



Administrator's Guidelines for the Nortex Housing Finance Corporation 2006 First Mortgage and Second Mortgage (Down Payment Assistance) Program

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Freddie Mac added throughout, fees corrected.
6-2-06 Rates inserted.



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BACKGROUND INFORMATION

The U. S. Congress created tax exempt bond programs for housing. Officially they're referred to as Mortgage Revenue Bonds (MRB's). Congress created MRB's but bond programs are created by state, regional, county or city government agencies that are governed by volunteer Boards. The way it works, bonds are sold to private investors(aka bond holders). The private investors accept a lower rate of return on their bond investment because the interest they earn is exempt from federal income tax. Because the Issuer is paying the bond holder less, they can charge the borrower a lower mortgage interest rate. So federal involvement is -- Congress authorized the program and because the bonds are tax exempt the rules are written in the IRS Code. While the majority of program rules are tied to the IRS Code, there may be local regulations and/or the Issuer's Board's public policy considerations that may result in additional program rules.

The amount of funds available is limited by federal regulations. State or local laws may divide the funds among several users (in addition to those who provide housing).

Lenders originate loans and then all originating lenders sell their loans to the Master Servicer who either pools the loans and sells them to Ginnie Mae, Fannie Mae or Freddie Mac or sells them to the Trustee if the Issuer has a whole loan program. The Master Servicer continues to service the loans on behalf of Ginnie Mae, Fannie Mae, Freddie Mac or the Issuer.

In addition to reviewing the mortgage loan file, the Servicer must review other documents to determine that the loan qualifies with program regulations established by the IRS Code or local jurisdiction

PROGRAM SUMMARY

Eligible Area: Archer, Baylor, Clay, Cottle, Foard, Hardeman, Jack, Montague, Wichita, Wilbarger and Young counties.

Allocations, Targeted Areas

1. Lenders paid a commitment fee of .50% for allocations. Allocations may be made to builders or real estate brokers.
Builder and Real Estate Broker Commitments: Lenders may reserve 50% of their Allocation for builders or real estate brokers for a reasonable period. At the time of the reservation, Lenders may collect a fee from the builder or real estate broker in an amount not to exceed the amount of the Lender's Program Participation Fee on the amount so reserved.
2. During the first twelve months of the program, funds are reserved for the purchase of targeted area loans. These funds are tracked by McWeb. The following tracts are targeted areas
Wichita County: 0101.00, 0104.00, 0111.00, 0113.00

Applications, Reservations

- Reservations will be accepted on McWeb. Lenders must be approved and secure a username and password.
- Buyers MUST HAVE A FULLY- EXECUTED SALES CONTRACT FOR A SPECIFIC PROPERTY in order to have funds reserved or be on the waiting list. The contract may be dated prior to the date of the loan application.
- Bond funds are locked for a buyer when a reservation is submitted on and accepted by McWeb and a loan number is obtained.
- Buyers may be prequalified. However, if the buyer does not have a contract on a property, BOND FUNDS MAY NOT BE HELD for the buyer until such time as the buyer presents a valid contract.
- In addition, at time of application, buyers should present – tax returns for the three years preceding closing.

Rate, Zero Points, Mortgage Term, Lender Net

All mortgages are fixed rate, **Zero Point loans for a 30 year term**, payable on the first day of each month.

<u>First and Second Mortgage Rate</u>	<u>Lender Net</u>
6.15%	2.00%

Down payment assistance is available in the form of a second mortgage in an amount up to 8.00% of the full loan amount. Down Payment Assistance is more fully described in this Guide.

Program Timetable

Reservation to Underwriter Certification = 45 days

Reservations to Loans Closed and Delivered to Servicer = 85 days

Loans not meeting the timetable **will be canceled automatically** without further notice.

Loan Amounts

Loan amounts are to be rounded to the nearest dollar.

Buydowns

Temporary 2/1 buydowns are permitted for government loans provided that such loans are acceptable to Ginnie Mae and in compliance with insurer/guarantor requirements. Buydowns may not be paid by the buyer or buyer's assistance. Buydowns may be paid by the seller to the extent allowable by the insurer/guarantor.

Cosigners

Cosigners are allowable in an FHA transaction when meeting the following conditions: (1) a co-signer cannot have any ownership interest in the property (they cannot be on the title) and (2) the cosigner cannot reside in the property being purchased. A cosigner's income is not considered for bond program purposes, tax returns are not required and co-signers do not sign any bond documents. Follow FHA guidelines for credit purposes only. Cosigners sign a Cosigner Affidavit at closing.

Loan Purchases

Loans are purchased daily by the Servicer.

Servicing

All Mortgage Loans will be sold servicing released to U S Bank Home Mortgage. The Lender shall service or cause to be serviced all Loans in accordance with Fannie Mae, Freddie Mac and GNMA requirements prior to purchase by the Servicer as outlined in the Origination Agreement.

Recapture Tax

The conditions of repayment of the federal subsidy of these loans is explained in a separate brochure provided on the Website.

Quality Control

From time to time The Servicer may request additional documentation from Lenders.

DOWN PAYMENT ASSISTANCE PROGRAM

Down Payment Assistance is in the form of a Second Lien Mortgage Loan. All Second Lien Mortgage Loans must be issued in accordance with the requirements of the Agreement.

Use of Second Lien Mortgage Loan Proceeds. Funds may be used for down payment and closing cost assistance. There is no “cash back” to the homebuyer. To the extent the funds advanced by the homebuyer plus the first and second mortgage amounts exceed amounts required at closing, the Lender will reduce the first Mortgage Loan amount and a corresponding amount of the Second Lien Mortgage Loan amount.

Owner Occupancy Requirement. The homebuyer must occupy the residence for which it received the Second Lien Mortgage Loan for the term of the loan or until the loan is satisfied.

Loan Term. Ten (10) year amortizing loan due on sale, transfer, other disposition of the property (including any involuntary transfer by or as a result of foreclosure or judicial sale or operation of law), refinance or satisfaction of the first Mortgage Loan.

Interest Rate. The interest rate on the Second Lien Mortgage Loan will be 6.15% per annum.

Loan Amount. Up to 8% of the related first Mortgage Loan as requested by the homebuyer; provided, however, that the initial principal amount of each such Second Lien Mortgage Loan shall not be less than \$500.

Loan Reservation. Reservation requests will be submitted as provided in the Agreement. Reservations are not transferable to other borrowers or other properties. The Servicer will monitor program funds and notify the Lenders when down payment assistance funds have been depleted.

Second Mortgage Application Fee. The Second Mortgage Loan Application Fee is \$475. The Servicer will net a portion of the second mortgage loan application fee (\$175). The balance (\$300) is retained by the Lender. This fee is collected at closing and may be paid by the buyers down payment assistance or paid by the Seller to the extent allowable by the Agency (FHA, VA, Fannie, etc.). It cannot be financed.

Disclosure Requirements. The Second Lien Mortgage Loan must meet Federal Truth-in-Lending Disclosure requirements and any other applicable state and federal lending regulations. Notices and certificates must be received as required by the Agreement.

Allowable Fees to the Lender. No commitment or origination fee will be charged for the Second Lien Mortgage Loan. See “Second Mortgage Application Fee” above for Lender fee.

Insurance Requirements. The hazard insurance policy, when issued, must name the Trustee as an insured second mortgagee. The mortgage title insurance policy, when issued, must include the Second Lien Mortgage as a valid lien against the property subordinate only to the first Mortgage.

Minimum Cash Investment. There is no minimum cash investment for Mortgage Loans or Second Lien Mortgage Loans.

Underwriting. FHA—The sum of all financing may not exceed 100% of the cost to acquire the property plus any prepaid expenses. TAC (Total Acquisition Cost) equals sales price plus 100% of closing costs minus any cash contributions from the seller. VA and RHS—The sum of all financing may not exceed 100% of the reasonable value of the property established by VA plus any closing costs and prepaids.

Recordation Requirements. The Second Lien Mortgage Loan must be recorded in the official public records of the county in which the residence is located such that it constitutes a valid second lien upon the property.

Funding of Second Lien Mortgage Loans. The Lender advances the funds and is reimbursed at purchase by the Servicer.

Servicing of Loans. The Servicer shall implement a payment system by which borrowers will be billed and remit all payments with respect to both first mortgage loans and Second Lien Mortgage Loans in a single monthly payment, pursuant to a single coupon or invoice. If a borrower elects to have withdrawals for payments with respect to both borrower's first mortgage loan and Second Lien Mortgage Loan under an electronic payment system, Servicer may draw on borrower's amount separately for payments due with respect to the first mortgage loan and Second Lien Mortgage Loan provided Servicer does so contemporaneously. The Servicer shall not permit a borrower to implement an electronic payment system for the first mortgage loan unless the borrower simultaneously implements such a system for the Second Lien Mortgage Loan.

All payments received by the Servicer with respect to first mortgage and Second Lien Mortgage Loans shall first be applied to the first mortgage loan under the terms thereof and then to the Second Lien Mortgage Loan. In the event of a default of a first mortgage loan the Second Lien Mortgage Loan shall be in default and Servicer shall take whatever action is required to collect the first mortgage loan and Second Lien Mortgage Loan including foreclosure of the property securing the first mortgage loan and a deficiency judgment against the borrower for any amounts not collected on the first mortgage loan and/or the Second Lien Mortgage Loan. Proceeds of any foreclosure, or sale following deed in lieu of foreclosure or other process shall be applied first to the first mortgage loan and the balance, if any, to the Second Lien Mortgage Loan or any deficiency judgment against borrower in full satisfaction thereof.

Unless the Issuer instructs the Servicer to the contrary, in the event of a default in a Second Lien Mortgage Loan without a default in payment of the corresponding first mortgage loan, the Servicer shall not foreclose a Second Lien Mortgage Loan unless there is a subsequent default and foreclosure of the associated first mortgage loan. Payments due under the defaulted Second Lien Mortgage Loan shall accrue until such time as the Second Lien Mortgage Loan is discharged by payment, prepayment, foreclosure, sale after conveyance by deed in lieu of foreclosure or other termination in accordance with the terms of the Second Lien Mortgage Loan

Assumption. The Second Lien Mortgage Loan is not assumable

Federal Recapture Tax: Federal Recapture Tax does not apply to the Second Lien Mortgage Loan.

Prepayment. The Second Lien Mortgage Loan may be prepaid at any time without penalty

SYSTEM ACCESS AND INFORMATION

GENERAL

Each Program has a specific page, which displays a summary of the program parameters (on any open program for that issuer), and has links to log into the system, access the Guidelines, bond program forms, and Waiting Lists where applicable, and other useful information.

There are additional pages such as NEWS which highlight important dates or changes, CONTACTS which contains a directory for the entire Servicer/Administrator/Facilitator team, USERNAMES where you will register for a username and password into the secure system, CENSUS TRACTS where lenders can find any US address and locate the appropriate Census Tract Number (required for all loans), TRAINING which is a link to our training web-site, and EMAIL which is a direct email to Bond Compliance for any general questions.

Additionally there is a link that takes you into the secure system, where users need to Log In. In order to access the 'system', you must obtain a username and password from Bond Compliance, online at www.hdsoftware.com/usbhm-mrbp The security features will control the information each user can access, like the lender they can view, what they can change or not, etc.

ONLINE GUIDELINES

The Origination Guidelines are available online. The Servicer's Delivery and Funding Guidelines and Glossary of Terms are available online. We recommend that you periodically revisit the online forms and guidelines as they are sometimes updated. You are contacted via email when changes occur.

OBTAINING A PASSWORD

To obtain a username and password go www.hdsoftware.com/usbhm-mrbp and click on Username/Password. Those who currently participate in another program with us click on "Existing User" and others click on "New User", complete the information and SUBMIT. The new password will not be valid until a confirmation is received. Underwriters have different security access. Only Underwriters may access the online "Underwriter's Certification". Underwriters must check "Underwriter" on the "New User" screen

FUNCTIONS/OPTIONS OF SECURE SYSTEM (McWeb)

VIEW ALLOCATION

Lenders are encouraged to select this option from the Main Menu. This selection provides a quick 'live' view of the allocation(s) available in the selected program. Program funds are tracked by allocation.

NEW RESERVATION

A new reservation should be submitted online, once a qualified loan application has been taken as long as the loan process can meet the guidelines. Lenders access this feature and submit the homebuyer/loan information. As an additional feature, the available allocation is always displayed prior to each reservation.

ADDITIONAL MORTGAGES

Immediately after reserving the first mortgage, click on "Additional Mortgages" on the Main Menu. Complete the screen to reserve the program's down payment assistance.

CHANGE LOAN

During the processing of a loan, a Lender may need to change certain information related to the loan, such as the loan amount, purchase price and other pertinent information. While the loan is in RESERVATION STAGE, a Lender may change this information online. This will ensure that the loan record is as accurate as possible prior to the underwriting process.

LOAN DETAIL CONFIRMATION

At any given time, a Lender may access a Loan Detail Confirmation. This confirmation is a full detail of the loan record plus the status of the loan.

UNDERWRITER CERTIFICATION

A required step in the loan process is the online 'Underwriter Certification', which can only be accessed by a Lender's underwriter. Underwriters have a special security level. The Underwriter Certification serves as the required COMMITMENT to a loan, if applicable. This process locks the loan and certifies to the lender that it can proceed to closing.

PIPELINE

The Pipeline is one of the most important features online, because it allows a lender to view all of their loans and the loan status. It also assists in the management of the program by making it easy for lenders to check the loans they have in any given stage and make sure that all their loans in the system are still active. It also details loans that are deficient, loans purchased and date of same.

FILE CONDITIONS TO CORRECT

Files are reviewed in two steps. The Compliance Files are reviewed by Bond Compliance and the Mortgage File is reviewed by the Servicer. Any deficiencies are immediately posted online. This area should be checked often. This separate menu item was developed for the post-closing/shipping/corporate departments that cure file deficiencies. It consolidates in one area any files that have problems that may need to be resolved in order to be purchased. This provides a quick and easy means to check these loans.

CANCEL RESERVATION

From time to time a loan may not make it through processing. It is important for lenders to cancel loans as soon as they know the applicant does not qualify. The PIPELINE feature assists in this process, as lenders can easily view the loans in reservation stage and determine if any are inactive. Should that be the case, the canceling of a loan is a very easy step which lenders are encouraged to do as soon as they are so informed. This will release those funds and make them available for the next applicant.

E-REPORTS

e-Reports are a variety of reports, which allow users to see the performance of the program and their loans. The Program Summary, Loan Information Report and Loan Detail Report by Originator summarize these valuable elements for all authorized users.

DOWNLOAD CRYSTAL VIEWER

The e-Reports on the Web require a special download file (Crystal Viewer) in order for the user to view them online. This file is downloaded from our secure site and installed on any computer you would like to access the reports. The Crystal Viewer download and installation is very similar to the download and installation of Adobe Reader and has similar functions

SPECIAL SERVICES

We also maintain a site available to the public that's linked to search engines. The URL is www.firsthome4u.com. An option from that site is a "pre-application". If a pre-application is submitted, the sender is contacted and then referred to a program lender. Referrals are made on a alphabetical, rotating basis

BOND COMPLIANCE REVIEW
What Are We Looking For Anyway

There are requirements imposed by the IRS and the Issuers that are reviewed for compliance with the program guidelines. It is the responsibility of lenders to review program documents and to originate loans that meet the requirements. The Master Servicer is not obligated to purchase loans that do not comply with program terms. Bond Compliance reviews loans to assure compliance. An important requirement is that program funds are used for the purpose of acquiring, not refinancing, owner-occupied single family homes. Temporary, construction or bridge financing with a term of 2 years or less may be refinanced.

AT TIME OF LOAN APPLICATION

There are requirements imposed by the Issuer that are reviewed for compliance with the program guidelines. It is the responsibility of lenders to review program documents and to originate loans that meet the requirements. The Servicer is not obligated to purchase loans that do not comply with program terms. Bond Compliance reviews loans to assure compliance. An important requirement is that program funds are used for the purpose of acquiring, not refinancing, owner-occupied single family homes. Temporary, construction or bridge financing with a term of 2 years or less may be refinanced.

You follow your normal procedures modified to include the following program requirements:

1. Qualify the Borrower

Borrowers must be first-time homebuyers unless purchasing in a federally designated targeted area. A first-time homebuyer (and their spouse, if any) is someone who has not owned and occupied their principal residence in the three year period preceding closing. All applicants must be considered irrespective of age, race, color, religion, national origin, sex, marital status, military status or physical handicap. Buyers must occupy the property purchased within 60 days of closing. Contact Bond Compliance with questions regarding eligibility.

2. Qualify the Household Income

The total annual income from all sources of all persons 18 years of age or older residing in the household cannot exceed the maximum allowable household income limit that are.

<u>Non Targeted</u>		<u>Targeted</u>	
<u>1-2 Persons</u>	<u>3+ Persons</u>	<u>1-2 Persons</u>	<u>3+ Persons</u>
\$54,300	\$62,445	\$65,160	\$76,020

Guidelines for calculating bond program income are detailed in the Underwriter's Program Income Calculation Guide included in this Guide. Income used for credit qualifying a borrower is different from income used for bond program purposes. Follow the requirements listed below for bond compliance income.

- The program requires that the income of all persons residing in the household (related or unrelated) 18 yrs. of age or older must be included in the calculation of income for bond program purposes. Unlike income that is averaged for credit underwriting, the bond program is concerned with actual current income. You should be reviewing the income of the last 4 months and the income shown on previous tax returns for consistency. You should not be averaging income. Current gross monthly income is multiplied by 12 to determine "total current annualized income". Gross monthly income is the sum of monthly gross pay; any additional income from overtime, part-time employment, bonuses, income from self-employment, dividends, interest, royalties, pensions, VA compensation and net rental income, 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 or investments, continuation of which is probable based on foreseeable economic circumstances based upon the Mortgagor's affidavit (to such effect), all as computed at the time of application for a Mortgage

Loan, and confirmed at the time of Closing. Information with respect to gross monthly income may be obtained from the applicable certificates and affidavits provided in the Guide executed during the 4-month period ending on the date of the Closing of the Mortgage Loan, provided that any gross monthly income not included for credit underwriting purposes must be included in determining gross monthly income.

- The limit is the limit and any amount over the limit is not acceptable. Count all persons who will permanently reside in the home being purchased. Include the income of non-borrower co-habitants who will reside in the property. However, do not include (1) dependents that are claimed on tax returns but who will not permanently reside in the home and (2) co-signers.
- The Affidavit, executed at closing by the borrower(s), and certified by the lender, must include the total verified annual household income.
- Borrowers are not required to use all available assets when using the first mortgage bond program. The amount of remaining reserves required are determined by the type of financing used (i.e. FHA, VA, etc.).

3. Qualify the Property

There are Maximum Bond Program Acquisition Limits. The Bond Program Acquisition Limit is not to be confused with FHA Acquisition Limits. The Total Bond Program Acquisition Limit is the total amount paid in cash or in kind to the seller by the buyer or on behalf of the buyer and does not include financing costs. The IRS Code definition of what is included in Bond Program Acquisition Costs and what is not included is described in the IRS Code definition on the next page.

MAXIMUM ACQUISITION LIMITS

	<u>1 Unit Dwelling</u>	<u>2 Unit Dwelling</u>	<u>3 Unit Dwelling</u>	<u>4 Unit Dwelling</u>
NonTargeted	\$237,031	\$303,451	\$366,802	\$455,845
Targeted	\$289,704	\$370,884	\$448,313	\$577,144

Please note that existing 2-4 unit dwellings must be at least 5 years old and mortgagor must reside in the property. Also, some products may permit only one unit dwellings.

- Go to our Website and click on “Census Tract Searches”. Enter the property address and the system will determine the census tract of the property. You will need the number when registering the loan. You will be entering a census tract number for all properties. When you have the census tract number, you may cross check Page 2 list to see if the property is located in a targeted area.
- HOUSING TYPES: MRB Program funds may be used to finance single family residences that are the primary full-time residence of the borrowers. A primary residence is the legal residence of a person. It is also the place where the person lives on a full-time basis. Recreational, seasonal or other types of vacation or non-permanent homes are not eligible under the program. New and existing, one to four unit family dwellings, condos (including Spot Loan approvals) and townhomes. Manufactured housing must meet FHA guidelines..
- Homes are considered new if never previously occupied.
- 15% or more of the space will be used in a trade or business(including child care), mobile, recreational, or vacation homes are not eligible under the program.

4. Review the Loan and Mortgage Requirements of this Program

- All loans in this program will have a loan term of 30 years (360 months, level payments).
- LOAN TYPES: FHA-insured, including 203(k), VA-guaranteed acceptable to Ginnie Mae or privately insured conventional loans acceptable to Fannie Mae (including CHBP 3/2, Fannie 97) or Freddie Mac (including Home Possible) qualify. FANNIE FLEX DOES NOT QUALIFY). If using automated underwriting and given the option of a lower premium, DO NOT TAKE THE OPTION.
- The program requires the minimum borrower contribution required by FHA, VA , USDA:RD, Freddie Mac or Fannie Mae.
- There is no minimum loan amount in this program.

Review the Allowable Origination, Discount and Other Fees

- The program determines the origination and discount may be charged. No additional origination and/or discount may be charged buyer or seller.
- The program includes the following first mortgage fees: a **Bond Application Fee** of \$165 (paid by buyer/seller to extent allowable by FHA, VA), Second Mortgage Application Fee and a Transfer Fee consisting of a Real Estate Tax Service Fee of \$80 (to the extent permitted by the insurer/guarantor, the tax service fee may be paid by buyer or seller) and a Funding and Review Fee of \$65. These fees ARE NOT TO BE FINANCED. These are Servicer fees that will be netted at loan purchase and must be disclosed on the HUD-1 as being paid to the Servicer. The second mortgage fees are second mortgage application fee of \$475 (charged at closing). \$175 netted by the Servicer and a lender fee of \$300.
- Lenders are permitted to charge reasonable and customary charges for out of pocket expenses and costs. Other financing costs such as legal fees and underwriting fees may be charged and courier fees may be charged if such fees are normally charged. Lenders may charge the usual and reasonable settlement costs. Settlement costs include titling and transfer costs, title insurance, survey fees or other similar costs. Other allowable fees include doc prep fees, notary fees, hazard, mortgage and life insurance premiums, recording or registration charges, prepaid escrow deposits and other similar charges allowable by FHA, VA, USDA:RD, Freddie Mac or Fannie Mae. "Junk" fees are not a defined term and may not be charged. Excessive fees are not permitted in the program

5. If the borrower and property qualify, have the borrower(s) **sign and date the Notices to Buyers**. The Notice includes information about "Recapture Tax", the consequences of selling the home and not paying off the loan if the sale is to a non-qualified buyer and a Borrower's Authorization for Counseling. **A "Recapture Brochure" is to be attached to the borrower's copy of the Notices to Buyers**. These forms and all other program forms are found on our Website. Retain the original of the Notices to buyers as it will be sent to the Servicer in the Compliance Package submitted with the Mortgage Loan file after closing. A Recapture Brochure is not signed and not sent in the Compliance Package. It simply serves as a more complete disclosure.

5. Reserve the loan online.

Use McWeb and click on the circling McWeb icon to access the system. Security features control lender/user access.

7. Processing the Loan

Follow your normal procedures adding bond program requirements (i.e. include three years SIGNED tax returns of all buyers in package to underwriter) along with the executed ORIGINAL of the Notices to Buyers.).

8. Underwriter Certification

Following loan approval, lender's underwriter completes the online **Underwriter's Certification**.

9. Closing

The **Affidavits/Certification** form and **Tax Exempt Rider** are completed at closing. Follow Servicer requirements for DPA Acknowledgment form. See "Forms" in this Guide for more information If there is a Cosigner, the Cosigner completes the Cosigner/Guarantor Affidavit.

10. Shipping

Following closing ship the Mortgage File, Credit Package and Compliance File to the Servicer. Use the checklists provided.

COMPLIANCE UNDERWRITING

Underwriters should remember that CALCULATION OF PROGRAM (COMPLIANCE) INCOME IS DIFFERENT THAN CALCULATION OF INCOME FOR CREDIT PURPOSES. The following is provided as a Guide for underwriters in calculating the income of members of the household for program purposes.

Underwriter's Program Compliance Income Calculation Guide

Income used for credit qualifying a borrower is different from income used for bond program purposes. Follow the requirements listed below for bond compliance income.

The program requires that the income of all persons residing in the household (related or unrelated) 18 years of age or older must be included in the calculation of income for bond program purposes. Unlike income that is averaged for credit underwriting, the bond program is concerned with actual current income. You should be reviewing the income of the last 4 months and the income shown on previous tax returns for consistency. You should not be averaging income. If there are not inconsistencies in earnings, use the guidelines for each loan type to determine current gross monthly income. Current gross monthly income is multiplied by 12 to determine "total current annualized income". Gross monthly income is the sum of monthly gross pay; any additional income from overtime, part-time employment, bonuses, income from self-employment, dividends, interest, royalties, pensions, VA compensation and net rental income, 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 or investments, continuation of which is probable based on foreseeable economic circumstances based upon the Mortgagor's affidavit (to such effect), all as computed at the time of application for a Mortgage Loan and confirmed at the time of Closing. We will check information with respect to gross monthly income obtained from the reservation form, Underwriter's Certification and applicable certificates and affidavits executed the date of the Closing of the Mortgage Loan, provided that any gross monthly income not included for credit underwriting purposes must be included in determining gross monthly income. The limit is the limit and any amount over the limit is not acceptable. Include the income of non-borrower co-habitants who will reside in the property. However, do not include (1) dependents that are claimed on tax returns but who will not permanently reside in the home the majority of the time and (2) co-signers. The Affidavit, executed by the borrower(s), and certified by the lender, must include the total verified annual household income. Borrowers are not required to use all available assets when using the first mortgage bond program. The amount of remaining reserves required are determined by the type of financing used (i.e. FHA, VA.).

If a person had commissions, bonuses paid in the current tax year that were one time payments, include the one time payment amount (do not annualize). If a person worked seasonal overtime or worked overtime for any reason and is no longer working overtime (verified by employer), include the actual amount (do not annualize).

"Alternate Documentation" (Alt Docs) as defined by FHA and other secondary market entities is acceptable Lender verification for compliance purposes, provided that such documentation includes the necessary, acceptable income tax returns. The Servicer requires a credit package as indicated on the various loan delivery checklists. However, the Servicer does not re-underwrite the loans for credit purposes.

Although reference is made to VOE's and VOD's in the guidelines below, they are not required if acceptable alternate documentation is in the file. This documentation includes, but may not be limited to, current pay stubs which delineate "current period", W-2's, for all borrowers and all employers, and bank statements to verify assets. If W-2's are present in the loan file, lending personnel should verify that the total of W-2's presented equals the total income shown on borrower's tax returns. If a VOE is in the file, the borrower does not have to provide W-2's unless the underwriter deems this necessary for prudent underwriting. Figures shown on all documents should be consistent.

Although reference is made to the last 4 to 6 weeks income, Underwriters should be reviewing the income tax returns submitted to verify that there are no unexplained and/or unacceptable differences current income to past income.

Hourly Employees

1. Using last 4 to 6 weeks' pay stubs, identify hourly rate of pay and average number of regular hours worked per week. Multiply hourly rate times regular weekly hours. Multiply result times 52 for an annualized base salary.
2. If the person has no other sources of income (for example: overtime, bonus, commissions, second jobs, interest, dividends, child support, alimony, public assistance), this will be the Current Total Annual Income.
3. Compare the total annual income in #2 above to:
 - a. the total year to date income on the VOE
 - b. the previous year's income on the VOE
 - c. the previous year's income per W2's and tax returns

You should not find significant differences. In some cases, the Current Total Annual Income will be higher than the previous year's income. Variances should be attributable to increases/decreases in pay or number of hours worked.

Salaried Employees

1. Using last 4 to 6 weeks' pay stubs, identify weekly (or other frequency) rate of pay. Multiply rate times the number of regular pay periods in the year (52 weeks, 12 months, 24 semi-months)
2. If the person has no other sources of income (for example: overtime, bonus, commissions, second jobs, interest, dividends, child support, alimony, public assistance), this will be the Current Total Annual Income.
3. Compare the total annual income in #2 above to:
 - a. the total year to date income on the VOE
 - b. the previous year's income on the VOE
 - c. the previous year's income per W2's and tax returns

You should not find significant differences. In some cases, the Current Total Annual Income will be higher than the previous year's income. Variances should be attributable to increases/decreases in pay or number of hours worked.

Business, Self Employment

1. Use the quarterly tax returns and financial statements to identify the current year to date income.
2. Divide the year to date income by the number of months during which it was earned and multiply times 12 for an annualized total.
3. If the person has no other sources of income (for example: overtime, bonus, commissions, second jobs, interest, dividends, child support, alimony, public assistance), this will be the Current Total Annual Income.
3. Compare the total annual income in #2 above to the previous year's income per W2's and tax returns. You should not find significant differences.

Overtime, Bonus, Commissions

1. Using last 4 to 6 weeks' pay stubs, identify the year to date total earnings of the borrower. Subtract the Current Total Base Income (see above) to arrive at the total year to date extraordinary income.
2. Divide the year to date extraordinary income by the number of pay periods during which it was earned (to obtain an average). Multiply times the appropriate factor (52 weeks, 12 months, 24 semi-months, etc.) for an annualized figure.
3. Add the total annualized extraordinary income to the Current Total Base Income. If the person has no other sources of income (for example: second jobs, interest, dividends, child support, alimony, public

assistance), this will be the Current Total Annual Income.

4. Compare the total annual income in #2 above to:
 - a. the total year to date income on the VOE
 - b. the previous year's income on the VOE
 - c. the previous year's income per W2's and tax returns. You should not find significant differences.In most cases, the Current Total Annual Income will be higher than the previous year's income. It will also generally be higher than the annualized year to date income. The variances should be attributable to increases/decreases in pay.

Interest, Dividends

1. Use current earnings statements issued by the bank, investment broker or agent. Identify the year to date interest or dividend earnings. Divide by the investment term year to date (for an average) and multiply times appropriate factor to annualize the earnings.
2. If statements are not available, and the terms of the investment agreement are available, multiply the principal amount of the asset times the annual interest yield factor for a projected interest earnings amount.
3. If neither are available, use the previous year's earnings statements or tax returns to identify total annual interest and dividend income. If the assets are still invested in the same instruments, use the previous year's figure.
4. Add the result of the computation in either #1, #2 or #3 above to the Current Total Annual Income.

Alimony, Child Support

1. Use the monthly amount appearing in the divorce decree, separation agreement or other support document.
2. If the borrower receives more than the amount stipulated in the agreements, use the monthly figure that the borrower declares and can be verified.
3. If the borrower receives less than the amount stipulated in the agreements and there is a verifiable history of the underpayments for at least 3 years (as evidenced by Court records), then use the past 3 years' historical monthly earnings. If there is no such history that can be verified, use the amount stipulated in #1 above.
4. Multiply the monthly amount of alimony or child support times 12. Add to the Current Total Annual Income (plus any other income sources).

Pensions, Temporary Payments

1. Use the benefits statement issued by the benefits provider (pensions, workers compensation, disability compensation, social security, AFDC, etc.) to identify the amount of the benefit, payment frequency and expected term of the benefit.
2. Multiply the amount of the benefit times the payment frequency for an annualized amount. Add to the Current Total Annual Income (plus any other income sources).
3. If the benefit is absolutely not payable to the recipient beyond a given date (that means a complete and permanent stop of benefits without extensions, exceptions, waivers or other conditions) and such date is within 12 calendar months of the anticipated closing date, then calculate the benefits expected through the end of the benefits term. That will be the total annual income amount from the specific benefits source. Add to the Current Total Annual Income (plus any other income sources).

Verified Termination of Overtime, Commission, Bonus

If verification of termination of overtime, commission or bonus is provided in writing (i.e. a letter from an employer) or such termination is due to a change of employment, use the current YTD overtime, commission or bonus, do not annualize and add as a lump sum to the Current Total Annual Income.

FORMS

This topic addresses the specific bond forms required for the HFA program for originating, processing, closing and loan delivery.

All are in an interactive format. You may download these forms onto your PC or laptop in their interactive format. You simply place your cursor on the first blank, complete and then "tab" to the next blank.

A complete Mortgage package must include all standard conventional, FHA, RD or VA forms.

While forms may be downloaded on your PC or laptop, going to the Website for forms each time you need them assures that the most current version is being used.

Original, personal signatures of all borrowers and sellers are required and must match on all documents associated with the transaction.

Whenever a party is known in any of the documents by more than a single name, a Name Affidavit Will Be Required.

Powers of Attorney and/or Personal Representatives for the Borrower Are Not Acceptable. Exception: Active Duty Military Personnel may provide an 'Alive and Well' letter.

ORIGINATING COMPLIANCE FORMS

In addition to all the standard disclosures, the bond program has specific disclosures all contained in the **Notices to Buyers** that is executed at the time of loan application. To the borrower's copy attach the 2-page **Recapture Brochure**. The Original of the Notices to Buyers should be included in the package that goes to the Underwriter.

CLOSING FORMS Affidavit/Certifications

Tax Exempt Rider (Must be recorded)

Acknowledgment Memo

If there is a cosigner/guarantor, use **Cosigner Affidavit**

POST CLOSING FORMS - Stacking Sheets

Compliance File Checklist is available online.

Mortgage File Checklists are available online

Final Document Delivery Submission Checklist is available online

OTHER DOCUMENTS REQUIRED FOR BOND COMPLIANCE FILE

Tax Returns (Tax returns for the preceding year are due April 15 of the current year.)

Signed copies of the past 3 years' returns and all schedules are required for all borrowers and their spouses, regardless of whether the spouses are taking title to the property. IT IS THE RESPONSIBILITY OF THE BORROWER(S) TO SUPPLY THIS INFORMATION. If they do not have the required tax returns, they need to request a copy or transcript immediately to be provided prior to loan commitment. Please remember that the Underwriter is certifying that they have reviewed the appropriate returns. So returns must be provided to your Underwriter prior to Underwriter's Certification.

Acceptable Federal Income Tax Returns: Copies of returns filed with the IRS including 1040 REGULAR, 1040-A, 1040-EZ, Letter 1722, an IRS line-by-line transcript and a Telefile return that meets the following conditions: (1) has the preprinted taxpayer name and address - such name and address cannot be altered in any way (2) has the preprinted Code number, (3) has the 6 digit IRS confirmation number and (4) has the signature of the taxpayer(s). Electronic returns and PC returns are not acceptable. Also acceptable are the electronic cover sheet accompanied by copies of returns filed with the IRS and PC (i.e. Turbo Tax) returns. Requests for Extensions are not acceptable in lieu of tax returns.

Full tax returns (schedules included) are required. All returns must include names, social security number(s) and address and must be signed by all named taxpayers. Original signatures are not required. Other types of returns are not acceptable. If a borrower did not file federal income tax returns for any or all of the three year period and were required by law to do so, they cannot participate in the program until such returns are filed. If a borrower did not file federal income tax returns for any or all of the three year period and were not required by law to do so, use the space provided on the Mortgagor Affidavit and list the name(s) of the party(ies), the tax year(s) and the reason for not filing. A form 4506 is available on the IRS Website: www.irs.ustreas.gov for borrower requests for a line-by-line (aka Tax return transcript). Borrowers may request a Letter 1722 by calling 1-800-829-3676. There are IRS links on the Websites.

Real Estate Purchase Contract

The full address of the property, full names of all sellers and buyers, total purchase price of the property must be included. If there is not an address for new construction, a lot number and subdivision name are required. All named persons must sign. Include the name and title whenever a representative is signing for a corporation.

Final Typed Loan Application (1003)

The typed application signed and dated by all parties is required. Loan interviewer must complete and sign page 3 of 4 of the 1003. If this is not possible, then an Officer must sign in place of the interviewer. All persons taking title to the property must execute all bond documents. The income disclosed on the Affidavit must be the same or more than that shown on the 1003. The purchase price, loan amount, and other financial details must be the same as shown on all other documents.

HUD-1 Settlement Statement

Buyer, seller and closing agent must fully execute the HUD-1. Borrowers on the HUD-1 must be all persons taking title to the property and match the Affidavit and application. Persons not taking title to the property may not appear or sign the HUD-1. The Bond Application Fee must be shown as being payable to Servicer. Please do not bundle charges. Itemize all charges to the transaction. Payoffs of other debt must appear on Page 1 under Section 100 of the HUD-1 as part of "Settlement Costs".

Warranty Deed

A copy of the Warranty Deed is required.

Who Signs Bond Documents

The simple rule of who signs bond forms – if the person takes title, they sign the bond forms. If they do not take title, they do not sign the bond forms.

Also, remember cosigners cannot live in property, do not sign bond documents or take title.

Having people sign documents who should not sign is as incorrect as not having all sign who should.

Under no circumstances may a cosigner's name appear on title or warranty deed.

Only those on credit sign the 1003 and HUD-1.