

MSHDA POLICIES & PROCEDURES

SINGLE FAMILY FHA LOAN PROGRAM

Effective Date: 9-10-08

Replaces Issue of: 4-27-07

Product Name: FHA

SUMMARY:

This is a 30-year fixed rate FHA loan available to low-to-moderate income borrowers who meet the MSHDA sales price and income limit eligibility guidelines. If the borrower has had ownership interest in a primary residence in the last three (3) years, they are not eligible for the program unless they are purchasing in a targeted area (where there are no prior home ownership restrictions). All adult members of the household must apply jointly for the loan. Non-occupant co-borrowers and co-signers are not permitted.

PRODUCTS:

MSHDA FHA (standard)
MSHDA FHA with Down Payment Assistance (SF-DPA) Option*
MSHDA FHA with Step Option
MSHDA FHA with both Step and Buydown Option

**Step and Buydown Options cannot be combined with DPA*

LOAN PURPOSE:

Purchase of Single family, owner-occupied primary residence ONLY

INCOME LIMITS:

Income limits apply and are available online at:

http://www.michigan.gov/documents/mshda_sf_income_and_sales_price_limits_100946_7.pdf

SALES PRICE LIMITS:

Sales price limits apply and are available online at:

http://www.michigan.gov/documents/mshda_sf_income_and_sales_price_limits_100946_7.pdf

OCCUPANCY REQUIREMENTS:

The borrower must occupy the property as his/her primary residence within 60 days of loan closing.

ELIGIBLE PROPERTIES:

- New, not previously occupied, single family homes or builders' models that have not been occupied.
- New or existing multiple-section manufactured (mobile) homes on foundations permanently affixed to real estate. NOTE: Existing multiple-section manufactured homes must have been constructed after 6/14/76.
- Existing single-family homes that have been previously occupied.
- New or existing condominiums approved by FHA.

ASSUMABILITY:

The mortgage may be formally assumed; however, certain restrictions will apply with respect to income, credit and sales price limits.

LOAN TERM:

30-year term

MINIMUM

LOAN AMOUNT:

There is no minimum loan amount

**MAXIMUM
LOAN AMOUNT:**

The maximum mortgage amount for the applicable jurisdiction may not exceed the lesser of: a) the FHA maximum insured mortgage amount; or b) the maximum sales price established by MSHDA in accordance with federal and state law. **Exception:** *The UFMIP may be added to the maximum mortgage amount calculated.*

**MAXIMUM
LOAN TO VALUE:**

The maximum permitted by FHA Guidelines

**STEP RATE
OPTION:**

For a FHA loan, a “step rate” option is available. This feature reduces the rate for the first three (3) years. The interest rate increases at year four (4) and remains constant for the balance of the 30-year term. The borrower is qualified for the payments at the initial rate. Different interest rates apply to the “step rate” loans and will be published by MSHDA at the same time as the regular program interest rates. The “step rate” option is **NOT** available with a FHA SF-DPA loan.

**TEMPORARY
INTEREST RATE
BUYDOWN
OPTION:**

A 2-1 temporary interest rate buydown option is permitted for fixed and step rate FHA loans. The lender generally should use the actual note rate for the mortgage as the “qualifying rate”. However, the lender may use the “bought down” rate as the “qualifying rate” provided the mortgagor has a credit score of 660 or higher (or 680 or higher, if the borrower is self-employed). All other FHA Guidelines relative to buydowns are applicable. The temporary interest rate buydown option is **NOT** available with a FHA SF-DPA loan.

**SUBORDINATE
FINANCING:**

In conjunction with a FHA mortgage, a MSHDA Single Family Down Payment Assistance (SF-DPA) loan is available for households whose income does not exceed 80% of the area median income, adjusted for family size, except where lower by state law. The DPA is a 0%, non-amortizing, “soft” second mortgage loan to assist with the down payment, closing costs, and prepaid expenses. The second mortgage is due on refinance, sale or transfer of the property. The borrower is required to invest a minimum of 1% of the sales price. This amount may be a gift from a relative or person with long standing relationship. The maximum DPA available is \$7,500. A liquid cash asset limit applies, which is \$5,000. For Individual Development Account Participants, the matched funds are not used in calculating the liquid cash assets. **NOTE:** Cash back at closing is not permitted, except for POCs listed on the HUD-1 Settlement Statement, which are in excess of the borrower’s required 1% cash investment.

Any other subordinate financing may be allowed on a case-by-case basis. The terms and conditions of the subordinate financing must have prior written approval of MSHDA and be in compliance with FHA Guidelines.

Step and Buydown options cannot be combined with Down Payment Assistance.

**QUALIFYING
RATIOS:**

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

**THIRD PARTY
CONTRIBUTIONS:**

An interested party is anyone (other than the property purchaser) who has a financial interest in, or can influence the terms and the sale or transfer of, the subject property. This includes the property seller, the builder/developer (or an affiliate who may benefit from the sale of the property), and the real estate agent or broker. When the property purchaser receives financial assistance from a relative, domestic partner, fiancé, fiancée, municipality, nonprofit organization, or employer, MSHDA does not consider the provider of the assistance to be an interested party to the sales transaction unless the person or entity is the property seller (or is affiliated with the property seller).

The maximum allowable contributions from interested parties is limited to 6% of the lesser of the property's sales price or appraised value.

These contributions are allowed for buyer's actual closing costs, prepaid expenses, temporary interest rate buydowns and discount points when applicable.

UNDERWRITING:

1. MSHDA will accept an Underwriting Package that has received a credit recommendation of "Accept/Accept Plus" from Loan Prospector (LP), or "Approve/Eligible" from Desktop Underwriter (DU) or FHA Scorecard. The information provided in the loan application, source documents and verifications must conform to the information contained in the DU or LP recommendations and all approval conditions must be satisfied and adequately documented. When a MSHDA Down Payment Assistance 2nd mortgage (SF-DPA) or other subordinate financing is part of the financing, the subordinate loan must be entered in LP, DU, or FHA Scorecard as subordinate financing and not as a gift. All subordinate financing must be included in the combined loan to value.

Since MSHDA has certain regulatory requirements, which must also be met, the following guidelines are provided:

- a. MSHDA will accept the loan determination of loans receiving an "Accept/Accept Plus" or "Approve/Eligible" from LP, DU or FHA Scorecard. Lenders are responsible for ensuring that all other MSHDA regulatory requirements are met.
- b. Credit recommendations other than "Accept/Accept Plus" or "Approve/Eligible" or Approve" from FHA Scorecard must be manually underwritten and approved by the Lender's underwriter and must meet all standard MSHDA guidelines as well as FHA Guidelines.
- c. The automated underwriting system (AUS) approval must be included in the loan submission package to MSHDA. This is to be placed on top of the Residential Loan Application (1003) when submitting the file to MSHDA. The Lender's Underwriter must sign this approval certifying as to the validity of the information submitted to obtain the automated underwriting system (AUS) approval. Lenders are expected to include the Feedback Report of Findings report for loans, which received a "Refer" or "Refer with Caution" but were subsequently approved by the Underwriter.
- d. MSHDA reserves the right to require further information to ensure compliance of the Underwriting Package.

2. MSHDA does not require a minimum FICO credit score, although a minimum credit score of 620 is *recommended*. MSHDA will entertain credit

scores below 620 if the Lender is able to submit adequate documentation to indicate a borrower has overcome previous credit difficulties and may be viewed as a reasonable credit risk.

Credit reports that have a FICO credit score of "000" due to the lack of a credit history, may still be acceptable providing evidence of two satisfactory alternative credit reference letters are submitted.

3. All collections, judgments, civil liens and charge-offs must be paid-in-full. Verification that collections are paid should accompany a statement from the borrower stating the reasons for derogatory information.

4. A gift conforming to FHA Guidelines is permitted. Borrower must provide verification of gift funds in applicable account of borrower or donor. Gift funds may be used for down payment, closing costs and prepaid items. A gift letter is required.

5. Previous bankruptcy:

- Chapter 7 - Generally, the borrower should be discharged from a Chapter 7 Bankruptcy for at least 24 months prior to loan application date and have satisfactory re-established credit.
- Chapter 13 – A Chapter 13 Bankruptcy may be considered for loan approval upon discharge with documentation to evaluate the applicant's overall financial strength and established credit history.

6. Foreclosure or Deed in Lieu of Foreclosure:

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

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

RENT CREDIT:

If the borrower had a lease with an option to purchase and exercises that right to purchase, the total amount of rent credit that can be given to the borrower is the amount paid over and above the Fair Market Rent for the particular area, as established by the appraisal. Lenders should be certain the appraiser reflects the Fair Market Rent in the appraisal if they are using a rent credit.

**WORK CREDIT/
SWEAT EQUITY:**

Refer to FHA Guidelines

**HOME BUYER
EDUCATION:**

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

**MORTGAGE
INSURANCE:**

The Lender must obtain a FHA Mortgage Insurance Certificate.

**ALLOWABLE
FEES:**

The lender can collect an Origination Fee of up to 1% of the loan amount. The lender may also be reimbursed for expenses incurred in processing, such as credit reports, appraisals, surveys, etc., not to exceed the actual cost of these expenses.

**PREPAYMENT
PENALTY:**

No prepayment penalty

**FEDERAL
RECAPTURE
TAX:**

If property is sold within nine (9) years from the date of loan closing, the borrower may owe a recapture tax. This tax is based on the household income and family size during the year of resale, and on the length of time the borrower occupied the property.

**RECAPTURE
TAX
REIMBURSEMENT
PROGRAM:**

MSHDA recognized that this may be a concern for individuals, so the Recapture Tax Reimbursement Program was created. In the event a borrower is required to pay a recapture tax, MSHDA will reimburse borrowers for any recapture tax paid by the borrower to the IRS. To request reimbursement, homeowners simply provide MSHDA with an IRS form 8828 and a signed copy of their IRS 1040 form.

LOAN DOCUMENTATION REQUIREMENTS:

**APPLICATION
DOCUMENTS:**

Refer to “*Loan Submission Checklist*”, SFH 134, for required documents. (This form is located in the Miscellaneous Documents Section of the Lender on Line Web site.). The application documents are:

1. Mortgage Loan Data Summary Sheet, SFH 117
2. FHA Mortgage Credit Analysis Worksheet (FHA 92900) approved and signed by DE underwriter
3. Loan Application (FNMA 1003)
4. FHA/VA Addendum – two pages (HUD 92900/VA-26-1866)
5. Notice to Buyers –FHA (SFH 123-A)
6. Counseling Certificate, as applicable
7. Evidence of Social Security Number
8. Copy of Driver’s License
9. Credit Report
10. Verification of Income
11. Income Tax Affidavit (SFH 108), if applicable
12. Verification of Assets
13. Purchase Agreement/Contract to Build
14. Appraisal
15. Initial Application Affidavit, SFH 106(4/06)
16. Signed Federal Tax Returns for last 3 years, as applicable
17. Required Builder Information, as applicable

**CLOSING
DOCUMENTS:**

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

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

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

- b) Step Rate FHA Mortgage, Note, Allonge, Rider & Assignment:
- i. FHA Mortgage
 - ii. FHA Note
 - iii. Interest Modification Allonge Amending Note, SFH 127
 - iv. Universal Tax-Exempt Financing Rider, SFH 122U
 - v. Assignment of Mortgage, SFH 102

*NOTE: Refer to “FHA-Step Loan Mortgage Document Control Sheet”, SFH 141 for **other** required documents. This form is located in the FHA-Step Loan Section of the Lender on Line Web site under Closing Documents.*

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

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

**TITLE INSURANCE/
MORTGAGE
INSURANCE:**

The name of the insured on all title insurance policies or mortgage insurance certificates may read:

“[Lender’s name], its successors and/or assigns”

**SHORT FORM
TITLE INSURANCE
POLICY:**

A short form title policy issued at closing is acceptable.