

**ORIGINATION GUIDELINES FOR THE
ALAMO AREA
HOUSING FINANCE
CORPORATION
2004B SFMRB PROGRAM**



Produced By
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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	Attach to borrower's copy of Notices to Buyers as a more complete disclosure
AFFIDAVIT	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 Leader with final documents.
AFFIDAVIT OF COSIGNOR/GUARANTOR	BOND FORM - Use on all loans that involve a Cosignor/Guarantor. Send signed Original in Bond Compliance File.

SAMPLE CLOSING FORMS

FLOOD DISCLOSURE HAZARD	You may use your own form if approved by Leader or this form.
FLOOD DISCLOSURE NON HAZARD	You may use your own form if approved by Leader 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 DELIVERY COVER SHEET	Use as 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.)

DENIHAN AND ASSOCIATES WEBSITE SCREENS FOR PERIODIC INFORMATION

LENDER TRAINING REGISTRATION

PURCHASE/REVIEW CONTACTS & WIRE INSTRUCTIONS

PURCHASE OF ALLOCATION

SALE OF ALLOCATION

MERGERS/ACQUISITIONS: NOTIFICATION TO ISSUER, SERVICER/ADMINISTRATOR

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: Alamo Area HFC

Master Servicer: U. S. Bank Home Mortgage

Program Administration: U. S. Bank Home Mortgage through Bond Compliance (aka eHousingPlus)

Program Facilitator: Denihan and Associates

Eligible Area

The geographical area within the limits of the Counties of Atascosa, Bandera, Comal, Frio, Gillespie, Guadalupe, Karnes, Kendall, Kerr, Medina and Wilson, Texas and the Cities of New Braunfels and Seguin, Texas.

Allocations

- Allocations in this program are made for Unrestricted Non-Target and Targeted funds and for the first six months of the program for Special Low Income loans (\$4,000,000).
- Loans may be insured or guaranteed by FHA, VA, USDA:RD or a private mortgage insurer acceptable to Fannie Mae. **Conventional loans are limited to \$2,175,000.**
- The **targeted area is as follows: Frio County: 9503.00**
- **Targeted allocation is \$2,000,000**
- Program Participation Fee: Lenders were required to pay a non-refundable Program Participation Fee of .50%. To the extent loans are originated under the terms and conditions of the OSSA, the fee is recoverable.
- Sale of Allocation: A Lender may sell all or a portion of its Allocation to one or more other Lenders at a fee not exceeding the equivalent of the .50% Program Participation Fee. Complete Purchase and Sale of Allocation forms online. They are among the forms listed on the Website.
- The Issuer reserves the right to transfer all or a portion of a Lender's uncommitted Allocation on or after **October 1, 2005** with reimbursement of the pro rata portion of such the Participation Fee.
- The Issuer may transfer all or a portion of a Lender's uncommitted Allocation without reimbursement of the pro rata portion of the Participation Fee at a date to be determined..

Application/Reservation Start Dates, Credit Document and Purchase Agreement Dates

Applications dated prior to the Reservation Start Date are acceptable. Reservations will be accepted as soon as practical following bond closing. Credit documents are acceptable with any date provided that the documents have not expired. Applicants must present a fully-executed sales contract that may be a date prior to program inception. Bond funds are

not secured and cannot be promised to a borrower until a Reservation is reserved and accepted in the McWeb system.

Origination Period

Origination Period may be two years.

Commitment Lot Timelines (Revised 12/17/04)

From Reservation to Underwriter Certification = 45 days

From Loan Closing to Delivery to Servicer = No more than 30 days following closing

From Delivery to Purchase = All exceptions cleared and loan purchasable no later than Final Purchase Date of Commitment Lot.

Loans not meeting timelines cancel automatically without further notice

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

The Rate is determined with the sale of each Commitment Lot. All loans are for 30 years (360 months).

Allowable Loan Types	Origination	Discount	Assistance	Lender Net
FHA/VA/RD/Fannie	1.00%	.75%	4.00%	2.00%

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

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 in this program

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 by the Servicer daily.

Occupancy

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

Quality Control

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

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 will be sold servicing released to The Leader Mortgage Company. 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.

Supplemental Financing

Supplemental Financing is permitted in this program in accordance with the Origination Agreement and subject to FHA, VA, USDA:RD 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 Master Servicer for review and approval for use with the program. Such financing must be subordinate to the first lien.

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,

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. A first-time homebuyer 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.

**2. Qualify the Household Income -
MAXIMUM ANNUAL HOUSEHOLD INCOME**

Atacosta, Comal, Guadalupe, Karnes, Kerr, Medina, and Wilson Counties and hte Cities of New Braunfels and Sequin.

1-2 person HH	\$53,000
3 or more person HH	\$60,950

Borrowers qualify as low income if household income does not exceed \$42,399. Bond Compliance will track this requirement for the first six months of the program.

Bandera County

1-2 person HH	\$53,500
3 or more person HH	\$61,525

Borrowers qualify as low income if household income does not exceed \$42,799. Bond Compliance will track this requirement for the first six months of the program.

Gillespie County

1-2 person HH	\$54,000
3 or more person HH	\$62,100

Borrowers qualify as low income if household income does not exceed \$43,199. Bond Compliance will track this requirement for the first six months of the program.

Kendall County

1-2 person HH	\$67,800
3 or more person HH	\$77,970

Borrowers qualify as low income if household income does not exceed \$54,239. Bond Compliance will track this requirement for the first six months of the program.

Frio County

Non Targeted		For the one Targeted Census Tract
1-2 person HH	\$53,000	\$63,600
3 or more person HH	\$60,950	\$74,200

Borrowers qualify as low income if household income does not exceed \$42,399. Bond Compliance will track this requirement for the first six months of the program.

Adjusted Gross Income for all persons in the Household for the previous tax year may not exceed \$74,200

Guidelines for calculating bond program income are detailed in the Underwriter's Program Income Calculation Guide included in these Guidelines. 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) 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. 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

MAXIMUM ACQUISITION PRICE LIMITS

	One Unit	Two Units	Three Units	Four Units
Non Targeted Areas				
Existing	\$189,682	\$242,801	\$293,475	\$364,727
New Construction	\$189,682	N/P	N/P	N/P
Targeted Areas (pertains to one census tract in Frio County - see Program Summary in these guidelines)				
Existing	\$231,833	\$296,756	\$358,692	\$445,778
New Construction	\$231,833	\$296,756	N/P	N/P

N/P = Not Permitted

Please note that existing 2, 3 and 4 family must be at least 5 years old and mortgagor must reside in the property. Fannie Mae special products like CHBP, Home, Teacher, etc. permit 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.
- 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), townhomes, manufactured homes that meet insurer/guarantor requirements. Homes are considered new if never previously occupied.

- There are 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 shown on the next page*.
- The remaining economic life of the property may be no less than 30 years.
- Manufactured housing qualifies if it is a structure manufactured in a factory after June 15, 1976 which is delivered to a homesite in more than one section and placed on a permanent foundation. The dimensions of the completed house shall not be less than twenty feet by forty feet, the roof must be sloping, the siding and roofing must be the same as those found in a site-built house, and the house must be eligible for thirty year real estate mortgage financing in order to qualify for purchase. Manufactured Housing must meet all applicable guidelines of and be insured or guaranteed by FHA, VA, etc.
- Mobile, recreational or vacation homes are not eligible under the program.

IRS CODE DEFINITION OF ACQUISITION COST

Usually the Sales Price and Acquisition Price are the same number. What follows describes exactly what is included in 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).
- FHA-insured,, VA-guaranteed acceptable to Ginnie Mae or privately insured conventional loans acceptable to Fannie Mae. See "Credit Underwriting" in these Guidelines for a complete list of allowable products
- The program requires the minimum borrower contribution required by the insurer/guarantor or Fannie Mae.
- There is no minimum loan amount in this program.

5. Review the Allowable Origination, Discount and Other Fees

- 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 Application Fee \$240 (\$75 of which may be paid by buyer or seller in an FHA transaction and \$165 paid by the seller; for a conventional loan all may be paid by either buyer or seller) and a Tax Service Fee of \$65. These fees are not financeable. The fees are payable to the Servicer, are 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 the insurer/guarantor 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" and the consequences of selling the home and not paying off the loan

if the sale is to a non-qualified buyer. Attach a copy of the Recapture Brochure to the borrower's copy of the Notice to Buyers. Both forms are found on the Website. The original of the Notice will be sent to the Servicer in the Compliance Package that is submitted following closing. A copy of the Recapture Brochure should not be included in the Compliance Package.

7. Reserve the loan online. Click on the circling LeaderWeb 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 is the only automated system permitted for 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: 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. Provide a copy in the Mortgage File as listed on the FHA Delivery Checklist.

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 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. TLMC requires a credit package as indicated on the various loan delivery checklists. However, TLMC 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

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.

Projected Rental Income if the Property Being Purchased is a 2-4 unit Dwelling

Projected Rental Income for multiple unit dwellings may be used for credit qualifying purposes in accordance with FHA, VA, USDA:RD, Fannie Mae guidelines. For program purposes, the rental income is NOT included in the income calculation.

Preparing Program Forms for Closing

Program forms may be accessed on our **Website <http://www.denihanassoc.com>**. 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.
- **Affidavit of Cosignor/Guarantor** must be executed at closing by the appropriate parties if applicable.

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 TLMC. Fax to the attention of Kim Grogg (216-696-2508). If you work with us in other programs, please check with your home office. Approvals have probably already been **granted**.

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 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 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. 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 Returns: Copies of returns filed with the IRS including 1040 REGULAR, 1040-A, 1040-EZ, 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). Electronic returns and PC returns are not acceptable. 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. Original signatures are not required. Other types of returns are not acceptable. 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 for not filing. 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. There are IRS links on the Websites.

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. **Final Typed Loan Application (1003)**

The typed application signed and dated by all parties is required. Loan interviewer must complete and sign page 3 of 4 of the 1003. If this is not possible, then an Officer must sign in place of the interviewer. All persons taking title to the property must execute all bond documents. 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.
- Bond Loan Application Fee, tax service fee and on HAMI loans \$150 of the Second Mortgage Loan Application Fee must be shown as being payable to The Servicer.
- Documentary stamp tax and intangible tax may not be charged on the mortgages or notes to buyer or seller. Deeds are not exempt. Only seller may pay this charge.
- 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.

SHIPPING GUIDE

The Servicer's Delivery and Funding Guidelines and Glossary of Terms provide detailed information and are posted on the Website.

There are checklists to assist in sending the Servicer complete files and by doing so avoiding costly exceptions. Exceptions prevent the purchase of loans and cost all time and money. The checklists are: Compliance File Checklist, Mortgage File Delivery Checklists (one for each loan type – FHA, VA, etc) and a Final Document Delivery Cover Sheet. All may be found on the Website.