

MSHDA POLICIES & PROCEDURES

SINGLE FAMILY - RURAL DEVELOPMENT (RD) GUARANTEED LOAN PROGRAM

Effective Date: 4-16-09

Replaces Issue of: 2-02-09

Product Name: RD

SUMMARY:

This is a 30-year fixed rate Rural Development Guaranteed loan available to low-to-moderate income borrowers who meet the MSHDA sales price, income limit and first time homebuyer eligibility guidelines. The maximum mortgage amount can be the maximum amount guaranteed by Rural Development and include closing costs, prepaid/escrow items and the RD guarantee fee. The maximum mortgage amount cannot include repairs and/or improvements to the property. All loans are required to be guaranteed by Rural Development. 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. A down payment assistance feature is also available with this loan program. Down payment assistance funds may be used to pay closing costs, prepaids/escrows and RD Guarantee Fee less the 1% cash investment from the borrower. The down payment assistance funds may not be used to buy down the principal amount of the mortgage to qualify the borrower.

PRODUCTS:

MSHDA/Rural Development Guaranteed Loan
MSHDA/Rural Development Guaranteed Loan with SF-DPA
(2/1 Buydown & Step Option are not available)

LOAN PURPOSE:

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

INCOME LIMITS:

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

**SALES PRICE
LIMITS:**

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

**OCCUPANCY
REQUIREMENTS:**

Borrower(s) must occupy the property within 60 days of 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

**1st MAXIMUM
LOAN AMOUNT:** The maximum mortgage amount can be the maximum amount guaranteed by Rural Development and include closing costs, prepaid/escrow items and the RD guarantee fee. The maximum mortgage amount cannot include repairs and/or improvements to the property.

**1st MAXIMUM
LOAN TO VALUE:** Maximum mortgage permitted by Rural Development, providing the mortgage does not include repairs and/or improvements to the property. Maximum can include closing costs, prepaids/escrow items and the Rural Development guarantee fee.

**STEP RATE
OPTION:** Not available with this loan program

**TEMPORARY
INTEREST RATE
BUYDOWN
OPTION:** Not available with this loan program

**SUBORDINATE
FINANCING:** Refer to the Down Payment Assistance Section of these Policies & Procedures

**QUALIFYING
RATIOS:** 29/41 – Exceptions with compensating factors and RD approval

**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 from a permissible donor according to RD Guidelines is acceptable.

Previous bankruptcy – RD Policy (exceptions may be granted):

- a) Chapter 7 – Must be discharged for three years.
- b) Chapter 13 – Must be discharged for three years

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 three (3) years is generally not eligible for a new MSHDA mortgage. However, if the foreclosure or deed-in-lieu of foreclosure was the result of documented extenuating circumstances that were beyond the control of the borrower and the borrower has re-established good credit since the foreclosure, MSHDA may grant an exception to the three-year requirement. Further information is available in Section 11.7 of the Single Family Operating Manual.

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:**

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.

**HOMEBUYER
EDUCATION:**

Not required unless receiving MSHDA down payment assistance funds.

**GUARANTY/
MORTGAGE
INSURANCE:**

No monthly mortgage insurance. A one-time guarantee fee of 2% is applicable and may be financed.

**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.

**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:**

Down payment assistance in the form of the Single Family Down Payment Assistance Loan (SF-DPA) is available. This is a 0%, non-amortizing loan for a maximum of \$7,500, which is available to eligible borrowers. Down payment assistance funds may be used for the payment of closing costs, prepaids/escrows, and the RD guarantee fee less a 1% minimum cash investment from the borrower. Down payment assistance funds may not be utilized to buy down the principal amount of the mortgage to qualify the borrower. The SF-DPA 2nd Mortgage and Note forms will be required. This program is available to a borrower(s) who meet the MSHDA sales price and income limit eligibility guidelines. See MSHDA Policies and Procedures for the Single Family Down Payment Assistance Program – “SF-DPA” for more specific program information. In addition, a “MSHDA/RD Down Payment Assistance Calculation Worksheet” is available to assist lenders in the calculation of the amount of the down payment assistance, which may be requested at time of Loan Submission.

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

NOTE: Refer to "Rural Development Mortgage Document Control Sheet", SFH 143, 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.

2nd Mortgage & Mortgage Note:

- Mortgage, SFH 100-C
- Mortgage Note, SFH 101-D

NOTE: Refer to "Rural Development – Down Payment Assistance Mortgage Document Control Sheet", SFH 138, for other required documents. (This form is located at the Lender on Line Web site under the link for Down Payment Assistance.)

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

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

**SHORT FORM
TITLE INSURANCE
POLICY:**

A short form title policy issued at closing is acceptable.