional indebtedness of Borrower secured by this Instrument pursuant to paragraph 8 hereof.

19. TRANSFERS OF THE PROPERTY OR BENEFICIAL INTERESTS IN BORROWER; ASSUMPTION. On sale or transfer of (i) all or any part of the Property, or any interest therein, or (ii) beneficial interests in Borrower (if Borrower is not a natural person or persons but is a corporation, partnership, trust or other legal entity), Lender may, at Lender's option, declare all of the sums secured by this Instrument to be immediately due and payable, and Lender may invoke any remedies permitted by paragraph 27 of this Instrument. This option shall not apply in case of

(a) transfers by devise or descent or by operation of law upon the death of a joint tenant or a partner;

(b) sales or transfers when the transferee's creditworthiness and management ability are satisfactory to Lender and the transferee has executed, prior to the sale or transfer, a written assumption agreement containing such terms as Lender may require, including, if required by Lender, an increase in the rate of interest payable under the Note;

(c) the grant of a leasehold interest in a part of the Property of three years or less (or such longer lease term as Lender may permit by prior written approval) not containing an option to purchase (except any interest in the ground lease, if this Instrument is on a leasehold);

(d) sales or transfers of beneficial interests in Borrower provided that such sales or transfers, together with any prior sales or transfers of beneficial interests in Borrower, but excluding sales or transfers under subparagraphs (a) and (b) above, do not result in more than 49% of the beneficial interests in Borrower having been sold or transferred since commencement of amortization of the Note; and

(e) sales or transfers of fixtures or any personal property pursuant to the first paragraph of paragraph 6 hereof.

20. NOTICE. Except for any notice required under applicable law to be given in another manner, (a) any notice to Borrower provided for in this Instrument or in the Note shall be given by mailing such notice by certified mail addressed to Borrower at Borrower's address stated below or at such other address as Borrower may designate by notice to Lender as provided herein, and (b) any notice to Lender shall be given by certified mail, return receipt requested, to Lender's address stated herein or to such other address as Lender may designate by notice to Borrower as provided herein. Any notice provided for in this Instrument or in the Note shall be deemed to have been given to Borrower or Lender when given in the manner designated herein.

21. SUCCESSORS AND ASSIGNS BOUND; JOINT AND SEVERAL LIABILITY; AGENTS; CAPTIONS. The covenants and agreements herein contained shall bind, and the rights hereunder shall inure to, the respective successors and assigns of Lender and Borrower, subject to the provisions of paragraph 19 hereof. All covenants and agreements of Borrower shall be joint and several. In exercising any rights hereunder or taking any actions provided for herein, Lender may act through its employees, agents or independent contractors as authorized by Lender. The captions and headings of the paragraphs of this Instrument are for convenience only and are not to be used to interpret or define the provisions hereof.

22. UNIFORM MULTIFAMILY INSTRUMENT; GOVERNING LAW; SEVERABILITY. This form of multifamily instrument combines uniform covenants for national use and non-uniform covenants with limited variations by jurisdiction to constitute a uniform security instrument covering real property and related fixtures and personal property. This Instrument shall be governed by the law of the jurisdiction in which the Property is located. In the event that any provision of this Instrument or the Note conflicts with applicable law, such conflict shall not affect other provisions of this Instrument or the Note which can be given effect without the conflicting provisions, and to this end the provisions of this

Instrument and the Note are declared to be severable. In the event that any applicable law limiting the amount of interest or other charges permitted to be collected from Borrower is interpreted so that any charge provided for in this Instrument or in the Note, whether considered separately or together with other charges levied in connection with this Instrument and the Note, violates such law, and Borrower is entitled to the benefit of such law, such charge is hereby reduced to the extent necessary to eliminate such violation. The amounts, if any, previously paid to Lender in excess of the amounts payable to Lender pursuant to such charges as reduced shall be applied by Lender to reduce the principal of the indebtedness evidenced by the Note. For the purpose of determining whether any applicable law limiting the amount of interest or other charges permitted to be collected from Borrower has been violated, all indebtedness which is secured by this Instrument or evidenced by the Note and which constitutes interest, as well as all other charges levied in connection with such indebtedness which constitute interest, shall be deemed to be allocated and spread over the stated term of the Note. Unless otherwise required by applicable law, such allocation and spreading shall be effected in such a manner that the rate of interest computed thereby is uniform throughout the stated term of the Note.

23. WAIVER OF STATUTE OF LIMITATIONS. Borrower hereby waives the right to assert any statute of limitations as a bar to the enforcement of the lien of this Instrument or to any action brought to enforce the Note or any other obligation secured by this Instrument.

24. WAIVER OF MARSHALLING. Notwithstanding the existence of any other security interests in the Property held by Lender or by any other party, Lender shall have the right to determine the order in which any or all of the Property shall be subjected to the remedies provided herein. Lender shall have the right to determine the order in which any or all portions of the indebtedness secured hereby are satisfied from the proceeds realized upon the exercise of the remedies provided herein. Borrower, any party who consents to this Instrument and any party who now or hereafter acquires a security interest in the Property and who has actual or constructive notice hereof hereby waives any and all right to require the marshalling of assets in connection with the exercise of any of the remedies permitted by applicable law or provided herein.

25. CONSTRUCTION LOAN PROVISIONS. Borrower agrees to comply with the covenants and conditions of the Construction Loan Agreement, if any, which is hereby incorporated by reference in and made a part of this Instrument. All advances made by Lender pursuant to the Construction Loan Agreement shall be indebtedness of Borrower secured by this Instrument, and such advances may be obligatory as provided in the Construction Loan Agreement. All sums disbursed by Lender prior to completion of the improvements to protect the security of this Instrument up to the principal amount of the Note shall be treated as disbursements pursuant to the Construction Loan Agreement. All such sums shall bear interest from the date of disbursement at the rate stated in the Note, unless collection from Borrower of interest at such rate would be contrary to applicable law in which event such amounts shall bear interest at the highest rate which may be collected from Borrower under applicable law and shall be payable upon notice from Lender to Borrower requesting payment therefor.

From time to time as Lender deems necessary to protect Lender's interests, Borrower shall, upon request of Lender, execute and deliver to Lender, in such form as Lender shall direct, assignments of any and all rights or claims which relate to the construction of the Property and which Borrower may have against any party supplying or who has supplied labor, materials or services in connection with construction of the Property. In case of breach by Borrower of the covenants and conditions of the Construction Loan Agreement, Lender, at Lender's option, with or without entry upon the Property, (i) may invoke any of the rights or remedies provided in the Construction Loan Agreement, (ii) may accelerate the sums secured by this Instrument and invoke those remedies provided in paragraph 27 hereof, or (iii) may do both. If, after the commencement of amortization of the Note, the Note and this Instrument are sold by Lender, from and after such sale the Construction Loan Agreement shall cease to be a part of this Instrument and Borrower shall not assert any right of set-off, counterclaim or other claim or defense arising out of or in connection with the Construction Loan Agreement against the obligations of the Note and this Instrument.

26. ASSIGNMENT OF RENTS; APPOINTMENT OF RECEIVER; LENDER IN POSSESSION. As part of the consideration for the indebtedness evidenced by the Note, Borrower hereby absolutely and unconditionally assigns and transfers to Lender all the rents and revenues of the Property, including those now due, past due, or to become due by virtue of any lease or other agreement for the occupancy or use of all or any part of the Property, regardless of to whom the rents and revenues of the Property are payable. Borrower hereby authorizes Lender or Lender's agents to collect the aforesaid rents and revenues and hereby directs each tenant of the Property to pay such rents to Lender or Lender's agents; provided, however, that prior to written notice given by Lender to Borrower of the breach by Borrower of any covenant or agreement of Borrower in this Instrument, Borrower shall collect and receive all rents and revenues of the Property as trustee for the benefit of Lender and Borrower, to apply the rents and revenues so collected to the sums secured by this Instrument in the order provided in paragraph 3 hereof with the balance, so long as no such breach has occurred, to the account of Borrower, it being intended by Borrower and Lender that this assignment of rents constitutes an absolute assignment and not an assignment for additional security only. Upon delivery of written notice by Lender to Borrower of the breach by Borrower of any covenant or agreement of Borrower in this Instrument, and without the necessity of Lender entering upon and taking and maintaining full control of the Property in person, by agent or by a court-appointed receiver, Lender shall immediately be entitled to possession of all rents and revenues of the Property as specified in this paragraph 26 as the same become due and payable, including but not limited to rents then due and unpaid, and all such rents shall immediately upon delivery of such notice be held by Borrower as trustee for the benefit of Lender only; provided, however, that the written notice by Lender to Borrower of the breach by Borrower shall contain a statement that Lender exercises its rights to such rents. Borrower agrees that commencing upon delivery of such written notice of Borrower's breach by Lender to Borrower, each tenant of the Property shall make such rents payable to and pay such rents to Lender or Lender's agents on Lender's written demand to each tenant therefor, delivered to each tenant personally, by mail or by delivering such demand to each rental unit, without any liability on the part of said tenant to inquire further as to the existence of a default by Borrower.

Borrower hereby covenants that Borrower has not executed any prior assignment of said rents, that Borrower has not performed, and will not perform, any acts or has not executed, and will not execute, any instrument which would prevent Lender from exercising its rights under this paragraph 26, and that at the time of execution of this Instrument there has been no anticipation or prepayment of any of the rents of the Property for more than two months prior to the due dates of such rents. Borrower covenants that Borrower will not hereafter collect or accept payment of any rents of the Property more than two months prior to the due dates of such rents. Borrower further covenants that Borrower will execute and deliver to Lender such further assignments of rents and revenues of the Property as Lender may from time to time request.

Upon Borrower's breach of any covenant or agreement of Borrower in this Instrument, Lender may in person, by agent or by a court-appointed receiver, regardless of the adequacy of Lender's security, enter upon and take and maintain full control of the Property in order to perform all acts necessary and appropriate for the operation and maintenance thereof including, but not limited to, the execution, cancellation or modification of leases, the collection of all rents and revenues of the Property, the making of repairs to the Property and the execution or termination of contracts providing for the management or maintenance of the Property, all on such terms as are deemed best to protect the security of this Instrument. In the event Lender elects to seek the appointment of a receiver for the Property upon Borrower's breach of any covenant or agreement of Borrower in this Instrument, Borrower hereby expressly consents to the appointment of such receiver. Lender or the receiver shall be entitled to receive a reasonable fee for so managing the Property.

All rents and revenues collected subsequent to delivery of written notice by Lender to Borrower of the breach by Borrower of any covenant or agreement of Borrower in this Instrument shall be applied first to the costs, if any, of taking control of and managing the Property and collecting the rents, including, but not limited to, attorney's fees, receiver's fees, premiums on receiver's bonds, costs of repairs to the Property, premiums on insurance policies, taxes, assessments and other charges on the Property, and the costs of discharging any obligation or liability of Borrower as lessor or landlord of the Property and then to the sums secured by this Instrument. Lender or the receiver shall have access to the books and records used in the operation and maintenance of the Property and shall be liable to account only for those rents actually received. Lender shall not be liable to Borrower, anyone claiming under or through Borrower or anyone having an interest in the Property by reason of anything done or left undone by Lender under this paragraph 26.

If the rents of the Property are not sufficient to meet the costs, if any, of taking control of and managing the Property and collecting the rents, any funds expended by Lender for such purposes shall become indebtedness of Borrower to Lender secured by this Instrument pursuant to paragraph 8 hereof. Unless Lender and Borrower agree in writing to other terms of payment, such amounts shall be payable upon notice from Lender to Borrower requesting payment thereof and shall bear interest from the date of disbursement at the rate stated in the Note unless payment of interest at such rate would be contrary to applicable law, in which event such amounts shall bear interest at the highest rate which may be collected from Borrower under applicable law.

Any entering upon and taking and maintaining of control of the Property by Lender or the receiver and any application of rents as provided herein shall not cure or waive any default hereunder or invalidate any other right or remedy of Lender under applicable law or provided herein. This assignment of rents of the Property shall terminate at such time as this Instrument ceases to secure indebtedness held by Lender.

Non-Uniform Covenants. Borrower and Lender further covenant and agree as follows:

27. ACCELERATION; REMEDIES. Upon Borrower's breach of any covenant or agreement of Borrower in this Instrument, including, but not limited to, the covenants to pay when due any sums secured by this Instrument, Lender at Lender's option may declare all of the sums secured by this Instrument to be immediately due and payable without further demand, and may invoke the power of sale and any other remedies permitted by applicable law or provided herein. Borrower acknowledges that the power of sale herein granted may be exercised by Lender without prior judicial hearing. Borrower has the right to bring an action to assert the non-existence of a breach or any other defense of Borrower to acceleration and sale. Lender shall be entitled to collect all costs and expenses incurred in pursuing such remedies, including, but not limited to, attorney's fees and costs of documentary evidence, abstracts and title reports.

If the power of sale is invoked, Trustee shall execute a written notice of the occurrence of an event of default and of the election to cause the Property to be sold and shall record such notice in each Recording District in which the Property or some part thereof is located. Trustee shall mail copies of such notice in the manner provided by the laws of Alaska to Borrower and to such other persons as the laws of Alaska prescribe. Trustee shall give notice of sale and shall sell the Property according to the laws of Alaska. Trustee may sell the Property at the time and place and under the terms designated in the notice of sale in one or more parcels and in such order as Trustee may determine. Trustee may postpone sale of all or any parcel of the Property by public announcement at the time and place of any previously scheduled sale. Lender or Lender's designee may purchase the Property at any sale.

Trustee shall deliver to the purchaser Trustee's deed conveying the Property so sold without any covenant or warranty, expressed or implied. The recitals in the Trustee's deed shall be prima facie evidence of the truth of the statements made therein. Trustee shall apply the proceeds of the sale in the following order: (a) to all costs and expenses of the sale, including, but not limited to, Trustee's and attorney's fees and costs of title evidence; (b) to all sums secured by this Instrument in such order as Lender, in Lender's sole discretion, directs; and (c) the excess, if any, to the person or persons legally entitled thereto.

28. RECONVEYANCE. Upon payment of all sums secured by this Instrument, Lender shall request Trustee to reconvey the Property and shall surrender this Instrument and all notes evidencing indebtedness secured by this Instrument to Trustee. Trustee shall reconvey the Property without warranty to the person or persons legally entitled thereto. Such person or persons shall pay Trustee's reasonable costs incurred in so reconveying the Property.

29. SUBSTITUTE TRUSTEE. Lender at Lender's option may from time to time remove Trustee and appoint a successor trustee to any Trustee appointed hereunder. Without conveyance of the Property, the successor trustee shall succeed to all the title, power and duties conferred upon the Trustee herein and by applicable law.

30. FUTURE ADVANCES. Upon request of Borrower, Lender, at Lender's option so long as this Instrument secures indebtedness held by Lender, may make Future Advances to Borrower. Such Future Advances, with interest thereon, shall be secured by this Instrument when evidenced by promissory notes stating that said notes are secured hereby. At no time shall the principal amount of the indebtedness secured by this Instrument, not including sums advanced in accordance herewith to protect the security of this Instrument, exceed the original amount of the Note (US $.....) plus the additional sum of US $.....

IN WITNESS WHEREOF, Borrower has executed this Instrument or has caused the same to be executed by its representatives thereunto duly authorized.

.....

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.....

Borrower's Address:

.....

.....

CORPORATE ACKNOWLEDGMENT

STATE OF ALASKA, ... Judicial District ss:

On this ..... day of ....., 19....., before me, the undersigned, a Notary Public in and for the State of Alaska, personally appeared ....., to me known and known to me to be ..... of ....., a corporation named as Trustor in the foregoing deed, and acknowledged to me that ....he.... executed the same on behalf of said corporation freely and voluntarily for the uses and purposes therein mentioned.

Witness my hand and official seal the day and year in this certificate first above written.

My Commission expires:

.....

Notary Public for Alaska

INDIVIDUAL ACKNOWLEDGMENT

STATE OF ALASKA, ... Judicial District ss:

On this ..... day of ....., 19....., before me, the undersigned, a Notary Public in and for the State of Alaska, personally appeared ....., to me known and known to me to be the person(s) named as Trustor(s) in the foregoing deed, and acknowledged to me that ....he .... executed the same freely and voluntarily for the uses and purposes therein mentioned.

Witness my hand and official seal the day and year in this certificate first above written.

My Commission expires:

.....

Notary Public for Alaska

INDIVIDUAL LIMITED PARTNERSHIP ACKNOWLEDGMENT

STATE OF ALASKA, ... Judicial District ss:

On this ..... day of ....., 19....., before me, the undersigned, a Notary Public in and for the State of Alaska, personally appeared ....., to me known and known to me to be the general partner(s) of ....., a limited partnership named as Trustor in the foregoing deed, and acknowledged to me that ....he .... executed the same on behalf of said limited partnership freely and voluntarily for the uses and purposes therein mentioned.

Witness my hand and official seal the day and year in this certificate first above written.

My Commission expires:

.....

Notary Public for Alaska

CORPORATE LIMITED PARTNERSHIP ACKNOWLEDGMENT

STATE OF ALASKA, ... Judicial District ss:

On this ..... day of ....., 19....., before me, the undersigned, a Notary Public in and for the State of Alaska, personally appeared ....., to me known and known to me to be the ..... of ....., a corporation, general partner of ....., the limited partnership named as Trustor in the foregoing deed, and acknowledged to me that ....he .... executed the same on behalf of said limited partnership freely and voluntarily for the uses and purposes therein mentioned.

Witness my hand and official seal the day and year in this certificat\ first above written.

My Commission expires:

.....

Notary Public for Alaska

REQUEST FOR RECONVEYANCE

TO TRUSTEE:

The undersigned is the holder of the note or notes secured by this Instrument. Said note or notes, together with all other indebtedness secured by this Instrument, have been paid in full. You are hereby directed to cancel said note or notes and this Instrument, which are delivered hereby, and to reconvey, without warranty, all the estate now held by you under this Instrument to the person or persons legally entitled thereto.

Dated: .....

Ak Perm Fund

ADJUSTABLE RATE NOTE
(WITH LIMIT ON INTEREST RATE CHANGES)

This Document Contains Provisions Allowing for Changes in the Interest Rate. Increases in the Interest Rate will Result in Higher Payments. Decreases in the Interest Rate will Result in Lower Payments.

....., Alaska

....., 19.....

.....

(Property Address)
[Add Borrower's Post Office Address, if Different]

1. BORROWER'S PROMISE TO PAY

In return for a loan that I have received, I promise to pay U.S. $..... (this amount is called "principal"), plus interest, to the order of the Lender. The Lender is .....
..... I understand that the Lender may transfer this Note. The Lender or anyone who takes this Note by transfer and who is entitled to receive payments under this Note is called the "Note Holder."

2. INTEREST

Interest will be charged on that part of principal which has not been paid. Interest will be charged beginning on the date of this Note and continuing until the full amount of principal has been paid.

Beginning on the date of this Note, I will pay interest at a yearly rate of .....%. This rate is called the "Initial Rate of Interest." The rate of interest I will pay will change in accordance with Section 4 of this Note.

The rate of interest required by this Section and Section 4 of this Note is the rate I will pay both before and after any default described in Section 7(B) of this Note.

3. PAYMENTS

(A) Time and Place of Payments

I will pay principal and interest by making payments every month.

I will make my monthly payments on the ..... day of each month beginning on ....., 19..... I will make these payments every month until I have paid all of the principal and interest and any other charges described below that I may owe under this Note. If, on ....., 20....., I still owe amounts under this Note, I will pay those amounts in full on that date, which is called the "maturity date."

I will make my monthly payments at .....
..... or at a different place if required by the Note Holder.

(B) Amount of Monthly Payments

My monthly payment will be in the amount of U.S. $..... This amount will change if the rate of interest that I must pay changes. The Note Holder will determine my new rate of interest and the changed amount of my monthly payment in accordance with Section 4 of this Note.

4. INTEREST RATE AND MONTHLY PAYMENT CHANGES

(A) Change Dates

Beginning in 19....., the rate of interest I will pay may change on the ..... day of the month of ..... and on that day every ☐ **12th** ☐ **30th** *[Check only one box]* month thereafter. Each date on which the rate of interest could change is called a "Change Date."

(B) The Index

Any changes in the rate of interest will be based on changes in the Index. The "Index" is ☐ the "Contract Interest Rate, Purchase of Previously Occupied Homes, National Average for all Major Types of Lenders" as made available by the Federal Home Loan Bank Board, or ☐ the monthly average yield on United States Treasury securities adjusted to a constant maturity of 3 years as made available by the Federal Reserve Board.

[Check only one box]

If the Index is no longer available, the Note Holder will choose a new index which is based upon comparable information. The Note Holder will give me notice of this choice.

The first Index figure for this Note is .....%. It is called the "Original Index."

The most recently available Index figure as of the date ..... days before each Change Date is called the "Current Index."

(C) Calculation of Changes

Before each Change Date, the Note Holder will determine any change in my rate of interest. The Note Holder will calculate the amount of the difference, if any, between the Current Index and the Original Index. If the Current Index is higher than the Original Index, the Note Holder will add the difference to the Initial Rate of Interest. If the Current Index is lower than the Original Index, the Note Holder will subtract the difference from the Initial Rate of Interest. The Note Holder will then round the result of this addition or subtraction to the nearest one-eighth of one percentage point (0.125%). Subject to the limit stated in Section 4(D) below, this rounded amount will be the new rate of interest I am required to pay.

The Note Holder will then determine the new amount of my monthly payment that would be sufficient to repay the outstanding principal balance in full on the maturity date at my new rate of interest in substantially equal payments. The result of this calculation will be the new amount of my monthly payment.

(D) Limit on Interest Rate Changes

The rate of interest I am required to pay shall never be increased or decreased on any single Change Date by more than ☐ two percentage points (2.0%) ☐ five percentage points (5.0%) ***[Check only one box]*** from the rate of interest I have been paying.

(E) Effective Date of Changes

The new rate of interest will become effective on each Change Date. I will pay the new amount of my monthly payment each month beginning on the first monthly payment date after the Change Date until the amount of my monthly payment is again changed or I have fully repaid the loan.

(F) Notice of Changes

The Note Holder will mail or deliver to me a notice of any changes in the amount of my monthly payment before the effective date of any change. The notice will include information required by law to be given me and also the title and telephone number of a person who will answer any question I may have regarding the notice.

5. BORROWER'S RIGHT TO PREPAY

I have the right to make payments of principal at any time before they are due. A payment of principal only is known as a "prepayment." When I make a prepayment, I will tell the Note Holder in a letter that I am doing so.

I may make a full prepayment or a partial prepayment without paying any penalty. The Note Holder will use all of my prepayments to reduce the amount of principal that I owe under this Note. If I make a partial prepayment, there will be no delays in the due dates of my monthly payments unless the Note Holder agrees in writing to those delays. My partial prepayment will reduce the amount of my monthly payments only after the first Change Date following my partial prepayment. However, any reduction due to my partial prepayment may be offset by an interest rate increase.

6. LOAN CHARGES

If a law, which applies to this loan and which sets maximum loan charges, is finally interpreted so that the interest or other loan charges collected or to be collected in connection with this loan exceed the permitted limits, then: (i) any such loan charge shall be reduced by the amount necessary to reduce the charge to the permitted limit; and (ii) any sums already collected from me which exceeded permitted limits will be refunded to me. The Note Holder may choose to make this refund by reducing the principal I owe under this Note or by making a direct payment to me. If a refund reduces principal, the reduction will be treated as a partial prepayment.

7. BORROWER'S FAILURE TO PAY AS REQUIRED

(A) Late Charge for Overdue Payments

If the Note Holder has not received the full amount of any of my monthly payments by the end of ..... calendar days after the date it is due, I will pay a late charge to the Note Holder. The amount of the charge will be .....% of my overdue payment of principal and interest. I will pay this late charge only once on any late payment.

(B) Default

If I do not pay the full amount of each monthly payment on time, I will be in default.

(C) Notice of Default

If I am in default, the Note Holder may send me a written notice telling me that if I do not pay the overdue amount by a certain date, the Note Holder may require me to pay immediately the full amount of principal which has not been paid and all the interest that I owe on that amount. That date must be at least 30 days after the date on which the notice is mailed to me or if it is not mailed, 30 days after the date on which it is delivered to me.

(D) Payment of Note Holder's Costs and Expenses

If the Note Holder has required me to pay immediately in full as described above, the Note Holder will have the right to be paid back for all of its costs and expenses in enforcing this Note to the extent not prohibited by applicable law. Those expenses include, for example, reasonable attorneys' fees.

8. GIVING OF NOTICES

Unless applicable law requires a different method of giving notice, any notice that must be given to me under this Note will be given by delivering it or by mailing it by first class mail addressed to me at the Property Address above or at a different address if I give the Note Holder a notice of my different address.

Any notice that must be given to the Note Holder under this Note will be given by mailing it by first class mail to the Note Holder at the address stated in Section 3(A) above or at a different address if I am given a notice of that different address.

9. OBLIGATIONS OF PERSONS UNDER THIS NOTE

If more than one person signs this Note, each person is fully and personally obligated to keep all of the promises made in this Note, including the promise to pay the full amount owed. Any person who is a guarantor, surety, or endorser of this Note is also obligated to do these things. Any person who takes over the obligations under this Note or any person who takes over the obligations of a guarantor, surety, or endorser of this Note is also obligated to keep all of the promises made in this Note. The Note Holder may enforce its rights under this Note against each person individually or against all of us together. This means that any one of us may be required to pay all of the amounts owed under this Note.

10. WAIVERS

I and any other person who has obligations under this Note waive the rights of presentment and notice of dishonor. "Presentment" means the right to require the Note Holder to demand payment of amounts due. "Notice of dishonor" means the right to require the Note Holder to give notice that amounts due have not been paid.

11. THIS NOTE SECURED BY A DEED OF TRUST

In addition to the protections given to the Note Holder under this Note, a Deed of Trust, dated the same as this Note, protects the Note Holder from possible losses which might result if I do not keep the promises which I make in this Note. That Deed of Trust describes how and under what conditions I may be required to make immediate payment in full of all amounts I owe under this Note. Some of those conditions are described in Uniform Covenant 17 of that Deed of Trust, which provides as follows:

> **"Transfer of the Property; Assumption.** If all or any part of the Property or an interest therein is sold or transferred by Borrower without Lender's prior written consent, excluding (a) the creation of a lien or encumbrance subordinate to this Deed of Trust, (b) the creation of a purchase money security interest for household appliances, (c) a transfer by devise, descent or by operation of law upon the death of a joint tenant or (d) the grant of any leasehold interest of three years or less not containing an option to purchase, Lender may, at Lender's option, declare all the sums secured by this Deed of Trust to be immediately due and payable. Lender shall have waived such option to accelerate if, prior to the sale or transfer, Lender and the person to whom the Property is to be sold or transferred reach agreement in writing that the credit of such person is satisfactory to Lender and that the interest payable on the sums secured by this Deed of Trust shall be at such rate as Lender shall request. If Lender has waived the option to accelerate provided in this paragraph 17, and if Borrower's successor in interest has executed a written assumption agreement accepted in writing by Lender, Lender shall release Borrower from all obligations under this Deed of Trust and the Note. If Lender exercises such option to accelerate, Lender shall mail Borrower notice of acceleration in accordance with paragraph 14 hereof. Such notice shall provide a period of not less than 30 days from the date the notice is mailed within which Borrower may pay the sums declared due. If Borrower fails to pay such sums prior to the expiration of such period, Lender may, without further notice or demand on Borrower, invoke any remedies permitted by paragraph 18 hereof."

.....(Seal)
-Borrower

.....(Seal)
-Borrower

.....(Seal)
-Borrower

(Sign Original Only)

ADJUSTABLE RATE RIDER

(LIMIT ON INTEREST RATE CHANGES)

THIS ADJUSTABLE RATE RIDER is made this ..... day of ..... 19..... and is incorporated into and shall be deemed to amend and supplement the Mortgage, Deed of Trust, or Deed to Secure Debt (the "Security Instrument") of the same date given by the undersigned (the "Borrower") to secure Borrower's Adjustable Rate Note to ..... (the "Lender") of the same date (the "Note") and covering the property described in the Security Instrument and located at:

.....

(Property Address)

The Note Contains Provisions Allowing for Changes in the Interest Rate. Increases in the Interest Rate will Result in Higher Payments. Decreases in the Interest Rate will Result in Lower Payments.

ADDITIONAL COVENANTS. In addition to the covenants and agreements made in the Security Instrument, Borrower and Lender further covenant and agree as follows:

A. INTEREST RATE AND MONTHLY PAYMENT CHANGES

The Note provides for an Initial Rate of Interest of .....%. Section 4 of the Note provides for changes in the interest rate and the monthly payments, as follows:

"(A) **Change Dates**

Beginning in 19....., the rate of interest I will pay may change on the ..... day of the month of ..... and on that day every ☐ **12th** ☐ **30th** *[Check only one box]* month thereafter. Each date on which the rate of interest could change is called a "Change Date."

(B) **The Index**

Any changes in the rate of interest will be based on changes in the Index. The "Index" is ☐ the "Contract Interest Rate, Purchase of Previously Occupied Homes, National Average for all Major Types of Lenders" as made available by the Federal Home Loan Bank Board, or ☐ the monthly average yield on United States Treasury securities adjusted to a constant maturity of 3 years as made available by the Federal Reserve Board.

[Check only one box]

If the Index is no longer available, the Note Holder will choose a new index which is based upon comparable information. The Note Holder will give me notice of this choice.

The first Index figure for this Note is .....%. It is called the "Original Index."

The most recently available Index figure as of the date ..... days before each Change Date is called the "Current Index."

(C) **Calculation of Changes**

Before each Change Date, the Note Holder will determine any change in my rate of interest. The Note Holder will calculate the amount of the difference, if any, between the Current Index and the Original Index. If the Current Index is higher than the Original Index, the Note Holder will add the difference to the Initial Rate of Interest. If the Current Index is lower than the Original Index, the Note Holder will subtract the difference from the Initial Rate of Interest. The Note Holder will then round the result of this addition or subtraction to the nearest one-eighth of one percentage point (0.125%). Subject to the limit stated in Section 4(D) below, this rounded amount will be the new rate of interest I am required to pay.

The Note Holder will then determine the new amount of my monthly payment that would be sufficient to repay the outstanding principal balance in full on the maturity date at my new rate of interest in substantially equal payments. The result of this calculation will be the new amount of my monthly payment.

(D) **Limit on Interest Rate Changes**

The rate of interest I am required to pay shall never be increased or decreased on any single Change Date by more than ☐ two percentage points (2.0%) ☐ five percentage points (5.0%) *[Check only one box]* from the rate of interest I have been paying.

(E) **Effective Date of Changes**

The new rate of interest will become effective on each Change Date. I will pay the new amount of my monthly payment each month beginning on the first monthly payment date after the Change Date until the amount of my monthly payment is again changed or I have fully repaid the loan.

(F) **Notice of Changes**

The Note Holder will mail or deliver to me a notice of any changes in the amount of my monthly payment before the effective date of any change. The notice will include information required by law to be given me and also the title and telephone number of a person who will answer any question I may have regarding the notice."

B. CHARGES; LIENS

Uniform Covenant 4 of the Security Instrument is amended to read as follows:

4. Charges; Liens. Borrower shall pay all taxes, assessments, and other charges, fines and impositions attributable to the Property which may attain a priority over this Security Instrument, and leasehold payments or ground rents, if any, in the manner provided under paragraph 2 hereof or, if not paid in such manner, by Borrower making payment, when due, directly to the payee thereof. Borrower shall promptly furnish to Lender all notices of amounts due under this paragraph, and in the event Borrower shall make payment directly, Borrower shall promptly furnish to Lender receipts evidencing such payments. Borrower shall promptly discharge any lien which has priority over this Security Instrument; provided, that Borrower shall not be required to discharge any such lien so long as Borrower: (a) shall agree in writing to the payment of the obligation secured by such lien in a manner acceptable to Lender; (b) shall in good faith contest such lien