(5) (a) 4, Stats., subject to such funds being made available to the department. Loan commitments will expire 6 months from date of issuance, commitments for the purchase of a housing accommodation to be constructed (PC) will expire 8 months from the date of issuance, and construction (C) loan commitments will expire 12 months from the date of issuance. Commitments may be extended at the discretion of the department.

(6) CONSTRUCTION LOANS. Construction loan funds shall be disbursed on the basis of guidelines set forth in s. VA 4.03 (3), and in compliance with all conditions set forth therein.

(7) WARRANTY. As soon as practicable after the closing of a purchase loan or after the first disbursement of funds in a construction loan the authorized lender will transmit the executed mortgage note, summary of closing worksheet, mortgagor's affidavit and lender's warranty to the department. The lender's warranty shall be made on a form furnished by the department and shall contain information sufficient to enable the department to determine that a valid first lien complying with the requirements of all federal and state laws, exists in favor of the authority or of the department on the mortgaged premises and that the mortgagor has obtained, or in the case of construction loans will obtain, adequate fire and extended coverage insurance on the mortgaged premises. The lender's warranty will also contain such other information as the department requires from time to time.

(8) SERVICING AGREEMENTS. (b) *Fees and expenses.* Servicing agreements shall specifically empower authorized lenders to collect and retain late charges, NSF check charges, partial release fees, and amounts representing expenditures made by them with respect to mortgages executed or properties mortgaged to the department or to such lenders or to the authority for which they have not been reimbursed by the department. Late charges, NSF check charges and partial release fees not collected by such lenders from mortgagors, in addition to required principal, interest and escrow payments, may not be deducted from such payments, charged to the department or the authority or added to mortgage loan balances. Such agreements shall specify the items for which authorized lenders may incur reimbursable expenses and the terms and conditions under which the department will pay such expenses.

(9) PARTIAL RELEASES. An authorized lender may, with the consent of the department, release a portion of the property mortgaged to it or the department or the authority under a primary loan if the release of such property will not unduly diminish the value of the remainder of the property. The authorized lender will require that any funds received by a mortgagor from the sale of property released be applied to reduction of the mortgage loan balance unless it is proposed that a part or all of such funds will be used to improve the property, in which case the authorized lender may approve such use and supervise the disbursement of funds for improvements.

(10) CONSUMER LAWS. Notwithstanding any provisions of the lender's manual, subch. II of ch. 45, Stats., the Wisconsin Administrative Code, or contracts and servicing agreements entered into between the department and the lender, the lender shall comply with all applicable federal statutes and regulations and state statutes and rules. The lender shall

defend any suits brought for noncompliance therewith and shall be liable for any damages awarded for such noncompliance.

History: Cr. Register, October, 1974, No. 226, eff. 11-1-74; emerg. am. (5), (7), (8) and (9), eff. 7-29-75; am. (5), (7), (8) and (9), cr. (10), Register, July, 1976, No. 247, eff. 8-1-76; am. (3), (4) (b), (8) and (9), Register, September, 1978, No. 273, eff. 10-1-78; am. (1) (c), (5), (7) and (9), Register, April, 1986, No. 364, eff. 5-1-86; am. (2), (3) (d) and (e), (5) (b), (7) and (12), r. (8) (a), Register, February, 1989, No. 398, eff. 3-1-89; am. (1) (b), (2), (4), (5) and (7), r. and recr. (1) (d) and (10), Register, June, 1992, No. 438, eff. 7-1-92.

VA 4.09 Secondary loan program. (8) TITLE EVIDENCE AND PROPERTY INSURANCE. When the department is notified of the cancellation, lapse or non-renewal of a fire and extended coverage, homeowners or fire and windstorm insurance policy insuring a property in which it has a mortgage interest, or when the mortgagor fails to obtain and pay for this insurance in an amount at least equal to appraised value of the improvements at time of application on property mortgaged to the department, the mortgagor involved shall be notified that it is such mortgagor's responsibility to obtain and pay for adequate insurance coverage and shall be instructed to submit a memorandum of such insurance coverage to the department and, until such memorandum is received, the department shall insure its interest in such property with the state insurance fund.

(9) PAYMENT DISTRIBUTION. Payments will be applied first to interest, then to mortgage cancellation life insurance premiums, and then to principal.

(10) REDUCTION IN MONTHLY PAYMENTS. The terms of the contract between the mortgagor and the department must be complied with by the mortgagor after the note and mortgage have been executed, but the department may change the time and manner of repaying the obligation at the request of the mortgagor when such change is justified by circumstances not in existence at the time the loan was made.

(11) SUBORDINATION AGREEMENT. The department may execute a subordination agreement to permit an increase in a mortgagor's present primary mortage or to replace his present primary mortgage with another in an amount equal to or in excess of the balance owing on the present primary mortgage when it is satisifed that the property will provide adequate security for its mortgage after the proposed increase in the primary mortgage.

(a) The mortgagor must submit evidence of such mortgagor's present income and of the shelter cost payments under the repayment terms of the proposed new primary note and mortgage to establish that the new shelter cost payments will not be excessive in view of present income.

(b) The department may execute a subordination agreement to give priority to a proposed primary mortgage where the department's mortgage has been prematurely recorded or in exceptional cases without requiring the evidence set forth in par. (a).

(c) The following criteria must be met for approval of all subordination agreements:

1. Minimum of 5% equity remaining after subordination.

2. A satisfactory repayment record on the secondary loan.

3. Loan is not currently delinquent.