

Origination Guidelines for the IDA of the City of Phoenix and IDA of the County of Maricopa Single Family Mortgage Revenue Bond Program (SFMRB) Program SERIES 2004B

8-5-04 Pages 7& 8 Revised Income and Sales Price Limits

8-10-04 Page 7 Revised Income Limit for Non-Target 3+ and Target 1-2

2-11-05 Page 8. Revised Acquisition Limits

3-16-05 Page 7, Revised Income Limits for Target

7-29-05 Page 8, Revised Acquisition Limits

3-22-06 Pages 7&8 Revised Income and Sales Price Limits



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**Forms Provided on our Website
PROGRAM COMPLIANCE FILE FORMS**

COMPLIANCE FILE CHECKLIST	This is the cover sheet for your Compliance File for all loans. Use it as a guide in preparing the separate Compliance File folder; the complete Compliance File is to be sent with the Mortgage File after closing
NOTICES TO BUYERS	BOND FORM - Signed at application by those in title whether or not a Mortgagor; attach Recapture Brochure to borrower's copy. Lender's Underwriter verifies that Notices to Buyers has been signed. Send signed Original in Compliance File.
RECAPTURE BROCHURE AFFIDAVIT	Attach to borrower's copy of Notices to Buyers as a more complete disclosure BOND FORM - Three sections - Mortgagor Affidavit section for Mortgagor and those in title whether or not a Mortgagor to be signed at CLOSING and notarized; Seller/Builder Affidavit section to be signed at CLOSING by all Seller's named on Real Estate Purchase Contract and notarized; Lender Certification section to be signed by authorized representative of Lender. Send signed Original in Compliance File.
TAX EXEMPT RIDER	BOND FORM - Use for all loan types, signed at closing by Mortgagor and all those in title whether or not a Mortgagor, record this document and send to The Servicer with final documents.
COSIGNOR/GUARANTOR AFFIDAVIT	BOND FORM - Use ONLY for loans that involve a QUALIFIED cosignor/guarantor.

SAMPLE FLOOD DISCLOSURES

FLOOD DISCLOSURE HAZARD	You may use your own form if approved by The Servicer or this form.
FLOOD DISCLOSURE NON HAZARD	You may use your own form if approved by The Servicer or this form.

MORTGAGE FILE COVER SHEETS

CONVENTIONAL LOAN DELIVERY CHECKLIST	Use as cover and guide for packaging Conventional loans; pkg. sent after closing
FHA LOAN DELIVERY CHECKLIST	Use as cover and guide for packaging FHA loans; pkg. sent after closing
USDA:RD LOAN DELIVERY CHECKLIST	Use as cover and guide for packaging USDA:RD loans; pkg. sent after closing
VA LOAN DELIVERY CHECKLIST	Use as cover and guide for packaging VA loans; pkg. sent after closing

FINAL DOCUMENT COVER SHEET

FINAL DOCUMENT SUBMISSION LIST	Use as a cover sheet and guide for final documents.
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OTHER FORMS REQUIRED FOR THE TRANSACTION

USE YOUR OWN STANDARD FORMS (i.e. first Mortgage/Deed of Trust, Note, required Disclosures, Assignment, etc.)

PERIODIC ADMINISTRATIVE FORMS

LENDER TRAINING REGISTRATION
PURCHASE/REVIEW CONTACTS & WIRE INSTRUCTIONS
PURCHASE OF ALLOCATION
SALE OF ALLOCATION
MERGERS/ACQUISITIONS

Program forms are created in Adobe aka "pdf" format. The format allows everyone with any type software to access the forms. They may be opened and completed online (they are interactive forms) and then printed as a completed document ready for signature OR they may be downloaded and saved on your computer (they will be interactive) OR they may be printed and filled out via any method the lenders chooses (printed by hand, typed, etc.). There is also an option to have the forms e-mailed to you in WORD or WORD PERFECT format or in the Adobe/pdf interactive format for those who cannot access the forms online. When receiving the forms in WORD or WORD PERFECT, you may have to align margins and spacing as different printers change the alignment. To receive the forms via e-mail, just send us an e-mail requesting the forms for the specific program (sue@denihanassoc.com).

BACKGROUND INFORMATION

The U. S. Congress created tax exempt bond programs for housing. Officially they're referred to as Mortgage Revenue Bonds (MRB's). Congress created MRB's but bond programs are created by state, regional, county or city government agencies that are governed by volunteer Boards. The way it works, bonds are sold to private investors(aka bond holders). The private investors accept a lower rate of return on their bond investment because the interest they earn is exempt from federal income tax. Because the Issuer is paying the bond holder less, they can charge the borrower a lower mortgage interest rate. So federal involvement is -- Congress authorized the program and because the bonds are tax exempt the rules are written in the IRS Code. While the majority of program rules are tied to the IRS Code, there may be local regulations and/or the Issuer's Board's public policy considerations that may result in additional program rules.

The amount of funds available is limited by federal regulations. State or local laws may divide the funds among several users (in addition to those who provide housing).

Lenders originate loans and then all originating lenders sell their loans to the Master Servicer who either pools the loans and sells them to Ginnie Mae, Fannie Mae or Freddie Mac, if permitted by the program, or sells them to the Trustee if the Issuer has a whole loan program. The Master Servicer continues to service the loans on behalf of Ginnie Mae, Fannie Mae, Freddie Mac or the Issuer.

In addition to reviewing the mortgage loan file, the Servicer must review other documents to determine that the loan qualifies with program regulations established by the IRS Code or local jurisdiction,

For more background information, use our slide presentations available at <http://www.denihanassoc.com/tutorials.htm>

PROGRAM SUMMARY

Eligible Area: Maricopa County including the City of Phoenix

Commitment Lots, Targeted Areas

Funds are available in first-come, first-served commitment lots.

During the first twelve months of the program, funds are reserved for the purchase of targeted area loans. These funds are tracked by McWeb. The targeted census tracts are 0061400, 092900, 103306, 017201, 108601, 108602, 109000, 110200, 110701, 111202, 111203, 111602, 112507, 112602, 112800, 113201, 113202, 113203, 113300, 113500, 113601, 113700, 113800, 113900, 114200, 114302, 114401, 114402, 114500, 114701, 114702, 114703, 114800, 114900, 115200, 115300, 115801, 115900, 116100, 116602

Applications, Reservations

- Reservations will be accepted on McWeb..
- Buyers MUST HAVE A FULLY- EXECUTED SALES CONTRACT FOR A SPECIFIC PROPERTY in order to have funds reserved or be on the waiting list. The contract may be dated prior to the date of the loan application.
- Bond funds are locked for a buyer when a reservation is submitted on and accepted by McWeb and a loan number is obtained.
- Buyers may be prequalified. However, if the buyer does not have a contract on a property, BOND FUNDS MAY NOT BE HELD for the buyer until such time as the buyer presents a valid contract.
- In addition, at time of application, buyers should present – tax returns for the three years preceding closing.

Special Purpose Fund Availability

First 60 days - 30% of funds for mortgagors with incomes below \$45,107

First 3months - 10% for Manufactured Housing

These requirements will be tracked by McWeb.

Program Start Date Wait List

Funds will be available on Friday, June 25 via a wait list.

Origination, Discount, Assistance, Mortgage Term, SRP, Lender Net

All mortgages are fixed rate loans for a 30 year term, payable on the first day of each month.

Origination	Discount	Assistance	SRP	Lender Net
1.00%	1.00%	5.00%	.25%	2.25%

Commitment Lot Rate - The Servicer /Administrator will provide commitment lot information including rate, P&I factor and final purchase date

Loan Amounts

Loan amounts are to be rounded to the nearest dollar.

Assistance

Assistance is calculated on the full loan amount, funded by the Lender at closing, fully utilized in the transaction as outlined below and reimbursed by the Servicer at loan purchase.

Assistance may be used toward down payment and closing costs. Closing costs mean prepaid taxes and insurance premiums, guaranty fees, credit report fees, survey fees, appraisal fees, inspection fees, title insurance premium, abstract and attorney's fees, escrow and courier fees, recording fees, the Origination Fee and similar fees and such closing costs may not exceed the reasonable and customary amounts charged by the Lender for mortgage loans not funded from the proceeds of bonds. Closing costs may include earnest money deposits provided that same is not prohibited by the insurer/guarantor and that any program required minimum borrower contribution (if any) has been met.

Buydowns

Temporary 2/1 buydowns are permitted for government loans provided that such loans are acceptable to Ginnie Mae and in compliance with insurer/guarantor requirements. Buydowns may not be paid by the buyer or buyer's assistance. Buydowns may be paid by the seller to the extent allowable by the insurer/guarantor.

Cosigners

Cosigners are allowable in an FHA transaction when meeting the following conditions: (1) a co-signer cannot have any ownership interest in the property (they cannot be on the title) and (2) the cosigner cannot reside in the property being purchased. A cosigner's income is not considered for bond program purposes, tax returns are not required and co-signers do not sign any bond documents. Follow FHA guidelines for credit purposes only.

Loan Purchases

Loans are purchased daily by the Servicer.

Servicing

All Mortgage Loans will be sold servicing released to U S Bank Home Mortgage. The Lender shall service or cause to be serviced all Loans in accordance with Fannie Mae and GNMA requirements prior to purchase by the Servicer as outlined in the Origination Agreement.

Recapture Tax

The conditions of repayment of the federal subsidy of these loans is explained in a separate brochure provided on the Website.

Supplemental Financing

Supplemental Financing is permitted in this program in accordance with the Origination Agreement and subject to insurer/guarantor, GNMA and Fannie Mae guidelines. It is the responsibility of the issuing agency (i.e. non-profit, community development organization) to secure approval of their second mortgage and grant programs. Such approved programs must be submitted to the Servicer for review and approval for use with the program. Such financing must be subordinate to the first lien. Contact the Servicer's Product Development Manager for further information.

Quality Control

From time to time The Servicer may request additional documentation from Lenders.

SYSTEM ACCESS AND INFORMATION

GENERAL

Each Program has a specific page, which displays a summary of the program parameters (on any open program for that issuer), and has links to log into the system, access the Guidelines, bond program forms, and Waiting Lists where applicable, and other useful information.

There are additional pages such as NEWS which highlight important dates or changes, CONTACTS which contains a directory for the entire Servicer/Administrator/Facilitator team, USERNAMES where you will register for a username and password into the secure system, CENSUS TRACTS where lenders can find any US address and locate the appropriate Census Tract Number (required for all loans), TRAINING which is a link to our training web-site, and EMAIL which is a direct email to Bond Compliance for any general questions.

Additionally there is a link that takes you into the secure system, where users need to Log In. In order to access the 'system', you must obtain a username and password from Bond Compliance, online at www.hdssoftware.com/usbhm-mrbp

The security features will control the information each user can access, like the lender they can view, what they can change or not, etc.

ONLINE GUIDELINES

The Origination Guidelines are available online.

The Servicer's Delivery and Funding Guidelines and Glossary of Terms are available online.

We recommend that you periodically revisit the online forms and guidelines as they are sometimes updated. You are contacted via email when changes occur.

OBTAINING A PASSWORD

To obtain a username and password go www.hdssoftware.com/usbhm-mrbp and click on Username/Password. Those who currently participate in another program with us click on "Existing User" and others click on "New User", complete the information and SUBMIT. The new password will not be valid until a confirmation is received.

Underwriters have different security access. Only Underwriters may access the online "Underwriter's Certification". Underwriters must check "Underwriter" on the "New User" screen

FUNCTIONS/OPTIONS OF SECURE SYSTEM (McWeb)VIEW ALLOCATION

Lenders are encouraged to select this option from the Main Menu. This selection provides a quick 'live' view of the allocation(s) available in the selected program. Program funds are tracked by allocation.

NEW RESERVATION

A new reservation should be submitted online, once a qualified loan application has been taken as long as the loan process can meet the guidelines. Lenders access this feature and submit the homebuyer/loan information. As an additional feature, the available allocation is always displayed prior to each reservation.

ADDITIONAL MORTGAGES

This feature is not used in this program.

CHANGE LOAN

During the processing of a loan, a Lender may need to change certain information related to the loan, such as the loan amount, purchase price and other pertinent information. While the loan is in RESERVATION STAGE, a Lender may change this information online. This will ensure that the loan record is as accurate as possible prior to the underwriting process.

LOAN DETAIL CONFIRMATION

At any given time, a Lender may access a Loan Detail Confirmation. This confirmation is a full detail of the loan record plus the status of the loan.

UNDERWRITER CERTIFICATION

A required step in the loan process is the online 'Underwriter Certification', which can only be accessed by a Lender's underwriter. Underwriters have a special security level. The Underwriter Certification serves as the required COMMITMENT to a loan, if applicable. This process locks the loan and certifies to the lender that it can proceed to

closing.

PIPELINE

The Pipeline is one of the most important features online, because it allows a lender to view all of their loans and the loan status. It also assists in the management of the program by making it easy for lenders to check the loans they have in any given stage and make sure that all their loans in the system are still active. It also details loans that are deficient, loans purchased and date of same.

FILE CONDITIONS TO CORRECT

Files are reviewed in two steps. The Compliance Files are reviewed by Bond Compliance and the Mortgage File is reviewed by the Servicer. Any deficiencies are immediately posted online. This area should be checked often. This separate menu item was developed for the post-closing/shipping/corporate departments that cure file deficiencies. It consolidates in one area any files that have problems that may need to be resolved in order to be purchased. This provides a quick and easy means to check these loans.

CANCEL RESERVATION

From time to time a loan may not make it through processing. It is important for lenders to cancel loans as soon as they know the applicant does not qualify. The PIPELINE feature assists in this process, as lenders can easily view the loans in reservation stage and determine if any are inactive. Should that be the case, the canceling of a loan is a very easy step which lenders are encouraged to do as soon as they are so informed. This will release those funds and make them available for the next applicant.

E-REPORTS

e-Reports are a variety of reports, which allow users to see the performance of the program and their loans. The Program Summary, Loan Information Report and Loan Detail Report by Originator summarize these valuable elements for all authorized users.

DOWNLOAD CRYSTAL VIEWER

The e-Reports on the Web require a special download file (Crystal Viewer) in order for the user to view them online. This file is downloaded from our secure site and installed on any computer you would like to access the reports. The Crystal Viewer download and installation is very similar to the download and installation of Adobe Reader and has similar functions

SPECIAL SERVICES

We also maintain a site available to the public that's linked to search engines. The URL is www.firsthome4u.com. An option from that site is a "pre-application". If a pre-application is submitted, the sender is contacted and then referred to a program lender. Referrals are made on a alphabetical, rotating basis

NOW YOU'RE READY TO BEGIN!

BOND COMPLIANCE REVIEW
What Are We Looking For Anyway

There are requirements imposed by the IRS and the Issuers that are reviewed for compliance with the program guidelines. It is the responsibility of lenders to review program documents and to originate loans that meet the requirements. The Master Servicer is not obligated to purchase loans that do not comply with program terms. Bond Compliance reviews loans to assure compliance. An important requirement is that program funds are used for the purpose of acquiring, not refinancing, owner-occupied single family homes. Temporary, construction or bridge financing with a term of 2 years or less may be refinanced.

AT TIME OF LOAN APPLICATION

There are requirements imposed by the Issuer that are reviewed for compliance with the program guidelines. It is the responsibility of lenders to review program documents and to originate loans that meet the requirements. The Servicer is not obligated to purchase loans that do not comply with program terms. Bond Compliance reviews loans to assure compliance. An important requirement is that program funds are used for the purpose of acquiring, not refinancing, owner-occupied single family homes. Temporary, construction or bridge financing with a term of 2 years or less may be refinanced.

You follow your normal procedures modified to include the following program requirements:

1. Qualify the Borrower

Borrowers must be first-time homebuyers unless purchasing in a federally designated targeted area. A first-time homebuyer (and their spouse, if any) is someone who has not owned and occupied their principal residence in the three year period preceding closing. A qualified buyer must be able to permanently reside in the United States. Work Visas, Temporary Visas or Student Visas DO NOT QUALIFY. All applicants must be considered irrespective of age, race, color, religion, national origin, sex, marital status, military status or physical handicap. Buyers must occupy the property purchased within 60 days of closing. Contact Bond Compliance with questions regarding eligibility.

2. Qualify the Household Income Revised 3-16-05; Rev 3-22-06

The total annual income from all sources of all persons 18 years of age or older residing in the household cannot exceed the maximum allowable household income limits that are.

Non - Target 1-2 Person HH = \$60,100

Non-Target 3+ Person HH = \$69,115

Target 1-2 Person HH = \$72,120

Target 3+ Person HH = \$72,684

Guidelines for calculating bond program income are detailed in the Underwriter's Program Income Calculation Guide included in this Guide. Income used for credit qualifying a borrower is different from income used for bond program purposes. Follow the requirements listed below for bond compliance income.

- The program requires that the income of all persons residing in the household (related or unrelated) 18 yrs.of age or older must be included in the calculation of income for bond program purposes. Unlike income that is averaged for credit underwriting, the bond program is concerned with actual current income. You should be reviewing the income of the last 4 months and the income shown on previous tax returns for consistency. You should not be averaging income. Current gross monthly income is multiplied by 12 to determine "total current annualized income". Gross monthly income is the sum of monthly gross pay; any additional income from overtime, part-time employment, bonuses, income from self-employment, dividends, interest, royalties, pensions, VA compensation and net rental income, other income (such as alimony, child support, public assistance, sick pay, social security benefits, unemployment compensation, income received from trusts, and income received from business activities or investments, continuation of which is probable based on foreseeable economic circumstances based upon the Mortgagor's affidavit (to such effect), all as computed at the time of application for a Mortgage Loan, and confirmed at the time of Closing. Information with respect to gross monthly income may be obtained from the applicable certificates and affidavits provided in the Guide executed during the 4-month period ending on the date of the Closing of the Mortgage Loan, provided that any gross monthly income not included for credit underwriting purposes must be included in determining gross monthly income.
- The limit is the limit and any amount over the limit is not acceptable. Count all persons who will permanently reside in the home being purchased. Include the income of non-borrower co-habitants who will reside in the property. However, do not include (1) dependents that are claimed on tax returns but who will not permanently reside in the home and (2) co-signers.
- The Affidavit, executed at closing by the borrower(s), and certified by the lender, must include the total verified annual household income.
- Borrowers are not required to use all available assets when using the first mortgage bond program. The amount of remaining reserves required are determined by the type of financing used (i.e. FHA, VA, etc.).

3. Qualify the Property

There are Maximum Bond Program Acquisition Limits. The Bond Program Acquisition Limit is not to be confused

with FHA Acquisition Limits. The Total Bond Program Acquisition Limit is the total amount paid in cash or in kind to the seller by the buyer or on behalf of the buyer and does not include financing costs. The IRS Code definition of what is included in Bond Program Acquisition Costs and what is not included is described in the IRS Code definition on the next page. **Revised 8-5-04**

Revised Max Acquisition Limits Rev 7-29-05; Revised 3-22-06

MAXIMUM ACQUISITION LIMITS	ONE UNIT	TWO UNITS
Non-Targeted Areas New/Existing	\$301,500	\$339,583
Targeted Areas New/Existing	\$368,500	\$415,046

Please note that an existing 2 unit dwelling must be at least 5 years old and mortgagor must reside in the property. Fannie Mae CHBP permits only one unit dwellings.

- Go to our Website and click on “Census Tract Searches”. Enter the property address and the system will determine the census tract of the property. You will need the number when registering the loan. You will be entering a census tract number for all properties. When you have the census tract number, you may crosscheck to see if the property is located in a targeted area. Targeted area census tracts are listed in this Guide.
- HOUSING TYPES: MRB Program funds may be used to finance single family residences that are the primary full-time residence of the borrowers. A primary residence is the legal residence of a person. It is also the place where the person lives on a full-time basis. Recreational, seasonal or other types of vacation or non-permanent homes are not eligible under the program. New and existing, one to four family dwellings, condos (including Spot Loan approvals) and townhomes. Manufactured housing must meet FHA guidelines..
- Homes are considered new if never previously occupied.
- Industrial/retail where 15% or more of the space will be used in a trade or business(including child care), mobile, recreational, or vacation homes are not eligible under the program.

IRS CODE DEFINITION OF ACQUISITION COST

The IRS Code definition of Acquisition Cost describes items included in the calculation of Bond Acquisition Price and the items not included. The Code definition follows:

The Acquisition Price of a Single Family Residence may not exceed the Maximum Acquisition Price. The Acquisition Price of a Single Family Residence is the cost of acquiring the Single Family Residence from the seller as a completed residential unit. The Acquisition Price includes the following:

(a) All amounts paid, either in cash or in kind, by the purchaser (or a related party or for the benefit of the purchaser) to the seller (or a related party or for the benefit of the seller) as consideration for the Single Family Residence. A single Family Residence includes property that is a fixture under local law, such as light fixtures, or wall-to-wall carpeting. Thus, if the purchaser purports separately to purchase such items, the cost of those items must be included in the cost of acquisition. On the other hand, property which is not considered a fixture under local law, such as appliances, is not considered part of a Single Family Residence and the cost of acquiring such items does not have to be included in the cost of acquiring the residence (unless the acquisition cost of such items exceeds their fair market value, in which case the amount of the excess must be included in the acquisition cost of the residence). Thus, if the purchaser agrees to purchase the refrigerator, washer and dryer from the seller for \$1,000 more than the fair market value of such items, such \$1,000 must be included in the cost of acquisition. Similarly, if as part of the purchase of the Single Family Residence the purchaser agrees to pay or assume liability for a debt of the seller, the amount of such debt must be included as part of the cost of acquiring the Single Family Residence.

(b) If a Single Family Residence is incomplete, the reasonable cost of completing the Single Family Residence whether or not the cost of completing construction is to be financed with proceeds of the Mortgage Loan. Where a Mortgagor purchases a building which is so incomplete the occupancy of the building is not permitted under local law, the acquisition cost includes the cost of completing the building so that occupancy of the building is permitted. Thus, if a builder normally sells residences with an uncompleted recreation room but a completed third floor and a garage, but is selling a residence with no garage and an uncompleted recreation room and third floor to a Mortgagor, the cost of completion of the third floor (but not the recreation room) and the cost of addition of a garage must be included in the cost of acquisition of the Single Family Residence. On the other hand, if a Mortgagor purchases an existing home and then spends \$3,000 to paint it, refinish the floors and make minor repairs, such \$3,000 is not included in the cost of acquisition of the Single Family Residence.

(c) Where a Single Family Residence is purchased subject to a ground rent, the capitalized value of the ground rent. Such value shall be calculated using a discount rate equal to the yield on the Bonds calculated in accordance with Section 148 of the Code.

The Acquisition Price does not include the following:

- (a) The usual and reasonable settlement or financing costs. Settlement costs include titling and transfer costs, title*

insurance, survey fees or other similar costs. Financing costs include credit reference fees, legal fees, appraisal expenses, "points" which are paid by the buyer (but not points paid by the seller, even though borne by the buyer through a higher Acquisition Price) or other costs of financing the Single Family Residence. However, such amounts will be excluded in determining acquisition cost only to the extent that the amounts do not exceed the usual and reasonable costs which would be paid by the buyer where financing is not provided through a qualified mortgage bond program. For example, if the purchaser agrees to pay to the seller more than a pro rata share of property taxes, such excess shall be treated as part of the Acquisition Price of a Single Family Residence.

(b) The value of services performed by the Mortgagor or member of the Mortgagor's family in completing the Single Family Residence (or a Dwelling Unit constituting part of the Single Family Residence). For purposes of the preceding sentence, the family of an individual shall include only the individual's brothers and sisters (whether by the whole or half blood), spouse, ancestors and lineal descendants. For example, where the Mortgagor builds a home alone or with the help of family members, the Acquisition Price includes the cost of materials provided and work performed by subcontractors (whether or not related to the Mortgagor) but does not include the imputed cost of any labor actually performed by the Mortgagor or a member of the Mortgagor's family in constructing the Single Family Residence. Similarly, where the Mortgagor purchases an incomplete Single Family Residence, the acquisition cost includes the cost of material and labor paid by the Mortgagor to complete the Single Family Residence but does not include the imputed value of the Mortgagor's labor or the labor of the Mortgagor's family in completing the Single Family Residence.

(c) The cost of land which has been owned by the Mortgagor for at least two years prior to the date on which construction of the Single Family Residence (or a Dwelling Unit constituting part of the Single Family Residence) begins.

4. Review the Loan and Mortgage Requirements of this Program

- All loans in this program will have a loan term of 30 years (360 months, level payments).
- LOAN TYPES: FHA-insured, including 203(k), VA-guaranteed acceptable to Ginnie Mae or privately insured conventional loans acceptable to Fannie Mae (including CHBP 3/2, Fannie 97) qualify. FANNIE FLEX DOES NOT QUALIFY. If using DU and given the option of a lower premium, DO NOT TAKE THE OPTION.
- The program requires the minimum borrower contribution required by FHA, VA, USDA:RD or Fannie Mae.
- There is no minimum loan amount in this program.
- SUBORDINATE FINANCING: Only lender warranted or Servicer approved programs may be used and must be in accordance with insurer/guarantor or Fannie Mae guidelines. Contact the Servicer's Product Development Manager.

5. Review the Allowable Origination, Discount and Other Fees 3/05 Rev Compliance Review Fee

- The program determines the origination (1.00%) and discount (1.00%) that may be charged. No additional origination and/or discount may be charged buyer or seller.
- The program includes a Bond Application Fee of \$75 (paid by buyer or seller), Funding and Review Fee of \$135, Real Estate Tax Service Fee of \$65 (to the extent permitted by the insurer/guarantor, the tax service fee may be paid by buyer or seller). These fees ARE NOT TO BE FINANCED. These are Servicer fees that will be netted at loan purchase and must be disclosed on the HUD-1 as being paid to The Servicer.
- Lenders are permitted to charge reasonable and customary charges for out of pocket expenses and costs. Other financing costs such as legal fees and underwriting fees may be charged and courier fees may be charged if such fees are normally charged. Lenders may charge the usual and reasonable settlement costs. Settlement costs include titling and transfer costs, title insurance, survey fees or other similar costs. Other allowable fees include doc prep fees, notary fees, hazard, mortgage and life insurance premiums, recording or registration charges, prepaid escrow deposits and other similar charges allowable by FHA, VA, USDA:RD or Fannie Mae. "Junk" fees are not a defined term and may not be charged. Excessive fees are not permitted in the program

- 6. If the borrower and property qualify, have the borrower(s) sign and date the Notices to Buyers.** The Notice includes information about "Recapture Tax", the consequences of selling the home and not paying off the loan if the sale is to a non-qualified buyer and a Borrower's Authorization for Counseling. A "Recapture Brochure" is to be attached to the borrower's copy of the Notices to Buyers. These forms and all other program forms are found on our Website. Retain the original of the Notices to buyers as it will be sent to the Servicer in the Compliance Package submitted with the Mortgage Loan file after closing. A Recapture Brochure is not signed and not sent in the Compliance Package. It simply serves as a more complete disclosure.

7. Reserve the loan online.

Use McWeb and click on the circling McWeb icon to access the system. Security features control the areas each lender/user can access.

PROCESSING THE LOAN

Follow your normal procedures adding bond program requirements (i.e. include three years SIGNED tax returns of all buyers in package to underwriter).

CREDIT UNDERWRITING

The credit underwriting for the program is the responsibility of the participating Lender's staff Underwriters. The Servicer's Underwriting Department only underwrites for approved participating Correspondent Lenders. The Servicer does not re-underwrite the loans, but all loans purchased are subject to audit review and re-verification of documentation.

Therefore, it is vital for the underwriters to make sound credit underwriting decisions, assure data integrity and include the necessary documentation to support the underwriting decision.

The loans are subject to Agency (Fannie Mae, FHA, VA) guidelines for credit underwriting and program guidelines for eligibility. The Underwriters must always follow the Agency guidelines and program guidelines for income and sales price limitation and program requirements. When underwriting a conventional loan, the underwriter must include the Special Feature Code on the bottom of the 1008.

Please note: There are no credit underwriting exceptions because these are Bond Loans.

APPROVED LOAN TYPES:

FHA, VA, USDA: RD, Fannie Mae,

AUTOMATED UNDERWRITING SYSTEMS

Fannie Mae Desk Top Underwriter and Freddie Loan Prospector are the only approved automated underwriting systems. These systems are approved to the extent that the agencies, insurer and or guarantors permit them. Fannie Mae DU should be used for all Fannie Mae loan Products. Either DU or LP may be used for government loans to the extent permitted by FHA or VA. No specialty lender approved DU systems are allowed. BECAUSE THIS IS A BOND PROGRAM LOAN, we require written verification of income that may be two weeks paystubs with YTD.

NOTE: Always request a full appraisal report regardless of the Automated recommendation. The form 2075 is not allowed in the Bond Program.

COMMUNITY SECONDS & ASSISTANCE PROGRAMS

Subsidies (grants or loans) that are not part of the bond program itself must be approved by the Servicer annually. Please contact the Servicer's Product Development Manager for requirements.

FANNIE MAE LOAN PRODUCTS

The following is a list of the approved Fannie Mae Loan Products and Special Feature Codes:

HFA Home (SFC 359) 97% LTV, borrower's contribution 1% or \$500.00 whichever is less

HFA Community Solutions (SFC 481) 97% LTV, borrower's contribution 1% or \$500.00 whichever is less

Community Home Buyers Program (SFC 061) 95% LTV, borrower's contribution 5.0%

Fannie 3/2 (SFC 074) 95% LTV, BORROWER'S CONTRIBUTION 3.0%, 2.0% from other approved source.

Fannie 97 (SFC 121) 97% LTV, borrower's contribution 3.0%

Community Home Choice SFC 222

My Community Mortgage

... SFC460 , 97% or below LTV , borrower contribution \$500

....SFC 480, LTV's above 97%, up to 100%, borrower contribution \$500

...Community Solutions...SFC 481, borrower contribution \$500

***ALWAYS USE SFC 088...FOR ALL BOND LOANS**

Only the above referenced Fannie Mae Loan Products are approved for purchase under the program. For credit guidelines on the Fannie Mae Loan products, please refer to the Fannie Mae Seller Servicer Guide

PLEASE NOTE: 100% Fannie Mae Products other than those approved for use with bond programs, Flexible Product

and Expanded Approval Products are not allowed in the Bond Program. If this is noted on your DU findings, you must note on the DU findings sheet and Fannie Mae 1008 that this loan was underwritten and approved per the guidelines and list the specific loan product.

For Example, if you are underwriting an HFA Home loan and the DU findings report a Flexible Loan type, then the Underwriter should write on the DU findings report that the loan is not a Flexible Loan. It is a HFA Home loan product and the Fannie Mae guidelines were followed in underwriting this file. This statement should also appear on the Fannie 1008.

FHA

Please follow HUD published credit guidelines. Includes 203(k) but no additional Origination or discount on Rehab portion. Available products: FHA Section 184, FHA 203 (b), 203 (b) (2) Veteran Status, FHA 234© Condominium , FHA 203(K) Rehab

VA

Please follow VA published credit guidelines

Any questions regarding underwriting criteria should be directed to the Servicer's Underwriting Manager.

COMPLIANCE UNDERWRITING

Underwriters should remember that CALCULATION OF PROGRAM (COMPLIANCE) INCOME IS DIFFERENT THAN CALCULATION OF INCOME FOR CREDIT PURPOSES. The following is provided as a Guide for underwriters in calculating the income of members of the household for program purposes.

Underwriter's Program Compliance Income Calculation Guide

Income used for credit qualifying a borrower is different from income used for bond program purposes. Follow the requirements listed below for bond compliance income.

The program requires that the income of all persons residing in the household (related or unrelated) 18 years of age or older must be included in the calculation of income for bond program purposes. Unlike income that is averaged for credit underwriting, the bond program is concerned with actual current income. You should be reviewing the income of the last 4 months and the income shown on previous tax returns for consistency. You should not be averaging income. If there are not inconsistencies in earnings, use the guidelines for each loan type to determine current gross monthly income. Current gross monthly income is multiplied by 12 to determine "total current annualized income". Gross monthly income is the sum of monthly gross pay; any additional income from overtime, part-time employment, bonuses, income from self-employment, dividends, interest, royalties, pensions, VA compensation and net rental income, other income (such as alimony, child support, public assistance, sick pay, social security benefits, unemployment compensation, income received from trusts, and income received from business activities or investments, continuation of which is probable based on foreseeable economic circumstances based upon the Mortgagor's affidavit (to such effect), all as computed at the time of application for a Mortgage Loan and confirmed at the time of Closing. We will check information with respect to gross monthly income obtained from the reservation form, Underwriter's Certification and applicable certificates and affidavits executed the date of the Closing of the Mortgage Loan, provided that any gross monthly income not included for credit underwriting purposes must be included in determining gross monthly income. The limit is the limit and any amount over the limit is not acceptable. Include the income of non-borrower co-habitants who will reside in the property. However, do not include (1) dependents that are claimed on tax returns but who will not permanently reside in the home the majority of the time and (2) co-signers. The Affidavit, executed by the borrower(s), and certified by the lender, must include the total verified annual household income. Borrowers are not required to use all available assets when using the first mortgage bond program. The amount of remaining reserves required are determined by the type of financing used (i.e. FHA, VA.).

If a person had commissions, bonuses paid in the current tax year that were one time payments, include the one time payment amount (do not annualize). If a person worked seasonal overtime or worked overtime for any reason and is no longer working overtime (verified by employer), include the actual amount (do not annualize).

"Alternate Documentation" (Alt Docs) as defined by FHA and other secondary market entities is acceptable Lender verification for compliance purposes, provided that such documentation includes the necessary, acceptable income tax returns. The Servicer requires a credit package as indicated on the various loan delivery checklists. However, the Servicer does not re-underwrite the loans for credit purposes.

Although reference is made to VOE's and VOD's in the guidelines below, they are not required if acceptable alternate documentation is in the file. This documentation includes, but may not be limited to, current pay stubs which delineate "current period", W-2's, for all borrowers and all employers, and bank statements to verify assets. If W-2's are present in the loan file, lending personnel should verify that the total of W-2's presented equals the total income shown on borrower's tax returns. If a VOE is in the file, the borrower does not have to provide W-2's unless the underwriter deems this necessary for prudent underwriting. Figures shown on all documents should be consistent.

Although reference is made to the last 4 to 6 weeks income, Underwriters should be reviewing the income tax returns submitted to verify that there are no unexplained and/or unacceptable differences current income to past income.

Hourly Employees

1. Using last 4 to 6 weeks' pay stubs, identify hourly rate of pay and average number of regular hours worked per week. Multiply hourly rate times regular weekly hours. Multiply result times 52 for an annualized base salary.
2. If the person has no other sources of income (for example: overtime, bonus, commissions, second jobs, interest, dividends, child support, alimony, public assistance), this will be the Current Total Annual Income.
3. Compare the total annual income in #2 above to:
 - a. the total year to date income on the VOE
 - b. the previous year's income on the VOE
 - c. the previous year's income per W2's and tax returns

You should not find significant differences. In some cases, the Current Total Annual Income will be higher than the previous year's income. Variances should be attributable to increases/decreases in pay or number of hours worked.

Salaried Employees

1. Using last 4 to 6 weeks' pay stubs, identify weekly (or other frequency) rate of pay. Multiply rate times the number of regular pay periods in the year (52 weeks, 12 months, 24 semi-months)
2. If the person has no other sources of income (for example: overtime, bonus, commissions, second jobs, interest, dividends, child support, alimony, public assistance), this will be the Current Total Annual Income.
3. Compare the total annual income in #2 above to:
 - a. the total year to date income on the VOE
 - b. the previous year's income on the VOE
 - c. the previous year's income per W2's and tax returns

You should not find significant differences. In some cases, the Current Total Annual Income will be higher than the previous year's income. Variances should be attributable to increases/decreases in pay or number of hours worked.

Business, Self Employment

1. Use the quarterly tax returns and financial statements to identify the current year to date income.
2. Divide the year to date income by the number of months during which it was earned and multiply times 12 for an annualized total.
3. If the person has no other sources of income (for example: overtime, bonus, commissions, second jobs, interest, dividends, child support, alimony, public assistance), this will be the Current Total Annual Income.
3. Compare the total annual income in #2 above to the previous year's income per W2's and tax returns. You should not find significant differences.

Overtime, Bonus, Commissions

1. Using last 4 to 6 weeks' pay stubs, identify the year to date total earnings of the borrower. Subtract the Current Total Base Income (see above) to arrive at the total year to date extraordinary income.
2. Divide the year to date extraordinary income by the number of pay periods during which it was earned (to obtain an average). Multiply times the appropriate factor (52 weeks, 12 months, 24 semi-months, etc.) for an annualized figure.
3. Add the total annualized extraordinary income to the Current Total Base Income. If the person has no other sources of income (for example: second jobs, interest, dividends, child support, alimony, public assistance), this will be the Current Total Annual Income.
4. Compare the total annual income in #2 above to:
 - a. the total year to date income on the VOE
 - b. the previous year's income on the VOE
 - c. the previous year's income per W2's and tax returns. You should not find significant differences. In most cases, the Current Total Annual Income will be higher than the previous year's income. It will also generally be higher than the annualized year to date income. The variances should be attributable to increases/decreases in pay.

Interest, Dividends

1. Use current earnings statements issued by the bank, investment broker or agent. Identify the year to date interest or dividend earnings. Divide by the investment term year to date (for an average) and multiply times appropriate factor to annualize the earnings.
2. If statements are not available, and the terms of the investment agreement are available, multiply the principal amount of the asset times the annual interest yield factor for a projected interest earnings amount.
3. If neither are available, use the previous year's earnings statements or tax returns to identify total annual interest and dividend income. If the assets are still invested in the same instruments, use the previous year's figure.
4. Add the result of the computation in either #1, #2 or #3 above to the Current Total Annual Income.

Alimony, Child Support

1. Use the monthly amount appearing in the divorce decree, separation agreement or other support document.
2. If the borrower receives more than the amount stipulated in the agreements, use the monthly figure that the borrower declares and can be verified.
3. If the borrower receives less than the amount stipulated in the agreements and there is a verifiable history of the underpayments for at least 3 years (as evidenced by Court records), then use the past 3 years' historical monthly earnings. If there is no such history that can be verified, use the amount stipulated in #1 above.
4. Multiply the monthly amount of alimony or child support times 12. Add to the Current Total Annual Income (plus any other income sources).

Pensions, Temporary Payments

1. Use the benefits statement issued by the benefits provider (pensions, workers compensation, disability compensation, social security, AFDC, etc.) to identify the amount of the benefit, payment frequency and expected term of the benefit.
2. Multiply the amount of the benefit times the payment frequency for an annualized amount. Add to the Current Total Annual Income (plus any other income sources).
3. If the benefit is absolutely not payable to the recipient beyond a given date (that means a complete and permanent stop of benefits without extensions, exceptions, waivers or other conditions) and such date is within 12 calendar months of the anticipated closing date, then calculate the benefits expected through the end of the benefits term. That will be the total annual income amount from the specific benefits source. Add to the Current Total Annual Income (plus any other income sources).

Verified Termination of Overtime, Commission, Bonus

If verification of termination of overtime, commission or bonus is provided in writing (i.e. a letter from an employer) or such termination is due to a change of employment, use the current YTD overtime, commission or bonus, do not annualize and add as a lump sum to the Current Total Annual Income.

PROGRAM CLOSING FORMS may be accessed on our Website. The forms are interactive so you may tab from blank to blank (for the Affidavit scroll from page to page and then tab from blank to blank). Enter information in each blank and then print as a completed document ready for signature and notarization.

The **Affidavits/Certification Form** has three sections. The Mortgagor's Affidavit must be completed, signed by the borrower(s) and notarized at closing. The Seller/Builder Affidavit must be completed, signed by the borrower(s) and notarized at closing. The Lender Certification is also part of this form and must be completed and executed at closing. The original, signed Affidavits and Certification are part of the Compliance file.

The **Tax Exempt Rider** has a few blanks at the top that must be completed (date, property address) and then must be dated and signed by the buyers at closing. This form is used for all loan types.

CoSignor Affidavit must be completed for FHA transactions having a non-occupant co-signor.

OTHER FORMS

First Mortgage and Note Lenders use their standard forms.

Flood disclosures (hazard and non-hazard) are provided but you may use your own form if generated by your system. Your form must be approved by The Servicer. Fax to the attention of the Servicer's Operations Department.

Important Information Regarding Forms

Original, personal signatures of all borrowers are required on all documents associated with the transaction.

Powers of Attorney and/or Personal Representatives for the Borrower Are Not Acceptable. Exception: Active Duty Military Personnel may provide an 'Alive and Well' letter.

Names and signatures of all Buyers and Sellers must match throughout all documents. Whenever a party is known in any of the documents by more than a single name, a Name Affidavit Will Be Required. Whenever a signature is not recognizable, clarification and/or a Signature Affidavit may be required

Other Documents Required for Bond Compliance Review

1. Tax returns -

- Tax returns for the preceding year are due April 15 of the current year.
- Signed copies of the past 3 years' returns (immediately preceding 3 years after April 14) and all schedules are required for all borrowers and their spouses, regardless of whether the spouses are taking title to the property.
- IT IS THE RESPONSIBILITY OF THE BORROWER(S) TO SUPPLY THIS INFORMATION. If they do not have the required tax returns, they need to request a copy or transcript immediately to be provided prior to loan commitment. A form 4506 is available on the IRS Website: www.irs.ustreas.gov for borrower requests for a line-by-line (aka Tax return transcript). Borrowers may request a Letter 1722 by calling 1-800-829-3676. Links to the IRS Website are available on our Websites.
- Please remember that the Underwriter is certifying that they have reviewed the appropriate returns. So returns must be provided to your Underwriter prior to Underwriter's Certification.

Acceptable Federal Income Tax Documentation:

- Copies of returns filed with the IRS including 1040 REGULAR, 1040-A, 1040-EZ, or Letter 1722, an IRS line-by-line transcript and a Telefile return that meets the following conditions: (1) has the preprinted taxpayer name and address - such name and address cannot be altered in any way (2) has the preprinted Code number, (3) has the 6 digit IRS confirmation number and (4) has the signature of the taxpayer(s). Also acceptable are the electronic cover sheet accompanied by copies of returns filed with the IRS and PC (i.e. Turbo Tax) returns.
- Requests for Extensions are not acceptable in lieu of tax returns.
- Full tax returns (schedules included) are required.
- All returns must include names, social security number(s) and address and must be signed by all named taxpayers. There must be an indication that no mortgage interest was claimed.
- Original signatures are not required.
- If a borrower did not file federal income tax returns for any or all of the three year period and were required by law to do so, they cannot participate in the program until such returns are filed.
- If a borrower did not file federal income tax returns for any or all of the three year period and were not required by law to do so, use the space provided on the Mortgagor Affidavit and list the name(s) of the party(ies), the tax year(s) and the reason(s) for not filing.

2. Real Estate Purchase Contract

The full address of the property, full names of all sellers and buyers, total purchase price of the property must be included. If there is not an address for new construction, a lot number and subdivision name are required. All named persons must sign. Include the name and title whenever a representative is signing for a corporation or for another person.

3. Loan Application (1003)

The typed application signed by the borrower(s) is required. Loan interviewer must complete and sign page 3 of 4 of the 1003. All persons taking title to the property must execute this document, and must be named in the section requesting "TITLE TO BE HELD IN MANNER" The income disclosed on the Affidavit must be the same or more than that shown on the 1003. The purchase price, loan amount, and other financial details must be the same as shown on all other documents.

4. HUD-1 Settlement Statement

- Buyer, seller and closing agent must fully execute the HUD-1.
- Borrowers on the HUD-1 must be all persons taking title to the property and match the Affidavit and application. Persons not taking title to the property may not appear or sign the HUD-1.
- The program fees may be paid by the buyer or seller as permitted by the insurer/guarantor and/or Fannie Mae.

These fees MAY NOT be financed. All must be shown as being payable to U S Bank Home Mortgage.

- Please do not bundle charges. Itemize all charges to the transaction. Payoffs of other debt must appear on Page 1 under Section 100 of the HUD-1 as part of "Settlement Costs".

5. Warranty Deed

A copy of the Warranty Deed is required in the Compliance File.

Who Signs Bond Documents Chart

IF	Income Tax Returns Required For	Credit Income (1003)	Compliance Income	Title / Warranty Deed In Name(s) of*	Who Signs Bond Documents
Married couples, both on title and mortgage, both work	Both	Both	All in Household	Both	Both
Married couples, both on title, Husband only for credit and mtg, wife does not work	Both	Husband	All in Household	Both	Both
Married Couples, Wife only on title, credit and mtg, husband works	Both	Wife	All in Household	Wife	Wife
Married Couple, Both on title, credit, mtg. and Cosigner	Both	Husband, Wife, Cosigner	Only those in Household	Husband and Wife Only	Husband and Wife Only
Single Woman, sole owner, living with roommate	Single Woman	Single Woman	All in Household	Single Woman	Single Woman
Two Unrelated Person Both on credit, mtg. and title	Both	Both	All in Household	Both	Both

* To the extent permitted by local law, a spouse not used for credit may have an ownership interest.

- COSIGNERS CANNOT LIVE IN PROPERTY, DO NOT SIGN BOND DOCUMENTS OR TAKE TITLE.
- HAVING PEOPLE SIGN DOCUMENTS WHO SHOULD NOT SIGN IS AS INCORRECT AS NOT HAVING ALL SIGN WHO SHOULD.
- **THE SIMPLE RULE OF WHO SIGNS BOND FORMS – IF THE PERSON TAKES TITLE, THEY SIGN THE BOND FORMS. IF THEY DO NOT TAKE TITLE, THEY DO NOT SIGN THE BOND FORMS.**
- UNDER NO CIRCUMSTANCES MAY A COSIGNER'S NAME APPEAR ON TITLE OR WARRANTY DEED.
- ONLY THOSE ON CREDIT SIGN THE 1003 AND HUD-1.