Origination Guide

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

601 South Belvidere Street
Richmond, Virginia 23220

Homeownership Originations Department
ORIGINATION GUIDE

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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 VHDA Originating Lenders.

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.

Table of Contents

1 Originating Lender Participation 4

1.1 Originating Lender Qualifications 4
1.2 Originating Lender Approval Process 5
1.3 Maintaining Originating Lender Approval Status 6
1.4 Delegating Originating Lender – Qualifications 7
1.5 Delegated Originating Lender Approval Process 8
1.6 Origination Responsibilities 9
1.7 Originating Lender Compensation/Fees Responsibilities 11
1.8 Originating Lender Non-Compliance and Remedies 11

2 Eligibility Requirements 14

2.1 Borrower Eligibility Requirements 14
2.2 Property Eligibility Requirements 19
2.3 Underwriting Requirements 26
2.4 Loan Terms and Requirements 28
2.5 Closing Requirements 28
2.6 Purchase Requirements 34

3 Origination Procedures 37

3.1 Lock-In Policies and Procedures 37
3.2 Non-Delegated Origination Procedures 39
3.3 Delegated Origination Procedures 40

4 VHDA Loan Programs 44

5 Automated Underwriting 47

5.1 Programs Eligible for Automated Underwriting 47
5.2 Mortgage Revenue Bond Requirements 47
5.3 Maximum Debt to Income Ratio 47
5.4 Manual Approvals 47

Table of Contents, Continued

6 Recapture Tax 48

6.1 Purpose 48

6.2 Recapture Concept 48

6.3 Disclosure of Recapture 48

6.4 Explanation of Recapture Tax Calculations 48

6.5 Guidelines for Recapture Requirement 49

6.6 Allowable Adjusted Qualifying Income 49

6.7 Calculation of Recapture 49

7 Homeownership Education 51

7.1 VHDA's Homeownership Education Program 51

8 Loan Assumption 52

8.1 General Loan Assumption Requirements 52

9 Explanation of VHDA Forms, Exhibits, and Documents 53

9.1 Electronic Signatures 53

9.2 VHDA Origination Forms, Exhibits and Documents 53

10 VHDA Fair Housing Policy 56

1 Originating Lender Participation

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 –** Must be authorized to do business in the Commonwealth of Virginia and be licensed as a mortgage lender under the Virginia Mortgage Lender and Broker Act.

B. **Net Worth Requirement** – Must have a net worth equal to or in excess of requirements mandated by FHA. If requesting participation in programs offered by Fannie Mae; must also meet Fannie Mae requirements.

C. **Audited Financial Statements –** Must provide most recent audited financial statements prepared in accordance with GAAP, including supplemental information. Supplemental information must include the independent auditor's report in accordance with GAAS and GAGAS on Internal Control, Compliance with HUD Programs, Schedule of Findings, and any Corrective Action Plan, if applicable. Consolidated statements with other entities must show consolidated information by entity and show separately the entity intended to do business with VHDA. In addition we require HUD's Calculation of Net Worth and for first time lenders we require two years of audited financials.

D. **Insurance Requirements** – Must have fidelity bond and mortgage errors and omissions coverage in an amount at least equal to $500,000.00. 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.

E. **Experienced Staff** – Must 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 who have senior management with prior VHDA experience must have a proven track record with VHDA in all aspects of mortgage loan origination.

F. **Required Purchase Agreements** – Must have executed a VHDA Purchase Agreement.

G. **Quality Control Plan** – Must provide a quality control plan that meets all insurer/guarantor/secondary market requirements as they apply to loans originated.

H. **Insurer Approvals** – Must have appropriate approval for the insurer/guarantor for loans to be originated (i.e. FHA, VA, Rural Housing or individual private mortgage insurers), including FHA Director Endorsement and VA Automatic Approval (if applicable).

I. **Origination Capacity** – Must be eligible (and have qualified staff) to originate loans under all applicable VHDA loan programs (unless otherwise approved for lenders originating loans in underserved markets). Originating Lenders are expected to offer all VHDA products including Down Payment Assistance and Mortgage Credit Certificates.

J. **Performance History** – Must 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.

K. **VHDA Fair Housing Policy** – Must certify that lender has read VHDA's Fair Housing Policy and acknowledges that, if approved as a VHDA Originating Lender, such organization must comply with such policy in originating, processing, and closing VHDA loans.

L. **Branch Locations** – Have a physical office located in Virginia to which the general public may make loan application which has originated loans for a period of not less than 12 months. Exception may be considered if the company has acquired loan officers with significant VHDA Origination experience in the previous 12 months.

   - Loan Officers located in branches that are in states contiguous to Virginia may originate VHDA loans if their lending institution has a branch meeting the guidelines stated above.

M. **Neighborhood Watch** – FHA comparison ratio should not exceed 120% of the National, State, or Regional Field Office. Exceptions may be granted on a case by case basis.

N. **Appraisal Independence Standards** – Must provide a copy of acceptable Appraiser Independence Standards.

O. **Hiring Procedures** – Must provide a copy of company's hiring procedures for checking all employees, including management, involved with the origination of mortgage loans against the GSA Exclusionary List and HUD LDP List.

P. **Information Security Policy –** Must provide information security policy that is revised on an annual basis.

Q. **Other Qualifications –** Meet such other qualifications as the Executive Director shall deem to be related to the performance of its duties and responsibilities.

1.2 Originating Lender Approval Process

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

A. **Application –** VHDA uses the Comergence® system to process new lender applications. Lenders must contact VHDA's Business Development Manager to start the online application process. No documents should be overnighted or emailed to VHDA unless requested.

B. **Approval Notification** – VHDA's Homeownership management will review the application and respond by letter of approval or rejection to the lender's senior management.

C. **Required Training** – Approved Originating Lender's staff must complete required VHDA training prior to being authorized to originate loans. Training includes all aspects of the loan origination process.

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** - Must maintain required fidelity bond, errors, and omissions insurance in an amount equal to at least $500,000 and net worth requirements stated in 1.1 B.

B. **Annual Financial Statement** – Must 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. Provide copy of FHA acceptance of financials through LASS.

C. **Information Security** – Lender must provide current information security policy. Written notice must also be provided to document any information security incident or breaches that have taken place in the past three years.

D. **Certificate of Insurance** – Provide certificate from the insurance provider 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.

E. **Quality Control** – Provide annual certification that Quality Control Plan meets applicable insurer and agency guidelines. 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.

- **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.
- **VHDA Quality Control Reviews:** VHDA will typically perform a monthly Quality Control review of no less than 10% of loans purchased by VHDA. The selection will include random, discretionary, and EPD loans. The Originating Lender will be notified of any significant or unacceptable loan ratings and will assist VHDA as needed to mitigate loan level defects. If insignificant loan ratings, the Originating Lender will submit any loan level documentation requested by VHDA to clear necessary defects.

F. **Minimum Origination Volume** – Originate no fewer than 10 loans during the first twelve months and each full calendar year thereafter, unless otherwise approved by VHDA. Consideration of lesser volume will be given in underserved or rural areas.

G. **Notification of Organizational Changes** – Provide written notice to VHDA 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).

H. **Compliance with VHDA Requirements** – Maintain compliance with VHDA policies, procedures, rules, and regulations as stated in this Origination Guide and subsequent notifications. Comply with terms and conditions contained in the Purchase Agreement.

I. **Acceptable Loan Performance** – Originate loans resulting in a delinquency rate determined to represent an acceptable risk to VHDA.

J. **Agency Reports** – Provide a copy of any standard agency performance report to VHDA within 60 days of receipt, or as may be requested by VHDA.

K. **Neighborhood Watch** – FHA comparison ratio should not exceed 150% of National, State or Regional Field Office.

L. **Lender Performance** – If a lender's performance is identified as presenting a significant risk to VHDA, VHDA reserves the right to impose any of the following restrictions:

  - Place on probationary status,
  - Suspension of loan locking privileges,
  - Removal of delegated approval authority, and/or
  - Retention of lender compensation.

M. **Record Retention** – Lenders are to maintain records in accordance with the applicable insurer and/ or investor guidelines and in adherence with all regulatory requirements.

N. **Early Loan Payoff** – VHDA will monitor the early loan payoff reports and reserves the right to impose fees for excessive payoffs.

1.4 Delegating 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.

All lenders are expected to achieve delegated authority for continued participation in VHDA programs. 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, initial file submission, underwriting, closing, post-closing, and shipping.

B. **VHDA Origination Experience** – Satisfactorily originate, underwrite, submit for review, close and deliver final documents for a minimum of ten loans within a six-month period.

C. **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.

- **Delegated Underwriters** – Designated Originating Lender staff that will be underwriting loans must attend a VHDA Delegated Underwriting Training session. Underwriters must have three years underwriting experience, and possess FHA Direct Endorsement Authority unless otherwise approved by VHDA.

- **Delegated Loan Closers** – Designated Originating Lender staff that will be performing pre-closing review should have sufficient experience in the closing of all loan types. Knowledge of VHDA programs and policies is recommended and should be experienced in the mortgage closing process.

D. **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.

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. **Staff Training** – Originating Lender underwriting staff must attend required VHDA Delegated Training sessions. It is recommended that closing, shipping, and post-closing staff also attend a VHDA Closing training session.

B. **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.

C. **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.

D. **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.

E. **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.

1.6 Origination Responsibilities

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

- **Higher Priced Mortgage Loans (HPML) – All VHDA Loan Programs**
  - A loan is an HPML if the APR exceeds the APOR (Average Prime Offer Rate) by 1.50% or more for first mortgages or 3.50% or more for second mortgages. All HPML loans must comply with the flipping requirements of the TILA HPML Appraisal Rule.
  - If a loan is an HPML, then an additional appraisal is required if the property is being resold within 90 – 180 days of acquisition and there is a price increase of:
    - More than 10% if the property was acquired in the past 90 days.
    - More than 20% if the property was acquired in the past 91 – 180 days.

  There are exceptions under the TILA HPML Appraisal Rule which would not require an additional appraisal (Qualified Mortgage loans, streamlined refinance loans, loans used to acquire property from a local, state, or federal government agency, a nonprofit, a person who inherited the property or acquired it through dissolution of marriage, an employer or relocation agency, a service member who received a deployment or permanent change of station after purchasing the property, some rural and underserved areas, etc.). A more complete list can be found on the CFPB website in the TILA HPML Appraisal Rule Small Entity Compliance Guide: https://files.consumerfinance.gov/f/201401_cfpb_tila-hpml_appraisal-rule-guide.pdf.

B. **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 locking a VHDA loan, the Originating Lender is to assess the applicants' qualifications to determine adherence to program.

C. **Loan Processing**
Originating Lender is to process loans in accordance with VHDA guidelines and procedures and submit to VHDA for approval (unless the Originating Lender has VHDA delegated authority).

D. **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 in accordance with VHDA policies and procedures.

E. **Closing**
Originating Lender will provide closing instructions and documents to the closing agent. The Originating Lender will perform a preliminary review for compliance with VHDA and the insurer or guarantor's requirements. New Non-delegated lenders may be required to submit loans to VHDA for closing review for an introductory period based on each lenders performance. Originating Lenders with VHDA delegated authority will approve documents for closing.

F. **Funding**
VHDA will perform a full review of loans within ten business days of receipt of an acceptable loan package. Correct and conforming Collateral documents for both first and Plus Second Mortgage loans (if applicable) 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. Loans not purchased within 10 days will incur 0.125% penalty at 10 day increments.

G. **1098 Reporting**
The Originating Lender is responsible for 1098 reporting for all fees paid at closing for loans that are funded by the lender.

H. **Loan Submission for Purchase**
Originating Lender must provide one complete loan package including required underwriting and closing documents within **10** calendar days of loan closing. Loans with an interest credit will be due by either the **15th** of the month preceding the first payment date or **10** calendar days after closing, whichever is first. Wiring instructions are to be included in the loan package**.** First and second loan packages must be submitted individually.

I. **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. Unless otherwise approved, the Originating Lender must submit documentation directly to the mortgage insurer for approval and issuance of the mortgage insurance approval and commitment.

J. **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, and applicable mortgage insurance/guaranty certificate to VHDA within **90 days** of loan closing.

K. **Outsourcing Responsibilities and Third Party Originations**
Prior to outsourcing or subcontracting any duties stated above including, but not limited to, contract underwriting and post-closing, the Originating Lender must obtain prior written approval from VHDA. 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.

1.7 Originating Lender Compensation/Fees Responsibilities

A. **Origination**
Unless otherwise stated in specific program guidelines, the Originating Lender may not earn in excess of 2.5% compensation (including any points charged and the Service Release Premium) on each loan. Any excess compensation must be applied as a lender credit to the borrower. In addition, 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.

B. **Service Release Premium Fee**
Unless otherwise noted, a 1.5% service release premium will be paid to the Originating Lender by VHDA at the time of purchase. The premium will be for both first and second mortgages if applicable. This will be included in the net price of the loan when purchased by VHDA.

C. **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.

1.8 Originating Lender Non-Compliance and Remedies

A. **Imposition of Late Deliver Fees**
VHDA may impose penalties for a failure by the Originating Lender to submit required loan documents within the required time period.

- Wiring instructions are to be included in the loan package. Failure to meet delivery timelines may result in temporary suspension from the VHDA Rate Lock System, imposing additional fees or repricing of the loan.

- VHDA reserves the right to impose penalties for the late delivery of closed loan packages or documents requested to resolve any deficiency identified in the submitted closed loan package. The Originating Lender will be notified in writing of the late fees due. Penalties will be deducted from lender's net proceeds.

B. **Repurchase 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 and any service release premium paid to the Originating Lender for the subject loan. The lender may be required to return any Grant funds provided by VHDA. The grounds for, and terms of, repurchase are more fully set forth in the Purchase Agreement.

C. **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 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.

D. **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.

E. **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 for any misrepresentation or misstatement of a material fact by the Originating Lender.

F. **Incorrect Documents**
VHDA will require purchase of any loan for which the Originating Lender amends, modifies, or incorrectly reproduces VHDA documents. VHDA will require purchase of any loan where the lender utilizes any document which does not comply with state or federal law or the requirements of the applicable mortgage insurer/guarantor and VHDA. The purchase requirement is at the discretion of VHDA if VHDA determines that such incorrect form affects the loans' security, compliance with mortgage bond regulations, or other applicable law or regulation.

G. **Early Default**
VHDA will require purchase of any loan if, within the first four payments of principal and interest due under the mortgage note, any mortgage 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.

H. **Failure to Deliver Good Title**

VHDA will require purchase of any loan that is not free and clear of liens, encumbrances or claims by third parties.

I. **Unauthorized Sales**

VHDA will require purchase of any loan where 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.

J. **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 origination activity.

K. **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 occurrence of any of the following:

- The violation by the Originating Lender of any provision of the Purchase Agreement.
- If 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, or any of the following occurs: (i) the appointment of a receiver or liquidation of or for the Originating Lender, (ii) the making of an assignment for the benefit of creditors, (iii) the composition with creditors by the Originating Lender, (iv) an adjudication of insolvency of the Originating Lender, or (v) 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 be given written notice thereof to VHDA within two (2) days after the happening of such an event. Upon notice of termination pursuant to this section, the rights of the Originating Lender and its rights to compensation hereunder shall terminate.
- 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 the change in writing.
- VHDA may terminate the Originating Lender's authority to participate as a VHDA Originating Lender, with or without cause, with thirty days written notice to the Originating Lender. Refer to Purchase Agreement for more details concerning Termination.

2 Eligibility Requirements

Chapter 2 addresses requirements for eligibility for all loans funded by VHDA tax-exempt bonds, Mortgage Credit Certificates, and other programs as noted in specific program guidelines. Refer to specific program guidelines for more information. Some products offered with other funding (such as Fannie Mae) may have more flexible guidelines.

2.1 Borrower Eligibility Requirements

A. **Borrower Age**
Borrowers must be eighteen (18) years of age or older, or have been declared emancipated by a 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, 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 borrowers meet these guidelines and to provide evidence that the FHA requirements are met. This eligibility applies to all VHDA loan programs.

D. **Co-signers/Non-Occupant Co-Borrowers**
Co-signers are not allowed on VHDA loans. All borrowers must occupy the property as their primary residence.

E. **Prior Homeownership Three-year Requirement**
Eligible borrower(s), including a non-borrower(s) taking title, 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). The three-year requirement does *not* apply for residences being financed in "targeted areas." See Section 2.2, for "targeted area" information.

- **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.

  - o 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.
  - o 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.
  - o **Manufactured Home Ownership**: 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.

- **Interests that do not constitute present ownership interest:**
  - o An interest in a residence other than a principal residence during the previous three years.
  - o Remainder interest.
  - o An ordinary lease with or without an option to purchase.
  - o A mere expectancy to inherit an interest in a principal residence.
  - o The interest that a purchaser of a residence acquires on the execution of an accepted offer to purchase real estate.
  - o **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.

- **Required documentation to evidence First-Time Homebuyer**
  To verify that the borrower(s) and non-borrower(s) taking title meet the three-year requirement, the Originating Lender must obtain:
  - o The fully executed Single Family Loan and Mortgage Credit Certificate (MCC) Programs Disclosure and Borrower Affidavit (Ex E2) signed by all borrower(s) and non-borrower(s) taking title,
  - o A completed Uniform Residential Loan Application (Form 1003) executed by all borrowers, **and**
  - o The credit report for all borrowers.

  If unable to confirm from the Exhibit E2, Form 1003, or the credit report the borrower(s) and/or non-borrower(s) taking title are a First-Time Homebuyer, additional documentation may be required, such as:
  - o Three years federal tax returns / tax transcripts
  - o Rent verification(s)
  - o Other reports such as a Lender Data Integrity Report (Examples: Drive Report, FraudGuard, Loansafe)

Notes:

- *If any of the above items are in the loan file (even it not required) the Originating Lender must review for homeownership.*
- *If the borrower(s) or non-borrower(s) taking title owns a dwelling that is not a primary residence, the value of the dwelling will be included in the net worth calculation (See Net Worth Restrictions).*

F. **Principal Residence/Occupancy Requirements/Use of Property**

- **Owner Occupancy:** Borrower(s) must intend to occupy the financed dwelling as a principal residence within 60 days 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.
- **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.

G. **Principal Residence/Property Use/Business Use Restriction**
The subject property may not be used for the following:

- As a recreational or second home.
- As an investment property.
- The residence being purchased may not have additional living space, which would be typically used for investment or rental purposes.
- Use in a trade or business.
    - The financed dwelling **may not** be used in any manner which would permit more than 15% of the total living area to be used primarily in a trade or business.
        - The borrower(s) and non-borrower(s) taking title must fully execute the Business Use of Home Certification if the borrower has disclosed that a part of the current residence is being used primarily for a trade or business or if there is any other evidence in the file, such as:
        - The employment business address is the same as the borrower's current residence address on the 1003, **or**
        - Federal tax returns are provided and show the "business in home" deduction was taken (Typically this shows on Schedule C, line 30).

- The Business Use of Home Certification certifies that not more than 15% of the total living area of the subject property will be used primarily in a trade or business. If greater than 15% will be used in the subject dwelling then the borrower is not eligible.

H. **Use of Land -** The borrower(s) must certify the following on the Affidavit of Borrower:

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

I. **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 pay off temporary financing (i.e. construction or bridge loans), which have an initial (not remaining) term of 24 months or less.

- 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 borrower(s) have previously had a mortgage loan on the land only. (See Section 2.1 E concerning unattached mobile homes.)
- VHDA provides refinances under specific refinance programs such as FHA Streamline Refinance, VA IRRRL and Fannie Mae products.

J. **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, and furniture and household goods shall not be included in determining net worth.
- In addition, the portion of the borrower’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.

K. **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: VHDA.com Income and Sales Price / Loan Limits.

- “Gross Income” includes the combined annualized gross income of **all** borrowers and non-borrowers taking title from whatever source derived and before taxes or withholdings."

  Note: *Some programs such as VHDA Grant assistance may have different requirements that require the inclusion of all household member income*.

- 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.*

- The following are 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.

  - Alimony and child support must be included in determining maximum gross income, if such income is specified in a divorce settlement or separation agreement. It does not have to be included if 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.
  - 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.
  - Car allowance(s) must be included in determining maximum gross income.
  - Non-Reimbursed Employee expenses or income losses (schedule C or E) are **not** to be deducted from "gross income" calculations.
  - 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. Periodic bonus payments must be included in the calculation.

- Non-taxable income may be "grossed up" per insurer guidelines for qualifying purposes but need not be "grossed up" for maximum income purposes.

L. **Non-borrowers taking Title**

The income of all occupants taking title must be documented and included (i.e. current paystub) 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.

The income of non-borrowing occupant(s) taking title must also be disclosed on the Borrower Affidavit which is a part of VHDA Exhibit E2. Any non-borrower taking title that does not have income must be identified and $0.00 reflected in the annual income section. Non-borrowers taking title must meet the first time homebuyer requirement and execute the VHDA Single Family Loan and Mortgage Credit Certificate Programs Disclosure and Borrower Affidavit (Exhibit E2).

M. **Other Household Members not taking Title**

If the loan is originated with a VHDA Grant, income of other household members not taking title must also be included for the purposes of determining whether the VHDA maximum income limits have been exceeded. If not using a VHDA Grant, the income of all other household members that are not taking title does not need to be included for household income. Under no circumstances can a non-borrowing occupant's income be considered for credit qualifying purposes.

If the income of other household members not taking title must be included for household income, it must be disclosed on the VHDA Single Family Loan and Mortgage Credit Certificate Programs Disclosure and Borrower Affidavit (Exhibit E2). Any other household member not taking title that does not have income must be identified and $0.00 reflected in the annual income section.

N. **Dependents (Maximum Household Income)**

- Income of all dependents liable on the loan and/or taking title must be included in the household income calculation.
- Income of dependents **not** liable on the loan and/or **not** taking title will be excluded from the household income calculation.

<u>Examples of dependents are</u>: minors, students, elderly parents. If information is not disclosed or there are discrepancies noted within the file documentation then typically dependent(s) can be confirmed on the most recent tax return.

O. **Multiple Loans**
No borrower may have more than one outstanding VHDA loan.

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.
- 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 on-line. To view VHDA limits go to: VHDA.com Income and Sales Price / Loan Limits.

C. **New/Existing Construction**
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 not currently used to apply the appropriate sales price limit.

D. **Acquisition Cost Requirements**
Acquisition cost is 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 exceed VHDA's sales price limit as a result of the estimated cost to complete unfinished area (see below), the Originating Lender must contact VHDA to determine if the residence is eligible.

- **Acquisition cost includes the following:**
  - Amount paid, in cash or in kind, by the borrower to or for the benefit of the seller (or related party) for the land and the residence (excluding any personal property that is not a fixture).
  - If new construction and personal property items are conveyed (included in the sales price) then the value of those personal property items must be subtracted from the acquisition cost. See below for information about Personal Property (Example Sales Price of $200,000 with $5,000 included for washer, dryer and refrigerator the amount entered would be $195,000).
  - Amount paid, in cash or in kind, by any other person to or for the benefit of the seller (or related party) for the land and residence (excluding any personal property that is not a fixture).
  - Amounts paid for fixtures (if not a part of the price of the land and residence included in the 2 bullets above). Example: Sales Price of $200,000, flooring paid separately to the flooring supplier in the amount of $10,000 and not

included in the sales price paid to the seller – include $10,000 on the line related to fixtures.

- o Additional 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. Example, 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 of 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.
- o Cost of land owned by borrower less than two years prior to commencement of construction of the residence thereon.

o **Non-Acquisition Cost**

The acquisition cost does not include the following:

- o 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(s). Such amounts must not exceed the usual and reasonable costs which otherwise would be paid. Where the borrower(s) pays more than the typical, pro rata share, the excess is to be included as part of the acquisition costs.
- o The value of services performed by the eligible borrower or members of his family in constructing or completing the residence.
- o The costs of land owned two-years or longer by the applicant.
- o Personal property.

o **Calculation of Acquisition costs**
The Originating Lender will assist in the calculation of the acquisition costs. The figures are to be included on the Borrower and Seller Affidavits. Information related to the costs of the property and unfinished area should be compared to the information included on the sales contract, Closing Disclosure, and appraisal.

E. **Personal Property Restrictions**

Federal Regulations prohibit VHDA from financing personal property transferring with the residence with the proceeds of tax-exempt bonds. To eliminate the need for adjustment to the sales transaction, the value of the personal property transferring can be offset by any 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. 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, the Seller Affidavit (Exhibit F) and Borrower Affidavit (Exhibit E2) are structured to include this information:
    - **Seller Affidavit:** In section 3, the seller states 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.
    - **Borrower Affidavit:** Section 14 – the applicant(s) 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 Seller Affidavit (if new construction) and Borrower Affidavit 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 Seller Affidavit (if new construction) and Borrower Affidavit for these personal property issues may result in repurchase of the loan from VHDA.**

F. Maximum Lot Size

The maximum lot size for VHDA financed properties is 2 acres. 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.
- If difficulty is encountered locating a well or septic field, the lot may include the additional acreage needed.
- If local city or county ordinances (not just subdivision restrictions) require more acreage.
- If the lot size is determined to be usual and customary in the area for comparably priced homes.

This subsection 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 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*: Acreage Exceptions for greater than 2, up to 5 acres:** *The lender's underwriter may review and render a decision and must acknowledge the acreage exception on the Underwriting Transmittal or a memo to the file. Justification for the exception must be included. Generally, a minimum of two comparable properties should support the acreage.*

G. **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 followed for applicable loans. Appraisals for conventional loans must be provided in accordance with established Fannie Mae and/or Freddie Mac requirements. Property values and improvements must be well supported as typical for the market area based on comparable sales with similar characteristics and improvements. Properties with unique or non-typical improvements will require special consideration by VHDA.

H. **Manufactured Homes**

VHDA distinguishes between two types of manufactured homes:

- **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.
- **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** must be permanently attached to the land in accordance with the insurer requirements including a foundation inspection and certification.
  - VHDA will allow the financing of manufactured homes through FHA, VA, and Rural Housing loan programs meeting the following requirements as well as those required by the applicable insurer:

    ***Note*:** *Manufactured homes may not be eligible for Fannie Mae programs – refer to Fannie Mae Program Guidelines.*

    - **All Manufactured Home Units:**
      - Units must be multi-sectioned (double-wide). Single-wide allowed with FHA only.
      - Foundation must be permanently attached and anchored per manufacturer specifications and/or state and local building codes

with full perimeter walls with brick or block skirting. Wheels, axles and trailer hitches must be removed.

***Note**: A structural engineer certification may be required based on insurer's requirements.*

- Must have permanent steps and stoops on proper footings.
- Must provide photographs of HUD seal plates with the numbers reflected on the Appraisal Report or Final Inspection.
- At minimum, two comparables must be manufactured homes.
- Must be assessed / taxed as real estate. Must provide evidence that title has been surrendered to DMV and all liens released. Refer to section 2.5 for additional information regarding closing and title requirements for manufactured homes.

▪ **New Construction Manufactured Homes:**

- Certificate of Occupancy must be provided.
- Turnkey 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 Manufactured Homes:**

- No changes to the original structure may have been made (i.e. removal of walls and/or additions, etc.). Exception requests may be considered which will require additional documentation such as:
    - Certificate of Occupancy for original unit and installation must be provided.
    - Building permit and final inspection from county must be provided for additions or attachments.
    - Structural engineer certification (if not already obtained).
- 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.

I. **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.

- **VHDA Conventional Financing:** The condominium must meet the project eligibility guidelines for Fannie Mae and the applicable private mortgage insurance company guidelines. In addition, expedited review approvals through Fannie Mae's Condo Project Manager by the Originating Lender are accepted. The lender's underwriter must indicate the warranty classification on the 1008 or by separate statement and include all agency documentation in accordance with the approval type.
- **VHDA FHA, VA, and RHS Financing:** The condominium must be approved in accordance with the applicable insuring agency guidelines and include all documentation in accordance with the approval type.

J. **Affordable Dwelling Units/Re-Sale Restrictions**

VHDA requires re-sale restrictions related to Affordable Dwelling Units or other affordable housing programs to 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 Single Family Housing Policy Handbook 4000.1). NOTE: In the event the re-sale restrictions does not comply with FHA guidelines, and the loan program requested is conventional financing, contact VHDA for exception consideration.

K. **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. 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.

L. **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 property guidelines unless stated below or otherwise approved by VHDA. Properties located in declining markets must be supported with additional documentation to support value and may be subject to reduced loan to value. Follow Fannie Mae guidelines for Fannie Mae programs.

M. **Post-Closing Repairs**

- Escrows for post-closing repairs are considered on a case by case basis. No structural or major mechanical repairs.
- Request for approval must be submitted to VHDA in advance of loan approval. VHDA will require a written quote from contractors for the work to be performed. If the appraisal was performed without electric and/or water service, a separate inspection report providing testing of the electrical and plumbing systems will be required. VHDA may deny the request for any post-closing repairs based on the type of repair and potential impact on the mechanical systems or structural soundness of the property.
- See Section 4 below for additional requirements regarding Energy Efficient Mortgages and HUD REO with Repair Escrow programs.

N. **Targeted Areas**

A targeted area is an area that meets one of the definitions 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.
- **Eligibility/Waiver of Three-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).
- **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).
- **Locating Targeted Areas:** Should an Originating Lender need assistance in determining targeted areas, they can visit Areas of Economic Opportunity on VHDA's Website or they can call their local city/county planning office.
- **Federal Targeted Area Limits:** Some, but not all properties located in a Targeted Area have higher income and sales price limits. The higher Targeted Income limits do not apply to loans originated with the DPA Grant or CCA Grant. Refer to the Federal Targeted Income limits VHDA's website.

2.3 Underwriting Requirements

A. **General Underwriting Requirements**

To be eligible for VHDA financing, borrower(s) must demonstrate the willingness and ability to repay the mortgage debt and adequately maintain the financed property. All borrowers must meet requirements and guidelines of the agency and or insurer. In addition, the borrower(s) must satisfy the requirements stated below. Originating Lenders must contact VHDA directly to discuss any exceptions to these requirements.

- **Stable Employment:** Borrower(s) 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.
- **Credit History:** Borrower(s) 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. A minimum 620 credit score is required unless otherwise noted in specific program requirements.
- **Prior Foreclosures/Deed in lieu or Foreclosure and Short sales:** Borrower(s) with prior significant mortgage event (foreclosure, deed in lieu or short sale) must meet the applicable insurer requirements in addition to the following requirements:
    - No significant derogatory credit since the event (bankruptcy/judgments) and no late payments or collections in the 3 year period prior to loan application.
    - Foreclosure/deed in lieu/short sale must be no less than 3 years from date of title transfer to application date.
    - Loans with VHDA down payment assistance (to include grants and subordinate liens) only eligible no less than **5 years** from date of title transfer to application date.
- **Housing Choice Voucher (HCV) Subsidy:** Due to special servicing requirements of Housing Choice Voucher subsidies, lenders must receive prior VHDA approval for borrowers receiving HCV subsidy.

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.

<u>Note</u>: *Exhibit LL is not required with loans on which VHDA or Federal Home Loan Bank is providing down payment assistance.*

The following applies to Secondary Financing:

- 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 (unless limited by the insurer).

- **Secondary Financing Terms:**
  - **Interest Rate:**
    - Fixed rate only.
    - May not exceed the rate of the first mortgage.
  - **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.

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.

2.4 Loan Terms and Requirements

A. **Term:** A 30 year term is the only term available for VHDA loans.

B. **Maximum Loan Amount / Total Loan Amount / Total Loan to Value:** Refer to the applicable Loan Program Guidelines and Procedures.

C. **Private Mortgage Insurance Coverage Requirements:** Refer to specific conventional program guidelines for mortgage insurance coverage requirements.

Note: *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.*

2.5 Closing Requirements

In general, these closing requirements apply to all VHDA programs unless otherwise specified in VHDA loan program guidelines. 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. All underwriting conditions required by the approval letter, conditions of the appraisal, and insurer requirements must be satisfied prior to closing and included with loan submission.

The following documents must be contained and reviewed in the Closing Lender's preliminary review package.

For current form and documents go to VHDA.com. These forms and documents can be completed online.

A. **Final Loan Application (1003)**
Final loan application reflecting verified information should be signed 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.
- The First Loan and Second Mortgage must be closed in the name of the Originating Lender and contain required MERS language.
- A late fee of 5% is due 15 days after the due date on VHDA Conventional, Rural Housing loans and Plus Second Mortgage loans; and 4% is due 15 days after the due date on FHA and VA loans.
- 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)

- No chattels are financed by any VHDA mortgage loan; therefore, no chattels shall be included in the property description of the Deed of Trust.
- "Trustee's fee" is 5%.
- 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. 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.
- Any VHDA 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**

- 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.
- 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 and Title Binder cannot be more than 90 days old at the time of closing.
- **Title Binder Exceptions:**
  - 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). ALTA 9 contains sufficient language for coverage.

- In addition, the following must be met:
  - 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.
  - 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.**
  - 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 not provide copies of applicable restrictive covenants unless specifically requested by VHDA.
  - The title binder must have appropriate ALTA Endorsements attached if the property is a PUD or Condominium. Do not provide copies of homeowners' association documents unless specifically requested by VHDA.
  - Any easements that adversely affect the property's use, enjoyment, or marketability, such as high-tension power lines, will be unacceptable.
  - An ALTA 8.1 is required on all loans.
  - **Manufactured Homes**: 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.

F. **Private Roads**

Follow insurer or agency guidelines. For Conventional loans, follow Fannie Mae guidelines. Provide all documentation required by the insurer or FHA, VA, or RHS loans.

G. **Well and Septic**

Well and Septic inspection reports are not required by VHDA unless required by the underwriter or the applicable insurer or agency.

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 does not cover exceptions for general matters of current survey.**

I. **Flood Certification**

- To comply with the National Flood Insurance Reformation Act of 1994, a Flood Certification 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**

- **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.
- **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. **Final or Repair Inspection and Escrows**

- A final or repair inspection is required if indicated as a condition of 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 funds for closing.
- Escrows must be approved by VHDA, and will be considered only on a case-by-case basis.

L. **Hazard Insurance Binder/Policy**

- 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.

- Policies, or temporary written contracts of insurance (binders), are acceptable. The master policy referencing unit and borrower are required on condominiums. 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 cancelled 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.
- The mortgage clause should reflect the Originating Lender information. After purchase the mortgagee clause should be endorsed to read:

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

- 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.
- The description of the insured property should include the legal description and the mailing address.
- The loan cannot close prior to the effective date of the policy/binder.

M. **Closing Disclosure**

- All charges in connection with closing, including prepaid items and closing costs, must be included in the Closing Disclosure 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.
- The Closing Disclosure must be fully executed by all parties to the transaction. The Originating Lender should ensure that it is filled out correctly, including any addendums.
- 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 Closing Disclosure(s) is required for all 1st and 2nd loans.
- Maximum allowable fees are restricted by the insurer**/**guarantor. See below for maximum allowable ancillary fees.

N. **Income producing/Ancillary Fees**
Total Ancillary Fees may not exceed common and customary income producing fees and must be reflected on the Closing Disclosure.

O. **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 for FHA/VA/RHS and 360 days for Conventional loans. On the Plus Second Mortgage, closing interest is required using 360 days.

P. **Escrow Reserves:** Escrow reserves must be collected in accordance with RESPA requirements. Lender must collect a minimum two months cushion for initial escrow account set up.

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

Q. **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 Closing Disclosure and instructing the closing agent to establish tax escrows based on the estimated value with improvements.

R. **Secondary Financing:** A separate Loan Estimate and Closing Disclosure are required for all second mortgages including the Plus Second Mortgage to be in compliance with RESPA.

S. **Errors and Omissions Agreement:** Must be completed and signed by all borrowers at closing.

2.6 Purchase Requirements

These purchase requirements apply to all VHDA programs unless otherwise specified in specific loan programs guidelines. Originating Lenders must contact VHDA directly to discuss any exceptions to these guidelines.

A. **Accuracy and Completion**

- 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 Confirmation or VHDA 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.

B. **First Mortgage Note and Second Mortgage Note (if applicable)**

The Note(s), including the second mortgage if applicable, must be submitted to VHDA via overnight mail. **All notes must reflect the Originating Lender's** name. Notes must be delivered to:

VHDA
601 S. Belvidere St.
Richmond, VA 23220
Attn: SF Document Control

C. **Endorsement of Note(s)**

An original signature is required for the endorsement of the Note(s) – a signature stamp is not acceptable. The endorsement may be on the Note(s) or 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

D. **Deeds of Trust:**

- **All Deeds of Trust must be drawn with required MERS language.**
- **Lender MUST** provide a copy of the fully executed document in the closed loan package along with evidence of recording receipt.
- The original must be provided within 90 days from closing. The document must be submitted overnight with VHDA Transmittal form to:

VHDA
601 S. Belvidere St.
Richmond, VA 23220
Attn: SF Document Control

- The Plus Second Mortgage Deed of Trust must have the following language on the first page in **BOLD AND CAPITAL LETTERS**:

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

- **Plus Second Mortgage Awards Letter:** Plus loans will not be purchased without Awards Letter signed by the borrower.

3 Origination Procedures

3.1 Lock-In Policies and Procedures

VHDA loans may be locked in by Originating Lenders for specific borrowers and properties. The interest rate is locked-in after loan application and after the lender has determined that the borrower meets the eligibility requirements and guidelines for the loan program. No substitutions of borrower, property, or Originating Lender are permitted. A change in the loan program may require the loan to be re-locked at different terms.

A. Rate Lock-In Period

Loans may be locked-in at an interest rate for a period of 30, 45, or 60 days. The loan must close by the lock-in expiration date. Special programs may require different lock periods. Questions regarding special programs should be sent via email to lockdesk@vhda.com.

B. Extension of Rate Lock

The Originating Lender may request extensions to the rate lock period in 15 – day increments, up to a maximum of 60 days. Lock extension requests must be submitted on or before the lock expiration date. The cost of each extension is 0.25% of the loan amount. This cost will be deducted from the net price of the loan. Extensions will not be processed on expired locks. If a full 15-day extension is not needed, a courtesy 5-day lock extension may be granted prior to lock expiration.

C. Expired Rate Lock – Lock Cancellation on Same Property

If a property has an expired rate lock (less than 30 days); pricing for a new rate lock on the same property will be subject to worse case pricing. If the loan is cancelled, the lock automatically expires.

D. Rate Lock – Lock Cancellation Due to Property Change

A change in property is considered a new transaction and will require a new loan application and rate lock with current market pricing. The original loan must be cancelled prior to locking in a new property.

E. Lock Transfers – Change in Lender

Locks cannot be transferred between lenders. Should a borrower choose to transfer his/her loan to a new lender after the loan has been locked, the original lender must cancel the original lock and provide reason for cancellation. If the reason for lock cancellation was loan denial, the lender must provide the reason for denial to VHDA. The new lender must have the loan reviewed by their underwriting department, determined eligible for approval, and submitted to VHDA for review prior to allowing the new rate lock.

F. **Relocks**

A lock must be expired or cancelled in order to relock. The relock term will be the same as the original lock term for locks expired less than 30 days. Worse case pricing applies between original day pricing and current market pricing. Locks expired for 30 days or more will be relocked at current market pricing. The lock term can be 30, 45, or 60 days. If the loan is cancelled, the lock automatically expires. Special programs may require the relock term to be the same as the original lock term. Questions and lock requests regarding special programs (i.e. CHR, etc.) should be sent via email to lockdesk@vhda.com.

G. **Reinstatement of Lock**

If a lock is cancelled in error, the lender must request a lock reinstatement by 9am the next business day after the lock was cancelled. Failure to submit the request by the above referenced timeline will require the lender to relock at worse case pricing.

H. **Loan Product Change**

A change in loan product will require the lock to be updated as outlined below. A product or a lock change request must be made through VHDA's Loan Origination System.

- Government to Government – Original lock date pricing and lock term applies for applicable product.
- Fannie Mae to Government and vice versa – New Lock required at current market pricing.
- Fannie Mae Reduced MI to Fannie Mae No MI and vice versa – Original lock date pricing and lock term applies for applicable product.
- Government to FHA with Plus Second Mortgage – Original lock date pricing and lock terms applies for first mortgage **but the interest rate will be adjusted by 0.25%.**
- Fannie Mae to Fannie Mae with Plus Second Mortgage – Original lock date pricing and lock terms applies for first mortgage **but the interest rate will be adjusted by 0.125%.**

  Note: *If adding the Plus Second Mortgage and the existing first mortgage has a DPA Grant, the lender must cancel the DPA Grant before registering / locking the Plus Second Mortgage.*

A product change request or lock change request on an existing lock is not allowed for the following:

- FHA to Fannie Mae with Plus Second Mortgage / Fannie Mae to FHA with Plus Second Mortgage – **Existing first mortgage must be cancelled and new first mortgage imported / registered.** Then the Plus Second Mortgage must be registered as a Piggyback loan. Current lock term required at current market pricing. There is an adjustment to the interest rate of 0.25% for FHA loans and 0.125% for Fannie Mae loans.

I. **Rate – Pricing Distribution**

Rates are distributed to lenders Monday – Friday via email. Approval from the lender's secondary department is required to add any recipients to the distribution list.

J. **Price Protection – Lock System Availability**

Loans must be registered and locked in VHDA's Loan Origination System – Mortgage Cadence. Refer to vhda.com for information and guides related to the online system. Overnight price protection is offered Monday – Friday from 5pm to 10am the following day. The Lock-In system is unavailable beginning Friday evening at 9pm until Monday morning at 10am. The Lock-In system is unavailable on all federal holidays with the exception of Columbus Day.

K. **Exceptions**

Exceptions to the VHDA lock policy are made at the discretion of the VHDA Lock Desk upon approval from the Homeownership Managing Director.

L. **VHDA Lock Department Hours and Contact Information**

The VHDA Lock Desk hours are 8:30am – 5:00pm Monday – Friday. Questions regarding VHDA's Lock Policy should be sent via email to lockdesk@vhda.com.

3.2 Non-Delegated Origination Procedures

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. All VHDA specific required documents are available on VHDA's website.

A. **Lender Underwriting Process**

- Originating Lender underwriter must approve VHDA loans for the appropriate insurer, FHA/VA/Rural Housing, or submit to the private mortgage insurer and obtain approval prior to submission to VHDA for loan approval.
- **Mortgage Insurance Approval**: Loans must be submitted directly to the private mortgage insurer for approval of mortgage insurance and issuance of insurance certificate.
- Originating Lender underwriter must review the loan for compliance with VHDA requirements before submission to VHDA for approval. See individual Program Guidelines and Chapter 2 for Special Eligibility Requirements.
- The underwriter must complete and sign the Loan Submission Cover Letter (Ex. O). This form will also indicate special eligibility requirements.
- **Loan Submission to VHDA**: Refer to Quick Reference Guides for VHDA's on-line Origination System.
    - Loan must be locked prior to submission.
    - Upload documents to VHDA's on-line Origination System.
    - Execute "Submit Loan for Review" utility. Documents are to be uploaded in accordance with the VHDA Underwriting Submission Checklist.

B. **VHDA Loan Review**

- **Loan approval:** VHDA Underwriter reviews documentation and approves with applicable conditions, creates loan approval and email notification is sent to lender's underwriter.

  ***<u>Note</u>:** If the loan has an MCC it is subject to federal recapture. The Notice of Recapture is sent with the loan approval. This document must be sent to loan closing for borrower to execute and return to VHDA.*

- **Loan Suspension:** If suspended, VHDA Underwriter issues suspense notification to lender's underwriter. Lender must upload required documentation to receive approval after uploading suspense documents and click the "Submit Conditions for Review" utility.
- **Loan Denial**: If loan is denied, notification is emailed to the lender's underwriter.

C. **Loan Closing Process**

- All loan closings are performed under the delegated process, including loans for lenders that are non-delegated. See Section 3.3 Loan Closing Process below for more information.

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 approval, approve loans for closing, and fund loans at closing.

A. **Lender Underwriting Process**
Approved VHDA Delegated Underwriters should review loan files. The loan must be reviewed prior to lock expiration. Rates should be locked on VHDA's Online Lock-In System.

- Originating Lender underwriter must approve VHDA loans for the appropriate insurer FHA/VA/Rural Housing or submit to private mortgage insurer and obtain approval.
- **Mortgage Insurance Approval:** Loans must be submitted to the mortgage insurer for mortgage insurance approval and issuance of mortgage insurance Certificate.
- Originating Lender underwriter is to review loan for compliance with VHDA requirements. See individual Program Guidelines and Chapter 2 for Special Eligibility Requirements.
- The underwriter must complete and sign the Loan Submission Cover Letter (Ex. O). This form will also indicate special eligibility requirements.
- **Delegated Submission**: Refer to Quick Reference Guides for use of VHDA's Loan Origination System.
  - o Loan must be locked prior to delegated submission.

- After review and determination of compliance with all VHDA and insurer requirements, the approved delegated underwriter will access VHDA's on-line Origination System and verify all data for accuracy.
- The delegated underwriter will complete the Delegated Submission screen in VHDA's Loan Origination System and will then execute the "Delegated Submission Utility".
- **Delegated Approval Confirmation**: The delegated underwriter will receive email notification with the Delegated Approval Confirmation and, if applicable, the Notice of Federal Recapture to send to loan closing.

B. **Loan Closing Process**

- Loans are to be closed in accordance with VHDA loan approval, insurer, or agency guidelines in addition to any VHDA specific requirements.
- **Closing Instructions:** Originating Lender must provide the Closing Agent with the Approval, Instructions, and closing documents.
- **Recapture Notice:** If the loan has an MCC, the Originating Lender will send the Recapture Notice, which has been provided by VHDA, to the Closing Agent so it can be given to the borrower at closing to execute and return to VHDA.
- **Servicing Transfer Letter/First Payment Letter:** The Originating Lender will also provide a Servicing Transfer letter (**Hello/Goodbye Letter**) and First Payment letter to the borrower at closing.
- **Awards and/or Obligation Letter (dependent on loan program):** If the loan is originated with a DPA Grant, CCA Grant, or Plus Second Mortgage, the Awards and/or Obligation Letter must be provided to the borrower at closing to execute and return to VHDA.
- **Loan Closing Disbursement:** The Originating Lender will fund the first and, if applicable, the Plus Second Mortgage. Loans must close prior to lock expiration.
- **Closed Loan Package Submission:**
  - The loan file must be submitted in the order identified on the **VHDA Loan Stacking Form** available on VHDA's website under Lender Forms and Documents.
  - Originating Lender must provide one complete loan package including required underwriting and closing documents within **10** calendar days of loan closing. Loans with an interest credit will be due by either the **15th** of the month preceding the first payment date or **10** calendar days after closing, whichever is first. Wiring instructions are to be included in the loan package.
  - After uploading the full and complete file to VHDA's Loan Origination System:
    - The "Submit Closed Loan Package" utility must be executed. Refer to Quick Reference Guides for VHDA's Loan Origination System for more information.

    - The lender must send the **original Note** and **Allonge/Endorsement** via overnight mail to:

      Virginia Housing Development Authority
      601 South Belvidere Street
      Richmond, Virginia 23220
      Attention: SF Document Control

    - These same procedures must be performed for the VHDA first mortgage and VHDA second mortgage (if applicable).

- VHDA will perform a full review prior to purchase of loans.
- VHDA will notify the lender of approval for purchase or if the loan(s) has been pended for required corrections.
  - VHDA will provide a suspense letter on each pended loan, and a monthly report listing all loans closed with outstanding documents.
  - If the loan is **Purchase Pended**, lender must upload required documents and click the “Submit Pre Purchase Conditions” utility in the VHDA Loan Origination System.
  - A penalty will be assessed every 10 business days in an amount of 0.125% for loans remaining pended.
- **Loan Funding:**
  - Lenders will receive a Purchase Advice on each loan showing the net funding breakdown.
  - Funds will be wired to the lenders account per wiring instructions and/or Bailee letter provided in each loan in a bulk wire.
  - **Daily Purchasing Program Disbursements by Lender** report will be sent each day reflecting the amount of the bulk wire. The report will reflect individual loans with a total wire amount.
  - The following fees will be used to calculate the net funding amount:
    - Principal Loan Amount
    - Net Price
    - Escrow Balance Transfer
    - VHDA DPA Grant
    - VHDA CCA Grant
    - Tax Service Fee
    - Interest due
    - Principal Curtailment

- **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.
- **Final Documents:**
  - The Originating Lender must submit all final documents (title policy with all endorsements, recorded deed of trust, recorded assignment and mortgage insurance certificate/ loan guaranty certificate) to VHDA within 90 days after loan closing.
  - Documents must be submitted using the VHDA Document Transmittal form.
  - The lender must send the **original Deed of Trust** via overnight mail to:

    Virginia Housing Development Authority
    601 South Belvidere Street
    Richmond, Virginia 23220
    Attention: SF Document Control
  - **Follow-Up Loan Documentation:** Must be uploaded to the VHDA Loan Origination System and the appropriate utility needs to be executed ("Submit Post-Closing Conditions).
- **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.**

4 VHDA Loan Programs

Detailed information and program guidelines for loan programs noted below are available on VHDA's Website.

Programs	
VHDA Fannie Mae Products	VHDA offers special financing programs through the Fannie Mae HFA (Housing Finance Agency) initiative. The Fannie Mae HFA Preferred with Reduced MI and Fannie Mae HFA Preferred No MI programs are available See Program Guidelines for more information.
VHDA/FHA	See Program Guidelines for more information.
VHDA Plus Second Mortgage Loan Program	Plus includes a second mortgage designed to help qualified borrowers who need down payment and closing cost assistance. See Program Guidelines for more information.
VHDA/VA	See Program Guidelines for more information.
VHDA/Rural Housing	See Program Guidelines for more information.
VHDA FHA Streamline Refinance	Available to refinance VHDA FHA loans only. See Program Guidelines for more information.
VHDA VA Interest Rate Reduction Refinance Loan	Available to refinance VHDA FHA loans only. See Program Guidelines for more information.
VHDA DPA Grant Program	VHDA offers grants for down payment assistance to eligible borrowers. Special eligibility requirements apply including lower maximum income limits. Funds may be used with specific VHDA first mortgage loans. See Program Guidelines for more information.
VHDA CCA Grant Program	VHDA offers grants for closing cost assistance to eligible borrowers. Special eligibility requirements apply including lower maximum income limits. Funds may be used with specific VHDA first mortgage loans. See Program Guidelines for more information.
Mortgage Credit Certificates	VHDA offers Mortgage Credit Certificates (MCCs) to eligible first-time homebuyers. Information about lender participation and MCC requirements and procedures is provided on VHDA.com. See Program Guidelines for more information.

Detailed information and program guidelines for loan programs noted below are available on VHDA's Website.

Special Programs	
Community Housing Revitalization (CHR)	VHDA offers special financing initiatives to local communities and non-profits with lower rates. See Program Guidelines for more information.
REO Condo	VHDA offers special financing for condominium units owned by VHDA through foreclosure that do not meet standard agency lending requirements. Contact VHDA for more information.
Energy Efficient Mortgages (EEMs)	VHDA will allow the origination of VA guaranteed and FHA insured loans utilizing their respective Energy Efficient Mortgage programs with standard VHDA, FHA, and VA loans. VHDA **Plus** Second Mortgage are not eligible for these EEM programs. Originating Lenders are responsible for meeting all applicable FHA or VA requirements. ***Note:*** *The costs of the energy efficient improvement 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.* If the energy package items will not be complete by the time of closing, the Originating Lender must ensure all FHA and VA requirements are met and submit to VHDA for consideration prior to loan approval. The Home Energy Package and any other documentation related to the Energy Efficient Mortgage must be included in the submission.
HUD REOs with a Repair Escrow	VHDA will allow the origination of FHA insured loans with a Repair Escrow on HUD REO properties on a case by case basis. Financing repairs through FHA's HUD REO with Repair Escrow is not acceptable when originating an FHA loan with the VHDA Plus Second Mortgage. Originating Lenders are responsible for meeting all applicable FHA requirements. ***Note:*** *The costs of 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.* Request for approval must be submitted to VHDA in advance of loan approval. VHDA will require a written quote from contractors for the work to be performed. If the appraisal was performed without electric and/or water service, a separate inspection report providing testing of the electrical and plumbing systems will be required. VHDA may deny the request for any post-closing repairs based on the type of repair and potential impact on the mechanical systems or structural soundness of the property.

VHDA Loan Programs

Detailed information and program guidelines for loan programs noted below are available on VHDA's Website.

Special Programs	
Assumptions	See Section 8 for more information about Loan Assumptions.

5 Automated Underwriting

Acceptance of Loan Prospector, Desktop Underwriter, FHA TOTAL ScoreCard and GUS.

Note: *Fannie Mae loan programs require a Desktop Underwriter (DU) approval.*

5.1 Programs Eligible for Automated Underwriting

A. 30 Year Fixed Rate (FHA and VA)

B. Rural Housing

C. Fannie Mae Products (Desktop Underwriter only)

5.2 Mortgage Revenue Bond and MCC Requirements

The AUS system approval only applies to the credit qualifying requirements (i.e. credit, ratios, and employment). In addition, the Originating Lender must ensure that all VHDA mortgage revenue bond requirements or MCC 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 (Exhibit O).

5.3 Maximum Debt to Income Ratio

Maximum Debt to Income Ratio is 45.00% with AUS approval.

5.4 Manual Approvals

Manual approvals on AUS referrals will be eligible unless noted in the specific program guidelines. The loan must be underwritten by a DE Underwriter based on their assessment that the loan meets all guidelines along with supporting justification for the loan decision.

6 Recapture Tax

All loans that receive a Mortgage Credit Certificate will be subject to the Recapture Tax. The information provided below is for information purposes only. The borrower should consult a tax advisor or the IRS for more specific information. An informational video and Recapture Calculator are available on VHDA.com.

6.1 Purpose

Congress enacted legislation in 1988, which was subsequently amended in 1990, to recapture some or the entire 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.

6.2 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:

A. The owner’s income during the tax year in which the home is sold.

B. The household size during the tax year in which the home is sold.

C. The year the home is sold (1-9).

D. The amount of net gain realized from the sale of the residence.

***Note**: The refinancing of a VHDA loan does not trigger recapture.*

6.3 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.

6.4 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.*

6.5 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:

A. 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**

B. There is no gain on the sale of the property (adjusted for allowable costs)

6.6 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 owner's 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.**

6.7 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.

A. **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.

B. **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.

C. **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 6.25%
- X any adjustment for Income (1 above)
- X any adjustment for Holding (2 above)

A Recapture Tax Calculator is available on VHDA's website.

7 Homeownership Education

7.1 VHDA’s Homeownership Education Program

VHDA’s Homeownership Education Program is available either online or in a classroom setting. A VHDA homeownership program must be completed prior to loan approval to be eligible for any type of VHDA financing (unless otherwise approved for non-first time homebuyers).

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 using 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.com.

8 Loan Assumption

8.1 General Loan Assumption Requirements

A. Assumptions may be permitted on the following VHDA mortgage loans noted below provided that certain requirements are met. For more information contact VHDA's Servicing Department.

- FHA
- VA
- Conventional
- Fannie Mae (only for certain exempt transactions as outlined in Fannie Mae's Servicing Guide)

B. **Mortgage Credit Certificate (MCC)**

If the loan to be assumed has an MCC (with a VHDA loan or non-VHDA loan), the MCC cannot be transferred.

C. **Recapture Notice**

Loans funded with tax-exempt bonds may be subject to a federal recapture tax. When one of these loans is assumed, a new nine-year recapture period begins for the new owner. Therefore a "Recapture Requirement Notice" accompanied by a current table of Federal Income Limits, must be executed by the assumers at closing. Refer to Chapter 6 – Recapture Tax – for more information.

9 Explanation of VHDA Forms, Exhibits, and Documents

VHDA forms, exhibits, and documents are located on VHDA's website. Originating Lenders are responsible for duplicating, purchasing from a forms provider, or accessing on vhda.com all necessary documents used on VHDA loans. The Originating Lender is responsible for the accuracy of all documents and using the most current version.

9.1 Electronic Signatures

VHDA will accept electronic signatures for the contract and all initial origination documents and disclosures executed in compliance with the ESIGN Act and state laws. Loan closing documents must be executed with original signatures.

9.2 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 specific VHDA program requirements, federal regulations related to tax exempt bond requirements and Mortgage Credit Certificate regulations. The information below addresses these forms and any unique requirements related to the execution or completion of these forms.

A. **Tax Form 4506 or 4506T**

- The Originating Lender must have borrowers sign a completed Tax Form 4506/4506T, which enables the Originating Lender to obtain tax transcripts if further verification is necessary.
    - o ***Note:*** *Two years Tax Transcripts are required on all Fannie Mae loan programs for compliance with quality control requirements.*

B. **VHDA Single Family Loan and Mortgage Credit Certificate Programs Disclosure and Borrower Affidavit (Exhibit E2)**

This document includes special disclosures and program information unique to VHDA programs, and Mortgage Credit Certificates. The borrower is requested to acknowledge their intent to request a Mortgage Credit Certificate and/or a VHDA DPA Grant (if available) on page one.

- **Borrower Affidavit**

  The Affidavit (pages 3 – 4) attests to the borrower's compliance with federal regulations. It must be signed by all borrower(s) and non-borrowers taking title. The Originating Lender should assist in completing this document. On Page 4 any non-borrowers taking title and other household member income (required for the DPA Grant or CCA Grant) are required to disclose income. Pages 3 – 4 are not required for Fannie Mae loans without the VHDA DPA Grant or an MCC.

  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.

- **Power of Attorney (POA):** A representative of the borrower may execute the VHDA Single Family Loan and Mortgage Credit Certificate Programs Disclosure and Borrower Affidavit (Exhibit E2), as long as at least one borrower signs in person. Documentation demonstrating the validity of the power of attorney is required.

C. **Seller Affidavit and Acknowledgment - (Exhibit F)**
The Seller Affidavit 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 Seller Affidavit also includes the Acquisition Costs figures noted on the Affidavit of Borrower. **The Seller Affidavit must be signed by all sellers appearing in the vested clause of Schedule A of the title binder.**

- **Power of Attorney (POA):** A representative of the seller may execute the Seller Affidavit and Acknowledgment (Exhibit F) using a power of attorney. Documentation demonstrating the validity of the power is required.
  - **Estates:** In circumstances where the property is being sold by an Estate or Executor, ensure the individual signing on behalf of the Estate is authorized.
  - 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.
- **Bank Owned Properties:**
  - A representative of the seller (bank) must execute the Seller Affidavit. If the bank has contracted with a third party management company to sell the property, VHDA 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.
  - Exceptions for properties sold by FHA, VA, Rural Development, Fannie Mae, and Freddie Mac must be submitted to VHDA for consideration.

D. **Originating Lender's Submissions Cover Letter (Exhibit O)**
Originating Lenders attest to reviewing all loan documents for compliance with Federal requirements including calculation of household income. 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 Borrower and Seller Affidavits. The underwriter of the Originating Lender must sign this document.

E. **VHDA Closing Documents, Forms and Exhibits**
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.

- **Originating Lender's Post Closing Cover Letter (Exhibit P):** Must be executed by the lender certifying the loan is in compliance with VHDA requirements.
- **Notice of Servicing Transfer (Hello/Goodbye)**
- **Summary of Recapture Tax Requirements (Exhibit Z):** Applicable to the Mortgage Credit Certificate (MCC) loan program only. The Originating Lender will send the Recapture Notice which has been provided by VHDA to the Closing Agent. 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.
- **Awards and/or Obligation Letter (dependent on loan program):** If the loan is originated with a DPA Grant, CCA Grant, or a Plus Second Mortgage, VHDA will provide these letters. The Originating Lender will send these letters to the Closing Agent to be provided to the borrower.

10 VHDA Fair Housing Policy

EQUAL HOUSING OPPORTUNITY

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