EXHIBIT I
to the Mortgage Origination Agreement dated 9/23/2015

7800 Harkins Rd
Lanham, MD 20607

Larry Hogan
Governor

Boyd K. Rutherford
Lieutenant Governor

Kenneth C. Holt
Secretary, Maryland Department of Housing & Community Development

mmp.maryland.gov

LENDER'S MANUAL

for

Maryland Mortgage Program (MMP) Mortgage-Backed Security (MBS) Program

(Revised 7/26/2016)

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PURPOSE

The main objective of the Maryland Mortgage program (the Program) is to provide homeownership opportunities to eligible homebuyers in the State of Maryland. This objective is accomplished by purchasing securities backed by complying mortgage loans that are originated through a network of approved lenders. The proceeds of these loans may be used by the mortgagor to purchase modest residences that must be occupied as their principal residence.

This program is offered pursuant to Title 2, Subtitle 4 of the Housing and Community Development Article of the Maryland Annotated Code ("the Act"). It is further governed by Program regulations contained in COMAR 05.03.02, as amended. All loans will be made in conformance with the Act, Program regulations, applicable federal tax law, and Community Development Administration (CDA) bond documents.

Since 2011, the Maryland Mortgage program has been funded primarily through secondary marketing sales of Ginnie Mae (GNMA) and Fannie Mae (FNMA) mortgage-backed securities.

The lender agrees in the Mortgage Origination Agreement, of which this manual is a part, to comply with the requirements set forth in this manual. CDA must rely upon all participating lenders to comply with the requirements when making mortgage loans to be purchased by U.S. Bank, the Master Servicer. Mortgage loans that do not comply with these requirements may not be purchased by U.S. Bank. Originating lenders will be required to repurchase nonconforming loans purchased by U.S. Bank.

The purpose of this manual is to outline state and federal requirements with which participating lenders must comply.

The Maryland Mortgage program main website:

(http://mmp.maryland.gov/Pages/default.aspx)

LENDER RESOURCES - The Lender Resources section provides the documents, links and data that Lenders need to work with homebuyers to apply for a Maryland Mortgage program loan, as well as training materials, compliance manuals and fact sheets to help Lenders stay up to date with the details of the program. Some documents can only be accessed through Lender Online after loan approval.

(http://mmp.maryland.gov/Lenders/Pages/default.aspx

MASTER SERVICER – U.S. BANK. The Master Servicer for the Maryland Mortgage program is U.S. Bancorp. U.S. Bank is responsible for ensuring that the loan application adheres to industry-acceptable underwriting standards and for funding the loans. U.S. Bank's website provides manuals, checklists, bulletins, documentation and other information.

http://mrbp.usbank.com.

APPROVAL OF PARTICIPATING LENDERS

All Program lenders must be approved by U.S. Bank for participation in the program. Their approval process, which takes approximately 30 days, involves the submission of certain information to U.S. Bank for review and approval. Interested lenders should contact U.S. Bank's Lender Help Desk by phone at 800-562-5165 or by e-mail at mrbp.helpdesk@usbank.com.

In addition to satisfactory U.S. Bank approval, the lender must be approved by CDA. This includes providing CDA with a contact list, Maryland origination branch list, Opinion of Counsel, Resolutions, and executed Mortgage Origination Agreement (the Agreement), which forms the contractual relationship governing participation in the Program by the lender and CDA.

After a lender has provided the necessary documentation, it is required to have its staff participate in Program training before it is approved to reserve loans under the program.

Upon approval, the lender's designated "Administrative Contact" will be issued a user name and password that will permit access to the Lender Online system; the Administrative Contact is responsible for setting up user accounts for the lender's staff.

Requirements, forms, and templates for becoming an approved Program lender are located in Lender Resources here: http://mmp.maryland.gov/Lenders/Pages/Application.aspx.
Lenders with questions concerning this process can e-mail Cecilia Weller at cecilia.weller@maryland.gov.

By signing the Mortgage Origination Agreement, the Lender agrees to process loans in compliance with the Lender's Manual and fact sheets, U.S. Bank's Closing & Delivery Guidelines, and to use the Program documents as specified.

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AVAILABILITY OF FUNDS

Historically, the Program has remained open continuously for reservations since the end of 2002.

Interest rates depend on when the funds are reserved in the Lender Online system.

LENDERS ARE RESPONSIBLE FOR OBTAINING A RESERVATION NUMBER AND THE ASSIGNED INTEREST RATE BEFORE COMMITTING TO A BORROWER.

The current interest rates may be obtained by accessing the website at: http://mmp.maryland.gov/Lenders/Pages/Interest-Rates.aspx

Please use the SUBSCRIBE button toward the top of the page to add yourself and any key staff to automatically receive the Program's interest rate notifications.

RECAPTURE TAX REIMBURSEMENT

Federal law provides for a *possible* Recapture Tax when some homeowners sell their home within the first nine years after receiving a mortgage through the Community Development Administration's (CDA) Maryland Mortgage program. In order to alleviate confusion and concern about having to pay a recapture tax when the home is sold, CDA agrees to reimburse any CDA borrower (Borrower, which includes any co-borrower) the amount of any recapture tax that the Borrower pays in connection with the sale of the home.

CDA will not calculate the recapture amount. Upon sale or disposition of the residence, the Borrower must consult a personal tax adviser or the IRS.

In order to request a recapture tax reimbursement from CDA:

- The Borrower first must instruct the IRS, by using IRS Form 4506, to send to CDA a copy of each Borrower's federal tax return covering the calendar year in which the residence was sold.

  On Form 4506, instruct the IRS to send the information to:

  Maryland DHCD
  Attn: CDA Single Family - Recapture Tax Reimbursement
  7800 Harkins RD, 3rd Floor
  Lanham, MD 20706

- The Borrower must send a written request for reimbursement to CDA by July 15th of the calendar year after the residence is sold, accompanied by the following:
  - a copy of the signed HUD-1 Settlement Statement from the sale or disposition of the property;
  - the address to which the reimbursement should be mailed; and
  - any other documentation CDA may request to approve the reimbursement.

  Submit requests for reimbursement to:

  Maryland DHCD
  Attn: CDA Single Family - Recapture Tax Reimbursement
  7800 Harkins RD, 3rd Floor
  Lanham, MD 20706

CDA will not act on the request for reimbursement until the copies of the Borrower's tax returns are received from the IRS.

CDA will only reimburse the Recapture Amount actually paid, and will not reimburse fees, interest, expenses or penalties incurred.

Be advised that CDA will issue an IRS Form 1099 so the amount of any recapture tax that CDA reimburses to the Borrower will be reported to the IRS as income.

<u>**Program Loan Documents**</u>

http://mmp.maryland.gov/Lenders/Pages/Loan-Documentation.aspx

Subject to change by Program Directives and Fact Sheets

1. Buyer's Affidavit (07/15/15) - **for <u>MM Purchase Loans Only</u>**
2. Borrower's Affidavit (03/01/13) – **for <u>Refinance Loans Only</u>**
3. Buyer's/Borrower's Confirming Affidavit (04/28/14)
4. Seller's Affidavit (04/28/14)
5. Seller's Confirming Affidavit (04/28/14)
6. To be used along with applicable Notes, Deeds of Trust, and condominium riders:
   (a) Tax-Exempt Financing Rider (11/27/06)
   (b) Supplemental Buyer's Affidavit (11/27/06)
   (c) Notice to Borrowers (10/24/08)
7. Recapture Tax Notice (07/15/15) or (05/16/16)
8. Alonge/Loan Modification DPA Note (02/09/15)
9. Borrowers Affidavit for Refinance Only – FHA Streamline (02/10/16)
10. Subordination Agreement (05/19/15)
11. DPA Borrower's Application & Affidavit – Down Payment & Settlement Expense Loan Program (05/15/15)
12. Builder/Developer Incentive Loan Program – Verification of Partner Contribution (03/21/11)
13. Community Partner Incentive Program - Verification of Partner Contribution (04/07/11)
14. House Keys 4 Employees - Verification of Partner Contribution (01/06/07)
15. DPA Attachment D – Request for Lien Exception (01/15/14)

Attachments

(On the website at **http://mmp.maryland.gov/Lenders/Pages/Loan-Documentation.aspx)**

Forms are subject to change – most current form should be used

A. Separation Affidavit- (08/31/99)
B. IRS Form 4506T- Request for Transcript of Tax Return (Rev. September 2015)
C. Housing Counseling – Lender Certification of Completion (12/08/06)
D. Income Eligibility Worksheet and Lender Certification (12/12/11)
E. Income and Asset Certification for MMP Refinance Programs
F. Asset Test Worksheet (09/14/15)
G. Subordination Authorization for MMP Refinance Programs
H. **NOT IN USE**
I. **NOT IN USE**
J. Affidavit In Lieu of Current Year's Tax Returns (08/31/99)
K. **NOT IN USE**
L. **NOT IN USE**
M. **NOT IN USE**
N. Additional Buyers Affidavit Relating to Business Use of Residence (01/11/99)
O. **NOT IN USE**
P. **NOT IN USE**
Q. **NOT IN USE**
R. Request for Change to Reservation of Funds form (08/20/15)
S. Affidavit Regarding Not Being Required to File Tax Return(s) (08/31/99)
T. Certification of Pregnancy (03/15/05)
U. **NOT IN USE**
V. Veteran First-time Homebuyer Exemption Certification (07/03/12)
W. Wire Instructions for DPA/Partner Match Program loan funds – In closing package- Forms and Instructions – See Directive 2014-11

AA. NOT IN USE
BB. NOT IN USE
CC. MMP/MBS Pre-Closing Compliance Checklist (05/02/16)
DD. DPA Pre-Closing Compliance Checklist (11/10/15)
EE. MMP/MBS Post-Closing Compliance Checklist (02/29/16)
FF. DPA Post-Closing Compliance Checklist (11/10/15)

MARYLAND DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

CDA/SINGLE FAMILY HOUSING

Administration

Director	Amy Grutzner	(301) 429-7763 amy.grutzner@maryland.gov
Deputy Director	Maddy Ciulu	(301) 429-7778 maddy.ciulu@maryland.gov

Lender Relations

Business Development Manager	Cecilia Weller	(301) 429-7798 cecilia.weller@maryland.gov

Loan Operations

Operations Manager	Karl Metzgar	(301) 429-7826 karl.metzgar@maryland.gov
Customer Service Representatives	Ed Anthony	(301) 429-7828 edward.anthony@maryland.gov
	Vicki Jones	(301) 429-7841 vicki.jones@maryland.gov

Telephone Numbers, E-mail Addresses and Electronic Sumbissions

PRE AND POST-CLOSING COMPLIANCE REVIEW (CDA/CDA)

Initial Submission (Pre and Post-Closing Files)

https://lol.dhcd.state.md.us/Bin/Display.exe/ShowSection

Suspense Questions

- Angel Barksdale (301) 429-7836
- E-mail SingleFamilyHousing.dhcd@maryland.gov

Suspense Conditions

- Submit to eDocs

https://lol.dhcd.state.md.us/Bin/Display.exe/ShowSection

Attachment R

- Email Attachment_r_mailbox.dhcd@maryland.gov

Attachment W

- E-mail CDA_WireInstructions.dhcd.@maryland.gov

Information – Websites

Lender Online (LOL)	https://lol.dhcd.state.md.us/Bin/Display.exe/ShowSection
Loan Status on LOL	https://lol.dhcd.state.md.us/Bin/Display.exe/ShowSection log in and click on "Loan Status"
Maryland Mortgage Program	http://mmp.maryland.gov
Interest Rates	http://mmp.maryland.gov/Pages/Interest-Rates.aspx
Loan Documents and Attachments	http://mmp.maryland.gov/Lenders/Pages/Loan-Documentation.aspx
Directives	http://mmp.maryland.gov/Lenders/Pages/Directives.aspx
The Mapper	http://mmp.maryland.gov/Pages/MMP-Mapper.aspx
U.S. Bank Lending Guide	http://mrbp.usbank.com

SECTION 1 - LOAN APPLICATION AND RESERVATION PROCEDURES

1.1 APPLICATION REQUIREMENTS

A. Application Documents

In addition to presenting information concerning income, assets, debts, etc., at the time of application, the Borrower must:

1. present an eligible, ratified contract of sale; *if the property is involved in a short sale transaction, lender approval of the transaction is required to meet the fully ratified sales contract requirement* (see section on "Ineligible Use of Loan Proceeds" for further information on contracts of sale);

2. complete initial Buyer's Affidavit;

3. complete a Uniform Residential Loan Application (Freddie Mac Form 65/ Fannie Mae Form 1003);

4. if buying in a non-targeted area, either present copies of Federal Income Tax Returns or acceptable alternatives for the previous three years (this requirement is waived if one of the borrowers is a veteran and provides lender with a copy of their DD-214 – this exemption may only be used once); and

5. if the buyer owned or currently owns real property and is eligible under the CDA Mortgage Loan Program (meets the definition of a first-time Homebuyer – the first-time Homebuyer requirement is waived for a Borrower with verified veteran's status or a borrower purchasing in a targeted area), documentation must be provided which evidences the property has been sold or will be sold and settled before the closing of the Program loan. A Borrower may not own any other real property at time of closing.

B. Preliminary Interview

Prior to requesting a reservation of funds through Lender Online (LOL), the Lender must interview the borrower to determine eligibility for the program. The lender must also pre-qualify the borrower using guidelines for the applicable insurer/guarantor (VA, FHA ,RHS or private mortgage insurance company).

C. Limitation on Points, Fees and Charges

1. The Lender may charge points in an aggregate amount not to exceed the applicable points for the interest rate. The payment of the points is negotiable between the buyer and the seller.

   NOTE: The seller may pay all points if permitted by the applicable insurer/guarantor (FHA, VA, RHS or private mortgage insurance company).

2. Lender may not charge any fees at time of application other than the amounts needed for a credit report, appraisal, flood certification, and home inspection.

1.2 LOAN RESERVATION

A. Lenders must submit reservations for Program funds through LOL. A fully ratified sales contract is required prior to submitting the reservation request. **If the property is involved in a short sale transaction, Lender approval of the transaction is required to meet the fully**

ratified sales contract requirement. Instructions for reserving funds are provided at the Program training.

B Your complete and eligible request will be processed by LOL and assigned a reservation number.

A sample reservation number would be: 912-350-000001. The "912" designates the Bond Series and indicates that funds are been reserved under that series. The next three digits of the reservation number are the Lender Number ("350"), and then the next six digits of the reservation number are the sequential loan number ("000001"). The issuance of a loan reservation number constitutes an obligation of U.S. Bank to purchase an eligible loan, as reserved, as long as applicable deadlines are met.

1.3 ***DEADLINES***

A. Recommended Timeframe for Submitting Pre-Closing Compliance File

When Pre-Closing Compliance Submissions are received, they are reviewed on a first-received, first-reviewed basis. Any conditions/exceptions will be listed on LOL.

To ensure sufficient time for compliance approval and maximum compensation to the Lender, the Pre-Closing Compliance Submission must be submitted to CDA/CDA within 30 days of the reservation date for all loans. If this is not possible, a request for an extension (Attachment R) must be submitted to CDA.

1.4 ***RESERVATION PIPELINE REPORT***

The Lender can access information on LOL about its loan pipeline. **It is each Lender's responsibility to reconcile its loan pipeline and cancel its inactive loans.**

1.5 ***RESERVATION RESTRICTIONS***

A. Changes

1. Once a loan has been reserved, major changes are prohibited except in unusual circumstances approved by CDA, in its sole discretion. Examples of prohibited changes include, but are not limited to:

    a. Substitution or deletion of a household member from the Buyer's Affidavit, when inclusion of that household member's income would have resulted in the household income exceeding the Program's income limit for that jurisdiction.

    b. Substitution of another property, except as a result of an unsatisfactory home inspection or failure of the seller to proceed with the sale.

    Lenders should be careful when pre-qualifying a borrower so as to provide accurate income and loan amount information on LOL. Any requests for change in interest rate or loan amount are subject to the availability of funds.

2. To request a change to a reserved loan, complete the Request for Change to Reservation of Funds form (Attachment R) and submit it with all necessary documentation to CDA, via the Attachment R mailbox. The request will be reviewed and a response returned to the Lender by e-mail.

B. Duplicate Reservations

1. Different Interest Rates

   LOL will accept the first reservation received for the borrower. Subsequent attempts to input another reservation for the same borrower will not be accepted.

2. Different Lenders

   If a Borrower has applied at two different Lenders, LOL will only accept the first reserved loan. It will be left up to the Lenders to determine who should proceed with the application.

C. Cancellation of Funds

1. If a Borrower wishes to withdraw their application from the Program after funds have been reserved, they should be informed that they would be prohibited from obtaining another reservation of funds for 12 months after the date they initially reserved the funds. The Lender requests the cancellation of a reservation by completing a Request for Change to Reservation of Funds form (Attachment R) within **five business** days after the borrower's withdrawal from the Program.

2. Property inspection problems or refusal by the seller to make necessary repairs or complete the sale should be handled as a substitution of property**.** Upon receipt of a Request for Change to Reservation of Funds form (Attachment R) with "Substitute New Property" selected, along with a release from the original contract of sale and the reason for the release, the lender either requests that the original reservation be:

   a) ***deleted*** [compensation to Lender based on the **new** reservation date] and the lender then reserves a loan on the new property; or

   b) ***retained*** [compensation to Lender based on the **original** reservation date] and provides corrected information on the new property (address, purchase price, loan amount, etc.) under "Other".

3. If a Borrower's loan request is declined due to eligibility or credit/affordability issues, the **reservation should not be canceled until all reconsideration processes have been completed. Within five business days** after the final denial, the Lender must request the cancellation of the reservation using the Request for Change to Reservation of Funds form (Attachment R)**.**

D. Assignments

Lenders may assign open (not canceled) reservations to other participating Lenders. The new lender would complete a Request for Change to Reservation of Funds form (Attachment R) and submit it to CDA with a copy of the assignment letter from the first Lender. The original reservation for the loan will be deleted by CDA and the new Lender will then be instructed to **reserve the loan as a new loan at the current interest rate**.

SECTION 2 - COMPLIANCE REQUIREMENTS

2.1 GENERAL BORROWER ELIGIBILITY

A. Applications will be accepted with no discrimination as to race, color, religion, creed, national origin, sex, marital status, physical or mental disability or sexual orientation. Citizenship of the United States is not required; however, borrower must have a social security number and be eligible to work in the United States.

B. Each single borrower and at least one person of a married couple must be eighteen years of age or older.

C. If married, both spouses are not required to apply, but documentation may be required of a non-borrowing spouse.

NOTE: The Lender may not require the signature of a borrower's spouse or other person (other than a joint borrower) on any credit instrument if the borrower qualifies under the Lender's standards of creditworthiness for the amount and terms of the mortgage.

D. If a non-borrowing occupant takes title to the property and appears on the Deed and Deed of Trust, the following must occur:

1. The borrower and non-borrowing occupant must execute the Buyer's Affidavit and Buyer's Confirming Affidavit;

2. If the property is located in a non-targeted area, borrower and non-borrowing occupant must be first-time homebuyers and provide:

Federal income tax returns for the preceding 3 years **OR** Tri-Merge credit report that reflects a 3 year rental history or 3 year Verification of Rent **OR** Copy of DD-214 if the borrower is a veteran. (First-Time Homebuyer requirement is waived)

3. The CDA Tax-Exempt Financing Rider must be executed by the borrower and non-borrowing occupant; and

4. The title policy must show the title vested in both occupants without exception for the rights of the non-borrowing occupant.

E. If separated, a Separation Affidavit (Attachment A) must be completed by the borrower.

F. Borrowers must be named on all the closing documents.

Ownership Requirements

Single Person – SOLE OWNER (can be listed just as the borrower's name – does not have to reflect as "sole owner")

Husband and Wife – TENANTS BY THE ENTIRETY and can be stated in the following ways:
John Doe, sole owner (if taking title alone)
John Doe and Mary Doe, his wife
John Doe and Mary Doe, husband and wife
John Doe and Mary Doe, tenants by the entirety
John Doe and Mary Doe, married

G. Borrowers must meet the applicable underwriting standards of insurer/guarantor.

H. Co-signers are not permitted

I. Borrowers must intend to occupy the property as their principal residence within 60 days of the closing of the mortgage loan.

2.2 "PRESENT OWNERSHIP INTEREST" IN A PRINCIPAL RESIDENCE

Federal law defines a "first-time homebuyer" as someone who has not had a "present ownership interest" in their principal residence anywhere in the world at any time during the three years immediately preceding the date of the mortgage application. Borrowers purchasing in non-targeted areas must meet this definition of a first-time homebuyer. The requirement is waived if one of the borrowers is a veteran and provides lender with a copy of their DD-214 – this exemption may only be used once. Borrowers purchasing in targeted areas do not have to be first-time homebuyers.

CDA requires that the borrowers sell or transfer their interest in any real property they own prior to the settlement on the Program loan, regardless of whether the property is their principal residence. If an existing residence is deeded in the name of the spouse/non-borrower only, it must still be sold or transferred prior to Program approval. CDA has to meet its obligation under federal tax law which requires the new home to be the principal residence of the borrower. If the husband and wife own separate homes, it cannot be assumed that the new home will be the borrower's principal residence.

Please note: Targeted Areas, Priority Funding Areas and Sustainable Communities have different meanings.

Targeted Areas are established by the U.S. Census Bureau, and are geographic zones inside of which there are fewer restrictions for homebuyers using the Program.

Maryland's Counties fall into three categories when it comes to Targeted Areas.

- Fully Targeted – All properties in these counties are in a Target Area.
- Partially Targeted – Some properties in these counties are in a Target Area
- Non-Targeted Counties – No properties in these counties are in a Target Area.

Priority Funding Areas are located in existing communities or locally-designated growth areas where State and local governments already have a significant financial investment in the existing infrastructure and want to concentrate their efforts to conserve natural resources and farmland while encouraging and supporting sensible economic and residential growth.

- every Maryland municipality, as they existed in 1997;
- areas in Maryland that are inside the Washington Beltway and the Baltimore Beltway;
- areas that have been designated as enterprise zones, neighborhood revitalization areas, heritage areas and existing industrial land;

Sustainable Communities are regions across the state where governments, business and communities coordinate investments to achieve sustainable growth, good jobs and thriving neighborhoods. Additionally, many Sustainable Communities are historically or culturally significant, with a local or national historic district designation.

In Sustainable Communities, local governments work with the State to build on assets and create opportunities where public and private investments and partnerships can achieve:

- A healthy local economy;
- Protection and appreciation of historical and cultural resources;
- A mix of land uses;
- Affordable and sustainable housing, and employment options;

Individuals who are separated or divorced and had an interest in real property during the last three years may be eligible for the Program if they can document that they did not live in the property during the last three years. In addition, they must no longer have title to the property or divest themselves of title to the property before the closing of the Program loan.

To determine if a property is located within one of the geographic areas noted above, utilize the Program Mapper tool: http://www.dhcd.state.md.us/GIS/MMP/index.html

A. Ownership of a co-op unit occupied as a borrower's principal residence will disqualify the borrower.

B. Exclusions

1. A "present ownership interest" in a principal residence excludes:

   a. An ordinary lease, with or without a purchase option;

   b. The interest of a buyer under a standard residential purchase contract;

   c. An expectancy to inherit property; or

   d. A remainder or reverted interest.

2. A mobile home occupied as a borrower's principal residence may not disqualify the borrower unless the mobile home is/was permanently attached to real property owned by the borrower.

2.3 PROHIBITED OWNERSHIP INTERESTS IN CERTAIN PROPERTY

State regulation requires that, at the time of closing on the Program loan, Borrowers may not have any ownership interests in certain types of property, anywhere in the world.

A. Property prohibited from ownership at the time of loan closing includes:

1. Any mobile home on a permanent foundation;
2. Raw land;
3. A building lot (except for the lot on which the house being financed has been built);
4. Any principal residence;
5. A vacation home;
6. A rental property;
7. An inherited property;
8. Commercial property;
9. Any jointly held property;

10. A cooperative; and
11. Any other real property.

B. Property which may be owned at the time of loan closing includes:

1. a cemetery plot;

2. a recreational vehicle lot; or

3. a 1/20th (2.6 weeks) or less interest in a time sharing unit.

C. In order to be eligible for a mortgage loan under the Program, any Borrower who has an ownership interest in any type of property listed in paragraph A must either:

1. provide a contract of sale for the property at the time of application and submit documentation, i.e., settlement sheet, title for mobile home, verifying the sale of the property prior to closing of the Program loan; or

2. provide a copy of a deed showing that the Borrower has divested ownership in the property.

2.4 IF PROPERTY IS LOCATED IN A "NON-TARGETED AREA": 1) PROVIDE FEDERAL INCOME TAX RETURNS FOR THE PRECEDING THREE YEARS SUBSTANTIATING BORROWER'S STATUS AS A "FIRST-TIME HOMEBUYER"; OR 2) PROVIDE A TRI-MERGE CREDIT REPORT THAT REFLECTS A 3-YEAR RENTAL HISTORY (IF THE RENTAL HISTORY IS NOT REFLECTED, ALSO PROVIDE A 3-YEAR VERIFICATION OF RENT); OR 3) PROVIDE A COPY OF DD-214 IF BORROWER IS A VETERAN

A. Up until the current year's filing deadline, the Borrower must submit signed tax returns with all schedules for the two years prior to last year plus an executed Affidavit in Lieu of Current Year's Tax Returns (Attachment J) for the current year's tax return which has not yet been filed. If the current year's tax return has been filed, it should be submitted. For example, if the Borrower applies on January 30th and last year's tax return was not filed, he would provide tax returns for the two years prior to last year, as well as an executed Affidavit in Lieu of Current Year's Tax Returns (Attachment J) for last year.

B. After the current year's filing deadline, the Borrower must submit signed tax returns for last year plus the two years prior to last year. For example, if during the current year, the Borrower applies after the IRS filing deadline, he would provide tax returns for last year plus the two years prior to last year.

C. All tax returns must be signed by the Borrower, including electronic returns and computerized summaries from the IRS. In addition, the top portion of the return (name, address and social security number) must be completed.

D. Most types of returns filed with the IRS, including electronic returns, are acceptable; however, the return must:

1. be the type of return (e.g. the 1040EZ or 1040A) which does not allow for the deduction of mortgage interest or real estate taxes; OR

2. be a return which includes information which would enable CDA to determine that the borrower claimed the standard deduction (e.g. 1040 showing a standard

deduction). If the information on the return indicates that the Borrower did not claim a standard deduction, then a full copy of the return with all schedules must be provided

3. If the tax returns have been reconstructed, a notarized affidavit from the Borrower must be provided stating that the returns are a true and correct reconstruction.

NOTE: Electronic Filing Summary, IRS Form 8453 is not acceptable because it does not provide the necessary information.

E. IRS Form 4506T, Request for Transcript of Tax Return (Attachment B), can be used to request a transcript of the Borrower's tax return(s). Make sure that all schedules are included and the Borrower signs and dates the transcript.

F. If the Borrower was not required to file a tax return, he must provide an executed Affidavit Regarding Not Being Required to File Tax Return(s) (Attachment S) stating that he was not required to file and the reason why he wase not required to file. Documentation to support the reason for not filing may be required.

G. If a non-borrowing occupant is taking title to property in a non-targeted area, federal income tax returns for the preceding three years must also be provided unless tri-merge credit report and Verification of Rent are provided and they reflect a 3-year history.

2.5 ELIGIBILITY INCOME

A. Total Projected ANNUAL Household Income may not exceed applicable Income Limit.

Total projected ANNUAL gross income from all household members occupying the property being purchased, except for dependents less than 18 years old, may not exceed the applicable income limit for the Program. Income Limits may be found at http://mmp.maryland.gov/Pages/Detailed-Income-Eligibility.aspx. Income for household members who are 18 years old or older and enrolled full-time in high school or college should not be included in the total projected annual household income unless that individual is a borrower on the loan. An unborn child can be treated as an "individual" (household member) when the birth of the child will change the household size and result in an increase in the applicable Income Limit. A Certification of Pregnancy (Attachment T) must be completed and executed by the pregnant Borrower's physician.

B. Projecting Eligibility Income at Time of Reservation

As of the date of **reservation in Lender Online**, the Lender is to project the eligibility income for the year following the date of the loan closing for all household members, using the Income Eligibility Worksheet and Lender Certification (Attachment D) and information on income calculation in this Manual, as well as standard industry underwriting standards established by FNMA or FHA. This information should then be provided to the borrower to complete the Buyer's Affidavit.

C. Verification of Income

The lender will verify all sources of income (including part-time jobs, overtime, bonuses and commissions) for each household member who is 18 years old or older (except the income of full-time high school or undergraduate students unless that individual is a borrower on the loan) and then project the anticipated household income for a period of 12 months from the date of the loan closing. The lender will then prepare a final Income Eligibility Worksheet and Lender Certification (Attachment D) with the verified information and submit it in the Pre- Closing Compliance Submission.

If a household member 18 years or older has no income, then provide a notarized statement executed by the individual stating this.

Provide documentation to substantiate receipt of child support and/or alimony income by any household member.

Income may be documented by a standard written Verification of Employment (VOE) or by Alternative Documentation (e.g. verbal VOE, one month's paystubs and previous two years' W-2s).

D. Calculating Income

Income from all applicable household members must be included in the eligibility income calculation. Any household member who is 18 years of age or older, and not a full-time high school or undergraduate student (unless a borrower), must provide documentation supporting their income. This documentation may include Verification of Earinings (VOEs), "Work Number" verifications with detailed income information for the last three years plus one paystub or alternative documentation that includes: paystub(s) covering the most recent thirty-day period, the previous year's W-2 forms, and a verbal VOE ("Work Number" verification without detailed income information may be substituted for the verbal VOE).

NOTE: Lender should exclude income from sources listed under the "Exclusions From Income" section.

1. Income to Be Included - Information on Calculating:

   a. Base income

      Take the base income from the most recent paystub or the VOE and annualize it. For example, if the Borrower is paid a base income of $1,150 biweekly, the biweekly amount should be multiplied by 26 to determine the Borrower's annual base income of $29,900.

      NOTE: If there is a significant discrepancy in the base income calculated above and the year-to-date base income, a written explanation must be obtained from the employer in order to make an appropriate calculation.

      The base income amount must be placed on the "Wages, Salaries, etc." line on the Income Eligibility Worksheet and Lender Certification **(Attachment D).**

      - Documented future pay raises

        Because of their arbitrary nature, it is not necessary to include future pay raises in the calculation of the eligibility income.

      - Non-traditional

        If a borrower is a teacher, it must be determined whether the borrower is paid over nine, ten or twelve months. For example, if the borrower is paid over nine months and the income is $2,000 per month, multiply the monthly amount by nine to determine the annual income of the borrower.

- Income of union workers (where the borrower had numerous jobs)

  The income from all of the borrower's employers for the last two full calendar years is totaled and divided by two to determine the borrower's average annual income.

- Employee Business Expenses / IRS Form 2106)

  DO NOT reduce the borrower's total **ANNUAL** household income by this amount. This deduction from income is reported on Schedule A, and includes expenses for which an employee is not reimbursed by his employer.

b. Overtime, commission, and bonus income

Overtime and Commissions

This type of income must be projected in an amount consistent with the earnings history of the household member. Typically, this type of income may be averaged (if VOE obtained) by totaling the last two years plus year-to-date and then dividing by the total number of months this period represents and then multiplying by 12 to calculate an annual income. For example, if the year-to-date overtime is $400 and it is as of March 8th and the overtime for last year was $2,150 and for the prior year was $2,000, the total overtime of $4,550 is divided by 26.26 (which is the total of 24 months for the previous two years plus 2.26 months for the year-to-date overtime), which equals $173.27 per month or $2,079.24 per year.

NOTE: IF THERE IS A SIGNIFICANT INCREASE OR DECREASE IN OVERTIME, THEN AVERAGING MAY NOT BE ACCEPTABLE.

If the VOE shows current year-to-date overtime which is significantly (+/-25%) higher or lower when annualized than previous years, it would NOT be consistent to average. Instead overtime must be based on the current year to date overtime unless the employer documents that it is seasonal or a single occurrence.

If the VOE combines base pay with overtime, the base pay and overtime must be calculated separately. A copy of the most recent paystub must be provided and must confirm the VOE information. If it doesn't, an explanation must be obtained from the employer in order to make an appropriate calculation. The projected overtime amount must be placed on the "Overtime, etc." line on the Income Eligibility Worksheet.

If using alternative documentation (paystubs, W2s), take the year-to-date overtime figure and annualize it. Compare this amount (added to base and other sources of income) to last year's W2 income figure. If there is a significant increase or decrease (+-25%), then either additional documentation must be obtained from the employer explaining the discrepancy, or the higher of the current year annualized income or previous year's W2 income must be used.

Bonus income

This type of income must also be projected in an amount consistent with the earnings history of the household member. The lender must first determine how this type of income is paid; it normally is earned in one year and paid at the beginning of the following year. If the VOE or alternative documentation is not self-explanatory, obtain a written explanation from the employer. Bonus income must be placed on the "Overtime, etc." line on the Income Eligibility Worksheet.

c. Business Income/Self-Employed Borrower

Total the NET income plus the depreciation and depletion from the most recent two tax years AND, after the first three months of the current year, also include the net income plus depreciation and depletion from a year-to-date profit and loss (P&L) statement and divide by the total number of months covered by the tax returns and the P&L statement. For example, if the total net income plus depreciation and depletion for the two tax years and the year-to-date P&L statement is $72,500, and the year-to-date P&L statement is for five months, the total income of $72,500 would be divided by 29 (24 months for the two tax years plus five months for the year-to-date P&L statement), and then the result should be multiplied by 12 to arrive at an annual income of $30,000.

d. Interest, Dividends, etc.

Deduct the amount of estimated closing costs and any down payment from the available liquid assets as verified by bank or other asset statements (amounts in checking and savings accounts, stocks and bonds, equity in real property, etc.) and if the net value of the assets after closing is $5,000 or more, multiply the amount by one-quarter of a percent (.25%).

e. Insurance, Pensions, Social Security, Workman's Compensation and Other Periodic Payments.

This includes all periodic payments received from social security, annuities, insurance policies, retirement funds, pensions, disability or death benefits, or other similar periodic payments including: lump sum payments for the delayed start of a period payment; payments in lieu of earnings, such as unemployment and disability compensation; workers compensation; and severance pay (see Exclusions From Income section).

f. Unemployment Compensation

If a borrower has a pattern of receiving unemployment compensation as evidenced by his/her tax returns or annual unemployment compensation statements, an average annual amount is calculated by totaling the unemployment compensation received for the last two years and dividing this amount by two. Place the total amount of unemployment compensation on the "Insurance, Pensions, etc." line on the Income Eligibility Worksheet.

g. Alimony or child support

Court ordered alimony and/or child support received by <u>any household member</u> MUST be annualized and the total amount placed on the "alimony/child support" line on the Income Eligibility Worksheet unless it is substantiated that scheduled payments have not been received. <u>If no alimony and/or child support is received, enter "$0" in the appropriate blank.</u>

h. Public Assistance

This includes maximum amount of public assistance where such payments include amounts specifically designated for shelter and utilities that are subject to adjustment.

i. Gifts

Includes periodic and determinable payments and/or regular contributions received from someone not residing in the dwelling.

j. Allowances, etc.

Includes all regular pay, special pay, and allowances of a member of the Armed Forces (whether or not living in the dwelling) who is head of family or a spouse.

k. Tax Credits

Includes any earned income tax credit in excess of income tax liability.

2. Exclusions From Income

Exclude income from the following sources from the total household income calculation:

a. Casual, sporadic or irregular gifts;

b. Amounts which are reimbursements for the cost of medical expenses;

c. Lump sum additions to family assets, such as inheritances, insurance payments (including payments under health and accident insurance and workers compensation), capital gains and settlements for personal property losses (but see Subsection 1.e. “Income to Be Included” section);

Amounts of educational scholarships paid directly to the student or the educational institution, and amounts paid by the government to a veteran for use of such scholarships (<u>Note: Amounts which are available for subsistence are to be included in income);</u>

d. Hazardous duty pay to a serviceman, away from home and exposed to hostile fire;

e. Relocation payments made pursuant to Title II of the Uniform Relocation Assistance in Real Property Acquisition Policies Act of 1970;

f. Foster child care payments (unless formerly adopted and receiving foster subsidy);

g. Income of a live-in aide providing necessary support services for elderly, disabled or handicapped persons;

h. Payments to volunteers under the Domestic Volunteer Service Act of 1973;

i. The value of the allotment to an eligible household for coupons under the Food Stamp Act of 1977;

j. Income from the employment outside the home of dependent children (including foster children) under the age of 18 years;

k. Payments or allowances made under the Low Income Energy Assistance program; and

l. Payments received from the Job Training Partnership Act.

3. Complete a new <u>Income Eligibility Worksheet and Lender Certification</u> (Attachment D) with the verified information and submit in the Pre-Closing Compliance File.

4. If, upon verifying income, the borrower’s annual household income exceeds the income limit, the lender must reject the loan application. The borrower has the right to request a reconsideration of your decision. See "Eligibility Reconsideration" section.

5. Reductions in Income. The following household income reductions will make a loan ineligible for the Program:

   a. Borrower taking a voluntary reduction in pay or voluntarily terminating a job within six months of the date of application when that prior income would have made the loan ineligible for the Program.

   b. Deletion of a Borrower from the loan application or a household member from the Buyer's Affidavit when that person's income would have made the loan ineligible for the Program.

E. Pre-Closing Compliance Review of Income

1. The eligibility income for an RHS guaranteed loan is the *lesser of the applicable Program or RHS income limit*.

2. The Income Eligibility Worksheet and Lender Certification (Attachment D) indicates that the income is within the income limit for the Program. The Lender will also certify that the loan has been underwritten for all other requirements of the Program and that the loan is an eligible loan under the Program.

3. Applications for which the eligibility income exceeds the income limit for the Program will not be approved at the pre-closing compliance review. If incomes are determined to be ineligible during quality control reviews, the affected loans must be repurchased by the Lender.

F. Confirming Income at Settlement

The borrower will complete the Buyer's Confirming Affidavit at settlement and indicate whether the anticipated eligibility income or any other eligibility information has changed.

2.6 ASSETS

A. Borrower's Required Investment in the Property

A Borrower's required investment in the property is the minimum required by the insurer/guarantor. A Borrower's sweat equity investment which meets requirements of the insurer/guarantor is acceptable under the Program.

B. Asset Test Procedure

The Asset Test Worksheet is only completed for Borrowers whose liquid assets equal or exceed 20% of the purchase price of the property. Included in liquid assets are gifts in the form of cash or equity.

A "Gift of Equity" is defined as the difference between the loan amount and the appraised value in a "non-arm's length" transaction (i.e., parent to child, employer to employee). Borrowers with liquid assets equal to 20% or more of the sales price may not be eligible for the Program if they can afford a mortgage at the applicable asset test interest rate. Contact Pat Smith, underwriter, at 301-429-7839 or email at patriciaa.smith@maryland.gov to obtain the asset test interest rate for the applicable reservation date and point program). The Lender will verify **all** assets (see below) for each Borrower by obtaining written Verifications of Deposit or alternative documentation (one month's most recent bank statement for each account as of the date of **<u>reservation</u>**) and list them on the Fannie Mae Form 1003/Freddie Mac Form 65 Loan Application.

The computations on the Asset Test Worksheet will indicate that the loan application is eligible OR a waiver has been pre-approved by CDA. The Worksheet must be completed, signed and dated by the Lender's authorized representative.

1. When calculating a Borrower's assets, all assets are to be considered, including, but not limited, to the following:

a. Items paid outside of closing (examples include but are not limited to: appraisal, credit report, home inspection and deposit on property);
b. Savings accounts;
c. Checking accounts;
d. Certificates of deposit;
e. The total balance of any joint accounts;
f. Money market or mutual fund accounts;
g. In trust for accounts (amount accessible);
h. Chapter S corporate bank accounts (borrower owner of the Chapter S corporation)
i. Any other bank accounts;
j. Any stocks or bonds;
k. Funds from gift letters;
l. Any funds derived or to be derived from the sale of real property, any mobile home or other property prior to loan closing. Documentation showing net proceeds from any such sale is required;
m. Amount used or borrowed from a life insurance policy, IRA or 401K (less penalty); and
n. Gifts of equity (difference between the appraised value and the purchase price) in a non-arm's length transaction [if it is necessary to complete the <u>Asset Test Worksheet</u> (Attachment F), <u>the appraised value is listed on line 1 of the Asset Test Worksheet</u>]

2. Exclusions

a. The cash surrender value of a life insurance policy, the value of an IRA account, the value of a 401k account or the value of a 529 College Saving Plan may be excluded from the liquid assets as well as from the Income Eligibility Worksheet unless the borrower intends to use or borrow against a portion of these funds for settlement expenses. In this instance, only the amount being used or borrowed, less any penalty, is to be included in the liquid assets.
b. The value of a lot on which the Borrower is building a home to be financed by the Program loan may be excluded.
c. **<u>Proceeds from any secondary financing or grant used for the purchase of the home.</u>**
d. Relocation benefits under the Federal Uniform Relocation Act in connection with condemnation proceedings (to be substantiated by a letter in the Pre-Closing Compliance Submission).

3. Exception

An exception to this policy may be made, with the prior written approval of CDA in its sole discretion, when all three of the following conditions are met;

a. the Borrower's household income is at or below 55 percent of statewide median income for a family of four, as published by HUD;
b. the regular income is fixed, such as pension or social security; and
c. the interest or dividend earnings on the assets equal at least 50 percent of the total household income.

2.7 PROPERTY REQUIREMENTS

A. Priority Funding Areas – New Construction

New Construction must be located in a Priority Funding Area ONLY

Lenders need to validate that the property location is acceptable. Identify this using The Mapper: http://www.dhcd.state.md.us/GIS/MMP/index.html
Print the screen confirming the Priority Funding Area status and include it in the Pre-Closing Compliance submission. For more information about using The Mapper, there is information on our website here: http://mmp.maryland.gov/Pages/MMP-Mapper.aspx.

If the property is too new to show on The Mapper, email Christina James at the Maryland Department of Planning (MDP) for confirmation at christina.james@maryland.gov. For an official determination, MDP requires that each PFA request provide the following real property information for the parcel(s) in question:

Map Number
Grid Number
Parcel Number
Full Premise Address (Including County and ZIP Code)
Vicinity Map

This real property information allows MDP to accurately locate and assess the parcel(s) or subdivision in question and then generate a thorough PFA Determination.
You can locate this information through the State Department of Assessment and Taxation (SDAT) using the following instructions:

Click on the "Real Property Search" Link below to begin this process. You will need to select the county where the parcel in question is located and then input the premise number (not required) and premise name. No premise type is needed (i.e.; St., Rd., Ln., etc.).
http://sdat.resiusa.org/RealProperty/Pages/default.aspx

Include the required real property information as listed above in the email to Christina James. You may either copy and paste the link for the Real Property Search Results into an email or carefully note the requested details.

B. Residences over one year old that have not been previously occupied are considered existing units.

C. Occupying the Residence

Buyers must intend to occupy the residence within 60 days of settlement. However, a post settlement rental agreement with the seller is permitted if the seller is waiting for completion of a new home and the completion is expected to be within 120 days.

D. Eligible residences include single-unit residences that are:

1. detached, one-half of a duplex (semi-detached), or attached (townhouse) units;

2. modular homes that have the State seal of approval;
3. condominium units approved by the insurer/guarantor;

E. Ineligible Residences – Housing types excluded from the Program:

Housing types excluded from the Program are:

1. Manufactured housing (mobile homes)
2. Cooperatives
3. Rental homes or any home a portion of which is to be rented;
4. Investment homes;
5. Properties from which a trade or business is conducted in the principal structure or out buildings without the prior written CDA approval of the proposed business use. Refer to the <u>Additional Buyer's Affidavit Relating to Business Use of Residence</u> (Attachment N); and section F below.
6. "Like Kind" exchange properties under Section 1031 of the Internal Revenue Code <u>UNLESS PRE-APPROVED BY CDA</u> (See Section 2.9H); or
7. Properties purchased through the sale of contract rights.

See <u>Ineligible Use of Loan Proceeds</u> (Section 2.9) for further information.

F. Proposed Business Use of Residence

1. The <u>Additional Buyer's Affidavit Relating to Business Use of Residence</u> (Attachment N) must be submitted to and approved by the Program <u>prior</u> to the submission of the Pre-Closing Compliance submission.

2. For all business use, other than daycare services, the applicable percentage is the Percent of the Area. For daycare services, the applicable percentage of the residence that will be used for daycare is the Use Percentage. If the applicable percentage calculated under 4(c) or 4(d)(ii) in the <u>Additional Buyer's Affidavit Relating to Business Use</u> (Attachment N) exceeds 15%, the business use will not be approved.

3. The <u>Additional Buyer's Affidavit Relating to Business Use of Residence</u> (Attachment N) approved by the Program must be included in the Pre-Closing Compliance Submission.

G. Maximum Lot Size

The maximum lot size under the Program is 4 acres; however exceptions may be requested from the Program, by the Lender, for septic and/or zoning considerations that require additional acreage. The maximum exception will not exceed 10 acres. The Lender will request the exception from the Program's Single Family Housing Operations Manager listing the reason(s) why the exception should be made. Provide the borrower's name, address and loan number plus any pertinent documentation with your request. This should be requested as soon as the Lender is made aware of the situation.

H. Maximum Loan Amount

The maximum loan amount under the Program is $417,000.

1. For FHA loans: the lesser of $417,000 or the FHA Maximum Mortgage Amount, **<u>plus</u>** the FHA Up Front Mortgage Insurance Premium (UFMIP)
2. For VA loans: base loan amount plus VA funding fee may not exceed $417,000
3. For RHS loans: base loan amount plus guarantee fee may not exceed $417,000

4. For Conventional loans: base loan amount plus single premium mortgage insurance may not exceed $417,000

I. Maximum Acquisition Cost

Acquisition cost for the purpose of this Program is defined in accordance with the Internal Revenue Code of 1986, as amended, and is to be reflected in the initial Buyer's Affidavit.

1. The total acquisition cost of the property must not exceed the limit established by the Program for the applicable jurisdiction. These limits may change from time to time in accordance with requirements of the Program and the federal government.

2. If, prior to loan closing, there is an increase in the total acquisition cost of the property and the new total exceeds the applicable limit, the property is no longer eligible and the loan cannot be purchased and should not be closed.

3. Exclusions from the acquisition cost calculation are:

   a. Customary closing costs;

   b. Prepaid expenses;

   c. Points and origination fees; and

   d. Any financed UFMIP or VA funding fee

4. The calculation for the acquisition cost must include:

   a. the contract sales price less the cost of personal property (the cost of fixtures is not deducted) included in the price;

   b. any capitalized ground rent, the amount of which is to be calculated using a ground rent factor of 200. The capitalized ground rent is determined by multiplying 200 times the monthly ground rent. (EXAMPLE: Yearly ground rent of $120 divided by 12 equals a $10 monthly ground rent. Monthly ground rent of $10 times 200 equals $2,000, which is the amount of the capitalized ground rent to be listed in the Buyer's Affidavit.);

   c. any additional costs to complete the dwelling not included in the sales contract, such as options, well and septic systems, other site development costs, any contemporaneous arrangement for other work or services in completing or adding to the dwelling, and/or the cost of replacing fixtures removed by the seller;

   d. any other financial consideration between the buyer and the seller in connection with the property such as UDAG/CDBG grants, site completion, etc.; and

   e. the appropriate value of a lot owned by the borrower for two years or less on which the dwelling is to be built;

      (1) Value for Buyer's Affidavit

      When a dwelling is to be built on a lot owned by the borrower for two (2) years or less, the greater of the cost or current appraised fair market value of the lot must be included in the Buyer's Affidavit for determining the acquisition cost.

(2) Financing Criteria

When a dwelling is to be built on a lot owned by the borrower for two years or less, either free and clear or by a mortgage having an initial term and any subsequent term not exceeding two years, it may be mortgaged through the Program up to an amount equal to the payoff of any lot loan and closing costs.

(3) Mortgage Loan Limit

The mortgaged value attributable to the lot may not exceed the lesser of its cost to the borrower or its current appraised value. The borrower, in either of these circumstances, must submit evidence of the cost of the land and the term(s) of any temporary financing.

f. the appropriate value for a lot owned by the borrower for more than two years;

(1) Value for Buyer's Affidavit

When a dwelling is to be built on a lot owned by the borrower for more than two years, a zero value must be reflected in the Buyer's Affidavit.

(2) Not Financeable

A lot owned by the borrower for more than two years may not be mortgaged through the Program and the home being built is eligible only if the lot is currently owned free and clear.

g. Maximum Appraised Value

The appraised value of the property may not exceed 125% of the current Maximum Acquisition Cost for the applicable jurisdiction

h. Property Appraisal

A current appraisal is required, with the origination lender as the "client."

2.8. <u>ASSUMPTIONS</u>

A. Mortgage loans purchased by the Master Servicer are assumable only if the loan:

1. meets the applicable underwriting qualifications and assumption requirements of the insurer; and

2. meets the Program eligibility requirements including:

   a. buyer must expect to occupy the property as a principal residence within a reasonable time (60 days) after the transfer is completed;

   b. none of the buyers may have had a "present ownership interest" in a principal residence during any part of the three year period ending on the date of transfer;

   c. the acquisition cost may not exceed the current Program limit for the jurisdiction;

d. the eligibility income may not exceed the current applicable income limit; and

e. the buyer must meet the minimum investment required by the insurer/guarantor, unless one of the original borrowers remains on the loan.

B. Buyer's and Seller's Affidavits must be completed.

C. Notice of Potential Recapture Tax must be signed and dated.

D. Appraisals are not required.

E. Assumptions must be submitted in accordance with instructions provided in the Loan Servicing Manual.

2.9 <u>INELIGIBLE USE OF LOAN PROCEEDS</u>

Except as authorized in writing by CDA in its sole discretion, no portion of the proceeds of a Program loan may be used to:

A. enrich the borrower;

B. refinance, directly or indirectly, an existing mortgage loan or loans of the borrower on the residence other than:

1. a qualified lot loan [see 2.7 I, 4 e(2) & (3)]; and

2. a construction loan or a bridge loan or other similar temporary initial financing.

C. pay any financing or settlement costs (except for any financed FHA UFMIP, VA funding fee, RHS guarantee fee or Conventional single premium mortgage insurance) or any other adjustments;

D. pay the cost of any items deducted from the sales contract price in computing the acquisition cost of the residence as identified in the Buyer's Affidavit;

E. finance a land installment contract;

F. finance a wrap-around mortgage;

G. facilitate the selling of contract rights; or

H. finance a "like-kind" exchange of properties under Section 1031 of the Internal Revenue Code ("1031 exchange"), when an intermediary or other entity is executing the deed transferring the home to the buyer **UNLESS A CDA LEGAL REVIEW IS PERFORMED <u>PRIOR TO THE</u> <u>CLOSING</u>.** In order to be approved, the Lender must submit a copy of the Intermediary/Exchange Agreement between the Seller and the Intermediary entity, along with a complete copy of the contract of sale and Seller's Affidavits completed by the Seller and the Intermediary, to CDA prior to submitting the Pre-Closing MMP/MBS Compliance Submission. The Confirming Seller's Affidavits completed by the Seller and the Intermediary must be included in the <u>Post-Closing MMP/MBS Compliance Submission (Attachment EE)</u>. However, if the seller, who is holder of legal title to the home, executes the deed transferring the home to the buyer, a loan that involves a

1031 exchange may be purchased **<u>WITHOUT A LEGAL REVIEW</u>** <u>of the real estate exchange agreement and other documentation in connection with the 1031 exchange</u>.

<u>SECTION 3 - COMPLIANCE REVIEW AND SUBMISSION</u>

<u>3.1 PRE-CLOSING COMPLIANCE</u>

A. Mandatory Review

Prior to closing, Program staff will complete a compliance review of all loans.

B. Delivery of Pre-Closing Compliance Packages

Participating Lenders shall submit to the Program a Pre-Closing Compliance package for the first mortgage loan (using Attachment CC) and second mortgage loan (using Attachment DD), if applicable, for compliance review/approval.

The checklist lists the documents required for submission of a Pre-Closing Compliance package to the Program for approval. The package must be submitted with the documents in the order shown on the checklists before CDA will approve the loan for Pre-Closing Compliance. Loan packages must be submitted in a PDF file using eDocs on Lender Online:

https://lol.dhcd.state.md.us/Bin/Display.exe/ShowSection

Program staff will review each file to verify that all documentation is complete and that the loan file is in conformity with the terms and conditions of the Program.

All applicable affidavits must be accurately completed and included in the file submitted to the Program. **VA, HUD, Fannie Mae, and Freddie Mac are <u>not required</u> to execute a Seller's Affidavit or Seller's Confirming Affidavit in connection with the selling of their Real Estate Owned (REO) single family homes.** Neither CDA nor U.S. Bank has the authority to alter or waive any applicable affidavits.

The Pre-Closing Compliance package will be reviewed on a "first-submitted, first-reviewed" basis. Program staff will post deficiencies ("Compliance Conditions") on Lender Online. It is the Lender's responsibility to review and respond promptly to any documentation requirements for Pre-Closing Compliance approval.

Compliance Conditions are to be submitted using eDocs on Lender Online. The most current attachments and loan documents are posted on Lender Online and/or downloadable as part of the closing package from Lender Online. Lender should always use the current downloadable documents to ensure the most current version.

https://lol.dhcd.state.md.us/Bin/Display.exe/ShowSection

C. Compliance Package Review

It is the lender's responsibility to certify that each borrower and the property submitted for compliance review meets the eligibility requirements as stated in this Manual.

1. The lender must thoroughly investigate each area of eligibility and collect sufficient documentation to establish compliance with the requirements.

2. The lender must sign the Income Eligibility Worksheet and Lender Certification (Attachment D), which contains a Lender Certification section, for each loan.
3. Once the UW/Compl Review status is listed as "APPROVED" in Lender Online, the lender may close the loan.

D. Approval

If the pre-closing compliance file is complete and meets all of the eligibility criteria for Program compliance, CDA will approve the pre-closing compliance file and the approval will be listed on Lender On-Line as "UW/Compl Review/APPROVED on [*the date of approval*]." The "UW/Compl Review/Approved" status in Lender Online indicates that a pre-closing compliance review of the loan has been performed, and the loan is in compliance as of the time of the pre-closing compliance review. Once the "UW/Compl Review" status is listed as "APPROVED" in LOL, the lender may close the loan. It is recommended that the Lender print the LOL Loan Status page for their records.

***IMPORTANT*: BORROWERS MUST MEET THE ELIGIBILITY REQUIREMENTS NOT ONLY AT THE TIME OF THE PRE-CLOSING COMPLIANCE REVIEW BUT ALSO AT THE TIME OF THE LOAN CLOSING.**

Events that may occur after the pre-closing compliance review which would make the loan ineligible for purchase by CDA include, but are not limited to: an increase in household income, an increase in the acquisition cost of the property, failure to sell other real property before closing the Program loan, and failure to obtain the necessary documents at loan closing. The borrower(s) and seller (s) must sign a Confirming Affidavit at closing either to affirm that the representations contained in the initial Affidavit are true and correct as of the date of the closing or to reflect any changes occurring subsequent to the initial Affidavit.

E. Eligibility Reconsideration

Should the lender or CDA determine that a borrower is not eligible for the Program pre-closing, the borrower should be informed of his right to request a reconsideration of the denial.

1. Each reconsideration request must be made in writing by the borrower, be submitted through the lender within 30 days of the denial notice, and contain the following information:

   a. a cover letter from the lender requesting consideration of the borrower's request;
   b. a copy of the letter from the lender rejecting the borrower's application;
   c. the borrower's signed reconsideration request;
   d. a copy of the loan application;
   e. documentation describing the basis for the request;
   f. a copy of all the information and documentation submitted by the borrower supporting the basis of the reconsideration request; and
   g. a copy of the Income Eligibility Worksheet and income documentation when income is the issue.

2. All reconsideration requests are to be mailed to:

CDA/Single Family Housing
MMP Reconsideration Committee
7800 Harkins RD, 3rd[th] Floor,
Lanham, Maryland 20706

3. The Reconsideration Committee will review each reconsideration request and will notify the lender and the borrower of the final decision. Any questions concerning a reconsideration request should be directed to CDA at (301) 429-7826.

4. The financing of any mortgage loan as a result of a successful reconsideration is subject to the availability of Program funds at the time of approval.

3.2 POST-CLOSING COMPLIANCE

A. Delivery of Post-Closing Compliance Files

Immediately after closing, lender must submit a Post-Closing Compliance Submission package for the first (using Attachment EE) and second (using Attachment FF), if applicable, mortgage loan to CDA for compliance review/approval before the loan will be considered for purchase by the Master Servicer.

Submit package in PDF using eDocs on Lender Online

https://lol.dhcd.state.md.us/Bin/Display.exe/ShowSection

Post-Closing Compliance packages will be reviewed on a "first-submitted, first-reviewed" basis. Program staff will post any deficiencies ("Compliance Conditions") on Lender Online. It is the lender's responsibility to review and respond promptly to any documentation requirements for Post-Closing Compliance approval.

Compliance Conditions are to be submitted using eDocs on Lender Online.

https://lol.dhcd.state.md.us/Bin/Display.exe/ShowSection

B. CDA Post-Closing Compliance Approval

If the Post-Closing Compliance file is complete and meets all of the eligibility criteria for Program compliance, CDA will approve the Post-Closing Compliance file and the approval will be listed on LOL as "Commit/Complian/APPROVED on [*the date of approval*]". The "Commit/Complian/ APPROVED" status in LOL indicates that a Post-Closing Compliance review of the loan has been performed, and the loan is in compliance as of the time of the Post-Closing Compliance review. It is recommended that the lender print the LOL Loan Status page for their records.

C. CDA Compliance Approval Certificate

Approval certificates can be generated once the "Commit/Complian" stage status is listed as APPROVED in LOL. Lenders are responsible for providing the approval letter to the Master

Servicer as soon as it is available in LOL.

NOTE: If the post-closing file is not approved by CDA and it includes a down payment assistance lien (DPA), the lender will have to return the down payment assistance funds to CDA (in case CDA has paid for the DPA) and provide the following documents to CDA, to enable CDA to release the DPA lien:

1. Certificate of Satisfaction (release of mortgage) or
2. Assignment of deed of trust and note (assignment).
3. Allonge (same as assignment #2)

Please refer to the Down Payment Assistance Program Manual for further details on DPA.

D. Eligibility Reconsideration

Should the lender or CDA determine that a borrower is not eligible for the Program post-closing, the borrower should be informed of his right to request a reconsideration of the denial.

1. Each reconsideration request must be made in writing by the borrower, be submitted through the lender within 30 days of the denial notice, and contain the following information:

    a. a cover letter from the lender requesting consideration of the borrower's request;
    b. a copy of the letter from the lender rejecting the borrower's application;
    c. the borrower's signed reconsideration request;
    d. a copy of the loan application;
    e. documentation describing the basis for the request;
    f. a copy of all the information and documentation submitted by the borrower supporting the basis of the reconsideration request; and
    g. a copy of the Income Eligibility Worksheet and income documentation when income is the issue.

2. All reconsideration requests are to be mailed to:

    CDA/Single Family Housing
MMP Reconsideration Committee
7800 Harkins RD, 3rd^{h} Floor,
Lanham, MD 20706

3. The Reconsideration Committee will review each reconsideration request and will notify the lender and the borrower of the final decision. Any questions concerning a reconsideration request should be directed to CDA at (301) 429-7826.

4. The financing of any mortgage loan as a result of a successful reconsideration is subject to the availability of Program funds at the time of approval.

SECTION 4 - MORTGAGE INSURANCE/GUARANTY

4.1 All conventional uninsured (LTV ratio of 80.0 percent or less) and insured loans

- must be underwritten to current Fannie Mae **HFA Preferred** underwriting guidelines
- **"HFA Preferred" must be selected when loan is run through automated underwriting**

- secondary financing must meet Fannie Mae's guidelines for "Community Seconds"
- Automated Underwriting
    - Maximum LTV 97%
    - Credit score per DU but not less than 640*
- Manual Underwriting
    - Maximum LTV 95%
    - DTI ratio less than or equal to 36%: 680* credit score with no reserves
    - DTI ratio greater than 36% but less than or equal to 45%: 700* credit score with no reserves;
    - 680* credit score two 2 (two) months' reserves
- Maximum CLTV is 105%, <u>subject to the limitations of the mortgage insurer</u>.

4.2 All loans with LTV ratios greater than 80.0 percent

A. Must be insured or guaranteed by one of the following:
1. Federal Housing Administration (FHA);
2. Veterans Administration (VA);
3. Rural Housing Services (RHS); or
4. A participating private mortgage insurance company (MI company), as defined in Section B below.

B. **Private Mortgage Insurance**
1. in order to be eligible for purchase by U.S. Bank, the loan must be insured by an MI company that meets the following requirements:
    a. name of the MI company must appear on CDA's "Participating Private Mortgage Insurance Companies" list
    b. the originating lender must ensure the following:
        1.) the MI Company is a duly organized and existing entity authorized to issue mortgage insurance in the State of Maryland; and
        2.) the MI company is a "qualified mortgage insurer" as defined and approved by Fannie Mae and U.S. Bank.

C. **Private Mortgage Insurance Coverage**: Must provide coverage required by Fannie Mae's HFA Preferred Program:

1. 18% for LTVs > 95% and <=97%
2. 16% for LTVs > 90% and <=95%
3. 12% for LTVs > 85% and <=90%
4. 6% for LTVs > 80% and <=85%

D. **Continuous Coverage**: To the extent permitted by the Homeowners Protection Act, the policy must provide for continuous insurance coverage to CDA, as long as CDA is the mortgagee and the premium is being paid.

E. **Private Mortgage Insurance Premium**: Premiums must be paid in one of the following ways:
1. Monthly, by the borrower, to U.S. Bank, the Master Servicer. U.S. Bank will remit payment of insurance premiums to the MI company.
2. One-time upfront mortgage insurance premium, either paid by the borrower at closing or added to the loan amount (the gross LTV ratio is determined after the financed premium is added; the mortgage insurance premium is determined before the premium is added to the loan amount).

F. **Homeowners Protection Act**: Lender shall provide the borrower with notices and disclosures required by the Homeowners Protection Act at the time of closing.

G. **Cancellation of Private Mortgage Insurance**: Borrower will have termination and cancellation rights available under the Homeowners Protection Act.

If the borrower does not request private mortgage insurance cancellation, U.S. Bank will automatically cancel private mortgage insurance on these loans when the LTV ratio is scheduled to reach 78 percent, based on the value of the home at loan origination, provided the loan is current at that time.

H. **Evaluation of MI companies**: MI companies will be evaluated based on the following criteria:

1. Turnaround time – number of claims paid by MI company in relation to total claims
2. Amount paid – the amount of percentage coverage based on coverage required by Fannie Mae's HFA Preferred Program
3. Support – evaluation of the advice and assistance provided by MI company for deeds in lieu of foreclosure/short sale approval, etc.
4. Customer Service – rating from sub-servicers based on response time and services offered by MI company

SECTION 5 – 97% LTV Conventional Refinance Program

5. 1 **Purpose:** CDA offers a product called the **97% LTV Conventional Refinance Program**. The minimum "representative" credit score for this program is 640. The **97% LTV Conventional Refinance Program** provides a 30-year fully amortizing, limited cash-out refinance loan.

5. 2 **Implementation**: Effective March 1, 2013

5. 3 **Eligibility**:

A. All mortgage loans that are liens against the property must be refinanced.

B. Copy of the Note and Deed of Trust for existing mortgage must be provided in the Pre-Closing Compliance Submission (Attachment K) to determine eligibility for refinancing.

C. Eligible Property:

A. A single-family, one-unit residence, including townhouses; detached or semi- detached homes; approved condominium units; and modular homes

B. No second homes (must be borrower's primary residence); rental properties or manufactured homes

D. The maximum LTV cannot exceed 97% for an automated underwritten loan or 95% for a manual underwritten loan with or without the upfront mortgage insurance premium financed in the mortgage; the maximum CLTV cannot exceed 105% with all second mortgages. The maximum CLTV is subject to limitations of the mortgage insurer

E. Income limits - same as current Program Income Limits;

F. Appraised Value may not exceed Program Maximum Purchase Price;

G. Prohibited Ownership Interests in Certain Property

1. State regulation requires that, at the time of closing on the Program loan, a Borrower may not have any ownership interests in certain types of property.

2. Property prohibited from ownership at the time of loan closing includes:

a. any mobile home on a permanent foundation;
b. raw land;
c. a building lot;
d. any residence <u>other than principal residence</u>;
e. a vacation home;
f. a rental property;
g. an inherited property;
h. commercial property;
i. any jointly held property;
j. a cooperative; and
k. any other real property.

3. Property which may be owned at the time of loan closing includes:

a. a cemetery plot;
b. a recreational vehicle lot; or
c. a 1/20th (2.6 weeks) or less interest in a time sharing unit.

4. In order to be eligible for a mortgage loan under the Program, any borrower who has an ownership interest in any type of property listed in Section 5.3, item G2 must either:

a. provide a contract of sale for the property at the time of application and submit documentation, i.e., settlement sheet, title for mobile home, verifying the sale of the property prior to closing of the Program loan; or
b. provide a copy of a deed showing that the borrower has divested ownership in the property.

H. Asset Test must be performed

The Asset Test Worksheet (Attachment F) is only completed for Borrowers whose assets including liquid assets and equity (the difference between the appraised value and the loan amount)] equal or exceed 20% of the appraised value of the property. Borrowers with assets equal to 20% or more of the appraised value may not be eligible for the Program if they can afford a mortgage at the applicable asset test interest rate. Contact Pat Smith at 301-429-7839 or email her at patriciaa.smith@maryland.gov to obtain the asset test interest rate for the applicable reservation date.

1. The lender will verify <u>**all**</u> assets (see below) for each borrower by obtaining written VOD's or alternative documentation (one month's most recent bank statement for each account as of the date of <u>**reservation**</u>) and list them on the Fannie Mae Form 1003/Freddie Mac Form 65 Loan Application.

When calculating a borrower's assets, all assets are to be considered, including, but not limited, to the following:

a. items paid outside of closing (examples include but are not

limited to: appraisal, credit report;
b. savings accounts;
c. checking accounts;
d. certificates of deposit;
e. the total balance of any joint accounts;
f. money market or mutual fund accounts;
g. in trust for accounts (amount accessible);
h. Chapter S corporate bank accounts (borrower owner of the Chapter S corporation)
i. any other bank accounts;
j. any stocks or bonds;
k. funds from gift letters;
l. any funds derived or to be derived from the sale of real property, any mobile home or other property prior to loan closing. Documentation showing net proceeds from any such sale is required;
m. amount used or borrowed from a life insurance policy, IRA or 401K (less penalty); and
n. equity (difference between the appraised value and the loan amount) [if it is necessary to complete the Asset Test Worksheet (Attachment F), <u>the appraised value is listed on line 1 of the Asset Test Worksheet</u>]

2. Exclusions

a. The cash surrender value of a life insurance policy, the value of an IRA account or the value of a 401k account may be excluded from the liquid assets as well as from the Income Eligibility Worksheet unless the borrower intends to use or borrow against a portion of his policy or account for settlement expenses. In this instance, only the amount being used or borrowed, less any penalty, is to be included in the liquid assets.
b. **<u>Proceeds from any secondary financing or grant used for the refinance of the borrower's loan.</u>**

3. Exception

An exception to this policy may be made, with the prior written approval of CDA, when all three of the following conditions are met;

a. the borrower's household income is at or below 55 percent of statewide median
income for a family of four, as published by HUD;
b. the regular income is fixed, such as pension or social security; and
c. the interest or dividend earnings on the assets equal at least 50 percent of the total household income.

5. 4 **<u>Mortgage Products Offered</u>**: 30 year amortizing only

5. 5 **<u>Point Options Offered</u>**: 0 point only

5. 6 **<u>Interest Rates</u>**: Published daily.

5. 7 **<u>Down Payment Assistance</u>**: Not available.

5. 8 **<u>Closing Costs</u>**: May be included in the refinance subject to LTV/CLTV limitations.

5. 9 **<u>Mortgage Insurance</u>**: Must provide coverage required by Fannie Mae's HFA Preferred Program using a Mortgage Insurance provider approved by CDA:

18% for LTVs > 95% and <=97%
16% for LTVs > 90% and <=95%
12% for LTVs > 85% and <=90%
6% for LTVs > 80% and <=85%

5.10 **Processing**: Loans are processed through a CDA-approved lender.

5.11 **Underwriting**

A. Total debt-to-income ratio may not exceed 45%

B. Automated Underwrite

1. Maximum LTV 97%
2. Credit score per DU but not less than 640*

C. Manual Underwrite:

1. Maximum LTV 95%
2. DTI ratio less than or equal to 36%, 680* credit score with no reserves
3. DTI ratio greater than 36% but less than or equal to 45%; 700* credit score with no reserves; 680* credit score with two (2) months reserves

*Subject to the limitations of the mortgage insurer

5.12 **Subordinate Liens**

A.. Must meet Fannie Mae's guidelines for "Community Seconds"

B. DPA/Partner Match Program loans may be subordinated (must meet HFA Preferred and mortgage insurer CLTV requirements) and will retain 0% deferred term.

5.13 **Homebuyer Education**

Not required. However, Borrower's Authorization for Counseling is required in the Master Servicer's purchase submission.

5.14 **Home Inspection**: Not required.

5.15 **Appraisal**: Required

5.16 **Cash out**: None; any excess funds to be applied as principal curtailment.

5.17 **Attachments**: Refer to the list of attachments on website under http://www.mmprogram.org/Attachments.aspx**.** Note that on the checklists, the lender **must** indicate on the checklist that the loan being submitted is a **97% LTV Conventional Refinance Program** loan.

5.18 **Program Loan Documents**:

A. Refer to the list of Program Loan Documents on website under

http://mmp.maryland.gov/Lenders/Pages/Loan-Documentation.aspx

B. Note that the following documents are not required for the **97% LTV Conventional Refinance Program**.

- Seller's Affidavit and Seller's Confirming Affidavit
- 3 years' federal income tax returns

SECTION 6 - HOMEBUYER EDUCATION

6.1 Homebuyer education is MANDATORY **for all purchase money mortgages**, and each Program Borrower must complete the requirement, whether or not they are first-time homebuyers. Borrowers are required to receive homebuyer education that meets at least the minimum FNMA, FHLMC, or FHA standards. See additional requirements in 6.2 below.

A. Homebuyer Education is required prior to loan approval.

B. Certification can be no more than 12 months old at the time of closing.

C. Housing Counseling - Lender Certification of Completion (Attachment C) to be included in the Pre-Closing Compliance Submission. All sections of this form must be completed, signed and dated by lender representative.

D. If a third party provided the counseling, then a certificate from the third party must also be in the submission file.

6.2 If the borrower is also applying for a Down Payment Assistance (DPA) loan and/or a Partner Match Program loan (i.e., HK4E, HK4E/SK4E, BDIP and/or CPIP) , they must meet the homebuyer education requirements established by the local jurisdiction. Certain jurisdictions have additional requirements, as noted below:

A. **Anne Arundel County** (does not include the City of Annapolis)

The following requirements must be met:

1. The homebuyer education provider must be HUD-certified;
2. The course must include at least eight hours of education on credit, budget, savings, the settlement process and mortgage products;
3. The homebuyer education course may be done online as long as it is HUD-certified, meets the requirement as to content, and provides a certificate for submission in the Pre-Closing Compliance package.

B. **Baltimore City**

Any prospective homebuyer purchasing a home in Baltimore City must meet the following requirements:

1. Complete homeownership counseling from a Baltimore City-approved housing counseling agency; and
2. obtain a counseling certificate dated **before the borrower enters into a contract of sale to purchase a home**.

C. **Baltimore County**

The following requirements must be met:

1. ***Homebuyer education must be received from a counseling agency approved by the jurisdiction to offer homebuyer education.*** The following agencies have been identified as being approved, but this may change, and the borrower or lender should confirm the approved status prior to taking the homebuyer education:

- Diversified Housing Development;
- Harbel Housing Partnership Program;
- Neighborhood Housing Services of Baltimore, Inc.;
- Eastside Community Development Corp; or
- Southeast CDC

2. All workshop and individual counseling must be completed and counseling certificate dated **before the borrower enters into a contract of sale to purchase a home**.

D. **Harford County**

The following requirements must be met:

1. Homebuyer Education must include a minimum of two hours of one-on-one, face-to-face counseling and three hours of workshop counseling;
2. The counseling must be conducted by a HUD-approved housing counseling agency or by a lender that uses the services of a mortgage insurer with an established education/counseling program; and
3. Homebuyer education must be received prior to loan approval by CDA (during the pre-closing review).

Lenders must submit a copy of the Housing Counseling – Lender Certification of Completion (Attachment C) in the Pre-Closing Compliance Submission and indicate whether the counseling was provided by the lender or a third party. If the counseling was provided by a third party, a certificate from the third party must be provided.

Refer to the Manual for Down Payment Assistance for more detailed information.

*The loan originators need to always insure that they follow the underwriting requirements of the Master Servicer (US Bank), mortgage insurers, FNMA, Freddie Mac, CDA, FHA etc. in effect at the time a loan is originated.