HOME MORTGAGE PROGRAMS

OPERATING MANUAL

Sections 1-5
Introduction, Eligibility, Underwriting, Closing and Additional Lender Information
(See Separate Ops Manual for Sections 6-8, Loan Purchase, Servicing, Investor Reporting and Delinquency.)

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Revision 12-18-2024

Table of Contents

SECTION 5 – ADDITIONAL INFORMATION FOR LENDERS

Please see separate Operations Manual for Sections 6-8

SECTION 1 – GENERAL INTRODUCTION

1.1 Preface

This Operating Manual (the "Manual") with the Loan Program Outlines has been prepared by the Connecticut Housing Finance Authority (CHFA) to provide loan origination and operating guidelines for Participating Lenders in its Home Mortgage Purchase Programs. This Manual supersedes all prior operating manuals, program bulletins or other home mortgage program materials distributed by CHFA.

CHFA mortgage loans are available to borrowers who meet income and other eligibility criteria described in this Manual. CHFA does not refinance existing mortgage loans, except when coupled with substantial rehabilitation, or as part of a "special program" initiative authorized by the Authority.

The purpose of the Home Mortgage Purchase Program is to further the general policies of Chapter 134 of the Connecticut General Statutes, including the specific statutory objectives of:

A. Providing funds for long-term mortgage financing of Connecti cut residential housing for occupancy by low- and moderate-income persons and families; and

B. Encouraging the development of balanced communities of all income levels in cities which qualify as Urban Areas under the Act.

1.2 Organization

This Manual is intended to provide policy guidelines and detailed instructions for the performance of the written agreements between CHFA and its Participating Lenders. Accordingly, the provisions of this Manual are subject in all respects to the provisions in the Authority's procedures and the definitive terms of the Master Commitment Agreement for Mortgage Purchases and the Home Mortgage Servicing Agreement in effect from time to time.

From time to time, CHFA may revise this Manual by issuing changed or additional pages, or with the publication of a CHFA Bulletin or the CHFA Loan Program Outline & Underwriting Guides.

CHFA Bulletins will be sent to the Participating Lender's designated authorized staff and simultaneously posted on the CHFA website at *chfa.org*.

As noted throughout the Manual, CHFA requires the use, as appropriate, of **FHA, VA**, **USDA** or **FNMA / FHLMC** printed Mortgage Deed and Promissory Note forms on all First Mortgage transactions. Participating Lenders are responsible for processing and servicing Loans in accordance with specific **FHA, VA, USDA, FNMA, FHLMC, CHFA** or private mortgage insurance **(PMI)** requirements when applicable, and only general reference is made to those requirements in this Manual.

Throughout this Manual, masculine references shall include both genders or either gender, as appropriate.

SECTION 2 – ELIGIBILITY

2.1 Eligible Borrowers

General

To qualify for CHFA financing, an applicant must meet the eligibility criteria set forth in this section.

A. An applicant shall be an Eligible Borrower for a CHFA Mortgage Loan if the applicant meets the following criteria:

1. At the time of application and at the time of mortgage closing, has the financial capacity to repay such loan and has an annual aggregate income that is at or below the applicable income limit in effect at the time the application was taken. CHFA income limits may be higher in Targeted Areas. Lenders must follow income limits for Target Area census tracts if applicant's property is located in one of the specified Federally Targeted Areas of the state;

2. Agrees to occupy and use the residential property to be purchased for a principal residence;

3. Possesses the legal capacity to incur the obligations of the CHFA Mortgage Loan;

4. Has not, at any time during the three years preceding the date the mortgage loan is executed, had a present ownership interest (as defined by the Home Mortgage Programs Operating Manual) in their principal residence. This requirement does not apply to loans on properties located in targeted areas as designated by the Authority or to loans made to prior homeowners as permitted by Federal and state law; and

5. Is not using the proceeds of the Authority's mortgage to refinance an existing mortgage on the property (except in the case of a qualified rehabilitation loan) or to finance the acquisition of the remaining interest in a property in which a partial interest already is owned. The use of the loan proceeds to refinance an existing mortgage Is permitted only if the prior mortgage is a construction period loan or other temporary financing with a period of twenty-four (24) months or less, or if it is on unimproved land on which a dwelling is to be constructed and is to be paid prior to the closing of the Authority's mortgage loan, which latter loan does not exceed the cost of construction.

2.2 Homebuyer Education Requirements

At least one borrower must attend a Homebuyer Education Workshop facilitated by a CHFA Participating – HUD Approved Counselor. CHFA Participating Lenders must advise Eligible Borrower(s) of their responsibility to attend a Homebuyer Education Workshop and provide them a copy of the Homebuyer Education Calendar or the names of the CHFA Participating – HUD Approved Counseling providers. The Homebuyer Education Calendar and the list of the CHFA Participating -HUD Approved Counselors can be found on the CHFA website at *chfa.org* under the title "Homebuyer Education".

A. As a requirement of obtaining a CHFA mortgage loan, Eligible Borrowers must attend one of the following Homebuyer Education Workshops and submit a certificate of completion to their Lender for inclusion in the CHFA loan file submission. Additionally, Landlord Education is required for borrower(s) purchasing a 2-4 family unit.

1. **Pre-Purchase Homebuyer Education:** Meets the requirements for all CHFA Programs, **or;**

2. **Pre-Closing Homebuyer Education**: ***(In Person or Online)*** Meets the requirements for all CHFA Programs.

3. **Landlord Education**: Additional Education required for borrower(s) purchasing a 2-4 family unit.

2.3 Income for Eligibility

Income to Determine Eligibility

Borrower(s) shall not have aggregate income in excess of the applicable income limit established by CHFA and in force at the time of application and date of closing for the Mortgage Loan. CHFA income limits may be higher in Targeted Areas. Lenders must follow income limits for Target Area census tracts if applicant's property is located in one of the specified Federally Targeted Areas of the state.

Eligibility income shall be based solely on the income of the mortgagor or mortgagors (borrower and co-borrowers) only.

Eligibility income is different from qualifying income Qualifying income is the income being used to qualify the borrower under the applicable Investor/Agency guidelines. Eligibility Income is used to determine if the borrower meets CHFA's Income Limits. Please also refer to the Eligibility Income Guide for additional guidance.

Aggregate borrower(s) income shall include income from whatever source derived, including without limitation:

INCOME CONSIDERED IN LIMITS INCLUDE, BUT ARE NOT LIMITED TO:	
Alimony/Child support	Overtime
Adoption/Foster care income	Part-time earnings
Allowances: auto, uniform, housing	Pension, Annuity, Retirement, Social Security
Bonuses	Profit Sharing
Capital Gains	Regular Earnings: Base salary/hourly
Commissions	Rental income
Disability payments	Self-employment; Schedule C, E
Dividends	TANF
Gambling/Lottery winnings	Tips
Interest	Trust Income
Military income *(allowances; housing, clothing, subsistence)*	Unemployment Benefits

Determining income:

Income is to be annualized considering all income. When there is an increase in income from the previous year, use current YTD income. When there's a decline from previous year, average with previous year. When in doubt, use the higher amount or submit all income documentation to CHFA for validation. When annualizing based on YTD, the lender must consider if the OT/Bonus/etc. is earned at a higher amount at different times of the year, such as delivery persons are typically busier during the holiday season, line workers in winter/bad weather, etc. For applicants that receive an increase in pay due to an increase in hours, pay raise, promotion, etc., lenders are required to use the most recent salary/income to determine eligibility. Increased income cannot be averaged with lower earnings received in the calendar year prior in order to reduce income for participation.

The Authority may at its option exclude income where it deems such income to be of short duration and of a temporary nature.

1. **Commission/Bonus/OT Income for Eligibility Limit Purposes**

If two years tax returns are required by Agency/Investor and the income is declining, the lender shall use a 24-month average. If the income is increasing, the lender must use the most recent 12-month earnings.

2. **Calculating Rental Income for 2-4 Unit Dwelling**

The net rental income from units in a two-four-unit dwelling will be added to the borrower's income for eligibility within the CHFA income limits and will be based on the percentage of the anticipated fair market income consistent with the loan program, i.e., follow the guidelines of the loan insurer, FHA, VA, USDA, FNMA, FHLMC, or CHFA special program, when applicable.

3. **Self-Employment**

- Determine # of years federal tax returns required based on AUS findings
- Net income calculated as per Agency/Investor guidelines. CHFA will add back in **all** allowable expenses, such as depreciation, mileage, etc.
  - If only 1 year required, use 12-month average
  - If 2 years required:
    - if income increased, use most recent year average
    - if income decreased substantially, use two-year average
  - YTD Profit & Loss statements are not acceptable

4. **Income Losses**

Self-employment or investment losses and employee expenses on Form 2106 will not be deducted for purposes of eligibility but will follow Agency/Insurer guidelines for qualification purposes.

2.4 First Time Homebuyer Requirement

An Eligible Borrower must not have had an "ownership interest in his/her principal residence" (as hereinafter defined), regardless of where it is located, at any time during the three years preceding the date of the execution of the new mortgage. This requirement does not apply to Mortgage Loans for Eligible Dwellings located in Targeted Areas.

1. **<u>Definition of Ownership Interest</u>**

"<u>Present ownership interest in a principal residence" includes</u>:

i. A fee simple interest;

ii. A joint tenancy, a tenancy in common, or a tenancy by the entirety;

iii. The interest of a tenant shareholder in a cooperative;

iv. A life estate;

v. A land contract, under which possession and the benefits and burdens of ownership are transferred although legal title is not transferred until some later time;

vi. An interest held in trust for the Eligible Borrower(s) (whether or not created by the Eligible Borrower(s)) that would constitute a present ownership interest if held directly by the Eligible Borrower(s); and

vii. Occupancy of a property for which an interest in real estate was created by the existence of an inheritance, probated or not, whether title is vested or not.

b. <u>Interests which **do not** constitute a "present ownership interest in a principal residence":</u>

i. A remainder interest;

ii. An ordinary lease with or without an option to purchase;

iii. A mere expectancy to inherit an interest in a principal residence;

iv. The interest that a purchaser of a residence acquires on the execution of an accepted offer to purchase real estate;

v. An interest in other than a principal residence during the previous (3) years.;

vi. An interest in a mobile home that is not permanently fixed to land and which mobile home is not considered real property for local tax purposes;

vii. Ownership interest in a vacation timeshare with limited occupancy on an annual basis; and

viii. Land only.

2. **Disposal of Other Residential Property**

Any residential property that is owned by the borrower shall be sold/interest divested of before closing on the CHFA Loan.

3. **Persons Covered**

This requirement applies to any person who will execute the Mortgage Note and Deed and will have an ownership interest in the Eligible Dwelling.

4. **Evidence of Previous or Current Homeownership**

To verify that the Eligible Borrower meets the three- year requirement, the Participating Lender must obtain a credit report and a fraud report that provides a complete ownership history, such as LoanShield, LexisNexis, FraudGuard, or other industry acceptable Fraud Risk Solution

5. **Lender's Responsibility to Verify Real Estate Ownership Documentation**

Participating Lender must, with due diligence, verify the information in the Borrower E lig ib ility Certificate regarding the applicant's prior residency and certify to CHFA that on the basis of its investigation, such information is to the best of its knowledge and belief, true and accurate and evidences compliance with the requirements of this section. Such certification shall be made on the Participating Lender Certification *(CHFA Form 019-1101).*

2.5 Principal Residence Requirement; Owner-Occupancy

General

An Eligible Borrower shall covenant to occupy the Eligible Dwelling as a principal residence within 60 days after the closing of the Mortgage Loan. Unless the residence can reasonably be expected to become the principal residence of the Eligible Borrower within 60 days of the Loan closing date, the residence will not be considered an Eligible Dwelling and may not be financed with a CHFA Mortgage Loan. An Eligible Borrower must covenant to occupy the Eligible Dwelling as a principal residence within 60 days after the Loan closing on the Borrower E lig i b ility Certificate and Mortgage Note.

In the case of a rehabilitation loan (203(k)), follow Agency/Investor Guidelines for occupancy requirements.

1. **Definition of Principal Residence**

A principal residence does not include any residence which can reasonably be expected to be used: (a) in a trade or business, except for a two to four family residence, in which case the Eligible Borrower shall be permitted to rent or lease the non-owner-occupied unit(s), (b) as an investment property, or (c) as a recreational or second home. Not more than fifteen percent (15%) of the total living area of a residence may be used in a trade or business which would permit any portion of the costs of the Eligible Dwelling to be deducted as an expense for Federal Income Tax purposes (except in the case of a two to four family residence, in which case the Eligible Borrower shall be permitted to deduct for Federal Income Tax purposes the costs associated with the non-owner-occupied units).

2. Land Not to be Used to Produce Income

The land financed by the Mortgage Loan may not provide, other than incidentally, a source of income to the Eligible Borrower. The Eligible Borrower must indicate on the Borrower Certificate that, among other things:

a. No portion of the land financed by the Mortgage Loan provides a source of income (other than incidental income);

b. The borrower does not intend to farm any portion of the land financed by the Mortgage Loan; and

c. The borrower does not intend to subdivide the property nor to apply for a zoning variance regarding minimum lot size or set-back requirements.

3. **Requirement for Existing Mortgage on Subject Property/Partial Interest**

Mortgage Loans maybe made only to persons who did not have a mortgage (whether or not paid off) on the Eligible Dwelling at any time prior to the execution of the Mortgage. A Mortgage Loan may not be made to finance the purchase of a remaining interest in a home in which a partial interest is already owned or will be acquired through inheritance or gift. Mortgage Loan proceeds may not be used to acquire or replace an existing mortgage or debt for which the Eligible Borrower is liable, or which was incurred on behalf of the Eligible Borrower, or provide financing for a property which is owned by the Eligible Borrower debt free, except for:

- A construction loan; or
- Temporary financing which has a term of twenty-four months or less;
- A mortgage on unimproved land on which a dwelling is to be constructed, as long as the mortgage is satisfied prior to the date of the Loan closing and the amount of the Loan does not exceed the cost of construction; or
- A Rehabilitation Mortgage (not currently offered for properties already owned by the borrower)

4. **Determination by Participating Lender**

The qualification of an Eligible Borrower shall be determined by the Participating Lender subject to review by CHFA. For each application, the Participating Lender must review the application form and related submissions to determine their consistency, completeness, and compliance with the terms of this Manual. Lender is required to verify the information provided to them, either independently or concurrently with credit reviews, when applicable.
Lenders are responsible for submitting applications to CHFA within a time frame sufficient to allow CHFA to perform a review of the loan prior to the anticipated closing/contingency date.

5. **Multiple Mortgage Loans**

An Eligible Borrower may not have more than one outstanding CHFA Loan including a CHFA Loan that has been assumed by another person.

2.6 Eligible Dwellings

A. In order to qualify as an Eligible Dwelling for which a Loan may be made, the premises must:

1. Be located in the State of Connecticut;
2. Be structurally sound and functionally adequate and meets all applicable zoning requirements, housing codes, agency /insurer guidelines and similar requirements;
3. Have a permanent certificate of occupancy if newly constructed or substantially rehabilitated or when a certificate of occupancy is not obtainable in the case of substantial rehabilitation, have such other documentation as CHFA may require;
4. Meet all appropriate requirements listed in (Section 2.6 B).

B. Requirements Pertaining to Land

1. Lot Size

The land on which the eligible dwelling is situated cannot exceed basic livability, other than incidentally, cannot be subdivided, and cannot be a source of income to the borrower.

2. Non-production of Income

a. Only land which does not provide a source of income to the Eligible Borrower (other than incidental income) may be financed by a Mortgage loan.

b. The Participating Lender is required to have conducted an on-site inspection/appraisal and to verify that on the grounds of that inspection and other reasonable grounds, the Lender expects that the property will not be used to produce income to the Eligible Borrower, other than incidental income.

3. Leasehold Interests

Follow Agency/Investor Requirements

C. Sales Price/Acquisition Cost Requirements

1. Acquisition Costs

The Acquisition Cost of an Eligible Dwelling may not exceed the sales price limits established by CHFA and in effect at the time of the application. Appraised value as well as actual selling price will be reviewed by CHFA on all Loan submissions. Any indirect or non-pecuniary consideration will be given effect in determining the market value. CHFA may at its option reject an application for a Mortgage Loan where the appraised value exceeds the applicable CHFA Sales Price Limit by more than five (5) percent.

Definition of Acquisition Cost

Acquisition Costs means the cost of acquiring the Eligible Dwelling from the Seller as a completed residence. The total acquisition price may not exceed CHFA's sales price limits.

Lenders must complete and have signed by the borrower(s) the Acquisition Cost Worksheet and submit with the loan file submission.

2. **<u>Transactions Involving Built-In Equity</u>**

The appraised value may not exceed 5% above the applicable sales price limit on any transaction.

Transactions are not eligible for the Time to Own program when the subject property's appraised value exceeds the sales price by 20% or more.

D. <u>Condominium Projects</u>

An individual condominium unit is included within the definition of an Eligible Dwelling provided the Lender certifies the project meets Agency/Investor guidelines.

1. **<u>Deed Restricted Condominium Projects</u>** – Affordable Housing Condominium Projects that are deed restricted for purchase to First-time homebuyers or that have low- to moderate-income eligibility or low- to moderate- income resale restrictions and are not eligible for FHA, VA, USDA, or Fannie Mae/Freddie Mac approval may be submitted to CHFA for consideration.

   a. CHFA mortgage loan financing for individual units in Affordable Deed Restricted Projects that are ineligible for FHA, VA, USDA or PMI insurance coverage may also require a minimum 20% down-payment investment from an acceptable source which can include CHFA approved non-profit, municipal, or Federal programs, or a combination that includes an investment of the borrower's own funds.

E. <u>Leasehold Interests</u>

The following requirements shall apply where a loan is secured by a mortgage on a leasehold interest:

(a) The lease shall be in full force and effect;
(b) The notice of the lease shall be recorded on the land records of the town in which the leased property is located; and
(c) The term of the lease may not terminate earlier than that number of years beyond the maturity date of the Authority's mortgage loan as is equal to the number of years remaining to maturity.

SECTION 3 – APPLICATION PROCESSING AND UNDERWRITING

3.1 Reserving Funds

When a fully ratified contract is received, the lender must determine that the transaction meets the eligibility requirements for CHFA financing in order to proceed. When the eligible transaction is within approximately 45 days (recommended) of the anticipated closing date, the lender shall Reserve the Loan/Lock in CHFA's Loan Origination System ("LOS") and simultaneously register any/all CHFA subordinate financing.

Note: *only lender staff that has participated in the appropriate training for their job function should be given access to LOS or permitted to work on any CHFA loan file.*

Interest Rates for each program are included on the CHFA Loan Rates published on the CHFA website at www.chfa.org.

See Section 5 for additional information on reservation and lock policies.

3.2 Loan Program(s) Selection

A. Type of Financing

Lenders are expected to select the best financing option(s) available to the borrowers including, but not limited to, the first mortgage type and any CHFA subordinate financing available.

1. First Mortgage Loans (Agency):

- FHA
- FHA 203(k) Limited and FHA 203(k) Standard w/prior approval from CHFA/Master Servicer
- HFA Preferred/HFA Advantage (Fannie/Freddie)
- VA
- USDA

2. Special Programs:

CHFA offers special rate discounts on the following programs:

- Home of Your Own (for households with a disabled family member or Borrower)
- Homeownership for Residents of Public Housing

- Veterans and Military Service Members
- Police Homeownership Program
- Teachers Mortgage Assistance Program
- Smart Rate Pilot Loan Program (limited funding)

3. **Down Payment and Closing Cost Assistance Loans:**

CHFA offers various forms of Down Payment and Closing Cost Assistance Subordinate Loans to complement its first mortgage loans. Although its flagship program, the Down Payment Assistance Program (DAP) Loan is typically continuously funded, other programs may have limited funding, such as the Time to Own (TTO) Forgivable Down Payment and Closing Cost Assistance Loans.

Since programs are constantly evolving and limits, etc. may change, please refer to the Loan Program Outlines for specific terms and guidelines/overlays.

Lenders will receive emailed Bulletin notifications any time a new program is introduced, funding is exhausted, or one is changed. To sign up to receive bulletins, please email Bulletins@chfa.org.

4. **Other Special Programs**

CHFA offers several other loan programs that are administered either in-house or via a designated partner. These programs are not offered through our Participating Lenders:

- Emergency Mortgage Assistance Program (EMAP)
- Reverse Annuity Mortgage (RAM)
- Mobile/Manufactured Home Loan Program

See the Loan Program Outlines for more information. These are not in the current Loan Program Outlines.

3.3 Credit Review

A. Evaluation

The Participating Lender is responsible for evaluating applicants for CHFA Loan eligibility. Evaluation of creditworthiness must be done on a case-by-case basis.

B. Income

Each applicant for an Authority's home mortgage loan shall provide such evidence as the Authority may deem appropriate, consistent with industry practice and current requirements under the Internal Revenue Code and other applicable laws. Such evidence may include, in the Authority's discretion, the procurement by a participating lender of income and employment verification, federal income tax returns, and such other documentation as may be common in the industry.

1. **Repayment/Qualifying Income**

Standards for determining qualifying income shall follow the requirements of the Agency/Investor, barring boarder income as this is not permitted on CHFA loans due to property requirements, and unless otherwise noted on the applicable Loan Program Outlines & Underwriting Guides.
All income calculations must be provided to CHFA from the Participating Lender underwriter in a clear and concise manner. CHFA reserves the right to request additional documentation when deemed appropriate.

2. **Eligibility Income Limits**

See section 2.3 for detailed instructions on calculations and also refer to the Income Calculation Guide for Eligibility for a CHFA Loan. Aggregate borrower(s) gross income shall include all income from whatever source derived, annualized to project current rate of earnings.

3. **Family Size**

Applicants expecting the birth of a child are allowed to count the unborn child as a member of the family for income limit purposes. Satisfactory documentation of pregnancy must be provided.

4. **Area Median Income**

Borrower(s) area Median Income limits must be calculated as specified in the applicable program guides, including additional AMI calculation requirements as deemed necessary by any CHFA special programs. Under no circumstance can income lower than base pay be used to determine AMI. Some loan programs may require use of all income eligible for qualifying to determine AMI. Refer to the CHFA loan Program Outlines and Underwriting Guides available at *www.chfa.org*

C. **Co-signers**

Co-signors/guarantors and non-occupant coborrowers are not permitted on a Loan.

D. **Underwriting Ratios**

1. The Participating Lender must determine that the applicant(s) housing payments plus other obligations do not constitute an undue strain on the applicant's ability to make all such payments promptly and that an acceptable credit reputation is evidenced.

2. **Maximum Total Debt-to-Income-Ratio**

The maximum debt-to-income ratios permitted for each CHFA loan type are listed in the most recent Loan Program Outlines Underwriting Guide for that loan type.

When applicable, files must be underwritten in compliance with the Agency/Investor [i.e. FHA, VA, USDA, Fannie Mae/Freddie Mac] guidelines but cannot exceed the established CHFA debt ratios.

Underwriting Guide for that loan type.

When applicable, files must be underwritten in co m p l i an ce w ith the Agency/Investor [i.e. FHA, VA, USDA, Fannie Mae/Freddie Mac] guidelines but cannot exceed the established CHFA debt ratios.

Credit Reports

CHFA requires Participating Lenders to obtain a tri-merge credit report on all borrowers in a format acceptable to the Agencies/Investors. Any additional credit information from borrowers normally used by a Participating Lender in the underwriting evaluation must also be submitted to CHFA for review with the loan submission.

E. **Credit Scores**

Participating Lenders submitting Loan applications are required to follow the Credit Guidelines of the Agency/Investor and may not submit a loan application to CHFA that is noncompliant with the Agency/Investor criteria. CHFA may also require Lenders to comply with credit overlays of Secondary Market investor program(s) for specific loan products. The Participating Lender will be required to repurchase a loan if it is rejected by the Agency or the Investor for noncompliance.

F. **Credit Analysis**

Follow Agency guidelines for AUS and/or Manual Underwriting.

G. **Secondary Market– Underwriting**

The AUS submissions for underwriting purposes must occur before the closing of the mortgage loan. In instances where AUS has been updated, and the loan or borrower information changes and it no longer matches the information used when last reviewed, the lender must update the AUS data and resubmit. AUS must be run in compliance with all secondary market investor guidelines.

When the loan file is resubmitted to AUS after closing and prior to delivery, the lender is responsible for ensuring that:

a. All information provided in the final submission to AUS matches the terms of the closed loan;
b. The loan complies with the requirements specified by the Agency/Investor;
c. The loan delivery data matches both the closed loan and the final data submitted to AUS; and
d. The loan file receives an eligible recommendation from the applicable AUS on the final submission.

The Automated Underwriting System report summarizes the overall underwriting recommendations and lists the steps necessary for the Lender to complete the processing of the loan file.

H. **Manual Underwriting**

Follow Agency/Investor Guidelines.

I. **Age of Documents**

Participating Lenders are responsible for ensuring the age of the appraisal, income and credit documents are in compliance with Secondary Market guidelines at the time of the loan closing. Lenders are required to update documents prior to closing in compliance with Agency/Investor guidelines.

NOTE: CHFA loans committed for purchase that do not close within the documentation expiration periods will require the Participating Lender to update and/or recertify documents as needed. Substantial changes in the integrity of a loan application, including deterioration of credit history, change of income, increase in debt ratios must be reported to CHFA. CHFA reserves the right to re-underwrite the application at its discretion.

J. **Equal Opportunity for CHFA Loans**

All financing for which funds are provided by CHFA shall be open to all persons, regardless of race, color, creed, national origin and ancestry, religion, sex, marital status, physical or mental disability.

3.4 Appraisal Requirements

General

A color copy of the complete property appraisal report with a physical inspection of the property is required to be submitted by the Participating Lender with each Loan submission. **Appraisal waivers offered by the Agencies are not permitted.** All appraisals for Mortgage Loans must be made by appraisers who are licensed or certified by the State of Connecticut and follow Agency/Investor Guidelines. Participating Lenders must adhere to the Appraiser Independence Requirements as outlined in the FNMA Selling Guide.

1. **Forms** – The report must be prepared on a current FNMA/FHLMC appraisal form or on the appropriate VA or FHA form including any additional attachments or addenda necessary to provide an adequately supported opinion of market value.
   In the case of a property that "under appraises" the borrower, at his option, may proceed with the purchase at the higher price and pay the difference, while following all applicable Agency/Investor guidelines. Use of subordinate financing is not permitted to fill the gap.

2. **Appraised Value** - Appraisals should report the highest price which the property will bring contemplating:

   a. The consummation of a sale and the transfer of title from a seller to buyer who are participating in a bona-fide, arm's- length transaction and are motivated by no more than the goals of typical participants;

   b. Both parties are well informed or well advised and act prudently, each for what he considers his own best interest;

   c. Reasonable exposure is given to the property in the open market;

   d. Payment is made in cash or on terms reasonably equivalent to cash, assuming typical financing terms are available in the community for similar property.

3. **Repairs** - CHFA requires all mortgaged properties to be in good repair.

   a. If the appraisal report indicates that repairs are needed, a recertification by the appraiser must be obtained prior to the closing of the Loan. The certification must provide the Eligible Borrower's name and the property address and must state that the property has been inspected and the indicated repairs have been completed except in the case in which an escrow has been established for such repairs.
   b. All repairs required by the property appraisal or negotiated between the seller and buyer must be completed prior to closing, however, an escrow holdback for the repair work is permitted in compliance with Agency/Investor guidelines.

4. **The validity period** for all appraisals on existing, proposed, and under construction properties must meet all applicable Agency/Investor requirements.

5. **Independent Appraisal -** CHFA reserves the right to obtain an independent appraisal in order to establish fair market value and to determine whether a dwelling is eligible for the Mortgage Loan requested.

3.5 Mortgage Insurance or Guaranty

A. CHFA requires mortgage insurance/guarantee on the property and the Lenders are required to follow the guidelines of the Agency/Investor, i.e. FHA, VA, USDA, or Fannie Mae/Freddie Mac. Mortgage insurance is not required on Conventional loans with LTV's less than or equal to 80%.

B. Each Loan application submitted for commitment to CHFA by a Participating Lender must be accompanied by a mortgage insurance or guaranty commitment, where applicable/required.

C. CHFA independently reviews each Loan application and in appropriate instances may decline to commit to purchase loans despite earlier review and approval for insurance or guaranty by FHA, USDA, VA or PMI. CHFA will make a firm commitment to purchase only those loans that satisfy the requirements of this Manual.

D. **Private Mortgage Insurance (PMI) Loans (Conventional Loans over 80% LTV)**

E. **Loans Which May Be PMI-Insured** - CHFA will accept PMI insurance on:

a. Loans originated under the Connecticut Housing Finance Authority (CHFA) Programs: *Fannie Mae (FNMA) HFA Preferred™ and Freddie Mac (FHLMC) HFA Advantage® Products;*

b. Loans originated in partnership with a CHFA Approved Affordable Housing Program provider (these loans may also be uninsured if applicable to the provider program criteria);

c. Loans originated under new product initiatives as authorized by the Board of Directors.

d. CHFA will allow borrower paid monthly premiums for all loans. CHFA will also allow borrower paid single premium for HFA Preferred™ and HFA Advantage® loans The source of funds used to pay single premiums must meet Fannie Mae/Freddie Mac and MI company guidelines. Single premiums must be paid with the borrower's own funds or down payment assistance proceeds and cannot be financed into the first mortgage loan amount.

1. **Acceptable Insurers:**

Private Mortgage Insurance is acceptable only from companies which meet Fannie Mae (FNMA) and Freddie Mac (FHLMC) eligibility requirements.

2. **Required Coverage (follow AUS findings):**

a. CHFA HFA Preferred™ and HFA Advantage® loans with income **at or below 80% AMI** may use reduced coverage:

Loan-to-Value Ratio	PMI Coverage
95.01% - 97.00%	18%
90.01% - 95.00%	16%
85.01% - 90.00%	12%
80.01% - 85.00%	6%

b. HFA Preerred™ and HFA Advantage® loans with income **over 80% AMI** require the following coverage:

Loan-to-Value Ratio	PMI Coverage Required
95.01 - 97.00%	35%
90.01 - 95.00%	30%
85.01 - 90.00%	25%
80.01 - 85.00%	12%

F. **FHA Insured, USDA and VA-Guaranteed Mortgage Loans**

1. CHFA accepts FHA Insurance or USDA and VA Guarantees for new or existing Eligible Dwellings.

2. FHA 203(k) Limited is an allowable FHA loan type as long as the Participating Lender receives prior approval from CHFA and the Master Servicer. Full 203(k) loans may only be originated by lenders that retain servicing and have prior approval from CHFA. Loans may be insured under any other FHA insurance program with the prior approval of CHFA.

3. FHA Up-Front MIP or USDA and VA Guaranteed funding fees may be included in the first mortgage loan financed by the Authority, providing the Loan meets the guidelines of the Agency/Investor.

4. In the case of a VA Guaranteed Loan, the Participating Lender must inform the applying veteran of the restriction on the veteran's ability to assign the Loan and must obtain a Veteran's Statement-Due on Sale *(CHFA Form 018-0296)*, as required by 36 CFR Section 36.4306(a) and (e). The Participating Lender must include the signed consent statement with the application to CHFA.

G. **Required Down Payment**

1. **Minimum**

All loans insured by FHA, VA, USDA, or PMI must meet the minimum requirements of the Agency/ Investor .

3.6 Loan File Submissions

A. **Exhibits for Review Package/Commitment**

B. Please refer to the current Compliance Submission Checklist and File Order Form (CHFA Form #009-1107C) posted on the CHFA website for the list of Submission documents required for most loans.

C. For Lenders that retain servicing of their loans, a complete full underwriting package must be submitted to CHFA instead of only a Compliance Review Package. See CHFA Form #009-1107W)

D. In some cases, CHFA may agree to accept a loan as a whole loan, such as in the event an affordable condominium project does not meet Investor/Agency guidelines. These are typically serviced by AmeriNat. In those cases, the lender will be required to submit a full underwriting package to CHFA . See CHFA Form #009-1107W.

Please submit all documentation in descending order through CHFA Sharefile program upload process.

1. **STANDARD DOCUMENTS REQUIRED FOR ALL LOAN TYPES**

a. CHFA Compliance Submission Checklist and File Order
b. All supporting documents required on the Compliance Submission Checklist
c. Lender's underwriter to ensure that all information on the reservation screen is completed accurately.
d. The CHFA "Additional Data" screen within LOS must be completed and a final, verified, Uniform Residential Loan Application FNMA Form 1003xml file, must be uploaded to the CHFA LOS portal for file submission. Lender is required to submit a compliance package using the Compliance Submission checklist to Sharefile via the CHFA LOS system. The compliance package will be counted as "arrived" and accepted for review only upon upload/receipt of these completed items.

2. **PRODUCT – SPECIFIC FORMS**

a. **Special Discount Products / Pilot Program Documentation** CHFA may require additional documentation specific to a Special Program or Pilot Program initiative. When applicable refer to the Special Program or Pilot Program product description and eligibility requirements for the program.

b. **Processing Time**
The Eligible Borrower must be advised that CHFA's normal review time is typically 72 hours, however, delays are not the responsibility of CHFA.

3.7 Issuance of Commitment(s) for Compliance

CHFA underwriters will review each submission package for adherence with CHFA eligibility requirements. A written Commitment to Purchase (or Commitment to Fund, for Servicing Retained Lenders) will be issued on Files submitted that meet the Compliance Eligibility requirements.

The Commitment(s) will list the Servicer for each loan (first mortgage and any subordinate financing).

Loans will be purchased in accordance with the Commitment and pursuant to Section 6 of this Manual. The complete closed loan package must be submitted for final review/purchase far enough in advance of the Reservation Expiration date to allow time for review before purchase/funding.

A. **Escalation Process**
Requests will be accepted from the lender's Underwriter/Underwriting Manager **ONLY** and must adhere to the following process:

- Submit email request to: Escalations@chfa.org.
- The subject line should list the Borrower's last name and CHFA's loan number.
- The email must list issues/concerns and lender's rationale.
- Do not send documents via email.
- The file should already contain any necessary documentation to support the escalation request.
- Files will be reviewed by CHFA Management on a first-come first-served basis and the lender should receive a reply via a call/email within 24-48 hours of escalation request.
- Should further conversation be required, the CHFA Underwriting Manager will schedule a call with the lender's Underwriter or Underwriting Manager who submitted the request.

- Once a CHFA Final Determination is made, the lender will be contacted via phone/email and will subsequently receive either a Missing Exhibits Letter or Commitment from CHFA.

The Escalation decision made by CHFA Management will be final and no further discussions will be considered.

3.8 Electronic Signatures

A. "Wet" or ink signatures are required on loan documents executed by borrower(s) applying for first and subordinate mortgage loan financing from CHFA, however, when applicable, CHFA will allow electronic signatures on some documents pursuant to current mortgage industry requirements.

B. All documents submitted with electronic signatures must be executed in compliance with the standards set by the Electronic Signatures in Global and National Commerce Act (ESIGN) and the Uniform Electronic Transactions Act (UETA).

1. ***"Wet" or Ink Signatures are required on the following documents:***

   a. First Mortgage Note and Deed *(And any applicable Riders, including the Tax- Exempt Financing Rider (CHFA Form #053-1199)).*
   b. CHFA DAP Subordinate Mortgage Note and Deed
   c. CHFA TTO Subordinate Mortgage Note and Deed
   d. Federal Recapture Tax Notice- Method to Compute *(Closing Disclosure)*
   e. CHFA Down Payment Assistance Commitment *(Executed at closing)*
   f. TRID - Closing Disclosure (CD)
   g. Final Uniform Mortgage Loan Application (1003)
   h. Borrower Signature Affidavit *(CHFA Form 014-0718)*

2. ***Electronic Signatures are accepted on the following CHFA documents where applicable:***

   a. Borrower Eligibility Certificate *(CHFA Form 014-1107)*
   b. Down Payment Assistance Program/s - Applicant Notice *(CHFA Form DAPDiscl **or** TTODiscl, if applicable)*
   c. Down Payment Assistance Program/s - Borrower's Certificate *(CHFA Form DAP95-05 **or** TTO95-05, if applicable)*
   d. Federal Recapture Tax Notice – Mortgagor Potential Tax (*Application Disclosure) (CHFA Form 051-0597)*
   e. Sales Price and Acquisition Cost Worksheet *(Application Disclosure) (CHFA Form 017-0694)*

SECTION 4 – LOAN CLOSING

4.1 Terms and Conditions of First Mortgage Loans

A. Priority of Lien

Each first mortgage loan must be secured by a valid first lien on the Eligible Dwelling. The property must be free and clear of all prior encumbrances and liens except as approved by CHFA, and no rights may be outstanding that could give rise to such liens.

See Loan Program Outline and Underwriting Guide for Subordinate Financing Lien Priority Requirements.

B. Validity and Enforceability

The note, mortgage deed, and any other instruments securing the Loan must be legal, valid and binding obligations of the borrower, enforceable in accordance with their terms, free from any right of set-off, counterclaim or other claim or defense. The terms of the Loan may not be modified, amended, waived or changed, except as approved by CHFA.

CHFA does not allow anyone that is not a mortgage loan applicant (i.e. borrower or co-borrower) to sign the CHFA Mortgage Note or the CHFA Mortgage Deed on any CHFA Residential Mortgage loan transaction.

If a spouse or Fiancée, or any other member of the household, is not an applicant on the mortgage loan, (i.e. borrower or co-borrower), they may not execute the CHFA Mortgage Note or the CHFA Mortgage Deed at closing, or otherwise secure an ownership interest in the subject property.

No other person or entity may be added to the CHFA Mortgage Deed.

C. Prepayment Penalty and Late Charges

Prepayment penalties are not permitted on any Loan. A Loan may provide for a late charge in an amount not to exceed 5% on payments that are 15 days or more past due. Follow investor/insurer guidelines.

D. Escrow Payments

Each payment must provide for the monthly collection of escrow payments for real estate taxes, mortgage insurance premiums, hazard insurance premiums, and flood insurance premiums, if applicable, in addition to the monthly installment of principal and interest. The Participating Lender or Servicer shall pay interest on escrow deposits at a rate not less than the minimum set forth in applicable statutes or regulations.

E. Interest Rate

The interest rate applicable to any Loan shall be the interest rate that is shown on the Mortgage Loan Commitment.

F. Forms

Each Loan must be executed on printed forms approved by FHA, USDA, or VA, where applicable, or on FNMA/FHLMC uniform instruments approved for use in the State. The Tax-Exempt Financing Rider *(CHFA Form #053-1199)*, must be executed and recorded. Condominium, PUD, and one to four family riders, as appropriate, must be executed and recorded. The promissory note for each Loan must be endorsed by the Participating Lender to CHFA unless the loan is being released for servicing pursuant to Section 6.2.C.

G. Compliance with Laws

All requirements of federal and state laws, rules and regulations now existing or hereafter adopted, applicable to mortgages and mortgage loan transactions, including without limitation, truth-in-lending laws, equal opportunity laws, usury laws and laws regulating interest on escrow accounts, must be complied with, and the mortgage and the Participating Lender must not violate any such laws, rules or regulations. In the case of any conflict between the requirements of this Manual and any federal or state

law, rule or regulation, the provisions of federal or state law, rule or regulation shall govern and the Manual will be deemed to be amended to conform thereto. CHFA must be notified of any such conflict known to the Participating Lender.

4.2 Closing Costs / Fees

A. Acceptable Closing Costs

Fees to be paid by the borrower must be reasonable and customary, including the appraisal fee and any inspection fees, cost of credit reports, processing fees, underwriting fees, home inspection fees, cost of title examination and title insurance, attorney fees, recording fees, courier fees, taxes, certificate and test fees.

The maximum allowable amount CHFA will allow a Lender to collect on first mortgage loan transactions in the Closing Costs Details, Loan Costs, Section A. Origination Charges of the LE/CD are listed below:

- Lenders may charge a total of $1,295 as the maximum ancillary fees/origination charge to be disclosed in the Origination Charges Box on the LE and CD.
    - Should a loan not close within 60 days of Reservation through no fault of the lender, Participating Lenders may collect and retain one (1) extension fee of 0.25% of the loan amount. No additional extension fees may be charged.
- In addition to the above fees:
    - 203(k) Standard – lenders may collect and retain an Origination Charge of 2.50%
    - 203(k) Limited – lenders may collect and retain Origination Charge of 1.50%
    - Supplemental Origination Charge – the greater of $350 or 1.50% of the cost of the improvements. (see HUD Form 92700 for max.)
    - CHFA Loan Processing Fee = $395
    - CHFA Loan Underwriting Fee = $395

- For maximum fees on CHFA's subordinate financing programs, refer to the appropriate Loan Program Outlines & Underwriting Guide for allowable fees/costs.

First Mortgage <u>Loans Delivered to: Idaho Housing and Finance Association (IHFA) Only</u> *(Not applicable for loans delivered to any other servicer)*

- Tax Service Fee = $85.00 Conventional loans only
- MERS = Up to $24.95
- Flood Determination Company Transfer Fee = $10.00

Document preparation fees may also be charged if performed by a third-party not controlled by the Lender. If charged, the document preparation fee may not exceed $300.00.

B. **Unacceptable Closing Costs** **-** CHFA Eligible Borrowers may not be charged;

1. Commitment fee
2. Discount Points (unless discounted rate is offered by CHFA)
3. Fees for guaranteeing the rate
4. Ineligible real estate broker fees

C. **Seller Paid Closing Costs**

Seller paid closing costs are permitted to the extent of the mortgage insurers' (FHA, VA, USDA and PMI) and program guidelines (HFA Preferred™ & HFA Advantage®).

D. **Fees**

1. All fees collected from the Borrower, including but not limited to, origination charges, shall not in their aggregate exceed the amount allowed by the program. No additional fees may be charged by the Participating Lender to either the seller or the borrower without prior written approval from CHFA.

2. The Participating Lender will be permitted to recover from the borrower all reasonable out-of-pocket expenses incurred in the Loan application in an amount not to exceed 100% of actual cost. Out-of-pocket expenses include those cash expenditures incurred by the Participating Lender to pay for outside services rendered, such as appraisals by outside independent fee appraisers and credit reports by independent credit reporting agencies.

4.3 Title Insurance

A. **Original Mortgagee's Policy**

The mortgage must be covered by a mortgagee's title insurance policy which shows good and marketable title to the mortgaged property. The benefits of such insurance must run to CHFA and must be issued on a form consistent with the standard ALTA form by a title insurer acceptable to CHFA. The policy must be in an amount equal to the original principal balance of the Loan. The original policy must accompany the Loan purchase package and must be signed by a licensed agent. The borrower shall be advised of the availability, coverage, and cost of simultaneous issuance of owners' title insurance; however, owners' coverage is not required by CHFA.

B. Additional Requirements – Schedule A

1. The named insured should be in the following form: "(Participating Lender) and/or Connecticut Housing Finance Authority, its successors and/or assigns, as their interest may appear". (The following abbreviation is also acceptable: "…as their interests may appear" = **ATIMA**).

2. Recording data for both the mortgage deed and the assignment of mortgage to CHFA must be reflected.

3. **Mortgage Electronic Registration System (MERS)** - CHFA is not a member of the Mortgage Electronic Registration System. Assignment of CHFA mortgage loans in MERS is strictly prohibited.
   a. CHFA Mortgage Loans that are **AmeriNat or Service Retained** must be assigned in the name of the Connecticut Housing Finance Authority. Please check the commitment to confirm servicer information.
   b. CHFA Servicer - **Idaho Housing and Finance Association** is a member of MERS, and IHFA loans must be assigned in **MERS to IHFA #1009670.**
   c. This policy may be amended by CHFA at will to accommodate the sale of mortgage loan pools to FNMA, FHLMC, GNMA or any other CHFA designated authorized entity.

4. The title policy shall be endorsed from time to time as applicable to show mortgage modifications and other correcting documents which may be recorded.

C. Additional Requirements – Schedule B

1. If required, the survey must be an exhibit to the title insurance policy.

2. Exceptions for agreements or restrictive covenants of record relating to cost, use, set-back, minimum-size, building materials, architectural, aesthetic or similar matters (other than single family use restrictions on two-to-four family properties) are acceptable to CHFA if:

   a. There is no reversion or forfeiture of title in the event of violation hereof;

   b. The terms and provisions of such agreements or restrictive covenants are commonly and customarily acceptable to prudent lending institutions in the area in which the property is located; and
   c. No violation of any such agreement or restrictive covenant exists.

3. Covenants, restrictions, agreements and other encumbrances must be covered by title policy language which affirmatively insures that a breach or violation of such covenants, restrictions, agreements and encumbrances will not result in a forfeiture or reversion of title.

The following additional exceptions will be acceptable to CHFA:

a. Any mutual agreement of record which establishes a joint driveway or an adjoining property, but only if the easement agreement allows all present and future owners, their heirs and assigns forever, unlimited use of the driveway or party wall without any restriction other than restrictions by reason of the mutual easement owner's rights in common and duties as to joint maintenance as applicable.

b. Encroachments on the subject property by improvements on adjoining property where such encroachments extend one foot or less over the property line, have a total area of fifty square feet or less, do not touch any building and do not interfere with the use of any improvements on the subject property or the use of property not occupied by improvements.

c. Liens for real estate or other taxes and assessments not yet due and payable.

d. Normal utility easements benefiting the subject property.

D. <u>Standard Endorsements</u>

The title insurance policy shall include the following standard endorsements, on forms substantially the same as those indicated herein:

1. Residential Mortgage Endorsement – CTA Form 001 (where applicable).
2. Environmental Lien Endorsement – ALTA Form 8.1.
3. Condominium Endorsement – ALTA FORM 4 (where applicable).

4.4 <u>Hazard/Flood Insurance</u>

A. <u>Minimum Coverage</u>

Follow Agency/Investor Guidelines. An Eligible Dwelling securing the Loan must be covered by hazard insurance as follows:

B. <u>Maximum Deductibles</u>

See Hazard Insurance Guide in Loan Program Resources at www.chfa.org

C. **Loss Payee**
Refer to: Hazard Insurance Guide in Loan Program Resources at www.chfa.org

D. **Policy Requirements**

1. All policies of hazard insurance must contain or have attached a standard mortgagee clause naming The Connecticut Housing Finance Authority C/O, "(The loan servicer) its successors and/or assigns as their interest may appear" as the insured. The following abbreviations are acceptable:

   a. "its successors and/or assigns" = **ISAOA**
   b. "as their interest may appear" = **ATIMA**

2. The policy must provide that the insurance carrier will provide written notice to the loan servicer at least ten (10) days in advance of the effective date of any change or cancellation of the policy.

3. The Participating Lender shall give any necessary notices in order to fully protect the interest of CHFA as first lienholder under the terms of the policy and applicable law.

4. Refer to Section 6 – Loan Purchase for additional mortgagee clause information as follows: Section 6 .3.B – Release of Servicing for Conventional Loans *(Non-Government Insured Loans)* or Section 6 .3.C – Release of Servicing and Loan Funding for Conventional Loans and Government Insured Loans.

Terms and Conditions of Subordinate Loans add cannot subordinate in case of refinance

A. Priority of Liens

1. CHFA Down Payment Assistance Program (DAP) Loans must be in 2nd position except when prior approval by CHFA is obtained.
2. CHFA Time to Own (TTO) program loans may be in last position of all liens recorded

B. Term

1. CHFA Subordinate Loans must be at least $3,000 minimum. Please refer to the appropriate Loan Program Outlines & Underwriting Guide for additional information parameters.

C. Subordination is not allowed

1. If current CHFA mortgage is refinanced, CHFA DAP and TTO can not be subordinated. They must be paid off in the refinance.

D. Late Charge

1. There is a $5 late charge for each monthly installment, if applicable, paid more than 15 days after the due date.

E. Forms

1. Lenders must utilize the appropriate CHFA Subordinate Financing closing documents and forms for the program(s) selected. Most up to date forms may be obtained on CHFA's website.

F. Interest Rate

1. The interest rate applicable to any Loan shall be the interest rate that is shown on the Mortgage Loan Commitment.

G. Title Insurance

1. Title insurance is not required on CHFA subordinate loans

H. Hazard/Flood Insurance

1. For the DAP and TTO or any other CHFA subordinate financing program, the first mortgage required insurance policies must list, as an additional insured, the mortgagee as follows:

The Connecticut Housing Finance Authority, Its successors and/or assigns, as their interest may appear, C/O **Capital For Change, Inc.** (C4C), 10 Alexander Drive, Wallingford, CT 06492

The following abbreviations are acceptable:

its successors and/or assigns = ISAOA
as their interest may appear = ATIMA

4.5. Closing Requirements

A. Scheduling

Participating Lenders are expected to close Loans in accordance with their established practices. After receipt of a Commitment, the Participating Lender shall make advance arrangements with the borrower to ensure agreement and understanding as to the amounts of and who will pay closing costs, prepaid items and other escrows, costs and fees. The loan may not be scheduled for closing until the Lender has received a CHFA loan commitment letter. The Participating Lender should advise the borrower, at least twenty-four hours prior to closing, of the total amount of funds which the borrower must have at closing and the form in which such funds are to be made available.

B. Compliance with Laws

1. The Participating Lender shall be familiar with the Real Estate Settlement Procedures Act (RESPA) and other federal or state laws applicable to closing procedures for home mortgage loans, and must comply with their provisions.

2. None of the Mortgage loans are subject to, covered by, or in violation of the Home Ownership and Equity Protection Act of 1994 (HOEPA) and its implementing regulations (Reg. Z) or classified as "high cost", "covered", "high risk", "threshold" or "predatory loans" under any other applicable state, federal or local law, including any predatory or abusive lending laws (or similarly classified loans using different terminology under a law imposing heightened scrutiny or additional legal liability for residential mortgage loans) or in violation of any state law or ordinance comparable to HOEPA or Anti-Predatory Lending Laws.

C. Escrows

1. Escrows for real estate taxes, homeowner's insurance, flood insurance and mortgage insurance are required on all CHFA loans.

D. Closing CHFA Subordinate loans

All CHFA downpayment/closing cost assistance p rogram loans (CHFA Subordinate Financing) must be closed in the name of the Connecticut Housing Finance Authority, 999 West Street, Rocky Hill, CT, 06067. Loans closed in the name of the Connecticut Housing Finance Authority do not require an assignment.

DAP Loans must be in 2nd lien position (unless prior approval of Authority is granted to be in a 3rd position).

TTO Loans may be in any lien position.

E. Completed Closing Documentation for First Mortgage and Subordinate Financing

1. The Participating Lender shall verify that all Loan closing documents are properly executed and witnessed and that signatures on all documents conform with one another and to those on the original application.

2. Any erasures or corrected errors which appear on the note or mortgage deed must be initialed by all parties who signed the documents.

3. Documents executed pursuant to a power of attorney should be accompanied by a certified copy of the recorded power of attorney.

4. The Participating Lender must verify that the mortgage deed and assignment of mortgage are complete, correct, properly acknowledged and otherwise in recordable form.

5. **Mortgage Electronic Registration System (MERS)** - CHFA is not a member of the Mortgage Electronic Registration System. Assignment of CHFA mortgage loans in MERS is strictly prohibited.

   a. CHFA First Mortgage Loans that are **AmeriNat or Service Retained** (by lender) must be assigned in the name of the **Connecticut Housing Finance Authority.**

   b. CHFA Servicer - **Idaho Housing and Finance Association** is a member of MERS, and IHFA First Mortgage loans must be assigned in **MERS to IHFA #1009670.**

   c. This policy may be amended by CHFA at will to accommodate the sale of mortgage loan pools to FNMA, FHLMC, GNMA or any other CHFA designated authorized entity.

6. The Participating Lender shall confirm that any special CHFA Commitment instructions or conditions have been complied with.

F. Mortgage Insurance and Guaranty Requirements

1. All required mortgage insurance or guaranty forms and certificates shall be properly completed and executed.
2. Evidence shall be obtained indicating that any special terms and conditions stated by the insurer or guarantor on its commitment have been satisfied.
3. The Participating Lender shall promptly notify the mortgage insurer of the assignment of the mortgage:

a. Proof of the electronic mortgagee change for FHA loans.
b. The Loan Sale Notice form is required for Conventional loans with Private Mortgage Insurance.
c. No form or notice is required for VA loans.
d. USDA Form 3555-11, Guaranteed Rural Housing Lender Record Change.

G. TILA / RESPA Integrated Disclosures (TRID)

The borrower and the seller should receive appropriate final itemized settlement statements of loan terms and closing costs. (TILA RESPA Integrated Disclosure Form). Signed copies of the forms must be obtained.

H. Recording

Following the closing, the mortgage deeds together with any necessary riders and the assignment of mortgage shall be promptly recorded on the land records of the town(s) in which the property is located.

SECTION 5 – ADDITIONAL INFORMATION FOR LENDERS

5.1 Qualification of Participating Lenders

General

A "Participating Lender" is a lending institution that cooperates with CHFA in making funds available under its' home mortgage program by making and/or servicing mortgage loans that CHFA has agreed to purchase.

A. Lender Capability

To be approved as a Participating Lender to originate mortgage loans, a lending institution must meet the following criteria:

1. Have in Connecticut, a brick-and-mortar facility with the capacity and personnel to originate and close mortgage loans, as determined by the Authority;
2. In the case of a non-depository financial institution, maintain a minimum tangible net worth of $250,000 or such amount (if higher) as the State of Connecticut Department of Banking may require as a condition of licensing as a mortgage lender or provide a letter of credit, available and otherwise uncommitted line of credit, bond or other financial instrument acceptable to the Authority totaling such amount;
3. Be in compliance with applicable federal and state laws, regulations promulgated thereunder and any licensing requirements by agencies of government having jurisdiction;

4. Maintain quality control and management systems to evaluate and monitor the overall quality of its origination activities: and
5. Execute a Master Commitment Agreement for mortgage purchase

B. Servicing Capability

To be approved by CHFA as a Participating Lender to service Authority loans, the institution must meet the following criteria:

1. Have the capacity and personnel to service mortgage loans, as determined by the Authority;
2. Demonstrate a proven ability to service the type of mortgages for which Authority approval is being requested;
3. In the case of a licensed mortgage servicer, maintain a minimum tangible net worth as required by the Connecticut Department of Banking as a condition of licensure or provide a letter of credit, available and otherwise uncommitted line of credit, bond or other financial instrument acceptable to the Authority totaling such amount;
4. Be in compliance with applicable federal and state laws, regulations promulgated thereunder and any licensing requirements by agencies of government having jurisdiction;
5. Maintain quality control and management system systems to evaluate and monitor the overall quality of its servicing activities; and
6. Execute a Home Mortgage Servicing Agreement and/or other contracts as determined by the Authority.

C. Other Requirements

1) The Authority may remove from the list of approved participating lenders any lending institution that has (i) failed to commit, close and/or service mortgage loans in accordance with the Act, these procedures, the Master Commitment Agreement for Mortgage Purchases, and/or the Home Mortgage Servicing Agreement or other agreement governing the closing, origination, or servicing of loans for the Authority, or (ii) ceased to meet the criteria for becoming a participating lender. The Authority may terminate the Master Commitment Agreement for Mortgage Purchases and/or the Home Mortgage Servicing Agreement or other agreement governing the closing, origination, or servicing of loans for the Authority in accordance with the provisions thereof.

2) Participating lenders shall not restrict applications for loans to any segment of the offer of all loan products offered by the Authority under the Homebuyer Mortgage Program, except that for rehabilitation mortgage loans and construction loans. A participating lender need not accept applications for rehabilitation mortgage loans and need not accept applications for mortgage loans on homes located outside its normal geographic lending areas nor for loan products which the Authority did not offer at the time the participating lender was approved as a participating lender. The Authority may nonetheless approve a participating lender which offers rehabilitation mortgage loans or construction loans but does not offer all of the other loan products offered by the Authority. The Authority shall

have the discretion to deny a request by a lender to become a participating lender based on the number of approved participating lenders and the geographic areas served by the approved participating lenders.

The Authority shall require a newly approved participating lender, from time to time, to attend training sessions as the Authority deems appropriate.

a. A participating lender may sponsor a "broker" or "third-party originator" to originate mortgage loans with prior written approval of the Authority. The sponsoring lender must be in good standing in order to sponsor a broker or third-party originator. In addition to such other requirements as the Authority may from time to time establish in its Operating Manual, to be approved by the Authority as a broker/third-party originator to originate mortgage loans , the broker must meet the same criteria for a participating lender to originate mortgage loans as described in subsection (A) above, except as follows:

b. The broker/third-party originator may have a minimum tangible net worth of $50,000
c. The broker may be required to execute a Master Commitment Agreement for Mortgage Purchases or other agreement setting forth its obligations to the Authority;
d. The broker/third-party originator may be required to attend a training session(s) prior to originating any Authority loans on behalf of the sponsoring participating lender and any other training sessions as the Authority deems appropriate; and
e. The broker/third-party originator shall conform to guidelines as required by the Connecticut Department of Banking and/or the Authority regarding licensing required to act as a broker/third-party originator in the State of Connecticut.

An approved broker/third-party originator may originate home mortgage loans on behalf of a sponsoring participating lender. However, the sponsoring participating lender shall remain fully responsible to the Authority for its obligations pursuant to the Authority's Procedures, the Authority Homebuyer Mortgage Program Operating Manual, and a Master Commitment Agreement for Mortgage Purchases. The Authority reserves the right to limit the number of brokers/third party originators and may rescind approval of a broker/third-party originator at any time with (prior) written notice.

D. Removal of a Participating Lender

CHFA may terminate the Master Commitment Agreement for Mortgage Purchases and/or the Home Mortgage Servicing Agreement according to their terms, respectively, and remove from the list of approved Participating Lenders any lending institution that has:

1. Failed to commit close and/or service Mortgage Loans in accordance with the Act, the Procedures of this manual; and the Master Commitment Agreement for Mortgage Purchases, and/or the Home Mortgage Servicing Agreement: or,

2. Ceased to meet the criteria for becoming a participating lender. CHFA may terminate the Master Commitment Agreement for Mortgage Purchases and/or the Home Mortgage Servicing Agreement in accordance with the provisions thereof. Such removal may take place thirty (30) days after written notice to such participating lender specifying the reason for the removal.

E. Lending Areas

Participating Lenders are not required to go beyond their normal geographic lending areas.

F. Training Sessions

After CHFA has approved a Participating Lender, the Participating Lender shall promptly attend appropriate training sessions with CHFA staff prior to originating a CHFA loan. The training session(s) shall cover CHFA's requirements in regard to originating and closing loans, providing CHFA with he required loan documents after closing, and, where appropriate, servicing requirements. CHFA shall have the right to require retraining sessions when CHFA deems it appropriate.

5.2 Distribution of Mortgage Funds

A. Availability of Funds

CHFA will not issue separate allocations to any particular Participating Lenders. A funds reservation system which allows the borrower to apply for a CHFA Loan at the Lender of their choice will be used.

CHFA reserves the right, however, to set aside a portion of the proceeds of any issue of bonds on an uncommitted bases for any purpose of the Program. Specifically, CHFA expects to set aside certain proceeds from each issue for the purpose of making Mortgage Loans in Targeted Areas.

1) The Participating Lender will determine if the prospective mortgagor is qualified as an Eligible Borrower. Such preliminary determination shall include the Participating Lender's examination of (i) the prospective borrower's written purchase agreement concerning the property to be financed, (ii) appropriate documentation required to determine income for eligibility and qualifying, and (iii) any other documentation or information required to determine eligibility.

2) After the Participating Lender has determined an applicant's eligibility for CHFA financing, the lender will reserve mortgage funds using the CHFA On-line Reservation System.

   (a) The reservation of funds is valid for ninety (90) days unless extension is requested by the Participating Lender and granted by CHFA.

3) The Participating Lender must notify CHFA of any cancellation of reserved funds so that the funds may be made available for others. No substitution of borrower will be permitted for served funds. No substitution of property will be permitted for reserved funds.

B. Reservation of Loan Funds

CHFA will administer the reservation program and Participating Lenders may accept Loan applications from prospective borrowers.

CHFA reserves the right, however, to set aside a portion of the proceeds of any issue of bonds on an uncommitted bases for any purpose of the Program. Specifically, CHFA expects to set aside certain proceeds from each issue for the purpose of making Mortgage Loans in Targeted Areas.

C. Free Accessibility to Funds

Applications for Loans shall be based on eligibility and not on special relationships between a Participating Lender and particular real estate brokers or developers. A Participating Lender may not deny a Loan to an Eligible Borrower solely because the Eligible Borrower is not a depositor or customer of the Participating Lender. Neither may the Participating Lender limit the availability of CHFA financing by denying an application based on the fact that the applicant does not belong to a specified group of the public such as employees of certain organizations.

5.3 Funds Available for Targeted Areas

H. General

In accordance with Federal requirements, CHFA will make funds available for Eligible Dwellings located in Targeted Areas. CHFA will exercise due diligence in making Mortgage Loans in Targeted Areas. Participating Lenders under CHFA’s direction shall assist in advising potential Eligible Borrowers of the availability of funds in Targeted Areas.

I. Eligibility

Mortgage Loans for Eligible Dwellings located in Targeted Areas must comply in all respects with the requirements in Section 3 and elsewhere in the Manual for all Mortgage Loans except for the requirement that an Eligible Borrower may not have had an ownership interest in the Borrower’s principal residence in the three years preceding the closing date for the Mortgage Loan.

5.4 Retention and Inspection of Records

Any documents required by this Manual or by State or Federal law, not delivered to CHFA pursuant to a Commitment or purchase of a Loan, must be retained by the Participating Lender or Servicer for at least two years after the date of purchase by CHFA, or such longer period as may be required by law, and, if requested by CHFA, for a reasonable period thereafter. If during such retention time CHFA requests original or certified copies of such documents, the same must be delivered to CHFA. Where appropriate, such documents may be kept on photographic media, in electronic format acceptable to the Authority, or in another manor which complies with state law.

Participating Lenders shall maintain accurate records for each Authority mortgage loan application which is declined.

Participating Lenders must make all records and books maintained in connection with Loans available for inspection by CHFA upon request during reasonable business hours.

The absence of documentation required to be retained by this section may, at the option of CHFA, be construed to conclusively evidence a defect in such documentation under the Master Commitment Agreement for Mortgage Purchases.

5.5 The Federal Recapture Tax

Congress enacted legislation in 1988, subsequently amended in October of 1990, to recapture a portion of the "subsidized amount" from home buyers who receive qualified mortgage bond assistance after January 1, 2991. This includes all buyers who use CHFA Mortgage Revenue Bond (MRB) Loans and Mortgage Credit Certificates (MCC), dispose of an interest in their residence within nine (9) years of purchase, and whose incomes substantially increase. The amount of Recapture Tax that Borrower(s) might have to pay depends on how much their incomes have increased, their family size at the time of sale, the original amount of their mortgage, the length of time they owned their home and any gain realized on disposition of the home. The recapture amount is the lesser of:

(1) 50 percent of the gain realized on disposition, or
(2) A percentage of the subsidized amount. The percentage is the product of the holding period percentage and the income percentage (both discussed below).

The Borrower(s) is responsible for calculating and paying the Recapture Tax, if any, as additional Federal tax liability for the tax year in which the interest in the home is disposed. However, Participating Lenders are required to provide homebuyers with the Authority's "Notice of Potential Recapture Tax Form 051-0597" and "Method to Compute Recapture Tax Form 052-1195".

5.5.1 No Recapture Tax is due and the Borrower(s) does not need to do the calculation if any of the following occurs:

5.5.1.1 The Borrower(s) disposes of his home later than nine (9) years after the mortgage loan is closed.
5.5.1.2 The home is disposed of as a result of the Borrower(s) death.
5.5.1.3 The Borrower(s) transfer the home either to their spouse or former spouse incident to divorce and no gain was incurred on the transfer and included in their Federal taxable income.
5.5.1.4 The home was disposed of at a loss.
5.5.1.5 The Borrower(s) modified adjusted gross income for the year in which the home is sold does not exceed the Threshold Income, adjusted for family size, for such year. Modified adjusted income is calculated as follows:

Adjusted Gross Income from IRS 1040	$_________
Tax exempt income earned for the year	+_________
Gain on sale of the home	-_________
Modified Adjusted Gross Income =	$_________

5.5.2 There are several steps required to calculate the actual recapture amount owed. The following outlines the steps involved in the calculation:

5.5.2.1 Threshold Income (Adjusted Qualifying Income)

The first year Threshold Income is 5% greater than the maximum allowable Federal income limit for the area in which the residence is located at the time the borrower was qualified. Each year of the nine (9) year holding period the Threshold Income is increased by 5% from the previous year's Threshold Income.

5.5.2.2 Holding Period Percentage

The percentage is based on the month in which the disposition occurs after the loan closing date pursuant to the following table:

Disposition Within Month of Closing

1-12 -	20%
13-24 -	40%
25-36 -	60%
37-48 -	80%
49-60 -	100%
61-72 -	80%
73-84 -	60%
85-96 -	40%
97-108-	20%

5.5.2.3 **<u>Maximum Recapture Amount</u>**

The Federally subsidized amount which is 6.25% multiplied times the highest principal amount of the mortgage loan, multiplied times the Holding Period Percentage.

5.5.2.4 **<u>Income Percentage</u>**

The modified adjusted gross income of the Borrower(s) for the taxable year in which the disposition occurs minus the Threshold Income divided by $5,000.

5.5.2.5 **<u>Adjusted Recapture Amount</u>**

The maximum Recapture amount multiplied times the Income Percentage.

5.5.2.6 **<u>Recapture Amount</u>**

Equals the lesser of the Adjusted Recapture Amount or 50 percent of the gain realized on the disposition.

5.5.3 **<u>Limitations and Special Rules on Recapture Tax</u>**

5.5.3.1 If you give away your home (other than to your spouse or ex-spouse incident to divorce), you must determine your actual Recapture Tax as if you had sold your home for its fair market value.

5.5.3.2 If your home is destroyed by fire, storm, flood or other casualty, there generally is no Recapture tax if, within two (2) years, you purchase additional property for use as your principal Residence on the site of the home financed with your original subsidized mortgage Loan.

5.5.3.3 In general, except as provided in future regulations, if two or more persons own a home and are jointly liable for the subsidized mortgage Loan, the actual Recapture Tax is determined separately for each person based on their interests in the home.

5.5.3.4 Refinancing of the Loan does not result in a Recapture Tax. If the home is disposed of subsequent to the refinancing, but prior to the original nine (9) years holding period, Recapture Tax may be due.

5.5.3.5 <u>CHFA Reimbursement for Recapture Tax Payment</u>

Borrower(s) that are required to make a recapture tax payment may be eligible to receive reimbursement from CHFA.

To request reimbursement from CHFA borrower(s) must submit a written request to CHFA no later than December 31st of the year that the federal recaptures tax is owed and paid. For example: if the subject property is sold in 2013 and the tax return is filed in 2014, the request for reimbursement must be filed no later than December 31, 2014.

5.5.4 Filing the CHFA Reimbursement Request

To request Recapture Tax Reimbursement borrower(s) must submit a written request to CHFA along with the following documentation:

5.5.4.1 A copy of the TRID – Closing Disclosure proof of sale of the property or, in the instance where the home is disposed of by a method other than sale, documentation evidencing the transfer of title and the Recapture Tax assessment;

5.5.4.2 A copy of the signed, filed Federal Tax Return, along with all schedules including IRS Form 8828, for the year in which the Recapture Tax was assessed and paid;

5.5.4.3 An original signed IRS Form 4506-T completed by each person listed as a borrower under the mortgage loan documents, authorizing CHFA to obtain a copy of each such borrower's transcript of such borrower's Federal Tax Return;

5.5.4.4 Evidence of payment of the Recapture Tax; and

5.5.4.5 Recapture Tax Reimbursement Request (CHFA Form 049-0313).

5.5.4.6 Mail the complete Recapture Tax request package to:

Connecticut Housing Finance Authority

(CHFA)
Residential Mortgage Programs – Recapture Tax Reimbursement
999 West Street
Rocky Hill, CT 06067

Note: CHFA may require additional information and/or documentation in order to approve a request for reimbursement and such approval shall be granted at the sole discretion of CHFA, subject to funding constraints and applicable statutory and procedural requirements.