

MSHDA POLICIES & PROCEDURES

SINGLE FAMILY FHA LOAN PROGRAM

Effective Date: 9-11

Replaces Issue of: 03-11

Product Name: FHA

SUMMARY:

This is a 30-year fixed rate FHA loan available to low-to-moderate income borrowers who meet the MSHDA sales price and income limit eligibility guidelines. 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 FHA (standard)
MSHDA FHA with Down Payment Assistance (SF-DPA)
MSHDA FHA with Buydown Option

** Buydown Option cannot be combined with DPA*

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.
- 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 6/14/76.
- Existing single-family homes that have been previously occupied.
- New or existing condominiums approved by FHA.

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 lesser of: a) the FHA maximum insured mortgage amount; or b) the maximum sales price established by MSHDA in accordance with federal and state law. **Exception:** *The UFMIP may be added to the maximum mortgage amount calculated.*

**MAXIMUM
LOAN TO VALUE:**

The maximum permitted by FHA Guidelines

**TEMPORARY
INTEREST RATE
BUYDOWN
OPTION:**

A 2-1 temporary interest rate buydown option is permitted on FHA loans. All other FHA Guidelines relative to buydowns are applicable. The temporary interest rate buydown option is **NOT** available with an FHA SF-DPA loan.

**SUBORDINATE
FINANCING:**

In conjunction with a FHA mortgage, a MSHDA Single Family Down Payment Assistance (SF-DPA) loan is available for households who meet the MSHDA sales price and income limit eligibility guidelines. The DPA is a 0%, non-amortizing, "soft" second mortgage loan to assist with the down payment, closing costs, and prepaid expenses. The second mortgage is due on refinance, sale or transfer of the property. The borrower is required to invest a minimum of 1% of the sales price. This amount may be a gift from a relative or person with long standing relationship. The maximum DPA available is \$7,500. A liquid cash asset limit applies, which is \$7,500. For Individual Development Account Participants, the matched funds are not used in calculating the liquid cash assets. NOTE: Cash back at closing is not permitted, except for POCs listed on the HUD-1 Settlement Statement, which are in excess of the borrower's required 1% cash investment.

Any other 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 and be in compliance with FHA Guidelines.

Buydown option cannot be combined with Down Payment Assistance.

**QUALIFYING
RATIOS:**

Generally, the ratios should not exceed 31%/43%. 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.

**INTERESTED
THIRDPARTY
CONTRIBUTIONS:**

The amount of allowable contributions from interested parties is the maximum permitted by FHA Guidelines.

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 liabilities.

Loans that receive a DU Expanded Approval (EA) or a Refer with Caution are not eligible for MSHDA financing. MSHDA will consider other recommendations as an exception on a case by case basis.

MSHDA reserves the right to require further information to ensure compliance of the Underwriting Package

- MSHDA does not require a minimum FICO credit score, although a minimum credit score of 620 is *recommended*. MSHDA will entertain credit scores below 620 if the Lender is able to submit adequate documentation to indicate a borrower has overcome previous credit difficulties and may be viewed as a reasonable credit risk.
- 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 three 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.
- A gift conforming to FHA Guidelines is permitted. Borrower must provide verification of gift funds in applicable account of borrower or donor. Gift funds may be used for down payment, closing costs and prepaid items. A gift letter is required.

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

**HOME BUYER
EDUCATION:**

Borrowers are required to receive homebuyer education counseling if the FHA loan is combined with a DPA. The homeownership counselor must be a MSHDA LINKS to Homeownership Certified Counselor. The Homebuyer Education Certificate is valid for 12 months. A list of certified counselors is available at: www.michigan.gov/mshda/.

**MORTGAGE
INSURANCE:**

The Lender must obtain a FHA Mortgage Insurance Certificate.

**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:**

No prepayment penalty

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

**APPLICATION
DOCUMENTS:**

Refer to “*Loan Submission Checklist*”, DOH 009, 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. FHA Mortgage Credit Analysis Worksheet (FHA 92900) approved and signed by DE underwriter
3. Loan Application (FNMA 1003)
4. FHA/VA Addendum – two pages (HUD 92900/VA-26-1866)
5. Notice to Buyers –FHA (SFH 123-A)
6. Counseling Certificate, as applicable
7. Evidence of Social Security Number
8. Copy of Driver’s License
9. Credit Report
10. Verification of Income
11. Income Tax Affidavit (SFH 108), if applicable
12. Verification of Assets
13. Purchase Agreement/Contract to Build
14. Appraisal
15. Initial Application Affidavit, SFH 106(4/06)
16. Signed Federal Tax Returns for last 3 years, as applicable
17. Required Builder Information, as applicable

CLOSING

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

- a) FHA Mortgage, Note, Rider & Assignment:
 - i. FHA Mortgage
 - ii. FHA Mortgage Note
 - iii. Universal Tax-Exempt Financing Rider SFH 122U
 - iv. Assignment of Mortgage, SFH 102

*NOTE: Refer to “FHA Mortgage Document Control Sheet”, SFH 139, for **other** required documents. This form is located in the FHA Loan Section of the Lender on Line Web site under Closing Documents.*

- b) 2nd Mortgage & Mortgage Note: (DPA is not available with Step-Loans or Buydown Loans)
 - i. Mortgage, SFH 100-C (Reservations on or after 7/1/03)
 - ii. Mortgage Note, SFH 101-D (Reservations on or after 7/1/03)

*NOTE: Refer to “FHA – Down Payment Assistance Mortgage Document Control Sheet, SFH 140, for **other** required documents. (This form is located at the Lender on Line Web site under the link for Down Payment Assistance.)*

**TITLE INSURANCE/
MORTGAGE
INSURANCE:**

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