

## MSHDA POLICIES & PROCEDURES

# SINGLE FAMILY – CONVENTIONAL LOAN PROGRAM

Effective Date: 07-13-09

Replaces Issue of: 4-16-09

Product Name: CONV

**SUMMARY:**

This is a 30-year fixed rate conventional or insured conventional loan available to low-to-moderate income borrowers who meet the MSHDA sales price and income limit eligibility guidelines. Many loan products are available and are outlined in the following section. 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 Conventional (standard) max 80% LTV  
MSHDA Conventional with Step Rate option/max. 80% LTV  
MSHDA Conventional with 2/1-buydown option/max. 80% LTV  
MSHDA Conventional with both Step Rate and 2/1-buydown option/max. 80% LTV

**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](http://www.michigan.gov/mshda)

**SALES PRICE LIMITS:**

Sales price limits apply and are available online at:  
[www.michigan.gov/mshda](http://www.michigan.gov/mshda)

**REQUIREMENTS:**

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

**ELIGIBLE PROPERTIES:**

New or existing single-family homes or condominiums (attached or detached).

New or existing multiple-section manufactured (mobile) homes on foundations permanently affixed to real estate;

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

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.

**ASSUMABILITY:** The mortgage may be formally assumed; however, certain restrictions will apply with respect to income, credit and sales price limits.

**LOAN TERM:** 30-year term

**MINIMUM  
LOAN AMOUNT:** There is no minimum loan amount.

**MAXIMUM  
LOAN AMOUNT:** The maximum mortgage amount for the applicable jurisdiction may not exceed the maximum loan as determined by the loan to value limit for the MSHDA loan program.

**MAXIMUM  
LOAN TO VALUE:** 80% LTV / 103% CLTV

**STEP RATE  
OPTION:** For a conventional loan up to 80% LTV, a “step rate” option is available. This feature reduces the rate for the first three (3) years. The interest rate increases at year four (4) and remains constant for the balance of the 30-year term. The borrower is qualified for the payments at the initial rate. Different interest rates apply to the “step rate” loans and will be published by MSHDA at the same time as the regular program interest rates.

**TEMPORARY  
INTEREST RATE  
BUYDOWN  
OPTION:** A 2-1 temporary interest rate buydown option is permitted for fixed and step rate conventional loans providing the loan to value does not exceed 80%. The lender generally should use the actual note rate for the mortgage as the “qualifying rate”. However, the lender may use the “bought down” rate as the “qualifying rate” provided the mortgagor has a credit score of 660 or higher (or 680 or higher, if the borrower is self-employed). The temporary interest rate buydown option is not available with a conventional DPA loan.

**SUBORDINATE  
FINANCING:** Subordinate financing may be allowed on a case-by-case basis. The terms and conditions of the subordinate financing must have prior written approval of MSHDA.

**QUALIFYING  
RATIOS:** Generally, the ratios should not exceed 30%/41%. If a borrower’s qualifying ratios exceed the above guideline, the Lender must list and document compensating factors that would justify MSHDA to override the ratio requirement. At no time will MSHDA approve a loan with ratios exceeding 45% DTI.

**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 lesser of the property's sales price or appraised value for a mortgage secured by a principal residence, if the loan-to-value ratio (or, if applicable, the combined loan-to-value ratio) is in the range from 76% to 80%; or
- 9% of the lesser of the property's sales price or appraised value for a mortgage secured by a principal residence or second home, if the loan-to-value ratio (or, if applicable, the combined loan-to-value ratio) is 75% or less.

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, and any escrow accruals required for renewal of borrower-purchased mortgage insurance coverage.

**UNDERWRITING:**

MSHDA will not automatically approve loans based solely on decisions obtained by Agency systems. Nor will MSHDA automatically approve loans that are submitted with a Lender's underwriter approval. Instead MSHDA will assess each borrower's willingness and ability to repay the loan as documented by the borrower's credit and income history, assets and total debt liabilities.

Loans that receive a DU Expanded Approval (EA) recommendation or a Refer with Caution are not eligible for MSHDA financing.

- MSHDA reserves the right to require further information to ensure compliance of the Underwriting Package.
- Credit reports that have a FICO credit score of "000" due to the lack of a credit history, may still be acceptable providing evidence of two satisfactory alternative credit reference letters are submitted.
- 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.
- Include all outstanding debt with more than 10 months remaining
- Deferred student loans must be counted in the DTI ratio.

- Previous bankruptcy:  
Chapter 7 - Generally, the borrower should be discharged from a Chapter 7 Bankruptcy for at least 48 months prior to loan application date and have satisfactory re-established credit.

Chapter 13 – A Chapter 13 Bankruptcy should be discharged for at least 24 months prior to loan application date and have satisfactory re-established credit.

- Foreclosure or Deed in Lieu of Foreclosure:  
A borrower whose principal residence or other real property was foreclosed or gave a deed-in-lieu of foreclosure within the previous five (5) years is generally not eligible for a new MSHDA mortgage.

**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:**

Work credit/sweat equity will be restricted to work for which the borrower is reasonably qualified by experience and training. Documentation supporting the borrower's qualifications may be required under certain circumstances. MSHDA will require personally accumulated cash from the borrower of at least 2½% of the sales price where work credit/sweat equity is being used (conventional and conventionally insured loans). Work credit/sweat equity may consist of labor items only. A written work credit/sweat equity agreement, signed and dated by the seller and the borrower, is required. The agreement will identify the labor and the amount of credit for each labor item. Allowances for materials must be identified separately. Credit for materials is only permissible if supported by paid invoices identifying the subject property.

**ALLOWABLE  
FEES:**

The lender may 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.

**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. Borrowers who must pay this tax will be reimbursed by MSHDA upon proof of actual tax paid, with copies of IRS form 8828 and copy of 1040's.

**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 “*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. Mortgage Insurance Certificate
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: Builder’s License (to be retained in lender’s file), and Equal Opportunity Builder Certificate (SFH 100)
15. FNMA 1008, Transmittal Summary signed by Lender’s Underwriter

**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 Multistate Fixed Rate Note 3200
- Assignment of Mortgage, SFH 102
- Universal Tax Exempt Financing Rider SFH 122U

**Step Rate Conventional Mortgage, Note & Assignment:**

- Step Rate Conventional Mortgage, SFH 100
- Step Rate Conventional Note, SFH 101-C
- Assignment of Mortgage, SFH 102
- Universal Tax Exempt Financing Rider SFH 122U

*NOTE: Refer to “Conventional Mortgage Document Control Sheet”, SFH 135, or “Conventional-Step Loan Mortgage Document Control Sheet”, SFH 137, for other required documents. This form is located in the Conventional or Conventional-Step Loan Sections of the Lender on Line Web site under Closing Documents.*

**TITLE INSURANCE/  
PRIVATE MORTGAGE  
INSURANCE:**

The name of the insured on all title insurance policies or private mortgage insurance certificates 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.