

MSHDA POLICIES & PROCEDURES

SINGLE FAMILY VA LOAN PROGRAM

Effective Date: 7-13-09

Replaces Issue of: 9-10-08

Product Name: VA

SUMMARY:

This is a 30-year fixed rate VA 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 VA (standard)
MSHDA VA with Buydown Option

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 VA

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 maximum guaranteed mortgage amount permitted by VA, subject to the veteran's entitlement on Certificate of Eligibility; or b) the maximum sales price established by MSHDA in accordance with federal and state law. **Exception:** *The VA Funding Fee may be added to the maximum mortgage amount calculated.*

**MAXIMUM
LOAN TO VALUE:**

The maximum permitted by VA Guidelines

**STEP RATE
OPTION:**

For a VA loan, a "step rate" option is not available.

**TEMPORARY
INTEREST RATE
BUYDOWN
OPTION:**

A 2-1 temporary interest rate buydown option is permitted for VA loans. 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). All other VA Guidelines relative to buydowns are applicable.

**SUBORDINATE
FINANCING:**

In conjunction with a VA mortgage, a MSHDA Single Family Down Payment Assistance (DPA) loan is not available.

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 VA Guidelines.

**QUALIFYING
RATIOS:**

Generally, the debt ratio should not exceed 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, fiancé, 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 is limited to 4% of the lesser of the property's sales price or appraised value. Do not include normal discount points (as applicable) and payment of the buyer's closing costs in total concessions for determining whether concessions exceed the 4% limit.

All VA Guidelines with respect to third party contributions must be met.

UNDERWRITING:

1. 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.

2. 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 two satisfactory alternative credit reference letters are submitted.

3. 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.
4. A gift is permissible from donors as allowed by VA Guidelines. 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.
5. Previous bankruptcy:
 - Chapter 7 - Generally, the borrower should be discharged from a Chapter 7 Bankruptcy for at least 24 months prior to loan application date and have satisfactory re-established credit.
 - Chapter 13 – A Chapter 13 Bankruptcy may be considered for loan approval upon discharge with documentation to evaluate the applicant's overall financial strength and established credit history.

6. 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.

7. 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:** Refer to VA Guidelines

**HOMEBUYER
EDUCATION:** Borrowers are not required to receive homebuyer education counseling.

**MORTGAGE
INSURANCE:** The Lender must obtain a VA Loan Guaranty Certificate, which represents a minimum of 25 percent guaranty from VA.

**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 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. VA Loan Analysis (VA 26-6393) approved and signed by lender’s underwriter
3. Loan Application (FNMA 1003)
4. FHA/VA Addendum – two pages (HUD-92900/VA-26-1866a)
5. Notice to Buyers, SFH 123-b
6. Evidence of Social Security Number

7. Copy of Driver's License
8. Credit Report
9. Verification of Income
10. Income Tax Affidavit (SFH 108), if applicable
11. Verification of Assets
12. Purchase Agreement/Contract to Build
13. Appraisal
14. Initial Application Affidavit, SFH 106(4/06)
15. Signed Federal Tax Returns for last 3 years, as applicable
16. Builder Information, as applicable

**CLOSING
DOCUMENTS:**

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

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

NOTE: Refer to "VA Mortgage Document Control Sheet", SFH 144, for **other** required documents. This form is located in the VA Loan Section of the Lender on Line Web site under Closing Documents.

**TITLE INSURANCE/
MORTGAGE
INSURANCE:**

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