Next Step Loan Program Operations Manual

Missouri Housing Development Commission

MHDC

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Section 1: Program Description

Program Description

The Next Step Program gives potential first-time and repeat homebuyers outside the First Place Program income limits the edge they need to purchase their first home. Next Step loans have higher income and purchase price limits than the MHDC First Place Loan Program. This is a great option for first-time buyers with higher incomes. 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 Missouri Housing Development Commission 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 payments 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)

Potential borrowers 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 Next Step Program with Other Programs

- Next Step 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 (see "Secondary Financing" below).
- Next Step loans may **not** be used with any type of interest bearing second mortgage product from a for-profit company.
- Next Step 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.

Section 2: Eligibility

Borrower Eligibility Requirements

To qualify for a Next Step loan, the borrower(s) may be a first-time homebuyer or a repeat buyer, 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:

- 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
- Home will be the primary residence (borrower must occupy within 60 days)
- Purchase price of the home must be within established limits
- No maximum LTV or minimum down payment requirement

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

FICO Score

The Next Step 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.

Any LTV requirements are set by the Master Servicer or the purchasing agency (i.e., FHMLC/FNMA).

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.

Primary Residency Requirements

All borrowers must occupy the purchased home within 60 days of purchase and remain in the home as a primary residence. The Next Step program may not be used for purchase of investment properties or secondary homes. Within the 10-year forgivable period, all down payment assistance funds must be repaid at the time of sale or refinance.

Please see "Repayment of the Second Loan" in Section 5

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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 applicant and their estranged spouse will be required to sign the MHDC Waiver of Marital Rights Affidavit, **Forms 750-1** and **750-2** attesting they are separated and do not plan to live together in the property.
2. 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 750-1** and **750-2** are not required. Instead, the non-borrowing spouse:

1. Will not sign the First Note.
2. Will only sign the Deed of Trust.
3. Must still meet income 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 722**.

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.

Other

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 Next Step Program **cannot** earn any commission on the transaction.

Other Restrictions to Real Estate Commissions

The loan officer, co-applicants, co-borrowers, and co-signors **cannot** earn real estate commissions on the transaction regardless of whether they will live in the home. Any persons who will live in or are expected to live in the home **cannot** earn real estate commissions on the transaction, including:

- The borrower
- Parents
- In-laws
- Children
- Siblings
- Other immediate family members

- Spouses
- Any other persons expected to live in the home
-

Citizenship and Residency Requirements

To be eligible for MHDC financing, borrowers and their spouses must meet all applicable federal, state, Master Servicer, and Agency (FHA, FNMA, FHLMC, VA, USDA) citizenship 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

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** of 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.

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

All variations of properties located within flood zones A and V are **ineligible** (e.g. A, AE, AH, AO, AR, A99, V, VE).

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.

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

MHDC guidelines do not stipulate a specific acreage limitation and generally align with the Master Servicer and should include only the amount of land consistent with other homes in the neighborhood.

However, 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.

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 Next Step 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).

Coverage for mortgage insurance is not determined by MHDC.

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 Next Step 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

MHDC follows Master Servicer/agency guidelines, however borrowers must utilize their own funds to pay for these repairs. Next Step DPA funds may not be used to pay for repairs.

Escrow Waivers

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

Leaseholds and Community Land Trusts

Leaseholds and Community Land Trusts are **ineligible.**

Loan Closing Requirements

Lenders are responsible for closing loans they originate and for submission of all completed and appropriate borrower and seller Next Step Program documents. However, a closing agent such as a title company or escrow closing company may be used.

Eligible Next Step Loans 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 the reservation portal; and
- Have payments come due on the first day of each month.
- Leaseholds and Community Land Trusts are ineligible

Next Step Loans may not:

- Be subject to a "buy down" agreement,
- 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.
- Must be closed in the borrower(s)' name and may not close in the name of a Trust

2. Loan origination supporting documents should include a Lender's Certificate (**Form 720**) submitted to MHDC within the lock period.
3. MHDC will issue an approval to the originating lender once the loan package has been reviewed and approved by program staff. An approval letter will be issued via the Communications center in the MHDC Loan Management System and available for download.

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.

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

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

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.

Lender Fees and Charges

All fees are limited to the actual cost incurred, unless otherwise stated below.

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

1. **Origination Fee**- Up to 1% of the total first loan amount.
   - Origination fees may be combined on the LE and CD but must be itemized for MHDC review purposes. Origination fees should be clearly listed as "origination fees" and should not be labeled as "discount points" or other fees.

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** –$275.

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- This amount will be netted from the lender purchase from the Master Servicer and may be charged to the buyer or seller. The 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
6. 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 Fee
- Data Security Fee
- Curative Fee
- Disbursement Fee

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.

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, seller concessions, or other funds to cover these costs.

See "Section 2: Other" for additional restrictions for Real Estate Commissions.

Prepays

Mortgagors are not required to pay their own prepays.

Co-Signers vs Co-Borrowers

Borrowers may utilize a non-occupant co-Signer with the Next Step Program so long as they are permitted by the purchasing agency (i.e. FHA, VA, USDA Rural Development or Freddie Mac/Fannie Mae).

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Eligible co-Signers cannot live in the purchased home and cannot take title of the property.

Co-Signer's signatures are only required on the following items:

- Note
- Co-Signer's Affidavit (**Form 775**)

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-signer's income should not be included in MHDC income calculations. Co-signor income documentation should not be submitted to MHDC.

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 include their income documentation for the purpose of meeting MHDC maximum income limitations
- Must occupy the property as their full time, principal residence

Borrowers Under the Age of 18

For the purpose of Missouri real estate law, a minor (under the age of 18), when married to an adult, becomes an adult and can own real estate.

However, a minor cannot be held liable on a note or security agreement regardless of the minor's marital status. Married spouses under the age of 18 should not sign the note or addendum to the note but must sign all other MHDC documents. The minor's name must also be on the title.

Use of Power of Attorney (POA)

Use of POA is allowable with the Next Step program and generally aligns with requirements stipulated by the Master Servicer, Freddie Mac, Fannie Mae, or Ginne Mae.

Borrowers to Receive a Rent Credit

In instances of a lease with an option to purchase, where a borrower executed that right, a rent credit may be attributed to them.

To calculate the total allowable rent credit, lenders must request an appraisal that includes fair market rent information. The borrower may receive a maximum rent credit equal to the total fair market rent amount paid over and above the appraisal value.

Sellers to Remain in Property After Closing

In the case where the seller intends to occupy the residence for a period after loan closing, the seller may pay the buyer rent for a maximum period of up to 60 days. The rent amount paid to the buyer may not exceed the mortgage payment.

See "Primary Residency Requirements" in Section 2.

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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?
   - 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?

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 aged 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 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. To qualify for a Next Step 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

Options for Verifying Income:

1. Annualized W-2 reported income

2. Third-Party Electronic Verification
    i. E.g. Equifax Workforce Solutions (TALX or "The Work Number")

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

Option One— Annualized W-2 Reported Income

This income verification method is used to **verify and annualize W-2-reported income only**.

Borrower provided financial documents, including W-2s, paycheck stubs, and bank statements are annualized to establish total household yearly income. An annualized base rate should first be established by determining the rate of pay, pay frequency, and pay period type (including overtime, commissions or bonuses). Then, the annualized current year pay stubs should be compared against the W-2s.

The greater dollar amount of the W-2 or annualized pay stubs will be considered the borrower's income.

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.

Lenders must also comply with any VA, FHA, USDA Rural Development or Fannie Mae/Freddie Mac requirements.

Annualized W-2 Reported Income may not be used when:

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

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 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 electronically generated or faxed form indicating that it was directly originated by 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 cost incurred for this service.

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

Option Three— Employer Verification of Income

A lender may seek income verification from the borrower's employer as an additional option when a third-party verification is not available and the borrower does not have sufficient documentation to verify annualized W-2 income. Typically, employer verification will come as a written Verification of Employment (VOE). Written VOEs from the employer must be signed by 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 Next Step 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	Gambling Income
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

Marijuana or Cannabis Income

MHDC guidelines do not include limitations or exclusions for Marijuana or cannabis income, however the lender should verify the Master Servicer or other purchasing agency (i.e., FNMA, FHMLC, etc.) income guidelines. **Marijuana or cannabis income must be included for MHDC qualifying purposes.**

Gambling Income

All gambling income that meets IRS income reporting guidelines (typically over $600) must be included in the MHDC income calculation and follows the "Self-employed" income procedures (see calculation method below). This includes gambling winnings reported in the previous year and/or income that meets or exceeds IRS reporting guidelines at the time of calculation.

Example: The borrower has gambling winnings of $1,000 as of June that have not yet been reported to the IRS. This income should be included in the income calculation because it exceeds the IRS minimum threshold.

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: One-time or single occurrence payments such as ilfe insurance settlements or sign on bonuses do not have to be counted into the household income.

C. Earned income of minors: Earned income of family members under 18 is not counted. However, unearned income or benefits for minors such as disability is counted.

D. Employment relocation reimbursement and per diems

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. **NON-VARIABLE INCOME** - 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. **VARIABLE 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 **prior** 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. If the loan file closes after the fiscal year ends for the corporation, the new return will be required.

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 Income 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 Loan 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 income figure for credit underwriting must be used.

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

Anticipated Two-Unit Income Exclusions

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 should NOT be included in the total household income calculation for Next Step program even if it is included as part of the qualifying income.

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 review the preceding sections 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 above 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:

Calculation:

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 Next Step 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.

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.

Borrowers who work 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.

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 Next Step 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. This includes all payments (in whatever form) paid by or for the borrower to or for the seller.

- Under no circumstances may the acquisition cost or total principal amount of the Next Step Loan 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.)

- Total acquisition cost or total principal amount must not be greater than 4% above the appraised value (VA/USDA loans excluded). **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.

Acquisition Cost Exclusions

The following costs are excluded from total acquisition cost:

- The typical settlement or financing costs paid by the borrower, 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 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 in 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.

Non-appliance items may not be sold to offset any MHDC Maximum Purchase Price Limits. Items sold in a separate agreement must be 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	=	$_____

Rate Locks and File Review

Locking a rate

Prior to locking a rate, 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.

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.

All loans must be closed, and the complete compliance package and related documentation must be submitted into the MHDC Loan Management System within 60 days of the date of the rate lock effective date.

Please see the "System User Guide" on the MHDC website for process details.

Basic Rate Lock Procedure

All rate locks must be confirmed within the MHDC Loan Management System. Rate locks may only be completed by approved personnel from MHDC Certified Lending institutions. Prior to the expiration date, the loan must be closed, and a complete compliance package with all related documentation must be received by MHDC in the Loan Management System for approval.

Please see the "System User Guide" on the MHDC website for process details

Lock Extensions, Change Requests, and Cancellations

When closing and submission to MHDC cannot be completed within the active lock period, an extension may be requested within the MHDC Loan Management System without external communication.

Please see the "System User Guide" on the MHDC website for process details

Loan Detail Update Requests

Changes to the loan/borrower information (e.g. loan amount, borrower name, credit score etc.) may be requested within the MHDC's Loan Management System.

Locked loans cannot be transferred to another certified lender. If the applicant chooses to apply with another lender, the original approved rate lock must be canceled and a new lock created.

A lock may not be canceled to obtain a different rate.

Please see the "System User Guide" on the MHDC website for process details

Program Transfers

Generally, users may request certain transfers from one MHDC program to another within the MHDC Loan Management System without external communication.



Allowable Program Transfers:

- From Fannie Mae to Freddie Mac
- From Freddie Mac to Fannie Mae
- From First Place DPA to First Place Non-DPA
- From First Place Non-DPA to First Place DPA
- From Next Step DPA to Next Step Non-DPA
- From Next Step Non-DPA to Next Step DPA

All program transfer requests are granted at the discretion of MHDC, who reserves the right to deny any request. Any program transfer may be subject to fees as determined by MHDC.

Please see the "System User Guide" on the MHDC website for process details

Cancellation Requests

Users may request a loan cancellation through the MHDC Loan Management System without external communication.

Please see the "System User Guide" on the MHDC website for process details

Compliance Documentation Submission and Review

After a rate is locked, the MHDC Compliance Package is automatically generated and delivered via the "Communications" tab. Automatic conditions are also applied for all required document submissions. Users must provide the required documentation and respond to all auto-generated conditions prior to the expiration of the rate lock.

Please see the "System User Guide" on the MHDC website for process details

Conditions

Additionally, during MHDC's review of the submitted compliance documentation, a reviewer may discover one or more conditions (errors or incompleteness) that must be corrected before approval and purchase. All conditions notifications occur within the MHDC Loan Management System on the "Conditions" and the "Communications" tabs.

Users will have 30 days to provide the requested corrections (conditions applied during the file review process), or the file will be rejected.

Please see the "System User Guide" on the MHDC website for process details

Next Step Program Forms

Form 705 – File Submission Checklist

- Checklist of items required for MHDC submission



Form 715 - Borrower's Application Affidavit

- Required affidavit to be signed by the borrower

Form 720- Lender's Certificate
Form 522 – Certification of Zero Income
Form 723- Certification of Zero Income for Children
Form 725– Seller's Affidavit
Form 750 – Waiver of Martial Rights
Form 775 – Co-Signor Affidavit
Form 790 – Income Source Worksheet

Please see the "Lender User Guide" on the MHDC website for MHDC forms and process details

Other Required Documents

Sales Contract (with addendums)
Final Loan Application (1003)
Income Documentation
Warranty Deed
Mortgage Note(s)
Closing Disclosures

Master Servicer Loan Purchases

MHDC utilizes a Master Servicer for all of its loan products and originating lenders must sell all MHDC First Place loans to the designated Master Servicer in accordance with provisions as set forth in the Lender Origination Agreement.

All lenders must utilize the Master Servicer's Mortgage Electronic Registration System (MERS) as specified by the Master Servicer. For more information on using MERS, please contact the Master Servicer (see contact information in **Section 6**).

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.

Optional mortgage life or disability insurance is not available through 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 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 Next Step 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 105.5% as detailed below (Please see Section 2 for allowable fees).

- 100.00% of the unpaid principal balance
- 1.50% Servicing Release Fee (amount is subject to change)
- 4.00% DPA reimbursement by MHDC for second loan

- 105.50% Total payment

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 5: Home Sales and Refinancing

Repayment of Second Loan

Borrowers who elect to utilize the Next Step 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.

MHDC DPA 2nd loans may not be subordinated. Payoff requests may be obtained from the servicer of the first lien.

Section 6: FAQ's and Other Information

Contact Information

MHDC

Please direct all questions about the Next Step Program, individual loans, inquiries regarding loan submissions, extensions or changes, and prior approval requests to the MHDC Homeownership team email address below (Please see the System User Guide for internal system communications):

homeownership@mhdc.com

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

816-759-6600

Lender Onboarding, MHDC Loan Management System, 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/



MHDC Loan Management System

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 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.*

Does MHDC allow electronic signatures/ notaries? – *Yes, MHDC does allow most documents to be electronically signed. Notarization is still required, but MHDC will allow mobile notaries or Electronic Notaries. All E-Notaries should be approved by MHDC and the Master Servicer.*

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.*

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.*

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.*

What do I put in the Homebuyer Education field in the MHDC Loan Management System?- *The HBE field is required by default in the system, however MHDC does not review or condition for this information.*



You may enter any random string of text to move forward. Please note, this guidance applies to the MHDC Loan System only and US Bank's system may have other requirements.

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?- *The Next Step 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 Next 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.

Do borrowers have to be first-time homebuyers to utilize the Next Step Program? – *No, the Next Step program is available to both first-time homebuyers and repeat buyers.*

Why are the rates different for Next Step than with the MHDC First Place program? – *The Next Step program has different funding sources than MHDC's First Place program. Rates for the Next Step program may vary, be updated more frequently, or at different times than the First Place program.*

Are there any limitations to who can earn real estate commissions on the transaction?

*Yes.. Please see **Section 2: Eligibility** for more details.*