

# Origination Guidelines for the 2004 HFA of Miami-Dade County Single Family Mortgage Revenue Bond (SFMRB) Program

First Published 9-20-04

9-21-04 Page 4, Corrected First Purchase Date; Added P&I Factors

10-6-04 Page 11, Compliance Review Fee changed to Bond Loan Application Fee (may be paid by buyer or seller) but not financed. Also ADDI Lender/Servicer fees change of terminology. Lenders charge \$110 grant application fee – \$75 retained by lender and \$35 to Servicer (netted at loan purchase).

10-20-04 Page 11, Added Homebuyer Education requirement to ADDI verbiage

12-1-04 Page 6 Revised to exclude Census Tracts 108, 110.01, 102.06, 9.03, 19.04, 39.07, 93.10 as Targeted  
2-28-05 through 3-16-05 - Pages 8 and 9, Added New Purchase Price Limits for HOME and ADDI, New Income Limits and Bond First/HOME Second loan option information. Page 11, Revised ADDI Income Limits; Page 12, Revised to include ADDI Inspection Requirement; Page 13, New Home Income Limits

3-19-05 - Page 4, Added HOME loan to Mortgage Rate Chart

3-24-05 Page 11, Added ADDI Recapture Information, Pages 11 and 13, Maximum Sales price revised; Page 14, Revised HOME max subsidy amount

6-22-05 Pages 12 & 14, Catastrophic language added for ADDI and HOME. For conventional loans, this puts both products in compliance with Fannie Mae requirements so that CLTV may be more than 100%.

6-28-05 Pages 12 & 14 - Revised catastrophic language per county attorney

7-1-05 Pages 11 & 13, deleted City of Homestead so ADDI and HOME funds may be used in Homestead

7-26-05 Page 4, Program Extended, new delivery and purchase dates



Produced By  
PROGRAM FACILITATOR  
Denihan and Associates /eHousingPlus

<b>TABLE OF CONTENTS TOPIC</b>	<b>See Page</b>
<b>Table of Contents</b>	<b>1</b>
<b>Listing of Program Forms on Website</b>	<b>2</b>
<b>Background, Product Summary, Issuer/Servicer/Administrator/Facilitator; Fund Types, General Rules Regarding Fund Types</b>	<b>3</b>
<b>Program Summary cont. Program Origination Period and Important Dates, Reservation Requirements, Mortgage Rates, Points, Assistance, Lender Net, Buydown Rates, P&amp;I, Use of Assistance, Assumptions</b>	<b>4</b>
<b>Program Summary cont Buydowns, Construction to Perm, Cosigners, Documentary Stamp Tax and Intangible Tax, Mergers, Acquisitions, Occupancy, Recapture, Servicing, Subordinate Financing; Targeted Areas</b>	<b>5</b>
<b>Internet System (McWeb) Access and Information</b>	<b>6</b>
<b>Compliance Review Qualify the Borrower, Household Income and HH Income Limits</b>	<b>8</b>
<b>Compliance Review Qualify the Property, Acquisition (Sales Price) Limits; IRS Code Definition of Acquisition Limits</b>	<b>9</b>
<b>Compliance Review Review the Loan and Mortgage Requirements of the Program</b>	<b>10</b>
<b>Compliance Review Review the Allowable Origination, Discount and Other Fees , ADDI Grant</b>	<b>11</b>
<b>Bond First/HOME second mortgage option</b>	<b>13</b>
<b>Compliance Review Notices to Buyers, Reserve the Loan Online; Processing the Loan; Credit Underwriting: Approved Loan Types, Automated Underwriting System, Community Seconds &amp; Assistance Programs,</b>	<b>15</b>
<b>Fannie Mae Loan Products</b>	<b>16</b>
<b>Compliance Underwriting</b>	<b>17</b>
<b>Program Forms At Closing, Important Information Regarding Forms Other Documents Required for Bond Compliance File, Tax Returns</b>	<b>19</b>
<b>Other Documents Required for Bond Compliance File</b> Real Estate Purchase Contract, Final Typed Loan Application, HUD-1 Settlement Statement, Warranty Deed	<b>20</b>
<b>Who Signs Bond Documents Chart</b>	<b>21</b>

**PROGRAM COMPLIANCE FILE FORMS**

<b>COMPLIANCE FILE CHECKLIST</b>	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
<b>NOTICES TO BUYERS</b>	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.
<b>ABOUT RECAPTURE TAX</b>	Attach to borrower's copy of Notices to Buyers as a more complete disclosure
<b>AFFIDAVITS/CERTIFICATION</b>	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.
<b>TAX EXEMPT RIDER</b>	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 Servicer with final documents.

**ASSISTED RATE LOANS USING FHA INSURANCE**

<b>FHA DPA MEMO</b>	Use of all Assisted Rate loans using FHA Insurance; submit with FHA Case Binders
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**LOANS WITH ADDI GRANTS**

<b>Summary of Income</b>	To be used with all loans using the ADDI grant. Attach copy of Affidavits/Certs form
<b>Acknowledgment Letter</b>	To be used with all loans using the ADDI grant for properties built before 1978.

**CLOSING AGENT FORM**

<b>LETTER TO CLOSING AGENTS</b>	Bond closing instructions sent to Closing Agent with each file for each closing
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**SAMPLE CLOSING FORMS**

<b>FLOOD DISCLOSURE HAZARD</b>	You may use your own form if approved by Servicer or this form.
<b>FLOOD DISCLOSURE NON HAZARD</b>	You may use your own form if approved by Servicer or this form.

**MORTGAGE FILE STACKING SHEETS**

<b>CONVENTIONAL LOAN DELIVERY CHECKLIST</b>	Use as cover and guide for packaging Conventional loans; pkg. sent after closing
<b>FHA LOAN DELIVERY CHECKLIST</b>	Use as cover and guide for packaging FHA loans; pkg. sent after closing
<b>USDA:RD LOAN DELIVERY CHECKLIST</b>	Use as cover and guide for packaging USDA:RD loans; pkg. sent after closing
<b>VA LOAN DELIVERY CHECKLIST</b>	Use as cover and guide for packaging VA loans; pkg. sent after closing
<b>FINAL DOCUMENT DELIVERY SUBMISSION LIST</b>	
<b>FINAL DOCUMENT DELIVERY SUBMISSION LIST</b>	Use as cover sheet and guide for final documents.

**OTHER FORMS REQUIRED FOR THE TRANSACTION**

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

<b>SCREENS FOR PERIODIC INFORMATION</b>	<b>LENDER TRAINING REGISTRATION</b>
<b>PURCHASE/REVIEW CONTACTS &amp; WIRE INSTRUCTIONS</b>	<b>PURCHASE OF ALLOCATION</b>
<b>SALE OF ALLOCATION</b>	<b>MERGERS/ACQUISITIONS</b>

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 jurisdictions.

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

## PROGRAM SUMMARY

**Issuer:** Housing Finance Authority of Miami-Dade County

**Master Servicer:** U. S. Bank Home Mortgage

**Program Administration:** U. S. Bank Home Mortgage through eHousingPlus

**Program Facilitator:** Denihan and Associates

### Fund Types

**Non-Targeted Funds:** There are two pools of non-targeted funds – Low Rate (ADDI) funds and Assisted Rate funds. Assisted Rate funds may be used anywhere in Miami-Dade County. ADDI funds are restricted. Detailed information is provided in this Guide.

**Target Pool:** These funds are available in a first-come, first-served pool but are limited to properties in the targeted area census tracts listed in this Guide. Free census tract information is available by clicking on [www.ffiec.gov/geocode](http://www.ffiec.gov/geocode). Enter a property address and receive a tract #. Compare the tract number with those listed above to confirm that a property "is" or "is not" in a targeted area. In any case, enter the tract number when making a reservation.

### General Rules Regarding Fund Types

- Funds are available in first-come, first-served pools.
- There are processing timelines associated with loans reserved in the pool.
  - Reservation to Underwriter Certification = 45 days
  - Reservation to Closed & Delivered to Servicer = 85 days
  - Reservation to Exceptions Cleared, Loans Purchased = 115 days
  - Loans not meeting the timetable will be canceled automatically.
- Lenders may not automatically replace a canceled loan with another loan as there may be a waiting list

**Program Origination Period and Important Dates -9-21-04 Revised first closing date; 7-26-05 Extended**

System reservations may be made on or after Monday, September 20, 2004.

Loans may close on or after October 22, 2004.

**All loans must be closed and delivered to the Servicer on or before October 22, 2005.**

**All loans must have all exceptions cleared and be purchased by the Servicer on or before November 1, 2005.**

**Reservation Requirements**

Applicants must present a fully-executed sales contract, most recent three years tax returns, and may pay an application fee to cover actual costs of a credit report(s) and appraisal. Bond funds are not secured and cannot be promised to a borrower until a Reservation is accepted in the McWeb system..

**Mortgage Rate, Homebuyer Points, Assistance Amount, Lender Net, Buydown Rates - Rev Added HOME loan**

All Mortgage Loans will be fully amortized over a 30-year term and have substantially level monthly debt service payments. A description of the Bond First/HOME second program has been added as pages

<u>Loan Type</u>	<u>Origination</u>	<u>Discount</u>	<u>Assistance</u>	<u>Lender Net</u>	<u>P&amp;I Factors per thousand</u>
<b>ADDI Low Rate</b> 4.99%	0.00%	0.00%	0.00%	1.75%	5.362106
<b>Assisted Loan *</b> 5.75%	0.00%	0.00%	4.00%	1.75%	5.835729
<b>HOME Loan *</b> 5.75%	0.00%	0.00%	4.00%	1.75%	5.835729

**\* Note that for FHA Assisted Rate Loans, there is a form online - FHA DPA Memo - that must be completed and included in the FHA case binder.**

**Use of Assistance**

Assistance may be used toward down payment and closing costs including prepaids to the extent permissible by the insurer/guarantor and acceptable to Fannie Mae and Ginnie Mae. While there is no cash back permitted, if a borrower has met their minimum contribution requirement and overpaid for deposit, they may be reimbursed for any overage to the extent permitted by the insurer/guarantor or Fannie Mae.

Assistance is calculated on the full loan amount, paid by the Lender at closing and reimbursed by the Servicer at loan purchase. It must be fully utilized in the transaction and may be used for principal reduction.

ADDI grant funds are advanced to closing by the Servicer. See ADDI Process in this Guide to request funds timely and ensure availability for closing.

**Assumptions**

First mortgage loans may be assumed by a qualified borrower meeting first-time homebuyer requirements, income and acquisition price restrictions in place at the time of the assumption. Such loans must continue to fully comply and be insured or guaranteed by the *insurer/guarantor* or a mortgage insurer

**Buydowns**

2/1 buydowns are permitted for government loans. The borrower may not pay and the borrower assistance may not be used to fund the buydown.

**Construction to Perm**

Not permitted.

### **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 cosigners do not sign any bond documents. Follow FHA guidelines for credit purposes only.

### **Documentary Stamp Tax and Intangible Tax**

Mortgages and notes in this program are exempt from Doc Stamp and Intangible tax. Deeds are not exempt and such fees may not be paid by the borrower (exception: properties sold by HUD).

### **Mergers, Acquisitions**

If during the course of the program, a participating lender is merged or acquired, please click on this link, complete the information and Submit. [http://www.denihanassoc.com/merger\\_acquisition.htm](http://www.denihanassoc.com/merger_acquisition.htm)

### **Occupancy**

Buyers are required to occupy the property purchased in this program within 60 days of closing.

### **Recapture**

Mortgage loans originated under this program are subject to the Recapture Provision in accordance with Section 143(m) of the Internal Revenue Code. The recapture tax is similar to a prepayment penalty but is imposed by the IRS to recapture some of the cost savings realized by the homebuyer through the bond program. Recapture tax may be imposed if the property is sold within 9 years of purchase, and the amount depends upon profit realized from the sale, but in no event will exceed 50% of the homeowner's gain on the sale or 6.25% of the origination loan amount. The amount of the tax also depends upon the level of increase in the homebuyer's income.

### **Servicing**

All mortgage loans must be sold to the Servicer..

### **Subordinate Financing**

Subordinate financing must be approved by the Servicer's Program Development Manager.

### **Targeted Areas - 12-1-04 Revised to exclude 108, 110.01, 102.06, 9.03, 19.04, 39.07, 93.10**

A buyer need not be a first-time homebuyer but must reside in the property as their primary residence. The income and sales price limits are higher in targeted areas. The following are the targeted area census tracts for this program:

4.03, 4.07, 4.08, 5.02, 5.03, 7.03, 7.04, 7.05, 7.06, 7.07, 7.08, 8.01, 8.03, 8.04, 10.04, 10.05, 10.06, 13.01, 13.02, 14.01, 14.02, 15.01, 15.02, 16.01, 17.02, 18.01, 18.02, 18.03, 19.01, 19.03, 20.01, 20.03, 20.04, 22.01, 24.01, 24.02, 25, 26, 27.01, 27.02, 28, 30.01, 30.03, 30.04, 31, 34, 36.01, 36.02, 37.01, 37.02, 39.01, 39.05, 43, 44.02, 45, 49.01, 50.02, 51, 52.01, 52.02, 53.01, 53.02, 54.01, 54.02, 55.02, 57.03, 57.04, 63.01, 64.01, 64.02, 64.03, 66.01, 66.02, 70.02, 71, 72, 91, 93.06, 93.07, 93.08, 99.04, 105.00, 106.02, 107.02, 109.00 and 113

## **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](http://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](http://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 will be used to reserve the ADDI Grant.

#### **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](http://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,



**COMPLIANCE REVIEW**

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.

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

**1. Qualify the Borrower**

Borrowers must be first-time homebuyers. 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.

**2. Qualify the Household Income**

**MAXIMUM ANNUAL HOUSEHOLD INCOME - Revised Limits per HUD 2005 limits Effective 2-28-05**

Non-Target Areas		Targeted Areas	
1-2 persons	3 or more persons	1-2 persons	3 or more persons
\$52,550	\$60,433	\$63,060	\$73,570

- 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 for inconsistencies and patterns. 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 total annual income from all sources of all persons 18 years of age or older residing in the household cannot exceed the maximum allowable 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 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 is determined by the type of financing used (i.e. FHA, VA.).

**3. Qualify the Property**

- 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 cross-check to see if the property is located in a targeted area. Targeted area census tracts are listed in this Guide.
- MRB Program funds may be used to finance existing or new single family residences (detached, attached, rowhouse, townhouse, qualified condominium unit [including Spot approvals] and qualified 2, 3 and 4 unit dwellings) 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. Mobile, recreational, seasonal or other types of vacation or non-permanent homes are not eligible under the program.
- Land may not exceed the size required to maintain basic livability. Properties not meeting the minimum lot size zoning requirements for the area and type of property are not eligible under the program.
- The remaining economic life of the property may be no less than 30 years.
- Newly constructed means that the home has never been previously occupied.
- Properties purchased in the program must be residential units. No more than 15% of the square footage of the home being purchased may be used in connection with a trade or business including Child Care services (other than incidental rental from eligible multi-unit structures).
- Sellers or builders sign the Seller’s Affidavit attesting to the eligibility of the property as evidenced by an appraisal conducted by a qualified appraiser.
- If the appraised value is less than the purchase price of the property, the Borrower(s) must provide written acknowledgment that they have received a copy of the appraisal and are aware that they are paying more than the current established value of the home. Although borrowers provide the acknowledgment, we are only able to accept financing on the appraised value. The total purchase price must comply with program guidelines.
- Manufactured and Modular Housing qualify if they meet all applicable FHA guidelines

**MAXIMUM ACQUISITION PRICES - 2-28-05 Revised Limits per Rev Proc**

	<u>1-Family</u>	<u>2-Family</u>	<u>3-Family</u>	<u>4-Family</u>
<b><u>Non-Target</u></b>				
<b>Existing</b>	\$331,578	\$373,462	\$453,738	\$523,545
<b>New</b>	\$331,578	N/P	N/P	N/P
<b><u>Target</u></b>				
<b>Existing</b>	\$405,263	\$456,453	\$554,569	\$639,888
<b>New</b>	\$405,263	\$456,453	N/P	N/P

N/P = Not Permitted

*Please note that existing 2, 3 and 4 family must be at least 5 years old. The mortgagor must reside in the property. Some products such as Fannie Mae CHBP permit only one unit dwellings.*

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**

- Allowable loan types are: FHA, FHA 203K, VA, USDA: RD, Conventional loans acceptable to Fannie Mae, See "Credit Underwriting" in this guide for complete information on eligible Fannie Mae products; Fannie Flex is not acceptable.
- All loans in this program will have a loan term of 30 years (360 months, level payments).
- The program requires the minimum borrower contribution required by the insurer/guarantor that is acceptable to Ginnie Mae or Fannie Mae.
- There is no minimum loan amount in this program and lenders cannot refuse to originate due to loan amount.
- 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

**5. Review the Allowable Origination, Discount and Other Fees - Rev. 10-6-04 Bond Loan App Fee**

- The program determines the origination and discount that may be charged. No additional origination and/or discount may be charged buyer or seller.
- The program includes a **Bond Loan Application Fee** of \$225 and Tax Service Fee of \$65 (paid by buyer or seller as per insurer/guarantor requirements). The fees are payable at closing and netted at loan purchase and must be disclosed on the HUD-1 as being paid to the Servicer. They are not financeable. On the ADDI grant there is a grant application fee of \$110 - \$75 to lender and \$35 to Servicer. See ADDI below for additional information.
- 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 the insurer/guarantor. "Junk" fees are not a defined term and may not be charged. Excessive fees are not permitted in the program.

**6. Determine if the borrower's household income, home sales price and location qualify for the Low Rate first mortgage and ADDI Grant. (Rev 3-4-05)**

1 person	2 persons	3 persons	4 persons	5 persons	6 persons	7 persons	8 persons
<b>30,300</b>	<b>34,600</b>	<b>38,950</b>	<b>43,300</b>	<b>46,750</b>	<b>50,200</b>	<b>53,650</b>	<b>57,150</b>

**Sales Price Limit: \$280,000 (Revised and deleted bullet referencing limit below)**

**Eligible Area:** First mortgage loans with the ADDI grant may be made anywhere in Miami-Dade County, except within the following municipalities: Florida City, Hialeah, Miami, Miami Beach and North Miami.

**ADDI GRANT PROGRAM**

The HFA will provide ADDI funds, on a first-come, first-served basis, in an amount equal to the GREATER of 6.00% of the Purchase price or \$10,000. The funds may be used for Down Payment and Closing Costs. The following requirements will apply: **(7-1-05 deleted City of Homestead)**

1. The first mortgage must be a Bond loan purchased under the 2004 SFMRB program.
2. The first mortgage loans must meet all the applicable insurer/guarantor requirements and, if applicable, be acceptable to Fannie Mae.
3. The required monthly payment under the first mortgage, plus other housing expenses and all recurring charges, cannot exceed the borrower's reasonable ability to pay as per FHA, VA, USDA:RD and/or Fannie Mae and the mortgage insurer requirements.
4. **All buyers receiving ADDI funds must complete a Homebuyer's Education course (face to face or mortgage insurer phone or internet) Added 10-20-04**
5. No commitment or origination fee will be charged for the ADDI grant; however, the Mortgage Lender will collect \$110 grant application fee and may retain \$75.00 for each loan that includes the ADDI grant. The application fee may be paid from the ADDI proceeds.
6. Of the \$110, \$35.00 is payable to the Servicer on each loan with an ADDI grant. The Servicer will net the fee at loan purchase.
7. The first mortgage must meet Federal Truth-in-Lending Disclosure requirements and any other applicable state and federal lending regulations.
8. For all loans regardless of insurer or guarantor guidelines, the HFA does not permit cash back to the borrower.
9. The assistance is in the form of a deferred second mortgage that has a recapture period of 5 years. After the time, the loan is forgiven. The following chart illustrates the forgiveness period.

<b>Year</b>	<b>Prior to 1<sup>st</sup> Anniversary</b>	<b>1<sup>st</sup><sup>d</sup> Anniversary</b>	<b>2<sup>nd</sup> Anniversary</b>	<b>3<sup>rd</sup> Anniversary</b>	<b>4<sup>th</sup> Anniversary</b>	<b>5<sup>th</sup> Anniversary</b>
<b>% Forgiven</b>	<b>0</b>	<b>20</b>	<b>40</b>	<b>60</b>	<b>80</b>	<b>100</b>

### **THE ADDI PROCESS Revised (Added Inspection requirement)**

- ? Reservations for ADDI funds are made simultaneously with reservations for Bond Loans. Simply use the “Additional Mortgages” feature from the Main Menu AFTER reserving the first mortgage.
- ? Requests exceeding the ADDI guidelines will be rejected by the Subsidy Grant Certification. Qualifying loans completing the Subsidy Grant Certification correctly automatically generate an Authorization Code. As well as being retained in the system, the code appears in the Loan Detail and Underwriter Certification. Questions should be directed to Bond Compliance.
- ? Complete the Summary of Income form. Include copy in Compliance File to Bond Compliance.
- ? Also complete the ADDI (Lead-Based Paint Acknowledgment form. **An inspection will be required. Contact Adela Garcia in the HFA offices.**
- ? Borrowers must receive the pamphlet “Protect Your Family From Lead In Your Home” available on the HUD Website: with a link from the Denihan and Associates Website. Scroll down to the bottom of the page. The pamphlet is available in English and Spanish.
- ? After the loan is credit approved, underwriters are responsible for completing the Underwriter Certification for the first mortgage, AND ALSO the Subsidy Grant Certification, online, prior to any request for funds.
- ? No later than 2 business days prior to the loan closing, a Funds Request (Request for Disbursement) must be completed online. IN ADDITION, the lender will fax a copy of the preliminary HUD 1 evidencing closing of the loan involving the subsidy grant to the Servicer for review. The Transmittal Fax Cover Sheet for Funds Request is available with the rest of the program forms
- The Funds Request is an online form. It includes loan information and wire instructions. The Servicer, upon performance of the required certifications and receipt of the required form and document, shall deliver or cause to be delivered the ADDI proceeds to the lender's closing agent via electronic funds transfer within 24 hours of the scheduled loan closing.
- ? The Servicer shall compare the information on the request and the preliminary HUD-I to the certification online. If any of the information, including amount, purchase price, and the amount of subsidy changes, the lender shall not be eligible to receive funds until the ADDI changes are reviewed and accepted by the Servicer.
- ? If the lender is unable to close a loan within 48 hours of the receipt of the funds, the lender must instruct the Title Company to return the funds to the Servicer. If the closing is postponed, the lender will be required to make a second request for funds online and resubmit a revised HUD I Settlement Statement to the Servicer both of which must reflect the changes to the disbursement date and any other changes related to the closing.
- After the closing, specific ADDI documents must be included in the Compliance File delivered to the Servicer. The Servicer through its established monitoring system, shall monitor and review the Borrower's compliance eligibility with the terms and conditions of the ADDI funds as set forth in this Lender Guide and the program documents.

With reference to the HUD Website. It is advisable to periodically review the material for any updates. You may also request from HUD direct notification of any changes. Review the HUD Website Home Page for additional information.

### **Added the following “Catastrophic Language” Revised 6-28-05**

In the event the Mortgage Note Holder and the Servicer, in their sole and absolute discretion, after a loss mitigation analysis, find that a catastrophic event, including but not limited to Borrower's death or extended illness, or the extended illness of a close family member who depends primarily on the borrower for support, has occurred which submitted substantially and permanently impairs their ability to repay \_\_\_\_\_second mortgage note and requires them to sell the Property for an amount less than the mortgage note, that portion of the lien of \_\_\_\_\_ second mortgage note which can not be satisfied from the proceeds of such sale shall be released.

The loss mitigation will include a request for an appraisal on the mortgaged property to confirm that the property has to be sold for less than owed. If the appraisal brings back a value greater than the total loan payoff, then the forgiveness of the loan will not be allowed. Additionally, if the Mortgage Note Holder and the Servicer determine that the property may be sold for less than required to repay the debt, the buyer cannot have a familial (blood or marriage) relationship with the seller, or business relationship with either the seller or a blood or marriage family member of the seller.

7. **Determine if the borrower's household income, home sales price and location qualify for the HOME 46% Second Mortgage.**

**First mortgage rate will be 5.75%.** There will also be a 0% 15-20-year deferred/forgivable second mortgage. Repayment of principal on the second mortgage is deferred for the term of the first mortgage except that if any part of the mortgaged property is sold, transferred, rented, gifted, or otherwise conveyed, the HOME second mortgage shall become payable in full. The amount of the second mortgage required to be repaid will depend on the length of time since the financing was originally provided, as detailed herein. The Assistance represents 4% of the combined first and second mortgage. The 4.00% of Assistance on the first mortgage is funded by the lender at closing and the 4.00% of assistance on the second mortgage is funded by the Authority at Closing.

**Income Limits:** Household income must not exceed 65% of median income, adjusted for household size, as determined periodically by HUD. Current income limits are: **(Rev 3-16-05)**

**Number of Persons in Household**

	1	2	3	4	5	6	7	8+
Income	\$24,635	\$28,112	\$31,655	\$35,165	\$37,960	\$40,787	\$43,615	\$46,215

**Purchase Price Limits:** \$280,000 **(Rev. 3-05)**

**Deleted City of Homestead below**

**Eligible Area:** First mortgage loans with the HOME second may be made anywhere in Miami-Dade County, **except** within the following municipalities: Florida City, Hialeah, Miami, Miami Beach and North Miami.

**Underwriting - DU and LP** may not be used with HOME loans. HOME loans must be manually underwritten.

**First Mortgage Options:** The first mortgage must be an Authority Series 2004 bond loan. FHA, VA or conventional first mortgages are available. Mortgage insurance is not required.

**Origination/Discount:** Origination and discount fees on the first mortgage will be consistent with those charged for the bond program. No commitment or origination fee will be charged for the HOME Loan; however, the Mortgage Lender may collect and retain a \$75.00 application fee for each HOME Loan.

**Housing Types:** New and existing homes are permitted. If a home was constructed prior to 1978, federal rules require that a lead based paint inspection be performed by a licensed contractor. A copy of the final report must be sent to the HFA along with the credit file.

**Reservations** for down payment assistance and HOME Loans will be made by the Lender simultaneously with reservations for Bond Loans.

**Funding:** HOME Loans will be funded at closing by the Authority.

**Servicing:** Bond Loans and HOME Loans will be serviced by U S Bank Home Mortgage, Master Servicer for the Authority's 2004 Single Family Mortgage Program

**Repayment:** The HOME Loan is a 0% deferred forgivable second mortgage with no regular payment requirements. A portion of the HOME Loan is forgiven pro-rata over the deferral period. See "Recapture" and chart below. If any part of the mortgaged property is sold, transferred, rented, gifted, or otherwise conveyed, the unforgiven portion of the HOME loan shall become payable in full. [The unforgiven portion of the HOME Loan will also become payable if the Bond first mortgage is paid off prior to the corresponding 15 or 20 year period.]

**Combined Mortgage Structure:** To determine the first and second mortgage amounts, the Bond Loan first mortgage shall be 51% of the purchase price and the HOME Loan second mortgage shall be 46% of the purchase price. For example, a \$90,000 combined mortgage would have the following structure, based on current interest rates:

**HFA OF MIAMI-DADE COUNTY 2004 SFMRB PROGRAM WITH HOME SECOND**

	<b>Amount</b>	<b>Rate</b>	<b>Monthly P&amp;I</b>
<b>Bond Loan First Mortgage</b>	\$45,900	5.75%	\$267.86
<b>HOME Loan Second Mortgage</b>	\$41,400	0% deferred	\$0
<b>HOME Down Payment Assistance</b>	\$ 3,492	0%	\$0
<b>Total</b>	\$90,792		\$267.86

**Maximum Per Unit Subsidy Limits Rev. 3-05**

<b>Number of Bedrooms</b>	<b>0 BR</b>	<b>1 BR</b>	<b>2 BR</b>	<b>3 BR</b>	<b>4 BR</b>
<b>Max Subsidy</b>	124,921	143,197	174,128	225,261	247,269

Note: The 46% second mortgage amount cannot exceed these limits. No exceptions.

**Recapture: Federal Recapture applies on first mortgage Bond Loans but not on the second HOME subsidy loan mortgage. The HOME Loans will be subject to HFA recapture.** The recapture will last for up to 20 years for newly constructed homes or up to 15 years for existing homes. The HOME Loans will be forgiven pro-rata over the 15 or 20 year period except that no forgiveness will occur during the first five years after closing. At the end of 15 years for existing homes and 20 years for new homes the HOME Loans will be completely forgiven. During this period, the percent of the HOME Loan forgiven will be:

<b>Year</b>	<b>1-5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>10</b>	<b>11</b>	<b>12</b>	<b>13</b>	<b>14</b>	<b>15</b>	<b>16</b>	<b>17</b>	<b>18</b>	<b>19</b>	<b>20</b>
<b>New Home</b>	0	5	10	15	20	50	55	60	65	70	75	80	85	90	95	100
<b>Existing Home</b>	0	10	20	30	40	50	60	70	80	90	100	na	na	na	na	na

**The HOME Process**

Within **five business days** of reserving a loan, **fax** to the HFA at **305-371-9152** the signed loan application and the sales contract. Loan reservations will be canceled after five days if these documents are not received by the HFA.

**At the same time that a credit file is sent to the underwriter, a complete credit file must be sent to the HFA for review.** The file must contain an appraisal. Send the file to Adela Garcia, Housing Finance Authority of Miami-Dade County, 25 West Flagler Street, Suite 950, Miami, Florida 33130.

**Within 30 days of loan reservation,** loan must have underwriter credit approval and underwriter certification must be completed and submitted in McWeb..

**Within 45-60 days of underwriter certification,** the loans must close. The following documents must be sent to the HFA in order to request funding:

- Lender Commitment Letter
- Hard copy of the Underwriter Certification
- HUD 1
- Title Commitment

Within 10 days of closing a complete file must be delivered to the HFA. This file must contain copies of **all** signed bond and first mortgage documents and all original HOME second mortgage documents with the exception of the mortgage. The original recorded mortgage must be sent to the HFA along with the original Title policy by the closing agent when available.

**Please do not send any HFA documents to the first lender.**

Failure to meet the requirements, will result in the cancellation of the loan without further notice.

**Added the following "Catastrophic Language" Revised 6-28-05**

In the event the Mortgage Note Holder and the Servicer, in their sole and absolute discretion, after a loss mitigation analysis, find that a catastrophic event, including but not limited to Borrower's death or extended illness, or the extended illness of a close family member who depends primarily on the borrower for support, has occurred which submitted substantially and permanently impairs their ability to repay \_\_\_\_\_second mortgage note and requires them to sell the Property for an amount less than the mortgage note, that portion of the lien of \_\_\_\_\_ second mortgage note which can not be satisfied from the proceeds of such sale shall be released.

The loss mitigation will include a request for an appraisal on the mortgaged property to confirm that the property has to be sold for less than owed. If the appraisal brings back a value greater than the total loan payoff , then the forgiveness of the loan will not be allowed. Additionally, if the Mortgage Note Holder and the Servicer determine that the property may be sold for less than required to repay the debt, the buyer cannot have a familial (blood or marriage) relationship with the seller, or business relationship with either the seller or a blood or marriage family member of the seller.

8. **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 Authorization for Counseling. Attach a Recapture Brochure to the borrowers copy of the Notices to Buyers. This form and all other forms are found on our Website. Retain the original of the Notice and include it in the Compliance File sent to the Servicer after closing.
  
9. **Reserve the loan online.** Use McWeb and click on the circling McWeb icon. The screen will ask you for an entry as follows:  
Username  
Password  
Enter information and then Submit.

### **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 Shermaine Weathersby, Product Development Manager (216) 475-8237 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

....State and Municipal Workers...SFC 278 and 481

\*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: Flexible 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 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 203 (b), 203 (b) (2) Veteran Status, FHA 234© Condominium , FHA 203(K) Rehab.

**For FHA Assisted Rate loans, complete the FHA DPA memo (available online) and submit in FHA case binders. We do not need a copy.**

## **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 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. 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. Servicer requires a credit package as indicated on the various loan delivery checklists. However, 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.

#### **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.
4. 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**

5. 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.
6. 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.
7. 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.
8. 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 FORMS FOR CLOSING**

Program forms may be accessed on our Website <http://www.denihanassoc.com/bond.htm> then scroll down to the correct program and click on **Lender Guide and forms**. 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 **Affidavit** must be completed, signed by the borrower(s) and notarized at closing. The Seller/Builder Affidavit and Lender Certification are 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.

**ADDI and HOME loans** have special 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 Servicer. Fax to the attention of Servicer's Operations Dept. See contact Directory.

#### **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 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 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 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](http://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 was 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 was 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 acceptable to the insurer/guarantor and/or Fannie Mae. These fees MAY NOT be financed. All must be shown as being payable to the Servicer.
- 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

- 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.