EXHIBIT I
To the Participation Agreement
November 23, 2009

Maryland Department of Housing and Community Development

100 Community Place

Crownsville MD 21032-2023

410-514-7530

800-638-7781

Maryland Relay for the Deaf:

800-735-2258

http://www.mmprogram.org

LENDER'S MANUAL

for the

Maryland Mortgage Program

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<u>ATTACHMENTS</u>

(*forms are subject to change – most current form should be used*)

A. Separation Affidavit- (08/31/99)
B. Request for Transcript of Tax Return – IRS Form 4506T (Rev. January 2008)
C. Housing Counseling – Lender Certification of Completion (12/08/06)
D. Income Eligibility Worksheet and Lender Certification (08/31/99)
E. NOT IN USE
F. Asset Test Worksheet (12/11/08)
G. NOT IN USE
H. Initial Interview Checklist (12/01/03)
I. NOT IN USE
J. Affidavit In Lieu of Current Year's Tax Returns (08/31/99)
K. Pre-Closing Compliance Checklist (10/27/09)
L. Post-Closing Compliance and Purchase Checklist (10/27/09)
M. Post-Purchase Final Documents Checklist (10/27/09)
N. Additional Buyers Affidavit Relating to Business Use of Residence (01/11/99)
O. Bogman, Inc. Contact Names and Telephone Numbers/Request for Lender Contacts (12/11/08)
P. Bogman, Inc. Loan Servicing Transfer Guidelines (09/24/09)
Q. "Quick Close" Post-Closing Compliance and Purchase Checklist (10/27/09)
R. Request for Change to Reservation of Funds form (09/15/08)
S. Affidavit Regarding Not Being Required to File Tax Return(s) (08/31/99)
T. Certification of Pregnancy (03/15/05)

CDA/SINGLE FAMILY HOUSING

Administration

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Post-Closing Compliance/Purchasing and Final Document Review

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Final Document Reviews	Vi Creek	410-514-7516 creek@mdhousing.org

Fax and Telephone Numbers

PRE-CLOSING and **POST-CLOSING** Condition Fax Number	410-729-3722
ATTACHMENT R Submission Fax Number	410-729-3723
Public Information Telephone	410-514-7530
Toll Free Telephone	800-638-7781

Mailing Address

Maryland Department of Housing & Community Development
CDA- Single Family Housing
100 Community Place, 4th Floor
Crownsville, Maryland 21032-2023

Information – Websites

Lender On-Line (LOL)	https://lol.dhcd.state.md.us/Bin/Display.exe/ShowSection
Loan Status on LOL	https://lol.dhcd.state.md.us/Bin/Display.exe/ShowSection and click on "Loan Status"
Maryland Mortgage Program	http://www.mmprogram.org
Interest Rates	http://www.mmprogram.org/rates.aspx
Loan Documents	http://www.mmprogram.org/mmp_loan_docs.aspx
Attachments	http://www.mmprogram.org/Attachments.aspx
Directives	https://www.mmprogram.org/SnglFamHsgDir.aspx

PURPOSE

The basic objective of the Maryland Mortgage Program (the Program) is to provide homeownership opportunities to eligible limited income homebuyers in the State of Maryland. This objective is accomplished by purchasing below market interest rate mortgage loans from originating Lenders. The proceeds of these loans may be used by the mortgagor to purchase modest residences, which they must subsequently occupy.

This program is offered pursuant to Article 8B, Sections 2-201 through 2-208 of the Annotated Code of Maryland, as amended. It is further governed by Program regulations contained in COMAR 05.03.02, as amended. All loans will be made in conformance with the Statute, Program regulations, applicable federal tax law and Community Development Administration (CDA) bond documents.

Mortgage loans to be purchased by CDA are financed from proceeds of single-family program bonds. The interest on bonds is exempt from the gross income of the bondholders for federal income tax purposes pursuant to certain provisions of the Internal Revenue Code. Because the bonds are "tax-exempt," CDA is able to use proceeds from the sale of these bonds to make below-market interest rate loans.

The Lender agrees in the Mortgage Purchase Agreement dated as of July 28, 2000, as amended, and the Participation Agreement, of which this is a part, to comply with the requirements set forth in this manual. CDA must rely upon all participating Lenders to comply with the requirements when making mortgage loans to be purchased by CDA. Mortgage loans that do not comply with these requirements will not be purchased by CDA. Originating Lenders will be required to repurchase nonconforming loans inadvertently purchased by CDA. Violation of these requirements may cause the bonds to become taxable, thereby causing significant harm to CDA, its bondholders, its housing programs and its ability to issue and sell tax-exempt bonds.

The purpose of this manual is to outline State and federal requirements with which participating Lenders must comply. Documents referred to in this Manual will be found either as Attachments to the Manual or as part of Exhibit II to the Participation Agreement (Program Loan Documents).

APPROVAL OF PARTICIPATING LENDERS

The approval process, which takes approximately 30 days, involves the submission of certain information to Single Family Housing (SFH) for review and approval. Form documents for this purpose are provided by SFH.

Effective October 13, 2008, new lenders must be Fannie Mae/Freddie Mac approved Seller/Servicers. As a part of the approval process, CDA's Finance Officer will review the Lender's financial statements and make a recommendation. The Department of Housing and Community Development's (DHCD) Legal Office will review and approve the opinion of counsel. The Division of Credit Assurance's (DCA) Collections staff will review information on the Lender's current portfolio, particularly delinquency statistics. Following satisfactory approval review, the Lender and SFH will execute a Purchase Agreement. This Agreement forms the general contractual relationship governing participation in the Program by the Lender.

After a lender is approved to participate in the Program, they are required to have their staff attend Lender On-Line (web-based reservation system) training before they can reserve any loans under the program. The Lender's designated "System Administrator" will sign a document requesting a user name and password that will permit them to access the Lender On-Line system and set up user accounts for the Lender's staff.

Attached to the Participation Agreement as exhibits are the Mortgage Lender's Manual (Exhibit I) and the Program Loan Documents (Exhibit II). By signing the Participation Agreement, the Lender agrees to process loans in compliance with the Mortgage Lender's Manual and to use the Program documents.

If you have questions concerning this process or wish to become an approved Lender, you should contact Barbara Schmitt at 410-514-7512 or 1-800-638-7781 or e-mail to: Schmitt@mdhousing.org.

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AVAILABILITY OF FUNDS

Historically, the Maryland Mortgage Program has remained open continuously for reservations since the end of 2002. CDA strives to have funds available for the MMP Statewide Program at all times, but the availability of funds depends on several factors, including the ability to sell bonds in the market.

Interest rates may vary depending on the date the funds are reserved. LENDERS ARE RESPONSIBLE FOR OBTAINING A RESERVATION NUMBER AND THE ASSIGNED INTEREST RATE BEFORE COMMITTING TO A BORROWER.

In order to keep the Program open, SFH will infuse funds into the Program in two ways:

Sale of Bonds

Periodically, and at the discretion of SFH, tax-exempt mortgage revenue bonds will be sold. Depending upon bond market conditions, SFH is usually able to obtain an interest rate which is from one half percent to one percent below the current market interest rate.

Residual Funds

From time to time, due to the fallout of loans reserved in older series, pools of residual funds may develop in bond series previously thought to be fully reserved. SFH may use these residual funds from previous bond issues:

- to supplement funds in the current series; or
- to blend with another issue in order to offer a more marketable interest rate for the Program.

The current interest rates may be obtained by accessing the website at http://www.mmprogram.org/rates.aspx.

RECAPTURE TAX REIMBURSEMENT

Federal law provides for a *possible* Recapture Tax when some homeowners sell their home within the first nine years after receiving a mortgage through the Community Development Administration's (CDA) Maryland Mortgage Program. In order to remove the confusion and worry about having to pay a recapture tax when the home is sold -- CDA agrees to reimburse any CDA homebuyer, who *settles on their home on or after July 1, 2005*, the amount of any recapture tax that the CDA homebuyer pays in connection with the sale of the home.

CDA will not calculate the recapture amount. Upon sale or disposition of the residence, the borrower(s) must consult a personal tax adviser or the IRS.

In order to request a recapture tax reimbursement from CDA:

- The borrower(s) first must instruct the IRS, by using IRS Form 4506, to send to CDA a copy of each borrower's federal tax return covering the calendar year in which the residence was sold.
    - On Form 4506, instruct the IRS to send the information to:

      Maryland DHCD
      Attn: CDA Single Family - Recapture Tax Reimbursement
      100 Community Place, 4th floor
      Crownsville, MD 21032

- The borrower(s) must send a written request for reimbursement to CDA, by July 15th of the calendar year after the residence is sold, accompanied by the following:
    - a copy of the signed HUD-1 Settlement Statement from the sale or disposition of the property;
    - the address to which the reimbursement should be mailed; and
    - any other documentation CDA may need to approve the reimbursement.

  Submit requests for reimbursement to:

  Maryland DHCD
  Attn: CDA Single Family - Recapture Tax Reimbursement
  100 Community Place, 4th floor
  Crownsville, MD 21032

- CDA will not act on the request for reimbursement until the copies of the borrower(s) tax returns are received from the IRS.

CDA will only reimburse the Recapture Amount actually paid, but will not reimburse fees, interest, expenses or penalties incurred.

Be advised that CDA will issue an IRS Form 1099 so the amount of any recapture tax that CDA reimburses to the borrower will be reported to the IRS as income.

SECTION 1 - LOAN APPLICATION AND RESERVATION PROCEDURES

1.1 APPLICATION REQUIREMENTS

A. Application Documents

In addition to presenting information concerning income, assets, debts, etc., at the time of application, the borrower must:

1. present an eligible, ratified contract of sale (see section on “Ineligible Use of Loan Proceeds” for further information on contracts of sale);

2. complete initial Buyer’s Affidavit;

3. complete a Uniform Residential Loan Application (Freddie Mac Form 65/ Fannie Mae Form 1003);

4. if buying in a non-targeted area, either present copies of Federal Income Tax Returns or acceptable alternatives for the previous three years (this requirement is waived if one of the borrowers is a veteran and provides lender with a copy of their DD-214 – this exemption may only be used once); and

5. if the buyer owned or currently owns real property and is eligible under the CDA Mortgage Loan Program (meets the definition of a 1st time home buyer – the 1st time home buyer requirement is waived for veterans or is purchasing in a targeted area) present documentation which evidences the property has been sold or will be sold and settled before the closing of the Program loan.

B. Preliminary Interview

Prior to requesting a reservation of funds on Lender On-Line (LOL), the Lender must interview the borrower in order to screen the borrower for eligibility and to pre-qualify the applicant for *FHA* mortgage insurance, *VA* or *RHS* mortgage guarantee or private mortgage insurance. It is recommended that the Lender use the Initial Interview Checklist (Attachment H).

C. Limitation on Points, Fees and Charges

1. The Lender may charge points in an aggregate amount not to exceed the applicable points for the interest rate. The payment of the points is negotiable between the buyer and the seller.

NOTE: The seller may pay all points if permitted by the applicable insurer/guarantor (FHA, VA or RHS).

2. Lender may not charge any fees at time of application other than the amounts needed for a credit report, appraisal, flood certification, and home inspection.

1.2 LOAN RESERVATION

A. Requests for reservations of Program funds will be inputted on LOL by the Lender. The Lender must have a fully ratified contract of sale before they input a reservation of funds on LOL. Detailed instructions for reserving funds are given at the LOL training. These instructions must be followed very carefully.

B. Your complete and eligible request will be processed by LOL and assigned a reservation number.

A sample reservation number would be: WH2-350-000001. The "WH2" designates the Warehouse Pipeline Series and indicates that funds have been reserved under that series. The next three digits of the reservation number is a Lender number ("350"), and then the next five digits of the reservation number is a sequential loan number ("00001"). The issuance of a loan reservation number constitutes an obligation of SFH to purchase an eligible loan, as reserved, if the following applicable deadlines are met.

1.3 *RESERVATION EXPIRATION DEADLINES AND RECOMMENDED SUBMISSION TIMEFRAMES*

A. Reservation Expiration Deadlines

SFH has established deadlines for the processing of loans that have been assigned loan reservation numbers. SFH must receive the Purchase Submission file for review before the reservation expires or funds will be cancelled. There are two reservation expiration deadlines of which Lenders must be aware. They are:

1. For existing homes, reservations expire **90** days from the date of reservation; and

2. For new construction, reservations expire **150** days from the date of reservation.

At the discretion of SFH, extensions of the reservation expiration deadline may be considered. Your loan pipeline on LOL should be monitored very carefully.

PLEASE NOTE: Lender will only receive the maximum fee of 2.00% if the loan is approved for purchase within 90 days of the reservation date for an existing home or 150 days of the reservation date for new construction (refer to Fee Schedule for applicable fees).

To meet reservation expiration deadline and also receive the maximum fee, the lender should follow the recommended submission timeframes below.

B. Recommended Submission Timeframes

1. Pre-Closing Compliance Submission

When Pre-Closing Compliance Submissions are received, they are reviewed on a first-received, first-reviewed basis. If there are deficiencies in a file, they will be listed on LOL.

To ensure sufficient time for approval, there are two *recommended* Pre-Closing Compliance Submission dates of which Lenders should be aware. They are:

a. For existing homes, it is *recommended* that the Pre-Closing Compliance Submission be submitted within 45 days of the reservation date.

b. For new construction, it is *recommended* that the Pre-Closing Compliance Submission be submitted within 105 days of the reservation date.

2. Post-Closing Compliance and Purchase Submission (Purchase Submission)

When Purchase Submissions are received, they are reviewed on a first-received, first-reviewed basis. If there are deficiencies in a file, they are listed on LOL.

To ensure sufficient time for approval, there are two *recommended* Purchase Submission dates of which Lenders should be aware. They are:

a. For existing homes, it is *recommended* that the Purchase Submission be submitted within 74 days of the reservation date.
b. For new construction, it is *recommended* that the Purchase Submission be submitted within 134 days of the reservation date.

Examples of Loan Deadlines

EXISTING

Reservation Date	*Recommended* Receipt of Pre-Closing Compliance Submission (45 days)	*Recommended* Receipt of Purchase Submission (74 days)	Reservation Expiration (Purchase Submission Deadline-90 days)
March 1st	April 15th	May 14th	May 30th

NEW CONSTRUCTION

Reservation Date	*Recommended* Receipt of Pre-Closing Compliance Submission (105 days)	*Recommended* Receipt of Purchase Submission (134 days)	Reservation Expiration (Purchase Submission Deadline–150 days)
March 1st	June 14th	July 13th	July 29th

1.4 RESERVATION PIPELINE REPORT

The Lender can access information on LOL about their loan pipeline. **It is each Lender's responsibility to reconcile their loan pipeline, cancel inactive loans, and take whatever action is necessary to prevent the cancellation of viable loans by SFH.**

1.5 RESERVATION RESTRICTIONS

A. Changes

1. Once a loan has been reserved, major changes are prohibited except in unusual circumstances approved by SFH. Examples of prohibited changes include, but are not limited to:

   a. Substitution or deletion of a household member from the Buyer's Affidavit, when inclusion of that household member's income would have resulted in the household income exceeding the Program's income limit for that jurisdiction.

   b. Substitution of another property, except as a result of an unsatisfactory home inspection or failure of the seller to proceed with the sale.

   Lenders should be careful when pre-qualifying borrowers so as to provide accurate income and loan amount information on LOL. Any requests for change in interest rate or loan amount are subject to the availability of funds.

2. To request a change to a reserved loan, complete the <u>Request for Reservation of Funds Change form (Attachment R)</u> and submit it with all necessary documentation to SFH by fax, e-mail or mail. The request will be reviewed and a response returned to the Lender by fax or e-mail.

B. Duplicate Reservations

1. Different Interest Rates

   LOL will accept the first reservation inputted for a borrower. Subsequent attempts to input another reservation for the same borrower will not be accepted.

2. Different Lenders

   If a borrower has applied at two different Lenders, LOL will only accept the first reserved loan. It will be left up to the Lenders to determine who should proceed with the application.

C. Cancellation of Funds

   1. If a borrower wishes to withdraw their application from the Program after funds have been reserved, they should be informed that they would be prohibited from obtaining another reservation of funds for 12 months after the date they initially reserved the funds. The Lender requests the cancellation of a reservation by completing a <u>Request for Change to Reservation of Funds form (Attachment R)</u> within **five business** days after the borrower's withdrawal from the Program.

2. Property inspection problems or refusal by the seller to make necessary repairs or complete the sale should be handled as a substitution of property**.** Upon receipt of a Request for Change to Reservation of Funds form (Attachment R) with “Substitute New Property” selected, along with a release from the original contract of sale and the reason for the release, the lender either requests that the original reservation be:

   a) ***deleted*** [compensation to lender based on the **new** reservation date] and the lender then reserves a loan on the new property; or
   b) ***retained*** [compensation to lender based on the **original** reservation date] and provides corrected information on the new property (address, purchase price, loan amount, etc.) under “Other”.

3. If a borrower’s loan request is declined due to eligibility or credit/affordability issues, the **reservation should not be canceled until all reconsideration processes have been completed. Within five business days** after the final denial, the Lender must request the cancellation of the reservation using the Request for Change to Reservation of Funds form (Attachment R).

D. Assignments

Lenders may assign open (not canceled) reservations to other participating Lenders. The new lender would complete a Request for Change to Reservation of Funds form (Attachment R) and submit it to SFH with a copy of the assignment letter from the first lender. The original reservation for the loan will be deleted by SFH and the new lender will then be instructed to reserve the loan as a new loan at the current interest rate.

SECTION 2 - COMPLIANCE REQUIREMENTS

2.1 GENERAL BORROWER ELIGIBILITY

A. Applications will be accepted with no discrimination as to race, color, religion, creed, national origin, sex, marital status, physical or mental disability or sexual orientation. Citizenship of the United States is not required, however, borrower must have a social security number and be eligible to work in the United States.

B. Each single borrower and at least one of a married couple must be eighteen years of age or older.

C. If married, both spouses are not required to apply.

NOTE: The Lender may not require the signature of a borrower's spouse or other person (other than a joint borrower) on any credit instrument if the borrower qualifies under the Lender's standards of creditworthiness for the amount and terms of the mortgage.

D. If a non-borrowing occupant takes title to the property and appears on the Deed and Deed of Trust, the following must occur:

1. the borrower and non-borrowing occupant must execute the Buyer's Affidavit and Buyer's Confirming Affidavit;
2. if property located in a non-targeted area, federal income tax returns for the preceding 3 years for the borrower and non-borrowing occupant are required unless credit report and Verification of Rent provided, and they reflect a 3 year history of renting and not owning real estate (this requirement is waived if one of the borrowers is a veteran and provides the lender with a copy of their DD-214 – this exemption may only be used once);
3. the CDA Tax-Exempt Financing Rider must be executed by the borrower and non-borrowing occupant; and
4. the title policy must show the title vested in both occupants without exception for the rights of the non-borrowing occupant.

E. If separated, a Separation Affidavit (Attachment A) must be completed by the borrower.

F. Borrowers must be named on all the closing documents.

G. Borrowers must meet the applicable underwriting standards of insurer/guarantor.

H. Co-signers are not permitted on any Maryland Mortgage Program loans purchased by CDA

I. Borrowers must intend to occupy the property as their principal residence within 60 days of the closing of the mortgage loan.

2.2 "PRESENT OWNERSHIP INTEREST" IN A PRINCIPAL RESIDENCE

Federal law defines a "first-time home buyer" as someone who has not had a "present ownership interest" in their principal residence at any time during the three years immediately preceding the date of the mortgage application. Borrowers purchasing in non-targeted areas must meet this definition of first-time home buyer. This requirement is waived if one of the borrowers is a veteran and provides lender with a copy of their DD-214 – this exemption may only be used once). Borrowers purchasing in targeted areas do not need to meet this definition. All borrowers, however, whether or not it is their principal residence, must sell or transfer their interest in any real property they own prior to the settlement on the Program loan.

Please note: Targeted Areas and Priority Funding Areas have different meanings.

Individuals who are separated or divorced and had an interest in real property during the last three years may be eligible if they can document that they did not live in the property during the last three years. In addition, they must no longer have title to the property or will divest themselves of title to the property before the closing of the Program loan.

A. Ownership of a co-op unit occupied as a borrower's principal residence will disqualify the borrower.

B. Exclusions

1. A "present ownership interest" in a principal residence excludes:

   a. an ordinary lease, with or without a purchase option;
   b. the interest of a buyer under a standard residential purchase contract;
   c. an expectancy to inherit property; or
   d. a remainder or reverted interest.

2. A mobile home occupied as a borrower's principal residence will not disqualify the borrower unless the mobile home is/was permanently attached to real property owned by the borrower.

C. Targeted Areas

The prohibition against borrowers having had a "present ownership interest" in their principal residence does not apply to borrowers purchasing homes in the following federally designated targeted areas. They may no longer have title to the property or will divest themselves of the property before closing of the Program loan.

ENTIRE COUNTIES/JURISDICTIONS OF:

Allegany, Baltimore City, Caroline, Dorchester, Garrett, Kent and Somerset

TARGETED CENSUS TRACTS/CITIES WITHIN NON-TARGETED COUNTIES

Anne Arundel	740105			
Baltimore Co.	East Towson, Oella, West Catonsville plus Census Tracts:			
	401602	421300	450504	450800
	490605	491401		

Frederick	750100	750300		
Harford	302901			
Prince George's	Brentwood, Capitol Heights, Colmar Manor, Fairmont Heights, Mt. Rainier, North Brentwood, and Seat Pleasant, plus Census Tracts:			
	803200	803401	803509	804300
	804800	805601	805602	
Washington	City of Hagerstown and any portions of Census Tracts 000302, 000400, 000700, 00090 outside of the City of Hagerstown.			
Wicomico	000100	000300	000500	010200
Worcester	990300			

2.3 PROHIBITED OWNERSHIP INTERESTS IN CERTAIN PROPERTY

State regulation requires that, at the time of closing on the Program loan, borrowers may not have any ownership interests in certain types of property.

A. Property prohibited from ownership at the time of loan closing includes:

1. any mobile home;
2. raw land;
3. a building lot (except for the lot on which the house being financed has been built);
4. any principal residence;
5. a vacation home;
6. a rental property;
7. an inherited property;
8. commercial property;
9. any jointly held property;
10. a cooperative; and
11. any other real property.

B. Property which may be owned at the time of loan closing includes: 1) a cemetery plot; 2) a recreational vehicle lot; or 3) a $1/20^{th}$ (2.6 weeks) or less interest in a time sharing unit.

C. In order to be eligible for a mortgage loan under the Program, any borrower who has an ownership interest in any type of property listed in paragraph A must either:

1. provide a contract of sale for the property at the time of application and submit documentation, i.e., settlement sheet, title for mobile home, verifying the sale of the property prior to closing of the Program loan; or

2. provide a copy of a deed showing that the borrower has divested ownership in the property.

2.4 ***FEDERAL INCOME TAX RETURNS FOR THE PRECEDING THREE YEARS SUBSTANTIATING BORROWER'S STATUS AS A "FIRST-TIME HOME BUYER" are required if property is located in a " NON-TARGETED AREA" UNLESS TRI-MERGE CREDIT REPORT AND VERIFICATION OF RENT REFLECT A 3-YEAR HISTORY OR BORROWER IS A VETERAN AND PROVIDED LENDER WITH A COPY OF THEIR DD-214***

A. Up until the current year's filing deadline, the borrower must submit signed tax returns for the previous two years plus an executed Affidavit in Lieu of Current Year's Tax Returns (Attachment J) for the current year's tax return which has not yet been filed. If the current year's tax form has been filed, it should be submitted. For example, if the borrower applies on January 30^{th}, he would provide tax returns for the two years prior to last year, as well as an executed Affidavit in Lieu of Current Year's Tax Returns (Attachment J) for last year, if the return is not yet filed.

B. After the current year's filing deadline, the borrower must submit signed tax returns for last year plus the two years prior to last year. For example, if during the current year, the borrower applies after the IRS filing deadline, he would provide tax returns for last year plus the two years prior to last year.

C. All tax returns must be signed by the borrower, including electronic returns and computerized summaries from the IRS. In addition, the top portion of the return (name, address and social security number) must be completed.

D. Most types of returns as filed with the IRS, including electronic returns, are acceptable; however, the return must:

   1. be the type of return (for example, the 1040EZ or 1040A) which does not allow for the deduction of mortgage interest or real estate taxes. Note: If the Telefile Worksheet is used, the six-digit confirmation number must be filled in and the Worksheet signed by the borrower(s); OR

   2. be a return which includes information which would enable SFH to determine that the borrower claimed the standard deduction (1040 showing a standard deduction). If the information on the return indicates that the borrower did not claim a standard deduction, then a full copy of the return with all schedules must be provided

   3. If the tax returns have been reconstructed, a notarized affidavit from the borrower(s) must be provided stating that the returns are a true and correct reconstruction.

NOTE: Electronic Filing Summary, IRS Form 8453 is not acceptable because it does not provide the necessary information.

E. IRS Form 4506T, Request for Transcript of Tax Return (Attachment B), can be used to request a transcript of the borrower's tax return(s). Make sure that you request the return plus all schedules.

F. If the borrower was not required to file a tax return, they must provide an executed Affidavit Regarding Not Being Required to File Tax Return(s) (Attachment S) stating that they were not required to file and the reason why they were not required to file.

G. If non-borrowing occupant taking title to property in a non-targeted area, federal income tax returns for the preceding three years must also be provided unless tri-merge credit report and Verification of Rent provided and they reflect a 3 year history.

2.5 INCOME

A. Eligibility

1. Total Projected ANNUAL Household Income does not exceed applicable Income Limit

   Total projected ANNUAL gross income from all household members occupying the property being purchased, except dependents less than 18 years of age (unless they are a high school student or undergraduate student and are not a borrower), may not exceed the applicable income limit for the Program. An unborn child can be treated as an "individual" (household member) when the birth of the child will change the household size and result in an increase in the applicable Income Limit. A Certification of Pregnancy (Attachment T) must be completed and executed by the pregnant borrower's physician.

2. Projected Income at Time of Reservation

   As of the date of **reservation**, the Lender is to project the eligibility income for the year following the date of the loan closing for all household members, using the Income Eligibility Worksheet and Lender Certification (Attachment D) and information on income calculation in this Manual. This information should then be provided to the borrower to complete the Buyer's Affidavit.

3. Verification of Income

   The Lender will verify all sources of income (including part-time jobs) for each household member who is 18 years of age and older, except the income of full-time high school or undergraduate students, unless such a person is a borrower, and then project the anticipated household income for a period of 12 months from the date of the loan closing. The Lender will then prepare a final Income Eligibility Worksheet and Lender Certification (Attachment D) with the verified information and submit it in the Pre-closing Compliance File.

   If a household member 18 years or older has no income, then provide a notarized statement executed by the individual stating this.

   Provide documentation to substantiate receipt of child support and/or alimony income by any household member.

   Income may be documented by a standard written Verification of Employment or by Alternative Documentation.

4. Calculating Income

   Income from all applicable household members must be included in the eligibility income calculation. Any household member who is 18 years of age or older, and not a full-time high school or undergraduate student (unless a borrower), must provide documentation supporting their income. This documentation may include Verifications of Employment, "Work Number for Everyone Verification" with detailed income information for the last three years plus one paystub or alternative documentation that includes paystub(s) covering the most recent thirty-day period, previous year's W-2 forms, and verbal verification of employment ("Work Number for Everyone Verification" without detailed income information may be substituted for the verbal verification of employment).

NOTE: Lender should exclude income from sources listed under "Exclusions From Income" section.

a. Income To Be Included - Information on Calculating:

(1.) Base income

Take the base income from the most recent paystub or the VOE and annualize it. For example, if the borrower is paid a base income of $1,150 biweekly, the biweekly amount should be multiplied by 26 to determine the borrower's annual base income of $29,900.

NOTE: If there is a significant discrepancy in the base income calculated above and the year-to-date base income, a written explanation must be obtained from the employer in order to make an appropriate calculation.

***The base income amount must be placed on the "Wages, Salaries, etc." line on the Income Eligibility Worksheet and Lender Certification* (Attachment D).**

- Documented future pay raises

  Because of their arbitrary nature, it is not necessary to include future pay raises in the calculation of the eligibility income.

- Non-traditional

  If a borrower is a teacher, it must be determined whether the borrower is paid over nine, ten or twelve months. For example, if the borrower is paid over nine months and his/her income is $2,000 per month, you would multiply the monthly amount by nine to determine the annual income of the borrower.

- Income of union workers (where the borrower had numerous jobs)

  The income from all of the borrower's employers for the last two full calendar years would be totaled and divided by two to determine the borrower's average annual income.

(2.) Overtime, commission, and bonus income

Overtime and Commissions

This type of income must be projected in an amount consistent with the earnings history of the household member. Typically, this type of income may be averaged (if VOE obtained) by totaling the last two years plus year-to-date and then dividing by the total number of months this period represents and then multiplying by 12 to calculate an annual income. For example, if the year-to-date overtime is $400 and it is as of March 8th and the overtime for last year was $2,150 and for the prior year was $2,000, the total overtime of $4,550 is divided by 26.26, 24 months for the previous two years plus 2.26 months for the year-to-date overtime, which equals $173.27 per month or $2,079.24 per year.

NOTE: IF THERE IS A SIGNIFICANT INCREASE OR DECREASE IN OVERTIME, THEN AVERAGING MAY NOT BE ACCEPTABLE.

If the VOE shows current year-to-date overtime which is significantly (+/-25%) higher or lower when annualized than previous years, it would NOT be consistent to average. Instead OT must be based on the current year to date OT unless the employer documents that it is seasonal or a single occurrence.

If the VOE combines base pay with overtime, the base pay and overtime must be calculated separately. A copy of the most recent paystub must be provided and must confirm the VOE information. If it doesn't, an explanation must be obtained from the employer in order to make an appropriate calculation. The projected OT amount must be placed on the "Overtime, etc." line on the Income Eligibility Worksheet.

If using alternative documentation (paystubs, W2's), take the year-to-date OT figure and annualize it. Compare this amount (added to base and other sources of income) to last year's W2 income figure. If there is a significant increase or decrease (+-25%), then additional documentation must be obtained from the employer explaining the discrepancy or the higher of the current year annualized income or previous year's W2 income must be used.

Bonus income

This type of income must also be projected in an amount consistent with the earnings history of the household member. You must first determine how this type of income is paid - it normally is earned in one year and paid at the beginning of the following year. If the VOE or alternative documentation is not self- explanatory, obtain a written explanation from the employer. Bonus income must be placed on the "Overtime, etc." line on the Income Eligibility Worksheet.

(3.) Business Income/Self-Employed Borrower

Total the NET income plus the depreciation and depletion from the most recent two tax years AND, after the first three months of the current year, also include the net income plus depreciation and depletion from a year-to-date profit and loss (P&L) statement and divide by the total number of months covered by the tax returns and the P&L statement. For example, if the total net income plus depreciation and depletion for the two tax years and the year-to-date P&L statement is $72,500 and the year-to-date P&L statement is for five months, the total income of $72,500 would be divided by 29 (24 months for the two tax years plus five months for the year-to-date P&L statement) and then the result should be multiplied by 12 to arrive an annual income of $30,000.

(4.) Interest, Dividends, etc.

Deduct the amount of estimated closing costs and any down payment from the available liquid assets as verified by bank or other asset statements (amounts in checking and savings accounts, stocks and bonds, equity in real property, etc.) and if the net value of the assets after closing is $5,000 or more, multiply the amount by three percent (3%).

(5.) Insurance, Pensions, Social Security, Workman's Compensation and Other Periodic Payments.

This includes all periodic payments received from social security, annuities, insurance policies, retirement funds, pensions, disability or death benefits, or other similar periodic payments including: lump sum payments for the delayed start of a period payment; payments in lieu of earnings, such as unemployment and disability compensation, workmen's compensation and severance pay (see Exclusions From Income section).

(6.) Unemployment Compensation

If a borrower has a pattern of receiving unemployment compensation as evidenced by his/her tax returns or annual unemployment compensation statements, an average annual amount is calculated by totaling the unemployment compensation received for the last two years and dividing this amount by two. Place the total amount of unemployment compensation on the “Insurance, Pensions, etc.” line on the Income Eligibility Worksheet.

(7.) Alimony or child support

Court ordered alimony and/or child support received by <u>any household member</u> MUST be annualized and the total amount placed on the “alimony/child support” line on the Income Eligibility Worksheet unless it is substantiated that scheduled

payments have not been received. <u>If no alimony and/or child support is received, enter "$0" in the appropriate blank.</u>

(8.) Public Assistance

This includes maximum amount of public assistance where such payments include amounts specifically designated for shelter and utilities that are subject to adjustment.

(9.) Gifts

Includes periodic and determinable payments and/or regular contributions received from someone not residing in the dwelling.

(10.) Allowances, etc.

Includes all regular pay, special pay and allowances of a member of the Armed Forces (whether or not living in the dwelling) who is head of family or a spouse.

(11.) Tax Credits

Includes any earned income tax credit in excess of income tax liability.

b. Exclusions From Income

Exclude income from the following sources from the total household income calculation:

(1.) Casual, sporadic or irregular gifts;

(2.) Amounts which are reimbursements for the cost of medical expenses;

(3.) Lump sum additions to family assets, such as inheritances, insurance payments (including payments under health and accident insurance and workmen's compensation), capital gains and settlements for personal property losses (but see number 5 "Income to Be Included" section);

(4.) Amounts of educational scholarships paid directly to the student or the educational institution, and amounts paid by the government to a veteran for use of such scholarships. <u>Note: amounts which are available for subsistence are to be included income;</u>

(5.) Hazardous duty pay to a serviceman, away from home and exposed to hostile fire;

(6.) Relocation payments made pursuant to Title II of the Uniform Relocation Assistance in Real Property Acquisition Policies Act of 1970;

(7.) Foster child care payments (unless formerly adopted and receiving foster subsidy);

(8.) Income of a live-in aide providing necessary support services for elderly, disabled or handicapped persons;

(9.) Payments to volunteers under the Domestic Volunteer Service Act of 1973;

(10.) The value of the allotment to an eligible household for coupons under the Food Stamp Act of 1977;

(11.) Income from the employment outside the home of dependent children (including foster children) under the age of 18 years;

(12.) Payments or allowances made under the Low Income Energy Assistance program; and

(13.) Payments received from the Job Training Partnership Act.

c. Complete a new Income Eligibility Worksheet and Lender Certification (Attachment D) with the verified information and submit in the Pre-Closing Compliance File.

d. If, upon verifying income, the borrower's annual household income exceeds the income limit, the Lender must reject the loan application. The borrowers have the right to request a reconsideration of your decision. See "Eligibility Reconsideration" section.

e. Reductions in Income. The following household income reductions will make a loan ineligible for MMP:

(1.) Borrower(s) taking a voluntary reduction in pay or voluntarily terminating a job within six months of the date of application when that prior income would have made the loan ineligible for MMP.

(2.) Deletion of a borrower from the loan application or a household member from the Buyer's Affidavit when that person's income would have made the loan ineligible for MMP.

5. Pre-Closing Compliance Review of Income

a. The eligibility income for an RHS guaranteed loan is the *lesser of the applicable MMP income limit or 115% of the area median income, subject to adjustments*.

b. The Income Eligibility Worksheet and Lender Certification (Attachment D) indicates that the income is within the income limit for the Program. The Lender will also certify that the loan has has been underwritten for all other requirements of MMP and that the loan is an eligible loan under MMP.

c. Loans for which the eligibility income exceeds the income limit for the Program will not be approved at the pre-closing compliance review. If there is a change in income after pre-closing which causes the eligibility income to exceed the income limit for the Program, the loan cannot be purchased by CDA. If incomes are determined to be ineligible during quality control reviews, the affected loans must be repurchased by the Lender.

6. Confirming Income at Settlement

The borrower will complete the Buyer's Confirming Affidavit at settlement and indicate whether the anticipated eligibility income or any other eligibility information has changed.

B. Affordability

Income to be used to determine the mortgage amount that the borrowers can afford is based upon the applicable underwriting qualification standards established by the insurer/guarantor. The amount of income used to determine affordability often differs from that determined for eligibility.

2.6 <u>ASSETS</u>

A. Borrower’s Required Investment in the Property

The borrower’s required investment in the property is the minimum required by the insurer/guarantor. A borrower’s sweat equity investment which meets requirements of the insurer/guarantor is acceptable under MMP.

B. Asset Test Procedure

The <u>Asset Test Worksheet</u> is only completed for borrowers whose liquid assets equal or exceed 20% of the purchase price of the property. Included in liquid assets are gifts in the form of cash or equity. A “Gift of Equity” is defined as the difference between the loan amount and the appraised value in a “non-arms length” transaction (i.e., parent to child, employer to employee) Borrowers with liquid assets equal to 20% or more of the sales price may not be eligible for the Program if they can afford a mortgage at the applicable asset test interest rate (call 410-514-7530 and ask any underwriter or processor to provide you with the asset test interest rate for the applicable reservation date and point program). The Lender will verify **<u>all</u>** assets (see below) for each borrower by obtaining written Verifications of Deposit or alternative documentation (one month's most recent bank statement for each account as of the date of **<u>reservation</u>**) and list them on the Fannie Mae Form 1003/Freddie Mac Form 65 Loan Application.

The computations on <u>the Asset Test Worksheet will indicate that the loan application is eligible OR a waiver has been pre-approved by CDA/SFH. The Worksheet must be completed, signed and dated by the Lender’s authorized representative.</u>

1. When calculating a borrower’s assets, all assets are to be considered, including, but not limited, to the following:

    a. items paid outside of closing (examples include but are not limited to: appraisal, credit report, home inspection and deposit on property);
    b. savings accounts;
    c. checking accounts;
    d. certificates of deposit;
    e. the total balance of any joint accounts;
    f. money market or mutual fund accounts;

    g. in trust for accounts (amount accessible);
    h. Chapter S corporate bank accounts (borrower owner of the Chapter S corporation)
    i. any other bank accounts;
    j. any stocks or bonds;
    k. funds from gift letters;

l. any funds derived or to be derived from the sale of real property, any mobile home or other property prior to loan closing. Documentation showing net proceeds from any such sale is required;

m. amount used or borrowed from a life insurance policy, IRA or 401K (less penalty); and

n. "gift of equity" (difference between the appraised value and the purchase price) in a non-arms length transaction [if it is necessary to complete the Asset Test Worksheet (Attachment F), the appraised value is listed on line 1 of the Asset Test Worksheet]

2. Exclusions

a. The cash surrender value of a life insurance policy, the value of an IRA account or the value of a 401k account may be excluded from the liquid assets as well as from the Income Eligibility Worksheet unless the borrower intends to use or borrow against a portion of his policy or account for settlement expenses. In this instance, only the amount being used or borrowed, less any penalty, is to be included in the liquid assets.

b. The value of a lot on which the borrower is building a home to be financed by the MMP loan may be excluded.

c. **Proceeds from any secondary financing or grant used for the purchase of the home.**

d. Relocation benefits under the Federal Uniform Relocation Act in connection with condemnation proceedings (to be substantiated by a letter in the Pre-Closing Compliance Submission).

3. Exception

An exception to this policy may be made, with the prior written approval of SFH, when all three of the following conditions are met;

a. the borrower's household income is at or below 55 percent of statewide median income for a family of four, as published by HUD;
b. the regular income is fixed, such as pension or social security; and
c. the interest or dividend earnings on the assets equal at least 50 percent of the total household income.

2.7 PROPERTY REQUIREMENTS

A. Priority Funding Areas

Under the Statewide (non-OBO) Program, **ONLY newly constructed residences must be located in a Priority Funding Area**. **NOTE:** ***A priority funding area is an older community or locally-designated growth area where State and local governments already have a significant financial investment in the existing infrastructure and want to target their efforts to conserve natural resources and farmland while encouraging and supporting sensible economic and residential growth. Municipalities, Baltimore City, areas inside the Baltimore and Washington beltways, neighborhoods which have been designated by the Maryland Department of Housing and Community Development for revitalization, Enterprise Zones, and Heritage Areas within county designated growth areas are priority funding areas. Counties may designate additional priority***

funding areas that meet established minimum criteria. A full listing of the **Priority Funding Areas** is on the Department of Planning's website at http://mdpgis.mdp.state.md.us/pfa/pfa.htm.aspx.

Please note: Priority Funding Areas and Targeted Areas have different meanings.

B. Residences over one year old that have not been previously occupied are considered existing units.

C. Occupying the Residence

Buyers must intend to occupy the residence within 60 days of settlement. However, a post settlement rental agreement with the seller is permitted if the seller is waiting for completion of a new home and the completion is expected to be within 120 days.

D. Eligible residences include single-unit residences that are:

1. detached, one-half of a duplex (semi-detached), or attached (townhouse) units;
2. modular homes that have the State seal of approval;
3. condominium units approved by the insurer/guarantor;
4. manufactured housing intended for residential use by a single household and:

    a. Is a multi-sectional structure which has a single HUD certification and was fabricated after June 14, 1976, in an off-site manufacturing facility for installation or assembly at the building site;

    b. Must be a double-wide unit of one or more stories consisting of a minimum of 800 square feet (may not be a single-wide unit).

    c. Is not independently capable of movement and is installed permanently on an engineered foundation in conformance with the National Building Code published by the Building Officials and Code Administrators International, Inc. (BOCA) or the standards set by the American National Standards Institute, Inc.;

    d. Has brick, wood, aluminum, or cosmetically equivalent exterior siding and a pitched composition shingle or wood shake roof;

    e. (1) Is certified: (a) by the United States Department of Housing and Urban Development as a manufactured home in accordance with the National Manufactured Housing Construction and Safety Standards Act of 1974, as amended; or (b) by the Department as an industrialized building in accordance with Section 6-204 of Article 83B of the Annotated Code of Maryland; and (2) complies with all requirements set forth in COMAR 05.02.04;

    f. Is installed on real property the occupant owns in fee simple or under a freely transferable ground rent lease, and the legal title to the improvements runs with the real property;

    g. Meets all applicable zoning requirements as to number of dwelling units, lot size, and building set backs;

    h. Is reasonably expected to have an economic life equal to or greater than 30 years - the term of the loan cannot exceed the remaining economic life as verified by the appraiser.

E. Ineligible Residences

Housing types excluded from the Program are:

1. manufactured housing (mobile homes) that does not meet the requirements set forth under "Eligible Residences";
2. cooperatives;
3. rental homes or any home a portion of which is to be rented;
4. investment homes;
5. properties from which a trade or business is conducted in the principal structure or out buildings without the prior written SFH approval of the proposed business use. Refer to the Additional Buyer's Affidavit Relating to Business Use of Residence (Attachment N);
6. "Like Kind" exchange properties under Section 1031 of the Internal Revenue Code UNLESS PRE-APPROVED BY SFH (See Section 2.9H); or
7. properties purchased through the sale of contract rights.

Please note: residences with in-ground swimming pools may not be financed with an RHS-guaranteed loan.

See Ineligible Use of Loan Proceeds (Section 2.9) for further information.

F. Proposed Business Use of Residence

1. The Additional Buyer's Affidavit Relating to Business Use of Residence (Attachment N) must be submitted to and approved by SFH prior to the submission of the pre-closing compliance file.

2. For all business use, other than daycare services, the applicable percentage is the Percent of the Area (PA). For daycare services, the applicable percentage is the Use Percentage (UP). If the applicable percentage calculated under 4(c) or 4(d)(ii) in the Additional Buyer's Affidavit Relating to Business Use (Attachment N) exceeds 15%, the business use will not be approved.

3. In addition, if a deduction will be claimed for federal income tax purposes for the business use of the Residence and it will exceed 15%, the Business Use will not be approved.

4. The Additional Buyer's Affidavit Relating to Business Use of Residence (Attachment N) approved by SFH must be included in the pre-closing compliance file.

G. Maximum Lot Size

The maximum lot size under the Program is:

1. the greater of 1 acre or the jurisdictional minimum for ***urban and suburban areas***; or

2. the greater of 3 acres or the jurisdictional minimum for ***rural areas***.

Jurisdictional minimums must be confirmed by the local zoning office.

H. Housing Standards

1. All properties must meet or exceed the normal minimum property standards established by the applicable insurer/guarantor. This includes properties being sold at auction or institutional/ government foreclosure.

2. For new construction, the property must be certified 100 percent complete prior to settlement. When weather precludes the completion of exterior work, such as seeding/sodding, painting, grading and driveways, the Lender may establish an escrow account for completion of these items. Loans with open escrows for the completion of weather-related items will be purchased, with the Lender assuming the responsibility for assuring the work is completed after purchase. The applicable inspection report (the FHA or VA Compliance Inspection Report; the RHS Final Inspection Report; or the comparable inspection report for a conventional loan) is to be completed for the loans.

3. Repairs required as a predication to the value of the property as stated on the appraisal or mortgage insurance commitment or to eliminate any imminent fire, safety or health hazard noted in the home inspection should be certified as completed by the appraiser or designee of the Lender, as appropriate, prior to settlement of the loan. However, if repairs are not certified as completed prior to settlement, they must be certified as completed prior to the purchase of the loan.

4. Certifications (example: plumbing, electrical, roofing, etc.) required prior to closing must be completed by a professional licensed within the State of Maryland to perform the applicable inspection and certification.

I. Maximum Acquisition Cost

Acquisition cost for the purpose of this Program is defined in accordance with the Internal Revenue Code of 1986, as amended, and is to be reflected in the initial Buyer's Affidavit.

1. The total acquisition cost of the property must not exceed the limit established by SFH for the applicable jurisdiction. These limits may change from time to time in accordance with requirements of the Program and the federal government.

2. If, prior to loan closing, there is an increase in the total acquisition cost of the property and the new total exceeds the applicable limit, the property is no longer eligible and the loan cannot be purchased and should not be closed.

3. Exclusions from the acquisition cost calculation are:

   a. customary closing costs;

   b. prepaid expenses;

   c. points and origination fees not to exceed a total of two percent of the original principal amount of the mortgage loan; and

   d. any financed UFMIP, VA funding fee, RHS guarantee fee or one-time mortgage insurance premium.

4. The calculation for the acquisition cost must include:

a. the contract sales price less the cost of personal property (the cost of fixtures is not deducted) included in the price;

b. any capitalized ground rent, the amount of which is to be calculated using a ground rent factor of 200. The capitalized ground rent is determined by multiplying 200 times the monthly ground rent. (EXAMPLE: Yearly ground rent of $120 divided by 12 equals a $10 monthly ground rent. Monthly ground rent of $10 times 200 equals $2,000, which is the amount of the capitalized ground rent to be listed in the Buyer’s Affidavit.);

c. any additional costs to complete the dwelling not included in the sales contract, such as options, well and septic systems, other site development costs, any contemporaneous arrangement for other work or services in completing or adding to the dwelling, and/or the cost of replacing fixtures removed by the seller;

d. any other financial consideration between the buyer and the seller in connection with the property such as UDAG/CDBG grants, site completion, etc.; and

e. the appropriate value of a lot owned by the borrower for two years or less on which the dwelling is to be built;

(1) Value for Buyer’s Affidavit

When a dwelling is to be built on a lot owned by the borrower for two (2) years or less, the greater of the cost or current appraised fair market value of the lot must be included in the Buyer’s Affidavit for determining the acquisition cost;

(2) Financing Criteria

When a dwelling is to be built on a lot owned by the borrower for two years or less, either free and clear or by a mortgage having an initial term and any subsequent term not exceeding two years, it may be mortgaged through the Program up to an amount equal to the payoff of any lot loan and closing costs.

(3) Mortgageable Limit

The mortgaged value attributable to the lot may not exceed the lesser of its cost to the borrower or its current appraised value. The borrower, in either of these circumstances, must submit evidence of the cost of the land and the term(s) of any temporary financing; or

f. the appropriate value for a lot owned by the borrower for more than <u>two years</u>;

(1) Value for Buyer’s Affidavit

When a dwelling is to be built on a lot owned by the borrower for more than two years, a zero value must be reflected in the Buyer's Affidavit.

(2) Not Financeable

A lot owned by the borrower for more than two years may not be mortgaged through the Program and the home being built is eligible only if the lot is currently owned free and clear.

J. Maximum Appraised Value

The appraised value of the property may not exceed 125% of the current Maximum Acquisition Cost for the applicable jurisdiction

K. Required Documentation

1. Property Appraisal

a. A current, complete appraisal, with the originating Lender as the "client", is required properties. Photographs, maps, floor plans, and all other addenda must be provided in the submitted file.

b. If wood-destroying insect infestation is noted in the appraisal, a wood-destroying insect certificate is required. If treatment is recommended, it must be completed. If damage resulting from the infestation is structural, it must be repaired. Documentation must be included in the Post Closing Compliance and Purchase Submission.

c. If water supply is private and it is noted in the appraisal that the water is not potable, a well certificate indicating that the water is potable must be included in the Post Closing Compliance and Purchase Submission. A cistern is not an acceptable water supply system.

d. If the property has a septic system and it is noted in the appraisal that the system is malfunctioning, a septic certificate indicating the system is working satisfactorily must be included in the Post Closing Compliance and Purchase Submission.

2. Home Inspection

a. A home inspection report is required, unless the property is new construction (i.e. less than one year old and never occupies) or has undergone substantial rehabilitation (i.e. cost of rehabilitation is 50% or more of the sales price). The home inspector must be acceptable to the borrower. There must be no current or past relationship between the home inspector and the seller. The lender must submit a <u>LEGIBLE</u> copy of the home inspection in the Pre-Closing Compliance Submission (Attachment K) or the "Quick Close" Post-Closing Compliance and Purchase Submission (Attachment Q). Newly constructed or substantially rehabilitated houses are required to have a satisfactory inspection report.

b. Any items noted in the home inspection and determined by the lender to be an imminent fire, safety or health hazard must be addressed and certified as completed by the appraiser or designee of the lender prior to the settlement of the loan.

c. If wood-destroying insect infestation is noted in the home inspection, a certificate is required. If treatment is recommended, it must be completed. If damage resulting from the infestation is structural, it must be repaired.

d. If water supply is private and it is noted in the home inspection that the water is unpotable, a well certificate indicating that the water is potable is required.

e. If property has a septic system and it is noted in the home inspection that the system is malfunctioning, a septic certificate indicating that the system is working satisfactorily

2.8 ELIGIBLE MORTGAGE LOANS

A. Term

The mortgage term is 30 years.

B. Maximum Mortgage Amount

1. FHA-insured loan

The mortgage amount may not exceed the FHA Maximum Mortgage Amount for the applicable jurisdiction

Exception:

The UFMIP may be added to the mortgage amount calculated.

2. VA-guaranteed loan

The mortgage amount may not exceed the VA Limit for the applicable jurisdiction

Exception:
The VA funding fee may be financed as long as loan amount does not exceed VA Limit for the applicable county.

3. RHS-guaranteed loan

The mortgage amount may not exceed 100% of the appraised value of the property, subject to the modest housing limits for the applicable jurisdiction (closing costs may be financed if appraised value is higher than purchase price)

Exception:

The RHS guarantee fee can be added to the maximum mortgage amount calculated, up to 102% of the appraised value (100% plus guarantee fee)

4. MI-insured loan

Until further notice, loans insured by private mortgage insurance companies are no longer eligible for the Maryland Mortgage Program. This is the result of the mortgage insurance companies ceasing to have ratings acceptable to the rating agencies that rate the bonds that fund CDA's Maryland Mortgage Program.

C. Two percent (MMP + 2%) or three percent (MMP + 3%) Grants from Premium Bond Loans (the grants are 2% or 3% of the first mortgage amount and are not reserved)

1. Lender is responsible for ensuring that the grant is being applied consistently with the requirements of the mortgage insurer or guarantor for the grantee's loan.

   For an FHA-insured loan, the proceeds of a grant may **not** be used to fund any portion of the borrower's 3.5% Statutory Investment Requirement (refer to Chapter 1, Section 3: Settlement Requirements of the 4155.1 REV-5 Handbook for additional detail).

2. A borrower may receive closing cost assistance from ***either*** a DSELP loan (refer to Maryland Lenders Manual for the DSELP/Partner Match Programs for more detailed information) ***or*** a 2% or 3% closing cost assistance grant from a Premium Bond Loan, ***but not from both sources***.

3. The Borrowers must sign a Closing Assistance Grant Agreement. The original of the executed Closing Assistance Grant Agreement is to be included in the Post Closing Compliance and Purchase Submission (regular or Quick Close).

4. The grant is not repayable

VERY IMPORTANT: CDA will not reimburse a lender for funds advanced for the grant or the one-time upfront mortgage insurance premium if the accompanying loan is not eligible for purchase. In addition, the lender may not seek reimbursement from the borrower. In the case of a repurchase, the amount of the grant, the 1.75% one-time upfront mortgage insurance premium, if applicable, and any compensation paid to the lender at the time of purchase will be included in the repurchase amount.

D. Subordinate Liens

Second mortgages are permitted if they comply with the following requirements:

1. Terms must be acceptable to the mortgage insurer/guarantor and meet all requirements of the mortgage insurer/guarantor;

2. No shared lien or tacking /attaching secondary financing liens, conditions or riders to MMP Deed of Trust (DOT). It must be an entirely separate second lien recorded after the MMP DOT;

3. No deed covenants related to the secondary financing may be in the Deed incorporating the requirements of the secondary financing; and

4. Terms of repayment must be incorporated into the underwriting of the MMP loan.

E. Assumptions

1. Mortgage loans sold to CDA are assumable only if the purchaser:

   a. meets the applicable underwriting qualifications and assumption requirements of the insurer; and

   b. meets the MMP eligibility requirements including:

      1) buyer must expect to occupy the property as a principal residence within a reasonable time after the transfer is completed;

      2) none of the buyers may have had a "present ownership interest" in a principal residence during any part of the three year period ending on the date of transfer;

      3) the acquisition cost may not exceed the current Program limit for the jurisdiction;

      4) the eligibility income may not exceed the current applicable income limit; and

      5) the buyer must meet the minimum investment required by the insurer/guarantor, unless one of the original borrowers remains on the loan.

2 Buyer's and Seller's Affidavits must be completed.

3. Notice of Potential Recapture Tax must be signed and dated.

4. Appraisals are not required.

5. Assumptions must be submitted in accordance with instructions provided in the Loan Servicing Manual.

2.9 INELIGIBLE USE OF LOAN PROCEEDS FROM A TAX-EXEMPT MORTGAGE REVENUE BOND ISSUE

Except as authorized in writing by SFH, no portion of the proceeds of a mortgage loan may be used to:

A. enrich the borrower;

B. refinance, directly or indirectly, an existing mortgage loan or loans of the borrower on the residence other than:

   1. a qualified lot loan [see 2.7I, 4 e(2) & (3)]; and

   2. a construction loan or a bridge loan or other similar temporary initial financing.

C. pay any financing or settlement costs (except for any financed FHA UFMIP; VA funding fee; RHS guarantee fee/closing costs up to appraised value; or one-time mortgage insurance premium on conventional loans up to maximum LTV of 103%) or any other adjustments on an FHA-insured loan;

D. pay the cost of any items deducted from the sales contract price in computing the acquisition cost of the residence as identified in the Buyer's Affidavit;

E. finance a land installment contract;

F. finance a wrap around mortgage;

G. facilitate the selling of contract rights; or

H. finance a "like-kind" exchange of properties under Section 1031 of the Internal Revenue Code ("1031 exchange"), when an intermediary or other entity is executing the deed transferring the home to the buyer **UNLESS A DHCD LEGAL REVIEW IS PERFORMED <u>PRIOR TO THE SUBMISSION OF THE PRE-CLOSING COMPLIANCE SUBMISSION</u>.** In order to be approved, the Lender must submit a copy of the Intermediary/Exchange Agreement between the Seller and the Intermediary entity, along with a complete copy of the contract of sale and Seller's Affidavits completed by the Seller and the Intermediary, to SFH prior to the submission of <u>the Pre-Closing Compliance Submission (Attachment K</u>) or the "<u>Quick Close" Post-Closing Compliance and Purchase Submission (Attachment Q)</u>. The Confirming Seller's Affidavits completed by the Seller and the Intermediary must be included in the <u>Post-Closing Compliance and Purchase Submission (Attachment L)</u> or the "<u>Quick Close" Post-Closing Compliance and Purchase Submission (Attachment Q)</u>.

However, if the seller, who is holder of legal title to the home, executes the deed transferring the home to the buyer, a loan that involves a 1031 exchange may be purchased **<u>WITHOUT A LEGAL REVIEW</u>** <u>of the real estate exchange agreement and other documentation in connection with the 1031 exchange</u>.

2.10 *<u>COMPLIANCE CERTIFICATION</u>*

It is the Lender's responsibility to certify that each borrower and the property being purchased meet the eligibility requirements as stated in the MMP Lender's Manual.

A. The Lender must thoroughly investigate each area of eligibility and collect sufficient documentation to establish compliance with the requirements.

B. The Lender must sign the Income Eligibility Worksheet and Lender Certification (Attachment D), which contains a Lender Certification section, for each loan.

SECTION 3 - UNDERWRITING GUIDELINES

3.1 MORTGAGE INSURANCE/GUARANTY

All loans with an LTV ratio greater than 80.0 percent:

- Must be insured by the Federal Housing Administration (FHA); or guaranteed by the Veterans Administration (VA); or Rural Housing Services (RHS).
- Loans insured by private mortgage insurance companies are not eligible for the Maryland Mortgage Program

All loans with an LTV ratio of 80.0 percent or less:

- *must be underwritten to current Fannie Mae underwriting guidelines*
- If a loan without insurance/guaranty is supported by secondary financing, then such secondary financing must be acceptable to CDA. The secondary financing may include, for example, certain grants or loans from governmental or non-profit entities; any loans must be non-amortizing or amortized at an interest rate below the market rate.
- Maximum CLTV is 100%.

A. **Homeowners Protection Act**: Lenders shall provide the borrower with notices and disclosures required by the Homeowners Protection Act at the time of closing.

B. **Cancellation of Private Mortgage Insurance**: In addition to termination and cancellation rights available to the borrower under the Homeowners Protection Act, DHCD also permits a borrower to request cancellation of private mortgage insurance or insurance through the Maryland Housing Fund for loans made after January 1, 2005, provided that:

1. If the loan is between two and five years old -
    a. the loan balance is 75 percent or less of the current value of the home as established by a new appraisal acceptable to DHCD;
    b. none of the borrower's payments were 30 days or more past due within the 12-month period before the mortgage insurance will be cancelled; and
    c. none of the borrower's payments were 60 days or more past due during the 24-month period before the mortgage insurance will be cancelled.

2. If the loan is more than five years old -
    a. the loan balance is 80 percent (instead of 75 percent) or less of the current value of the home as established by a new appraisal acceptable to DHCD;
    b. none of the borrower's payments were 30 days or more past due within the 12-month period before the mortgage insurance will be cancelled; and
    c. none of the borrower's payments were 60 days or more past due during the 24-month period before the mortgage insurance will be cancelled.

If the borrower does not request private mortgage insurance cancellation, the servicer will automatically cancel private mortgage insurance on these loans when the LTV ratio is scheduled to reach 78 percent, based on the value of the home at loan origination, provided the loan is current at that time.

3.2 ***UNDERWRITING GUIDELINES***

A. Credit Scores

The minimum "representative" credit score for conventional CDA loans with LTV ratios of 80% or less and government (FHA, VA, and RHS) loans is 620.

The lender is required to obtain a "representative" credit score. The lender should obtain a minimum of two credit scores for every borrower. This enables the lender to select a single *applicable* score for underwriting each borrower – the lower score when two credit scores are obtained or the middle score when three credit scores are obtained. When there is only one borrower, the single *applicable* score used to underwrite that borrower is the "representative" credit score for the mortgage. For multiple borrowers with two scores, use the lowest score of all borrowers as the "representative" score for the mortgage. For multiple borrowers with three scores, take the middle score for each borrower and use the lowest of the middle scores as the "representative" score for the mortgage. A copy of the "credit scores" page from the credit report for each borrower must be included in the pre-closing or quick close submission for all (conventional and government) loans.

If the borrower does not have a credit score as evidenced by the credit score page of a credit report and the borrower's loan is a manually underwritten FHA-insured loan, the loan will be eligible if the borrower has acceptable non-traditional qualifying credit as determined by current FHA underwriting guidelines.

B. Maximum Total Debt-to-Income Ratio

The maximum total debt-to-income ratio allowed for all automated underwritten loans is 45%, regardless of findings. For all manually underwritten loans, CDA supports a benchmark total debt-to-income ratio of 36% but will allow this benchmark to be exceeded up to 45% with strong compensating factors as per VA or FHA guidelines. These compensating factors must be listed on the Underwriting Worksheet or Transmittal Form.

C. Eligibility Compliance and Insurer/Guarantor Underwriting Guidelines

The participating Lender, in addition to underwriting each loan for compliance to federal and state eligibility requirements, also will underwrite the loan in accordance with the applicable underwriting guidelines of the insurer/guarantor.

D. Home Buyer Education

Home buyer education is MANDATORY, and each MMP borrower must attend, whether or not they are first-time homebuyers. Borrowers are required to receive homebuyer education that meets at least the minimum FNMA, FHLMC, or FHA standards.

1. Homebuyer Education is required prior to loan closing
2. Certification can be no more than 12 months old at the time of closing.
3. Housing Counseling Lender Certification of Completion (Attachment C) to be included in the Pre-closing Compliance Submission (Attachment K) or the "Quick Close" Post-Closing Compliance and Purchase Submission (Attachment Q). All sections of this form must be completed, signed and dated by lender representative.

4. If third party provided the counseling, then a certificate from the third party must also be in the submission file.

E. If the borrower is also applying for a Downpayment and Settlement Expense Loan Program (DSELP) loan and/or a Partner Match Program loan (i.e., HK4E, HK4E/SK4E, BDIP and/or CPIP) on a property located in:

1. **Anne Arundel County** (does not include the City of Annapolis), the following requirements must be met:

   a Any HUD-certified counseling agency may provide the counseling;
   b The borrower is required to graduate from a Homebuyer Counseling Program that includes at least eight hours of education on credit, budget, savings, the settlement process and mortgage products; and
   c. If the borrower's credit score is 619 or below, the borrower must have participated in one or more individual counseling sessions (to include a review of the borrower's credit history) and completed the required counseling and obtained a certificate before the borrower enters into a contract of sale to purchase a home.

2. **Baltimore County**, the following requirements must be met:

   a. Counseling must be received from one of the following counseling agencies:
      - Diversified Housing Development;
      - Eastside Community Development Corporation, Inc.;
      - Harbel Housing Partnership Program; or
      - We are Family Community Development

   b. All workshop and individual counseling must be completed and counseling certificate received before the borrower enters into a contract of sale to purchase a home.

3. **Harford County**, the following requirements must be met:

   a. Homebuyer education may take the form of a face-to-face tutorial, classroom or workshop session conducted by a HUD-certified counseling agency or by a lender that uses the services of mortgage insurer with an established education/counseling program;

   b. Homebuyer education must be received prior to the DSELP loan closing **unless the credit score is 619 or below** and then it must be conducted before the borrower enters into a contract of sale to purchase a home.

Lenders must submit a copy of the Housing Counseling – Lender Certification of Completion (Attachment C) in the pre-closing compliance file and indicate whether the counseling was provided by the lender or a third party. If the counseling was provided by a third party, a certificate from the third party must also be provided.

Refer to the "Maryland Lenders Manual for the DSELP/Partner Match Program" for more detailed information.

SECTION 4 - COMPLIANCE REVIEW AND SUBMISSION

4.1 PRE-CLOSING COMPLIANCE REVIEW

A. Mandatory Review

With the exception of "Quick Close Loans" (see Section 5), SFH will perform a compliance ***and full credit underwriting review*** of all loans prior to closing.

B. Required Documents

1. The participating Lender shall submit to SFH a compliance file that contains all of the documents required for the pre-closing compliance review ***plus a complete credit package***. The Pre-Closing Compliance Review Checklist (Attachment K) lists all the standard documents to be submitted in the file. By using the Checklist, together with the information provided in this Manual, to review the pre-closing compliance file before submission to SFH, the Lender should be able to deliver an eligible and complete file.
2. FHA Submissions: Provide FHA Loan Underwriting and Transmittal Summary (HUD form 92900-LT) signed and dated by the underwriter; or "ZHFA" completed in "CHUMS ID #" block and copies of automated underwriting worksheets. Loan amount with UFMIP may not exceed reservation amount.
3. VA Submissions: Provide VA Loan Analysis Worksheet signed and dated by the VA Underwriter. Loan amount with VA Funding Fee may not exceed reservation amount.
4. RHS Submissions: Provide Fannie Mae Form 1008 and RHS Conditional Commitment for Single Family Housing Loan Guarantee (Form RD-1980-18). Loan amount with Guarantee Fee and closing costs (if applicable) may not exceed the reservation amount.
5. Buyer's Affidavit for Tax-Exempt Bond Loans Only **OR** Buyer's Affidavit for Veteran's Loans Only.
    a. All sections to be completed and must be accurate
    b. All household members are to be listed
    c. If household member receives child support, then the amount should be listed; if a household member does not receive child support, place a "0" in the blank.
    d. Provide full three years of residency (prior to date of application) for each borrower and non-borrowing occupant who will be holding title to the property.
    e. If previous ownership is noted, the borrower(s) may still be MMP eligible and long as property is located in a targeted area. If the property is located in a non-targeted area and one of the borrowers is a veteran and provides a copy of the DD-214, then this scenario will be considered a first homebuyer transaction.
    f. Affidavit must be signed and dated by all borrowers. A power of attorney is not acceptable unless the borrower is physically incapable of signing and POA has been submitted for approval by CDA.

g. If non-borrowing occupant will be holding title to the property, he or she must sign and date the Buyer's Affidavit.

6. Certification of Pregnancy (Attachment T) must be completed and executed by the the pregnant borrower's physician if the borrower is expecting a child.

7. Additional Buyer's Affidavit Relating to Business Use (Attachment N) must be approved by CDA prior to closing and signed by all borrowers.

8. Separation Affidavit (Attachment A) must be included if borrower's marital status is listed as "separated" and must be signed by the borrower.

9. Notice to Homebuyers must be signed by all borrowers

10. Seller's Affidavit must be completed, signed and dated by all Sellers. A Power of Attorney will not be acceptable unless the seller is physically or mentally incapacitated and unable to sign. Substantiation of this incapacity must be provided along with a copy of the POA and approval by CDA of the POA must occur prior to submission.

11. Fully executed Contract of Sale. See MMP Lender's Manual for acceptable conveyance under MMP

12. Appraisal or Certificate of Reasonable Value (CRV) for VA loans. A complete copy if required including photos, maps and floor plan

13. Home Inspection

14. Housing Counseling – Lender Certification of Completion (Attachment C)

C. File Assembly

The pre-closing compliance file must be submitted in a legal size file folder and contain all the required documents in the order listed on the Checklist, from top to bottom.

The documents for the MMP loan are to be two-hole punched at the top of the documents and securely fastened by a metal prong fastener to the right side of the file folder. The names of the borrowers and the MMP Reservation Number are to be clearly written or typed on the index tab of the folder.

In addition, the words "Pre-Closing Compliance" are to be written in large letters on the outside, front of the file folder.

D. File Submission

The pre-closing compliance file is to be submitted to SFH at the following address:

CDA/Single Family Housing
Pre-Closing Compliance
100 Community Place, 4th Floor, Room 4.300
Crownsville MD 21032-2023

E. Compliance File Review

Loans will be reviewed on a "first-submitted, first-reviewed" basis. SFH will notify the Lender via LOL of any deficiencies in the pre-closing compliance file. It is the Lender's responsibility to respond promptly to such notification.

F. Approval

If the pre-closing compliance file is complete and meets all of the eligibility criteria for MMP compliance, SFH will approve the pre-closing compliance file and the approval will be listed on Lender On-Line as "UW/Compl Review/APPROVED on [*the date of approval*]". The "UW/Compl Review/Approved" status in Lender On-Line indicates that a pre-closing compliance review of the loan has been performed, and the loan is in compliance as of the time of the pre-closing compliance review. It is recommended that the Lender print the LOL Loan Status page for their records.

IMPORTANT**: BORROWERS MUST MEET THE ELIGIBILITY REQUIREMENTS NOT ONLY AT THE TIME OF THE PRE-CLOSING COMPLIANCE REVIEW BUT ALSO AT THE TIME OF THE LOAN CLOSING.**

Events that may occur after the pre-closing compliance review which would make the loan ineligible for purchase by SFH include, but are not limited to: an increase in household income, an increase in the acquisition cost of the property, failure to sell other real property before closing the MMP loan, and failure to obtain the necessary documents at loan closing. The borrower(s) and seller (s) must sign a Confirming Affidavit at closing either to affirm that the representations contained in the initial Affidavit are true and correct as of the date of the closing or to reflect any changes occurring subsequent to the initial Affidavit.

G. Denial

If the pre-closing file does not meet the eligibility criteria for MMP, the Lender will receive a denial letter by fax and by mail. This letter will indicate the reason(s) for ineligibility. After a denial letter is issued, the borrower/Lender must request eligibility reconsideration within 30 days or the funds will be canceled. However, the original Reservation Expiration Date is still in effect.

H. Eligibility Reconsideration

Should the Lender or SFH determine that a borrower is not eligible for the Program, the borrower should be informed of their right to request a reconsideration of the denial.

1. Each reconsideration request must be made in writing by the borrower, be submitted through the Lender within 30 days of the denial notice, and contain the following information:

    a. a cover letter from the Lender requesting consideration of the borrower's request;
    b. a copy of the letter from the Lender rejecting the borrower's application;
    c. the borrower's signed reconsideration request;
    d. a copy of the loan application;
    e. documentation describing the basis for the request;

f. a copy of all the information and documentation submitted by the borrower supporting the basis of the reconsideration request; and

g. a copy of the Income Eligibility Worksheet and income documentation when income is the issue.

2. All reconsideration requests are to be mailed to:

CDA/Single Family Housing
MMP Reconsideration Committee
100 Community Place, 4th Floor, Room 4.300
Crownsville, Maryland 21032-2023

3. The Reconsideration Committee will review each reconsideration request and will notify the Lender and the borrower of the final decision. Any questions concerning a reconsideration request should be directed to SFH at (410) 514-7530.

4. The financing of any mortgage loan as a result of a successful reconsideration is subject to the availability of Program funds at the time of approval.

4.2 POST CLOSING COMPLIANCE AND PURCHASE REVIEW

SFH purchases mortgage loans from the Lender in accordance with the terms of the Lender's signed Mortgage Purchase Agreement and Participation Agreements A. Loan Submission
, as amended.

1. Submission Timeframe

Loans are to be submitted to SFH for purchase prior to the Commitment Expiration Date. Loans will be reviewed by a SFH purchase reviewer for purchase on a "first-submitted, first-reviewed" basis.

2. Required Documents

The Lender shall submit to SFH loan files that contain all of the documents required for purchase. The Post-Closing Compliance and Purchase Review Checklist (Attachment L) lists all the standard documents to be submitted in the purchase file. In addition, the checklist gives information on the items being reviewed on each document. More detailed information is also given below. By using the Checklist and the information provided in this Manual, to review the loan file before submitting it to SFH for purchase, the Lender should be able to deliver an eligible and complete file.

3. Purchase File Assembly

The purchase file is to contain all required documents in the order listed on the Post-Closing Compliance and Purchase Review Checklist (Attachment L), from top to bottom, and attached by an "ACCO"- type fastener to the right side of a legal size file folder. Documents not listed on the Checklist should be itemized under "other" and placed last in the folder. Please do not submit extra items unless you are sure they will be needed because of the unusual nature of the particular loan. Purchase files submitted with an incorrect form of checklist and substantially incomplete or out of order will be returned to the Lender, at the lender's expense, for correction before the loan will be reviewed.

The names of the borrowers and the MMP Reservation Number are to be clearly written or typed on the index tab of the folder, and the words "Post Closing/Purchase" written in large letters on the outside front of the file folder.

4. Additional Purchase Submission Information

a. Deed of Trust Note and Note Endorsement

The original Note must be submitted in the Purchase File. Notes sent under separate cover are at the sole risk and responsibility of the Lender. SFH does not honor and will not acknowledge any form of bailee letter or warehouse agreement.

Place endorsement on back of Original Deed of Trust Note. Do not attach a separate page. It should read as follows:

"Pay to the order of the Maryland Community Development Administration (CDA) without recourse".

An authorized officer must sign the endorsement.

b. Deed of Trust

(1) If lender is a MERS member:

(a) A MERS as Original Mortgagee (MOM) Security Instrument is required and all assignments are eliminated; the loan's MOM security instrument names MERS as the original mortgagee;

(b) The Mortgagee Identification Number (MIN) is required on the top right portion of the Security Instrument prior to closing the loan. PLEASE, do not place the MIN number within the recording margin of the document; and

(c) Lenders are to print out a "MIN Information Sheet" and include it in the Post-Closing Compliance and Purchase Submission

PLEASE NOTE: It is mandatory for lenders who are MERS members to use MERS.

If lender is not a MERS member and would like to become a member, information about MERS can be obtained from their website (www.mersinc.org) or by contacting a MERS regional director at 800-
646- MERS (6377).

(2) Name and Maryland license number of the lender and mortgage originator

required. When recorded, deed of trust shall contain:

(a) The name and Maryland mortgage originator license number of the mortgage originator that originated the loan secured by the deed of trust; **<u>or</u>**

(b) An affidavit by the person that originated the mortgage loan secured by the deed of trust that the individual who originated the loan is exempt from the licensing requirement under <u>Title11, Subtitle 6 of the Financial Institutions Article</u>; **<u>and</u>**

(c) The name and Maryland license number of the mortgage lender that made the loan secured by the deed of trust; **<u>or</u>**

(d) An affidavit by the lender that made the mortgage loan secured by the deed of trust that the lender is exempt from the licensing requirement under <u>Title 11, Subtitle 5 of the Financial Institutions Article</u>.

c. SFH Documents

(1) The mortgage loans must be executed on forms approved by SFH.

(2) Sample closing documents provided by SFH must be photocopied and may not be altered, laser printed or typeset by the Lender or any other party, unless specifically permitted by SFH, and include:

(a) CDA Tax-Exempt Financing Rider;

(b) CDA’s Seller’s Confirming Affidavit;

(c) CDA’s Buyer’s Confirming Affidavit;

(d) CDA’s Notice to Borrower with Information for Calculating Potential Recapture Tax

(3) Lenders must use the applicable Notes, Deeds of Trust, and Condominium Riders.

(4) Closing Assistance Grant Agreement, if applicable. This Agreement is used with the MMP + 2% and MMP + 3% grants.

d. Manner in which title will be held

TENANTS IN COMMON IS <u>NOT</u> A PERMITTED FORM OF OWNERSHIP

All property shall be conveyed by one of the following methods:

(1) Single person—SOLE OWNER (can be listed just as borrower’s name—does not have to say “sole owner.”)

(2) Husband and wife—TENANTS BY THE ENTIRETY. This form of ownership can be stated in one of the following ways (names are for example purposes only!):

(a) John Doe and Mary Doe, his wife

(b) John Doe and Mary Doe, husband and wife

(c) John Doe and Mary Doe, tenants by the entirety

(d) John Doe and Mary Doe, married

(3) Unmarried persons or three or more persons—must state JOINT TENANTS.

NOTE: There shall be no change in the type of ownership (includes, but is not limited to, deletion/addition of a name) throughout the life of the mortgage without a written pre-approval by CDA. Refer to Section 2 – Compliance Requirements, item 2.1 D regarding requirements when non-borrowing occupant takes title to the property.

e. Title insurance binder/policy (CDA will accept either the ALTA Short Form Residential Loan Policy revised 10/21/00 or the ALTA 06 Residential Loan Policy <u>effective June 17, 2007</u>)

(1) If leasehold, annual amount of ground lease and terms of payment must be included.

(2) Refer to Post Closing Compliance and Purchase Checklist (Attachment L) for more detail regarding the title insurance requirements.

(3) If the title insurance policy is not available, a title binder is acceptable at the time of purchase by SFH.

(4) Insured parties must appear as "(Lender), and/or their successors and assigns, as their interests may appear".

(5) The binder/policy must insure the mortgage as a first purchase money lien as of the date of the recorded Deed of Trust.

(6) **ONLY APPLIES IF ALTA 06 RESIDENTIAL LOAN POLICY USED**

THE FOLLOWING TYPES OF <u>EXCEPTIONS MUST BE DELETED</u> FROM THE <u>FINAL</u> TITLE POLICY.

NOTE: Wording of these exceptions may differ slightly on each insurer's binder.

(a.) Defects, liens, encumbrances, adverse claims or other matters, if any, created, first appearing in the public records or attaching subsequent to the effective date hereof but prior to the date the proposed insured acquires for value of record the estate or interest or mortgage thereon covered by this Commitment.

(b.) Discrepancies or conflicts in boundary lines, unrecorded easements, encroachments or area content that a complete and accurate current survey would disclose.

NOTE: All survey exceptions must be deleted or affirmative coverage acceptable to SFH issued by the insurer.

(c.) Rights or claims of parties in possession not shown by the public records.

(d.) Any liens, or right to a lien, for services, labor or material heretofore or hereafter furnished, imposed by law and not shown by the public records.

(e.) Easements, or claims of easements, not shown by the public records.

(7) **ONLY APPLIES IF ALTA 06 RESIDENTIAL LOAN POLICY USED**

All binders/policies must include a forfeiture and reversion clause if any exceptions, OTHER THAN UTILITY EASEMENTS/ AGREEMENTS, will appear on the title policy. A typical clause states:

"It is hereby insured that any past, present or future breach or violation of any of the above exceptions, conditions or restrictions will not work a forfeiture or reversion of title."

(8) **ONLY APPLIES IF ALTA 06 RESIDENTIAL LOAN POLICY USED**

If any of the improvements result in encroachments, binder/policy must state that insured Lender will not suffer loss or monetary damage as a result of enforced removal.

(9) **ONLY APPLIES IF ALTA 06 RESIDENTIAL LOAN POLICY USED**

All survey exceptions must be deleted or affirmative coverage acceptable to SFH issued by the insurer.

f. Mortgage insurance/guarantee

For **<u>all insured or guaranteed loans</u>**, a screen print(s) from the mortgage insurer's/guarantor's website indicating that the insurance/guarantee status is active and that the required premiums have been paid (payment history) must be provided in the Post-Closing Compliance and Purchase Submission (regular or Quick Close). This may require two screen prints.

g. Hazard/Fire and Extended/Homeowners Insurance

(1) The value placed on improvements by the insurer will be acceptable for hazard insurance coverage.

<u>Hazard insurance on a condominium unit</u>: If no master policy exists, an individual policy on a condominium unit meeting the above requirements is acceptable. However, if the condominium is insured by a master policy, the master policy shall provide for the total replacement of the condominium unit and at a minimum, shall afford protection against the following:

(a) loss or damage by fire and other perils normally covered by the standard extended coverage endorsement;

(b) in the event the condominium contains a steam boiler, loss or damage resulting from steam boiler equipment accidents in an amount not less than $50,000 per accident per location (or such greater amount as deemed prudent based on the nature of the property); and

(c) all other perils which are customarily covered with respect to condominiums similar in construction, location and use, including all perils normally covered by the standard "all risk" endorsement, where such is available.

In addition, such policies must include an "Agreed Amount Endorsement" and, if available, an "Inflation Guard Endorsement".

IMPORTANT: The master policy certificate (or some other form of documentation <u>from the insurance agent</u> included along with the master policy certificate) submitted in the purchase package must make clear that the above protection is provided.

(2) show a standard mortgagee clause reading:

"(Lender), and MD CDA and/or their successors and assigns, as their interests may appear". The mailing address should be the Lender's address.

(3) be issued by an insurance provider which meets the following requirements:

All insurance providers must be listed in the latest Alfred M. Best Company guide and rated not less than: "Class 6" (size) - "B+" (policy holder's rating). Additionally, all insurance companies must be chartered in the United States, have received permission to conduct business in Maryland, and be in good standing with Maryland's Department of Licensing and Regulation. Providers who do not meet these requirements are not eligible insurance providers under the Program. Lenders are responsible for assuring the eligibility of hazard insurance providers for all loans that they originate.

(4) **A paid receipt for the first year's premium, on the insurance company's letterhead, is required for all loans,** regardless of the fact

that the premium was paid outside of closing (a "POC" item) or it was paid at the closing.

(5) Declaration page is required.

g. Flood Insurance

(1) Certification must be obtained with life of loan coverage**.**

(2) If flood insurance is required, it must be at least equal to the amount of the hazard insurance. See section - Hazard / Fire and Extended / Homeowners Insurance

(3) **A paid receipt for the first year's premium, on the insurance company's letterhead, is required for all loans,** regardless of the fact that the premium was paid outside of closing (a "POC" item) or it was paid at the closing.

(4) If flood insurance necessary, declaration page required.

h. Termite (Wood Destroying Insects) Certificate

Required if there is an indication on the appraisal or the home inspection that there is an infestation of wood-destroying insects in the home. If the infestation caused structural damage, it must be repaired.

i. Well Certification

Required if there is an indication on the appraisal or the home inspection that the water is not potable.

j. Septic Certification

Required if there is an indication on the appraisal or the home inspection that there is a problem with the septic system.

B. Purchase File Review

1. If the purchase file contains all necessary documents in complete and accurate form, meets all eligibility criteria, and has been submitted in accordance with loan deadlines, the loan will be approved and then purchased on the next regular purchase date.

2. **If there are missing or incomplete documents, the Lender will be able to access LOL for the deficiencies. Refer to Section 1.3 for the reservation expiration deadlines and recommended submission timeframes**.

C. Purchase Amount

For eligible loans submitted in accordance with loan deadlines, SFH will purchase the loans in an amount equal to the outstanding principal amount of each mortgage loan together with interest accrued from the first of the month to the loan purchase date less: (1) any service fee credit and

(2) the CDA fee per the Fee Schedule; plus: (1) applicable fees paid to Lender at time of purchase; (2) the 2% or 3% closing cost assistance grant funds and (3) the 1.75% one-time, upfront mortgage insurance premium (LPMI).

D. Purchase Advice Report

CDA no longer runs the weekly purchase advice report. You are able to access the Purchase Advice Report in LOL by clicking on the "Reports" tab. This will bring up *Available Reports*. Under *Available Reports*, click on *Purchase Advice*. Under *Lenders/Branches* and *Bond Series*, you should select "All". Under *Purchase Period*, enter the purchase date in both fields (loans are purchased on Wednesdays). Under *Report Options*, select "Show 2nd Line of Detail" and then click on *Run Report* and print the Purchase Advice Report.

E. Fee Schedule

	Total Fee to Lender (Origination Fee/Service Release Fee at Time of Purchase)			
	EXISTING			
	Within 90 days [1]	Within 105 days	Within 120 days	Within 150 days
	NEW CONSTRUCTION			
	Within 150 days [1]	Within 165 days	Within 180 days	Within 210 days
THREE [2]	2.00% (-1.00%/0%)	1.50% (-1.25%/-.25%)	1.25% (-1.25%/-.50%)	1.00% (-1.25%/-.75%)
TWO [2]	2.00% (0%/0%)	1.50% (-.25%/-.25%)	1.25% (-.25%/-.50%)	1.00% (-.25%/-.75%)
ONE	2.00% (0%/1.00%)	1.50% (0%/.50%)	1.25% (0%/.25%)	1.00% (0%/0%)
ZERO	2.00% (1.00%/1.00%)	1.50% (1.00%/.50%)	1.25% (1.00%/.25%)	1.00% (1.00%/0%)
ZERO + 2% Grant [3]	4.00% (3.00%/1.00%)	3.50% (3.00%/.50%)	3.25% (3.00%/.25%)	3.00% (3.00%/0%)
ZERO + 3% Grant [4]	5.00% (4.00%/1.00%)	4.50% 4.00%/.50%)	4.25% 4.00%/.25%)	4.00% 4.00%/0%)

1 Maximum fee (not including the reimbursement to the Lender for the 2% or the 3% closing cost assistance grant products) to Lender is 2.00%

2 Negative fee to lender represents *CDA fee*

3 "Total Fee to Lender" includes the reimbursement to the Lender for the 2% closing cost assistance grant

4 "Total Fee to Lender" includes the reimbursement to the Lender for the 3% closing cost assistance grant

Please note: ***If a loan on an existing home is not approved for purchase by the 150th day or by the 210th day for new construction, the loan may not be purchased and funds may be cancelled***.

4.3 *FINAL DOCUMENTS*

A. Document Submission

If the original recorded Deed of Trust, Title Policy, or FHA Mortgage Insurance Certification (MIC), VA Loan Guaranty Certificate (LGC) or RHS Loan Note Guarantee are not available at the time the loan is purchased, they must be submitted to SFH within 180 days after the loan purchase date. **Final documents for a loan are not to be submitted to SFH until after the lender receives a Purchase Advice indicating that the loan has been purchased**. All final documents **MUST** be submitted in the initial final document submission – final documents will not be accepted piecemeal. If the initial final document submission does not include all the final

documents, it will be returned to the lender, ***at the Lender's expense***. When submitting final documents after purchase, you must secure them by a binder clip or similar type of fastener (do not staple or punch holes in documents) to a Final Document Checklist (Attachment M) and fill in all the information on this form. Submit the documents, by a secure method, with the Final Document Checklist on top to:

CDA/Single Family Housing
Final Documents
100 Community Place, 4th Floor, Room 4.300
Crownsville, Maryland 21032-2023

B. Final Documents Pipeline Report

You will be able to access your final documents pipeline on LOL. This report lists all loans with outstanding final documents. Loans for which final documents have not been received within 180 days (six months) after the purchase are subject to immediate repurchase by the Lender.

You are able to access the Conditions/Exceptions Report for Final Documents in LOL by clicking on the “Reports” tab. This will bring up *Available Reports*. Under *Available Reports*, click on *Conditions/Exceptions.* Under *Lenders/Branches*, *Officers* and *Programs*, you should select “All”. Under *Last Stages,* select “Final Docs”. Under *Sort Criteria,* select how you want the report sorted and then click on *Run Report* and print the Conditions/Exceptions Report.

4.4 REPURCHASE

If SFH determines that the Lender has not complied with the terms and conditions of the Mortgage Purchase Agreement, Participation Agreement, Mortgage Lender’s Manual, Program Directives, or other Program documents or requirements, the Lender shall repurchase the loan in accordance with the Mortgage Purchase Agreement, as amended.

Please note: In the case of a repurchase of an MMP+2% or MMP+3% loan, the amount of the grant and any compensation paid to the lender at the time of purchase will be included in the repurchase amount.

SECTION 5 – QUICK CLOSE

5.1 QUICK CLOSE LENDER

A. This section of the manual is reserved for lenders who are approved by CDA to participate as Quick Close Lenders.

B. A CDA approved lender may be authorized to underwrite loans for compliance to federal, State and Program requirements and close MMP loans under CDA Quick Close Lender procedures, without a pre-closing compliance review by CDA. The Quick Close Lender procedures enable Originating Lenders to eliminate the time involved in: preparing a pre-closing compliance submission; shipping the file to CDA; CDA reviewing the pre-closing compliance submission; and submitting the documentation to remove conditions. To be approved to participate as a Quick Close Lender, the lender must meet the following qualifications.

C. Originating Lender must have a proven performance record in all aspects of the origination process. This includes, but is not limited to, underwriting, pre-closing compliance, closing, post-closing and final documents.

D. CDA Origination Experience.

    1. Participation in the pilot program will be offered to lenders who satisfactorily closed a minimum of 100 loans within the last year.
    2. CDA may also offer participation in the pilot program to lenders who satisfactorily close loans in certain underserved geographic areas of the State of Maryland.

E. The Originating Lender must designate staff that will act in the Quick Close capacity. The Originating Lender will certify that the Quick Close staff meets the requirements stated on Attachment A to the Originating Agreement.

F. Quick Close Lender Compliance Underwriters. Quick Close underwriters must have three years underwriting experience and possess FHA Direct Endorsement Authority unless otherwise approved by CDA. Designated Quick Close Lender staff that will be underwriting loans for loan approval and executing Approval Notices must be adequately trained on the Quick Close Compliance Review process.

G. Information to Staff/Key Contact. The Quick Close Lender's primary contact will be responsible for informing all staff of CDA procedural changes and requirements. This contact will also designate key contacts for receipt of correspondence and will notify CDA of changes in the staff contacts.

5.2 APPROVAL PROCESS

A. Approval Notification. CDA will issue a "Notice of Approval" to notify the Originating Lender in writing of their approval to participate as a Quick Close Lender. The Lender will then be required to execute "Exhibit A" of the Notice of Approval designating a primary staff contact and the staff that attended the Quick Close Lender training conducted by CDA.

B. Probationary Period. All newly approved Quick Close Lenders will participate in a probationary status for an initial six-month period for an evaluation of their overall performance.

C. Approved Status.

1. CDA has total discretion in approving or suspending any lender from participating in the Quick Close.
2. Unacceptable performance will result in the lender being placed on a probationary status and/or removal from participation in the Quick Close .

5.3 PROCEDURES

Once approved to participate as a "Quick Close" lender, all loans except Lifeline and Homesaver Refinance Mortgage Program loans may be approved and closed through the Quick Close Lender process. The Originating Lender will review loans, issue CDA loan commitments, and approve loans for closing.

Loan Application Process/Taking Loan Application. The Quick Close Lender will be responsible:

A. Notify applicant of homeownership education requirements.
B. Take loan application.
C. Assess qualifications.
D. Determine that the borrower's eligibility income does not exceed the Income Limit and the purchase price of the property does not exceed the Maximum Purchase Price to see if the borrower is eligible for the program; refer to the Income Limits and Maximum Purchase Prices at **http://www.mmprogram.org/income.aspx.**
E. Request 3 years SIGNED federal income tax returns (if property is located in a non-targeted area) unless credit report and verification of rent reflecting a 3-year history provided (this requirement is waived for a borrower or non-borrowing occupant who is a veteran and provides the lender with a copy of their DD-214 – this exemption may only be used once).
F. Review Contract of Sale.
G. Explain loan programs and CDA documents.
H. Complete appropriate forms/CDA documents.
I. Reserve funds in Lender On-Line, our web-based reservation system.
J. The minimum "representative" credit score is 580 for a government loan and 620 for a conventional loan with an LTV ratio of 80% or less.
K. Perform compliance review, ensuring that all the compliance items on the "Quick Close" Post-Closing Compliance and Purchase Submission Checklist (Attachment Q) are satisfactorily completed and are in the loan file. ***This package must contain a complete credit package. SFH staff will re-underwrite all loans***.
L. Approve the loan for closing.
M. Submit the "Quick Close" Post-Closing Compliance and Purchase package ensuring that all the items on the checklist (Attachment Q) are submitted.
N. Submit Post Closing Final Document package (Attachment M) to SFH after receiving a purchase advice from SFH indicating that the loan has been purchased.
O. Submit Loan Servicing File to Bogman (Attachment P).

5.4 DSELP Procedures

A. CDA will provide a form DSELP commitment letter and closing instructions to the Quick Close Lender.

B. For more detailed information about DSELP and the Partner Match Program, please reference the "Maryland Lender's Manual for the DSELP/Partner Match Program"

5.5 RESPONSIBILITY OF THE LENDER

It remains the responsibility of the Quick Close Lender to ensure compliance with all requirements, including matters that will not receive pre-closing compliance review by CDA. Moreover, the Maryland Department of Housing and Community Development will not be reviewing compliance with DSELP requirements prior to the Quick Close Lender's funding of the DSELP loan, and the Maryland Department of Housing and Community Development will not be able to reimburse the Lender for a non-complying DSELP loan, or may require a Lender to refund any DSELP reimbursement made by the Maryland Department of Housing and Community Development.

SECTION 6 – LIFELINE REFINANCE MORTGAGE PROGRAM

6.1 **<u>Purpose</u>:** The Community Development Administration (CDA) offers a product called the Lifeline Refinance Mortgage Program. <u>The minimum "representative" credit score for this program is 600 and the mortgage being refinanced may not be delinquent</u>. The Lifeline Refinance Mortgage Program allows CDA to refinance "qualified subprime loans" with tax-exempt mortgage revenue bonds. A "qualified subprime loan" is defined as an adjustable rate single family mortgage loan made after December 31, 2001 and before January 1, 2008 that CDA determines would be reasonably likely to cause financial hardship to the borrower if not refinanced. One of the following criteria must exist for consideration of a financial hardship for refinancing eligibility:

- Borrower's housing expense to income ratio based on the current payment or next anticipated rate adjustment will be greater than 31% of current income; or
- Borrower's housing expense to income ratio based on the lifetime capped interest rate (fully indexed) will be greater than 35% of current income; or
- The lifetime capped interest rate exceeds the rate offered by CDA by more than 2%; or
- An involuntary reduction of household income of at least 5% or increase in expenditures related to the death of the borrower or co-borrower, permanent disability or serious illness or injury.

6.2 **<u>Implementation</u>**: Loans will be funded from proceeds from tax-exempt mortgage revenue bonds. Therefore, Recapture Tax Instructions for Refinancing Subprime Mortgage Loans (10/17/08) must be attached to the Recapture Tax Notice (03/20/09), a Tax-Exempt Financing Rider (11/27/06) must be recorded behind the Deed of Trust, a revised Borrower's Affidavit to Refinance A Subprime Loan (10/17/08) must be completed and executed for each loan and a Notice to Borrowers must be signed and dated by the borrowers. In addition, lenders who want to originate loans under this program will be required to execute a revised Addendum to the Mortgage Purchase Agreement (Refinance Subprime Loans).

6.3 **<u>Eligibility</u>**:

A. All mortgage loans that are liens against the property must be refinanced.

B. Copy of Note and Deed of Trust fro existing mortgage must be provided in Pre-Closing Compliance Submission (Attachment K) to determine eligibility for refinancing.

C. The property must be the borrower's primary residence.

D. The maximum LTV cannot exceed 100% or 103% if the upfront mortgage insurance premium is financed in the mortgage; the Maximum CLTV cannot exceed 110% with all second mortgages, including forgiveable grants.

E. Income limits - same as current MMP Income Limits; refer to Home Owners Preserving Equity (HOPE) or <u>mdhousing.org</u> link to the Lifeline Refinance Mortgage Program website for Income Limits

F. Maximum Appraised Values – same as current MMP Maximum Purchase Prices; refer to www.mdhope.org website or www.mmprogram.org link to the Lifeline Refinance Mortgage Program website for Maximum Appraised Value

G. Prohibited Ownership Interests in Certain Property

1. State regulation requires that, at the time of closing on the Program loan, borrowers may not have any ownership interests in certain types of property.

2. Property prohibited from ownership at the time of loan closing includes:

   a. any mobile home;
   b. raw land;
   c. a building lot (except for the lot on which the house being financed has been built);
   d. any residence <u>other than principal residence</u>;
   e. a vacation home;
   f. a rental property;
   g. an inherited property;
   h. commercial property;
   i. any jointly held property;
   j. a cooperative; and
   k. any other real property.

3. Property which may be owned at the time of loan closing includes: 1) a cemetery plot; 2) a recreational vehicle lot; or 3) a 1/20th (2.6 weeks) or less interest in a time sharing unit.

4. In order to be eligible for a mortgage loan under the Program, any borrower who has an ownership interest in any type of property listed in paragraph A must either:

   a. provide a contract of sale for the property at the time of application and submit documentation, i.e., settlement sheet, title for mobile home, verifying the sale of the property prior to closing of the Program loan; or

   b. provide a copy of a deed showing that the borrower has divested ownership in the property.

H. Asset Test must be performed

1. The Asset Test Worksheet (Attachment F) is only completed for borrowers whose assets [including liquid assets and equity (the difference between the appraised value and the loan amount)] equal or exceed 20% of the appraised value of the property. Borrowers with assets equal to 20% or more of the appraised value may not be eligible for the Program if they can afford a mortgage at the applicable asset test interest rate (call 410-514-7530 and ask any underwriter or processor to provide you with the asset test interest rate for the applicable reservation date and point program). The Lender will verify **<u>all</u>** assets (see below) for each borrower by obtaining written VOD's or alternative documentation (one month's most recent bank statement for each account as of the date of **<u>reservation</u>**) and list them on the Fannie Mae Form 1003/Freddie Mac Form 65 Loan Application.

2. When calculating a borrower's assets, all assets are to be considered, including, but not limited, to the following:

   a. items paid outside of closing (examples include but are not limited to: appraisal, credit report, home inspection);
   b. savings accounts;
   c. checking accounts;
   d. certificates of deposit;
   e. the total balance of any joint accounts;

f. money market or mutual fund accounts;
g. in trust for accounts (amount accessible);
h. Chapter S corporate bank accounts (borrower owner of the Chapter S corporation)
i. any other bank accounts;
j. any stocks or bonds;
k. funds from gift letters;
l. any funds derived or to be derived from the sale of real property, any mobile home or other property prior to loan closing. Documentation showing net proceeds from any such sale is required;
m. amount used or borrowed from a life insurance policy, IRA or 401K (less penalty); and
n. equity (difference between the appraised value and the loan amount) [if it is necessary to complete the Asset Test Worksheet (Attachment F), the appraised value is listed on line 1 of the Asset Test Worksheet]

3. Exclusions

a. The cash surrender value of a life insurance policy, the value of an IRA account or the value of a 401k account may be excluded from the liquid assets as well as from the Income Eligibility Worksheet unless the borrower intends to use or borrow against a portion of his policy or account for settlement expenses. In this instance, only the amount being u sed or borrowed, less any penalty, is to be included in the liquid assets.

b. **Proceeds from any secondary financing or grant used for the refinance of the borrower's loan.**

4. Exception

An exception to this policy may be made, with the prior written approval of SFH, when all three of the following conditions are met;

a. the borrower's household income is at or below 55 percent of statewide median income for a family of four, as published by HUD;
b. the regular income is fixed, such as pension or social security; and
c. the interest or dividend earnings on the assets equal at least 50 percent of the total household income.

6.4 **Mortgage Products Offered**:

All 30 & 40 year amortizing products available

6.5 **Points Options Offered**: Both products are offered at 2 or 0 points.

6.6 **Interest Rates**: refer to www.mdhope.org or www.mmprogram.org (Refinance Programs) link to the Lifeline Refinance Mortgage Program website for current rates.

6.7 **Downpayment and Closing Cost Assistance**: Not available.

6.8 **Closing Costs**: All closing costs, including pre-payment penalties and CDA's points, may be rolled into the principal amount of the refinancing.

6.9 **<u>Mortgage Insurance</u>**: Compliance with CDA's Mortgage Insurance Policy. 35% coverage required on conventional loans.

6.10 **<u>Processing</u>**: Loans are processed through a CDA-approved lender. Manual underwrite preferred.

6.11 **<u>Underwriting Standards</u>**: Total debt–to–income ratio may not exceed 50% for 30- and 40-year amortizing loans; co-signers permitted, if acceptable to mortgage insurer; minimum credit score is 600; all other credit requirements as determined by the mortgage insurer/guarantor; <u>not eligible for "Quick Close" processing</u>

6.12 **<u>Counseling</u>**: Not required, <u>but encouraged</u>.

6.13 **<u>Home Inspection</u>**: Not required.

6.14 **<u>Cash out</u>**: None; any excess funds to be applied as principal curtailment.

6.15 **<u>Attachments</u>**: Refer to the list of attachments on website under <u>"Lenders Only"</u>**.** Note that on the checklist attachments, the lender **must** indicate on the checklist that the loan being submitted is a Lifeline Refinance Mortgage Program loan.

6.16 **<u>Program Loan Documents</u>**:

A. Refer to the list of Program Loan Documents on website under <u>"Lenders Only"**.**</u>

B. Note that the following documents are not required for the Lifeline Refinance Mortgage Program.

- Seller's Affidavit and Seller's Confirming Affidavit
- 3 years' federal income tax returns

SECTION 7 – HOMESAVER REFINANCE MORTGAGE PROGRAM

7.1 **Purpose:** The Community Development Administration's (CDA) has another refinance product called the Homesaver Refinance Mortgage Program. The minimum "representative" credit score for this program is 580 and the mortgage being refinanced may be delinquent but not more than 60 days. The Homesaver Refinance Mortgage Program allows CDA to refinance "qualified subprime loans" with tax-exempt mortgage revenue bonds for borrowers who are experiencing difficulties as a result of mortgage default, low credit scores and/or a mortgage greater than the current value of their home. A "qualified subprime loan" is defined as an adjustable rate single family mortgage loan made after December 31, 2001 and before January 1, 2008 that CDA determines would be reasonably likely to cause financial hardship to the borrower if not refinanced. One of the following criteria must exist for consideration of a financial hardship for refinancing eligibility:

- Borrower's housing expense to income ratio based on the current payment or next anticipated rate adjustment will be greater than 31% of current income; or
- Borrower's housing expense to income ratio based on the lifetime capped interest rate (fully indexed) will be greater than 35% of current income; or
- The lifetime capped interest rate exceeds the rate offered by CDA by more than 2%; or
- An involuntary reduction of household income of at least 5% or increase in expenditures related to the death of the borrower or co-borrower, permanent disability or serious illness or injury.

7.2 **Implementation**: Loans will be funded from proceeds from tax-exempt mortgage revenue bonds. Therefore, Recapture Tax Instructions for Refinancing Subprime Mortgage Loans must be attached to the Recapture Tax Notice, a Tax-Exempt Financing Rider must be recorded behind the Deed of Trust, a revised Borrower's Affidavit to Refinance A Subprime Loan must be completed and executed for each loan and a Notice to Borrowers must be signed and dated by the borrowers. In addition, lenders who want to originate loans under this program will be required to execute a revised Addendum to the Mortgage Purchase Agreement (Refinance Subprime Loans).

7.3 **Eligibility**:

A. All mortgage loans that are liens against the property must be refinanced.
B. Copy of Note and Deed of Trust fro existing mortgage must be provided in Pre-Closing Compliance Submission (Attachment K) to determine eligibility for refinancing.
C. The property must be the borrower's primary residence.
D. The mortgage(s) being refinanced may be delinquent but not more than 60 days.
E. The Maximum LTV cannot exceed 105% (MHF's 2.75% upfront mortgage insurance premium may be financed in the mortgage); the Maximum CLTV cannot exceed 110% with all second mortgages, including forgiveable grants.
F. Income limits - same as current MMP Income Limits; refer to Home Owners Preserving Equity (HOPE) or mdhope.org link to the Homesaver Refinance Mortgage Program website for Income Limits
G. Maximum Appraised Values – same as current MMP Maximum Purchase Prices; refer to www.mdhope.org website or the www.mmprogram.org link to the Homesaver Refinance Mortgage Program website for Maximum Appraised Values
H. Prohibited Ownership Interests in Certain Property

1. State regulation requires that, at the time of closing on the Program loan, borrowers may not have any ownership interests in certain types of property.

2. Property prohibited from ownership at the time of loan closing includes:

a. any mobile home;
b. raw land;
c. a building lot (except for the lot on which the house being financed has been built);
d. any residence <u>other than principal residence</u>;
e. a vacation home;
f. a rental property;
g. an inherited property;
h. commercial property;
i. any jointly held property;
j. a cooperative; and
k. any other real property.

3. Property which may be owned at the time of loan closing includes: 1) a cemetery plot; 2) a recreational vehicle lot; or 3) a 1/20th (2.6 weeks) or less interest in a time sharing unit.

4. In order to be eligible for a mortgage loan under the Program, any borrower who has an ownership interest in any type of property listed in paragraph A must either:

a. provide a contract of sale for the property at the time of application and submit documentation, i.e., settlement sheet, title for mobile home, verifying the sale of the property prior to closing of the Program loan; or

b. provide a copy of a deed showing that the borrower has divested ownership in the property.

I. Asset Test must be performed

1. The Asset Test Worksheet is only completed for borrowers whose assets [including liquid assets and equity (the difference between the appraised value and the loan amount)] equal or exceed 20% of the appraised value of the property. Borrowers with assets equal to 20% or more of the appraised value may not be eligible for the Program if they can afford a mortgage at the applicable asset test interest rate (call 410-514-7530 and ask any underwriter or processor to provide you with the asset test interest rate for the applicable reservation date and point program). The Lender will verify <u>**all**</u> assets (see below) for each borrower by obtaining written VOD's or alternative documentation (one month's most recent bank statement for each account as of the date of <u>**reservation**</u>) and list them on the Fannie Mae Form 1003/Freddie Mac Form 65 Loan Application.

2. When calculating a borrower's assets, all assets are to be considered, including, but not limited, to the following:

a. items paid outside of closing (examples include but are not limited to: appraisal, credit report and home inspection);
b. savings accounts;
c. checking accounts;
d. certificates of deposit;
e. the total balance of any joint accounts;

f. money market or mutual fund accounts;
g. in trust for accounts (amount accessible);
h. Chapter S corporate bank accounts (borrower owner of the Chapter S corporation)
i. any other bank accounts;
j. any stocks or bonds;
k. funds from gift letters;
l. any funds derived or to be derived from the sale of real property, any mobile home or other property prior to loan closing. Documentation showing net proceeds from any such sale is required;
m. amount used or borrowed from a life insurance policy, IRA or 401K (less penalty); and
n. equity (difference between the appraised value and the loan amount) [if it is necessary to complete the Asset Test Worksheet (Attachment F), the appraised value is listed on line 1 of the Asset Test Worksheet]

3. Exclusions

a. The cash surrender value of a life insurance policy, the value of an IRA account or the value of a 401k account may be excluded from the liquid assets as well as from the Income Eligibility Worksheet unless the borrower intends to use or borrow against a portion of his policy or account for settlement expenses. In this instance, only the amount being u sed or borrowed, less any penalty, is to be included in the liquid assets.

b. **Proceeds from any secondary financing or grant used for the refinance of the borrower's loan.**

4. Exception

An exception to this policy may be made, with the prior written approval of SFH, when all three of the following conditions are met;

a. the borrower's household income is at or below 55 percent of statewide median income for a family of four, as published by HUD;
b. the regular income is fixed, such as pension or social security; and
c. the interest or dividend earnings on the assets equal at least 50 percent of the total household income.

7.4 Mortgage Products Offered:

All 30 & 40 year amortizing products available

7.5 Points Options Offered: Both products are offered at 2 or 0 points.

7.6 Interest Rates: refer to http://www.mdhousing.org/homesaver/Factsheet.aspx.

7.7 Downpayment and Closing Cost Assistance: Not available.

7.8 Closing Costs: All closing costs, including pre-payment penalties and CDA's points, may be rolled into the principal amount of the refinancing.

7.9 **<u>Mortgage Insurance</u>**: Compliance with CDA's Mortgage Insurance Policy. 35% coverage required on conventional loans.

7.10 **<u>Processing</u>**: Loans are processed through an MHF-approved lender. Manual underwrite is required.

7.11 **<u>Underwriting Standards</u>**: Total debt–to–income ratio may not exceed 50% for 30- and 40-year amortizing loans; co-signers permitted, if acceptable to mortgage insurer; minimum "representative" credit score is 580; all other credit requirements as determined by the Maryland Housing Fund; <u>not eligible for "Quick Close" processing</u>.

7.12 **<u>First Payment Default/Delinquency Prior to Purchase</u>**: Purchase will <u>not</u> be denied if loan is 20 days or more past due and unpaid as of anticipated mortgage purchase date or was ever 45 days in arrears prior to this date. In addition, repurchase will <u>not</u> be required if loan is purchased prior to the due date of the first payment and the first payment is more than 20 days past due.

7.13 **<u>Counseling</u>**: Required for all borrowers.

7.14 **<u>Home Inspection</u>**: Not required.

7.15 **<u>Cash out</u>**: None; any excess funds to be applied as principal curtailment.

7.16 **MHF-Approved Lenders**: Click on http://www.mdhousing.org/homesaver/Lenders.aspx for current list of MHF-approved lenders.

7.17 **<u>Attachments</u>**: Refer to the list of attachments on website under http://www.mmprogram.org/Attachments.aspx. Note that on the checklist attachments, the lender **must** indicate on the checklist that the loan being submitted is a Homesaver Refinance Mortgage Program loan.

7.18 **<u>Program Loan Documents</u>**:

A. Refer to the list of Program Loan Documents on website under http://www.mmprogram.org/mmp_loan_docs.aspx.

B. Note that the following documents are not required for the Homesaver Refinance Mortgage Program.
- Seller's Affidavit and Seller's Confirming Affidavit
- 3 years' federal income tax returns

SECTION 8 – LOAN SERVICING

8.1 MANDATORY TRANSFER TO BOGMAN, INC. (BOGMAN) & MERS

A. Loans purchased by CDA, must be serviced by Bogman.

B. If the lender is a MERS member:

After the lender receives the purchase advice from CDA, the loan must then be transferred to the Maryland Community Development Administration on MERS **within 48 hours**. The lender must list:

1. Bogman, Inc as the Sub-Servicer. Their MERS ID is **1004833**

2. Maryland Community Development Administration as the Servicer and Investor. Our MERS ID is **1008248.**

C. A service release fee will be paid to the originating lender when the loan is purchased based on the number of days after the reservation date that the loan is approved for purchase (refer to Fee Schedule)

8.2 SUBMISSION OF LOANS TO BOGMAN

A. Loan Servicing Files must be received by Bogman no later than 16 days after the purchase of the loan by SFH.

B. Documentation required for transferring servicing to Bogman is listed in the Bogman Loan Servicing Transfer Guidelines (Attachment P).

C. Lender is responsible to properly notify insurer of the change of name of *holder* from Lender to **CDA**. Lender shall not cancel mortgage insurance coverage, but rather shall change the name of the servicer from Lender to **Bogman, Inc**.

D. **All Lenders are required to collect a tax service fee**, currently $81.00, at the time of loan closing. *The Lender is responsible for contacting Bogman at the address/phone number below for the current amount of this fee*.

E. Loan Servicing Files must be submitted to:

Bogman, Inc.
12301 Old Columbia Pike, Suite 200
Silver Spring, MD 20904-1656

Telephone: 240-482-1050
Fax: 301-622-0058

F. Bogman has the right to assess a penalty for delayed and/or insufficient servicing files.