

MSHDA POLICIES & PROCEDURES

SINGLE FAMILY - RURAL DEVELOPMENT (RD) 502 DIRECT LEVERAGE LOAN PROGRAM

Effective Date: 02-02-09

Replaces Issue of: 9-10-08

Product Name: RD LEVERAGE

SUMMARY:

This is a 30-year fixed rate Rural Development 502 Direct Leverage loan available to Low to Very Low Income borrowers who meet the MSHDA sales price, income limit and first time homebuyer eligibility guidelines. Section 502 mortgages are "last resort" loans. This means that a threshold for eligibility is the applicant's inability to obtain financing from other sources, including their own resources. MSHDA will provide a 1st mortgage in an amount not to exceed 50% of the lesser of sales price or appraised value. RD will provide the balance in the form of a 2nd mortgage to borrowers who qualify under the Direct Leverage Program. Generally, RD staff and not a Participating Lender originate these loans. The 1st mortgage amount may include closing costs and prepaid/escrow items providing it does not exceed 50% of the lesser of sales price or appraised value. The applicant's gross household income may not exceed 80% of Area Median Income, adjusted by family size, and further capped by state law. RD issues a Mortgage Loan Commitment; however, does not issue a Loan Note Guarantee. 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 home ownership 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/Rural Development 502 Direct Leverage Loan

LOAN PURPOSE:

Purchase of Single family, owner-occupied primary residence only.

INCOME LIMITS:

Income limits apply and are available online at: www.michigan.gov/mshda

SALES PRICE LIMITS:

Sales price limits apply and are available online at:
www.michigan.gov/mshda

OCCUPANCY REQUIREMENTS:

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

ELIGIBLE PROPERTIES:

New, not previously occupied, single family homes or builders' models that have not been occupied;

Existing single-family homes or condominiums that have been previously occupied;

New condominiums approved by FNMA or FHLMC, or insurer (FHA, VA, or RD)

If new condominiums are not agency approved, MSHDA may approve individual units only upon submission and review of the Spot Condominium Application, form SFH 131, the Condominium Disclosure Statement and HOA budget.

NOTE: Must check with RD for other restrictions.

New manufactured homes approved by RD.

ASSUMABILITY:	The mortgage may be formally assumed; however, certain restrictions will apply with respect to income, credit and sales price limits. Approval is subject to MSHDA and RD requirements.
LOAN TERM:	30-year term
MINIMUM LOAN AMOUNT:	There is no minimum loan amount
MAXIMUM LOAN AMOUNT:	The maximum mortgage amount cannot exceed 50% of the lesser of: <ul style="list-style-type: none">• Sales price OR• Appraised value
MAXIMUM LOAN TO VALUE:	Lesser of 50% of: <ul style="list-style-type: none">• Sales price OR• Appraised value
STEP RATE OPTION:	Not available with this loan program
TEMPORARY INTEREST RATE BUYDOWN OPTION:	Not available with this loan program
SUBORDINATE FINANCING:	Not available with this loan program
QUALIFYING RATIOS:	Rural Development determines the feasibility of repayment by an eligible applicant, based on the ratios of PITI to income and total debt to income
THIRD PARTY CONTRIBUTIONS:	Allowed subject to RD approval
UNDERWRITING:	Underwritten to RD guidelines; Repairs or rehabilitation expense cannot be financed; Non-traditional credit is acceptable if traditional credit is not available;

All collections, judgments, civil liens and charge-offs must be paid-in-full. Verification that collections are paid should accompany a statement from the borrower stating the reasons for derogatory information;

100% gift is permitted from a relative, domestic partner, fiancé, or fiancée. A gift letter is required.

Previous bankruptcy – RD Policy (exceptions may be granted):
Chapter 7 – Must be discharged for three years.
Chapter 13 – Must be discharged for one year

Previous foreclosures are ineligible for the MSHDA programs. With “Deed in lieu” of foreclosure, borrower is ineligible for five (5) years.

Mortgage Credit Certificates (MCC) may not be used in conjunction with the MSHDA mortgage loan programs.

RENT CREDIT: If the borrower had a lease with an option to purchase and exercises that right to purchase, the total amount of rent credit that can be given to the borrower is the amount paid over and above the Fair Market Rent for the particular area, as established by the appraisal. Lenders should be certain the appraiser reflects the Fair Market Rent in the appraisal if they are using a rent credit.

**WORK CREDIT/
SWEAT EQUITY:** Not available with this program

**HOME BUYER
EDUCATION:** Not required unless receiving MSHDA down payment assistance funds

**GUARANTY/
MORTGAGE
INSURANCE:** No monthly mortgage insurance and no guaranty fee is required

**ALLOWABLE
FEES:** The lender can collect an Origination Fee of up to 1% of the 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.

**PREPAYMENT
PENALTY:** If mortgage is paid-in-full within three (3) years of the date of the mortgage note, a prepayment penalty will be assessed equal to one percent of the amount prepaid.

**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.

**DOWN PAYMENT
ASSISTANCE:**

For eligible borrowers, down payment assistance is available in the form of additional funds, which will be added to the MSHDA 1st mortgage amount toward the payment of closing costs and prepaids/escrows less the 1% minimum cash investment required of the borrower. The Borrower will not execute a second mortgage.

NOTE: In no event can the 1st mortgage exceed 50% of the lesser of the sales price or appraised value. In order to be eligible, the borrower's income cannot exceed 80% of Area Median Income, adjusted for family size, and further capped by state law. A Good Faith Estimate of total costs will be required at time of loan submission any time down payment assistance funds are requested.

LOAN DOCUMENTATION REQUIREMENTS:

**APPLICATION
DOCUMENTS:**

Refer to "Loan Submission Checklist", SFH 134, for required documents. (This form is located in the Miscellaneous Documents Section of the Lender on Line Web site.). The application documents are:

1. Mortgage Loan Data Summary Sheet, SFH 117
2. Copy of RD Loan Commitment
3. Loan Application (FNMA 1003)
4. Counseling Certificate, as applicable
5. Evidence of Social Security Number
6. Copy of Driver's License
7. Credit Report
8. Verification of Income
9. Verification of Assets
10. Purchase Agreement/Contract to Build
11. Appraisal
12. Initial Application Affidavit, SFH 106(4/06)
13. Signed Federal Tax Returns for last 3 years, as applicable
14. Required Builder Information, as applicable
15. FNMA 1008, Transmittal Summary

NOTE: A Good Faith Estimate of closing costs and prepaid/escrows will also be required at time of Loan Submission to the Office of Single Family

**CLOSING
DOCUMENTS:**

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

Conventional Mortgage, Note & Assignment:

- Fannie-Freddie Michigan Mtg 3023
- Fannie-Freddie Multistate Fixed Rate Note 3200
- Assignment of Mortgage, SFH 102
- Universal Tax Exempt Financing Rider SFH 122U

NOTE: Refer to "Leveraged Mortgage Document Control Sheet", SFH 142, for other required documents. This form is located in the Rural Development (RD) Mortgage Loan Section of the Lender on Line Web site under Closing Documents.

One HUD-1 Settlement Statement reflecting the sales price, both liens, all "POCs" as well as all disbursements will be required at time of Loan Purchase.

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

"[Lender's name], their successors and/or assigns."

**SHORT FORM
TITLE INSURANCE
POLICY:**

A short form title policy issued at closing is acceptable.