



Step
UP

PROCEDURAL MANUAL
ALABAMA HOUSING FINANCE AUTHORITY



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INTRODUCTION

The Alabama Housing Finance Authority (the Authority), is a public corporation and an instrumentality of the State. It was organized pursuant to Title 24, Chapter 1A of the Code of Alabama, as revised. The Authority, a non-profit organization, was established as the housing entity for the state in 1980 and currently administers several housing programs such as the Mortgage Credit Certificate Program, the Step Up Program, the Habitat for Humanity Loan Purchase Program, the Low-Income Housing Tax Credit "LIHTC" and the HOME Program, as well as several specialty housing programs within the state of Alabama.

The lender determines if the mortgagor, loan, and property are within guidelines as stated in Sections II, III, and IV of the Step Up Procedural Manual based upon information obtained. The lender must explain the Program and its requirements to the buyer.

The lender reserves funds and sends to the Authority the reservation package as stated in Section V of the Step Up Procedural Manual.

The lender processes and underwrites the loan as stated in Sections VI and VII of the Step Up Procedural Manual. The lender sends to the Authority the Request for Conditional Commitment package before closing as stated in Section VI of the Step Up Procedural Manual. Upon approval of the loan for program compliance the lender will receive from the Authority a conditional commitment. The lender may then close the loan with the conditions listed on the conditional commitment. The lender must have a conditional commitment issued by the Authority and close the loan before the reservation of funds expires.

After the loan closing, the lender sends to the Authority the closed loan package as stated in Section VIII of the Step Up Procedural Manual as well as the Loan Delivery and Purchase Guidelines. Upon receipt and approval of the closed loan package, the Authority will fund the mortgage loan as stated in Section IX of the Step Up Procedural Manual.

The purpose of this manual is to provide pertinent information and to enhance any current guidelines established by Authority for the Step Up Program. Applicable Program Guidelines and the Origination and Sale Agreement supersede this manual. Please utilize the appropriate, applicable documents. The Authority reserves the right to update or revise the Step Up Procedural Manual at any time.

SECTION I—DEFINITIONS

Agreement: The Origination and Sale Agreement between the Originators and the Authority, and all amendments or supplements where appropriate, the Participation Overview, and all forms or reports prescribed by the Authority.

Authority: Alabama Housing Finance Authority, a public corporation and instrumentality of the State organized pursuant to the Act, or any successor to its duties.

Co-Borrower: A person who will occupy the property being purchased and who will be liable for the mortgage loan.

Commitment Fee: A percentage amount of the related mortgage loan, to be paid to the Authority through a Lender at the time of Reservation of Funds.

Conventional Mortgage: A Mortgage Loan other than an FHA-Insured Mortgage Loan or a Mortgage Loan with a VA Guaranty or a Rural Development Guaranty.

Days: All references to days shall be calendar days.

Eligible Mortgagor: A person intending to purchase a principal residence to be financed with a Step Up loan, who can meet all qualifications as established.

Eligible Loan Area: The entire geographical area of the State of Alabama.

Equal Credit Opportunity Act (ECOA): A federal law that prohibits lenders from denying mortgages on the basis of the borrower's race, color, religion, national origin, age, sex, marital status, or receipt of income from public assistance programs.

Fee Simple: The greatest possible interest a person can have in real estate, including the right to dispose of the property or pass it on to one's heirs.

FHA: The Federal Housing Administration of the Department of Housing and Urban Development of the United States of America, or any successor thereto.

Freddie Mac: The Federal Home Loan Mortgage Corporation, a public government-sponsored enterprise.

Ginnie Mae: The Government National Mortgage Association, an entirely-owned corporate instrumentality of the United States of America within the Department of Housing and Urban Development, whose powers are prescribed generally by Title III of the National Housing Act of 1932, as amended.

Mortgage: The instrument securing a mortgage loan which creates a lien on a Residence subject only to Permitted Encumbrances.

Mortgage Loan: Any loan evidenced by a Mortgage Note which is secured by the related Mortgage for financing the purchase of a Residence.

Mortgage Note: The promissory note evidencing the obligation to repay a mortgage loan, payable to the order of a lender, executed by a mortgagor to evidence obligation to repay the mortgage loan.

Mortgagor: The purchaser of a single-family residence who borrows funds to obtain a Residence.

Originators: Lending institutions that execute an Agreement with the Authority to participate in the Program.

Permitted Encumbrances: The title encumbrances on a Residence permitted under the Program Guidelines.

Principal Residence: Housing which the Eligible Mortgagor intends to occupy as a primary residence and which is not to be used in a trade or business, or as an investment property.

Program Guidelines: Guidelines established by the Authority to administer the Step Up Program and any revisions, amendments and modifications thereof.

Rate Commitment: An interest rate guaranteed to the borrower for either 15 days or 30 days from the loan reservation date.

Reservation Expiration Date: A period of 30 days or 15 days from the reservation date.

Reservation of Funds: Reserved funds equal to the mortgage loan amount for an Eligible Mortgagor.

Residence: A single-family owner-occupied dwelling unit located within the Eligible Loan Area, including detached and attached units, condominiums, planned unit developments and manufactured homes which have a minimum of 400 square feet of living space and a minimum width of 102 inches and which is of a kind customarily used at a fixed location, and meeting applicable lender requirements.

Servicer: Alabama Housing Finance Authority.

State: The State of Alabama.

Worst-case Pricing: The higher of either the original lock rate or the current market rate at the time of the request or at the time of the funding if no request is made. Alternatively, if the rate cannot be changed, the lower of either the original lock price or current market price at the time of the request or at the time of the funding if no request is made.

SECTION II—MORTGAGOR ELIGIBILITY EVALUATION

- A. *Income Restrictions.* The Authority has adopted a single income restriction for the program. The annual qualifying income of the mortgagor may not exceed \$97,300. Annual income will be calculated using the Lender's qualifying income as shown on the Underwriters Transmittal Summary and AUS findings. The Authority may revise the income eligibility criteria in the future.
- B. *Occupancy.* Mortgagor must occupy the residence as their Principal Residence within 60 days after the closing and thereafter, as their principal and permanent residence.
- C. *Residence Used as Vacation, Seasonal, Rental, Recreational or Second Home.* The Mortgagor cannot purchase the residence for use as a rental, recreational, seasonal, vacation or second residence.
- D. *Homebuyer Education.* All eligible mortgagors must complete an AHFA-approved homeownership education course prior to loan closing. The Originator must submit the certificate of completion with the closed loan file. Certificates of completion must be dated within one year of loan reservation to AHFA. Acceptable forms of counseling include face-to-face, various online courses, and the *Keys to Homeownership* book published by the National Foundation for Credit Counseling.
- E. *Credit Score Requirement.* Under FHA Step Up and Conventional Step Up, **all** borrowers must have at least one credit score with the lowest being at least a **620** to be eligible for the program. In the case where the applicable borrower has three credit scores, the mid-credit score must be at least a **620**.
- F. *Total Debt-to-Income Ratio.* The TDTI ratio may not exceed 45 percent for the Step Up program. When using the conventional product, the lender will also need to adhere to current agency TDTI requirements, in addition to the applicable PMI company TDTI requirements. TDTI ratio should be based on the **lender's qualifying** total income and total debts. To verify TDTI, the following documentation must be submitted with the compliance package:
- LPA/DU Findings or FHA Total Scorecard Findings (FHA)
 - LPA Findings only (Conventional)
- AND
- HUD Form 92900-LT (FHA Loan Underwriting and Transmittal Summary) for FHA loans
 - 1008 for conventional loans
- Once the closed file is received, AHFA's Loan Review Department will ensure the final TDTI meets program guidelines by reviewing the final Automated Underwriting Findings and final FHA Loan Underwriting and Transmittal Summary. Loans not meeting program requirements will not be purchased.
- G. *Acceptable PMI Providers.* Lenders may use the following providers: 1) Arch, 2) Essent, 3) Genworth, 4) MGIC, 5) National MI, or 6) Radian. This list is subject to change.
- H. *AUS Findings.* AHFA will not accept manual underwriting for loan approvals. We accept LPA/DU or FHA Total Scorecard Findings resulting in "Approve/Eligible" or "Accept/Accept" that is consistent with FHA guidelines, and LPA Findings resulting in "Approve/Eligible" or "Accept/ Accept" consistent with conventional guidelines. Any AUS submissions for loans resulting in a Refer decision will be ineligible for delivery to AHFA.
- I. *Tax Liens.* Unpaid, unsatisfied, and/or unreleased federal or state tax liens are not permitted under the Step Up Program. Any borrower or spouse who will hold title that has a tax lien cannot utilize the program. We will not accept repayment plans on files with an established lien. All liens must be satisfied prior to approval and evidence to support the release included in the loan file.

SECTION III—LOAN ELIGIBILITY EVALUATION

- A. *Permitted Encumbrances.* All Mortgage Loans must be secured by a first lien on the fee simple title or leasehold estate to the Residence. Permitted Encumbrances are those liens, covenants, conditions and restrictions, rights of way, easements and other matters of public record as of the date of the recording of the related Mortgage. These encumbrances must be permitted under FHA and Ginnie Mae, as applicable.
- B. *Types of Loans.* To qualify under the program, each mortgage loan must be insured by FHA (203(k) loans are not eligible for inclusion in the Step Up program) and Freddie Mac.
- C. *Amount of Mortgage Loan.* The maximum amount of any mortgage loan may not exceed the applicable requirements of FHA and Ginnie Mae as of the closing date of the mortgage loan.
- D. *New Mortgage Requirements.* No refinancing of any outstanding indebtedness shall be permitted.

SECTION IV—PROPERTY ELIGIBILITY EVALUATION

- A. *Eligible Loan Area.* The Eligible Loan Area shall be the entire geographic boundaries of the State.
- B. *Qualifying Residences.* Subject to certain limitations described below, all Residences financed by the Step Up Program must meet the following:
 - 1. The Residences must be permanently affixed, and considered “Real Property”;
 - 2. Detached single-family houses, consisting of no more than one dwelling unit;
 - 3. Attached single-family houses or townhouses, units which are manufactured housing insured under Section 203(b) of the National Housing Act of 1934, as amended; and
 - 4. Units of a “condominium” or units within a “planned unit development” as such terms are defined in the Freddie Mac guide.
 - 5. Manufactured homes using FHA financing must meet the following requirements:
 - (a) The manufactured home must be attached to the land.
 - (b) The manufactured home must be classified and taxed as real estate.
 - (c) In accordance with the jurisdictional requirements, the manufactured home title must be surrendered/ cancelled (copy of cancellation must be provided at the time of loan purchase by AHFA).

All product guidelines concerning the eligibility of manufactured housing must be met.

- C. *Foreclosures.* All foreclosed properties must have affirmative title coverage with no exception for Right of Redemption or must be covered by Surety Bond.
- D. *AHFA Requirements for Repair Escrows.* Since the participating lender is the servicer until the loan is purchased by the Authority, the lender will approve any repair escrow, following applicable credit guidelines.

Furthermore, the Authority will not purchase a Step Up loan with an outstanding repair escrow. The closed loan package submitted to our Loan Review Department will need to include the Final Inspection, verifying repairs have been completed, for the loan to be purchased by the Authority. As a result, the lender needs to be mindful that any delays in the completion will cause a delay in the purchase of the loan.

SECTION V—RESERVATION SECTION

- A. *Reservation Procedures.* Subject to the funding restrictions and applicable reservations, applications for mortgage loans will be accepted in all the lending offices of each Participating Originator in the State. Reservations will be made on a first-come, first-served, fair and equal basis irrespective of race, color, religion, national origin, age, or sex.

Prior to making a reservation request, the lender must have taken a mortgage loan application from a potential Eligible Mortgagor. The mortgagor furnishes the lender an earnest money sales agreement or construction contract entered by the seller/builder of a Residence and the Eligible Mortgagor. Lenders are responsible for making a preliminary determination to see if the potential Eligible Mortgagor will qualify for the mortgage loan. The Program processing is designed to complement the lender's regular credit and underwriting procedures. Since the Authority is not part of the credit approval process, no formal notice of rejection of the Step Up loan is required by the Authority under the Equal Credit Opportunity Act. The Authority recognizes the procedural variations among participating lenders.

The following steps are for the reservation and loan processing process:

1. The Eligible Mortgagor applies for mortgage financing from a participating lender.
2. The lender determines if the loan applicant is eligible for the Step Up Program based on preliminary information obtained on annual income.
3. All mortgage loans must be originated in compliance with and must conform to the provisions of all applicable rules, regulations and limitations of FHA, Ginnie Mae, and Freddie Mac as appropriate.

Each lender is to assign user names and passwords to designated employees responsible for making requests for Reservations of Funds. All reservations must be made through the Authority's online reservation system, <https://lenders.ahfa.com>. Telephone requests for reservations will be accepted if the web site is unavailable for more than 24 hours. In that event, telephone reservations will be accepted temporarily until the site resumes operation. These reservation requests may be eligible for funding on a first-come, first- served basis under any future Step Up programs.

- B. *Rate Commitment Form.* Participating lenders may reserve Reservations of Funds online at <https://lenders.ahfa.com>. The lender completes the New Reservation Form within the online system to reserve funds and secure the current interest rate. Upon completion of the form, the online system will generate a commitment number and expiration date of the commitment. The lender then prints the Reservation of Funds/Rate Commitment Form within the online system for borrower(s)'s execution.

NOTE: Since the form is conveniently available online to print, AHFA will not accept any hand-written or typed versions of this form. The lender will include this form and the Reservation Acceptance in Step 1 of the Step Up package. The lender is responsible for making the reservation in a timely manner while the rate is still available. The Step Up rate is subject to change with market activity. Under no circumstances should a lender postpone or delay making a reservation, due to the possibility of an increase in the rate. AHFA cannot honor a lender's disclosure to a borrower without an actual loan reservation commitment issued from Lender Online.

- C. *Reservation Document Delivery.* Upon completion of the Lender Online reservation procedure, each lender must furnish the Authority with the Reservation Package as stated on the Step Up Transmittal Checklist (Step 1), Appendix 1. The Authority must receive these documents within 72 hours (three business days) of the reservation date. Failure to submit the requested documentation to the Authority within the time specified may result in cancellation of the Reservation of Funds and Rate Commitment. **NOTE: All commitment fees are to be submitted *via wire* to our Accounting Department.** Please contact our Accounting Department for wiring instructions as well as any other necessary information to complete the wire.

- D. *Reservation Expiration Date.* There will be two available "lock in" commitments:

1. A 30-day reservation expiration requiring a non-refundable commitment fee of 0.75% of the total loan amount for FHA and conventional loans.
2. A 15-day reservation expiration requiring a non-refundable commitment fee of 0.50% of the total loan amount for FHA and conventional loans.

3. The loan must close and disburse by the reservation expiration date.

E. *Lock Policy.* The purpose of this policy is to enhance the Authority's Step Up program by offering specific rules and guidelines in areas that were previously handled on a case-by-case basis.

1. Extensions

- (a) Fifteen-day extensions are available on 15-day or 30-day reservations.
- (b) The cost per extension is 0.25 percent.
- (c) Extensions must be requested on or before the reservation expiration date.
- (d) A maximum of two extensions are available on a 15-day reservation, one on a 30-day reservation.
- (e) The extension fee must be received within 72 hours after the reservation expiration date. If not, the reservation will expire, and the extension opportunity will be lost. AHFA's re-lock policy will then take effect.

2. Re-locks

- (a) Re-locks are available at *worst-case pricing* for expired reservations or reservations that have been extended the maximum amount of time allowed.
- (b) Re-locked loans must pay an additional commitment fee.
- (c) Reservations that are not expired may not re-lock.
- (d) A reservation to the borrower must be expired for 60 days to get current market (better rate).
- (e) Reservations that are canceled due to nonpayment of the commitment fee may re-lock at *worst-case pricing*.
- (f) Borrowers that change lenders must re-lock due to system limitations but will retain the original reservation.
- (g) Borrowers that change property, provided that the loan amount is within 10 percent of the original loan amount, will retain the original reservation.

F. *Cancellation of Reservation.* If it is determined that the proposed mortgagor does not qualify for the program, the reservation will be canceled. If the Authority determines that a mortgage loan application was taken by a lender after the date the lender submitted its request for Reservation of Funds, the reservation will be canceled. The commitment fee is non-refundable.

NOTE: Written notification must be sent to the Authority within 24 hours of reservation date if it is determined that the mortgagors do not meet Step Up Program guidelines. Lenders who repeatedly make Step Up reservations but fail to follow through with the loan process and do not remit the commitment fee, will be billed. Further continued abuse may result in expulsion from the program.

G. *Transfer of Reservation.* The Authority will allow a transfer of any Reservation of Funds from one Eligible Mortgagor to another, with Authority approval. A new Rate Commitment Form is required. The Authority also may allow a loan transfer from one approved lender to another. The Commitment Fee will be transferred upon approval by the Authority. Reservations of Funds may be transferred one time only.

The Reservation of Funds and Rate Commitment committed to an Eligible Mortgagor may be transferred from one property to another with the prior approval of the Authority. **Loan amount changes may affect your commitment. Notify the Authority of any changes immediately.**

SECTION VI—LOAN PROCESSING & UNDERWRITING PROCEDURES

- A. *Request for Conditional Commitment Package.* The Originator performs the customary verifications for loan underwriting as required by the Origination and Sale Agreement. The Originator completes the remainder of the mortgage application process and sends to the Authority the Request for Conditional Commitment Package as stated on the Transmittal Checklist (Step 2). Upon receipt of the required documentation, the package is placed in a first-come first served order and processed within 72 hours (three business days) beginning the next business day.

Delegated Examiners only: The Originator completes the remainder of the mortgage application process and sends to the Delegated Examiner the Request for Conditional Commitment Package as stated on the Delegated Examiners' Transmittal Checklist (Step 2). Upon receipt of the required documentation, the Delegated Examiner will review the package and make a compliance determination. If/when the Delegated Examiner can issue the conditional commitment, they will submit the Delegated Conditional Commitment form in Step 2 of the Lender Online eDocs page, in addition to the compliance package used to make their decision.

- B. *Request for Conditional Commitment.* The Request for Conditional Commitment package and the reservation package will be compared at the time the Request for Conditional Commitment package is received.

Delegated Examiners only: The Request for Delegated Conditional Commitment package and a copy of the reservation package will be compared at the time the Request for Delegated Conditional Commitment package is received by the Delegated Examiner.

The following criteria will help ensure accuracy and consistency in files when reviewed:

1. *Commitment Fee.* The non-refundable commitment fee is to be checked to ensure the amount reserved is covered. The commitment fee should be paid within 72 hours of loan reservation and should agree with the amount shown on the Rate Commitment Form. If the amounts do not agree, a request in writing for a decrease or increase is needed. (Amounts that increase will require additional funds to cover the commitment fee and are subject to the availability of funds.) See Section X, Modifications, for more information.
2. *Request for Conditional Commitment.* The Transmittal Checklist must be completed thoroughly. The Authority will check the income reflected on the Income Calculation Worksheet to ensure compliance with applicable limits. Information provided on the worksheet should agree with the Rate Commitment Form, handwritten application and the sales contract (name, property status, etc.).
3. *Delegated Conditional Commitment (Delegated Examiners only).* The Delegated Examiners' Transmittal Checklist must be completed thoroughly. The Delegated Examiner will check the income to ensure compliance with applicable limits. Information provided should agree with the Rate Commitment Form, handwritten application and the sales contract (name, property status, etc.).
4. *Initial Application.* The handwritten/initial application should be completed, signed, and dated by the mortgagors and lender. All information should agree with all applicable areas of the Rate Commitment Form and sales contract.
5. *Fully Executed Sales Contract.* Any changes or addendums to the sales contract must be reviewed by the Authority prior to closing. Changes in the sales price will require an amended sales contract. All changes are to be initialed by all parties involved.

All areas of the sales contract are to be completed and properly executed by the mortgagor and seller where applicable. The following areas should be consistent with all applicable areas of the Rate Commitment Form and handwritten application.

- (a) Names of the mortgagors.
- (b) Sales Price.
- (c) Property address.
- (d) Loan Type: FHA or Conventional.

- (e) Real estate agency's name and address.
- (f) Number of days for the seller to surrender possession is 60 days or less after loan closing.
- (g) Signatures of the sellers and buyers with dates.

SECTION VII—INCOME GUIDELINES FOR MORTGAGORS

A. *Income Documentation Requirements.* Lenders must attempt to verify all income reported on the Uniform Residential Loan Application.

The credit underwriter must provide an income calculation worksheet to verify the qualifying income referenced on the Uniform Residential Loan Application, executed 92900-LT/ 1008, and AUS Findings.

B. *Non-Occupant Co-Borrowers.*

1. The Non-Occupant Co-Borrower(s) is permitted by applicable FHA and Ginnie Mae guidelines
2. The Non-Occupant Co-Borrower(s) is a relative of the mortgagor.
3. The Non-Occupant Co-Borrower(s) will not occupy the residence as his primary/permanent residence.
4. The Non-Occupant Co-Borrower(s) will be required to sign a statement certifying to the above conditions.
5. The Non-Occupant Co-Borrower(s) income will not be considered in the qualifying income limit of \$97,300.

SECTION VIII—ISSUANCE OF THE CONDITIONAL COMMITMENT

Please note: Lenders are responsible for monitoring the status of their loans on Lender Online, which includes checking for the posting of conditional commitments as shown below.

Loan/Reservation Status Details Updated on Thursday, December 10, 2003, at 07:05 AM

← Back Reprint Reservation Select Documents Cancel Loan
 Loan Cancellations are NOT ALLOWED.

GENERAL INFORMATION

Lender Loan No: 10227593	Lender ID No:
Reservation/Loan No: 25014030518	Lender Name:
Application Accepted On: 12/06/2002	Branch Name:
Reservation Expires: 01/20/2003	Service Loan No:
Commitment Expires: 02/10/2003	Loan Officer:
Borrower Name:	
Social Security No:	

FIRST MORTGAGE

Program: Program - Dr 6.10%

Loan Type: FHA

Loan Amount: \$100,924

Term: 360 months

Initial Interest Rate: 6.1000%

SECOND MORTGAGE

Program: DPA

Loan No: 3501

Loan Type: Conventional

Loan Amount: \$6,375

Term: 240 months

Initial Interest Rate: 6.1000%

PROPERTY ADDRESS

County:

STAGE/STATUS/DATE

- Purchased / Approved on 01/10/2003
- Major Curative / Approved on 01/02/2003
- File Shipd Svcr / Approved on 01/06/2003
- Closed LoanRecd / Approved on 12/31/2002
- Cond Commitment / Approved on 12/11/2002

CONDITIONS/EXCEPTIONS

REJECTION REASONS

Delegated Examiners only: The Delegated Examiner must review the compliance package prior to issuing the Delegated Conditional Commitment. Once the package has been reviewed and approved, the Delegated Examiner is required to issue the Delegated Conditional Commitment and e-mail the form to the Authority at *compliance@ahfa.com* or fax the form to (334) 244-9213. Failure to comply with this process may result in removal of the Originator's Delegated authority. Originating branches may view loan conditions on Lender Online.

SECTION IX—CLOSED LOAN PROCEDURES

- A. *Conditional Commitment.* Upon issuance of the Conditional Commitment as posted on the Loan Status screen, the lender may close the loan in accordance to the conditions stated on the Conditional Commitment. The loan is to close before the reservation expiration date stated on the Conditional Commitment. The mortgagor, address, interest rate, loan amount, and term of loan must agree with all closing documents. Changes of these items are to be approved by the Authority before closing. Failure to do so could result in rejection of the loan.

Delegated Examiners only: Upon issuance of the Delegated Conditional Commitment as posted on the Loan Status screen, the lender may close the loan in accordance to the conditions stated on the Delegated Conditional Commitment. The loan is to close before the reservation expiration date stated on the Delegated Conditional Commitment. The mortgagor, address, interest rate, loan amount, and term of loan must agree with all closing documents. Changes of these items are to be approved by the Authority before closing. Failure to do so could result in rejection of the loan.

- B. *Verification of Credit Documents.* All verifications should be less than four months (120 days) old at the time of closing or current information will be required. Credit documents more than 120 days old upon submission of the closed loan package could result in rejection of the loan.
- C. *Settlement Statement Fees.* In connection with each mortgage loan, a lender may charge and collect from an Eligible Mortgagor or seller at closing, reasonable and customary charges. All lenders must charge a 1% origination fee. Other charges may not exceed the usual and reasonable "settlement and financing cost" that are customary as follows:
1. "Settlement Costs" include title and transfer costs, title insurance, survey fees and other similar costs; and
 2. "Financing costs" include credit report fees, legal fees, appraisal expenses, points which are paid by the borrowers, or other costs of financing the Residence.

SECTION X—LOAN PURCHASES AND TRANSFER OF SERVICING RIGHTS

- A. *Review of the Mortgage Loan.* The closed mortgage loan package is to be received by Alabama Housing Finance Authority (AHFA), within 10 days of loan closing.
1. Lenders must check the closed loan package to confirm all items listed on the Funding Checklist are included in the package. Loans will not be funded if any of the items on the checklist are missing or incorrect.
 2. All loans purchased by AHFA will require mandatory registration with MERS. No assignments will be accepted for first or second mortgages. Lenders must transfer all applicable rights in MERS to AHFA immediately after purchase.

Upon completion of the closed loan file compliance review, the mortgage loan(s) will be funded if the file is complete and follows all requirements. Closed loan packages will not be funded until all required fundable documentation has been received and all compliance issues cleared.

- B. *Penalties Withheld from Funding.* Lenders have 10 days from closing to deliver the complete closed loan package to AHFA. A loan is considered to be in a fundable condition when a complete closed loan package is delivered without errors or missing documents. Loans with delinquent payments will not be purchased.

Lenders will have 15 days from the date of file review to clear the loan exception(s) with no penalty. If the loan is not

cleared by day 15 after file review, the lender will be charged a penalty fee of 25 basis points (0.25%) of the principal purchased. The lender will be charged 0.25% of the principal purchased in 15-day increments for up to 60 days. If the conditions are not provided by the 71st day from the date of closing, original Notes will be returned to the lender and the loan(s) will not be purchased. This section does not override any applicable lock expiration period. Extension fees may be required by AHFA if the loan is not funded by the applicable expiration date. The amounts of all fees and penalties are subject to change.

- C. *Funding of the Mortgage Loan.* AHFA wire on single and multiple funding's every Wednesday and Friday for each lender. A breakdown of the multiple lender's funding's will be sent via email the day before funding. Only one set of wiring instructions will be accepted from each lender. Lenders are allowed one change to the wiring instructions per calendar year. Subsequent changes to wiring instructions will result in a \$500 fee per transaction.

Note: Lenders are responsible for servicing the loan until purchased by AHFA to include the payment of all required escrow disbursements for each loan during the period from closing to purchase.

The funding amount for both first and second mortgages will consist of:

1. Scheduled unpaid principal balance
2. Servicing Release Premium per the Program Guidelines (first mortgages only)
3. Interest from the closing date through the purchase date or interest from the last paid installment date to purchase date at the loan's per diem rate

Amounts to be deducted from funding of both first and second mortgages will consist of:

1. Penalties or fees assessed in Section X, B or C
2. Prepaid escrow (unless after first payment) or current amortized escrow balance on the loan less any escrow disbursements
3. Funding Fee of \$200.00 (first mortgages only)
4. Tax service fee of \$71.50 (first mortgages only)

- D. *Final Documentation* The lender is to submit the final mortgage loan documentation consisting of the following original documents to AHFA within 120 days of closing:

- Recorded First Mortgage
- Title Policy
- Mortgage Insurance documentation (FHA Mortgage Insurance Certificate, PMI Certificate of Coverage, Loan Guaranty Certificate)
- Recorded Second Mortgage (if applicable)

- E. *Transfer of Loan Servicing Rights and Benefits* The originating lender retains the loan servicing rights and benefits until AHFA purchases the loan. The originating lender will perform all servicing duties until that time. Servicing and benefits rights transfer to AHFA at the time of loan purchase. Lender will be sent a reminder along with the purchase payment advice to send out their goodbye letter to the borrower. AHFA will send the borrower a Notice of Assignment, Sale or Transfer and two temporary payment coupons at the time of loan purchase. (The first payment due to AHFA will be determined based upon when the Notice of Assignment, Sale or Transfer is sent.) If the loan is purchased (purchase date) on or before the 10th of the month, the first payment due to AHFA will be the next scheduled monthly payment due date. After the 10th, the effective date will roll to the following scheduled monthly payment due date. The lender must complete the MERS Transfer of Servicing Rights and Transfer of Beneficial Rights to AHFA within 48 hours of loan purchase.

SECTION XI—MODIFICATIONS

It is the lender's responsibility to notify the Authority of any modifications. Expiration dates, penalties and extensions are addressed in Section VI.

1. *Mortgage Decrease.* Mortgage amount decreases will require approval by the Authority.
2. *Mortgage Increase.* Mortgage amount increases will require approval by the Authority.
3. *Property Address.* Property address changes require approval of the Authority.
4. *DPA Mortgage Decrease.* Second mortgage amount decreases do not require approval by the Authority.

SECTION XII—ASSUMPTIONS

Assumption loans require the same qualifying process as the current Step Up Program Guidelines (refer to Section II, III and IV of the Step Up manual). Income guidelines are the most current income guidelines provided by the Authority. Investor guidelines must be followed.

The down payment assistance second mortgage is not assumable.

SECTION XIII—DOWN PAYMENT ASSISTANCE

The purpose of this program is to provide down payment and entry cost assistance to homebuyers with low to moderate incomes. Down payment assistance is used in conjunction with the Step Up Program only as a second mortgage.

- A. *Reservations.* If needed, reservations for Down Payment Assistance will be made through the Authority's reservation web site, <https://lenders.ahfa.com>, and is tied to the first mortgage reservation.
- B. *Eligibility.* All homebuyers must meet the qualifications stated on the Down Payment Assistance Application. The maximum income is stated on the Down Payment Assistance Application and is calculated as stated in Section II of this Step Up Procedural Manual.
- C. *Types of Loans.* This program will be available in conjunction with homes financed under the FHA 203(b) mortgage product or the HFA Advantage conventional loan program. This program cannot be used in conjunction with any other down payment assistance program or grant program without prior approval from the Authority. All FHA guidelines must also be met.
- D. *Calculation of Assistance Amount.* The maximum down payment assistance available to a homebuyer is the lesser of \$7,500 or 3% of the sales price.
- E. *Required Documentation.* The lender must provide:
 1. The executed, completed Down Payment Assistance Application;
 2. A copy of the credit report for all occupying borrowers;
 3. A copy of the Underwriter's Transmittal Summary, reflecting the DPA as secondary financing; and The Authority will issue a legally binding obligation letter for the second mortgage DPA on all FHA first mortgage loans using the Authority's DPA program. The lender must be in possession of the legally binding obligation letter before they close the loans.

The Down Payment Assistance Note and Mortgage are to be executed at closing. The lender will overnight the original executed second note, endorsed to the Authority, along with the first mortgage note.

If the lender's first mortgage loan is using FHA financing with the DPA second, the lender must transfer the loans

in MERS to the Authority PRIOR to submitting for MIC. The lender should include a copy of the legally binding obligation letter and executed second note and mortgage in the case binder file.

- F. *Term and Repayment.* A second mortgage will be recorded against the property being purchased. The term of the second mortgage will run for 10 years. The second mortgage will bear interest at the first mortgage note rate. The second mortgage will amortize in 120 equal monthly payments of principal and interest. Repayment will be required upon sale of the property, refinance of the first mortgage, and/or payoff of the first mortgage, as well as the assumption of the first mortgage.
- G. *Commitment Periods.* The Commitment periods of this program will run concurrent with the Step Up Program as defined in the Program Guidelines.
- H. *Issuance of Funds.* The Authority will purchase the Down Payment Assistance second mortgage with the purchase of the Step Up first mortgage for conventional loans.
- I. *Fees in Origination.* A lender may not charge any additional fees in conjunction with this program. The recording costs of the second mortgage loan are to be borne by the borrower or seller.
- J. *Purchase and Servicing.* Lenders will sell the second mortgage loans which it originates, according to conventional guidelines, to the Authority. The price to be paid by the Authority will be the amount equal to 100% of the principal amount of the second mortgage, plus per diem interest in accordance with Section IX, Loan Delivery.
- K. *Assumptions.* The Down Payment Assistance second mortgage loan is not assumable.

SECTION XIV—DELEGATED EXAMINER OPTION

Delegated Examiners can accelerate the Step Up loan approval process by performing the compliance review functions in house. AHFA would only review loan files at the time of purchase. To qualify:

- A. Lenders are required to be an Approved Participating Lender for a minimum of one (1) year.
- B. AHFA can at its own discretion rescind the privilege of Delegated Examiners for any reason (late delivery of closed files, QC issues, or any other issues regarding lender performance).
- C. Lenders must be in good standing with AHFA's Funding and Delivery Department and AHFA's Quality Control Department.
- D. Lenders must be approved for the program as an Originator I who has credit underwriters on staff.

The Authority reserves the right to make revisions as it deems necessary to provide for a successful program.