

Chapter 4

LOAN REQUIREMENTS

To be eligible for purchase by PHFA all Mortgage Loans submitted must meet the requirements detailed below.

401 Eligible Loan Areas

Participants must originate Mortgage Loans in the respective regions (non-target and/or target) specified in the Notice of Acceptance. Geographical allocations by region are mandated by the State law authorizing the Program. Federal tax law applicable to the Program mandates that a certain percentage of proceeds from each bond issue be originated in target areas.

Eligible Mortgage Loan Areas will include the entire State.

Each Participant is responsible for qualifying Borrowers for compliance with Principal Residence, Income Limit, Three-Year Non-Homeownership, Maximum Purchase Price and New Mortgage Requirements.

The Agency may advertise the availability of funds for Mortgage Loans in target areas. Participants are also required by Federal Tax Law applicable to the Program to exercise reasonable diligence in seeking to finance residences in target areas, such as by advertising the availability of funds.

401.1 Qualifying Residences

For a Mortgage Loan to be eligible for PHFA to purchase, the mortgaged property must meet certain requirements imposed by Federal and State law and regulations set forth in the Agreement and this Guide.

PHFA Mortgage Loans must have the following characteristics:

- a) The encumbered property is located in Pennsylvania;
- b) The title to the property is held by the mortgagor at the time of closing in fee simple or under an eligible leasehold interest (the terms of the ground lease must extend beyond the maturity date of the Mortgage Loan and only the land may be under a ground lease; the improvements must be owned by the mortgagor);
- c) The property is an owner occupied one (1) unit single family dwelling (attached or detached), including condominium units, either existing or new construction, designed for residential use and located in an area consistent with such use. Or the property is an existing two (2) unit dwelling (duplex) of which one

unit will be occupied by the borrower and is located in an area consistent with its use. The unit must be legally zoned as a two unit property.

NOTE: A two (2) unit dwelling cannot be a single family home that has had the basement or attic converted to a rental unit. The duplex must be at least five (5) years old, it cannot be new construction.

- d). The total acquisition cost of the home does not exceed the maximum purchase price limit for the county and type of home (1 or 2 unit) being purchased.. Two unit purchase price limits are set at 10% above the current existing single unit by county.

**401.1A MANUFACTURED
and (Factory-Built)
Housing Unit**

The Agency will consider loans for properties which include a Manufactured or other Factory-Built home providing that, the manufactured home has been built under the Federal Manufactured Home Construction and Safety Standards that were established June 15, 1976. For Other Factory-Built housing such as prefabricated, panelized, modular or sectional housing, they must meet local zoning and building codes and have a Department of Community Affairs Insignia (DCA). In addition to the building requirements, the following criteria applies to both types of housing units:

- Home must be defined, deeded and taxed as fee simple real estate.
- Wheels, axles, and trailer hitches must be removed when the unit is placed on its permanent site.
- Home must be permanently affixed to one of the foundation requirements set forth below:
 - (1) A foundation that has footings located below the frost line. If piers are used, they must be placed where the unit manufacturer recommends. And if state law requires anchors, they must be provided. The foundation system must meet local codes and have been designed by an engineer to meet soil conditions of the site and assume the characteristics of site-built housing.
 - (2) A "Floating Slab" foundation may be considered if they meet the minimum standards as described in Appendix "S" and there are no local codes that are more stringent. Specifications for the foundations must be provided to you by the contractor. It is your responsibility to make sure they meet the appropriate specifications.

- The purchase of the land and the unit must represent a single real estate transaction under applicable state law.
- The financing must be evidenced by a mortgage or deed of trust recorded in the land records. A combination of a chattel and real estate mortgage is not acceptable.
- Each unit must have sufficient square footage and room sizes to be acceptable to typical purchasers in the market area.
- The mortgage amount cannot include the financing of furniture, mortgage life insurance, property damage insurance, or any other form of insurance. However, the financing of kitchen and laundry appliances and carpeting may be included in the mortgage

If the property is a single-wide manufactured unit that will be insured by FHA because it meets all the FHA property requirements (i.e. built after 6/15/76, minimum 400 sq. ft, etc.) as well as the above bullet points, the Agency will consider it.

Except for single wide manufactured units, we do not have minimum requirements for width, size, or roof pitch for manufactured housing units. Each unit must have sufficient square footage and room dimensions to be acceptable to typical purchasers in the subject market area. The appraiser must address both the marketability and comparability of manufactured housing units. The materials and construction of the improvements must be acceptable in the subject market area. The appraiser should also comment on the sufficiency of the living areas of the unit, interior room size, storage, adequacy of roof pitch and overhangs, and the compatibility of the exterior finish. In addition, the appraiser must address the marketability and value of manufactured housing units in the subject market area in comparison to the marketability of site-built housing in the area.

The appraiser should use as comparable sales similar manufactured units, comparing multi-width units with multi-width units. If comparable sales of similar units are not available, the appraiser may use site-built housing as comparables as long as they explain why it is being done. When there is a preference for site-built housing in the subject market area, the appraiser must adjust the site-built comparables to reflect the market's reaction to manufactured housing units.

The appraiser **MUST** address all above referenced information in the Appraisal Report or on an addendum in order to receive PHFA approval. Please remember that if the L-T-V ratio of the loan exceeds eighty percent (80%), a Conventional loan requires private

mortgage insurance coverage by a private mortgage insurance company or PHIF. These insurers may have standards that are more restrictive than those listed above. In addition, the Agency will not accept an MI Certificate where the MI Company has charged their "Add-On" fee. Refer to Appendix F for MI Company's who do not charge this extra fee for manufactured homes.

401.2 Amortization

We require full amortization of the Mortgage Loan. Each Mortgage Loan must be for a term of thirty (30) years, at the interest rate specified in the credit pre-compliance approval notification, with level monthly payment provisions. The thirty-year (30) term is both a minimum and maximum.

The following provisions apply:

- a) Prepayment Rights. Mortgage Loans may be prepaid, in whole or in part at any time without penalty.
- b) Loan Origination Guidelines. The acceptance of each Mortgage Loan by PHFA is subject in all respects to Section 4.09 of the Agreement, which provides that a Lender must repurchase a Mortgage Loan if any of the mortgage documents are defective or inaccurate in any material respect, or if any representation or warranty of the Lender is untrue as to any material matter.
- c) Permitted Encumbrances. All Mortgage Loans must be secured by a first lien on the fee simple or sufficient leasehold estate of the residence. Permitted Encumbrances are those liens, conditions, restrictions and encumbrances permitted under this Guide, and which do not materially affect the security for the Mortgage Loan.

401.3 FHA Programs

All FHA-insured loans, in addition to being underwritten to current PHFA requirements, must also meet current Federal Housing Administration (the "FHA") requirements and the Federal Tax Law Eligibility requirements. Itemized below are the only PHFA approved FHA Programs:

- a) FHA Section 203(b);
- b) FHA Section 223(e);
- c) FHA Section 234(c);
- d) FHA Section 203(k).

401.4 VA Programs

All VA-guaranteed loans, in addition to being underwritten according to current PHFA requirements, must also meet current De-

partment of Veterans Affairs (the "VA") requirements and the Federal Tax Law Eligibility requirements.

401.5 RHS Programs

All RHS-guaranteed loans, in addition to being underwritten to current PHFA requirements, must also meet current Rural Housing Community Development Service (the "RHS") requirements and the Federal Tax Law Eligibility requirements.

401.6 Private Mortgage Insurance

All Conventional loans with an LTV ratio greater than eighty percent (80%) must be submitted to a qualified private mortgage insurance company. Once private mortgage insurance has been obtained, a complete Credit/Pre-Compliance Submission must be submitted to PHFA. If the loan is on a newly constructed home, the LTV ratio will be based on the lower of the total of the applicable value for land and construction costs OR the appraised value.

Note: A lender may use their delegated MI underwriting approval authority for loans under the PHFA programs. Please remember, that Conventional loans requiring private mortgage insurance are not to be submitted to PHFA without a copy of the insurance certificate in the file.

The minimum private mortgage insurance coverage allowed for each Conventional loan-to-value ratio is:

Loan-To-Value Ratio	PMI Coverage
95.01 - 97.0%	35%
90.01 - 95.0%	30%
85.01 - 90.0%	25%
80.01 - 85.0%	20%

Participating mortgage insurers and rates are listed in Appendix F. For MI remittance, see Chapter 13, section 1303 on page 13-2.

Cancellation of Mortgage Insurance Coverage – For loans closed on or after July 29, 1999, the Agency will be following the rules pertained in the Homeowners Protection Act of 1998. For loans closed prior to July 29, 1999, the insurance coverage for a mortgage may be canceled when the unpaid principal balance of the mortgage has been paid down to eighty percent (80%) of the LESSER of the ORIGINAL purchase price or the ORIGINAL appraised value of the property, UNLESS it is determined that the property depreciated in value since the original appraisal or the borrowers payment history has not been satisfactory.

401.7 Purchase/Improvement Program

This program was designed to allow eligible Homebuyers purchase and improve a home within the same mortgage transaction. See Chapter 14 for guidelines of program.

- 401.8 Refinance Program This program was designed to allow borrowers to refinance into an affordable loan program. For details and program requirements please refer to Chapter 16.
- 402 The Mortgaged Property The mortgage and title policy must have a legal description of the mortgaged property which are exactly the same.
- 402.1 Title Insurance Each Mortgage Loan must be insured by a Mortgagee's Title Insurance Policy (preferably a Residential Short Form or an Instant Title Policy) on the current standard form of the American Land Title Association in an amount equal to the principal amount of the mortgage indebtedness. The title insurer must be licensed to conduct business in the Commonwealth of Pennsylvania. For a list of the Title Companies authorized to do business in PA refer to Appendix U.
- The policy must insure that the Mortgage Loan is a valid first lien on the mortgaged property.
- 402.2 Hazard Insurance You must ensure that the property securing each Mortgage Loan is covered by hazard insurance that, at a minimum, meets the following requirements:
- a) Term - Policies must be for a period of at least one (1) year. Insurance must be in effect on the date of delivery of the Mortgage Loan to us for the purchase. The maximum allowable deductible is the higher of \$1,000 or 1% of the face amount of the policy (or, in the case of a mortgage secured by a PUD unit that is covered under a blanket policy for the project, the higher of \$1,000 or 1% of the replacement cost for the unit rather than on the face amount of the policy;
 - b) Fire and Extended Coverage -Policies must afford protection against loss or damage from fire and other hazards covered by the standard extended coverage endorsement. It must be in an amount at least equal to the lesser of either: (1) the outstanding principal balance of the Mortgage Loan at the time you deliver it to us for purchase or (2) the maximum insurable value of the improvements, determined by subtracting the land value on the Uniform Residential Appraisal Report (URAR) from the final reconciliation of value as calculated on the report;
 - c) Mortgagee Clause- Policies must contain a standard mortgagee clause endorsed in favor of PHFA and/or its successors or assigns, as their interest may appear;
 - d) Other Hazards - If you are aware that a mortgaged property is exposed to any appreciable hazard against which standard fire

and extended coverage does not afford protection, you must advise us of the nature of the hazard within ten (10) business days and the additional insurance coverage, if any, which should be obtained or which you have obtained due to the mortgagor's failure to obtain adequate insurance. We may require you to obtain additional coverage, in accordance with the terms of the mortgage documents, as we determine necessary.

402.3 Flood Insurance Policies and Procedures

All participating Lenders in the PHFA Homeownership Program are expected to have a working knowledge and comply with the provisions of the Flood Disaster Protection Act of 1973 and as later amended whenever applicable to any Mortgage Loans sold to PHFA. You may access more information online regarding the mandatory purchase of flood insurance requirements and other related topics, at: <http://www.fema.gov/business/nfip/mpurfi.shtm>, or call 1-800-480-2520 and request document F-083 (9/07), Mandatory Purchase of Flood Insurance Guidelines. Please refer to the guidelines listed below for the required coverage amounts needed when closing a PHFA approved loan.

Life-of-Loan (LOL) flood determinations are required on every PHFA loan. The LOL certificate should show the insured: Pennsylvania Housing Finance Agency, Successors and Assigns, P.O. Box 15057, Harrisburg, PA 17105-5057. A copy of the "Notice of Transfer of Servicing" form that was sent to the issuing company must be included in the purchase package.

Flood determinations should be ordered as soon as possible in the loan process. The borrowers are required to be notified in writing, if their home is located within a Special Flood Hazard Area (SFHA) within a reasonable period of time. In the case of multiple applicant's on a single loan, the lender and borrowers may designate the borrower to whom the notice will be provided. If any portion of the building or a part of the building (example: deck) is located in a SFHA, where federal flood insurance is available; the flood insurance must at least be, but, is not limited to, the lowest of: (a) The outstanding principal balance of the loan; (b) The maximum insurance available under the National Flood Insurance Program (NFIP); or 100 percent of the replacement cost of the dwelling. Please note that if the detached building (a stand-alone garage or outbuilding) is located in a SFHA, (and the principal structure is not) flood insurance will be required for the detached structure, if it serves as a part of the security for the mortgage.

PHFA strongly encourages all borrowers to purchase replacement cost coverage and content coverage to protect their interests. Please encourage the borrowers to do the same, when originating

any PHFA loans. The deductible may not exceed the greater of \$1,000 or one (1) percent of the face amount of the policy.

Flood Insurance for properties located in a participating Community must be written through the National Flood Insurance Program, (NFIP).

A loan which is intended to be sold to one of the government-sponsored enterprises or guaranteed or insured by the Federal government must meet the applicable entity's requirements.

PUD Homeowners' Associations: The required amount of coverage the PUD Homeowners' Association should cover on any common elements, buildings, and any other common property located within the designated hazard area should be at least equal to the lesser of 100% of the insurable value of the facilities or the maximum coverage available under the National Flood Insurance Program. The deductible may not exceed the lesser of \$5,000.00 or one (1) percent of the policy face amount. Funds to cover this deductible amount should be included in the owners' association's operating reserve account.

Condominiums: The current "maximum" amount for building coverage that may be purchased on a high-rise or low-rise Condominium Building under the Residential Condominium Building Association Policy (RCBAP) is 100 percent of the Replacement Cost Value (RCV) of the building, including: the supporting foundation, or the total number of units in the condominium building multiplied by \$250,000.00, whichever is less. The RCBAP must cover all of the common elements and property, as well as each of the individual units in the building. The amount of required coverage is: (1) building coverage should equal 100 percent of the insurable value of the common elements and property, including machinery and equipment that are part of the building, (2) contents coverage, which should equal 100% of the insurable value of all contents (including machinery and equipment that are not part of the building) that are owned in common by the association members, and (3) coverage for each unit, which should be the lesser of \$250,000.00 or the amount of its replacement cost. If the total required coverage exceeds the maximum coverage available for condominium projects under the applicable National Flood Insurance Program, we will accept coverage equal to the maximum amount that is available. The deductible may not exceed the lesser of \$5,000.00 or one (1) percent of the policy face amount. The RCBAP does not protect the individual unit owner from loss to personal property owned exclusively by the unit owner. Therefore, it may be in the borrowers best interest to acquire supplemental building coverage to the RCBAP by purchasing a unit policy under

a Dwelling Policy form that is written in excess of the association policy.

A copy of the RCBAP must be provided for all Condominium loans, along with a copy of the Borrower's (Unit) Owner's Declaration page, (if applicable). If a condominium association declines to carry any flood insurance coverage, then each unit owner may purchase an individual policy.

Do not close a loan with a Preferred Risk Policy if the home is or may be located within a SFHA.

If the determination is unclear or in conflict with another determination, please follow the procedure below. If the conflict cannot be resolved by loan closing, a Standard Flood Insurance Policy (SFIP) should be obtained. This will help to ensure the borrowers still wish to purchase the home and can still afford it if flood insurance is ultimately required. Please note that it is likely that the underwriting ratios will need to be re-calculated, to be sure that the borrowers are still eligible for the loan. Please also order a manual recheck if the determination is unclear or in conflict with the Appraisal, to help avoid possible errors from being made. It helps to confirm the property address, the parcel identification number with the local tax assessment office personnel (or tax assessment website), etc. before ordering a manual recheck be completed by the flood vendors.

Manual re-checks. Inform each vendor of the conflicting determinations and request that they each do a manual recheck and physically map out the property. They should be willing to work with each other to reach consensus on the property's flood zone status.

1. **Assistance from NFDA.** The National Flood Determination Association (NFDA) is a non-profit organization of flood determination vendors and companies. It can assist with facilitating discussion between members regarding a specific determination issue. However, it is possible that even after the documentation is submitted to the NFDA, the two flood vendors will still not agree on the determination. And, not all determination companies are members of the NFDA.
2. **Assistance from FEMA.**
 - A. **Letter of Determination Review (LODR).** If the issue is still unresolved after step 1, the lender and the borrowers can jointly request that FEMA review the determinations made for the lender. The LODR process costs \$80 (as of January 2007) and does not consider the elevation of the structure or property above the flood level. Rather, it considers only the

location of the structure relative to the special flood hazard area boundary shown on the Flood Insurance Rate Map (FIRM). Therefore, a LODR from FEMA will not effectuate any changes to the FIRM. All LODR requests are completed and FEMA provides a written response to the joint requesters within 45 days of the date FEMA received the complete request. There are three possible outcomes of FEMA's review:

- Upheld: The review of the data agrees with the determination by the lender.
- Unchanged: The review cannot dispute the lender's determination because the data was insufficient to reach a conclusion.
- Overturned: The review of the data indicates the structure is not located in the mapped SFHA.

Visit <http://www.fema.gov/business/nfip/lomri.shtm> for more details.

B. Letter of Map Amendment (LOMA) or Letter of Map Revision based on Fill (LOMR-F)

This option may be used as alternatives to the LODR process or in cases where the LODR upholds the original determination. The LOMA/LOMR-F process can take elevation data into account and can amend or revise the FIRM to reflect any errors on it or address any changes to the topography of the land which may result in a modified SFHA. There is no charge for a LOMA (based on natural ground elevations) application. There is a fee for a LOMR-F (based on fill) application.

For a LOMA to be issued removing the structure from the SFHA, the lowest adjacent grade (the lowest ground touching the structure) must be at or above the 1% annual chance flood elevation. To remove the entire lot, the lowest point on the lot must be at or above the 1% annual chance flood elevation. The requester of a LOMA is responsible for providing all the information needed for

FEMA's review of the request, including elevation information certified by a licensed land surveyor or professional engineer.

Visit http://www.fema.gov/plan/prevent/fhm/fmc_loma.shtm for more details.

FEMA maps may be reviewed online at www.msc.fema.gov, or call 1-800-FEMA-MAP

For more information about flood insurance, visit www.fema.gov/business/nfip or www.floodsmart.gov.

402.4 Special Assessments

We will not purchase any first Mortgage Loan on a home where any special assessments, tax assessments OR any then due taxes or past due taxes are unpaid at the time of closing. This will include unpaid liens for water/sewer rents and unpaid Condo/PUD Association fees.

403 Property Standards

Our property standards emphasize the present adequacy and long-term livability and marketability of the mortgaged property. The property should be structurally sound and functionally adequate to meet the present and foreseeable housing needs of the Borrower.

Eligible properties must be modest in size, style and design and in compliance with all applicable controlling minimum building and housing codes.

To ensure satisfactory long-term security, the subject property should be compatible with the surrounding structures in terms of those factors which affect marketability, such as function, design and quality of construction.

403.1 Energy Efficient Properties

The Agency will give special underwriting considerations to borrowers who are purchasing a property that is considered as Energy Efficient.

The lender should consider the energy savings along with other property and borrower characteristics when deciding whether increased ratios are justified. The family purchasing a high energy efficiency home might be able to increase their underwriting ratios by as much as one percent. The energy efficiency of the property must be rated as "High" to justify the use of the increased ratios.

When using energy efficiency ratings, one of the following MUST be attached to the appraisal to indicate a "High" rating: Energy Addendum (FNMA Form 1004A), evidence that the dwelling was built in accordance with an energy conservation program that meets the National Association of Home Builders' Thermal Per-

formance Guidelines or the builders certification that the dwelling was constructed in a manner that meets or exceeds the standards established by the 1989 Council of American Building Officials' Model Energy Code. For more specific information on these two methods, please refer to the FNMA Selling Guide sections 305, 305.01 and 305.02. The Agency has adopted their policy on this matter.

403.2 Economic Life

The remaining economic life of a property is the estimated period over which the improvements will continue to contribute to the value of the property, or the estimated period in which the improvements increase the value of the property above that for the vacant site.

The appraiser is to indicate the estimated remaining economic life of the property for all FHA, VA and RHS loans under the "Comments on Cost Approach" section on the reverse side of the appraisal. Should the appraiser state the remaining economic life on a Conventional appraisal, then it must be for at least the term of the loan.

Generally, the mortgage term should not exceed the appraiser's estimate of the remaining economic life for the subject property.

403.3 Wood-Destroying
Insect Certification

FOR EXISTING HOMES ONLY, the Participant is to provide a copy of a CLEAR wood-destroying insect certification (dated within 120 days of closing) in the Purchase Submission. If evidence of infestation was observed, an inspection graph MUST be provided and if infestation was active, proper control measures MUST have been taken. If structural damage resulted from the infestation, the Participant must also provide proof that the damage was satisfactorily repaired.

Wood-destroying insect certifications are not required on condominium units constructed of concrete and steel.

403.4 Plumbing, Electrical
and/or Heating

The Participant is to provide a copy of a CLEAR plumbing, electrical and heating certifications if the property Certifications is determined to be vacant or if the systems were not on at the time of inspection. CLEAR plumbing, electrical and/or heating certificates will be required if the appraiser recommends them or there is an indication in the appraisal or the agreement of sale that there is an existing or potential problem with the plumbing, electrical and/or heating system(s).

403.5 Private Wells

Potability Test - All private water supplies (wells, springs, etc.) must be tested and a recent (within 120 days) report provided at loan closing from a certified EPA/DER Laboratory stating that the water is potable and/or that the water is safe for drinking or household use. A REPORT INDICATING "0" COLIFORM WOULD

MEET THIS REQUIREMENT. If there are local standards that require further testing, the Lender is responsible to see that all local standards and requirements are met.

Flow Test - Required to be completed only on new wells. The well driller's certification is to be included as an additional document in the Purchase Submission. A certification is to be prepared by the well driller stating THE FLOW OF THE WELL IN GALLONS PER MINUTE AND THAT THIS FLOW APPROXIMATES AT LEAST THE MINIMUM ACCEPTABLE FLOW IN THE GENERAL AREA OF THE RESIDENCE.

403.6 Septic Systems

If the appraiser recommends or requires a septic certification on the appraisal OR if there is an indication in the appraisal or the agreement of sale that there is an existing or potential problem with the septic system, a CLEAR septic dye test must be included in the Purchase Submission.

Properties located in rural communities that are forced to utilize “wildcat disposal systems” for the simple reason there is no other alternative, may be eligible for PHFA financing. However, certain conditions must be met. These conditions are addressed on a memo dated April 3, 1997, which has now become Appendix W.

When lending in communities that may utilize non-traditional forms of sewage disposal systems, contact the Agency for possible acceptability of the system. Don't automatically assume it is unacceptable.

403.7 Dampness and Settlement

If the appraiser indicates there is evidence of dampness or settlement, he or she must comment on its effect on the subject property's marketability and value. The Lender must provide either satisfactory evidence that the condition was corrected or submit a professionally prepared report, which indicates that - based on an inspection of the property-the condition does not pose any threat of structural damage to the improvements.

403.8 Privately Owned and Maintained Streets

The property should front on a publicly dedicated and maintained street that meets community standards and is accepted generally by area residents. A street that does not meet city or State standards frequently requires extensive maintenance, and property values may decline if it is not regularly maintained.

Therefore, if the property is on a community-owned or privately-owned and maintained street, provide a copy of the recorded private road maintenance agreement. If one is not available, provide a statement from the Borrower(s) acknowledging the existence of the private road and that there is no public or private maintenance agreement in place which ultimately may require them to pay for any needed repairs. The agreement or statement

must be included in the Purchase Submission. However, if the property is a unit in a condominium or PUD project and the street is maintained by a homeowner's association, the recorded private road maintenance agreement is NOT required.

403.9 New Construction

PHFA funds are not available for interim construction financing. However, should you choose to do a construction permanent loan, you may charge reasonable and customary rates and fees during the construction period. The Addendum to Note/Construction Loan (Form 19) is to be used for changing the permanent loan rate to your construction loan rate during the construction period. This form must accompany your original note at the time of loan purchase.

PHFA understands the risk involved in construction lending and encourages Lenders to follow stringent lending procedures for construction loans. This includes, but is not limited to the following: (1) NOT PERMITTING A BORROWER WHO IS NOT A GENERAL CONTRACTOR BY PROFESSION TO ACT AS HIS OWN GENERAL CONTRACTOR; (2) filing stipulations against liens; (3) obtaining construction contracts for completed homes; (4) executing the required documents; (5) collecting fees; (6) charging construction rates; (7) investigating builders; and (8) the use of bonding inspections.

When reviewing Mortgage Loans for homes to be constructed, be sure that the construction contract or contracts include all items for a complete home. It is the Lender's responsibility to review plans and specifications to be sure all items for a complete home are included. If additional items, such as painting, carpeting, decks, patios, walks, driveways, and final grading and seeding and the cost of materials (and labor, if applicable) must be included and supported by estimates or invoices. Therefore, it is imperative that all contracts be reviewed thoroughly. In the past, we have had problems with items being purposely omitted from a contract so the Total Acquisition Cost of the residence will not exceed the Maximum Purchase Price!

PHFA will accept FHA required warranties on new construction or will require a clear final inspection for a RHS or Conventional Mortgage Loan.

Under IRS regulations, any improvements made to the property, other than maintenance, completed within one year of the date of purchase must be considered part of the Purchase Price for Maximum Purchase Price purposes.

Any changes made to the property during the progress of construction could make the Mortgage Loan ineligible for the Program if the cost of these changes added to the original purchase price calculation puts the total cost over the Maximum Purchase Price for the area in which the home is being built.

When submitting Mortgage Loans for new construction we require that plans and specifications be included in the Credit/Pre-Compliance Submission if the Borrower has contracted with a builder to erect a home on his own lot. However, if the Borrower is purchasing a home as a "package deal" (land and home sold together) from a builder/developer, plans and specifications will not be required.

Note: A guide to help calculate the maximum mortgage amount for properties where the land has been or will be purchased separately is detailed in Appendix L.

403.10 Sweat Equity

The Agency will now consider sweat equity subject to the following:

(1) The contributory value of the labor the Borrower will be providing must be documented by the contractor.

(2) The construction contract must specify that the Borrower will be providing labor for a certain dollar amount.

(3) The Borrower is required to fund five percent (5%) of the Purchase Price - minimum of three percent (3%) must come from the Borrower's own, verifiable funds; however, the remaining two percent (2%) may be a gift from a relative or a nonprofit or charitable organization - SWEAT EQUITY MAY NOT BE USED TO FUND ANY PART OF THE MINIMUM FIVE PERCENT (5%) DOWN PAYMENT.

(4) The Borrower is not permitted to receive any cash back in these transactions - entire credit must be applied to closing costs and/or down payment (reducing the loan-to-value ratio).

(5) Sweat equity is limited to five percent (5%) of the Purchase Price.

(6) The labor the Borrower will be providing is limited to painting/staining and final grading and seeding/land-scraping.

The Borrower is credited for his/her labor at closing, thereby reducing the cash required for closing costs and/or increasing the down payment to reduce the loan-to-value ratio.

403.11 Escrows for Incomplete Items

Incomplete items may not include any item that affects the livability of the home. Any item of this type must be completed prior to having final settlement. The Agency will consider escrows for items that are NOT weather-related on a case-by-case basis.

If there are items that are incomplete due to weather related issues please complete PHFA Form 65. The items that appear on this form

should be the estimates for the cost of the deck, patio, walks, steps, repairs, painting, final grading & seeding, etc. In section 2 of Form 65 please be sure to indicate the expected completion date. If the work has not been completed by the deadline, contact PHFA to request an extension. The Lender is responsible to follow through until the work is completed. In an effort to assist in this area PHFA sends a letter to the borrower to advise them about the outstanding work that needs to be completed and the expected completion date.

As referenced on Form 65 the amount escrowed is one and one half times the cost of the items that are to be completed. The inspection fee (s) is the only item that states the actual cost.

A copy of the escrow agreement needs to be included in the purchase package. If the escrow agreement indicates that PHFA is holding the funds please be sure to include the funds in the purchase package. When the lender holds the funds they are responsible to send the Completion Certificate to the Purchase Department.

The following are examples when an escrow agreement is **not needed** :

LTV Ratio

Policy

80% or Below

When the cost to complete these items amounts to three percent (3%) or less of the LESSER of the total of the acquisition cost OR the appraised value.

Above 80%

When the cost to complete these items amounts to one percent (1%) or less of the LESSER of the total of the acquisition cost plus OR the appraised value.

403.12 Condominiums and PUDs Condo/PUD Requirements - For Conventional loans with loan to values above 80%, Private Mortgage Insurance is required from a PMI company listed in Appendix F. For Conventional loans with Loan to Values at or below 80%, we only require proof of the development's insurance. For FHA, VA or RHS loans, PHFA will require evidence that the condominium or PUD project is approved by the particular Agency who will be insurer/guarantor.

The maximum loan-to-value ratio on a condominium unit will be limited to the maximum loan-to-value ratio allowed by the insurer/guarantor.

The mortgage on the condominium unit must constitute a first lien covering a fee simple estate or interest in the property.

We reserve the right to reject any Mortgage Loan on a condominium unit if we determine, in our discretion, that the project, its developer, its owners association, condominium documents, or any combination of these constitutes an excessive underwriting risk.

403.13 Environmental Protection

During the physical inspection of the property the appraiser must be alert for any indication of the presence of any hazardous materials on the subject property or any adjacent or nearby properties (including, but not limited to, asbestos or polychlorinated biphenyls (PCBs) or any indication that the property or any nearby site is or has been used as a landfill or the site of activity related to or used for the storage of oil, asbestos, PCBs, other hazardous wastes or other toxic substances), and you must notify us in writing of any report by the appraiser indicating the possible presence of hazardous materials at the time that you submit the Credit/Pre-Compliance Submission to us.

404 Standards for Appraisers

You must be able to furnish upon request from the Agency evidence that each of your appraisers has adequate experience and expertise or has been approved by FHA or VA. This generally means that the appraiser:

- a) is a real estate appraiser duly certified and in good standing with the Commonwealth of Pennsylvania as a General Appraiser or Residential Appraiser and not previously disqualified by the Agency.
- b) has successfully completed a nationally recognized basic appraisal course and has at least two (2) years full-time Real Estate appraisal experience.
- c) has demonstrated a high level of integrity, professional ethics and technical ability; and
- d) is approved by FHA or VA (for conventional loans, the FHA or VA status is not required if the above conditions are met).

405 Appraisal Guidelines

PHFA requires that the appraised value of the property not include any value attributable directly or indirectly to the terms of the financing or any other factor outside the market value of the real estate itself.

All appraisals must show the census tract (if applicable) in which the subject property is located.

All Credit/Pre-Compliance Submissions must be accompanied by a photocopy of the appraisal, "Uniform Residential Appraisal Report" (URAR), FNMA Form 1004 and the "Statement of Limiting Conditions and Appraiser's Certification", FNMA Form 1004B. The Agency has developed an Appraisal Review sheet, "Appendix I" describing our miscellaneous property requirements.

For FHA Loans the appraisal must be accompanied by a HUD 92800.5B, "Conditional Commitment/Direct Endorsement Statement of Appraised Value," or for VA loans accompanied by a VA 26-1843, "Certificate of Reasonable Value" (CRV).

For Mortgage Loans submitted under the HUD Property Disposition Program Set-Asides, we require the URAR and the Conditional Commitment and photographs if available.

All existing property appraisals must be accompanied by original photographs of the front and rear view of the subject property and a photograph of the street scene including the subject property (except for VA loans and HUD Property Disposition Program Set-Aside Loans if photo's not available).

Any and all additional commentary made by the appraiser on any form other than FNMA Form 1004 must accompany the appraisal.

406 Closing Costs

The closing costs/settlement costs and financing costs which are paid by the property Seller or the mortgagor cannot exceed the aggregate of

- the actual amounts expended (or your standard and customary fees) for:
 - 1) title examination,
 - 2) title insurance,
 - 3) attorney's fees
 - 4) credit reports,
 - 5) wood-destroying insect reports,
 - 6) photographs,
 - 7) appraiser's fees,
 - 8) filing and recording fees,
 - 9) transfer tax and intangible taxes,
 - 10) mortgage insurance.

Other than an "Administrative Fee" of no more than \$325, you (the lender), the builder, the developer, the Realtor or any other party cannot charge any additional discount points or special financing fees directly or indirectly, in connection with our Mortgage Loans unless we specifically authorize it in writing in advance of your charging such fees.