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 First Step Mortgage Revenue Bond Program, the Mortgage Credit Certificate Program, the Step Up Program, the Down Payment Assistance 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 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 the loan approved 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. 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 Invitation, the Notice of Acceptance, and all forms or reports prescribed by the Authority.

Appraised Value: An appraisers' opinion of value based on regulations and guidelines established by the mortgage industry.

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-Signer: A person who will occupy the property being purchased and who will be secondarily 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.

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.

Family Income: The meaning given to such term in Section II of this Manual.

Fannie Mae: The Federal National Mortgage Association, or any successor thereto.

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.

Ginnie Mae: The Government National Mortgage Association, a 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.

Ground Rent: The earnings of improved property allocated to the ground itself after allowance is made for earnings of the improvements. Also, payment for the use of land in accordance with the terms of a ground lease.

Guarantor: A promise by one party to pay debt or perform an obligation contracted by another in the event that the original obligor fails to perform as contracted.

Interest Held In Trust: Property held in trust until fulfillment of certain conditions are met.

Joint Tenancy: Joint ownership by two or more person, giving each tenant equal interest and rights in the property, including the right of survivorship.

Lease: A written document containing the conditions under which the possession and use of real and/or personal property are given by the owner to another for a stated period and for a dated consideration.

Life Estate: A freehold estate giving a beneficiary all property rights, except the right to sell. The estate is terminated upon the death of the beneficiary.

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

Mortgage Documents: The documents specified for delivery to the Authority.

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.

New Construction: Single-Family residences less than one year old and never occupied.

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.

Primary Wage Earner: The occupying, note-signing borrower who receives the most monthly income.

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.

Profit and Loss: A statement by a business reflecting a financial gain or loss for a given period.

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

Program Participation Fee: A fee to be set by the Authority for each series.

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

RD (Rural Development): A U.S. agency formerly known as Farmers Home Administration.

RD Guaranty: A guaranty of a mortgage loan by RD under the provisions of Subchapter III, Chapter 8A, Title 42, U.S. Code Annotated.

Remainder Interest: The property remainder of an estate after the termination of a prior estate; can have either a vested or contingent interest.

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.

Survivorship: The legal right of the survivor or persons having joint interest in property to take the interest of the person who is deceased.

Take-Out Loan: Any mortgage loan made for the purpose of paying a construction period loan, bridge loan or similar temporary initial financing which qualifies as such pursuant to Section II, of the Step Up Procedural Manual.

Transfer Date: A date to be designated in accordance with the Origination Period as defined in the Program Guidelines of any series. The Transfer Date is established by the Authority.

SECTION II—MORTGAGOR ELIGIBILITY EVALUATION

A. *Income Restrictions.* The Authority has adopted a single income restriction for the program. The annual family income of the mortgagor may not exceed 200% of the statewide median income—or $97,300 as of October 21, 2005. Annual family income will be calculated to include the income of anyone over 18 years of age who will reside in the home. 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. *Legal Separation.* Legal separation agreements are not acceptable documentation in the determination of a household's eligibility. Lenders must treat separated occupants as married and the separated spouse must meet all Step Up guidelines as established in Sections II, III, & IV of this manual.

E. *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.

F. *Credit Score Requirement.* Under FHA Step Up and Conventional Step Up, the primary wage-earning, occupying borrower must have a middle credit score of at least **620** to be eligible for the program. In the case the primary wage-earner has only two scores, the lower of the two scores must be used. In the case the primary wage-earner has only one score or does not have a credit score, the borrower would not be eligible for the program. The primary wage-earner is defined as the occupying borrower with the highest monthly income.

All other occupying borrowers must meet FHA credit score requirements for FHA Step Up; or Fannie Mae and the applicable MI company credit score requirements for Conventional Step Up.

G. *Total Debt-to-Income Ratio.* The TDTI ratio may not exceed 45 percent for the Step Up program. When using the "HFA Preferred" conventional product, the lender will also need to adhere to current Fannie Mae TDTI requirements, in addition to the applicable MI 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:

• DU Findings or FHA Total Scorecard Findings (FHA)

• DU 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 Funding and Delivery 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.

H. *Acceptable MI 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.

I. *AUS Findings.* AHFA will not accept manual underwriting for FHA/conventional loan approvals. We accept DU or FHA Total Scorecard Findings resulting in Approve/Eligible or Accept/Accept that is consistent with FHA guidelines, and DU Findings resulting in Approve/Eligible consistent with conventional guidelines. DU/FHA Total Scorecard submissions for FHA loans resulting in a Refer decision will be ineligible for delivery to AHFA. DU submissions resulting in a Refer decision will be ineligible for delivery to AHFA.

J. *Tax Liens*. Unpaid, unsatisfied, and/or unreleased federal or st ate 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.

Furthermore, if a borrower currently has a repayment plan in place for taxes owed (not yet a tax lien) and *shows a history of previous tax liens* per credit documents, they will not be eligible for the Step Up program as well.

As a side note, should a borrower currently have a repayment plan in place for taxes owed (not a tax lien) and that credit issue is referenced in our compliance package, for our purposes, AHFA will require verification from the IRS that the account is current. If the account is not current, AHFA will not be able to approve the loan due to the uncertainty that a tax lien could be imposed at any point-in-time.

K. *Federal Tax Return Transcripts*. The lender must be able to provide the most recent year's IRS tax transcripts for each occupying borrower and non-borrower(s), 18 years of age and older. Self-employed borrowers are still required to provide the most recent two years' transcripts and a year-to-date profit and loss statement. Any late filers or IRS responses of "no record of tax return being filed" where returns were applicable will have to be satisfactorily resolved before the loan will be eligible for Step Up. Extensions will not be accepted by AHFA.

L. *Previous Foreclosure*. Any borrower with a previous foreclosure or "Deed in Lieu", by any servicer, must wait three years

before applying for financing through AHFA's homeownership programs. In addition, they must have established two new credit lines (as reported on the credit report) following the foreclosure sale with an acceptable pay history, and they must have a 660 minimum credit score (middle score). Non-traditional credit accounts will not be acceptable as new accounts. The lender must receive an Approve/Eligible underwriting decision. Manually underwritten loans will not be eligible for the program.

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.* In order 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) or Fannie Mae.

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 except with regard to take-out loans. A take-out loan may be made to permit an Eligible Mortgagor to finance a residence which qualifies as a newly constructed residence under the Program Guidelines.

If warranted by the circumstances, an Eligible Mortgagor shall be considered as both a Mortgagor and a seller with respect to take-out loans. A newly constructed residence is considered a residence which has not previously been occupied, and is less than one year old.

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 Fannie Mae 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 has to be surrendered/cancelled (copy of cancellation must be provided at the time of loan purchase by AHFA).

No more than 5% of the Reservations of Funds may be used, without the written authorization of the Authority, to originate mortgage loans which constitute manufactured housing. 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.

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 Funding Department will need to include the Final Inspection, verifying repairs have been completed, in order 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 Procedure.* Subject to the funding restrictions and applicable reservations, applications for mortgage loans will be accepted in all of 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 into 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 compliment 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 Fannie Mae 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*. Telephoned 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. **The Authority, at its sole discretion, may continue to accept reservation request in the manner specified even though the available funds may be fully reserved.** 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.* Beginning on a date designated by the Authority, the participating lenders may request 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 the borrower(s)'s execution. The lender will include this form and the Reservation Acceptance in Step 1 of the Step Up package.

NOTE: 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.

(Proposed Construction) Reservation of Funds Commitment Form. While the Authority offers the Alabama Home Buyer

Initiative under Conventional Step Up, lenders will have the opportunity to reserve funds *only* for a 120-day period on proposed construction. This option will be available for a limited time. The lender uses the same New Reservation Form after selecting the proposed construction option within the online system. Upon completion of the form, the online system will generate a commitment number and expiration date of the funds. The lender then prints the (Proposed Construction) Reservation of Funds Commitment Form within the online system for the borrower(s)'s execution. The lender will include this form and the Reservation Acceptance in Step 1(a) of the Step Up package.

The lender will then be responsible for locking the interest rate by the commitment expiration date. This will be achieved by submitting the Rate Lock Request Form to the Authority to lock the current interest rate. Once the lender receives confirmation of the rate lock, they will print the Reservation of Funds/Rate Commitment Form to confirm the rate and revised commitment expiration date. The borrower(s) will execute the form, and it will be included in Step 1 of the Step Up package. The standard Step Up non-refundable commitment fee will be due at this time which is 0.50% for a 15-day reservation and 0.75% for a 30-day reservation.

C. *Reservation Document Delivery.* Upon completion of the Loan Reservation Form and 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 working days) of receipt of a commitment number. Failure to deliver the requested documentation to the Authority within the time specified may result in cancellation of the Reservation of Funds and Rate Commitment. Documentation should be mailed to 7460 Halcyon Pointe Drive, Suite 200, Montgomery, AL 36117.

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.

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 of the extension request or the reservation will expire and the extension opportunity will be lost.

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 cancelled 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.

3. Expired reservations

(a) Loans not **closed** on or before the reservation expiration date will be charged a 0.25 percent penalty.

(b) The penalty will be netted from the loan funding proceeds.

4. Late Delivery

(a) Loans that are not delivered in fundable format within 10 days of the commitment expiration will not be paid per-diem interest from the 10th day until the funding date.

(b) Loans that are not delivered in fundable format within 10 days of the commitment expiration will be subject to *worst-case pricing*.

(c) Loans that are not delivered in fundable format within 15 days of the commitment expiration will be subject to an additional 0.25 percent late delivery penalty for each 15 days past the commitment expiration.

(d) Loans that are not delivered in fundable format within 15 days of the commitment expiration will be subject to a funding adjustment equal to the greater of *worst-case pricing* or a late delivery penalty, as determined by AHFA.

(e) Late delivery penalties will be netted from the loan funding proceeds.

(f) Loans that are not delivered in fundable format within 30 days of the commitment expiration will not be purchased and will be returned to the originating lender.

5. Definitions

(a) *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.

(b) *Days:* All references to days shall be calendar days.

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.

Written notification must be sent to the Authority within 24 hours of reservation if it is determined that the mortgagors do not meet Step Up Program guidelines. Otherwise, the commitment fee will have to be remitted to AHFA regardless.

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. The Delegated Examiner will e-mail a decision to *compliance@ahfa.com* using the Delegated Conditional Commitment form.

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.).

2. **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.).

3. *Handwritten/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 as follows:

   (a) Names of the mortgagors.

   (b) Property information section.

   (c) Number of dependents.

   (d) Marital status.

   (e) Residency history.

   (f) Employment (income purposes).

   (g) Other income section (to ensure all income has been included).

(h) Schedule of real estate owned section (to establish whether the borrowers have rental property, owns a lot or presently owns a home. Additional income may be received from these sources).

(i) Assets section to ensure all funds which are not a part of closing are included in the annual family income, i.e., interest and dividends earnings.

(j) Declaration section reflects the mortgagors intent to occupy the property as their primary principal residence.

4. *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 SALARIED & SELF-EMPLOYED MORTGAGORS

A. Salaried Mortgagors

1. *Gross Monthly Income.* Gross monthly income includes: gross monthly pay, any additional income from overtime, part-time employment, bonuses, dividends, interest, royalties, pensions, Veterans Administration (VA) compensation, net rental income, etc.; and other income (such as alimony, child support, public assistance, sick pay, social security benefits, unemployment compensation, income received from trusts, and income received from business activities and investments, etc.) Overtime pay and bonuses are to be projected in an amount consistent with the earnings history of each household member.

   The income to be taken into account in determining the gross monthly income is the income of any person who is expected to live in the residence being financed. The income of a person who is under 18 years of age and a full-time student (excluding the mortgagors) will not be included in the gross monthly income.

   Persons over 18 years of age who are not employed and do not intend to seek employment within the next 12 months will be required to sign a statement to such, see Appendix 5, Employment Statement.

2. *Verifications of Employment.* When checking verifications of employment, all areas of the verification should be completed and executed by the employer. Make sure all income has been derived (i.e., raises, bonuses, commissions, car allowance, etc.). Verify that pay stubs and verifications are consistent with one another. If they differ, an explanation must be provided. Previous year earnings (overtime, etc.) should be consistent with current year earnings. If not, it may be necessary to use only year-to-date figures depending upon the increases the mortgagor has received (overtime, raise, etc.). Verifications of Employment must be updated if they are more than four months old at the time of closing.

When reviewing verifications, watch for certain types of employment, i.e., ministers, nurses, etc., which have unusual income. For example, a minister's income usually consists of a base income, utilities allowance, housing allowance, insurance allowance and car allowance. A nurse's income usually consists of a base income, overtime, and shift differentials for night and weekend pay, which in most cases differ. Be very cautious when calculating income for these types of employment to ensure all income has been included in the calculations.

If a letter is used in lieu of the original verification form, it must contain all items covered in the original verification.

3. *Pay stubs.* Pay stubs covering the most recent 30-day period are required on all loans and income must be consistent with the Verification of Employment or W-2 form. Pay stubs must be dated within 30 days of submission.

4. *Income History.* If the prospective mortgagor has additional earned income and has a history of such earnings, then the income is to be included in the gross monthly income. If the income is earned only within the current year with no prior history, and will not continue after closing then a statement from the employer stating the earned income, (i.e., overtime, etc.) will not continue is required.

5. *Alternative Documentation.* AHFA allows documentation for the verification of employment with the following requirements:

    (a) Pay stubs covering the most recent 30-day period which reflect the mortgagor's name, Social Security number, hourly rate of pay, number of hours worked per pay period, and year-to-date earnings.

    (b) Copy of the past two-years' W-2 forms or 1099 which includes the mortgagor's name, Social Security number, company name, and total compensation, or a standard Verification of Employment (VOE) completed and signed by the employer.

    (c) Telephone certification.

6. *Averaging Income.* Income is averaged for overtime, commissions, and any other income (except base earnings) over a period of no less than 15 months, but no more than 27 months. However, if income over base earnings is not consistent with past years' earnings, or the income history is less than 15 months, the Authority will determine the period for income calculations.

7. *Overtime Earnings.* Income earned from overtime will be included if the borrower has a history of such income or the income was earned during the current year. The verification of employment form from the employer must explain how much overtime is expected if any, and at what rate of pay.

8. *Bonus.* The gross amount of recurring bonuses is to be included in the income calculations if:

    (a) The bonus is part of a collective bargaining agreement and must be paid; or

    (b) The bonus is included in the computation of income by the employer; or

    (c) There is a history of bonuses.

    If there is a history of bonuses but the applicant does not know if a bonus is planned, nor does the employer divulge its plans for a bonus or the projected amount, an average of past years' bonuses will be calculated as income. A bonus history for Step Up purposes is to be considered for one year or more.

    The bonus is not to be included in the annual family income if there is no history of a bonus and the bonus is totally discretionary by the employer and wages of the applicant are the basic source of income. The file must be documented with a statement from the employer.

9. *Rental Properties or Contract Income.* Rental income and contract income is determined by subtracting the monthly mortgage payment from the gross rental income. Depreciation should be added back to net rental income where applicable. Contract income (income derived from the mortgagor selling property with owner financing) is to be used in calculating annual family income.

    The use of standard underwriting criteria to document this income is acceptable (i.e. copies of leases & mortgage verifications).

10. *Child Support/Alimony.* Child support and alimony must be included in the annual family income and a copy of the final divorce decree is required. If the mortgagors have not received child support or alimony for the past 24 months and to their knowledge, none is forth coming, a statement from the mortgagors is required, see Child Support Statement.

11. *Education Grants.* The portion of the income from grants that is used for living expenses is to be added to the annual family income if this income will continue for the next 12 months.

12. *Employee Benefits Program.* Some companies offer an employee benefits program designed to let employees create their own insurance package. The monthly amount is usually shown separately on the pay stub, yet included in year-to-date earnings. The pay stub usually shows the monthly amount actually spent on this plan. A letter from the employer is needed to verify the actual cost of this plan year-to-date, in order to determined if the employees received funds over the actual cost. In this case the additional unused portion would be included in the annual family income.

    If the mortgagor receives monthly income for the employee benefit program and elects not to purchase benefits offered by the program, then the full amount will be added to the annual family income.

13. *Permanent Seasonal, Seasonal & Temporary Income.* Include all permanent seasonal, seasonal and temporary earnings when calculating annual family income.

14. *Social Security/VA Benefits.* Social Security income should be verified with an Awards letter obtained from the Social Security office. VA benefits should be verified with a benefits letter from the Veterans Affairs Office.

15. *Lump Sum Payments.* Lump sum payments, including but not limited to, inheritance, reenlistment bonuses, and disbursements from insurance policies do not have to be included in the annual family income. However, interest income on investments must be included and calculated at the current passbook rates over a 12-month period. If the income is received in any other form other than lump sum (i.e. monthly or annual), then it must be treated as permanent income and added to the annual family income.

16. *Capital Gains/Loss.* Both taxable and non-taxable portions of capital gains are to be included as income if a history of this income exists. If the two-year average results from the tax returns is a gain, then it must be added to annual family income (losses cannot be used to reduce annual family income).

17. *Pension and Stock Withdrawals.* Withdrawals of principal funds from pension or stock sources is not considered income. However, annuity or interest payments under a pension or stock investment program are considered income. Verification of benefits will be required, i.e., federal tax returns, statement of benefits, etc.

18. *Interest, Dividend and Royalty Income.* Interest, dividend and royalty earnings are considered income. Current interest and dividend earnings are calculated at current passbook rates over a 12-month period. Income calculations for royalties are calculated by net earnings and interest. Earnings from IRAs and 401Ks are not included. Documentation will be required to verify theses sources of income, i.e., federal tax returns, statement of benefits and contract agreements for royalties income.

19. *Exclusion from Gross Monthly Income.* Gross monthly income shall not include casual, sporadic or irregular gifts; amounts that are specifically for or in reimbursement of medical expenses; inheritances; insurance payments (including payments under health and accident insurance and workmen's compensation, other than payments in lieu of earnings); settlement for personal or property losses; amounts of education scholarships paid directly to the student or the educational institution and amounts paid by the government to a veteran for use in meeting the costs of tuition, fees, books and equipment, but in either case only to the extent used for such purpose; special pay to active military personnel exposed to hostile fire; and foster child care payments.

B. Self-Employed Mortgagors

1. *Annual Family Income.* The procedure to calculate annual family income for self-employed mortgagors requires the following:

    (a) Depreciation and depletion is to be added back to the adjusted gross income (AGI) on all self-employed mortgagors.

(b) Two years' current signed individual federal income tax returns with all applicable schedules.

(c) Year-to-date Profit & Loss. If a sole proprietorship, P&L can come directly from sole proprietor himself/herself. If a partnership, S-corp., or corporation, P&L must be provided by an accountant.

(d) U.S. Partnership Returns and U.S. Corporate federal income tax returns with all schedules and W-2 form (where applicable), with individual federal income tax returns (form 1040)

Income must be averaged over a period of no less than 15 months, but no more than 27 months. Self-Employed mortgagors may need two years of federal income tax returns with a current Profit and Loss. After April 15 each year, the most "current year" federal income tax returns are required.

2. *Sole Proprietorship.* Sole Proprietorship is a business owned by one person. IRS form 1040—Schedule C or Schedule C-EZ is required. Sole Proprietorship income is detailed on Form 1040 (Schedule C) of U.S. income tax returns. This form will list all income, depreciation, and depletion which is added back to the AGI.

3. *General Partnership.* A General Partnership is a business owned by two or more partners. Each partner is personally liable for all debts of the business. Each partner is responsible for all other partners. The following documents are required:

   (a) IRS form 1065—Schedule K-1 & Schedule E, Part II.

   (b) U.S. Partnership Returns with all applicable schedules.

   General Partnerships require income to be calculated on form 1065 of U.S. Partnership Returns, to determine the share of net income distributable to each partner. This is reported on Schedule K-1 of form 1065 and on the individual's Schedule E, Part II; this amount is included in the AGI on form 1040. Note: The total depreciation and depletion will be determined by the number of the partners, and should be divided to determine what percentage or total dollar amount to be added back for each partner.

4. *Limited Partnerships.* Limited Partnerships are usually formed for investing money. Limited partners often take a loss on their investment, which reduces their taxable income. Liability is limited to the amount invested. The following documents are required:

   (a) IRS form 1065—Schedule K-1 & Schedule E, Part II.

   (b) U.S. Partnership Returns with all applicable schedules.

   Limited Partnerships require income to be taken from Schedule K-1 (form 1065), and the individual's Schedule E, Part II; this amount is included in the AGI on form 1040.

5. *S-Corp.* Usually a small start-up business requiring the following documentation:

   (a) IRS forms 1120/1120S—Schedule K-1, Schedule E, II.

   (b) Verification of W-2 earnings.

   S Corporation's income is detailed on form 1120S (US federal income tax return for an S Corporation). Schedule K-1 will list borrower's percentage of ownership and ordinary income, depreciation and depletion from the S Corporation (this information is transferred to Schedule E, Section II of the individual tax returns). This income must be proportionately added back as determined by the percentage of ownership to the ordinary income since depreciation and depletion are actually non-cash expenses. The primary source of income for an owner comes from W-2 wages, which must be included in earnings in addition to corporate earnings.

6. *Corporation.* A Corporation requires a state charter and is a separate legal entity from its owners (stockholders). The corporation's profits (retained earnings) are put back into the business or are distributed to stockholders in the form of dividends. Stockholders are not responsible for the debts of the corporation. The following documentation is required to determine eligibility:

   (a) U.S. Corporation Income Tax Returns, form 1120 & Schedule L, (if applicable).

(b) W-2 form.

Corporations require income to be taken from the IRS form 1120, and Schedule L will show the current year corporate balance sheet. Income to the officers and stockholders is reported by W-2 forms and reflected on their individual form 1040.

Dividend earnings are reported on 1099 forms and reflected on their individual returns.

C. Non-Borrowing Spouses, Partners, All Other Occupants 18 Years or Older

AHFA programs require the income to be documented for the total household. Total household income is defined as the individuals 18 years of age or older who intend to occupy the property within the next 12 calendar months, even if they are not a party to the loan.

Documentation required for submission in Step 2:

1. Signed Non-Borrower Statement

2. Either full income verification or alt doc income verification as required for all salaried or self-employed borrowers, or a signed Employment/Income Statement, if the occupant does not have ANY source of income.

3. Documentation of Social Security benefits, pensions, annuities, if applicable

4. Most recent year's IRS tax return transcripts

D. Currently Separated or Separating Spouses

All separated spouses' income documentation must also be submitted to AHFA compliance in Step 2. This is regardless of whether the separated spouse is a party to the loan, or even intends to occupy the property. The State of Alabama, for AHFA purposes, does not recognize "separated." The parties are considered either married or divorced.

Documentation required for submission in Step 2:

1. Signed Non-Borrower Statement

2. Full income documentation or alt doc documentation

3. Separation Agreement, including any Property Settlement Agreement

4. Most recent year's IRS tax return transcripts

E. Co-Signer/Non-Occupant Guarantors

Co-Signer/Non-Occupants and Guarantors are allowed, provided that the following conditions are met:

1. The Co-Signer/Non-Occupant or Guarantor is acting in such a capacity solely for the purposes of providing additional security for the mortgage loan, and will not take title to the property or be a purchaser on the sales contract.

2. The primary occupying borrower(s) must be able to meet a minimum of 40 percent of the PITI by verifiable and documented income, OR must have documented income representing full-time employment at no less than 30 hours per week.

3. The Co-Signer/Non-Occupant or Guarantor will not occupy the residence as his primary/permanent residence.

4. The Co-Signer/Non-Occupant or Guarantor is a relative of the mortgagor.

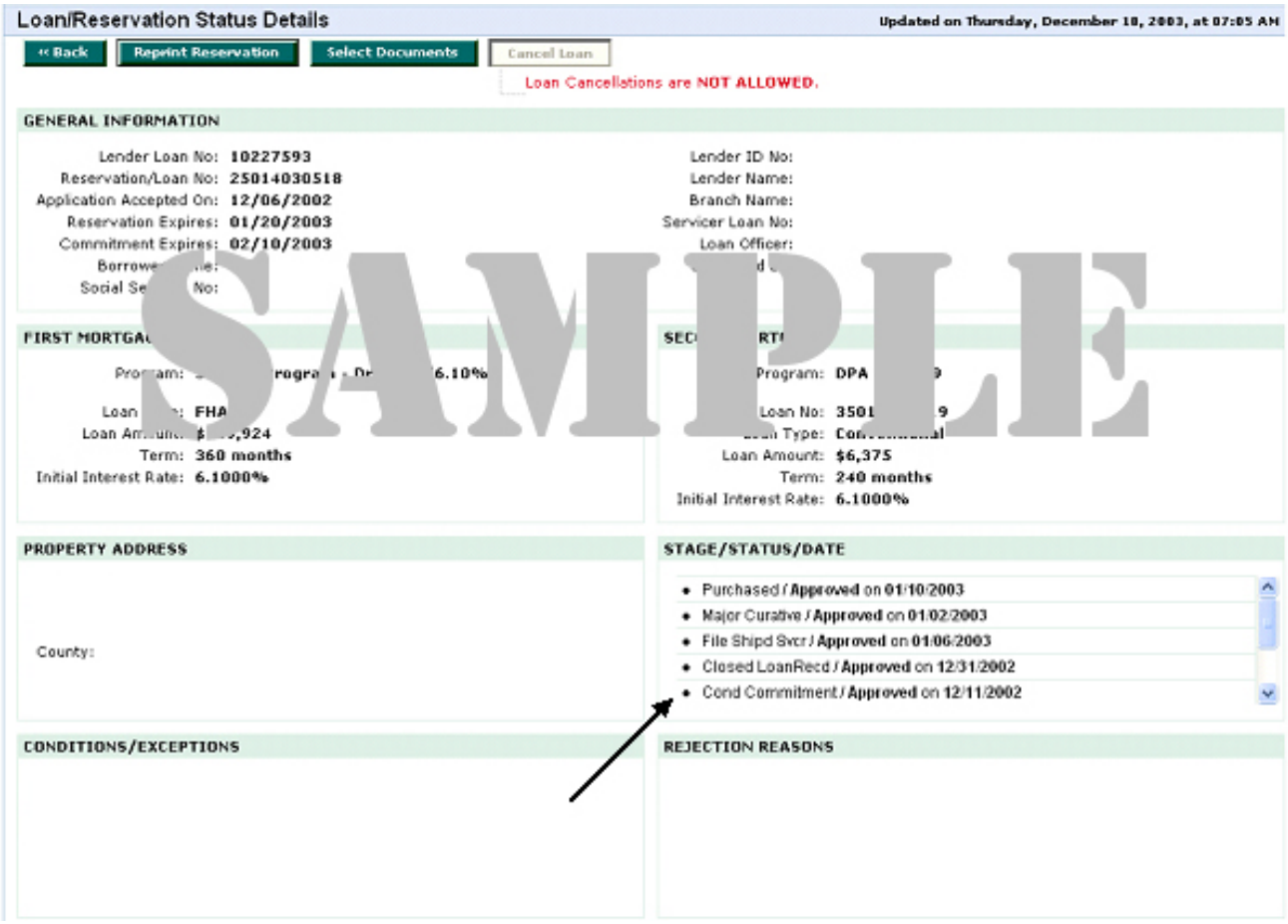
5. The Co-Signer/Non-Occupant or Guarantor is permitted by applicable FHA and Ginnie Mae guidelines.

6. The Co-Signer/Non-Occupant or Guarantor will be required to sign a statement certifying to the above conditions (see Appendix 6, Co-Signer/Non-Occupant Statement). Tax returns and income verifications are not applicable. These Co-Signer/Non-Occupants or Guarantors will be treated as non-occupant Co-Signers for qualifying purposes.

Please note: For all parties signing the Employment/Income Statement, AHFA withholds the right to require documentation from the IRS supporting the signed statement.

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.



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. *Verifications of Credit Documents.* All verifications should be less than three months (90 days) old at the time of closing or current information will be required. Credit documents more than 90 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 is in compliance with 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. Also, loans with delinquent payments will not be purchased. Lenders will have 40 days from the date of closing to clear the loan exception with no penalty. If the loan is not cleared until 41 days from the date of closing, the lender will be charged a late delivery fee of 50 basis points (0.50%) of the principal purchased. If the file is not cleared 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. Please refer to the current schedule of penalties and fees located in the Bulletin Board Section of the Lender Online portal at *https://lenders.ahfa.com/Bin/Display.exe/ShowSection* for the most current information.

C. *Funding of the Mortgage Loan.* AHFA will issue an ACH or wire on single and multiple fundings each Wednesday and Friday for each lender. A breakdown of the multiple lender's fundings will be included with the ACH or wire. Any discrepancies should be directed to the Funding and Delivery Department. Only one set of ACH/wiring instructions will be accepted from each lender. Lenders are allowed one change to the wiring instructions per calendar year. Subsequent changes to ACH/wiring instructions will result in a $500 fee per transaction.

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.

In general, fundable closed mortgage loan packages received by the close of the business day on Monday of each week will be funded on Friday and those received by the close of business on Thursday will be funded on Wednesday of the next week once approved by AHFA.

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. Flood notification transfer fee of $10 (not required for flood certification from CoreLogic).
3. Prepaid interest (Loans purchased by the 10th of the month prior to the first payment due date only).
4. Prepaid escrow (unless after first payment) or current amortized escrow balance on the loan less and disbursements
5. Tax service fee of $65
6. Loan Level Price Adjustments (Fannie Mae Standard loans only).
7. Wire fee of $20 (per transaction (if applicable)

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 Sale, Assignment 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 Sale, Assignment 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 transfer the loan to AHFA through the MERS system immediately after purchase.

Examples:

- A loan that closed on 06/02/16 is received in our office 06/8/16 and is being funded on 06/10/16. This loan will be purchased at the original note amount with no late delivery penalty.
- A loan that closed on 06/24/16 is not received in our office until 7/28/16 and is ready to be funded on 08/11/16. The initial payment on this loan is due on 08/01/16. Since this loan is being purchased after the 10th of the month,

the loan will be purchased effective with the payment scheduled for 10/01/16. The lender would be charged a late delivery fee of 50 basis points (0.50%) of the principal purchased.

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 and will be subject to the availability of funds.

3. *Property Address.* Property address changes require approval of the Authority.

4. *Marriage.* If the mortgagor marries prior to loan closing, the spouse's income will be included in the total annual family income. The lender must obtain this information prior to closing and submit these documents to the Authority. The annual family income may not exceed the income limitation. The spouse will also have to meet all Step Up requirements as established in Section II, III and IV of this manual.

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 and minimal liquid assets. Down payment assistance is used in conjunction with the Step Up Program only as a second mortgage. Only borrowers whose primary wage earner has a middle credit score of at least 620 will be eligible for Down Payment Assistance.

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, Appendix 11. 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 Preferred 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 primary wage earner's credit report (occupying borrower);

3. A copy of the HUD 92900-LT worksheet of the Fannie Mae 1008, 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 have the opportunity to 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, Originator II, or an Originator who has credit underwriters on staff.

E. Lenders are required to submit a minimum of ten quality files within a 12-month period:

F. Each person nominated by the lender as a Delegated Examiner is required to met the ten quality file minimum.

G. Test files with major compliance conditions will not be considered in the ten quality file count. (Major conditions include but are not limited to income issues, contract issues…)

H. Income calculations on test files may not exceed the income calculations of AHFA examiners by more than $500.

I. All test files must close within reservation expiration dates.

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