Origination Guide

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Virginia Housing Development Authority
601 South Belvidere Street
Richmond, Virginia 23220

Single Family Originations Department
ORIGINATION GUIDE

Revised: August 2011

Introduction

Mission Statement

Our mission is *Helping Virginians attain quality, affordable housing.*

Note to Lenders

This guide has been designed to provide our participating lenders with the information they need to carry out their responsibilities as a VHDA Originating Lender.

Background

The Virginia General assembly established the Virginia Housing Development Authority (VHDA), a public mortgage finance company, in 1972. VHDA is self-supporting. No federal or state tax dollars are received by VHDA for the funding of its lending programs. Substantially all the funds for VHDA programs are provided by the private sector through the purchase of VHDA bonds. VHDA offers a variety of loan programs developed to meet the needs of low to moderate-income homebuyers. These loans are originated primarily through our network of private lenders serving as VHDA Originating Lenders.

Chapter 1 - Originating Lender Participation

Section 1.1 Originating Lender Qualifications

To be approved as a VHDA Originating Lender, the applicant must meet the following qualifications:

A. Authorization to do Business

Be authorized to do business in the Commonwealth of Virginia and be licensed as a mortgage lender or broker under the Virginia Mortgage Lender and Broker Act including non-profits.

B. Net Worth Requirement

Have a net worth equal to or in excess of requirements mandated by FHA.

C. Insurance Requirements

Have fidelity bond and mortgage errors and omissions coverage in an amount at least equal to $500,000.00 and provide a certificate from the insurance carrier naming the Virginia Housing Development Authority as a party in interest to the bonds, or the policies or bonds shall name the Virginia Housing Development Authority as one of the parties insured.

D. Experienced Staff

Have a staff with demonstrated ability and experience in mortgage loan origination, processing, underwriting, closing and post-closing. Lenders that are applying to re-enter the program or have senior management with prior VHDA experience, must have a proven track record with VHDA in all aspects of mortgage loan origination.

E. Required Purchase Agreements

Have executed a VHDA Purchase Agreement.

F. Quality Control Plan

Have a quality control plan that meets all insurer/guarantor requirements as they apply to loans originated.

G. Insurer Approvals

Have appropriate approval for the insurer/guarantor for loans to be originated (i.e. FHA, VA, Rural Housing or individual private mortgage insurers).

H. Origination Capacity

Be eligible to and have a staff qualified to originate loans under all of VHDA's loan programs (not including Rural Housing Services).

I. Performance History

Have a past history of satisfactory performance with VHDA, other mortgage lenders, and insurers demonstrating the ability to meet obligations of VHDA lender participation. Any applicant previously terminated shall not be eligible to reapply for 24 months.

J. VHDA Fair Housing Policy

Certify Lender has read VHDA’s Fair Housing Policy and acknowledge that, if approved as a VHDA Originating Lender, such organization must comply with such policy in originating, processing and closing VHDA loans.

K. Other Qualifications

Meet such other qualifications, as the Executive Director shall deem to be related to the performance of its duties and responsibilities. Have a physical office located in Virginia to which the general public may make loan application.

L. Neighborhood Watch

FHA Comparison ratio may not exceed 120% of the National, State or Regional Field Office.

Section 1.2 Originating Lender Approval Process

The following details the process for application for approval as a VHDA Originating Lender:

A. Application

Lender generates application package on-line or requests application package from VHDA’s Business Partner Product Manager, completes the application and forwards along with other required supporting documentation to VHDA’s Business Partner Product Manager.

B. Approval Notification

VHDA’s Business Partner Product Manager reviews the application and responds by letter of approval or rejection to the lender's senior management.

C. Required Training

Approved Originating Lender’s staff complete required VHDA training prior to being authorized to originate. Training includes all aspects of the loan origination process.

D. Identification Number

VHDA assigns an identification number to Originating Lender.

Section 1.3 Maintaining Originating Lender Approval Status

After initial approval, each Originating Lender will be required to meet the following specified requirements to maintain their status as an approved VHDA Originating Lender:

A. Insurance and Net Worth Requirements

Maintain required fidelity bond, errors and omissions insurance and net worth requirements.

B. Annual Financial Statement

Provide VHDA with financial re-certification documentation, as required by HUD, within 90 days of the Originating Lender's fiscal year end. Financial statement shall include a balance sheet, an income statement, and a statement of retained earnings, all related notes and the opinion of an independent Certified Public Accountant as to the correctness of those statements.

C. Certificate of Insurance

Provide VHDA's Business Partner Product Manager with certificate from the insurance Lender confirming that the fidelity bond and mortgage errors and omissions insurance is still in effect. Certificates are to be provided when coverage is renewed or a new policy issued.

D. Notification of Quality Control Findings

Provide copies of any notification forwarded to an insurer/guarantor for violations of law or regulations, false statements or program abuses by the Originating Lender, its employees or any other party to the transaction as required under the respective quality control plan to VHDA's Business Partner Product Manager.

E. Minimum Origination Volume

Originate no less than five loans during the first twelve months and each full calendar year thereafter, unless otherwise approved by VHDA.

F. Notification of Organizational Changes

Provide written notice to VHDA's Business Partner Product Manager of any major organizational changes contemplated, including but not limited to:

- Resignation or replacement of senior management personnel
- Resignation or replacement of designated VHDA delegated staff
- Mergers, acquisitions or corporate name change
- Change in savings and loan association charter to become banking association
- Change in financial position

- Any reorganization, which centralizes or decentralizes a primary function (i.e. underwriting, closing or post-closing)
- Opening or closing of offices originating VHDA loans (include address, phone number and branch manager's name)

G. Compliance with VHDA Requirements

Maintain compliance with VHDA policies, procedures, rules and regulations as stated in this Origination Guide and subsequent notification and comply with terms and conditions contained in the Purchase Agreement.

H. Acceptable Loan Performance

Originate loans resulting in a delinquency rate determined to represent an acceptable risk to VHDA.

I. Agency Reports

Provide a copy of any standard agency performance report to the VHDA's Business Partner Product Manager within 60 days of receipt, as may be requested by VHDA.

J. Neighborhood Watch

FHA comparison ration may not exceed 150% of National, State or Regional Field Office.

Section 1.4 Delegated Originating Lender – Qualifications

Subject to meeting specified criteria, the Originating Lender may be authorized to underwrite and close VHDA loans under VHDA's delegated procedures, without prior review by VHDA. The delegated procedures enable Originating Lenders to reduce the time involved in underwriting and closing VHDA loans. To be approved to participate as a Delegated Originating Lender, the Lender must meet the following qualifications:

A. Performance

Originating Lender must have a proven performance record in all aspects of the origination process. This includes, but is not limited to, original file submission, underwriting, closing, post-closing and shipping.

B. VHDA Origination Experience

Satisfactorily submit and close a minimum of ten loans within a six-month period.

C. Insurance Requirements

Maintain mortgage errors and omissions and fidelity bond coverage in an amount at least equal to $500,000.00.

D. Approved Designated Delegated Staff

In addition to the requirements stated below, the Originating Lender's staff that will be acting in a delegated capacity must be so designated by the Originating Lender. The Originating Lender will designate the staff and certify to their meeting the requirements stated below on Attachment A to the Purchase Agreement.

1. Delegated Underwriters

Designated Originating Lender staff that will be underwriting loans for loan approval and executing Delegated Approval Notices must attend a VHDA Delegated Underwriting Training session. Delegated Underwriters must have three years underwriting experience and possess FHA Direct Endorsement Authority unless otherwise approved by VHDA.

2. Delegated Loan Closers

Designated Originating Lender staff who will be performing pre-closing review and requesting disbursement of funds must attend a VHDA Delegated Closing Training session and possess a minimum of two-years mortgage loan closing review experience.

E. Information to Staff/Key Contact

The Originating Lender will be responsible for informing all staff of VHDA procedural changes and requirements. The Originating Lender will designate key contacts for receipt of correspondence and will notify VHDA of changes in the staff contacts.

Section 1.5 Delegated Originating Lender Approval Process

Upon satisfactorily meeting the criteria set forth in Section 1.4 and the following requirements, the Originating Lender will be approved to participate as a Delegated Originating Lender.

A. Identify Loans for Review

The "Delegated Pre-Review Form" provided to the Originating Lender in the approval package is to be attached to all loan submissions. This will be used to evaluate the Originating Lender's performance and will identify the Lender as a potential Delegated Originating Lender.

B. Staff Training

Originating Lender must have appropriate underwriting and closing staff attends required VHDA Delegated Training sessions. It is suggested that shipping and post-closing staff also attend the Delegated Closing training session.

C. Review Period

A **minimum** of 10 satisfactorily submitted loans, all closed within a six-month period, and must be reviewed before approval will be granted to participate as a Delegated Originating Lender. The number may vary based on previous performance, volume and number of branches. The review performed will be based on the quality and completeness of the original loan submission for underwriting, the pre-closing review, the timeliness and completeness of final loan submission after closing, and the timeliness of the submission of post-closing documents.

D. Approval Notification

VHDA will notify the Originating Lender in writing of their approval to participate as a Delegated Originating Lender. The Originating Lender will then be required to execute the "Exhibit A" of the Purchase Agreement designating authorized staff to participate in underwriting and closing responsibilities.

E. Probationary Period

All newly approved Delegated Originating Lenders will participate in a probationary status for the initial six-month period for an evaluation of their overall performance.

F. Approved Status

VHDA has total discretion in approving or suspending any lender from participating in a delegated capacity based on performance. Unacceptable performance will result in the Originating Lender being placed on a probationary status and/or removal from participation in a delegated capacity.

Section 1.6 Quality Control Requirements

A. Procedures

Originating Lenders shall follow VA, FHA, Rural Housing, Fannie Mae and Freddie Mac quality control procedures as they apply. Fannie Mae or Freddie Mac procedures must be followed for VHDA conventional loans unless otherwise instructed per program guidelines.

B. Identified Violations

The Originating Lender will report any violations of law or regulation, false statements or program abuses by the Originating Lender, its employees or any other party to the transaction to VHDA's Business Partner Product Manager.

Section 1.7 Record Retention

A. Originating Lenders Originating Loans to be serviced by VHDA

Originating Lenders who are originating VHDA loans, which will be serviced by VHDA, are to submit a complete loan application package to VHDA.

B. VHDA Compliance Reviews

VHDA will typically perform a full credit, documentation and compliance review of no less than 10% of loans originated by the Originating Lender. The Originating Lender will be notified of the files to be made available for review by VHDA. VHDA will request that these loan files be either forwarded to VHDA for review, or requested to have available at the Originating Lender's office.

C. Critical Documents

See Post-closing Requirements, Section 2.6, for critical documents to be submitted to, and retained by VHDA.

Section 1.8 Origination Responsibilities

A. Origination

The Originating Lender is responsible for originating, processing, closing and post-closing all VHDA loans in accordance with the guidelines and procedures stated in this Origination Guide, the appropriate insurer requirements, and all regulatory requirements of the following: RESPA, Regulation X, ECOA, Regulation B, FCRA, TILA, Regulation Z, Fair Housing Act, Homeowners Protection Act of 1998 and Flood Act and any other applicable federal and state laws and regulations.

1. Application/Customer Information

Originating Lender staff is to be knowledgeable of VHDA programs and guidelines, prior to discussing qualifications with loan applicants. The Originating Lender is to provide information to potential applicants concerning VHDA loan programs, procedures and requirements. Prior to reserving funds for applicants, the Originating Lender is to assess the applicants' qualifications to determine adherence to program requirements.

Originating Lender is to use standard industry documents except as specified in the Originating Guide.

2. Loan Processing

Originating Lender is to process loans in accordance with VHDA guidelines and procedures and submits to VHDA for approval (unless the Originating Lender has VHDA delegated authority).

3. Underwriting

The Originating Lender will obtain approval for the appropriate insurer and underwrite the loan in accordance with VHDA requirements and the insurer or guarantor’s requirements. Originating Lenders without VHDA delegated authority must submit underwriting package to VHDA for loan approval. Originating Lenders with VHDA delegated authority will approve loans on behalf of VHDA and will issue a loan commitment on behalf of VHDA.

4. Closing

Originating Lenders will provide closing instructions to the closing agent. The Originating Lender will review preliminary closing documents for compliance with VHDA and the insurer or guarantor’s requirements. Preliminary closing package must be submitted to VHDA for review. Originating Lenders with VHDA delegated authority will approve documents for closing.

5. Funding

VHDA will purchase loans within 5 business days of receipt of an acceptable loan package. A correct and conforming Note (and any FHA Plus Note) will be required for purchase approval. VHDA will notify the lender of approval for purchase or if the loan(s) has been pended for required corrections.

A complete review of the file will be performed after funding at which time the lender will be notified of any deficiencies needed to be resolved.

Fees for escrows, the tax service fee and points due VHDA will be netted from the loan proceeds. Any premium pricing fee, the service release fee and interest due the lender will be paid at the time of purchase. All purchase proceeds will be wired to the lender with a notification of funding faxed to the lender.

6. 1098 Reporting

The originating lender is responsible for 1098 reporting for all fees paid at closing for loans that are funded by the lender.

7. Shipping/To VHDA

Complete loan packages must be submitted to VHDA within **10** calendar days of loan closing, but in no event later than the **15th** day of the month preceding the first payment date. Wiring instructions are to be included in the loan package**.**

8. Obtain Mortgage Insurance

The Originating Lender will submit all necessary documents to the mortgage insurer in compliance with the insurer or guarantor's requirements. The Originating Lender will obtain and submit to VHDA the original documents evidencing such mortgage insurance or guaranty within 90 days of loan closing.

9. Post-closing Documents

The Originating Lender will submit any outstanding post-closing documents including but not limited to, the final title policy, recorded Deed of Trust, Certificate of Transfer, and applicable mortgage insurance/guaranty certificate to VHDA within 90 days of loan closing.

B. Outsourcing Responsibilities

Prior to outsourcing or subcontracting any duties stated above, the Originating Lender must obtain prior written approval from VHDA, provided, however, that the Originating Lender shall remain responsible to VHDA for the performance of such third party as if the Originating Lender had itself performed such duties.

Section 1.9 Originating Lender Compensation/Fees

Unless otherwise stated in specific program guidelines in Chapters 4 and 5 the Originating Lender may not charge or collect any fees or discount points, in excess of those stated herein. The Originating Lender may collect fees for reimbursement of costs incurred, such as; credit reports, appraisals, tax service fees, or flood certification fees as applicable.

A. Lender Compensation Fee

The Originating Lender shall be compensated a fee up to 1% of the loan amount. Payment of said fee will be based upon selected pricing options. Pricing Options with a zero (0%) loan origination fee will result in the Originating Lender being compensated at the time of loan purchase. Pricing Options with a 1% loan origination fee will be retained by the Originating Lender at loan closing.

B. Reservation Fee

The applicant will pay the Originating Lender a $120.00 fee at the time of loan reservation. This fee will be held by the Originating Lender and upon loan closing will be applied as a credit fees due the Originating Lender or will be refunded to the borrower by the Originating Lender after closing. If for any reason the loan does not close, the $120.00 loan reservation fee is to be forwarded to VHDA. If the reservation fee is not paid within 60 days of cancellation, a $50.00 penalty will be assessed.

C. Service Release Fee

A 1% service release fee will be paid to the Originating Lender by VHDA at the time of purchase. This fee will be for both first and second mortgages if applicable.

D. Discount Points

Unless otherwise stated in specific program guidelines, a discount points in the amount of 0-3.50% of the original balance will be paid to VHDA. This fee will be deducted from the purchase proceeds. The Originating Lender may not charge additional discount points. Points are based on selected pricing option.

E. Ancillary Fees

For all programs, Originating Lenders <u>are</u> allowed to collect customary miscellaneous fees (i.e. underwriting, document review fees) that have been properly disclosed to the applicant at the time of loan application not to exceed $800.

Section 1.10 Originating Lender Non-Compliance and Remedies

Non-compliance with VHDA policies, procedures, program guidelines or rules and regulations may result in the following remedies: Imposition of fees or penalties, the required purchase of specified loans, suspension from any activity as an Originating Lender (including new reservations or delegated authority) or termination of program participation.

A. Imposition of Late Delivery Fees

VHDA may impose penalties for a failure by the Originating Lender to submit required loan documents within the required time period.

1. Servicing Submissions

Complete loan packages must be submitted to VHDA within **10** calendar days of loan closing, but in no event later than the **15th** day of the month preceding the first payment date. Wiring instructions are to be included in the loan package. Failure to meet delivery timelines may result in temporary suspension from the VHDA Reservation System and additional fees imposed.

2. Other Submission Documents

VHDA reserves the right to charge fees for the late delivery of closed loan packages. The Originating Lender will be notified in writing of the late fees due. Failure to remit fees due may result in suspension from participation in VHDA originating activities.

B. Re-Purchase of Non-Compliant Loans

A purchase request for any loan will be for an amount equal to the then unpaid principal balance of such mortgage loan, plus accrued interest and costs incurred by VHDA, any premium pricing fee, and any service release premium paid to the Originating Lender for the subject loan. The grounds for, and terms of repurchase are more fully set forth in the Purchase Agreement.

1. Non-compliance with VHDA Requirements or Documentation

VHDA reserves the right to have the Originating Lender purchase loans which have not been originated in compliance with VHDA guidelines, rules and regulations, or for which required documentation has not been submitted to VHDA within the required time frame. Purchase of loans may be required based on non-compliance with federal tax-exempt bond requirements, non-compliance with critical underwriting or closing requirements, in addition to, failure to provide critical documents including those required for tax-exempt bond compliance, applicable mortgage insurance, guaranty certificate, and critical documents related to the security of the mortgage loan (i.e. note, deed of trust or title policy). Failure to obtain applicable mortgage insurance, submit the certificate or guaranty evidencing such insurance, will result in the required purchase of the loan by the Originating Lender.

2. Failure to Comply with Federal or State Regulations

VHDA will require purchase of any loan for which VHDA suffers or is threatened with a material loss due to the Originating Lender's failure to comply with any state or federal regulations.

3. Misrepresentation or Misstatement

VHDA will require purchase of any loan for which the borrower has made any misrepresentation or misstatement of a material fact in any document related to the mortgage loan with the knowledge of the Originating Lender or any misrepresentation or misstatement of a material fact by the Originating Lender.

4. Incorrect Documents

VHDA will require purchase of any loan for which the Originating Lender amends, modifies or incorrectly reproduces VHDA documents, or utilizes any document which does not comply with state or federal law or the requirements of the applicable mortgage insurer/guarantor and VHDA, in its discretion, determines that such incorrect form affects the loans security, compliance with mortgage bond regulations or other applicable law or regulation.

5. Early Default

VHDA may require purchase of any loan for which within the first six months payments of principal and interest due under the mortgage note the loan becomes two months or more in arrears as to payment of principal and interest, or otherwise in default, which after any required notice and any cure period, would give VHDA the right to foreclose.

6. Failure to Deliver Good Title

Not free and clear of liens, encumbrances or claims by third parties.

7. Unauthorized Sales

VHDA determines that the Originating Lender was not authorized to sell the Mortgage Loan or that the sale of the Mortgage Loan violated any law, regulation, or order or decision of any court or governmental agency or is otherwise invalid, void or voidable.

C. Suspension from Origination Activity

VHDA, at its sole discretion, may suspend the Originating Lender from participating in VHDA origination activities based on the Originating Lender's failure to comply with VHDA guidelines, procedures, requirements or any change in staff, which would affect the Originating Lender's ability to perform these responsibilities on behalf of VHDA. The Originating Lender will be notified in writing of any suspension of any origination activity.

D. Termination as a VHDA Originating Lender

VHDA shall terminate immediately upon delivery of a written notice, the Originating Lenders' authority to participate as a VHDA Originating Lender upon the happening of any of the following:

1. The violation by the Originating Lender of any provision of the Purchase Agreement.

2. The Originating Lender is required to file a Capital Plan pursuant to the provisions of the Financial Institutions Reform, Recovery and Enforcement Act of 1989, as amended from time to time. The appointment of a receiver or liquidation of, or for the Originating Lender, or the making of an assignment for the benefit of creditors or composition with creditors by the Originating Lender, or an adjudication of insolvency of the Originating Lender, or the filing of an involuntary petition in bankruptcy against the Originating Lender. The Originating Lender agrees that if any of the events specified in this subsection shall occur, it will give written notice thereof to VHDA within two days after the happening of such event. Upon notice of termination, pursuant to this Section, the rights of the Originating Lender and its rights to compensation hereunder shall terminate.

3. VHDA receives notice of a planned sale or transfer of a majority ownership interest, merger, consolidation or change in legal structure of the Originating Lender, unless VHDA approves in writing the change.

VHDA may also terminate the Originating Lender's authority to participate as a VHDA Originating Lender, with or without cause, upon thirty days written notice to the Originating Lender. Refer to Purchase Agreement for more details concerning Termination.

Chapter 2 - Eligibility Requirements

Chapter 2 addresses requirements for eligibility for all loans funded by VHDA tax-exempt bonds. Requirements specific to individual programs are also addressed in Chapter 4 titled "VHDA Tax-exempt Bond Loan Programs”.

Section 2.1 Borrower Eligibility Requirements

A. Borrower Age

Borrowers must be over the age of eighteen (18) years or have been declared emancipated by court having jurisdiction.

B. Family/Household

One person or multiple persons are eligible to be a borrower or borrowers of a single-family loan if such person or all such persons satisfy the criteria and requirements in these rules and regulations. All references in these rules and regulations to an applicant or borrower shall, in the case of multiple applicants or borrowers, be deemed to refer to each applicant or borrower individually, unless the provision containing such reference expressly refers to the applicants or borrowers collectively.

C. Citizenship

Mortgages are provided to U.S. citizens, permanent resident aliens, or to non-permanent resident aliens provided the borrower occupies the property as a principal residence, has a Social Security Number and is eligible to work in the United States. Lenders are required to certify that applicants meet these guidelines and provide evidence that the FHA requirements are met. This eligibility applies to all VHDA loan programs.

D. Co-Signers

Co-signers are not allowed on VHDA loans. All borrowers must occupy the property as their primary residence.

E. Prior Homeownership - Three-Year Requirement

An eligible borrower may not have had a present ownership interest in his/her principal residence within the three years preceding the date of execution of the mortgage loan documents (loan closing). This requirement applies to any person who will execute the mortgage document or note

The three-year requirement stated above does not apply for residences being financed in "targeted areas". See Section 2.2 K for "targeted area" information.

1. Definition of Present Ownership Interest

- Present ownership interest includes:

- A fee simple interest
- A joint tenancy, a tenancy in common, or a tenancy by the entirety
- The interest of a tenant shareholder in a cooperative
- A life estate
- A land contract, under which possession and the benefits and burdens of ownership are transferred although legal title is not transferred until some later time
- An interest held in trust for the eligible borrower (whether or not created by the eligible borrower) that would constitute a present ownership interest if held directly by the borrower

Interests that do not constitute a present ownership interest include:

- Remainder interest
- An ordinary lease with or without an option to purchase
- A mere expectancy to inherit an interest in a principal residence
- The interest that a purchaser of a residence acquires on the execution of an accepted offer to purchase real estate
- An interest in other than a principal residence during the previous three years

2. Manufactured Home Ownership

An ownership interest in a manufactured home, which is not permanently attached to the land, does not constitute present ownership interest for purposes of meeting this requirement. An ownership interest in a manufactured home is considered "present ownership interest" if the manufactured home is permanently attached to land and has had wheels and other components used for transportation removed.

3. Required Documentation - Tax Returns

To verify that the borrower meets this three-year requirement, the Originating Lender must obtain copies of complete **federal** income tax returns filed by the borrower for the three years immediately preceding execution of the mortgage documents (loan closing). Loans closing after April 15th of any year will require the borrower to provide the tax returns for the previous tax year, or evidence of filing for extension. Originating Lender may provide the following for the three most recent federal tax returns:

- Complete copies, including all schedules of the returns
- A letter from the Internal Revenue Service stating that the borrower filed form 1040A or 1040EZ for any of the three most recent tax years
- A completed and signed Tele-filing form including a confirmation number
- The Electronic Filing cover page alone is **not acceptable** the computer printout pages including all schedules **must be** included
- Print outs from the IRS or other acceptable service provider
- Any combination of the above for the most recent three years
- IRS Form 4506 or 4506-T must be completed and signed by all borrowers and those taking title to the property
- If the borrower was not required by law to file a federal income tax return for any of those tax years and did not file, the borrower must certify to same on the Affidavit of Borrower indicating which year this occurred. No additional documentation related to taxes will be required for that tax year

a. Tax Return Review

The Originating Lender **must examine** the tax returns **and** credit report for any evidence that the borrower may have claimed deductions for property taxes or for mortgage interest deduction for a primary residence.

b. Special Documentation For Current Ownership

A borrower with a current ownership interest in a residence within the most recent three year period must be able to provide evidence (copy of rental Purchase Agreement/lease) showing that they have not lived in the dwelling for the most recent 3 year period. If the borrower owns the dwelling at the time of application, the value of the dwelling will be included in the net worth calculation. (See Net Worth Restriction)

F. Principal Residence/Occupancy Requirement/Use of Property

1. Owner Occupancy

Borrower(s) must intend to occupy the financed dwelling as a principal residence within 60 days (90 days for rehabilitation loans) after the closing of the loan. A certification of the owner occupancy is to be made by the borrower(s) on the Affidavit of Borrower.

2. Leasing Financed Properties

While federal law prohibits VHDA from financing properties, which will not be used as a primary residence, it is reasonable that a borrower's life circumstances may later change (i.e. a borrower who is relocated due to employment changes). VHDA's loan servicing policies have been designed to allow a reasonable amount of flexibility where such changes occur, while at the same time adhering to the intent of federal law. Borrowers should contact VHDA's loan servicing department, if such circumstances arise, to discuss the procedures for possible leasing of the property.

3. Principal Residence/Property Use/Business Use Restriction

The borrower may not use the financed property in the following:

- **As a recreational or second home**
- **As investment property**
- **Use in a trade or business/Restriction**

The financed dwelling **may not** be used in any manner which would permit any portion of the cost of the dwelling to be deducted as a trade or business expense for federal income tax purposes, or if more than 15% of the total living area is to be used primarily in a trade or business. The Originating Lender must review the federal tax returns to determine if the borrower has previously been eligible for the **"business in home" deduction, which** is indicated on "Schedule C" of the federal tax returns. If the borrower(s) did take the "business in home" deduction previously, they are not eligible for financing unless they provide the following: The borrower must provide a statement that not more than 15% of the total living area will be used primarily in a trade or business. In addition, a statement from an accountant representing the borrower must be provided, indicating that the borrower is no longer eligible for the "business in home" deduction.

Note: The residence being purchased may not have additional living space, which would be typically used for investment or rental purposes.

4. Use of Land

The borrower must certify on the Affidavit of Borrower the following:

- No portion of the land financed provides a source of income (other than incidental income).
- He/She does not intend to farm any portion (other than as a garden for personal use).
- He/She does not intend to subdivide property.

G. New Mortgage Requirement/No Refinances

VHDA Loans may be made for purchases only. Refinances are not allowed (except as stated below for temporary financing. Loan proceeds may not be made to acquire or replace an existing mortgage (whether or not paid off). Proceeds may be used to payoff temporary financing (i.e. construction or bridge loans), which have an initial (not remaining) term of 24 months or less.

Definition of Mortgages: For the purpose of applying the above requirement, an existing mortgage includes: deeds of trust, conditional land sales contracts (generally where regular monthly installments are paid and applied to sales price), pledges, Purchase Agreements to hold title in escrow, a lease with an option to purchase which is treated as an installment sale for federal income tax purposes and any other form of owner-financing.

A VHDA loan may be made to finance a residence (including the land) if the borrowers have previously had a mortgage loan on the land only. (See Section 2.1 E-2 concerning unattached mobile homes.)

H. Maximum Borrower(s) Net Worth

Eligible borrower(s) cannot have a net worth exceeding 50% of the sales price of the dwelling being financed. The value of life insurance policies, retirement plans, furniture and household goods shall not be included in determining net worth. In addition, the portion of the applicant's liquid assets, which are used to make the down payment and to pay closing costs, up to a maximum of 25% of the sales price, will not be included in the net worth calculation.

Any income producing assets needed as a source of income in order to meet the minimum qualifying requirements will not be included in the borrower's net worth for the purpose of determining if this net worth limitation has been violated.

I. Maximum Gross Income (Maximum Household Income)

VHDA publishes maximum "gross income" limits, which are established to comply with the limits imposed by the U.S. Treasury limits. The "gross income" as defined below may not exceed the published VHDA income limits. These limits are available at http://www.vhda.com/SF/salesincome.htm

"Gross Income" includes the combined annualized gross income of **all persons residing** or **intending to reside in a dwelling unit** from whatever source derived and before taxes or withholdings."

Gross Income is calculated by projecting gross income forward for the 12-month period beginning on the date of loan application. Typically, income such as bonuses, overtime and commissions will be averaged for the most recent 12-month period. If information is unavailable for this period, the Originating Lender may average the past year and year to date bonuses, overtime and commissions. This average multiplied by 12 will be added to current base salary to determine gross income. All such earnings must be included in gross income unless the employer documents that such earnings will not be continued.

Note: Income, which may not be eligible for use in credit qualifying, may be required to be included in determining gross income for maximum income eligibility purposes. Income from **all household members** (excluding dependents) must be included in "gross income" calculations, even if these individuals will not be on the loan. (Refer also to non-borrowing occupant Section J)

Included in Gross Income

Base salary, overtime, part-time employment, bonuses, dividends, interest, royalties, pensions, Veterans Administration compensation, net rental income, alimony, child support, public assistance, sick pay, social security benefits, unemployment compensation, income from trusts, and income from business activities or investments.

Note 1: Alimony and child support must be included in determining maximum gross income, if such income is specified in a divorce settlement or separation Purchase Agreement, unless the applicant certifies that the income is not being received and documents that he/she has made reasonable effort to collect the amount due including filing with courts or agencies responsible for enforcing payments.

Note 2: Income received as a **one-time** lump-sum (such as inheritance, settlement of insurance claim, re-enlistment bonus), which is nonrecurring, does not need to be included in gross annual income.

Note 3: Car allowance(s) must be included in determining maximum gross income.

Note 4: Non-Reimbursed Employee expenses are **<u>not</u>** to be deducted from "gross income" calculations.

Note 5: All military pay and allowances must be included in determining maximum gross income, excluding hazard duty pay and **one-time** lump-sum re-enlistment bonuses. However, periodic bonus payments must be included in the calculation.

J. Non-borrowing Occupant

The income of all occupants must be considered for the purposes of determining whether the VHDA maximum income limits have been exceeded, however, a non-borrowing occupant's income will not be considered for credit qualifying purposes. Income of household members who were identified as dependents on the most recent tax return will be excluded from maximum income, if they are not liable on the loan (such as minors, students, elderly parents). The non-borrowing occupant(s) income, from household members that are not dependents, must be disclosed on page 1 of the Borrower Program Disclosure and Affidavit of Borrower. Any non-dependent household member that does not have income must be identified and $0.00 reflected in the annual income section.

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

- The title policy must show title vested in both occupants without exception for the rights of the non-borrowing occupant

Note: The Originating Lender must adhere to the mortgage insurer's/guarantor's (FHA, VA, RURAL HOUSING, PMI) requirements related to non-borrowing occupant(s) taking title.

K. Multiple Loans

No borrower may have more than one outstanding VHDA loan.

Section 2.2 Property Eligibility Requirements

A. General Requirements

In order to qualify as an eligible dwelling for a VHDA loan, the residence must:

- Be located in the Commonwealth of Virginia.
- Be a single-family residence, a townhouse or a unit of an eligible condominium. Note: The residence may not have additional living space, which would be typically used for investment purposes, such as a living space with separate kitchen, utilities and access. Exceptions may be considered based on family need and borrower intent for use.
- Be owned or to be owned by applicant in the form of fee simple interest
- Satisfy the other requirements noted in this section.

B. VHDA Sales Price and Loan Limits

VHDA publishes maximum sales price and loan limits. Properties being financed by VHDA cannot exceed these limits. These limits are available are regularly updated online. To view VHDA limits to go http://www.vhda.com/SF/salesincome.htm.

C. New/Existing Construction Defined

An existing dwelling is defined as any dwelling that has been previously occupied and/or is more than 12 months old from the date of completion. New construction is defined as any dwelling, which has never been occupied **and** is less than 12 months old from the date of completion or issuance of the certificate of occupancy. This definition is used to apply the appropriate sales price limits.

D. Acquisition Cost Requirements

Definition of Acquisition cost **-** The cost of acquiring the eligible dwelling from the seller as a completed residence.

The acquisition costs of a property to be financed may not exceed limits, which have been established by the U.S. Department of The Treasury in effect at the time of application. In all cases for new loans, these limits equal or exceed VHDA's sales price limits; therefore, for new loans the residence meets this requirement by meeting VHDA sales price limits. In the event that the acquisition costs exceeds VHDA's sales price limit as a result of the estimated cost to complete unfinished area (1b below), the Originating Lender must contact VHDA to determine if the residence is eligible.

Assumptions - Acquisitions Cost: To determine if the acquisition cost is at or below federal limits for assumptions, the Originating Lender or, the Servicing Lender must contact VHDA.

1. Acquisition Cost

The acquisition cost includes the following:

- All amounts paid, either in cash or in kind, by the eligible borrower (or a related party for the benefit of the eligible borrower) to the seller (or a related party or for the benefit of the seller) as consideration for the eligible dwelling. Such amounts include amount paid for items constituting fixtures under state law.

- Personal Property: Refer to April 23, 2001 Announcement regarding personal property transferring with VHDA financed properties. http://www.vhda.com/BusinessPartners/Lenders/UpdatesAnnouncements/Pages/Apr232001.aspx

- The reasonable costs of completing or rehabilitating the residence (whether or not the cost of completing construction or rehabilitation is to be financed with the mortgage loan) if the eligible dwelling is incomplete or is to be rehabilitated. As an example of reasonable completion cost, costs of completing the eligible dwelling so as to permit occupancy under local law would be included. A residence that has unfinished areas (i.e. an area designed or intended to be completed or refurbished and used as living space, such as the lower level or a tri-level, unfinished basement, or the upstairs of a cape cod) shall be deemed incomplete, and the costs of finishing such areas must be included in the acquisition cost. Lenders may obtain the cost to complete unfinished areas from the appraiser or by using $15 per square foot for basements and $20 per square foot for above grade areas. Also cost for any rehabilitation or improvements, which have been included in the loan for financing (i.e. cost for energy efficient items) must be included in the acquisition costs.

- The costs of land on which the eligible dwelling is located and which has been owned by the borrower for a period of not longer than two-years prior to the construction of the structure.

2. Non Acquisition Cost

The acquisition cost does not include the following:

- Usual and reasonable settlement or financing costs, these excluded costs include title insurance, survey fees and other similar costs. Excluded financing costs, credit report fees, legal fees, and appraisal expenses, points that are paid by the borrower. Such amounts must not exceed the usual and reasonable costs which otherwise would be paid. Where the borrower pays more than the typical, pro rata share, the excess is to be included as part of the acquisition costs.

- The value of services performed by the eligible borrower or members of his family in constructing or completing the residence.

- The costs of land owned two-years or longer by the applicant

3. Calculation of Acquisition Costs

The Originating Lender will assist in the calculation of the acquisition costs. The figures are to be included on the Affidavit of Borrower and Affidavit of Seller. Information related to the costs of the property and unfinished area should be compared to the information included on the sales contract, HUD 1 settlement statement and appraisal.

E. Maximum Lot Size

The maximum lot size for VHDA financed properties is 2 acres; However, exceptions may be made to permit lots larger than 2 acres, **but in no event in excess of 5 acres.** Exceptions to the 2-acre limit may be granted based on the following:

- If the land is owned free and clear and is not to be financed by the loan, the lot may be as large as 5 acres (subsection i)
- If difficulty is encountered locating a well or septic field, the lot may include the additional acreage needed (subsection ii)
- Local city or county ordinances (not just subdivision restrictions) require more acreage and (subsection iii)
- If the lot size is determined by VHDA, to be usual and customary in the area for comparably priced homes (Subsection iv)

This subsection (iv) is intended to allow for consideration of lots over 2 acres in rural areas where smaller parcels are not usual and customary and are not readily available. In determining if subsection (iv) is applicable, the lot sizes of the comparable sites provided by the appraiser must demonstrate that size is usual for similarly priced homes in the area. The appraiser must also indicate that the lot size is typical for homes of similar price and size in the area.

Note: Approval for any lot over 2 acres must be obtained from VHDA prior to closing. Requests should be made on the Underwriting Waiver Request form (Ex. JJ).

F. Appraisals

The Originating Lender is responsible for obtaining and submitting a Uniform Residential Appraisal Report that has been prepared by an appraiser licensed in the State of Virginia. VHDA reserves the right to obtain an independent appraisal in order to establish the fair market value of the property and to determine whether the property is eligible for the mortgage loan requested. Appraisal requirements in accordance with FHA, VA or Rural Housing must be provided for applicable loans. Appraisals for conventional loans must be provided in accordance with established Fannie Mae and/or Freddie Mac requirements.

G. Manufactured Homes: VHDA distinguishes between two types of manufactured homes:

1. Modular Homes

Homes built to state building codes and delivered to the site in modular sections. Modular homes are acceptable for all financing types subject to the approval of the mortgage insurer.

2. Manufactured Homes

Homes built to Federal Manufactured Home Construction Safety Standards, administered by HUD. The homes are built on wheeled chassis, which remain a basic structural element. **Manufactured homes are acceptable under the FHA insured programs** and must be permanently attached to the land in accordance with FHA requirements.

In addition VHDA will allow the financing of manufactured homes through our tax-exempt conventional insured, VA, and Rural Housing loan programs meeting the following requirements:

<u>All Units</u>:

- Units must be multi-sectioned (double-wide)
- Foundation: Permanently attached and anchored per manufacturer specifications and/or state and local building codes with full perimeter walls with brick or block skirting. Piers must be either mortared block or bonded (not dry stacked). Wheels, axles and trailer hitches must be removed
- Roof covering must be standard composition shingle (asphalt or fiberglass) or better Minimum roof pitch 4/12
- Permanent steps and stoops on proper footings
- Photographs of HUD seal plates must be provided and the numbers reflected on the Appraisal Report or Final Inspection
- At minimum one comparable must be a manufactured home and one a stick built to compare marketability
- Must be assessed/taxed as real estate
- Appraiser must certify that all requirements stated above are met

<u>New construction</u>:

- Certificate of Occupancy must be provided
- Turn key contracts only - All construction and installation to be included in the contract with the dealer

- No furniture or personal property other than appliances may be included in the transaction

Existing construction: - (Cannot use Rural Housing Program)

- Certificate of Occupancy for original unit and installation must be provided
- Building permit and final inspection from county must be provided for any additions or attachments
- No changes to the original structure may have been made (i.e. removal of walls, etc.)
- Properties must have been constructed since 1976, have a remaining economic life of no less than 30 years and meet HUD manufactured housing standards
- Units must be located on the original site and not moved from a previous location

All applicable insurer requirements must be met in addition to those stated above.
As required under prior program guidelines, FHA insured loans need only meet FHA requirements related to manufactured housing.

Modular homes are eligible through all VHDA loan programs under standard property requirements.

H. Condominiums

VHDA typically follows industry guidelines regarding the financing of condominium units. VHDA does not approve condominium projects. Condominium guidelines and requirements vary based on the VHDA product and the status of the condominium project.

In addition to the condominium project guidelines stated below, the appraisal must clearly establish market acceptance for the project through comparable sales within the subject market and the project. VHDA reserves the right to limit the total number of units financed in any project or phase to no more than 25% of the units

Financing with Mortgage Insurance or Guaranty

Conventional loans must meet the project eligibility guidelines for Fannie Mae, Freddie Mac or FHA and the applicable private mortgage insurance company guidelines with VHDA's standard mortgage insurance coverage.

Conventional Uninsured Financing in Declining Markets:
Effective October 1, 2009, VHDA will modify the guidelines for financing of condominium units of uninsured loans in declining markets.

- Uninsured first mortgage loan - maximum 75.00% loan to value
- Minimum borrower contribution – 5% of sales price
- SPARC reduced rate funding not eligible
- Projects must be approved by Fannie Mae, Freddie Mac or FHA. Evidence of the approval must

be included in the loan file.
• Limited reviews will not be eligible.

Determination of Declining Markets
Markets affected by this change will be based on an assessment of the determination the private mortgage insurers have identified as declining, distressed or restricted. In addition, these new guidelines will apply if the appraisal indicates that the subject market is "declining". An assessment of these markets will be performed each quarter and made available to VHDA originating lenders

VHDA FHA,VA and RHS Financing:

The condominium/PUD must be approved in accordance with the applicable insuring agency guidelines.

Affordable Dwelling Units / Re- Sale Restrictions:
VHDA requires re-sale restrictions related to Affordable Dwelling Units or other affordable housing programs meet FHA guidelines. These guidelines require all re-sale restrictions relating to affordable housing programs to terminate upon foreclosure, deed-in-lieu of foreclosure or assignment of the insured mortgage to HUD. Please discuss this requirement with local governments that have re-sale restrictions in their program to ensure they meet requirements. Compliance with Mortgagee Letter 94-2.

VHDA Conventional Financing:

VHDA allows financing through all conventional insured and uninsured products if the condominium project is approved by Fannie Mae or Freddie Mac or the project meets the warranty requirements for either of these agencies. In addition, Expedited Review approvals through Fannie Mae's Condo Project Manager are accepted. The lender's underwriter must indicate the warranty classification on the 1008 or by separate statement.

> **Lender-delegated Limited Review** approvals through Fannie Mae Desktop Underwriter **are no longer allowed** for financing of new condominium projects or new condominium conversions without prior approval by VHDA. VHDA will consider approval of these loans for financing through our conventional programs on a case by case basis. Approval will be based on the overall strength of the borrower, loan terms (loan to value and program type) and condominium project status (number of pre-sales, closed loans and investor concentration). Lenders must submit the Desktop Underwriter Findings, Loan Application and appraisal to VHDA for consideration of approval for Limited Reviews. Any individual loan approval will not represent project approval for other transactions.

I. Property Requirements For FHA, Rural Housing, and VA Loans

Unless otherwise stated above, VHDA will accept the property requirements of the appropriate insuring agency for each individual loan.

J. Property Requirements For Conventional Loans

All properties must be structurally sound and in adequate condition to preserve the continued marketability of the property and to protect the health and safety of the occupants. Eligible properties must possess features, which are acceptable to typical purchasers in the subject market area and provide adequate amenities. Eligible properties must meet Fannie Mae and Freddie Mac property guidelines unless stated below or otherwise approved by the Authority. Properties located in declining markets must be supported with additional documentation to support value and may be subject to reduced loan to value.

- **State Maintained Roads/Conventional Loans**

Properties must be located on a state maintained road. Exceptions may be granted subject to a recorded right of way for ingress and egress and a recorded road maintenance Purchase Agreement providing for the maintenance of the private road. Typically all owners of properties utilizing the private road must execute the road maintenance Purchase Agreement.

- **Easements/Conventional loans**

Any easements that adversely affect the marketability of the property, such as high-tension power lines, drainage or other utility easements will typically be considered unacceptable. Exceptions will be considered on a case-by-case basis.

- **Water and Sewer/Conventional loans**

Well and Septic Inspection Reports are not required by VHDA on conventional loans if there is no documentation indicating problems; or requiring the inspection reports as a condition of the loan approval or appraisal or if required by the insuring agency. Originating Lenders will be responsible for resolving any issues that may arise from not requiring a well or septic inspection report. Properties with available water and sewer hookups must utilize them. A waiver may be requested if evidence is provided that this would not be cost effective. Property without available water and sewer hookups may have their own well and septic system. Joint ownership of a well or septic system will be considered, however the well or septic must be located on the subject property being financed and a recorded easement with maintenance Purchase Agreement must be reviewed for approval. Originating Lenders must provide evidence that community water systems are monitored by state; county or local health departments and reports have been received on a regular basis.

Approval of any property exception must be obtained from VHDA prior to loan commitment. Request should be made on Underwriting Waiver Request (Ex. JJ) and submitted with appropriate supporting information for consideration.

- **Cisterns: Conventional loans**

VHDA regulations provide that VHDA will consider financing property without available water and sewer hookups that are served by cisterns on a case-by-case basis to determine whether the cisterns will be adequate to serve the property. The following offers guidance on when approval of cisterns may be granted. VHDA will consider properties for which water is provided through cisterns in market areas where this type of water supply is common and customary and traditional water systems are difficult to install or not feasible due to terrain and environmental issues.

The following requirements must be met for consideration of approval of properties with cisterns as the primary water source.

- Satisfactory Water Quality Test: (dated within 90 days of loan closing)
- Cistern Inspection: (dated within 90 days of loan closing) Inspection from inspector qualified to inspect cisterns. Inspector must certify that there is no leakage.
- Cistern opening must be secured with concrete or metal cover
- Water Source:
  Rainwater from roof, spring or other source is not acceptable. Water must be provided by a common water carrier (supplied by a public water source). Proof that a common water carrier is available to serve the property must be provided. A statement from the provider or recent bill from seller identifying the property is acceptable documentation.
- Appraisal:

  Appraiser to provide a photo of the cistern, address the effect on market value and marketability of the property. A minimum of one comparable must have a cistern as primary water source
- Cisterns will not be acceptable for properties where public water is available
- Cistern must be acceptable to mortgage insurer
- Financing for residences with cisterns will be limited to 97% LTV.

K. Targeted Areas

1. Definition of Targeted Areas: A targeted area is an area, which meets one of the definitions stated below:

- **Qualified Census Tract -** A census tract in the Commonwealth of Virginia in which 70% or more of the families have an income of 80% or less of the state-wide median family income based on the most recent "safe harbor" statistics published by the U.S. Treasury.
- **Chronic Economic Distress -** An area designated as such by the Commonwealth of Virginia and approved by the Secretaries of Housing and Urban Development and the Treasury under criteria specified in the tax code.

2. Eligibility/Waiver of 3-Year Prior Homeownership Requirement

Mortgage loans for dwellings located in targeted areas must comply in all respects with the requirements of the regulations and those stated in this guide, with the exception of the three-year requirement (prior homeownership). The applicant must submit federal income tax records for the preceding federal tax year only. This will only be used to verify that applicants have not used previous residences in a trade or business (not to verify prior homeownership).

3. Documenting Targeted Areas

Originating Lenders must indicate on the Originating Lender's Loan Submission Cover Letter (Exhibit O) the target area status (targeted area yes or no).

4. Locating Targeted Areas

Should an Originating Lender need assistance in determining targeted areas, they can call their local city/county planning office.

Section 2.3 Underwriting Requirements

A. General Underwriting Requirements

To be eligible for VHDA financing, an applicant or applicants must demonstrate the willingness and ability to repay the mortgage debt and adequately maintain the financed property. In addition to diligent underwriting based on product, an applicant must satisfy the requirements stated below. Originating Lenders must contact VHDA directly to discuss any exceptions to these requirements.

1. Stable Employment

An applicant or applicants must document the receipt of stable income indicating that the applicant will receive future income sufficient to enable the timely repayment of the mortgage loan as well as other existing obligations and living expenses.

2. Credit History

An applicant or applicants must possess a credit history that reflects the ability to successfully meet financial obligations and a willingness to repay obligations in accordance with established credit repayment terms. Typically the applicant should have no outstanding collections, judgments or past due accounts.

a. Prior Foreclosures

An applicant or applicants having a foreclosure on his property financed by VHDA will not be eligible for a mortgage loan. VHDA will consider previous foreclosures (other than a VHDA financed loan) on an exception basis. Circumstances surrounding the cause of the foreclosure, length of time since the foreclosure, the applicant's subsequent credit history and overall financial stability, will be taken into consideration. Under no circumstance will an applicant be considered for a loan within three years from the date of foreclosure. VHDA has complete discretion to decline to finance a loan when a previous foreclosure is involved.

3. Funds to Close

An applicant or applicants must document that sufficient funds will be available for required down payment and closing costs, including discount points and pre-paids.

a. The terms and sources of any loan to be used as a source for down payment or closing costs must be reviewed and approved in advance of loan approval by VHDA.

b. Secondary Financing:

Any secondary financing (including soft seconds – with or without deferred repayments) must meet the requirements stated in the **VHDA Affordable Housing Program and Secondary Financing Certification (Exhibit LL)**. This form must be executed by the Originating Lender and the secondary financing provider and included in the submission package to VHDA. The Following applies:

- Payment for the first and second mortgage are to be used in both qualifying ratios
- Funds may only be used for down payment, closing costs or pre-paids
- Maximum loan (including all liens) may not exceed the lesser of sales price or appraised value plus standard closing costs and pre-paids
- Secondary Financing Terms are:

Rate	Interest rate may not exceed the rate of the first mortgage.
Type	Fixed Rate only
Terms	No balloon payments. No Negative Amortized loans. No Prepayment Penalty.
Eligible Sources	Federal, State, Local Government or non-profit agencies administering funds of such entities or through an employment assistance program.
Shared Appreciation	Any shared appreciation provision must be approved in advance by VHDA

.

Note: VHDA Secondary Financing Certification forms are not required on FHA Plus loans or loans for which VHDA is providing the secondary financing.

c. Sweat Equity

Sweat equity (the value of services performed by the borrower or members of his family) in constructing or completing the residence, generally is not an acceptable source of funds for down payment and closing costs. Any sweat equity allowance must be approved by VHDA prior to loan approval.

4. Proposed monthly housing expenses compared to current monthly housing expenses will be reviewed. If there is a substantial increase in such expenses, the applicant or applicants must demonstrate his or her ability to pay the additional expenses.

B. Underwriting Requirements for Conventional Loans

In addition to the requirements stated above in Section 2.3 A of this Chapter, the following requirements must be met for VHDA conventional (insured or uninsured) loans. Private mortgage insurance companies may impose additional requirements.

NOTE: Automated Approvals via Loan Prospector or Desktop Underwriter are accepted for Conventional loans with Loan to Values up to 97%. Approvals must carry an Approve/Eligible, Accept/Eligible, or Accept Plus/Eligible rating in order to utilize the Automated System approval. **See Automated Underwriting Section for additional restrictions.**

Traditional/Manual Underwriting Guidelines:

NOTE: Any specific guideline not addressed in this section – refer to the Fannie Mae or Freddie Mac Selling Guide for guidance.

1. Employment and Income

a. Length of Employment

The applicant(s) must be employed a minimum of six months with present employer. An exception to the six-month requirement can be granted by VHDA if it can be determined that the type of work is similar to previous employment and previous employment was of a stable nature. Generally the applicant must have completed any probationary period with their current employer. Employment for the preceding two-year period must be documented. Education or training for employment may be considered in this two-year period.

b. Part-time Employment

All part-time employment must be continuous for a minimum of 24 months; except that VHDA may consider part-time employment that is continuous for more than 12 months, but less than 24 months, if it can be determined that the part-time employment is of a stable nature and is likely to continue.

c. Self-employed Applicants

Self-employed applicants must have a minimum of two years of self-employment with the same company and in the same line of work. In addition, the following information is required:

Note: Federal regulations prohibit the use of a residence primarily in a trade or business (See Section 2.1 A (3)).

- Federal income tax return (personal, partnership or corporate if applicable) for the most two recent years and
- Balance sheets and current profit and loss statements covering the period since the most recent tax return

d. Overtime, Commission and Bonus

Overtime, commission and bonus earnings must be guaranteed by the employer or verified for a minimum of two years and must be reasonably predictable and stable. This income will be averaged over the last two-year period of receipt.

e. Income From Other Sources

For qualifying purposes, income received from other sources must be continuing for no less than the three-year period following the date of closing.

- Alimony and Child Support: A copy of the legal document ordering the support and sufficient proof must be submitted verifying that alimony and child support are being received consistently for the past 12 months

Note: Alimony or child support stated in either a legal Purchase Agreement or court ordered must be included for maximum income calculations even if not documented sufficiently for use in qualifying income for ratio calculations (see Section 2.1 (I))

- Social Security and retirement income: the Social Security Administration or the prior employer must verify Social Security or retirement income. VA must verify VA disability benefits. VA educational benefits and social security benefits for dependents 15years or older are not accepted as income for qualifying an applicant

f. Non-taxable Income

Special consideration may be given to regular sources of income that are nontaxable - such as child support payments, disability retirement allowances, certain military allowances and veteran's benefits. The Originating Lender must verify that the source of income is nontaxable and both the income and nontaxable status are likely to continue. The Originating Lender should determine the amount of tax savings attributable to the nontaxable income - the amount of tax that would normally be paid by a wage earner in a similar tax bracket - and add it to the borrower's income to develop an "adjusted gross income". This adjusted income may then be used in calculations for the income and debt ratios. Documentation must be included in the loan file explaining the justification for the adjustment being made. No adjustment to the nontaxable income may be used in calculations without the required documentation. The Originating Lender may apply a 25% adjustment to income if the tax table is not referenced.

2. Funds Necessary to Close

a. Verified Funds

Funds necessary to pay the down payment and closing costs must be on deposit at the time of loan application. A direct verification of deposit or the most recent two months bank statements must be obtained verifying these funds. The source of any recently opened accounts or large deposits to accounts must be explained and verified.

b. Gift

A gift letter is required when an applicant plans to obtain funds as a gift from a third party. The gift letter must confirm that there is no obligation for repayment of the funds. Documentation of the transfer of the funds from the donor's account must be provided. When the funds are not transferred prior to settlement, the donor may give the closing Lender a certified check for the amount of the gift. A copy of the check or settlement statement showing receipt of that check will be sufficient documentation. A gift maybe received only from a relative, employer or non-profit not involved in the transfer or financing of the property.

c. Seller Paid Closing Costs

Seller contribution for settlement or financing costs (including closing costs, discount points, prepaid items and upfront mortgage insurance premiums) may not exceed the lesser of 6% of the sales price or the amount permitted by the applicable mortgage insurer guidelines.

d. Loans Used as Funds to Close

All loan terms must be approved by VHDA. Loans (or grants) that are secured by a deed of trust against the subject property must meet the requirements stated below for Secondary Financing.

3. Credit

In general the credit requirements stated in Section 2.3 A (2) will apply to VHDA conventional loans. Applicants should exhibit an acceptable credit history for no less than the most recent 12-month period. Typically judgments, collections or past due accounts must be paid before an applicant will be considered for a VHDA loan.

a. Bankruptcies

An applicant will not be considered for a loan with a bankruptcy, which has been discharged within two-years from the date of loan application. Consideration for approval after the two-year period will be based on the applicant’s demonstrated ability to manage his financial affairs, re- established satisfactory credit history and documentation surrounding the circumstances causing the bankruptcy. All bankruptcy petitions and discharge papers should be provided for review along with an explanation of circumstances surrounding the bankruptcy.

b. Chapter 13 Bankruptcies

An applicant's filing of Chapter 13 Bankruptcy may be considered for loan approval earlier than the stated two-year period from discharge. This determination will be based on the applicant's overall financial strength and established credit history. The Originating Lender must contact VHDA to discuss possible exceptions to the two-year discharge requirement. Typically the bankruptcy must be discharged and the applicant must have made satisfactory repayment of the debts during the bankruptcy period.

c. Consumer Credit Counseling Services (CCCS)

Applicants currently participating in Consumer Credit Counseling repayment plans must have successfully completed a minimum of 12 months in the repayment plan with no late payments being made. A longer period may be required based on the total amount of debt remaining. Documentation from the CCC counselor verifying satisfactory payment is required along with a recommendation from the counselor for the new home purchase. Full monthly payment for monthly debt owed to the creditors is to be included for qualifying purposes (instead of the reduced monthly amount negotiated by CCC).

d. Prior Foreclosures

An applicant having a foreclosure on his property financed by VHDA will <u>not</u> be eligible for a mortgage loan. VHDA will consider previous foreclosures (other than a VHDA financed loan) on an exception basis. Circumstances surrounding the cause of the foreclosure, length of time since the foreclosure, the applicant's subsequent credit history and overall financial stability, will be taken into consideration. Under no circumstance will an applicant be considered for a loan within three years from the date of foreclosure. VHDA has complete discretion to decline to finance a loan when a previous foreclosure is involved.

e. Credit Scores

Originating Lenders are requested to obtain a credit report including credit scores from no less than three major credit repositories. VHDA will require a minimum credit score of 620 for all borrowers for all VHDA loan programs.

f. Non-Traditional Credit

Applicants with limited credit files, which are not sufficient to develop a credit score, must demonstrate a satisfactory repayment history through non- traditional creditors. The Originating Lender must develop an acceptable credit history by the verification of alternative credit sources. Typically a minimum of three credit references should be verified with a 24-month recent payment history. Borrower(s) must meet applicable insurer guidelines and be submitted to VHDA for prior approval.

g. Rental History

The applicant’s rental payment history is a critical element of the credit review. The applicant's rental history for the most recent two-year period should be verified.

4. Maximum Qualifying Ratios

Payment to Income

The total monthly payment including principal, interest, real estate tax and hazard insurance ("PITI") in addition to other monthly fees for private mortgage insurance, condominium assessment and townhouse or required association assessment; may not exceed **32%** of verified gross monthly income. (exclusion of documented utility costs for the unit)

Debt to Income

The total monthly payment (PITI plus other related fees as stated above) in addition to outstanding monthly debt payments with more than 10 months duration may not exceed **40%** of verified gross monthly income. Note: Debts with payment of less than 10 months duration are to be included if the payment of this debt will adversely affect the applicant's ability to make the mortgage payments.

Delegated underwriters may approve exceptions to ratios provided that they do not exceed 2% above the guidelines (i.e. 34.00%/42.00%) and must be justified with strong compensating factors. Compensating factors must exceed minimum qualifying requirements and indicate that the applicant can manage the repayment of the higher debt. Delegated underwriters must identify the compensating factors considered in granting any ratio on the Exhibit 0. Examples of acceptable compensating factors are:

- Minimal housing increase (no more than 25% increase)
- Significant cash reserves (6 months or greater)
- Strong credit history (credit score 700 or greater)
- Additional income available not used in qualifying
- Borrower minimal user of debt (difference between ratios 15% or less)
- Lower LTV

C. Underwriting For Federal Housing Administration (FHA) Insured Loans

- In general, VHDA will normally accept FHA underwriting requirements and property standards for loans insured by FHA; however, applicants must satisfy VHDA’s basic borrower eligibility requirements set forth in Section 2.1.
- Automated Approvals via Loan Prospector or Desktop Underwriter are accepted for FHA loans. Approvals must carry an Approve/Eligible, Accept/Eligible, or Accept Plus/Eligible rating in order to utilize the Automated System approval. **See AUS section of the Origination Guide for more information regarding the acceptance of these approvals.**

- **Maximum Allowable FHA Loan Amount:** The FHA mortgage insurance premium may be included in the FHA loan amount in accordance with FHA regulations, however the final total loan amount may not exceed VHDA's maximum sales price limit.

D. Underwriting For Veterans Administration (VA) Guaranty Loans

- In general, VHDA will normally accept VA underwriting requirements and property standards for loans guaranteed by the VA; however, applicants must satisfy VHDA's basic borrower eligibility requirements set forth in Section 2.1.
- Automated Approvals via Loan Prospector or Desktop Underwriter are accepted for VA loans. Approvals must carry an Approve/Eligible, Accept/Eligible, or Accept Plus/Eligible rating in order to utilize the Automated System approval. **See AUS section of the Origination Guide for more information regarding the acceptance of these approvals.**
- **Maximum Allowable VA Loan Amount:** The VA funding fee can be included in the loan amount provided the final total loan amount does not exceed VHDA's maximum allowable sales price.

E. Underwriting For Rural Housing (RHS) Guaranty Loans

- In general, VHDA will normally accept Rural Housing Underwriting requirements and property standards for loans guaranteed by Rural Housing; however, applicants must satisfy VHDA's basic borrower eligibility requirements set forth in Section 2.1.
- **Rural Housing Maximum Income**
- Applicants must meet VHDA and Rural Housing maximum income limit requirements.
- **Maximum Allowable RHS Loan Amount:** The Rural Housing guarantee fee can be included in the loan amount provided the final loan amount does not exceed the VHDA's maximum allowable sales price and loan amount does not exceed 100% of the appraised value.
- GUS Approve Eligible - **See AUS section of the Origination Guide for more information regarding the acceptance of these approvals.**

Section 2.4 Loan Terms and Requirements

A. Personal Property Restrictions

Federal Regulations prohibit VHDA from financing personal property transferring with the residence with the proceeds of tax-exempt bonds. While this regulatory prohibition has not been eliminated, VHDA counsel has approved revised procedures which permit VHDA to treat the value of the personal property as having been paid from any or all of the following sources: (i) the borrower's down payment; (ii) non-VHDA financing; and (iii) funds contributed (by purchaser or by seller on purchaser's behalf) at closing for purchaser's closing costs. For the purpose of this announcement, these funds are referred to as "Good Funds".

To ensure that the fair market value of the personal property transferring with the residence does not exceed the Good Funds, revisions have been made to the Affidavit of Seller (Exhibit F) and Affidavit of Borrower (Exhibit E). These revisions are as follows:

Affidavit of Seller (To obtain the form go to: http://www.vhda.com/SF/vforms/v_246.pdf)

A new statement has been added in Section 3 for the seller to state the value of the personal property. **This statement is applicable only to new construction.** It has been added because the value of the personal property in new construction may be substantial and should be easily quantifiable by the seller/builder.

Affidavit of Borrower (To obtain the form go to: http://www.vhda.com/SF/vforms/v_232.pdf)

A new Section 16 has been added for the applicant to certify that the fair market value of any personal property does not exceed the sum of (i) their down payment; (ii) any non-VHDA financing; and (iii) closing costs, which they reasonably expect to pay, or expect the seller to pay on their behalf, at loan closing.

The Originating Lender must review the Affidavit of Seller (if new construction) and Affidavit of Borrower to be certain that the fair market value of the personal property transferring with the residence does not exceed the Good Funds.

If the Good Funds are greater than the value of the personal property, a separate bill of sale for the personal property or an addendum to contract deleting the personal property is not required.

In the event the Originating Lender determines that the Good Funds are less than the fair market value of the personal property, the Originating Lender must contact VHDA for additional instructions prior to processing the loan.

Failure by the Originating Lender to properly examine the Affidavit of Seller (if new construction) and Affidavit of Purchaser for these personal property issues may result in repurchase of the loan from VHDA.

B. Maximum Loan Amount/Loan to Value

1. Total Loan Amounts

Total Loan amounts for all loan types may not exceed VHDA Sales Price Limits

2. FHA, VA and Rural Housing Loans

Maximum loan amounts (including financed MIP/guaranty fees) as determined by the insuring agency may be made up to the VHDA sales price limit. FHA Plus combined first and second mortgage may not exceed VHDA's maximum sales price limit. (See FHA Plus Program)

3. Conventional Loans

Maximum loan to value is 97% of the lesser of the sales price or appraised value for single-family residences and townhouses, and 97% for condominiums. Private mortgage insurance premiums may be financed but not to exceed 97% loan to value.

C. Mortgage Insurance Requirements

Loans in excess of 80% of the lesser of the sales price or appraised value, mortgage insurance must be provided through FHA, VA, Rural Housing or Conventional PMI insurers carrying at least an AA rating. **A minus pricing is not allowed**.

D. Private Mortgage Insurance Coverage Requirements

Loan to value	Coverage Required
95.01 - 97%	35%
90.01 - 95%	30%
85.01 - 90%	25%
80.01 - 85%	12%

Lenders are reminded that all VHDA loans that require mortgage insurance must comply with the individual mortgage insurer guidelines. Even though VHDA may offer more flexible guidelines, loans must meet the stricter of VHDA or the insurer guidelines. This includes adherence to criteria such as maximum LTV/CLTV, minimum credit scores, cash reserves, maximum seller contributions, maximum ratios, minimum borrower contribution and property requirements. Many of the mortgage insurance companies are now limiting their Loan to Value and Combined Loan to Value (including all liens, downpayment assistance, etc) to a maximum of 97%. In addition stricter LTV's and CLTV's may apply to properties located in declining markets. Please contact your mortgage insurance representative to confirm their specific requirements and the effective date of any change.

E. Maximum Loan Term

A 30-year term loan only available

F. Maximum Fees

The following fees are acceptable for VHDA Loans unless otherwise noted in specific program descriptions in Chapters 4 and 5:

1. Loan Origination Fee, if applicable, not to exceed 1% to be paid to the Originating Lender.

2. Reservation Fee in the amount of $120.00, which is paid prior to loan reservation to the Originating Lender and credited or refunded to the borrower at closing.

3. Loan Discounts Points due to VHDA will be deducted from the loan purchase proceeds. The Originating Lender may charge no additional discount points.

4. Final Inspection Fee

5. Tax Service Fee

6. Flood Certification Fee

7. Verification Fees

8. Courier Fees

Note: Allowable fees must not exceed actual costs for services as documented. Lenders may charge standard ancillary fees (for example underwriting, processing, or document preparation fees). Lenders may not charge fees greater for VHDA loans than they would for comparable non-VHDA products, or more than is considered customary in the market area, not to exceed a total of $800.00.

The Originating Lender must comply with all allowable fee requirements of FHA, VA or Rural Housing.

G. Pre-payment Penalty

A pre-payment penalty may not be imposed on any VHDA loan program.

H. Late Charge Fees

Late Charges will be imposed on all loans for payments received after the 15th day of the month. A late charge in the amount of 4% of the total payment will be charged on FHA, FHA Plus and VA loans and a late charge in the amount of 5% of the principal and interest payment will be charged on Conventional and Rural Housing loans.

Section 2.5 Closing Requirements

In general, these closing requirements apply to all VHDA programs unless otherwise specified in VHDA Loan Programs Section 4.2. Originating Lenders must contact VHDA directly to discuss any exceptions to these guidelines.

The accuracy of the borrower's name, property address and legal description must be confirmed and consistent on all documents throughout the loan file. If there are inconsistencies in the borrowers' names or property address, a name affidavit or address certification must be provided to VHDA. Loan documents must be completed and executed in accordance with the loan terms reflected on the VHDA Approval Notification or Delegated Approval Confirmation. All underwriting conditions required by the commitment letter, conditions of the appraisal, and insurer requirements must be satisfied prior to closing.

The following documents must be contained in the closing Lender's preliminary review package and must be reviewed and approved by VHDA under the standard closing process, or the Originating Lender's delegated closer under the delegated closing process. Additional details regarding document requirements may be referenced in Specific Closing Guidelines.

For current form and documents go to http://www.vhda.com/SF/forms.asp these forms and documents can be completed on line.

A. Final Loan Application (1003)

Final loan application reflecting verified information should be signed at closing. If final application is signed prior to closing, borrowers must sign a Verification and Update of Information, Exhibit U, at closing**.** If changes in information on the final application are disclosed, the closing Lender must not proceed with closing. The closing Lender or Originating Lender must immediately notify VHDA of the changes, and await further instruction from VHDA.

B. Deed of Bargain and Sale

The grantor must be the same party reflected in the title binder, as the seller in the sales contract and on the Affidavit of Seller.

C. First Mortgage Note and Second Mortgage Note (if applicable)

The Lender will fund the First and if applicable Second Mortgage Loan.

1. The First Mortgage Loan must be closed in the name of the Originating Lender.

2. The Second Mortgage maybe closed in either the Originating Lender's or VHDA's name.

3. A late fee of 5% is due 15 days after the due date on VHDA Conventional and Rural Housing loans; and 4% is due 15 days after the due date on FHA, FHA Plus second and VA loans.

4. No Prepayment penalty may be imposed on any VHDA loan.

D. First Deed of Trust and Attachments, and Second Deed of Trust * and Attachments (if applicable)

1. No chattels are financed by any VHDA mortgage loan; therefore, no chattels shall be included in the property description of the Deed of Trust.

2. "Trustee's fee" is 5%.

3. The appropriate box in the section entitled "Riders of this Security Instrument" must be checked and the appropriate riders must be affixed and recorded with the Deed of Trust. There is a specific VHDA Rider to be attached to the first Deed of Trust on every VHDA loan. If property is a PUD or Condominium, standard PUD or Condo riders must be used. If property is a manufactured home, a manufactured housing rider is required.

4. *Any Second Deed of Trust must have the following language on the first page in **bold and capitalized letters:**

"THIS DEED OF TRUST SHALL NOT, WITHOUT THE CONSENT OF THE SECURED PARTY HEREUNDER, BE SUBORDINATED UPON THE REFINANCING OF ANY PRIOR MORTGAGE."

E. Formal Title Insurance Binder

1. The "insured" must include, “their successors or assigns as their interest may appear” or be endorsed to VHDA after closing. For VA loans, the "insured" should also include the Secretary of Veterans Affairs. For FHA loans, the "insured" should also include the Secretary of Housing and Urban Development.

2. The title binder must state that the Closing Lender is covered under the title company’s insured closing service, and **a Closing Protection Letter from the title company’s headquarters (not the agency) insuring the Closing Lender must be received prior to releasing funds for closing.** The Closing Protection Letter cannot be more than six (6) months old at the time of closing.

3. Each exception appearing in the title binder must be described and located. If not, the title binder must provide affirmative coverage prior to closing against any loss or damage resulting from the exception. (Do not provide copies of customary easements unless specifically requested by VHDA.) Oil and mineral rights/leases may require explanatory documentation, specific affirmative coverage and prior approval by VHDA. The following exceptions are not acceptable to VHDA and cannot appear in the final title policy:

Property taxes (unless for current and supplemental taxes not yet due and payable)

Survey (Exceptions must specifically reference what is shown on the survey provided for review) If a survey is not provided, survey exceptions are not allowed.

- Rights of parties in possession
- Mechanic’s and material man’s liens
- Judgments, including any against the borrower
- Unreleased deeds of trust, **even if affirmative coverage is provided to lender**
- Rights of present or future spouse
- Oil and mineral rights/leases (unless has affirmative coverage and prior approval by VHDA)

A notation on the face of the binder stating that preprinted exceptions will not appear in the final policy or that they do not apply to the lender’s policy will be acceptable.

4. All recorded liens, such as judgments and unreleased deeds of trust, must be paid and released prior to disbursement of loan check for closing, **even if affirmative coverage is provided by the title company.**

5. Affirmative insurance coverage must be provided that applicable restrictive covenants "have not been violated and that a future violation will not cause a forfeiture or reversion of title". Do <u>not</u> provide copies of applicable restrictive covenants unless specifically requested by VHDA.

6. The title binder must have appropriate ALTA Endorsements attached if the property is a PUD or Condominium. Do <u>not</u> provide copies of homeowners’ association documents unless specifically requested by VHDA.

7. Title insurance should include an ALTA Form 7 endorsement to extend title coverage to the manufactured home. Generally, this requires confirmation that the manufactured home is permanently attached to the land, that all personal and real estate taxes have been paid, and that the Certificate of Title has been surrendered. Levels of proof will differ by Title Company.

8. Any easements that adversely affect the property's use, enjoyment or marketability, such as high-tension power lines, will be unacceptable.

9. An ALTA 8.1 is required on all loans.

F. Private Roads

Properties must be located on a state maintained road; however, VHDA may authorize an exception for a private road. Refer to Property Eligibility Requirements Section 2.2 for additional information. Originating Lender is responsible for complying with insurer's/guarantor's requirements.

1. Provide the following documentation on conventional loans:

- Copy of recorded right of way for ingress and egress
- Copy of recorded road maintenance Purchase Agreement signed by all parties utilizing the private road and providing for maintenance on terms and conditions acceptable to VHDA

2. Provide all documentation required by the insurer on FHA or VA loan.

G. Well and Septic

Well and Septic Inspection Reports are not required by VHDA unless required by the underwriter or appraiser, by the insuring agency.

Properties with available public water and sewer hookups must utilize them. A waiver may be requested if evidence is provided that this would not be cost effective.

Properties without available public water and sewer hookups may have their own well and septic. (Water analysis and septic certification must be provided prior to closing if required by the insuring agency or reflected as an appraisal or underwriting condition. Originating Lender is responsible for complying with insurer's/guarantor's requirements. Refer to Property Eligibility Requirements Section 2.2 for additional information.)

1. Joint Ownership

On Conventional loans, joint ownership of a well or septic system will be considered; however, the well or septic must be located on the subject property being financed and a recorded easement with maintenance Purchase Agreement must be provided for review. Originating Lender is responsible for complying with insurer's/guarantor's requirements.

2. Community Water Systems

On Conventional loans, evidence that community water systems are monitored by state, county or local health departments, and reports that have been available on a regular basis must be provided for review. Originating Lender is responsible for complying with insurer's/guarantor's requirements.

3. Cisterns

Cisterns are considered by VHDA on a case-by-case basis

VHDA regulations provide that VHDA will consider financing property without available water and sewer hookups that are served by cisterns on a case-by-case basis to determine whether the cisterns will be adequate to serve the property. The following offers guidance on when approval of cisterns may be granted. VHDA will consider properties for which water is provided through cisterns in market areas where this type of water supply is common and customary and traditional water systems are difficult to install or not feasible due to terrain and environmental issues.
The following requirements must be met for consideration of approval of properties with cisterns as the primary water source.

- Satisfactory Water Quality Test: (dated within 90 days of loan closing)
- Cistern Inspection: (dated within 90 days of loan closing) Inspection from inspector qualified to inspect cisterns. Inspector must certify that there is no leakage.
- Cistern opening must be secured with concrete or metal cover
- Water Source.
  Rainwater from roof, spring or other source is not acceptable. Water must be provided by a common water carrier (supplied by a public water source). Proof that a common water carrier is available to serve the property must be provided. A statement from the provider or recent bill from seller identifying the property is acceptable documentation.
- Appraisal: Appraiser to provide a picture of the cistern and address the effect of cistern on market value and marketability. A minimum of one comparable must have a cistern as primary water source.
- Cisterns will not be acceptable for properties where public water is available.
- Cistern must be acceptable to mortgage insurer
- Financing for residences with cisterns will be limited to 97% LTV.

H. Survey

A survey is not required unless the title insurance policy takes an exception to a survey. Originating Lenders must comply with insurer's requirements. Alta 9 dose not cover exceptions for general matters of current survey.

I. Flood Certification

A Flood Certification, to comply with the National Flood Insurance Reformation Act of 1994, must be provided by a licensed vendor that guarantees the accuracy of the information provided. The same or another licensed vendor must provide Life of Loan tracking.

If flood insurance is required on the property, a copy of the flood insurance application must be reviewed. The loan cannot close prior to the effective date of the policy. The policy must include the name and address of the mortgagor, name and address of the mortgagee, and a description of the insured property.

The Flood Certification takes precedence over any other documentation provided.

J. Termite Inspection and Guarantees

1. Existing Structures

Current infestation report is required only if it is a requirement of the insurer or a condition of appraisal or underwriting. A reputable termite company must provide appropriate form as required by the insurer/guarantor.

Reports expire 90 days from the date of the inspection, unless otherwise stated on the report. If damage or moisture is reported, the termite company or a licensed contractor must state that the problem has been corrected. If wood-destroying infestation is reported, the termite company must furnish evidence that property was satisfactorily treated, and provide an acceptable guarantee against future infestation.

VHDA does not require a termite inspection on a Flex/Alt refinance.

2. New Construction

Current soil treatment guarantee on the appropriate form as required by the insurer/guarantor must be provided by reputable termite company and countersigned by the builder. Guarantee must be valid for at least one (1) year from the date of treatment. Evidence of a termite shield or a bait system is acceptable.

K. Inspection and Escrows

A final or repair inspection is required if indicated as a condition on the VHDA Commitment or the appraisal report. Inspection Report by appropriate inspector must indicate that all improvements are complete and satisfactory, and must be reviewed prior to releasing the loan check for closing. Escrows must be approved by VHDA, and will be considered only on a case-by-case basis.

L. Hazard Insurance Binder/Policy

1. The insurance company must be rated at least B+ in the Best's Key Rating Guide or Demotech.com. If the rating is below B+, a re-insurance certificate from a second company whose rating is at least B+ must be provided. If the insurance company is not rated in the Best

Key Rating Guide or Demotech.com, contact VHDA's Servicing Department to determine if the company has been approved by VHDA.

2. Policies, or temporary written contracts of insurance (binders), are acceptable. Hazard Insurance coverage is not required on the second mortgage of the FHA Plus loan. Applications for insurance are not acceptable. Policies/Binders must include the following information:

- Name and address of the mortgagor
- Name and address of the mortgagee
- Description of the insured collateral
- Provision that binder may not be canceled within the stated term except upon 10 days written notice to the mortgagee
- State that the company will issue the policy within 45 days from issuance of the binder

3. The mortgagee clause must be reflected as:

Virginia Housing Development Authority
c/o Central Servicing
PO Box 4628
Richmond, VA 23220-8628

4. The amount of coverage must be stated in numerals and be at least equal to the lesser of the appraised value of the property less the value of the land, as shown on the appraisal, or the loan amount. Replacement coverage alone does not eliminate the required dollar amount coverage.

5. The description of the insured property should include the legal description and the mailing address.

6. The loan cannot close prior to the effective date of the policy/binder.

M. HUD-1 Settlement Statement

All charges in connection with closing, including prepaid items and closing costs, must be included in the settlement statement and must reflect to whom charges are payable. Changes at closing, such as, charges for extras paid by the borrower, or changes to the sales price, will affect the acquisition costs and require re-execution of the Affidavit of Borrower and Affidavit of Seller.

Borrower may not receive funds in excess of POC items and EMD (Earnest Money Deposit) back at closing. Costs must be shown as POC to be included in allowable cash back to borrower. Excess funds to borrower at closing require reduction of the loan amount or applicable second.

The Originating Lender is responsible for complying with requirements of insurer/guarantor regarding allowable fees to insure receipt of loan guaranty certificate.

A separate HUD-1 is required for all 1st and 2nd loans.

1. Maximum allowable fees, unless otherwise noted in specific program description **or restricted by the insurer/guarantor:**

- Loan Origination Fee, if applicable, must be included in Origination Chares on line 801. Fee may not exceed 1% of the loan amount plus allowable ancillary fees. Loan Origination Fee must be reflected on blank line in 800 series or on page 4 attached to HUD-1.
- Reservation Fee of $120, is paid to the Originating Lender prior to loan being reserved with VHDA, should be refunded to the borrower or shown as credit item in the 200 series and deducted from the Originating Lenders fees at closing.
- Loan Discount Points must be payable to VHDA. Points will be deducted from the loan proceeds check by VHDA. DISCOUNT POINT (S) MAY NOT BE CHARGED BY THE ORIGINATING LENDER.
- Final Inspection or Repair Inspection Fees may be charged to the borrower (Refer to Insuring Agency's guidelines)
- Tax Service Fee, is always payable to LERETA in the amount of $45.00. The borrower is not given the option to “shop” for the tax service provider on VHDA loans. The tax service fee is deducted from the purchase remittance.
- Flood Certification Fee and Life of Loan Fee
- Verification Fee
- Courier Fees
- Originating Lenders may collect for reimbursement for cost incurred such as credit report and appraisal fees

2. Income Producing/Ancillary Fees

Reasonable and customary income producing/ancillary fees such as document preparation, underwriting or commitment fees may be charged by the Originating Lender and reflected in Origination Charges on line 801. Total fees may not exceed $800.

3. Per Diem Interest

Per diem interest should be collected from the date of closing through the last day of the month and be calculated on 365 days. On the FHA Plus second mortgage, closing interest is required.

4. Interest Credits

Interest credits are allowed only if closing occurs between the 1st and 5th day of the month, **and** only if the Originating Lender determines that interest paid at closing will cause a financial hardship for the borrowers, or a shortage of funds to close.

5. Escrow Reserves

Escrow reserves must be collected in accordance with RESPA requirements.

Note: If the property is a condominium, escrow reserves must be collected on the H06 Policy

Accurate Tax Escrow Estimation for New Construction

Lenders are reminded that tax escrows for new construction are to be based on estimates of the property taxes considering the value of land and improvements. When qualifying borrowers and conducting the settlement, realistic estimates of property taxes reflecting the value when assessed should be used in qualifying and in the establishing the escrow amounts at closing. Lenders are responsible for reviewing the HUD 1 and instructing the closing Lender to establish tax escrows based on the estimated value with improvements.

6. Secondary Financing

Effective January 1, 2010 a separate GFE and HUD1 is required for all second mortgages including **FHA PLUS** to be in compliance with RESPA.

N. Technical Corrections Purchase Agreement

A Technical Corrections Purchase Agreement (i.e. Errors and Omissions Purchase Agreement) must be completed and signed by all borrowers at closing.

O. Truth-In-Lending

A separate Truth-In-Lending disclosure is required for the first and second mortgages to comply with Regulation Z.

Section 2.6 Post-Closing Requirements

These post-closing requirements apply to all VHDA programs unless otherwise specified in VHDA Tax-exempt Bond Loan Programs, Chapter 4 or Taxable Bond/Alternative Funded Programs, Chapter 5. Originating Lenders must contact VHDA directly to discuss any exceptions to these guidelines.

The accuracy of the borrower’s name, property address and legal description must be confirmed and consistent on all documents throughout the file. A name affidavit is required on all loans. An address certification must be provided to VHDA if there are inconsistencies on documents. Loan documents must be completed and executed by the borrowers and in accordance with the loan terms reflected on the VHDA Delegated Approval Notice or Notice of Loan Approval. All conditions that were not provided to VHDA prior to closing, must be provided to VHDA in the closed loan package. The critical documents listed below must be submitted to, and will be retained by VHDA.

All follow-up mail or correspondence must reference the borrower's name and the VHDA loan number.

REFER TO CLOSING REQUIREMENTS, SECTION 2.5, FOR DETAILS REGARDING DOCUMENT REQUIREMENTS.

A. Documents Provided to VHDA (left side placement)

There are certain fully executed documents that the Originating Lender must provide to VHDA. The listing as follows will include the documents that must be placed on the left side of the loan file.

1. Closed Loan Document Checklist, Exhibit II (1)

This checklist reflects the documents to be placed on the left side of the loan file. **The documents should be placed in the order of the checklist.**

a. Originating Lender should complete all blanks and provide required documents.

b. The checklist should be the first document on top of the closed loan package.

2. First Mortgage Note and Second Mortgage Note (if applicable)

The Note will reflect the Originating Lenders name.

Appropriate original Note is required. If errors are found on the original Note, it will be retained by VHDA and a Reformation/ Amendment of Note will be completed by VHDA stating the corrections needed to the original Note and sent to the Originating Lender. The Originating Lender must return the Reformation/Amendment of Note to VHDA within 10 business days of receipt.

If the Note was prepared on the wrong form, the Originating Lender will be required to provide a fully executed Note on the correct form. Upon receipt by VHDA, the incorrect Note will be marked "VOID" and returned to the Originating Lender.

Loans will not be purchased until VHDA is in receipt of a conforming Note.

a. Second Mortgage Note for FHA Plus loans

The Second Mortgage Note maybe either the Originating Lenders name with subsequent endorsement to VHDA or in VHDA's name. Originating Lender is to use the appropriate Note depending on the method used.

b. Endorsement of Note(s)

An original signature is required for the endorsement of the Note(s) – a signature stamp is not acceptable. The endorsement must be on the Note(s) rather than in a separate Allonge. The following language must be used to endorse the note:

"Pay to the order of Virginia Housing Development Authority Without Recourse"

Lender's Name

Authorized Signature

Name of Authorized Signer

Title of Authorized Signer

3. Deeds of Trust

Provide copy in closed loan package along with original recording receipt. Original must be provided within 90 days from closing.

VHDA Rider to Deed of Trust are required on the First Mortgage.

The FHA Plus Second Deed of Trust must have the following language on the first page in **bold and capitalized letters:**

"THIS DEED OF TRUST SHALL NOT, WITHOUT THE CONSENT OF THE SECURED PARTY HEREUNDER, BE SUBORDINATED UPON THE REFINANCING OF ANY PRIOR MORTGAGE."

4. Certificate of Transfer/Assignment of Deed of Trust

This use of MERS is not allowed.

The post-closing package must contain a copy of a certificate of transfer or assignment to be recorded simultaneously with the deed of trust. The original, stamped copy of this document must be forwarded to VHDA with the recorded deed of trust when returned from the clerk's office. The mortgage assignment that it prepared must show the assignee as Virginia Housing Development Authority, a political subdivision of the Commonwealth of Virginia with an address of 601 S. Belvidere St. Richmond, VA 23220 and must <u>not</u> include a recitation that the assignment of the mortgage is "without recourse" because the loan repurchase requirements are still in effect. (See Fannie Mae form 3744 for example).

Costs of Assignment

The HUD 1 Settlement Statement may contain a charge to the borrower for the recordation of the assignment if properly disclosed and in compliance with applicable insurer guidelines.

5. Final Loan Application (1003)

Provide final loan application signed by all borrowers at closing.

6. VHDA Loan Commitment Letter and VHDA Addendum to Commitment

The original is required with all borrowers' signatures and all conditions listed on the commitment letter.

7. Recapture Notice, Exhibit R-1

The original (provided to the Closing Agent by the Originating Lender) signed by all borrower(s) is required.

8. HUD-1 Settlement Statement/Good Faith Estimate/Truth-In-Lending

A copy of HUD1 reflecting signatures of borrowers is required. All GFE and T-I-L disclosures must be provided.

9. Survey

A survey is not required unless the title insurance policy takes an exception to a survey. Originating Lenders must comply with insurer's requirements. Alta 9 dose not cover exceptions for general matters of current survey.

10. Hazard Insurance Binder/Policy

Only provide in closed loan package if loan was closed with delegated procedures and binder/policy was not provided previously. A copy is required. The original should be provided in the package to the Servicing Lender. Hazard Insurance coverage is not required on the second mortgage of the FHA Plus loan. Applications are not acceptable.

11. Flood Certification and Flood Application (if applicable), and Evidence of Life of Loan Tracking

Only provide in closed loan package if loan was closed with delegated procedures and certification was not provided previously. The original is required by VHDA. A copy should be provided in the package to the Servicing Lender. Originating Lender is required to comply with requirements of National Flood Insurance Reformation Act of 1994.

12. Post-closing Cover Letter, Exhibit P

The original is required with the signature of Originating Lender's representative certifying to the statements contained therein.

13. Title Insurance

a. Original formal title binder with countersignature and endorsements must be provided in closed loan package if loan was closed with delegated procedures and not provided to VHDA previously. Mortgagee Clause must contain language "it's successors or assigns as their intrest may appear."

b. Original formal title policy with countersignature must be received within 90 days from closing. Short form and instant final title policies are acceptable.

Note: Title insurance is not required on the second mortgage of the FHA Plus loan.

14. Mortgage Insurance Certificate

Conventional mortgage insurance certificate must be provided in closed loan package if loan was closed with delegated procedures and not previously provided to VHDA. Originating Lender must provide original MIC, LGC, or Rural Housing Guaranty to VHDA within 90 days from closing. On FHA loans provide evidence of loan transfer in FHA Connection to VHDA.

FHA Plus Loans - Mortgage insurance on the 1st mortgage only.

The original mortgage insurance or guarantee (including FHA, VA & Rural Housing) certificate will not be issued in the name of VHDA, the Originating Lender must complete the assignment portion of the insurance certificate to reflect the assignment to VHDA and file it with the insurer or guarantor. A copy of this completed document must be included in the post-closing package. VHDA must subsequently receive such endorsed certificate.

15. Termite Inspections and Guarantees

a. Existing Structures: Provide current infestation report on the appropriate form as required by the insurer/guarantor by a reputable termite company and signed by all parties. VHDA does not require a termite report on uninsured loans unless it is a condition of the appraisal or underwriting.

b. New Construction: Current soil treatment guarantee on the appropriate form as required by the insurer/guarantor provided by a reputable termite company and countersigned by the builder. Guarantee must be valid for at least one (1) year from the date of treatment. Evidence of a termite shield or bait system is acceptable.

16. Technical Corrections Purchase Agreement

Technical Corrections Purchase Agreement (i.e. errors and omissions Purchase Agreement) must be provided signed by all borrowers at closing.

B. Documents Provided to VHDA (right side placement)

There are certain documents that the Originating Lender must provide to VHDA. The listing as follows will include the documents that must be placed on the right hand side of the loan file, <u>only if the loan was underwritten with delegated procedures and not provided to VHDA previously</u>.

1. Underwriting Document Checklist, Ex. KK

This checklist reflects the documents to be placed on the right side of the loan file. **The documents should be placed in the order of the checklist.**

a. Originating Lender should complete all blanks and provide required documents in the order reflected on the checklist.

b. The checklist should be the first document on top of the underwriting package.

2. Originating Lender's Loan Submission Cover Letter (Ex. O)

The original must be completed and signed by Originating Lender's underwriter certifying to the statements contained therein.

3. Program Disclosure and Borrower's Affidavit (Ex. E)

The original completed document is required with all borrowers' initials and signatures. Document must be properly notarized. See Explanation of VHDA Forms, Section II, for additional details.

4. Affidavit of Seller (Ex. F)

A completed document is required with all sellers' signatures. Document must be properly notarized. See Explanation of VHDA Forms, Section II, for additional details. Faxed copies are allowed.

5. Federal Tax Returns

A copy of all borrowers' tax returns for most recent 3 years is required.

6. Tax Request Form 4506 or 4506-T

Provide one signed 4506 or 4506-T for each borrower.

7. Automated Underwriting Findings Reports (DU, LP - If Applicable)

8. Credit Report

Initial and supplements with credit scores are required

9. Income Verification(s)

Direct Verification and current pay stub or W2's and current pay stub(s) to cover **30 days** and telephone verification.

10. Verification of Funds

Direct written verification of deposits or recent two (2) months bank statements.

11. Sales Contract

Copy provided must be fully executed with all addendums

12. Residential Appraisal

Copy provided must include all applicable documentation

13. FHA 92900-LT or VA Loan Analysis (if applicable)

Provide copy signed by underwriter

14. Homeownership Education Certificate

15. Divorce Decree/Separation Purchase Agreement (if applicable)

16. Resident Alien Documentation (if applicable)

17. ALL APPLICABLE ORIGINATION DOCUMENTS REQUIRED BY FHA, VA OR Rural Housing.

Chapter 3 - Origination Procedures

Section 3.1 Reservation of Funds

VHDA reserves funds for each mortgage loan on a first come, first serve basis. Reservations are made by Originating Lenders for specific applicants and properties. The interest rate is locked-in at the time of reservation of funds. No substitutions of applicant, property or Originating Lender are permitted.

A. Reservation Fee

The Originating Lender must collect a **non-refundable** fee in the amount of $120.00 prior to the reservation of funds with VHDA. This fee will be held by the Originating Lender and will be credited or refunded to the borrower at closing.

B. Reservation Period

Funds are reserved at the locked-in interest rate for a period of 60 days. The completed loan application package must be submitted to VHDA for loan review or approved by the Delegated underwriter on behalf of VHDA prior to the expiration of this 60 day period.

C. Extension of Reservation Period

The Originating Lender may request a one-time 60-day extension of this period by notifying VHDA’s Reservations Department in writing of this request.

D. Cancellation of Reservation

Should the loan not close after funds have been reserved with VHDA, regardless of reason, the reservation fee must be forwarded to VHDA. A check for the reservation fee along with a cover letter including borrower name, social security number and VHDA reservation number must be sent to VHDA’s Reservations Department. If the reservation is not paid within 60 days of cancellation, a $50.00 penalty will be assessed.

E. Second Reservation Request

Applicants may request a second reservation if the first has expired or has been cancelled. If the second reservation is made within 12 months of the date of the original reservation, the new interest rate will be the greater of (a) the original locked-in rate or (b) the current rate offered by VHDA at the time of the second reservation. Borrower may request VHDA’s current rate, if lower, provided the property has changed, a release of contract is provided and the $120 reservation fee is paid to cancel the first reservation. Originating Lenders must contact VHDA Reservations Department directly to make the second reservation.

F. Reserving the Funds

Prior to reserving funds for a loan the Originating Lender must:

- Obtain sufficient preliminary information from the borrower and determine, based on this preliminary information, if the applicant and property meet VHDA's loan requirements
- Collect the non-refundable reservation fee of $120.00
- Determine program type for loan reservation of funds
- Reserve funds on the VHDA automated reservation system

G. Automated Loan Reservation System

This easy-to-use system guides you through the VHDA reservations process, allows for convenient access to reserve funds and allows retrieval of helpful loan status and activity reports. This system replaced the phone reservations process as of June 19, 2000.

Please refer to the Reservations System User's Guide for procedures in accessing and using this system. Guides for each of our online tools are available at http://www.vhda.com/sf/guides.htm.

If your company has any questions or needs any assistance in implementation of this procedure, please contact one of the customer support numbers listed below.

(877) 428-9218 (toll free) or
(804) 343-5710 (Richmond local)

Section 3.2 Standard Origination Procedures (Non-Delegated)

Standard Origination Procedures are to be used by Originating Lenders that have not obtained VHDA delegated authority or for delegated lenders submitting loans for programs, which are not eligible for the delegated process.

A. Loan Application Process

1. Take Loan Application

2. Assess qualifications

3. Check Maximum Income and Sales Price Limits at http://www.vhda.com/SF/salesincome.htm.

4. Request 3 years federal tax returns (if applicable to program)

5. Review Contract

6. Notify applicant of any Homeownership Education requirement (if applicable to program)

7. Explain loan programs and disclosures

8. Complete appropriate forms/ VHDA Program Disclosure

9. Collect $120.00 reservation fee from application

10. Reserve funds on online reservation system

B. Processing

Included with processing is ordering of credit documents.

Note: **Credit Documents** can be no more than 90 days old at time of loan commitment. **Credit Documents** can be no more than 120 days old at time of closing for existing construction and no more than 180 days at time of closing for new construction.

1. Separation/Divorce Decree.

2. Verification of Employment: For purposes of determining maximum income for eligibility the following documentation is acceptable:

1. Written verification of employment and current pay stub or 2. Most recent pay stub reflecting year to date earnings and W2's for the most recent two-year period along with a verbal verification from the employer

If the year to date earnings and current earnings on the pay stub represent a significant discrepancy from the most recent W2's, then a direct verification is required to ensure that all income is included in maximum income calculations.

3. Verification of Deposit - Direct or two months recent bank statements acceptable.

4. Appraisal.

5. Credit Report - RMCR or three repositories merged in-file with credit scores from all repositories.

6. Tax returns (Refer to Section 2.1 E.3 re: tax returns if applicable to program).

7. All other credit documents as required by the insurer.

C. Underwriting

1. Mortgage Insurance Approval

Originating Lender underwriter must approve VHDA loans for the appropriate insurer FHA/VA/Rural Housing or PMI prior to submission to VHDA for loan approval.

2. VHDA Compliance Review

a. Originating Lender underwriter is to review loan for compliance with VHDA requirements. See Chapter 2 for Special Eligibility Requirements.

b. Complete and sign the Loan Submission Cover Letter (Ex. O).

This form will also indicate special eligibility requirements.

D. Loan Submission

1. Prepare package in order as indicated on the Underwriting Document Checklist Exhibit KK

2. Send originals of VHDA documents

3. Fasten with acco fastener

4. Include express package with complete air bill or pick up instructions if commitment letter is not to be sent regular mail.

5. Send Package to VHDA - Attn: Single Family Underwriting

6. Submit package prior to reservation expiration date

E. VHDA Loan Review

The Originating Lender may check the status line 1-800-852-4689 to check status on loan after submission.

1. VHDA Review and Approval

a. Notice of Loan Approval with any conditions will be forwarded to the Originating Lender.

b. Commitment Period

The commitment will be issued for 90 days for existing construction and 120 days for new construction.

2. VHDA Review and Suspension

Review has been performed and required information or documentation is needed before final decision can be made. The VHDA underwriter will contact the Originating Lender to request the additional information.

3. VHDA Review and Rejection

Review has been performed and determined that loan does not meet VHDA requirements. A letter of denial will be sent to the Originating Lender.

4. Resubmission

At the request of the applicant, loans may be resubmitted for consideration with additional information, within 30 days of the denial notice.

F. Loan Closing Process

1. Loan Closing Documents

VHDA forms are available online and via VMP Forms. Go to http://www.vhda.com/SF/forms.asp to view current VHDA forms by product. Appropriate FHA documents or Fannie Mae/Freddie Mac uniform instruments (Virginia) for VA, Rural Housing or Conventional loans must be used at closing.

2. Closing Instructions

a. Originating Lender must prepare Instruction Letter to Attorney following the Specific Closing Guidelines **VHDA Ex. M(2)(P)**.

b. The commitment letter and all required instructions, exhibits, forms and documents to comply with VHDA and insurer's/guarantor's requirements must be sent to closing Lender to prepare for closing.

3. Pre-Closing Review

a. The preliminary package must be submitted by the lender to VHDA two business days prior to closing date. The Settlement Agent is required to submit a package to the Originating Lender. The Originating Lender will forward the review package to VHDA.

b. The VHDA Closing Specialist will contact the Originating Lender with any additional or corrected document requirements. Underwriting and/or Appraisal conditions must be received by VHDA prior to loan closing. VHDA Closing Specialist will fax authorization for the Lender to close and fund the loan.

c. The Originating Lender must provide a final Truth-In-Lending Disclosure on the first and second mortgage to the Closing Agent.

4. Special Closing Documentation

The Originating Lender will send the Recapture Notice which has been provided by VHDA to the Closing Agent that will be given to the borrower at closing. The Lender will also provide a Servicing Transfer Letter (Hello/Goodbye Letter) and First Payment Letter to the borrower at closing.

5. Loan Closing Disbursement

The Originating Lender will fund the first and if applicable, FHA Plus second mortgage. Loans must close prior to commitment expiration.

G. Post-closing Process

1. Loan Package Submission for Loans Serviced by VHDA

a. Originating Lender must provide one complete loan package including required underwriting and closing documents within **10** calendar days of loan closing, but in no event later than the **15th** day of the month preceding the first payment date. Wiring instructions are to be included in the loan package to:

Virginia Housing Development Authority

c/o Central Servicing

PO. Box 4549

Richmond, Virginia 23220

b. In addition a package including all documentation listed on the Servicing Submission Checklist must be submitted.

2. Loan Document Review and Funding

a. A correct and conforming Note (and any FHA Plus Note) will be required for purchase approval. VHDA will notify the lender of approval for purchase or if the loan(s) has been pended for required corrections. A complete review of the file will be performed after funding at which time the lender will be notified of any deficiencies needed to be resolved.

Fees for escrows, the tax service fee and points due VHDA will be netted from the loan proceeds. Any premium pricing fee, the service release fee and interest due the lender will be paid at the time of purchase. All purchase proceeds will be wired to the lender with a notification of funding faxed to the lender

b. VHDA will provide a suspense letter on each loan, and a quarterly report listing all loans closed over 60 days with outstanding documents.

4. Obtaining Mortgage Insurance

Originating Lender must submit required loan documents to insuring agency to obtain loan guaranty in a timely manner. Original loan guaranty certificate must be provided to VHDA.

5. Final Documents

The Originating Lender must submit all final documents (title policy with all endorsements, recorded deed of trust and mortgage insurance certificate/ loan guaranty certificate) to VHDA within 90 days after loan closing.

Section 3.3 Delegated Origination Procedures

VHDA Originating Lenders must receive approval to act in a delegated capacity. Once approved, all loans (unless otherwise noted in program guidelines) may be approved and closed through the delegated process. The Originating Lender will review loans, issue loan commitments, approve loans for closing and fund loans at closing.

A. Loan Application Process/Taking Loan Application

1. Take Loan Application.

2. Assess qualifications.

3. Check Maximum Income and Sales Price Limits by going to http://www.vhda.com/SF/salesincome.htm.

4. Request 3 years federal tax returns (if applicable to program).

5. Review Contract.

6. Notify applicant of any Homeownership Education requirement (if applicable).

7. Explain loan programs and disclosures.

8. Complete appropriate forms/ VHDA Program Disclosure.

9. Collect $120.00 reservation fee from application.

10. Reserve funds on online reservation system.

B. Processing/Ordering Credit Documents

Credit Documents can be no more than 90 days old at time of loan commitment. **Credit Documents** can be no more than 120 days old at time of closing for existing construction and no more than 180 days at time of closing for new construction. Or other time required for the mortgage insurer.

1. Separation/Divorce Decree. (If Applicable)

2. Verification of Employment: For purposes of determining maximum income for eligibility the following documentation is acceptable:

1. Written verification of employment and current pay stub or 2. Most recent pay stub reflecting year to date earnings and W2's for the most recent two-year period along with a verbal verification from the employer

If the year to date earnings and current earnings on the pay stub represent a significant discrepancy from the most recent W2's, then a direct verification is required to ensure that all income is included in maximum income calculations.

3. Verification of Deposit - Direct or two months recent bank statements acceptable.

4. Appraisal.

5. Credit Report: RMCR or three repository merged in-file with credit scores from all repositories.

6. Tax returns (refer to Section 2.1 E.3 re: tax returns if applicable to program).

7. All other credit documents as required by the insurer.

C. Underwriting

Approved VHDA Delegated Underwriters only to review loan files and loan must be reviewed prior to expiration of reservation date.

1. Mortgage Insurance Approval

Originating Lender underwriter must approve VHDA loans for the appropriate insurer FHA/VA or PMI prior to submission to VHDA for loan approval.

2. VHDA Compliance Review

a. Originating Lender underwriter is to review loan for compliance with VHDA requirements.

See Chapter 2 for Special Eligibility Requirements.

b. Complete and sign the Loan Submission Cover Letter (Ex. O)

This form will also indicate special eligibility requirements.

3. Delegated Underwriting Approval Notice - Form DU-600

After review and determination of compliance with all VHDA and insurer requirements, the approved delegated underwriter will complete a Delegated Approval Notice and fax to VHDA at 804-783-6718.

4. Approval Confirmation

VHDA will review and fax to Originating Lender a confirmation of loan terms, which serves as authorization to issue a loan commitment. The confirmation will be faxed to Originating Lender along with the Recapture Notice.

5. Loan Commitment

The approved VHDA Delegated Underwriter will issue a loan commitment along with the VHDA Addendum to Commitment. The loan commitment will be issued in accordance with the terms, loan program and loan amount in the Confirmation Notice issued by VHDA. Minor changes in loan amounts will not require notification to VHDA prior to closing.

D. Loan Closing

1. Closing Instructions

Originating Lender must provide the Closing Lender with the following:

a. Commitment Letter and VHDA Addendum to Commitment

b. Originating Lender must prepare Instruction Letter to Attorney following the Specific Closing Guidelines **VHDA Ex. M(2)(P)**.

c. The Originating Lender will send the Recapture Notice which has been provided by VHDA to the Closing Agent that will be given to the borrower at closing. The Lender will also provide a Servicing Transfer Letter (Hello/Goodbye Letter) and First Payment Letter to the borrower at closing.

2. Pre-Closing Review

a. Approved delegated closer will review the Closing Lender's preliminary review package including all documents to be executed at closing, and all loan commitment and appraisal conditions. The delegated closer will notify the closing Lender of any additional or corrected document requirements. See Closing Requirements, Section 2.5 for additional details.

b. Delegated closer will not authorize loan to close unless all VHDA and insurer/guarantor requirements have been met.

c. Approved delegated closer will provide final Truth-In-Lending and any other final instructions and/or documents to closing Lender when firm-closing date has been determined.

3. Loan Closing Disbursement

The Originating Lender will fund the first and if applicable, FHA Plus second mortgage. Loans must close prior to commitment expiration.

4. Post-closing Process

1. Loan Package Submission for Loans Serviced by VHDA

a. Originating Lender must provide one complete loan package including required underwriting and closing documents. within **10** calendar days of loan closing, but in no event later than the **15th** day of the month preceding the first payment date. Wiring instructions are to be included in the loan package to:

Virginia Housing Development Authority

c/o Central Servicing

PO. Box 4549

Richmond, Virginia 23220

b. In addition a package including all documentation listed on the Servicing Submission Checklist must be submitted.

5. Loan Document Review and Funding

a. A correct and conforming Note (and any FHA Plus Note) will be required for purchase approval. VHDA will notify the lender of approval for purchase or if the loan(s) has been pended for required corrections. A complete review of the file will be performed after funding at which time the lender will be notified of any deficiencies needed to be resolved.

Fees for escrows, the tax service fee and points due VHDA will be netted from the loan proceeds. Any premium pricing fee, the service release fee and interest due the lender will be paid at the time of purchase. All purchase proceeds will be wired to the lender with a notification of funding faxed to the lender

b. VHDA will provide a suspense letter on each loan, and a quarterly report listing all loans closed over 60 days with outstanding documents.

6. Obtaining Mortgage Insurance

Originating Lender must submit required loan documents to insuring agency to obtain loan guaranty in a timely manner. Original loan guaranty certificate must be provided to VHDA.

5. Final Documents

The Originating Lender must submit all final documents (title policy with all endorsements, recorded deed of trust and mortgage insurance certificate/ loan guaranty certificate) to VHDA within 90 days after loan closing.

Non-compliance with required procedures or VHDA requirements might result in suspension from participation in the delegated program as well as required purchase of the loan. See Originating Lender Non-compliance and Remedies, Section 1.10, for additional information.

Chapter 4 - VHDA Tax-exempt Bond Loan Programs

The programs described in this Chapter are funded with tax-exempt bonds. The programs offer lower interest rates or special affordability features to those individuals meeting all of VHDA eligibility requirements in Chapter 2 of this guide.

VHDA Income Limits apply to all loan programs in this section unless otherwise stated.

Completion of a VHDA Homeownership Education Course is a requirement to be eligible for VHDA programs.

Section 4.1 30 Year Fixed Rate

VHDA's fixed rate program offers a below market interest rate with the advantage of the lower down payment requirements offered through the insured programs noted below.

Conventional - First time homebuyer Bond Program

A. VHDA/Conventional Insured/Uninsured

1. Maximum LTV - 97%

2. Loan amount may not exceed VHDA Sales Price limit

3. All borrowers must have a minimum credit score (middle score) of 620 or higher.

4. Must meet all VHDA and private mortgage insurer requirements 97.00% - 80.01% LTV. Loans must be approved by the Mortgage Insurer, Delegated Mortgage Insurance is not acceptable.

Loan to value	Coverage Required
95.01 - 97%	35%
90.01 - 95%	30%
85.01 - 90%	25%
80.01 - 85%	12%

5. Automated Approvals via Loan Prospector or Desktop Underwriter are accepted for loan to values up to 97%. Approvals must carry an Approve/Eligible, Accept/Eligible, or Accept Plus/Eligible rating in order to utilize the Automated System approval. **See Automated Underwriting Section for acceptance of use.**

B. VHDA/FHA

1. Maximum LTV and Loan amount based on FHA calculations

2. Loan amount may not exceed VHDA Sales Price limit

3. Must meet all VHDA and FHA requirements

4. All borrowers must have a minimum credit score (middle score) of 620 or higher.

5. Automated Approvals via Loan Prospector or Desktop Underwriter are accepted for FHA loans. Approvals must carry an Approve/Eligible, Accept/Eligible, or Accept Plus/Eligible rating in order to utilize the Automated System approval. **See AUS section of the Origination Guide for more information regarding the acceptance of these approvals.**

C. VHDA/VA

1. Maximum LTV and Loan amount based on VA calculations

2. Loan amount may not exceed VHDA Sales Price limit

3. Must meet all VHDA and VA requirements

4. All borrowers must have a minimum credit score (middle score) of 620 or higher.

5. Automated Approvals via Loan Prospector or Desktop Underwriter are accepted for VA loans. Approvals must carry an Approve/Eligible, Accept/Eligible, or Accept Plus/Eligible rating in order to utilize the Automated System approval. **See AUS section of the Origination Guide for more information regarding the acceptance of these approvals.**

D. VHDA/Rural Housing

1. Maximum LTV and Loan amount based on Rural Housing limits

2. 100% LTV - Maximum is 100% of the appraised value plus Guarantee Fee

3. Loan amount may not exceed VHDA Sales Price limit

4. Maximum income must be below both VHDA and Rural Housing limit

5. Homeownership Education is required prior to loan approval

6. All borrowers must have a minimum credit score (middle score) of 620 or higher.

7. GUS Approve/Eligible. **See AUS section of the Origination Guide for more information regarding the acceptance of these approvals.**

Section 4.2 VHDA FHA Plus Loan Program

The FHA Plus program is a FHA insured home loan program to assist qualified borrowers who need down payment and closing costs assistance.

A. Program Benefits

Reduces the cash needed for closing.

B. How the Program Works

The program provides financing through two loans, a FHA first mortgage and a second mortgage for down payment and closing costs.

C. Maximum Loan Amount

The first mortgage is a maximum FHA Loan. The second mortgage is limited to a maximum 5% of the lesser of the sales price or appraised value for borrowers with credit scores of 680 and greater, and 3.50% for borrowers with credit scores between 620-679. The combination of the two mortgages plus any financed UFMIP may not exceed VHDA’s Sales Price Limits.

D. Minimum Borrower Contribution

The applicant or applicants must have no less than 1% of the sales price available in the form of their own verified liquid funds to be used toward closing costs, pre-paids or to be held as cash reserves. Gifts and loans are not considered as applicants own funds. 401k accounts are not eligible unless they can be obtained without a loan. The applicant or applicants may not receive any cash back at closing. The applicant or applicants may receive verified payments of POC items and/or EMD on the sales contract.

If a review of the HUD1 indicates the borrower will receive funds, the FHA Plus second mortgage must be reduced. This will require a revised loan commitment and must be resubmitted to VHDA as well as a revision to the loan disbursement.

E. Interest Rate

The interest rate for both the first and second mortgage will be slightly higher than VHDA’s standard 30-year fixed rate.

F. Loan Term

The term for both the first and second mortgage will be 30 years.

G. Fees

1. 0-1% origination fee based on selected pricing option

2. 0-2% discount point based on selected pricing option

Note: The origination fee and discount fee are charged on first mortgage only.

H. Program Limitations

No buydown, EEM or Repair Escrows may be used with FHA Plus.

I. Qualifying Ratios

Qualifying Ratios are based on FHA Guidelines/the decision rendered by the lender's direct endorsement underwriter, DU Approve/Eligible, LP Accept/Eligible or Accept Plus/Eligible.

In Addition:

Payment to income and debt to income ratios must meet FHA's program guidelines of 31% and 43% respectively. DE underwriters may approve loans with ratios in excess of these guidelines up to 38% payment to income or 50% debt to income on loans receiving an approve / eligible scorecard decision based on documented compensating factors for higher ratios using FHA benchmark guidelines (refer to 4155.1).

J. Employment

Employment is based on FHA Guidelines, DU Approve/Eligible, LP Accept/Eligible or Accept Plus/Eligible.

In Addition:

Part time, overtime, commissions and bonus income must be verified for a two year history and particular focus placed on current level of earnings when used for qualifying

K. Credit

Applicant's required credit history is based on FHA Guidelines, DU Approve/Eligible, LP Accept/Eligible or Accept Plus/Eligible.

In Addition:

• Minimum Credit Score
620 minimum credit score. The applicable score will be the lower of all borrowers' middle score. Loans with non-traditional credit requiring a manual review must be submitted to VHDA by the DE underwriter for final review prior to loan approval.

• Outstanding Collections
Individual collections exceeding $250 and cumulative amounts of all collections exceeding $1,000 must be paid prior to loan closing.

• Judgments

No outstanding judgments allowed

M. Proper Disclosures

1. Good Faith Estimate

A Good Faith Estimate is required for both loans.

2. Lock-in Disclosure

One lock-in disclosure may be used. Indicate the two separate loan amounts.

3. Truth-In-Lending

Separate Truth-In-Lending disclosures must be provided for the first and second mortgage.

4. FHA Plus Program Disclosure and Affidavit of Borrower (Ex. E)

Complete FHA Program Disclosure and Application on page 3.

N. Reservation of Funds

Reserve funds under the FHA Plus Program Option (system will prompt with program

options). When FHA Plus is chosen, the system will request information on the second mortgage.

O. Loan Application

The Uniform Residential Loan Application should reflect the first mortgage loan only under the "loan amount" section. In the "Details of Transaction" section identify the second mortgage under "Subordinate Financing". The second mortgage payment amount must be included in "Other financing (P & I)". In the source of funds section include "FHA Plus Loan".

P. Loan Commitment

The VHDA Addendum to Commitment will include both the first and second mortgage loan amounts.

Q. Closing

FHA Plus Supplemental Instructions Letter (Exhibit HH) is to be forwarded to the closing Lender. The FHA Plus second mortgage is to appear on the HUD 1. Per diem interest is to be collected on the first and second mortgages. VHDA will issue one closing check for both the first and second mortgage. No hazard insurance or title insurance is required on the second mortgage.

R. Servicing

Payments for the first and second mortgages will be due on the same date and made to the same servicer.

S. Post-closing

All documents for the first and second mortgages must be submitted simultaneously to VHDA after loan closing.

T. Mortgage Insurance Certificate

Mortgage insurance is to only reflect the amount of the first mortgage.

U. Recapture

The second mortgage may also be subject to recapture, as tax-exempt bonds may fund these loans.

Recapture Notice will be provided to the Originating Lender at the time of loan approval and must be sent to closing for borrower(s) execution.

V. Lender Fees

Lenders may not charge fees for the origination of the FHA Plus 2nd mortgage. Lenders will receive a 1% Service Release Premium of the 2nd mortgage at loan purchase.

Section 4.3 Energy Efficient Mortgages (EEM's) and HUD REO's with a Repair Escrow

VHDA will allow the origination of VA guaranteed and FHA insured loans utilizing their respective energy efficient mortgage programs and FHA insured loans with a Repair Escrow on HUD REO properties with standard VHDA, FHA and VA loans. **FHA Plus** and other special allocation programs, for which VHDA may place a second mortgage behind the insured first mortgage, will **not be** eligible for these unique programs. Originating Lenders are responsible for meeting all applicable FHA or VA requirements.

Note: The costs of the energy efficient improvement or repair escrow are to be included in the VHDA acquisition cost and the total acquisition costs and loan amount may not exceed VHDA's sales price limit.

Section 4.4 Special Programs

VHDA offers special allocations of funds periodically. Typically these programs have special features including lower interest rates. These may also have lower income limits. Guidelines and requirements will be provided to those Originating Lenders who will be originating loans under any special allocation program.

Guidelines for Use of Housing Choice Voucher Homeownership Assistance

VHDA will allow the inclusion of Housing Choice Voucher (HCV) Homeownership Assistance to be included as effective income when qualifying for VHDA first mortgage financing programs based on the guidelines and procedures stated below.

Application of HAP Income:

The projected HCV assistance as verified by the Public Housing Agency (PHA) may be included as monthly qualifying income for the calculation of qualifying ratios. The monthly HCV assistance may also be grossed up by 25% prior to the ratio calculations.

Exception: If the transaction is structured with the HCV assistance being used to pay for an eligible second mortgage, the HCV assistance may be considered as an offset to the second mortgage payment. In this instance, the applicant will be qualified using only remaining household income. The HCV assistance will not be included for qualify ratios and the second mortgage will not be considered in the debt ratio. The term of the second mortgage may not exceed the anticipated term for receipt of the HCV assistance. PHA's wishing to use this method must receive prior approval by VHDA after review of the assistance and loan terms.

Maximum Ratios:

For conventional loan programs, the maximum ratios are:

32% payment to income ratio and

40% total debt to income ratio

Loans with mortgage insurance (including conventional PMI, FHA,VA or RHS) must follow the applicable insurer guidelines. Lenders are advised to carefully consider the applicant's ability to handle the proposed housing expenses, other existing debt and the potential increase in housing expense (such as increase in taxes and house maintenance) when applicants are at or near the maximum ratio limits. PHA's and lenders should consider possible future limitations on the available increase in subsidy to address potential increases. Any exceptions to ratios must be approved by VHDA.

Eligible VHDA Programs:

All fixed rate First Time Homebuyer programs are eligible for use with the HCV assistance.

Maximum Loan to Value:

Conventional Loans: 97% Combined Loan to Value (with out prior VHDA approval)

Mortgage Insurance is required with Loan to Value in excess of 80.00%

Chapter 5 – Automated Underwriting

Section 5.1 Acceptance of Loan Prospector and Desktop Underwriter, FHA TOTAL Score Card and GUS

A. Programs Eligible for Automated Underwriting

- 30 Year Fixed Rate (FHA, VA & Conventional) – Conventional max LTV is 97%
- FHA Plus
- Rural Housing

Mortgage Revenue Bond Requirements:

The AUS system approval only applies to the credit qualifying requirements (ie. credit, ratios, employment). The originating lender must ensure that all VHDA mortgage revenue bond requirements are met. These special requirements are located in Sections 2.1 and 2.2 of the VHDA Origination Guide and are identified on the VHDA Loan Submission Cover Letter. The requirements include:

- First time homebuyer requirement
- Maximum sales price
- Maximum income
- Maximum net worth
- Business use of home restriction

Three years tax returns are also still required to document that the applicant meets the first time homebuyer requirement. The Originating Lender must thoroughly review the tax returns to ensure compliance with Mortgage Revenue Bond requirements as well any information that may effect the data which has been input for the loan approval. Information such as losses from a business, non-reimbursed employee expenses and other expense which appear on the tax returns will require an adjustment to the initial data input in LP or DU. Lenders are reminded that income used for maximum income eligibility and that used for qualifying which is input in LP or DU may be different.

Property Requirements:

Standard VHDA property requirements must be met refer to section 2.2. The appraisal must provide adequate documentation to ensure that VHDA acreage limitations are met and the existence of any unfinished area has been identified to accurately determine Acquisition Costs.

Minimum Credit Score for all VHDA Loans is 620. Lowest Middle Score of all borrowers.

Maximum Debt to Income Ratio 50.00% for all VHDA Loans.

All VHDA loans (including FHA, VA, RHS, PMI or uninsured loans) will be limited to a maximum of **50.00%** debt to income ratio when using an automated underwriting Approve/Eligible Decision. Stated program ratio guidelines will apply for manually approved loans.

FHA Plus:

FHA Plus - Automated Underwriting Approvals:

VHDA will continue to accept FHA Total Scorecard approvals for FHA Plus with the following limitations:

Loans exceeding FHA's standard ratio requirements of 31% payment to income and 43% debt to income must be approved by a DE underwriter. However, ratios may never exceed 38% payment to income or 50% debt to income and approval must be based on documented compensating factors for higher ratios using FHA benchmark guidelines (refer to 4155.1).

FHA Plus - Manual Approvals on FHA Total Scorecard Referrals:

FHA Plus manual approvals will be eligible only with prior review by VHDA. Loans with manual decisions requesting a waiver by VHDA must be submitted by a DE Underwriter based on their assessment that the loan meets all FHA guidelines along with supporting justification for the loan decision. The DE Underwriter must submit at minimum the VHDA Waiver Request, loan application (1003) FHA Underwriting Transmittal (92900LT), credit report and paystub.

FHA Plus – Credit Scores and TOTAL Score Card Approvals:

REGARDLESS of the fact that TOTAL returns an approve/eligible, **ALL** Borrowers **must have** a middle FICO Score of 620 or greater.

Conventional Insured Loans: LP and DU – Limitations on Minimum Credit Scores and Maximum Debt to Income Ratios:

In an effort to maintain reasonable qualifying criteria, avoid excessive risk layering and offer the most affordable financing options to our borrowers, VHDA will now impose limitations on conventional insured loans with LP and DU approvals. The new limitations will apply to loans with LP/DU – Approve/Accept Eligible Decisions with loan to value and CLTV greater than 95.00%

Credit Scores: Approve / Accept Eligible loans with an applicable credit score of 620

Debt to Income Ratios: Approve/ Accept Eligible loan decisions with debt to income ratios exceeding 50.00% must be submitted to VHDA for manual review. Debt to income ratios exceeding these limits will be approved only when compensating factors are present. Compensating factors include significant cash reserves, strong credit history, minimal housing increase, existence of documented energy efficient home features (Earthcraft certified/Energy Star rating) and the completion of VHDA's Homeownership Education class.

LP/DU approved loans must follow the requirements noted in the Findings/Feedback certificate unless additional information is required by VHDA.

VHDA Condominium Finance Guidelines Using DU or LP

Lender- Limited Review approvals through Fannie Mae Desktop Underwriter **are no longer allowed** for financing of new condominium projects or new condominium conversions without prior approval by VHDA. VHDA will consider approval of these loans for financing through our conventional programs on a case by case basis. Approval will be based on the overall strength of the borrower, loan terms (loan to value and program type) and condominium project status (number of pre-sales, closed loans and investor concentration). Lenders must submit the Desktop Underwriter Findings, Loan Application and appraisal to VHDA for consideration of approval for Limited Reviews. Any individual loan approval will not represent project approval for other transactions.

D. Data Input:

Data input in the AUS system must be in accordance with the applicable system requirements.

E. Documentation:

Alternative documentation as required by LP or DU approval is eligible except for the Verification of Income. Stated income is not allowed. Verification of income is required to ensue that the borrowers do not exceed VHDA maximum income limits. At minimum obtain a paystub reflecting no less than 30 days of year-to-date earnings.

F. Delegated Approval Notice:

The approved VHDA Delegated Underwriter must complete the VHDA Delegated Approval Notice in accordance with standard procedures. The Delegated Underwriter is to indicate if LP or DU was utilized.

G. Documentation of Approval:

The appropriate approval (LP Feedback Report or DU Findings Report) and applicable supporting documentation must be included in the loan file submitted to VHDA. The approvals are to be placed on top of the Residential Loan Application (1003).

Chapter 6 - Recapture Tax

All loans, which are funded from one of VHDA's Tax-exempt Bond Loan Programs, may be subject to the Recapture Tax explained in this section.

Note: The following is for information purposes only. The borrower should consult a tax advisor or the IRS for more specific information.

Section 6.1 Explanation of Recapture Tax

A. Purpose

Congress enacted legislation in 1988, which was subsequently amended in 1990, to recapture some or all of the subsidy (savings realized from the lower interest rate) from first-time homebuyers who receive assistance from financing through tax-exempt bonds. The purpose of recapture is to retrieve the subsidy received from owners who received rapid income increases after they purchased their home, and as a result, do not need the subsidy to remain home owners. Recapture became effective for loans closed after December 31, 1990.

B. Recapture Concept

The recapture of subsidy (interest) on a mortgage is triggered when the residence is sold or transferred within nine years of the purchase date. The recapture is actually paid as additional federal tax liability for the tax year in which the home is sold. The amount of recapture that owners might have to pay depends on:

- The owner's income during the tax year in which the home is sold
- The household size during the tax year in which the home is sold
- The year the home is sold (1 - 9)
- The amount of net gain realized from the sale of the residence

***The refinancing of the VHDA loan does not trigger recapture.**

C. Disclosure of Recapture

At loan closing, the purchaser will be provided a Notice of Recapture along with a Federal Income Limits chart. These documents should be maintained with other critical closing documents, as these will be necessary for the owner to calculate any potential recapture tax that may be required upon sale of the property. An example of these documents may be provided to the applicant prior to closing; however, it is important that the documents provided at closing are the ones retained for future tax calculation.

Section 6.2 Explanation of Recapture Tax Calculations

A. Maximum Recapture Tax

Once determined that a tax will be due, the tax will be limited to the **lesser** of:

- 1.25% - 6.25% (determined by year in which property is sold- See F2) of the amount of the loan funded by the mortgage revenue bond (See Note below) **or**
- 50% of the gain (net) on the sale of the property (gain minus improvements, commissions, fees, etc.)

Note: Many VHDA loans are now made from a combination of tax-exempt bonds and taxable bonds. Only the portion of the loan made from a tax-exempt bond would be subject to recapture and to this calculation. This amount will be noted on the Notice of Recapture provided at closing.

B. Guidelines for Recapture Requirement

It is suggested that homeowners who have financed properties with mortgage revenue bonds, consult a tax advisor for assistance in Recapture Tax calculations.

Recapture tax **will not** be owed if:

- The owner's modified adjusted gross income in the year in which the residence is sold does not exceed the allowable limit (refer to chart) **or**
- There is no gain on the sale of the property (adjusted for allowable costs)

Allowable Adjusted Qualifying Income

Refer to the Adjusted Qualifying Income Chart provided to the applicant at closing.

Determine the applicable Maximum Adjusted Qualifying Income on the chart. This is based on the area of the property; the number of people in the household, if the property is in a targeted or non-targeted area, and the year the home was sold. Then determine the owners Modified Adjusted Gross Income. Modified Adjusted Gross income is the adjusted gross income reflected on the federal income tax for the tax year the property is sold, in addition to any interest received from tax-exempt bonds and minus any the gain included as a result of the sale of the subject property. If the Modified Adjusted Gross income is less than the Maximum Adjusted Qualifying Income from the chart - **No further calculations are needed - No Recapture Tax will be due.**

C. Calculation of Recapture

There are several steps required to calculate the actual recapture amount owed. Once it has been determined that the owner's income is such that a recapture tax is to be paid, several adjustments may be made which may reduce the amount of tax to be paid.

1. Adjustment to Income

If the owner's Modified Adjusted Gross Income exceeds that in the federal income chart, an adjustment to the amount of tax owed could be possible. If the Modified Adjusted Gross Income exceeds the allowed federal limit by $5,000.00 or more then 100% of the required tax will be due. If it exceeds the allowed federal limit by less than $5,000.00 only a percentage of the tax will be due. Subtract the federal Adjusted Gross Income limit from the owners Modified Adjusted Gross Income then divide this figure by 5,000.00. This resulting percentage will be used in the calculation in 3 below.

2. Adjustment for Holding Period

The percentage of tax will be no greater than 6.25% but may be as low as 1.25% of the loan amount. The applicable percentage is based on the year in which the property is sold. The percentage begins at 1.25% if sold in the first year and increases by 20% per year-to-year five when 100% of the tax or 6.35% of the loan amount may be due. The percentage then decreases by 20% per year to the ninth year. The Holding Period percentage can be found on the Federal Income Limits chart attached to the Recapture Requirement Notice provided at closing. The appropriate percentage will be used in the final calculation below.

3. Final Calculation

The Recapture Tax due will be the **lesser of:**

- 50% of the net gain on the sale of the property **or**
- The final Recapture Calculation - Mortgage Revenue Bond Loan Amount
- X <u>6.25%</u>
- X any adjustment for Income (1 above)
- X any adjustment for Holding (2 above)

4. Recapture Calculator

Go to http://www.vhda.com/SF/Recapture/recap.asp

Chapter 7 - Homeownership Education

Section 7.1 VHDA's Homeownership Education Program – is available either online or a classroom setting– A VHDA homeownership program must be completed prior to loan approval to be eligible for any type of VHDA financing.

A. Program Content

VHDA's Homeownership Education Program teaches future homeowners about budgeting, credit, qualifying and applying for the right loan, choosing the right home, what happens at a loan closing and more. Participants are required to complete six hours of class time to receive a certificate of completion.

B. Program Benefits

Courses meet the educational requirements for FHA, Fannie Mae, Freddie Mac and VHDA special financing programs.

C. Program Availability

The Homeownership Education courses are offered each month throughout the state, available on-line, and are taught by trained industry professionals including mortgage bankers, Realtors® and other housing experts. A training program has been developed to certify staff of non-profit organizations to provide one-on-one counseling, utilizing the VHDA materials. Additional information about VHDA's free Homeownership Education Program and its availability may be obtained by calling 1-888-643-2696 or by visiting VHDA's web site.

Chapter 8 - Loan Assumption

The following information is provided to address questions concerning loan assumptions, which may arise during the origination process. For a detailed description of the assumption process and specific requirements, see the VHDA Servicing Guide.

Section 8.1 General Loan Assumption Requirements

A. Requirements for Assumptions

VHDA currently permits assumptions of all of its single-family mortgage loans provided that certain requirements are met. For loans financed with tax-exempt bond proceeds, the individual(s) assuming the loan must meet the principal residence requirement, three-year homeownership rule, maximum gross income restrictions, purchase price limits and VHDA eligibility requirements. All requirements for the mortgage insurer or guarantor must also be met. For all loans closed after January 1, 1991, the maximum gross income for the person or family assuming a loan shall be the sales price or acquisition cost and maximum gross income limits in effect at the time of closing of the assumption.

Note: In the case of assumptions by two or more persons, Section 2.1 B (regarding the eligibility of more than one person) shall not apply.

B. Recapture Notice

Loans funded with tax-exempt bonds, which closed after December 31, 1990 may be subject to a federal recapture tax if the property is sold or otherwise disposed of during the first nine years of the loan. When one of these loans is assumed a new nine-year period begins for the new owner. Therefore, a "Recapture Requirement Notice" (VHDA Doc. -R), accompanied by a current table of Federal Income Limits, is executed by the assumptors at closing and retained in the servicing file. Refer to Chapter 6 - Recapture Tax.

Section 8.2 Loan Assumption Procedures and Guidelines

A. Fee Schedule

1. FHA Fees

- The Maximum processing fee with seller release is $500
- Fees collected to obtain credit report, appraisal report, and verifications are not refundable.

2. VA Fees

- The maximum processing fee with seller release is $300
- The funding fee due to VA within 15 days after closing is 1% of outstanding principal balance

3. Conventional Fees

The maximum allowable processing fee is 1% of the outstanding principal balance. This fee is not collected if the assumption is not approved or if the seller or assumptor withdraws the application. In cases involving a divorce, VHDA charges $500 to process the loan application package.

B. Guidelines for Release of Liability

1. FHA - For loans closed after December 15, 1989 a credit review is mandatory.

2. VA - the lien holder or VA must give prior approval to any transfer of property if the original commitment was made on or after March 1, 1988.

3. Conventional - All prospective purchaser(s) credit must be examined for credit- worthiness. Release of liability is not an option, it is required.

C. Assumptions

1. Conventional loans/Tax-exempt bond

For assumption of loans financed by the proceeds of tax-exempt bonds

after 12-17-81, the following conditions must be met:

- Maximum gross income requirement
- Principal residence requirement
- Borrowers must meet VHDA's current underwriting requirements
- Meet the three-year prior homeownership requirement
- Meet sales price and acquisition costs limits
- Borrower is required to purchase private mortgage insurance if LTV exceeds 80.00%

2. FHA or VA

For assumptions of FHA or VA loans financed by the proceeds of tax-exempt bonds issued on or after December 17, 1981 the following conditions must be met:

- Maximum gross income requirement

- Principal residence requirement
- Three-year requirement
- Sales price and acquisition cost requirement

In addition, all applicable FHA or VA underwriting requirements, if any, must be met. For assumptions of FHA or VA loans financed by the proceeds of bonds, issued prior to December 17, 1981, only the applicable FHA or VA underwriting requirements, if any, must be met.

3. Conventional Loans Funded with Taxable Bonds Only

Loans funded with proceeds of fully taxable bonds (See Chapter 5) must meet the following requirements:

- Maximum applicable gross income requirement
- Principal residence requirement
- Applicable qualifying requirements

D. Application Package for Assumptions

Once the borrower has contacted VHDA and it has been determined which of the categories described in subsection A above applies to the loan, the borrower(s) must submit to VHDA the information and documents listed below for the applicable category:

1. Assumption Package for Conventional Loans:

a. Conventional loans financed by the proceeds of bonds issued on or after December 17, 1981:

- VHDA Program Disclosure/ Borrower's Affidavit (Ex. E)
- Affidavit of seller (Exhibit F)
- Three year's tax returns
- IRS Form 4506 or 4506-T
- Originating Lender's loan submission cover letter (Exhibit O)
- Uniform Residential Loan Application
- Verification of Employment (VOE's) (and other income related information)
- Verification of deposit (VOD's)
- Credit report
- Sales contract
- Tax Information Sheet

- All other requirements of State and Federal law must be met

b. Conventional loans financed by the proceeds of bonds issued prior to December 17, 1981:

- Uniform Residential Loan Application
- Verification of employment (VOE's) (and other income related information)
- Verification of deposit (VOD's)
- Credit report
- Sales contract
- All other requirements of State and Federal law must be met

2. Assumption Package for FHA or VA loans.

a. FHA or VA loans financed by the proceeds of bonds issued on or after December 17, 1981:

- Program Disclosure/ Borrower Affidavit (Exhibit E)
- Affidavit of seller (Exhibit F)
- Three years' tax returns
- IRS Form 4506 or 4506-T
- Originating Lender's loan submission cover letter (Exhibit O)
- Uniform Residential Loan Application
- Sales contract
- Copy of the executed FHA mortgage credit analysis worksheet if the original borrowers are to be released from liability
- A copy of the FHA Notice to Homeowner, if the original borrowers will <u>not</u> be released from liability
- Tax Information Sheet
- In addition, all applicable requirements, if any, of FHA or VA and those under State and Federal law must be met

E. Review by VHDA Additional Requirements

Upon receipt of an application package for an assumption, VHDA will determine whether the applicable requirements referenced above for assumption of the loan have been met and will advise the borrower(s) of such determination in writing. VHDA will further advise the borrower(s) of all other requirements necessary to complete the assumption process. Such requirements may include but are not limited to the submission of satisfactory evidence of hazard insurance coverage on the property, approval of the deed of assumption, satisfactory evidence of mortgage insurance or mortgage guaranty including, if applicable, pool insurance, submission of an escrow transfer letter and execution of a Recapture Requirement Notice (VHDA Doc. R-1).

Chapter 9 - Explanation of VHDA Forms, Exhibits and Documents

VHDA forms, exhibits and documents, are located on our website at http://www.vhda.com/sf/forms. Originating Lenders are responsible for duplicating, purchasing from a forms provider or accessing on vhda.com all necessary documents used on VHDA loans; including. The Originating Lender is responsible for the accuracy of all documents and using the most current version.

VHDA Origination Forms, Exhibits and Documents

In addition to standard industry loan documents and disclosures, VHDA has several documents which must be executed which attest to compliance with federal regulations related to tax exempt bond requirements and special VHDA regulations. The information below addresses these forms and any unique requirements related to the execution or completion of these forms.

A. Power of Attorney Restrictions

Originating Lenders must comply with insurer's/guarantor's requirements regarding the use of Power of Attorney with the following exception. **VHDA does not allow the following documents to be signed by Power of Attorney.**

1. Loan Application.

2. Borrowers' Acknowledgement of Program Requirements and Affidavit of Borrower.

3. Affidavit of Seller.

4. Request for copy of Tax Form (4506 or 4506T).

5. Verification and Update of Information in Application (Ex. U) - (signed at closing).

B. Exceptions for Power of Attorney Usage

The following Exceptions to the use of Power of Attorney on the above documents may be considered by VHDA:

1. The borrower or seller has been deemed incompetent by the court or the attending physician certifies that the borrower or seller is not capable of executing the document due to illness and there is a recorded Power of Attorney. In these circumstances the supporting documentation must be submitted to VHDA in advance for approval prior to closing.

2. In situations in which military personnel receive orders to locations for which they cannot reasonably receive the document for execution and return, a Power of Attorney may be used to close the loan; however, the individual must personally execute the above documents within 60 days of returning from their tour of duty. It shall be the Originating Lender's responsibility to obtain such signatures.

C. Federal Tax Returns and Tax Form 4506 or 4506T

Borrower(s) must provide copies of the three most recent years of Federal tax returns (one year if the property is in a targeted locality). The Originating Lender must also have borrowers sign a Tax Form 4506/4506T which enables the Originating Lender or VHDA to obtain these returns if further verification is necessary.

D. Loan Program Disclosure and Affidavit of Borrower Eligibility (Exhibit E)

1. Program Requirements

This document includes special disclosures and program information unique to VHDA tax-exempt bond programs. This document has now consolidated several previously required VHDA disclosures and forms. This document is to be used in conjunction with the Originating Lender's other standard origination and regulatory disclosure documents (including ECOA, Truth in Lending, Good Faith Estimate of Settlement Costs, Flood Insurance Disclosure, Servicing Transfer Disclosure and other forms or disclosures required by state or federal law). Other information required concerning Recapture Tax, Borrower Relationship and disclosure of non-borrowing occupant information is included, eliminating the need of the previous VHDA Application Addendum (Ex. D 1).

2. Specific Program Information

Information concerning the FHA Plus loan program are included. The Originating Lender is to check the program information if applicable. This eliminates the need to have a separate FHA Plus disclosure and application.

3. Affidavit of Borrower

The Affidavit attests to the borrower’s compliance with federal regulations. It must be signed by all borrower(s) and **must be notarized**. The Originating Lender should assist in completing this document. The **Acquisition Costs** portion of this form attest to the actual cost of the residence as a completed dwelling to ensure this value is in compliance with Federal Safe Harbor Sales Price limits. If the final Acquisition Costs figure exceeds VHDA's sales price limit as a result of the estimated cost to complete unfinished area, contact VHDA for approval prior to proceeding. No white outs or corrections are allowed on the Affidavit of Borrower and it may not be executed by Power of Attorney. (See Section B above for exceptions)

E. Affidavit of Seller - (Exhibit F)

The Affidavit of Seller is the document on which the seller(s) attest to compliance with certain federal requirements related to the property and the terms of the sales transaction. The Affidavit of Seller also includes the Acquisition Costs figures noted on the Affidavit of Borrower.

The Affidavit of Seller must be signed by all sellers appearing in the vested clause of Schedule A of the title binder and must be notarized. The Affidavit of Seller may not be executed by Power of Attorney except as noted in Section B above. Exceptions to requirements above for execution of Affidavit of Seller are as follows:

1. Relocation Companies

An authorized representative of Relocation Company may execute the Affidavit of Seller if documentation is provided evidencing all of the following:

a. The owner of the property and the relocation company have entered into an Purchase Agreement which provides for the owner to be paid his equity in the house and for the relocation company to be responsible for future mortgage payments; and

b. The owner has executed a deed in blank or a deed to the relocation company; and

c. The relocation company enters into a sales contract with the purchaser; and

d. The relocation service receives the proceeds from the sale of the property.

2. Estates

In circumstances where the property is being sold by an Estate or Executor, the following will apply concerning those required to sign the Affidavit of Seller:

a. The Executor alone may sign the Affidavit of Seller if the Executor has been granted the power to sell real estate in the will and the Executor has signed the sales contract and the Deed. A copy of the will and an Order of Appointment by the court signed by the deputy clerk must be provided to VHDA.

b. The signature of only one heir may be acceptable if this same heir signed the sales contract and deed. This individual must have knowledge concerning the terms of the sales contract and familiar with the property.

3. Bank Owned Properties

A representative of the seller (bank) must execute the Affidavit of Seller. If the bank has contracted with a third party management company to sell the property then we will allow the signature of the management company as power of attorney for the bank. The same management company representative must execute the Sales Contract, Deed and Affidavit of Seller.

F. Loan Submissions Cover Letter (Exhibit 0)

Originating Lenders attest to reviewing all loan documents for compliance with Federal requirements on this document. The Originating Lender is responsible for determining the estimated value of any personal property items cited in the sales contract and costs of completing any unfinished area. These figures are included on this document for calculation of the Acquisition Costs on the Affidavit of Borrower and Seller. An appropriate representative of the Originating Lender should sign this document.

G. VHDA Delegated Approval Notice (Exhibit DU 600)

Form to be completed upon review and approval of the VHDA loan by a delegated underwriter. The form must be clearly legible with all information complete. The form is then faxed to VHDA at 804-783-6718.

H. Addendum to Loan Commitment

Form to be completed after approval of the VHDA loan and receipt of the VHDA approval confirmation. Complete information for the appropriate loan program, sec. A indicate appropriate insurer, sec. B indicate fees to be paid and any other applicable conditions.

I. VHDA Closing Documents Forms, Exhibits and Documents

In addition to standard industry loan documents and disclosures, VHDA has several documents which must be executed that attest to compliance with federal regulations related to tax exempt bond requirements and special VHDA regulations. The information below addresses these forms, and any unique requirements related to the execution or completion of these forms.

1. Specific Closing Guidelines VHDA Exhibit M(2)(P)

Originating Lender must prepare Instruction Letter to Attorney following these guidelines.

2. Notice of Servicing Transfer (Hello/Goodbye)

3. First Mortgage Payment Notice (for First Mortgages)

To be sent to closing for completion by the closing agent

4. Second Mortgage Payment Notice (for FHA Plus Second Mortgage)

To be sent to closing for completion by the closing agent

5. Certificate of Transfer (Assignment)

To be executed by Originating Lender and recorded with the Deed of Trust

6. Verification and Update (Exhibit U)

The document is executed at closing and verifies that the information contained in the original loan application is the same as of closing. If there are any changes noted, VHDA must be notified prior to proceeding with loan closing. If the applicant(s) execute a final loan application at loan closing, "Exhibit U" is not required.

7. Summary of Recapture Tax Requirements (Exhibit Z)

The Originating Lender will send the Recapture Notice which has been provided by VHDA to the Closing Agent A copy of the signed document is to be returned to VHDA with the loan-closing package. The original should be provided to the borrower who should retain for future filing of taxes if the property is sold within the first nine years of the loan.

8. VHDA Riders to Deeds of Trust

A specific VHDA rider is required to be attached to the deed of trust on any VHDA loan.

a. Conventional

VHDA Rider to Conventional Deed of Trust (Doc. C-5) should be attached on Conventional loans.

b. FHA

VHDA Tax Exempt Financing Rider (Doc F-3) should be attached to the Deed of Trust on FHA loans.

c. VA

VHDA Rider to VA Deed of Trust (Doc V-3) should be attached to the Deed of Trust on VA loans**.**

9. FHA Plus Closing Documents

a. FHA Plus Note (closing in Originating Lender's name)

Document is blank allowing the lender to input their name and specific information

b. FHA Plus Note (closing in VHDA's name)

Document is pre-filled with VHDA name and specific information

c. FHA Plus Deed of Trust (closing in Originating Lender's name)

Document includes required wording relative to subordination and is blank allowing the lender to input their name and specific information

d. FHA Plus Deed of Trust (closing in VHDA's name)

Document includes required wording relative to subordination and is pre-filled with VHDA specific information

Chapter 10 – VHDA Fair Housing Policy

EQUAL HOUSING OPPORTUNITY

VHDA FAIR HOUSING POLICY

VHDA does business in accordance with federal and state fair housing law.

UNDER THE FEDERAL FAIR HOUSING ACT, IT IS ILLEGAL TO DISCRIMINATE AGAINST ANY PERSON BECAUSE OF RACE, COLOR, RELIGION, SEX, HANDICAP, FAMILIAL STATUS (HAVING ONE OR MORE CHILDREN), OR NATIONAL ORIGIN IN THE FOLLOWING ACTIVITIES:

sale or rental of housing or residential lots

advertising the sale or rental of housing

financing of housing (including mortgage loans)

provision of real estate brokerage services

appraisal of housing.

Blockbusting is also illegal.

IF YOU BELIEVE YOU HAVE BEEN DISCRIMINATED AGAINST IN VIOLATION OF THE FEDERAL FAIR HOUSING ACT, YOU SHOULD SEND A COMPLAINT TO THE U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT ("HUD") AT:

1-800-669-9777 (Toll Free)

1-800-927-9275 (TTY)

www.hud.gov

U.S. Department of Housing and

Urban Development

Assistant Secretary for Fair Housing and

Equal Opportunity

Washington, D.C. 20410

UNDER THE FEDERAL EQUAL CREDIT OPPORTUNITY ACT (“ECOA”), IT IS ILLEGAL TO DISCRIMINATE IN ANY CREDIT TRANSACTION, INCLUDING A MORTGAGE LOAN:

On the basis of race, color, national origin, religion, sex, marital status, or age;

Because all or part of applicant’s income is from public assistance; or

Because applicant has exercised a right under the Consumer Credit Protection Act.

IF YOU BELIEVE YOU HAVE BEEN DISCRIMINATED AGAINST IN VIOLATION OF ECOA, YOU SHOULD SEND A COMPLAINT TO THE FEDERAL TRADE COMMISSION (“FTC”) AT:

Online: www.ftc.gov

Phone: 1-877-FTC-HELP (1-877-382-4357);
TTY: 1-866-653-4261

Mail: Write to:
Federal Trade Commission
Consumer Response Center
600 Pennsylvania Avenue, NW
Washington, DC 20580

UNDER THE VIRGINIA FAIR HOUSING LAW, IT IS ILLEGAL FOR ANY MORTGAGE LENDER TO DISCRIMINATE AGAINST ANY PERSON IN MAKING AVAILABLE SUCH A LOAN, OR IN THE TERMS OR CONDITIONS OF SUCH LOAN, OR IN THE MANNER OF PROVIDING SUCH A LOAN, BECAUSE OF RACE, COLOR, RELIGION, NATIONAL ORIGIN, SEX, ELDERLINESS (DEFINED AS AGE 55 OR OLDER), FAMILIAL STATUS, OR HANDICAP.

IF YOU BELIEVE YOU HAVE BEEN DISCRIMINATED AGAINST IN VIOLATION OF VIRGINIA FAIR HOUSING LAW, YOU SHOULD SEND A COMPLAINT TO THE VIRGINIA FAIR HOUSING OFFICE AT:

Virginia Fair Housing Office
9960 Mayland Drive, Suite 400
Richmond, VA 23233

Phone: (804) 367-8530.
Toll free call (888) 551-3247.
For TDD users, please call the Virginia Relay by dialing 7-1-1
Email: fairhousing@dpor.virginia.gov