First Place Loan Program Operations Manual

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Section 1: Program Description

Program Description

The First Place Loan program is a homebuyer program offered by the Missouri Housing Development Commission (MHDC) that provides below-market interest rates to first-time homebuyers and qualified Veterans in the state of Missouri. The program is funded through the sale proceeds of tax-exempt mortgage revenue bonds (MRB); a type of municipal bond issued by municipalities such as Housing Finance Agencies. Program parameters are governed by the United States Internal Revenue Code.

For potential homebuyers with limited savings, the program provides the option for Cash Assistance to be used for down payment and closing costs. Loans are provided by Certified Lenders for any eligible property in the state of Missouri. All interest rates and allowable closing costs are set by MHDC with no minimum down payment or minimum loan amounts.

Down Payment Assistance Loans (DPA)

Not only can homebuyers receive lower rates, qualified first-time homebuyers and qualified Veterans are eligible to receive a 100% forgivable second loan equal to 4% of the total mortgage amount to help with down payment and closing costs. The second loan will be forgiven if the borrower stays in the home and maintains the original loan for ten (10) years. After year five, the second mortgage will begin diminishing by 1/60 every month until year 10 when it will be completely forgiven.

Non-Down Payment Assistance Loans (Non-DPA)

Qualified first-time homebuyers and qualified Veterans may opt for a Non-Down Payment Assistance Loan to save even more money by lowering their initial interest rates. Typically, these loans are .25% to .50% below the rates offered with DPA. Non-DPA Loans are best for buyers who have adequate funds to pay down payment and closing costs and are looking to save more on their monthly mortgage payment.

Use of First Place Program with Other Programs

- First Place Programs may be used in conjunction with programs offered by other entities, such as city or county government, if it is acceptable to use their program with the state of Missouri. The use of the Nehemiah Program or other similar seller-funded programs is prohibited.
- First Place loans may **not** be used in conjunction with Mortgage Credit Certificates.

- First Place loans may **not** be used with any type of interest bearing second mortgage product from a for-profit company.
- First Place loans may be used in conjunction with other DPA products, but MHDC's DPA must be in second position.

Secondary Financing (Subordinate Financing)

MHDC's programs may be paired with other DPA programs with few restrictions. However, the creation of any such subordinated lien must be approved by the lender, FHA, USDA Rural Development VA, or the PMI insurer and GNMA or Fannie Mae/Freddie Mac, as applicable, and all outside DPA programs must be subordinate to MHDC's program. MHDC's program liens must occupy first position.

- All secondary financing programs must be approved in advance by both MHDC and the Master Servicer.
- Purchase money second mortgage programs designed to avoid Private Mortgage Insurance (80/20, 80/10/10, etc.) are prohibited.

Section 2: Eligibility

Borrower Eligibility Requirements

To qualify for a First Place loan, the borrower(s) must be a first-time homebuyer or a qualified Veteran, meet credit score and debt-to-income ratio (DTI) thresholds, purchase an eligible property, be within eligible household income ranges, and purchase a home for a price below the acquisition cost limits.

Minimum eligibility requirements include:

- First-time homebuyer or qualified Veteran
- Minimum credit score of 640 or 660 for manufactured homes (subject to change)
- Debt-to-income ratio of 45% or 50% or less
- Total gross annual household income must be within the established limits (vary by area)
- Home is an eligible property
- Purchase price of the home must be within established limits
- Eligibility requirements may differ in Targeted Areas (see section below)
- No maximum LTV or minimum down payment requirements

Additional information for each eligibility requirement is detailed in each corresponding guidebook section.

FICO Score

The First Place Program requires that all eligible borrowers generally meet the minimum FICO credit score of 640. Lenders reserve the right to set more restrictive minimum credit scores. A minimum FICO credit score of 660 is required for all manufactured home purchases.

FICO limitations are established by the Master Servicer and subject to change.

Debt-to-Income Ratio (DTI)

For buyers purchasing with a government loan product, a debt-to-income ratio of 45 percent or less is required if their FICO credit score is between 640 and 679. If their credit score is 680 or higher, up to a 50% debt to income ratio is allowable.

For buyers purchasing with a conventional loan product, a debt-to-income ratio of up to 50 percent is allowable with a credit score of 640 or higher.

DTI limitations are established by the Master Servicer and subject to change.

Loan to Value (LTV)

MHDC programs do not have any minimum LTV requirements or maximum or minimum down payment requirements.

Very Low-Income Purchase (VLIP)

Fannie Mae and Freddie Mac VLIP credits are ineligible with MHDC programs. This includes, but is not limited to, HomeReady, HomeReady VLIP LLPA, and Home Possible VLIP credits.

First-Time Homebuyer and Ownership Interest

A first-time homebuyer is defined as a person:

1. Who has not owned a home or had a Present Ownership Interest (as defined below) in a primary residence for the past three years; and
2. Who has not taken a real estate tax deduction (on IRS Schedule A) for any residence within the past three years; and
3. Who has not taken a mortgage interest deduction (on IRS Schedule A) for any residence within the past three years

A borrower who holds or has held a Present Ownership Interest (as defined below) in his or her principal residence within the past three years is **not** considered a first-time homebuyer.

The Lender must certify on **Form 520** that the credit reports from all three national credit bureaus have been reviewed to confirm there is no indication of prior homeownership in the prior three years.

Present Ownership Interest

Federal regulation establishes the definition for Present Ownership Interest. Present Ownership Interest includes the following:

- A fee simple interest
- A joint tenancy, tenancy-in-common, tenancy by the entirety, or community property interest
- The interest of a tenant-shareholder in a cooperative; however, this excludes the interest held by an applicant who lives/lived in a HUD-sponsored or regulated cooperative housing project provided that:
    - The project is owned by a non-profit organization;
    - There is no stock issued by the organization;
    - Such persons possess only a membership in the organization; and
    - Such persons occupy a specific unit in the project by virtue of an occupancy agreement or similar agreement, which creates a landlord-tenant relationship that allows the landlord to pursue remedies for breach in accordance with applicable landlord-tenant law.
    - Community Land Trusts
    - Leaseholds
- A life estate;
- A land contract or contract for deed (i.e., a contract pursuant to which possession and the benefits and burdens of ownership are transferred even through legal title is not transferred until some later time), whether legally filed or not
- An interest held in trust for the mortgagor (whether or not created by the mortgagor) that would constitute a present ownership interest if held directly by the mortgagor.

Present Ownership Interest Exclusions

Present Ownership Interest does not include the interests described below and a borrower <u>may</u> still qualify as a first-time homebuyer with such an interest.

- A remainder interest;
- A lease with or without an option to purchase;
- A mere expectancy (i.e. there is no legal documentation) to inherit an interest in a principal residence;
- The interest that a purchaser of a residence acquires on the execution of a purchase contract, or
- An interest held in property that was not the principal residence during the prior three years.

Exceptions to First-Time Homebuyer Requirement

1. Borrowers purchasing within Targeted Areas are not required to be first-time homebuyers or qualified Veterans. Please see **Section 4- Targeted Areas** for more information.
2. Qualified Veterans are not required to be first-time homebuyers. Qualified Veteran, for purposes of the First Place Program, means any Veteran who:
    a. Served in the active military, naval, air, or space service, was not dishonorably discharged, and has not previously obtained a mortgage loan financed by tax-exempt mortgage revenue bond proceeds under the qualified Veterans exception.
    b. A Veteran's status must be documented by a Department of Defense **DD Form 214**, Certificate of Release or Discharge from Active Duty.

Inherited Properties

Borrowers with inherited properties may still be considered first-time homebuyers so long as the borrower has not occupied the property as a primary residence in the last three years. This may be verified through credit bureaus for mortgages, three-year residency history on a 1003, etc.

Spouses

Separated/Legally Separated—Waivers of Marital Rights

Married borrowers must consider their spouse as a member of the household and their income must be considered as part of the eligibility criteria. This requirement applies also to couples who are separated. However, where the couple has been separated for twelve months or more and the non-borrowing spouse does not currently live with or plan to live with, the potential borrower he or she may be excluded as a household member and their income excluded for purposes of program eligibility with the following requirements:

1. The estranged spouse cannot sign a legal waiver of their marital rights. He or she must sign the First Deed of Trust and the Tax Exempt Financing Rider— **Form 580**.
2. The applicant and their estranged spouse will be required to sign the MHDC Waiver of Marital Right Affidavit, **Forms 550-1** and **550-2** attesting they are separated and do not plan to live together in the property. The estranged spouse must note the new location where he or she currently resides.
3. The lender must verify that the separation has been for a period of at least twelve months. This documentation does not need to be submitted to MHDC.

Non-borrowing Spouses

An occupying spouse may be omitted from the mortgage for credit or other reasons. Lenders should utilize standard, customary underwriting procedures when underwriting any loan where only one spouse will act as the borrower. If the borrower and their spouse currently reside, or plan to reside together in the subject property after closing, use of **Forms 550-1** and **550-2** are not required. Instead, the non-borrowing spouse:

1. Will not sign the First Note.
2. Will only sign the Tax-Exempt Financing Rider— **Form 580** and the Deed of Trust.
3. Must still meet income and first-time homebuyer requirements, with proper income verification for the household included in the borrower file. If the non-borrowing spouse does not have income, he or she must sign the **Form 522**. The non-borrowing spouse must also sign **Form 516** certifying that he or she meets the first-time homebuyer criteria.

No other non-borrowing party other than spouses may take title, including, but not limited to significant others, co-signers, parents, children, or other relatives.

Rental and Mobile Home Ownership

Borrowers Who Own/Owned Rental Property

Borrowers who own or have owned rental property may be considered eligible as a first-time homebuyer as long as they can prove the following:

1. They did not live in any of the rental properties in which they held an ownership interest at any time within the past three years; and

2. A mortgage interest deduction was not taken as a personal deduction on Schedule A of their federal tax returns; and

3. A real estate tax deduction was not taken as a personal deduction on Schedule A of their federal tax returns. (The borrower would likely have a rental schedule showing rental income on the tax return. This would be on the Schedule E, not on Schedule A.)

Rental income must be counted when calculating for income guidelines. (See **Section 3** for more information on calculating income.)

Borrowers Who Own/Owned a Mobile Home

A borrower may be considered a first-time homebuyer if he or she owns/owned a mobile home, it is on leased land, and it has **not** been permanently fixed to the foundation (the home still has the running gear on it). The potential applicant also must not have taken a personal tax deduction for home mortgage interest or real estate taxes on his or her federal tax returns within the past three years.

If the borrower(s) owns/owned the land on which the mobile home is/was located, the following must apply:

a. The mobile home must **NOT** be fixed to a permanent foundation.

b. The borrower must not have taken a home mortgage interest deduction on Schedule A of the federal return at any time during the past three years.

c. The Lender must certify on **Form 520** that the credit reports from all three national credit bureaus have been reviewed to confirm there is no indication of prior homeownership in the prior three years.

c. If the applicant has taken a real estate tax deduction on IRS Schedule "A" at any time during the past three years, he or she must prove or produce the tax receipt indicating that the real estate tax deduction was for unimproved (vacant) land, and

d. A representative from the mortgage company must verify the mobility of the mobile home by completing **Form 585**- Mobile Home Certification.

e. If the mobile home is not sold, rental income must be calculated per income guidelines.

A borrower is <u>**not**</u> considered a first-time homebuyer under the following circumstances:

1. The borrower owns/owned the land and the mobile home is/was permanently affixed.
2. If any home mortgage interest or real estate tax deduction was taken on IRS Schedule "A" for the mobile home.

All documentation regarding ownership or prior ownership of a mobile home must be included in the borrower file.

Ex-Spouses With Sole Real Estate Ownership

Per Missouri state law, anyone who is married to someone who owned/owns property is also considered an owner of that property. A divorced borrower who was married within the past three years and whose ex-spouse owned a property during that time is not considered a first-time homebuyer if they lived in the home in those three years.

<u>Other</u>

Borrowers Who are Licensed Real Estate Agents

Applicants who are licensed Real Estate Agents and representing themselves on the purchase of a home using the First Place Program <u>**cannot**</u> earn any commission on the transaction. This also applies to other persons affiliated with the loan or the borrower(s) including, but not limited to, parents, children, siblings, other immediate family members, spouses, co-applicants, co-borrowers, co-signers, or other persons expected to live in the property.

Citizenship and Residency Requirements

Borrowers and their spouses must occupy the property as the principal residence and be U.S. citizens or lawful permanent resident aliens to be eligible for MHDC financing.

MHDC's citizenship and residency documentation and eligibility requirements follow Master Servicer and Agency (FHA, FNMA, FHLMC, VA, USDA) requirements.

Property Eligibility Requirements

Eligible Properties

Eligible properties include:

- Properties located within the state of Missouri only
- Single-Family detached
- Owner-Occupied one- or two-unit duplexes
- Semi-Detached
- Condominiums
- Town Homes
- Double-wide mobile homes, modular or manufactured housing attached to a permanent foundation per HUD and Master Servicer guidelines

The borrower must occupy the home as a primary, full-time residence within 60 days of closing.

Non-Eligible Properties

- Un-affixed Mobile Homes (see below)
- Singlewide trailers
- Doublewide trailers and manufactured housing not on a permanent foundation
- Residences located within certain flood zones (see below)

Mobile/Manufactured Homes and Duplexes

Mobile and Manufactured Homes

Doublewide mobile homes are eligible properties so long as they meet **ALL** the following criteria:

- Must be placed on a permanent foundation as outlined by HUD guidance or otherwise specified by the Master Servicer.
- Must be taxed as a single-family residential home under the real estate tax rules.
- Must be insured as a regular single-family dwelling under sections of the act by HUD/FHA, USDA Rural Development, VA or, if the loan is Conventional, Fannie Mae/Freddie Mac eligible.
- Must meet all of MHDC's Master Servicer requirements.

Duplexes

Purchase of duplexes is allowable for either one or both units under the following circumstances.

- Single units may be new or existing construction.
- Single or both units may be purchased for existing construction.
- Both units for new construction is allowable in Targeted Areas only.
- The purchase of both units for existing construction is eligible if the units to be purchased were first occupied more than 5 years before the execution of the

mortgage (this is not the age of the units). This requirement does not apply within targeted areas.

Accessory Dwelling Units

Purchase of Single-Family residences that include an accessory dwelling unit are treated like the purchase of both units in a duplex, see above.

For these purposes, an accessory dwelling unit is defined as a segregated living space in excess of 15% of the total square feet of living space in the residences. An accessory dwelling unit counts toward the maximum of two units.

Flood Plains

MHDC generally aligns its purchase allowability for properties and structures within flood plains with its Master Servicer. All variations of properties located within flood zones A and V are **ineligible.**

HUD Owned Properties

HUD-owned properties are eligible with an appraisal. In lieu of the appraisal, a HUD-performed certification of value is acceptable, however if a Certification of Value is used, the sale price and loan amount may **not** exceed certified value. HUD or an appointed representative for HUD must sign the Seller's Affidavit- **Form 525**.

Inherited Property Purchases

A mortgagor may not purchase a residence from the estate of a deceased relative, if the mortgagor is entitled under state law to inherit any interest in the residence upon final disposition of the estate. The program may not be utilized to "buy out the interest" of other owners of an inherited property.

Excess Land Included in the Sale

In all cases, buyers shall stipulate that the land they are purchasing (1) is solely to maintain the basic livability of the residence and does not provide, other than incidentally, a source of income for the mortgagor and (2) will not be used for agricultural production or for other income-producing activities. These statements are included in the Mortgagors' Affidavit, **Form 535**.

- In general, properties should include only the amount of land consistent with other homes in the neighborhood. (Example: All lots in a subdivision are typically 100 feet wide; a double size lot (two lots) would not be consistent or typical for the neighborhood and would require prior approval.)

Mortgage Loan Requirements

Eligible Loan Programs

FHA Loans: Must be originated and underwritten in compliance with FHA loan guidelines. The following FHA Insured loan programs are eligible: 203 (B), 234 (C), and other acceptable FHA insurance programs. If automated underwriting is used, only those loans rated "Accept" will be eligible for purchasing.

FHA 203(k) are **not** eligible to be used in conjunction with the First Place Program.

VA Loans: Must be originated and insured in accordance with VA guidelines under 1810 and 181A. If automated underwriting is used, only those loans rated "Accept" will be eligible for purchasing.

USDA Rural Development Loans: Must be originated and insured in accordance with the Guaranteed Rural Housing Program.

Conventional Loans: Must be originated under the Fannie Mae HFA Preferred or Freddie Mac HFA Advantage Mortgage loan program. Desktop Underwriter (DU) must be used for Fannie Mae products. Loan Product Advisor (LPA) must be used for Freddie Mac Products.

Loans must be originated and insured in accordance with Fannie Mae/Freddie Mac guidelines. Single Premium Mortgage Insurance is allowed. If these options require a loan-level price adjustment, these options must be charged to the borrower.

For any concerns about eligible loan programs, please contact MHDC staff or the Master Servicer.

Automated Underwriting System (AUS) limitations are set by the Master Servicer and subject to change.

Mortgage Loan Insurance or Guaranty

All mortgage loans must be insured or guaranteed and use the appropriate note and deed of trust documents as required by the mortgage loan insurer or guarantor. The following are acceptable mortgage loan insurance or guaranties:

- Insured by FHA
- Guaranteed by VA
- Guaranteed by USDA Rural Development, formerly known as FmHA or RECD
- Private mortgage insurance is acceptable when applicable for Conventional products

Lenders should refer to Freddie Mac/Fannie Mae guidelines to determine required levels of mortgage insurance coverage requirements. Coverage for mortgage insurance is not determined by MHDC. All coverage is established by the applicable agency guidelines (i.e., Fannie Mae/Freddie Mac or the Master Servicer).

Underwriting

Lenders may utilize a contract underwriter. In the event a lender does not have the capacity to underwrite FHA or VA loans, these loans may be underwritten on a correspondent basis with any other participating lender. Fees for this service are an eligible expense, subject to MHDC maximums, and should be negotiated by the originating lender.

MHDC does not participate in the underwriting process. Any underwriting questions should be referred to the Master Servicer.

Escrowing for Repairs

Escrow for repairs is allowable with the First Place Program and follows standard industry practice. Each lending agency should adhere to the lending agency internal guidelines for the structure of repair escrows.

Buyers Paying for Repairs

The borrower may only pay for repairs required by the appraisal when the total cost of the repairs AND the contract sales price do not exceed the appraised value**. Borrowers must utilize their own funds to pay for these repairs. First Place DPA funds may not be used to pay for repairs.** If the contract sales price and the appraised value are the same, the buyer may not pay for any repairs that are required in the appraisal.

When using a title or escrow company, lenders should give specific instructions to the company indicating that the lender will be sending a copy of the real estate sales contract and outlining allowable changes. No further amendments to the sales contract may be used unless approved by the lender.

Escrow Waivers

Escrow waivers are ineligible and may not be used with MHDC's loan programs.

Loan Closing Requirements

Lenders are responsible for closing loans they originate and for all borrower and seller First Place Loan Program documents. However, a closing agent such as a title company or escrow closing company may be used.

1. The First Place Loan must:
    - Be held in a fee simple title;
    - Be secured by a mortgage as a first lien on a residence;
    - Be fully documented and underwritten in accordance with prudent industry standards in GNMA or Fannie Mae/Freddie Mac acceptable form and FHA, USDA Rural Development or VA acceptable form, as applicable;
    - Be made for the purpose of purchasing the residence and not for the purpose of replacing any existing loan on any such property;

- Have a term of 30 years and bear a specific interest rate, as defined on the approved reservation form obtained from Lender Online; and
- Have payments come due on the first day of each month.
- Leaseholds and Community Land Trusts are **ineligible**

2. The First Place Loan must not:
    - Be subject to a "buy down" agreement (except for a "buy down" approved by MHDC in writing),
    - Be made to any of the officers, directors or principal shareholders of the Lender, or to any of the officers or directors of the Trustee, or to MHDC Commissioners or executive officers of MHDC.
3. Loan origination supporting documents should include a Lender's Certificate (**Form 520**) submitted to MHDC within 15 days of closing.
4. MHDC will issue an approval to the originating lender once the loan package has been reviewed and approved by program staff. An approval letter (**Form 195**) will be issued via email to the contact person listed on **Form 520**. Copy of approvals may also be obtained through the Lender Online system.

Lender Fees and Charges

The First Place Program is designed to offer affordable options for Missouri homebuyers in an effort to increase homeownership across the state. In order to keep the program as affordable as possible for potential buyers, the program limits the types and amount of allowable fees. Fees must not exceed the actual cost incurred by the lender or affiliated party or the First Place program caps for the transaction. Fees are limited to the actual cost incurred unless otherwise stated.

The following fees are limited to the maximum caps as outlined below:

1. **Origination Fee**- Up to 1%.

2. **Application, Processing or Underwriting Fee** - Up to $1,100 on each first mortgage.
    - **NOTE:** If included in the Origination Fee, a breakout must be included in the file specifically noting the amount of the "Application, Processing or Underwriting" fee or a combination of all three not to exceed $1,100 total.

3. **Loan Funding Fee** –$200.
    - This amount will be netted from the lender purchase from the Master Servicer and may be charged to the buyer or seller. Amount is set by the Master Servicer and is subject to change.

4. **Tax Service Fee** - An $84 Tax Service Fee must be collected on each mortgage. The fee will be collected by MHDC's Master Servicer upon purchase of the mortgage. (For FHA, VA and RD loans, this fee can be shown on the Seller's side)

All other allowable fees are listed below and must be limited to actual cost.

5. The actual amounts paid or escrowed for Taxes, Insurance, Mortgage Insurance Premiums (MIP), Credit reports and verifications, including:

- Home inspection fee
- Pest inspections or treatments
- Flood letter
- Survey
- Mortgage insurance premium
- Attorneys' fees
- Appraisers' fees
- Third party verification of employment (Work Number for Everyone) Desktop Underwriter fee

7. Title Company Fees:
    - Title examination and opinion
    - Title insurance
    - Any required title policy endorsements
    - Filing and recording fees including E-file fee
    - Settlement/Closing Fees
    - Overnight or Courier Fee
    - Wire Fee
    - Notary and Mobile Notary fees

No other fees, charges or other remuneration will be received directly or indirectly by the Lender in making any mortgage loan unless specifically authorized in writing by MHDC.

The following fees are **not** allowable:

- Document Preparation Fees, by lender or title company
- Email Doc Fee
- Download Fee
- Commitment Fees
- Discounts points
- Technology Fees
- Data Security Fee
- Curative Fee
- Disbursement Fee

Realtor Commissions

MHDC DPA funds may not be utilized to pay any portion of the Real Estate Sales Commissions or Real Estate Administrative fees, however borrowers may utilize personal savings, gift funds, or other funds to cover these costs.

Prepays

Mortgagors are not required to pay their own prepays.

Co-Signers vs Co-Borrowers

Co-Signers are acceptable if they are allowable for FHA, VA, USDA Rural Development or Freddie Mac/Fannie Mae

Co-Signers:

- Cannot live in the property
- Do not sign the Mortgagor's Affidavit (**Form 535**)
- Co-signer income should not be included for First Place Program income calculations and their tax returns or income verification should not be submitted to MHDC
- Cannot take title of the property

Co-Signers are only required to sign the following:

- Note
- Addendum to the Note (**Form 570**)
- Co-Signer's Affidavit (**Form 575**)

The word "co-signer" must be typed and appear on both the note and the addendum below the line where the co-signer actually executes the document.

Co-Borrowers:

Co-Borrowers must live, or be expected to live, in the property full-time and their income must be included in the calculation of total projected household income. A co-borrower:

- Must execute the Mortgagor's Affidavit (**Form 535)**
- Must include their income documentation for the purpose of meeting MHDC maximum income limitations
- Must occupy the property as their full time, principal residence
- Must be a first-time homebuyer (unless buying in a Targeted Area or they are a qualified Veteran)

Borrowers Under the Age of 18

A minor (under the age of 18), when married to an adult, becomes an adult for the purpose of real estate laws in the state of Missouri and can own real estate.

A minor cannot be held liable on a note or security agreement regardless of the minor's marital status. In this case, the minor will not sign the note or addendum to the note, but will sign all other MHDC documents. The minor's name must be on the title.

Use of Power of Attorney (POA)

The Seller's Affidavit (**Form 525**), when executed by an attorney-in-fact, must adhere to all requirements that would apply if the seller themselves were signing.

Use of a POA is allowable and follows traditional lending practices as specified by the Master Servicer, Freddie Mac, Fannie Mae, Ginnie Mae or other applicable entity.

In all cases, a POA may only be used if the same POA was utilized to execute the real estate contract.

Borrowers to Receive a Rent Credit

For a borrower who had a lease with an option to purchase and who executed that right to purchase, the total amount of rent credit that can be attributed to that borrower is the dollar amount the borrower paid over and above the appraisal that established fair market rent for that particular area. Lenders should ensure that they are requesting an appraisal type that reflects fair market rent information if they intend to utilize a rent credit.

Sellers to Remain in Property After Closing

In the case where the seller intends to occupy the residence for a period after loan closing, it is acceptable for the seller to pay the buyer rent for a maximum period of up to 60 days. The amount of the rent may not be in excess of the actual mortgage payment. A borrower **must** occupy the home within 60 days of purchase.

Section 3: Processes and Documentation

Household Income Limitations

MHDC loan products are income restricted and each household must be at or below the income limits that apply to the family size of the household and the area where the home is located. The current homebuyer income limits can be found on the MHDC website:

https://mhdc.com/services/lender-resources/

When determining income eligibility, two basic questions should be considered:

1. **What is the applicable income limit?**
    - In which listed geographic area is the home located?
    - Is the home in a Targeted Area?
    - What is the applicable family size for this borrower?
2. **What is the household/family income for this borrower?**
    - Whose income must be included in household income?
    - For each of those individuals, what income counts in the calculation?

See **Section 4 – Targeted Areas** below to determine if the home is in a Targeted Area.

Establishing the Total Family Size

In order to accurately determine the applicable income limit for a borrower, the lender must first establish the total family size (i.e., 1-2 persons or 3+ persons).

Family Inclusions:

- Each person listed as a borrower on the loan and their spouses
- All biological or adopted children of the borrower(s) or non-borrowing spouse, including those over the age of 18, if they occupy the property as their principal residence
- Family members of the borrower(s), or of the non-borrowing spouse, if they will occupy the residence as their full-time principal residence. Family members include persons who are related by birth, marriage or adoption
- Foster adults age 18 or older **ARE** counted as members of the household
- Any other person living or expected to live in the home full-time

Family Exclusions:

- Foster children under the age of 18
- Unborn children
- Live-in aides and guests

NOTE: For persons who make their living as foster care providers, an exception may be made when foster care income is included for underwriting purposes.

Establishing Whose Income is Included

After determining the total family size and applicable income limit, the household income must be established to determine program eligibility. Determining whose income must be included differs from the determination of family size as outlined above. The combined total projected annual household income <u>must include income for all borrower(s), spouse of borrower(s), and any other person who is expected both to live in the residence being financed and to be secondarily liable on the mortgage.</u> To qualify for a First Place Loan, the total income of all such persons must be less than the maximum income limit as calculated in accordance with the guidelines set forth by MHDC.

Verifying Household Income from Employment

Lenders have three different options for how to accurately verify household income from employment. It is important to select the appropriate option for income verification based on the borrower's specific circumstances. It is also important to note that the First Place Program is governed by the US Internal Revenue Code; therefore, **income calculation may differ from typical income calculation practices**.

Options for Verifying Income:

1. "Alternative Documentation" Method
    i. For verifying and annualizing W-2 reported income

2. "Work-Number-For-Everyone" Method
    i. Equifax Workforce Solutions (TALX)

3. Employer Verification of Income
    i. Written documentation is collected from an employer

Option One— "Alternative Documentation Method" **(W-2 Reported Income)**

"Alternative Documentation" is a lending term that describes a process by which the borrower provides an assortment of financial documents that may include W-2s, paycheck stubs, and bank statements. This income verification method is used to **verify and annualize W-2-reported income only**. MHDC's guidelines are similar to the Alternative Documentation requirements in place for FHA, VA, USDA Rural Development or Fannie Mae/Freddie Mac loans. Lenders must also comply with any alternative documentation requirements of VA, FHA, USDA Rural Development or Fannie Mae/Freddie Mac if using alternative documentation for underwriting purposes.

The lender will annualize the current year pay stubs provided by the borrower and compare with the provided W-2s. The greater dollar amount of the W-2 **or** annualized pay stubs will be considered the borrower's income. Lender shall establish a base rate by determining the rate of pay, pay period type, and annualizing (including any overtime, commissions or bonuses).

Documentation to be obtained and submitted:

1. All recent year's W-2s and/or a year-end paystub reflecting itemized income;

2. Thirty days of detailed, year-to-date paycheck stubs dated within 30 days of loan closing. Paycheck stubs must reflect overtime, commission, rate of pay, etc. as separate entries, (handwritten checks must be accompanied by a full Verification of Employment (VOE); and

3. Borrower's employment start date(s).

If the borrower started in the middle of the previous year, the lender may provide a verbal verification of employment to reflect the borrower's start date. The lender's verbal verification of employment may be no more than 30 days old at time of closing. It must note the names of the borrower, employer, lender, and processor/contact; addresses; applicable business telephone numbers; show the date of contact; and state the employment dates.

The Alternative Documentation method may not be used when:

A. The applicant started their job in the current year and a W-2 is not yet available; or

B. Detailed check stubs containing year-to-date income are not available.

Option Two— Third Party Electronic Verification

A lender may also use third party electronic verification such as Equifax Workforce Solutions (TALX) verification. When using third party electronic verification, a lender must ensure the following is provided in lieu of the VOE:

1. The form must be a computer-generated or fax form indicating that it came directly from the third party.

2. MHDC must receive the full version, indicating salary, year-to-date (YTD), and prior year earnings.

3. The maximum fee charged to the buyer or seller by the lender cannot exceed the actual incurred cost for this service.

Verification companies other than TALX may be used so long as the forms submitted contain at least the information included on a standard Fannie Mae or Freddie Mac Verification of Employment form.

Option Three— Employer Verification of Income

In many instances, a borrower may not have sufficient documentation for a lender to be able to adequately verify or calculate the household income and third party electronic verification such as Equifax Workforce Solutions (TALX) may not provide sufficient information. A lender may seek income verification from the borrower's employer as an additional option, typically a written VOE from the employer.

Note: A lender may use the employer verification of income in addition to the other income verification/calculation options.

Calculating Household Income

After the individuals whose income must be counted in the income calculation are identified, the total household income must be calculated. **MHDC income calculation for the First Place Program may differ from typical mortgage income calculations.**

Income Inclusions

Total Projected Annual Household Income includes, but is not limited to, the following types of income:

Gross Pay	Welfare Payments
Overtime	Social Security Payments
Bonuses	Disability Payments
Part-time Employment	Alimony
Dividends	Child Support Payments
Interest	Public Assistance
Annuities	Sick Pay
Royalties	
Pensions	Unemployment Compensation
Veterans Administration (VA) Compensation	Trust, Business, or Investment Income
Net Rental or Lease Income	Commissions
Deferred Income	Other Taxable/Non-Taxable Regular Income

Income Exclusions

Income from the following sources should be excluded from income:

A. Foster Care Income: Income received for the care of foster children is not considered in determining eligibility under the Maximum Income Guidelines unless included for underwriting purposes.

B. Food Stamps: Food stamps received are not to be considered in determining eligibility under the Maximum Income Guidelines.

C. One-Time Occurrences: Life insurance settlements, sign on bonuses etc. would not have to be counted into the household income due to them being a one-time payment or occurrence.

D. Earned income of minors: Earned income of family members under 18 is not counted. However, unearned income of minors such as disability is counted.

NOTE: Any income included for underwriting purposes must be included in the household income calculations as well.

How to Calculate Income

MHDC loan products are income restricted and each household must be at or below the income limits for the area where the home to be purchased is located. In order to accurately calculate income, the lender must first establish a total family (household) size to determine all qualifying annualized gross income. Family members whose income should be counted include each person listed as a borrower, their spouse, and any other family members that will occupy the home as their principal residence and will be secondarily liable on the mortgage. Below are instructions for appropriately calculating income for MHDC loan products.

A. **SALARIED EMPLOYEES** - Use the current base earnings, whether hourly, weekly, or monthly, etc. and project forward for **a full 12-month period**.

i. Determine the base rate of pay based on the borrower provided pay stubs:
   a. Hourly rate
   b. Weekly amount
   c. Bi-weekly dollar amount
   d. Twice-per-month amount
   e. Monthly amount

   If an applicant receives a pay increase prior to closing, the pay increase must be included in the base earnings. If an applicant receives a pay increase and the mortgage lender closes the loan prior to the increase taking effect, then the increase would not be counted for income eligibility.

ii. Determine the pay period type:
   a. hourly
   b. weekly
   c. bi-weekly,
   d. twice-per-month
   e. monthly

iii. The rate shall be multiplied by the number of annual units for that type:
   a. 2,080 hours (units) for hourly
   b. 52 units for weekly
   c. 26 units for bi-weekly
   d. 24 units for twice-per-month
   e. 12 for monthly, etc.

B. **IRREGULAR INCOME** will be projected by averaging all such pay received over the period received (12-24 months) to determine projected annual income. Examples of irregular income include:

i. Overtime
ii. Bonuses
iii. Commissions
iv. Part-time pay
v. Seasonal
vi. Unemployment compensation

If the loan closes **<u>prior</u>** to April 15, it is acceptable to use the overtime, bonuses, commissions, part-time and unemployment pay earned for the previous calendar year.

For household members who have been on the job for less than twelve months:

i. Determine the amount of overtime, bonuses, commissions, part-time and unemployment income earned within the time period indicated.

ii. Divide the earnings received by the actual time period worked (number of weeks or months).

iii. Multiply the result by 12 months or 52 weeks, depending upon the time period used in the division.

CAUTION: In some cases, the employer may report part of the overtime in the base pay.

C. **SEASONAL WORKERS** - (e.g., construction workers or holiday retail workers) - Use the average income received over the time period received (up to 24 months), then project anticipated annual income.

If a borrower has not been on the job for a full 12 months:

i. Determine the amount of income earned within the period of employment.

ii. Divide the earnings received by the actual time period worked (number of weeks or months).

iii. Multiply the result by 12 months or 52 weeks, depending upon the time period used in the division.

EXAMPLE: Total earnings are $17,653 for a period of 8 months, paid monthly.

$17,653 / 8 = $2,206.62

$2,206.62 x 12 = $26,479.50

$26,479.50 is the projected annual income.

D. **SELF-EMPLOYED BORROWERS** – Lenders should use the net earnings from the most recently filed tax return.

Deductions in connection with the business are allowable; however, all depreciation must be "straight-line" depreciation. If the net income is a loss, the amount of income should be listed as $0. A loss may not be deducted from their total household income calculations.

NOTE: If the loan closes **after** April 15, the previous year's federal income tax return must be used.

Business Income from Partnerships or S-Corporations: In addition to income received from a business for self-employed borrowers, the lender must include any income being retained in the business from the most recently filed corporate tax return. If the applicant is the sole owner of 100 percent of the business, include 100 percent of the business profit as being retained in the company. If, for example, there are four equal partners, count 25 percent of the business profit as being retained in the company. <u>If the loan file closes after the fiscal year ends for the corporation, the new return will be required.</u>

If a borrower has not been self-employed or in business for a full twelve months:

i. Determine the amount of earnings within the period of self-employment by acquiring a Profit and Loss (P&L) statement.

ii. Divide the earnings received by the actual time-period worked (number of weeks or months).

iii. Multiply the result by 12 months or 52 weeks, depending upon the time period used in the division. Use the projected income for qualifying. Verify income per standard underwriting procedures for this situation, interim financial statements, etc.

E. **ALLOWANCES** – The lender must include any housing allowance, food allowance, car allowance etc., that is paid to the borrower that is not paid as a reimbursement (i.e., meal per diems or mileage).

F. **CHILD SUPPORT** – The lender must include the total amount of child support received within the past 12 months. Acceptable documentation includes:

i. A printout from the court showing the exact amounts of support received within the past 12 months.

ii. In lieu of the printout, a copy of the divorce decree is acceptable.

iii. If the borrower receives an amount less than what is stated in the divorce decree, a notarized statement from the applicant stating exact earnings is acceptable.

If a borrower has not received child support for a full 12 months:

i. Determine the amount of child support earned for the appropriate number of months.

ii. Divide the earnings received by the actual time-period child support has been received (number of weeks or months).

iii. Multiply the result by 12 months or 52 weeks, depending upon the time period used in the division

iv. If the borrower receives no support for a minor child, The Certification of Zero Support for Children - **Form 523** must be signed and notarized, stating that the child receives no child support, SSI or SSA, disability, etc.

G. **UNEMPLOYMENT COMPENSATION** - If an applicant has a job where he or she is consistently laid off due to weather conditions, model changes, etc., the unemployment compensation earned within the past 12 month period must be included in the calculation of income.

If a borrower has not been on the job for a full 12 months:

i. Determine the amount of income earned within the period of employment.

ii. Divide the earnings received by the actual time-period worked (number of weeks or months).

iii. Multiply the result by 12 months or 52 weeks, depending upon the time period used in the division.

iv. Add unemployment compensation to regular income. Use projected income for qualifying.

H. **TEACHERS** - The contract in effect at the time of loan closing will be utilized. In addition, any supplemental contracts or extra duty pay must also be counted. Any summer employment must be counted as well.

Additional Considerations

Layoffs Due to Illness or Injury

The time that a borrower missed work due to illness or injury may NOT be counted as part of the 12-24 month income average (i.e., overtime, bonuses, commissions, part-time employment, unemployment, seasonal work, etc.). Reference Unemployment Compensation section above if received.

Quitting a Job after Application

A borrower may not quit a job for purposes of qualifying for an MHDC loan. However, it is allowable for a borrower to quit a job in these instances:

1. Borrower quits a full time position to accept a new full time position; or

2. Borrower quits one or more part-time positions to accept a full-time position.

If a borrower quits a job after the application has been taken, income from the former employment must be considered for MHDC income qualification.

Treatment of Assets

Any liquid asset (which includes checking accounts, savings accounts, etc.) of $5,000 or greater must be multiplied by two percent (2%) to determine the annual interest included in household income, unless the funds are being applied toward the purchase of the property. 401K, stock, etc. are excluded as long as consistent withdrawal transactions are not taking place.

Example: Checking account balance: $10,500 x 2%= $210 (the amount of $210 is added to the borrower's annual income).

Underwriting Income vs Program Projected Household Income

If the income figure for credit underwriting is higher than the projected household income for MHDC, the lender must use the income for credit underwriting.

Income from **non-occupying co-signers must be excluded** from the total household income.

Anticipated Two-Unit Income

In instances where a borrower purchases both units of a two-unit property (duplex or two story flat), the anticipated rental income from the second unit to be purchased <u>should NOT be included in the total household income calculation for First Place program even if it is included as part of the qualifying income.</u>

Please note: The calculation method for purposes of determining program eligibility is a different process than income used for credit underwriting.

Prior Approvals for Calculating Total Household Income

As of April 28, 2024, MHDC no longer provides prior approvals for income calculation eligibility.

Income Calculation Examples

Key things to note for MHDC loan product income calculation:

1. Consider all income for the household members who occupy or will occupy the home as their principal residence who will be included in the calculation (please see the full program guides for exclusions)
2. MHDC products consider gross annual income from all sources received including current employment variable income
3. All income for the household must be included in the calculation including child support, alimony, or variable irregular income such as Uber or Lyft (please see the full program guides for exclusions)

Variable income with more than 12 months at the current job:

If the borrower is paid an hourly rate for at least 40 hours per week plus variable income such as Overtime, Bonus, Commission or shift differential:

<u>Calculation</u>:

1. Hourly rate x 2080 = base income.

If, when combining all current and previous year totals for variable income, the base income amount falls below the First Place Program income limits, no further income calculation is necessary.

2. Adjustment for Variable Income: Take the total variable income items divided by the amount of time (up to 24 months) on the job. Multiply this amount by 12 (months) for annual projection. Combine the base plus this projection for total MHDC eligibility income.

If the borrower works less than 40 hours per week: If the Verification of Employment (VOE) states the exact amount of hours per pay period and that number matches the paystubs, multiply the hourly amount by the number of hours per week, and annualize.

Example: Borrower has an employment start date of 10/1/2021, and the current date is 5/12/2023 (17.38 months). To calculate, take the income divided by 17.38 months, and then that total multiplied by 12.

Variable income with less than 12 months at the current job or irregular hours (not a straight 40 per week):

Calculation:

1. Hourly rate x 2080 = base income.

2. Adjustment for Variable Income if less than 12 months at current job: For variable income calculation, take the total variable income items divided by amount of time (number of months) on the job. Multiply this amount by 12 (months) for annual projection. Combine the base plus this projection for total MHDC eligibility income.

If the Verification of Employment (VOE) states the exact amount of hours per pay period, and that number matches the paystubs, multiply the hourly amount by the number of hours, and annualize.

Example: Borrower has an employment start date of 10/1/2021, and the current date is 5/12/2022 (7.38 months). To calculate, take the income divided by 7.38 months, and then that total multiplied by 12.Where a borrower has less than 12 months on the job and less than 40 hours per week, it is possible to take total year-to-date (YTD) income from the most recent paystub divided by the amount of time (number of months) on the job, and then annualize to determine the total average.

Regular salary without variable income:

If the VOE and paystubs show a regular 40-hour workweek only, with no variation in hours or pay, simply use the annual amount.

Acquisition Cost Limitations

The purchase price of a home financed through the First Place Program cannot exceed the established limits for the applicable area. The current purchase price limits can be found at https://mhdc.com/services/lender-resources/.

The acquisition cost is the total cost of acquiring a residence from the seller as a completed residential unit. This includes all payments (in whatever form) paid by or for the borrower to or for the seller.

- The acquisition cost or total principal amount of the First Place Loan cannot exceed the maximum sales price limits. (If the sales price is higher than the maximum, the difference between the sales price and maximum cannot be paid by anyone.)
    - Please note there are different purchase price limits for a single residence or 2 unit family residences

- Generally, the acquisition cost or total principal amount of the First Place Loan should not exceed the appraised value unless it is a **USDA Rural Development or VA loan**.

- A total acquisition cost or total principal amount of the First Place Loan of no more than 4% over appraised value is allowable (MHDC DPA funds may not be used to cover costs above the appraised value).

If a residence is not complete, the cost of completion (except as noted below) is included in the acquisition cost of the residence.

See **Section 4 – Targeted Areas** to determine if the home is in a Targeted Area.

Acquisition Cost Exclusions

The following costs are excluded from total acquisition cost:

- The usual and reasonable settlement or financing costs paid by the borrower (so long as they do not exceed the usual and reasonable costs paid in financings that are not provided through the use of tax-exempt bonds), including
    - title and transfer costs,
    - title insurance,
    - survey fees or other similar costs,
    - credit reference fees,
    - legal fees,
    - appraisal expenses,
    - points paid by the borrower (but not the seller, even though borne by the borrower through a higher purchase price) or
    - other costs of financing the residence

- The value of services performed by the borrower or members of the borrower's family

- The cost of the land owned by the borrower for at least two years prior to the date construction of the residence will begin

Sweat Equity

Sweat equity refers to a person or company's contribution toward a business venture or other project. Sweat equity is generally not monetary and, in most cases, comes in the form of physical labor, mental effort, and time. Homeowners and real estate investors can use sweat equity to do repairs and maintenance on their own rather than pay for traditional labor.

Sweat equity should be applied to the mortgage following the applicable insurer guidelines (HUD/FHA, VA, USDA Rural Development or Fannie Mae/Freddie Mac).

For purposes of determining the total acquisition cost of a residence, any labor performed by the borrower or immediate family (sweat equity) must be excluded.

An applicant may not receive any part of the sweat equity back at closing.

Buyers Paying for Repairs

Please see Mortgage Loan Requirements under Section 2

Non-Realty Items

All non-realty items included on the real estate sales contract, included in the purchase price, **must** be reflected on the Mortgagor's and Seller's Affidavits. However, if the borrower has agreed, in the sales agreement or another side-agreement, to pay for non-realty items over and above the purchase price of the property, each non-realty item and the total price paid must be listed.

The lender should ensure that non-appliance items are not being sold to offset any MHDC Maximum Purchase Price Limits and that items sold in a separate agreement are sold at fair market value.

Determining Total Acquisition Cost

Real Estate Sales Price **OR** Actual Cost to Construction		$________________________
Cost of the land, unless owned by purchaser for at least two (2) years prior to the date construction began;	+	$________________________
Value of any services performed by someone other than a related party to the applicant, for services provided;	+	$________________________
Rehabilitation amount	+	$________________________
Sweat Equity (Labor only) performed by the purchaser or members of the purchaser's Family	-	$________________________
Personal property included in Real Estate Contract	-	$________________________
Total Acquisition Cost	=	$________________________

Reservation of Funds and Loan File Review

Loan File Review Stages Overview

All MHDC loans follow a basic workflow for review and approval that includes a series of stages as outlined below.

1. Reservation of funds in the Lender Online system (LOL)
    a. Status= "Reserved"
2. Loan file is received in LOL
    a. Status= "File Received"
3. Loan file is assigned to a reviewer
    a. Status= "File Assigned"

4. Review of loan file begins
    a. Status= "File Review"
5. One or more deficiencies has been discovered during file review
    a. Status= "File Review/Pending"
6. Loan file is approved by MHDC reviewers
    a. Status= "Committed"
7. Loan is purchased by MHDC Master Servicer
    a. Status= "Purchased"
8. Loan is pooled and sold on the bond market
    a. Status= "Funded"

*****Statuses may be followed by the word "Approved," indicating successful transition to the current status**

Reservation of Funds

Prior to making a reservation, the lender must have:

a. A signed application from an applicant who has entered into a fully executed real estate sales contract with the seller of the residence.
    i. Contracts must contain the acceptance signatures of both the buyer and seller, prior to requesting a reservation of funds.

b. Made a preliminary determination that the applicant qualifies per the financial institution's guidelines for the mortgage loan.

c. Made a preliminary determination that the applicant is eligible to participate in the MHDC program.

Basic Reservation Procedure

A loan reservation allows the lender to provide MHDC with preliminary borrower and loan information to be populated in the final First Place Loan forms, and allows the lender to lock in the current rate for their borrower. The loan reservation also indicates to MHDC that a loan is set to be processed and calculates the final down payment assistance dollar amount when applicable. More information on the loan reservation, submission and approval process can be found on the MHDC lender resources webpage located here:
https://mhdc.com/services/lender-resources/

There is no cost to the lender to participate in the program or to make reservations. Funds will be reserved on an individual first-come, first-served basis.

To reserve funds, the lender must have access to MHDC's Online Reservation system, Lender Online (LOL).

1. The lender will select the "New Reservation" tab in LOL.

2. The lender will select the appropriate mortgage program to identify the MHDC program (First Place/Next Step), government or conventional, DPA (CAL) option, and whether the purchased residence is in a targeted or non-targeted area.

3. The lender will then complete the New Reservation form, locking in the rate and providing preliminary borrower loan information.

The lender will receive a confirmation of reservation if all information is completed correctly.

Approved Reservations

Loans may close after the lender has received a confirmed reservation.

All loans must be closed and the complete compliance package must be uploaded into LOL prior to the expiration date specified on the reservation form (please see below).

Reservations may not have a change in the property address. If the applicant(s) choses another property, their original approved reservation must be canceled and a new reservation made on Lender Online (LOL).

Reservations cannot be transferred to another certified lender. If the applicant chooses to apply with another lender, the original approved reservation must be canceled and a new reservation made on LOL.

Once reserved, a reservation may not be transferred to a new issue or canceled in order to obtain a different rate.

Reservation Expiration Dates

All reservations will expire 60 days from the date of reservation approval.

Prior to the expiration date, the loan must be closed and a complete compliance package must be received by MHDC in LOL for approval (Please see below).

If the reserved loan is not expected to be finalized, the lender must cancel the reservation in LOL.

Reservation Extensions and Change Requests

If the lender cannot complete the closing and submission to MHDC within the active reservation period, an extension may be requested. An extension may be granted at the discretion of MHDC. In order to request an extension the lender must send the request in writing describing the reason for the extension request. The lender must email this, along with the original approved MHDC reservation number, to the MHDC homeownership team inbox (homeownership@mhdc.com).

MHDC reserves the right to deny any request. Loans that have not been approved by the end of the reservation period will not be extended. Any request for extension may be subject to extension fees as determined by MHDC.

If a reservation has expired and MHDC has not received a request for an extension, the reservation will automatically be canceled.

Reservations do not need to be extended after the compliance package has been received by MHDC. However, all conditions must be corrected within 30 days of notification to prevent file rejection.

Reservation Change Requests

If a change to a reservation is needed, the lender must request changes in writing by sending an email to the MHDC Homeownership team inbox (homeownership@mhdc.com). The email must include the following items:

- Complete MHDC Reservation Number
- Borrower Name
- Each item to be updated (please ensure that income updates are annual figures)

Loan File Conditions (Deficiencies)

During MHDC's review of the submitted loan file, a reviewer may discover one or more conditions or deficiencies (errors or incompleteness) that must be corrected by the lender prior to approval and purchase. When a condition is discovered, the reviewer will attach a memo outlining the items for correction to the loan file and the person who submitted the file will be contacted via email requesting corrections. The lender will have 30 days to provide the corrections via upload in the LOL system or the file will be rejected. More information on the loan submission and approval process can be found on the MHDC lender resources webpage located here: https://mhdc.com/services/lender-resources/

Note: Loan file conditions greatly slow the review and approval process.

Loan Closing Documents

In addition to the typical loan closing documents lenders complete and submit to the Master Servicer, the lender must also complete and submit the First Place program compliance package and related forms to MHDC in the Lender Online (LOL) system. When a loan reservation is made in LOL the MHDC First Place program compliance package automatically populates in the "PDF Docs" section. Required forms and a conventional or government compliance package will be located in this section depending on the type of reservation made. The compliance package will be similarly named to what is listed below.

- 2024 Conventional Closing Documents
- 2024 Government Closing Documents

Depending on individual borrower circumstances, additional forms may be required that do not auto populate in the "PDF Docs" section. These can be found by clicking on the "Program Documents" link at the top right-hand side of the page in LOL. All compliance forms must be signed, scanned, and uploaded as a single PDF in the order outlined on **Form 505** (MHDC Checklist Sheet) contained within the closing documents compliance package through the MHDC LOL system. Forms and the completed compliance package must be uploaded in the "eDocs" section in LOL.

EDocs eliminates the need for paper files to be sent to MHDC and eliminates the need for original and live signatures on MHDC documents. Lenders must also make loan reservations and deliver the closed loan files (not the MHDC compliance package) to the Master Servicer through its HFA Lender Portal.

Lenders may not make any changes, corrections, or additions to MHDC documents. Hand-printed documents will not be accepted.

MHDC Required Documentation

- **Form 505** – MHDC Checklist Sheet
- **Form 515** - Potential Borrower's Affidavit
- **Form 516** – Certification of Non Ownership Interest (to be signed by the spouse not on the loan but living in the home)
- **Form 522** – Certification of Zero Income (as applicable)
- **Form 535** - Mortgagor's Affidavit
- **Form 525** - Seller's Affidavit (or **Form 530** if no seller)
- **Form 560** - Notice to Mortgagors (for government loans only)
- **Form 570** - Addendum to Note
- **Form 555** – Notice of Potential Recapture Tax
- **Form 580** – Tax Exempt Financing Rider
- **Form 585** – Mobile Home Certification (as applicable)
- Any other specialty form needed for a particular file.
- **Form 590 – Income Calculation Worksheet**
    - Worksheet should include all income for all included household members (please see Section 3)
- **Employment and Income Verification**
    - Documentation must be included to support the calculated household income that is no older than 30 days on the day of loan closing.

- **Form 555 – Notice of Potential Recapture Tax**
- **Form 520 -- Lender's Certificate**
    - As described below, page two of the Lender's Certificate, item number eight, must be completed only in the event that the lender has been unable to satisfy itself as to the truth of the statements made by the mortgagor in paragraph 16 of the Mortgagor's Affidavit, from other documentation.

Lender's Certificate (Form 520)

In the event the lender has any doubts as to the accuracy of **paragraph sixteen (16)** of the Mortgager's Affidavit, a qualified employee of the lender must examine the tax assessment or deed records of the county (and the borrower's last county of residence, if different than above) to determine whether any property was owned by the borrower in either of said counties during the prior three-year period.

If this is done, the name of the county for which the lender reviews the records should be placed into the blank in item number eight on page two. If this is not done, the line need not be completed.

Certification of the statement in **paragraph seven (7)** will eliminate the need for the borrower(s) three- year tax return.

Seller's Affidavit (Form 525)

The Seller's Affidavit must be signed by all parties involved in the sale of the subject property.

If the property is in an estate and a personal representative/executor has been named, the personal representative/executor must sign the Seller's Affidavit.

Every person who signs the warranty deed must also sign the Seller's Affidavit. This includes all spouses of individuals holding title.

In the event that there is not a seller of the residence (i.e., the applicant owns the lot/land and performs the duty of a contractor), a Certification of Cost, **Form 530**, must be used in lieu of the Seller's Affidavit.

Federal Income Tax Returns

Copies of the prior year's tax returns are only required for income calculation when the borrower(s) or spouse of the borrower(s) is self-employed.

Closing Disclosure Statement (CD)

As of August 1, 2015, the Consumer Financial Protection Bureau began requiring final lending and disclosure forms. The CD must clearly identify all costs paid by the buyer and by the seller and any DPA.

All borrower associated fees must be itemized on the Loan Estimate (LE) and CD.

Origination Fees: Origination fees may be combined on the LE and CD, but must be itemized for MHDC review purposes.

Cash Paid To Borrower At Closing: DPA Funds **may not** be paid directly to the borrower at closing. Any other cash back to the borrower at closing should follow HUD, VA, USDA, Fannie Mae or Freddie Mac guidelines, as appropriate.

Paying Off Debts With DPA Funds: In no instances may DPA funds be used to pay off any portion of the borrower's debt.

In instances where a principal reduction is required, MHDC DPA funds may be applied to the principal up to a maximum of $250.

Master Servicer Loan Purchases

MHDC utilizes a Master Servicer for all of its loan products and all originating lenders must sell all loans to the designated Master Servicer. Optional mortgage life or disability insurance is not available through the Master Servicer.

In order for loans to be sold to the MHDC Master Servicer, all lenders must utilize the Master Servicer's Mortgage Electronic Registration System (MERS). For more information on using MERS, please contact the Master Servicer (see contact information in **Section 6**).

Prior to the purchase of GNMA/Fannie Mae/Freddie Mac Security, the Master Servicer is to provide the trustee and MHDC the following:

A. GNMA/Fannie Mae/Freddie Mac Security Form #11706, and

B. Cover letter directing trustee and MHDC of the specific date of the intended funding.

GNMA and Fannie Mae/Freddie Mac securities must contain an issue month identical to the month of the funding, (e.g, a security cannot have an issue date of January and fund in the month of February).

Please refer to https://www.usbank.com/corporate-and-commercial-banking/industry-expertise/correspondent-lending.html for specific instructions regarding the sale of loans to the Master Servicer.

Amounts Paid to the Originating Lender

Each originating lender shall be paid a purchase price equal to the Mortgage Loan Purchase Price (as defined in the applicable Commission Notice) for each first mortgage loan originated.

On or prior to the date of purchase of the first mortgage loan, all mortgagor payments for taxes or insurance collected by the lender for the mortgage loan prior to the purchase date will be transferred by the lender to the Master Servicer.

As a condition of the purchase of the first mortgage loan by the Master Servicer, the mortgage loan must:

- Be current in payments of principal and interest, taxes and insurance, if required;
- Bear interest at the stated rate (as defined in the applicable Commission Notice); and
- Be in compliance with the First Place program guidelines, adhering to the agreement between MHDC and the Master Servicer and meet all requirements of FHA, VA, RD, and GNMA or Fannie Mae/Freddie Mac, as applicable.

The second loan for the DPA funds will be purchased from the originating lender at the time the first mortgage loan is purchased.

Lenders will receive a total payment of 106% as detailed below (Please see Section 2 for allowable fees).

- 100.00% of the unpaid principal balance
- 2.00% Servicing Release Fee (amount is subject to change)
- 4.00% DPA reimbursement by MHDC for second loan

- 106.00% Total payment

Please verify amounts in the applicable Commission Notice.

NOTE: If the mortgage loan is paid in full prior to purchase, MHDC will not reimburse the DPA. If the mortgage is not eligible for securitization, MHDC will require the repurchase of the mortgage loans by the lender.

Section 4: Targeted Areas

Federally Targeted Census Tract Areas

Homes purchased within federally Targeted Areas provide potential borrowers with certain advantages over other areas of the state.

- Borrowers do not need to be first-time homebuyers
- Purchase Price limitations are increased
- Income limits are increased
- Loans in these areas generally receive priority for the lowest interest rates

Targeted Areas are (1) federally designated qualified census tracts in which 70 percent or more of the families have an income that is 80 percent or less of the statewide median income or (2) areas of chronic economic distress that has been designated by MHDC and approved by the secretaries of the Treasury and Housing and Urban Development (HUD). At this time, there are no designated areas of chronic economic distress in Missouri.

Please use the website https://geomap.ffiec.gov/ffiecgeomap/ **to locate census tract numbers.**

Most Recent Federally Targeted Census Tract Areas (2023)

County	Census Tract Area
Benton	4604
Boone	0021
Buchanan	0004, 0010, 0030.02
Butler	9504, 9505, 9507
Cole	0207
Crawford	4503.02
Dallas	4802
Dent	9603
Dunklin	3601
Greene	0005.01, 0005.02, 0006, 0008, 0014.02, 0017, 0018, 0022, 0031, 0033, 0036
Hickory	4705.02
Howell	0904, 0907
Jackson	0007, 0010, 0019, 0020, 0021, 0022, 0034, 0054, 0056.02, 0057, 0058.01, 0063, 0075, 0110.02, 0114.05, 0116.01, 0117.01, 0132.10, 0134.10, 0154.01, 0155, 0160, 0163, 0164, 0165, 0170, 0174
Jasper	0106.01, 0108
Johnson	9604.01
Lawrence	4706.02
Livingston	4805
McDonald	0701.01
Mississippi	9502, 9504
Morgan	4705.02
Oregon	4801 and 4802
Ozark	4701.01
Pemiscot	4702 & 4704
Pettis	4806
Phelps	8904.01
Randolph	4903
St. Charles	3115
St. Francois	9510.01
St. Louis City	1015, 1066, 1082, 1097, 1102, 1103, 1105, 1111, 1112, 1154, 1163.02, 1202, 1241, 1246, 1257, 1267, 1269, 1270, 1271, 1274, 1275, 1277
St. Louis County	2105.02, 2118.01, 2119, 2120.02, 2120.03, 2120.04, 2121.01, 2121.02, 2122.02, 2127.02, 2136, 2139, 2141, 2143, 2203, 2218
Scott	7812.01
Shannon	4702
Taney	4805.04
Texas	4801.02, 4802.01, 4803.02
Wayne	6904
Wright	4902, 4904

Section 5: Home Sales and Refinancing

Repayment of Second Loan

Borrowers who elect to utilize the First Place DPA loan option will receive DPA funds in the form of a second loan equal to 4% of the total mortgage amount to help with down payments and closing costs. The second loan will be forgiven if the borrower stays in the home and maintains the original loan for ten years. After year five, the second mortgage will begin diminishing by 1/60 every month until year 10 when it will be completely forgiven.

If the borrower decides to sell the home or refinance during the 10-year period covered by the second note, they will be responsible for repaying all or a portion of the DPA. Additionally, the loan may be subject to the Federal Recapture Tax at the time a borrower disposes of the residence (through sale, exchange or gift) as described below.

Recapture Tax

The **recapture tax generally applies** if a borrower disposes of a residence within nine years of the date of the closing of the loan or the date the borrower first assumed the loan from the previous owner of the residence, whichever is earlier, even if the loan was previously prepaid. The recapture tax is limited to a maximum of 6.25% of the highest principal amount of the loan for which the borrower was liable, or one-half of the gain realized from the sale or other disposition of the residence, whichever is less.

As described below, the amount of the recapture tax may be reduced depending on how long the borrower remains in the residence and based on the total family income at the time the residence is disposed.

A. The following three items must all occur in order for the borrower(s) to be subject to potential recapture tax:

1. Borrower sells the home within the first nine years of the First Place Loan origination date;

2. Borrower's adjusted gross income for the year that they sell the home exceeds the income set out on the recapture chart for the year in which the home is sold (the recapture chart is on page three of **Form 555** - Notice of Potential Recapture Tax); and

3. Residence is sold at a net profit (regardless of whether the gain is included in borrower's income for federal income tax purposes for that year).

Situations one, two, and three must occur before the borrower is subject to recapture tax.

B. The maximum recapture tax which the borrower may be required to pay is the lesser of:

   1. Six and a quarter percent of the highest principal amount of the mortgage loan, or

   2. Fifty -percent of the gain on the sale of the property

When the Recapture Tax Does Not Apply

Death of a mortgagor terminates his or her liability for the "recapture tax," but liability of other surviving mortgagors is unaffected.

If a residence is involuntarily converted as a result of a fire, storm or other casualty,and the mortgagor repairs the residence or builds a new residence on the site of the converted property within two years following the end of the year in which any part of the gain on the conversion is realized (as opposed to disposing of the house or the land), the recapture tax does not apply to the conversion. Liability for the recapture tax continues on the repaired or new house.

The recapture tax does not apply to a transfer of an interest in a residence to a spouse or former spouse in a transaction where no gain or loss is recognized. Generally, this occurs upon transfer between spouses during marriage or between former spouses as a result of a divorce. The person to whom the residence is transferred assumes the liability for the recapture tax and is treated in the same manner as the transferor would have been treated had the transfer not occurred.

If the mortgage was financed from sources other than tax-exempt bonds, the recapture tax does not apply.

Computation of the Recapture Tax

The amount of the recapture tax, which is added to the individual income tax liability for the year in which the residence is disposed of, is equal to the lesser of:

A. One-half of the gain realized from the disposition of the residence, or
B. The product of
   1. The federally subsidized amount (FSA),
   2. The Holding Period Percentage (see section below), and
   3. The Income Percentage (see section below).

The FSA is 6.25% of the highest principal amount of the loan for which the borrower was liable. For example, if the principal amount of the loan was $50,000, the FSA is $3,125, ($50,000 x 6.25% = $3,125).

Holding Period Percentage

The Holding Period Percentage is generally determined as follows:

Year after the date the residence was first acquired:	Holding period percentage:
The 1st such year	20%
The 2nd such year	40%
The 3rd such year	60%
The 4th such year	80%
The 5th such year	100%
The 6th such year	80%
The 7th such year	60%
The 8th such year	40%
The 9th such year	20%

Income Percentage

The Income Percentage is the percentage (not in excess of 100%) which the excess of the borrower's modified adjusted gross income for the year in which the disposition occurs over the adjusted qualifying income for that year bears to $5,000. The Borrower's modified adjusted gross income is the Borrower's adjusted gross income plus tax-exempt interest income, excluding any gain recognized on the disposition of the residence.

For example, if the modified adjusted gross income in the year of disposal is $45,000, and the adjusted qualifying income in that year is $42,500, the income percentage would be 50 percent:

$$\frac{45{,}000-42{,}500)}{5{,}000.} = 50\%)$$

The lender should provide the borrower with a form that will help the borrower determine adjusted qualified income.

Limit Based on Amount of Gain

The recapture tax can never be more than one-half of the gain realized on the disposition of the interest on the residence. For example, if the residence was purchased for $50,000 and sold for $55,000 the recapture tax could not exceed $2,500, ($55,000 - $50,000 = $5,000 ÷ 2 = $2,500).

Refinancing or Prepayment

Refinancing or prepayment of a loan without a disposition of the residence will not, in itself, trigger the recapture tax. However, the tax will apply in the case of disposition during the nine-year recapture period, even if the house was refinanced previously.

Disposition in which the tax-exempt bond-assisted loan is assumed

The recapture tax applies to the borrower in the event of a residence disposition even if the tax-exempt bond-assisted mortgage loan is assumed. In addition, the nine-year recapture period of liability begins anew for the new mortgagor who assumes the loan.

Section 6: FAQ's and Other Information

Contact Information

MHDC

Please direct all questions about the First Place Program, individual loans, inquiries regarding loan reservations, extensions or changes, and prior approval requests to the MHDC Homeownership team email address below:

homeownership@mhdc.com

1201 Walnut St. Suite 1800, Kansas City, MO 64106

816-759-6600

Lender Onboarding, LOL Access, recertification, and Training:

Lender.certifications@mhdc.com

MHDC EIN: 43-0979983

Master Servicer (US Bank)

800-562-5165

HFA.Programs@usbank.com

HFACustomerCare@usbank.com

Additional Information for Lenders

Information regarding new lender onboarding, training resources, marketing materials, and income/purchase price limits can be found on the MHDC website:

https://mhdc.com/services/lender-resources/

Lender Online (LOL)

https://lenderonline.mhdc.com/Bin/Display.exe/ShowSection

Master Servicer Links:

HFA Lending Guide - https://www.allregs.com/tpl/public/usb_bond_tll.aspx

MHDC Holiday Closure Schedule

January	New Year's Day & Martin Luther King Day
February	Washington & Lincoln's Birthdays
March	
April	
May	Truman Day & Memorial Day
June	Juneteenth
July	Independence Day
August	
September	Labor Day
October	Columbus Day
November	Veterans Day & Thanksgiving Day
December	Christmas Day

Frequently Asked Questions (FAQs)

Is MHDC's Down Payment Assistance (DPA) considered a grant? — *No, these are not grant funds. MHDC's DPA is a second loan for the amount of the DPA. The second loan is 100% forgivable after 10 years.*

The Borrower is a first-time homebuyer, but has a Non-Occupying Co-Signer (NOCS) to assist with qualification. Does NOCS income count toward MHDC qualifying income/household number? – *No, NOCSs income does not count toward MHDC income eligibility, nor do they count in the household size composition.*

Do NOCSs also have to be first-time homebuyers? – *No, NOCSs do not need to be first-time homebuyers.*

Does MHDC allow electronic signatures/mobile notaries? – *Yes, MHDC does allow most documents to be electronically signed. Notarization is still required, but MHDC will allow mobile notaries.*

What is minimum credit score and maximum debt-to-income (DTI) allowed for MHDC Homebuyer products? – *MHDC minimum required FICO is 640. For government loans, those with a credit score from 640 to 680 are allowed a maximum DTI of 45%. Those with FICO of 680 and above are allowed to* *maximum 50% DTI (subject to change). For conventional loans, all are allowed a 50% maximum DTI (subject to change).*

Does MHDC allow no credit scores, one score or two scores? – *MHDC does not have a guideline for this. Please verify that your agency is adhering to any current Master Servicer guidelines. If the Master Servicer (please see contact information above) has no guidelines, lenders may adhere to their own internal agency guidelines.*

What does MHDC require for Mortgage Insurance (MI) coverage? - *MHDC does not have a guideline for this. Please verify that your agency is adhering to any current Master Servicer guidelines. If the Master Servicer (please see contact information above) has no guidelines, lenders may adhere to their own internal agency guidelines.*

Do Boyfriend/Girlfriends, fiancés or domestic partners count toward MHDC income limit or household count? – All adults and children who will live or are expected to live in the residence full-time must be counted to determine the total family (household) size, excluding foster children under the age of 18, unborn children, and live-in aides and guests. However, only the income for each person listed as a borrower, their spouse, and any other family members that will occupy the home as their principal residence and will be secondarily liable on the mortgage should be included in the income calculation.

Does MHDC allow Manufactured Homes as an allowed property type? – *Yes, with a minimum credit score of 660, and the property must be on permanent foundation. Please see Property Eligibility section for further explanation.*

Does MHDC allow other Down Payment Assistance (DPA) programs to be paired with MHDC products? – *Yes, MHDC does allow other government, state or city sponsored DPA programs to be paired with MHDC products. If a lien is filed for the assistance, it must be in third position behind MHDC's 2nd lien.*

How much is the DPA mortgage amount? – *The MHDC DPA 2nd mortgage amount is exactly 4% of the first loan.*

Is the MHDC DPA 2nd loan 4% of the base loan amount, or the total loan amount including any applicable Mortgage Insurance premiums or Funding Fees? – *MHDC DPA 2nd loan amount is based upon the TOTAL first loan amount, including Up Front Mortgage Insurance Premium (UFMIP) or Funding Fees.*

Does MHDC require most recent three years of filed Federal Income Tax Returns to prove no mortgage interest deduction taken? – *No, MHDC no longer requires tax returns to be submitted for proof borrower is a first- time homebuyer. Instead, the Lender will certify on **Form 520** that it has reviewed the credit reports from all three national credit bureaus to confirm there is no indication of prior homeownership in the prior three years.*

Student loans: How does MHDC calculate student loan payments? - *MHDC does not have a guideline for this. Please verify that your agency is adhering to any current Master Servicer guidelines. If the Master Servicer (please see contact information above) has no guidelines, lenders may adhere to their own internal agency guidelines.*

Does MHDC mandate a certain Automated Underwriting System (AUS) for approval? - *MHDC does not have a guideline for this. Please verify that your agency is adhering to any current Master Servicer guidelines. If the Master Servicer (please see contact information above) has no guidelines, lenders may adhere to their own internal agency guidelines.*

How do we know if a property is located in a Targeted Area? – The *census tract information can be determined for the property by searching here: https://geomap.ffiec.gov/ffiecgeomap/ Once the census tract is known, the lender may cross reference with the list of targeted tracts here: https://mhdc.com/services/lender-resources/targeted-areas/*

Does MHDC mandate a specific Homebuyer Education (HBE) course be taken? - *MHDC does not have a guideline for this. Please verify that your agency is adhering to any current Master Servicer guidelines. If the Master Servicer (please see contact information above) has no guidelines, lenders may adhere to their own internal agency guidelines.*

How do I get in touch with US Bank regarding questions on any overlays/specific servicer questions regarding MHDC? – *US Bank HFA hotline and email address: 800.562.5165 or hfa.programs@usbank.com*

Does MHDC allow Appraisal Waivers or Property Inspection Waivers (PIW) in lieu of full appraisal if one is received on AUS? – *MHDC follows US Bank's Master Servicer guidelines.*

Does MHDC allow Borrowers to retain existing properties when purchasing a new property?- *For qualified Veterans or purchases in targeted areas, borrowers do not need to be first-time homebuyers. In these instances, it may be possible for a borrower to keep an existing property, however the First Place program may not be used to purchase investment properties. The program is for primary residences only.*

For borrowers who want to retain an existing property, the originating lender must calculate net rental income for the retained property, and count that toward the borrower's maximum income eligibility for the First Place program. If a borrower will not have lease agreement in place prior to close, a 3rd party opinion of potential rent will be needed. Zillow is an example of an allowable 3rd party for rent estimate.