



Tennessee Housing Development Agency

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Ted R. Fellman
Executive Director

NOTICE

SERVICERS GUIDE

REVISION 11

November 28, 2006

Attached to this notice are revised pages to be substituted in your Servicers Guide. Remove and replace the page as follows:

Remove and discard:

Replace with enclosed:

Chapter 2, Section 208 (Revised 8/2/04)Chapter 2, Section 208 (Revised 12/01/06)

EFFECT OF CHANGE

The following changes will become effective December 1, 2006:

1. The minimum amount of Hazard Insurance.
2. The maximum allowable deductible.
3. Language in the mortgage clause of the policy or endorsement.

It is suggested that the person making these changes to the Guide initial and date this page, and retain it in the back of the Guide to provide evidence that the Guide is current at all times.

Initials

Date

If the borrower's escrow account balance is not sufficient to pay escrow bills when due, the Servicer may deplete the escrow balance, then must advance the remainder of the amount due from its corporate funds and reflect a deficit balance in the borrower's escrow account. Escrow advances cannot be charged to the principal balance of the loan or to another borrower's escrow funds or simply to the overall balance of the escrow custodial account. Escrow funds may only be used for their designated purpose, and can not be used to pay late charges, inspection fees, assumption fees or any charges other than those for which the escrow account is intended.

208. Hazard Insurance

Hazard insurance coverage must be issued in the name(s) of the titled property owner(s). The insurance company issuing the hazard insurance policy must be licensed by the State of Tennessee and have a current financial rating by Best's Insurance Reports of class IV or better.

Losses resulting from insufficient coverage, non-payment of premium, coinsurance non-compliance, lapse of coverage, or any other omission of prudent performance, shall be borne by the Servicer.

Each policy must insure against loss due to fire and other hazards covered by the standard extended coverage endorsement. Coverage should be provided on a replacement cost basis. The borrower may elect to include additional coverage, such as liability insurance, earthquake insurance (highly recommended, especially in west Tennessee) and special policy riders. Homeowner insurance policies are acceptable.

The minimum acceptable amount of hazard insurance coverage is the appraised value less the site value, as provided in the appraisal, or an amount sufficient to replace the structure as determined by THDA.

The maximum allowable deductible is the higher of \$1,000 or 1% of the face amount of the policy. The deductible clause may apply to either fire, extended coverage, or both. When a policy provides for a separate wind-loss deductible (either in the policy itself or in a separate endorsement), that deductible may be the higher of \$2,000 or 2% of the face amount of the policy.

Minimum initial term is one year.

THDA must be named as mortgagee in the original policy or in an endorsement. Use the following language:

Tennessee Housing Development Agency
C/O (THDA Servicer), Loan # _____
(Servicer's mailing address)
(Servicer's city, state, zip)

For loans in condominium developments, the Servicer must obtain evidence of the master liability policy that covers the common areas, and the master hazard insurance policy that covers the subject building, and must secure the necessary endorsements to protect THDA's interests. In addition, the Servicer is responsible for determining adequate hazard insurance coverage for the interior portion of the structure that secures THDA's loan. If the interior is not insured by the master policy, the borrower must provide separate coverage.

For loans in PUDs, the Servicer must obtain evidence of the master liability policy that covers the common areas, and evidence of hazard insurance that covers the secured property. The subject property may be insured by an individual policy or under a master policy. Necessary endorsements must be obtained to protect THDA's interests.

Servicers are responsible for monitoring hazard insurance policies in order to detect changes in coverage or form that would indicate a property is being rented, such as when a rental coverage policy replaces a homeowner insurance policy. Upon discovery of such a change, notify THDA. (Sections 405, 406)