

MSHDA POLICIES & PROCEDURES

SINGLE FAMILY - NSP ACQUISITION REHAB LOAN PROGRAM

Effective Date: 07-07-09	Replaces Issue of:	Product Name: NSP-ACQ Rehab
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SUMMARY:

This is a 30-year fixed rate conventional 1st mortgage with a simultaneous closing 2nd mortgage loan product available to low-to-moderate income borrowers who meet the MSHDA sales price and income limit eligibility guidelines and are purchasing an existing, foreclosed, or abandoned property. If the borrower has had ownership interest in a primary residence in the last three (3) years, they are not eligible for the program unless they are purchasing in a targeted area (where there are no prior homeownership restrictions). All adult members of the household must apply jointly for the loan. Non-occupant co-borrowers and co-signers are not permitted.

PRODUCTS:

MSHDA Conventional 1st Mortgage; maximum 80% LTV (Bond cap funds)
MSHDA 2nd Mortgage; maximum \$25,000 with Rehab or maximum \$10,000 without Rehab; maximum 103% CLTV (NSP funds)

LOAN PURPOSE:

Purchase of single family, owner-occupied primary residence only. Property must have been an existing, foreclosed or abandoned property located in areas of "greatest need" as defined by HUD. Find property Foreclosure Risk Score at www.michigan.gov/mshda. Must be rated 6 or higher.

Foreclosed: A property "has been foreclosed upon" under HUD regulations "at the point that, under state or local law, the mortgage or tax foreclosure is complete. HUD generally will not consider a foreclosure to be complete until after the title for the property has been transferred from the former homeowner under some type of foreclosure proceeding or transfer in lieu of foreclosure, in accordance with state or local law.

Abandoned: Under HUD regulations "A home is abandoned when mortgage or tax foreclosure proceedings have been initiated for that property, no mortgage or tax payments have been made by the property owner for at least 90 days, AND the property has been vacant for at least 90 days."

LOAN TERMS:

MSHDA 1st Mortgage: Conventional, 30 year fixed rate mortgage amortizing at the current prevailing Single Family MSHDA interest rate. Loan amount must not exceed 80% of the discounted sales price. See **Sales Price Limits** in this product description for discounted sales price requirements.

MSHDA 2nd Mortgage: Loan will be a 0%, non-amortizing loan, forgivable over a 10 year term at 10% per year, which will be due on sale or transfer of the property, or when the property ceases to be the principal residence of the mortgagor, or if the mortgagor repays in full any mortgage loans encumbering the property that are senior to the debt. Loan proceeds to include down payment assistance, borrower paid closing costs, prepaid expenses, and cost

of repairs. Loan proceeds **cannot** be used to pay delinquent credit obligations, "junk fees," or luxury items added to the cost of repairs.

**SALES PRICE
LIMIT:**

Maximum \$224,500

Discounted purchase requirement: According to the NSP statute "Any purchase of a foreclosed upon home or residential property under this section shall be at a discount from the current market appraised value of the home or property, taking into account its current condition, and such discount shall ensure that purchasers are paying below-market value for the home and property." HUD regulations interpret this requirement as follows: "the average purchase discount for all properties purchased with NSP funds during the 18-month use period shall be at least 1 percent."

INCOME LIMITS:

120% of Area Median Household Income, adjusted for family size, except where lower by state law. See NSP Income Limits chart at: www.michigan.gov/mshda

REQUIREMENTS:

The borrower must occupy the property as his/her primary residence within 60 days of loan closing.

**ELIGIBLE
PROPERTIES:**

Existing single-family homes or condominiums.

Existing multiple-section manufactured homes on foundations permanently affixed to real estate.

NOTE: Existing multiple-section manufactured homes must have been constructed after June 14, 1976.

Properties built prior to 1978, may be subject to Lead Base Paint requirements. Properties over 50 years old may be subject to State Historic Preservation Office (SHPO) review.

ASSUMABILITY:

Not assumable.

**PRE-PAYMENT
PROVISION:**

MSHDA 1st Mortgage: No penalties, no restrictions.

**MAXIMUM
LOAN AMOUNT:**

MSHDA 1st Mortgage: The maximum mortgage amount for the applicable jurisdiction may not exceed the maximum loan as determined by the loan to value limit for this MSHDA loan program.

MSHDA 2nd Mortgage: \$25,000 with Rehab, \$10,000 without Rehab

**MAXIMUM
LOAN TO VALUE:**

80% LTV / 103% CLTV

NOTE: Use Total Acquisition Costs (1% discounted Sales Price plus Cost of Repairs) to calculate CLTV.

**SUBORDINATE
FINANCING:**

MSHDA only

**QUALIFYING
RATIOS:**

Ratios should not exceed 30%/41%. Each file will be reviewed based on a satisfactory history of the borrower's ability and willingness to pay.

**THIRD PARTY
CONTRIBUTIONS:**

An interested party is anyone (other than the property purchaser) who has a financial interest in, or can influence the terms and the sale or transfer of, the subject property. This includes the property seller, the builder/developer (or an affiliate who may benefit from the sale of the property), and the real estate agent or broker. When the property purchaser receives financial assistance from a relative, domestic partner, fiancée, municipality, nonprofit organization, or employer, MSHDA does not consider the provider of the assistance to be an interested party to the sales transaction unless the person or entity is the property seller (or is affiliated with the property seller).

The maximum allowable contributions from interested parties are limited to 6% of the sales price.

These contributions are allowed for closing costs and certain prepaid settlement costs only. Certain prepaid settlement costs are defined as: interest charges covering any period after the settlement date, real estate taxes covering any period after the settlement date, hazard insurance premiums.

UNDERWRITING:

All loans require a manual underwrite.

No minimum fico credit score required.

Tri-merge credit report required. If report shows a lack of credit history, must provide a minimum of three satisfactory alternative credit references.

Include all outstanding debt with more than 10 months remaining.

Deferred student loans must be included in DTI ratio.

All collections, past due amounts, judgments, civil liens and charge-offs must be paid-in full.

Borrower must submit a satisfactory written letter of explanation for all derogatory credit history.

Previous bankruptcies should be discharged four years prior to date of application and borrower needs to have re-established an acceptable

credit history. If less than four years, but over two years, borrower must document the extenuating circumstances, re-established credit and presently be current on all accounts.

Previous Foreclosures or Deed in Lieu of Foreclosures should be completed five years prior to date of application and borrower needs to have re-established an acceptable credit history. If less than five years, but over three years, borrower must document the extenuating circumstances, re-established credit and presently be current on all accounts.

Minimum borrower contribution is 1% of own funds. For IDA participants, the Participant Savings amount will be counted as the minimum cash investment providing it is at least 1% of the sales price.

Document funds required to close from eligible sources.

Two months PITI in reserves, after closing.

No maximum asset limit.

NO cash back at closing.

Scope of Work/Cost of Repairs.

HQS minimum property standards.

Appraisal with Certificate of Environmental Clearance (Appraiser to state an "as is" value, prior to Rehab).

**HOME BUYER
EDUCATION:**

A certificate of completion for eight hours of Homebuyer Education Counseling is required for each borrower and must be signed by a MSHDA approved Homeownership Certified Counselor. A list of certified counselors is available at: www.michigan.gov/mshda.

**ALLOWABLE
FEES:**

The lender may collect an Origination Fee of up to 1% of the 1st mortgage loan amount. The lender may also be reimbursed for expenses incurred in processing, such as credit reports, appraisals, surveys, etc., not to exceed the actual cost of these expenses. A maximum of one initial home inspection fee may be included as allowable closing costs.

**PROPERTY
REQUIREMENTS:**

Property must meet applicable local codes, standards, and ordinances (at a minimum HQS) to be completed within 60 days after title transfer. Repairs to remedy deferred maintenance, replacement of principal fixtures of existing structure, installation of security devices/smoke detectors, furnaces, central air conditioning, insulation, siding, roof repair or replacement, kitchen and bathroom remodeling, adding a garage or carport, installing a ramp or alternative energy improvements such as, solar water heating systems, windmills for home power, geothermal

furnaces and solar rooms permanently installed for use as a sunroom or family room.

REPAIR ESCROW REQUIREMENTS:

Repair escrow costs to be held in escrow according to terms of Repair Escrow Agreement. Funds to be disbursed to borrower and builder/supplier for work completed as documented by progress inspections and title endorsements. All work to be completed within 60 days of closing.

FEDERAL RECAPTURE TAX:

If property is sold within nine (9) years from the date of loan closing, the borrower may owe a recapture tax. This tax is based on the household income and family size during the year of resale, and on the length of time the borrower occupied the property.

RECAPTURE TAX REIMBURSEMENT PROGRAM:

MSHDA recognized that this may be a concern for individuals, so the Recapture Tax Reimbursement Program was created. In the event a borrower is required to pay a recapture tax, MSHDA will reimburse borrowers for any recapture tax paid by the borrower to the IRS. To request reimbursement, homeowners simply provide MSHDA with an IRS form 8828 and a signed copy of their IRS 1040 form.

LOAN DOCUMENTATION REQUIREMENTS:

APPLICATION DOCUMENTS:

Refer to "*NSP Loan Submission Checklist*", DOH NSP 013, for required documents. The application documents are:

1. Mortgage Loan Data Summary Sheet, SFH 117
2. Loan Application (FNMA 1003)
3. Homebuyer Counseling Certificate
4. Evidence of Social Security Number
5. Copy of Driver's License
6. Credit Report
7. Borrower's Letter of Explanation for all Derogatory Credit
8. Verification of Income, two year history
9. Verification of Assets, two month history
10. Purchase Agreement
11. Scope of Work/Cost of Repairs
12. Repair Escrow Agreement Worksheet
13. Two acceptable construction bids from a licensed builder
14. Appraisal with Certification of Environmental Clearance
15. Initial Application Affidavit, SFH 106(4/06)
16. Signed Federal Tax Returns for last 3 years, as applicable
17. FNMA 1008, Transmittal Summary signed by Lender's Underwriter
18. Preliminary title commitment

**CLOSING
DOCUMENTS:**

The most current version of all mortgage document forms must be used.

Conventional Mortgage, Note & Assignment:

- Fannie-Freddie Michigan Mortgage 3023
- Fannie-Freddie Multi-state Fixed Rate Note 3200
- Repair Escrow Agreement
- Assignment of Mortgage, SFH 102
- Universal Tax Exempt Financing Rider SFH 122U
- Final Title Policy on 1st Lien

NOTE: Refer to “NSP Purchase Submission Mortgage Document Control Sheet”, DOH NSP 014, for **other** required documents.

2nd Mortgage & Mortgage Note:

- Mortgage, DOH NSP 003
- Mortgage Note, DOH NSP 004

TITLE INSURANCE:

The name of the insured on all title insurance policies may read:

“[Lender’s name], its successors and/or assigns”

**SHORT FORM
TITLE INSURANCE
POLICY:**

A short form title policy issued at closing is acceptable.