

- 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 the 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 basis 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, 2001. 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

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

5.5.2.3 Maximum Recapture Amount

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 Income Percentage

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 Adjusted Recapture Amount

The maximum Recapture amount multiplied times the Income Percentage.

5.5.2.6 Recapture Amount

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

5.53 Limitations and Special Rules on Recapture Tax

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 CHFA Reimbursement for Recapture Tax Payment

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.