PENNSYLVANIA HOUSING FINANCE AGENCY

HOMEOWNERSHIP PROGRAMS

SELLER'S GUIDE

The Pennsylvania Housing Finance Agency (PHFA) was created by the General Assembly in 1972, to provide affordable housing for older adults, families and individuals of modest means and persons with disabilities. For ten years, this mission was carried out solely through rental housing programs. In 1982, the first Homeownership Program was created, through which PHFA provides capital for single-family, home purchase loans. The Homeowners' Emergency Mortgage Assistance Program (HEMAP) was created by Act 91 in 1983 as a foreclosure prevention program. Rental housing, homeownership, and foreclosure prevention remain as PHFA's core components.

Housing industry professionals are a key component of PHFA's homeownership programs. This group of experts includes housing counselors, real estate agents, builders, lenders, brokers, appraisers, title agents, housing authorities, and nonprofit organizations. PHFA's home loan products can help these professionals stretch their customers' dollars further and/or lower their monthly mortgage payment. Together, PHFA and its housing partners ensure that eligible buyers can afford to become and remain homeowners, and that they aren't overwhelmed by the process.

January 2012

PHFA Homeownership Programs Seller's Guide

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CHAPTER 1 - PARTICIPANT RELATIONSHIP

DEFINITION OF "PARTICIPANT"

The Pennsylvania Housing Finance Agency ("PHFA" or "Agency") offers home loans with attractive interest rates and fees to eligible homebuyers. These home loans are originated, processed, and closed by a network of approved participating lending institutions. The loans and servicing rights are then purchased by the Agency following settlement. PHFA loans may also be originated by approved third party originators (generally, mortgage brokers) who obtain sponsorship from a participating lender. A "Participant" is a lending institution which has been approved to participate in any of the Agency's Homeownership Programs.

Participating Lender

To be eligible as a participating lender, the company must be one of the following:

- A properly licensed and legally organized bank or savings and loan whose deposits are insured by the Federal Deposit Insurance Corporation (FDIC), or a credit union with deposits insured by the National Credit Union Administration (NCUA)

- A currently licensed Pennsylvania First Mortgage Banker

Lenders who wish to sell federally insured or guaranteed loans to PHFA must meet the following applicable standards:

- For FHA insured loans, the lender must be approved by HUD as a Title II Supervised or Non-Supervised Mortgagee and must have Direct Endorsement (DE) underwriting authority.

- For RD guaranteed loans, the lender must be approved by the United States Department of Agriculture (USDA) for underwriting and servicing Guaranteed Rural Housing loans in accordance with Section 1980.309 of FMHA Instruction 1980-D.

- For VA guaranteed loans, the lender must have Automatic Authority (aka Authority to Close Loans on an Automatic Basis) from the United States Veterans' Administration (VA); this can be a Supervised Lender or a Non-Supervised Lender with Automatic Authority. The lender must also have Lender Appraisal Processing Program (LAPP) approval.

Lenders applying for PHFA approval must complete and submit the following documents to PHFA, Homeownership Programs, 211 North Front Street, P.O. Box 8029, Harrisburg, Pennsylvania 17105-8029.

1. Application
2. Master Origination and Sale Agreement
3. Opinion of Counsel (to be executed on your attorney's letterhead)
4. List of Authorized Officers
5. A certificate of insurance for Fidelity Bond and Errors and Omissions coverage, listing PHFA as a certificate holder.

6. The most recent audited financial statement or annual report and, if older than six months, the most recent un-audited interim financial statement. If a subsidiary of another company or part of a holding company, please submit the same financial information for that organization, too.
   OR
   Evidence that your organization is approved by Fannie Mae and/or Freddie Mac as a seller/servicer of one-to-four family first mortgages.
7. Bailee Agreement – Required for participating lenders who want PHFA to fund a warehouse lender. Please note that only one warehouse lender per participating lender can be accommodated.

Upon approval of the application, the final step is to complete PHFA's training program, which is conducted in person by PHFA staff at your site. For out of state organizations, PHFA may request reimbursement for travel expenses incurred as part of the training.

Third Party Originator (TPO)

To become approved as a third party originator (broker) of PHFA loans, the company must be both:

A currently licensed Pennsylvania First Mortgage Broker or Loan Correspondent; and a current member in good standing of the Pennsylvania Association of Mortgage Brokers.

If the company meets the criteria above, take the following steps to become an approved originator/broker:

1. Request and receive sponsorship from a current PHFA participating lender.
2. Complete the application and submit it to PHFA, Homeownership Programs, 211 North Front Street, P.O. Box 8029, Harrisburg, Pennsylvania 17105-8029.
3. Execute the PHFA agreement, which is also executed by the lender. The agreement is supplied to the lender by PHFA upon confirmation of the sponsorship.
4. Complete an in-person PHFA training program. Follow this link to see if there are any sessions scheduled for your area. You may also call the Homeownership Programs Department at 717.780.3871 to inquire about upcoming training opportunities.

MASTER ORIGINATION AND SALE AGREEMENT

The Master Origination and Sale Agreement (MOSA or the Agreement) sets forth the requirements for maintaining status as an approved participant. The agreement also provides the terms and conditions of sales of mortgage loans to the Agency and incorporates, by reference, the terms of this Seller's Guide. Participating lenders perform origination and selling functions as an independent contractor and principal, not as an agent or representative of PHFA.

PARTICIPANT COMPENSATION AND ALLOWABLE FEES

Origination Compensation

For zero-point loans, PHFA will pay the lender the greater of one percent (1%) or $1,000, upon loan purchase as compensation for the cost of origination. If the borrower pays one point in connection with a lower interest rate, the lender retains that amount, and PHFA does not pay an additional point.

Servicing Release Premium

The Servicing Release Premium (SRP) for all loans is a maximum of one and one eighth percent (1.125%) up to a cap of $2,000. All loans are sold with servicing released to PHFA. Fifty basis points (.50%) of the loan amount will be paid for the Servicing Release Premium at the time of the loan purchase. The remainder of the SRP will be paid when all post-purchase conditions* are cleared according to the schedule below.

- 0.625% if cleared within 30 days
- 0.50% if cleared within 60 days
- 0.375% if cleared within 90 days
- 0.25% if cleared within 120 days
- 0.125% if cleared within 150 days
- 0% if not cleared within 150 days (The lender would still retain their initial 0.50% payment.)

* Post-purchase conditions include all items on the purchase and final document letters and all recorded documents. Conditions for escrow-related items are not included.

The initial SRP will appear on the purchase statement. Please allow up to seven (7) business days for PHFA to review and clear the conditions. The additional SRP to be paid when the file is cleared will be made in monthly batches (calculated from the clear date) and sent via ACH, along with an electronic check stub via email.

Allowable Fees

Participants may collect a $550 Administrative Fee to cover overhead expenses such as document preparation, underwriting and processing. They may also collect reasonable and customary charges incurred such as for the credit report, appraisal, title search, recording fees, etc. No other overhead, financing or origination fees may be charged to the borrower or seller. A tax service fee is also prohibited.

Compensation and fees may be changed or eliminated at the discretion of the Agency.

PARTICIPANT'S BASIC DUTIES AND RESPONSIBILITIES

Participants are responsible for:

- ensuring compliance with all applicable state and federal laws and regulations
- ensuring compliance with the requirements set forth in this Seller's Guide and the Agreement
- having adequate staff both in terms of numbers and experience/knowledge, and facilities to originate and sell quality mortgage loans on a timely basis

- ensuring that staff is knowledgeable in all aspects of origination, processing, underwriting, closing and selling mortgage loans as it relates to their respective job duties
- having fully documented written procedures and quality control measures in place
- protecting PHFA against fraud, misrepresentation or negligence by any parties involved in the origination process
- communicating with each borrower all the requirements of the applicable home loan program(s), the status of the mortgage loan application and answering questions pertaining to PHFA's programs

The lender must send PHFA written notice of any major organizational changes contemplated, including:

- mergers, acquisitions, consolidations or reorganizations
- changes in ownership of over five percent (5%) by whatever means
- change in corporate name
- change in a savings and loan association's charter from Federal to State or vice versa
- change to a banking association
- change in the Participant's financial position (Copies of notifications to FNMA are acceptable.)

The lender must advise PHFA, in writing, of any changes to their primary business contact information including main mailing address, phone/fax numbers, email addresses and ACH account information within five (5) business days of the event.

PARTICIPANT TRAINING

All pertinent staff of new participating lenders must complete a PHFA training course which covers everything from PHFA loan origination to selling the loan. PHFA also offers a number of ongoing resources to lenders and other real estate professionals including regional, on-site, and Web-based training opportunities; e-mail and phone support; and, program brochures. The Web site is also a key resource for participating lenders by providing current interest rates, program guidelines, forms, updates, and other pertinent information. Additionally, PHFA is happy to provide participating lenders with PowerPoint presentations for marketing and internal training purposes.

PARTICIPANT EVALUATION

Participants must demonstrate a proven ability to originate mortgage loans for sale in the secondary market while maintaining quality control and management systems to evaluate and monitor the quality of loan production in order to comply with PHFA procedures. They must also maintain adequate staffing to originate and sell loans in a timely manner.

PHFA has implemented a Lender Score Card in order to assist in monitoring the quality of loans being submitted. The report is sent to participating lenders every six months and rates them on compliance, purchase and post purchase items. The goal is to achieve and maintain a score of 80 percent or higher in each area with no "Past Due" (p/d) or "Final" notices referenced in the comment section. An average six-month score under 70 percent in any category signifies a need for training and is mandatory for any lender with an average score under 60 percent in any category over the same timeframe. Training, upon request, is available to any lender regardless of score.

CONTACT WITH PARTICIPANT

Each participant shall choose one staff person to serve as the primary contact for all matters related to their business relationship with PHFA. A secondary main contact may also be chosen if desired. The main contact is responsible to serve as the main liaison between the lending institution and PHFA. Each new lender will identify this person on the Lender Information Sheet, which is provided by PHFA when the lender is initially approved to participate in PHFA's Homeownership Programs. The lender may also identify key contacts for the various departments within their organization—sales/originations, processing/underwriting, closing and escrow. The lender will also choose an Administrator for the PHFA Pipeline PLUS, the online secure lender portal used to lock in loans and track them through the pipeline. See Chapter 2 for details.

CHAPTER 2 – LOCK POLICY AND PIPELINE MANAGEMENT

LOCK POLICY

NEW LOCK SUBMISSION

Lenders can lock each loan with PHFA once it is determined that the borrower is eligible for the respective program and the property address has been determined. All loans must be locked prior to submitting to PHFA for approval. The lock confirmation will be valid for the term of the lock-in and counted in consecutive calendar days, including weekends and holidays.

The lock-in will establish the rate, lock period, and terms of the loan, subject to the terms and conditions of the Master Origination and Sale Agreement and Seller's Guide.

Having executed a best effort rate lock, the lender commits to using its best effort to deliver the loan regardless of market conditions.

All new locks must be made through the PHFA secure lender website, *PHFA Pipeline Plus*.

RATE PUBLICATION AND LOCK OPTIONS

Rates will be posted each business day at approximately 10:00 AM on PHFA's website. New locks will be accepted once daily rates are published, and up until 8:00 AM the following day. However, the lock window will close at 10:00 PM each Friday and on the weekday prior to any PHFA holiday. Therefore, new locks will not be accepted over the weekend or on holidays. The PHFA holiday schedule is posted on the PHFA Pipeline Plus website.

Rates are subject to change at any time, at the discretion of the Agency. Once rates are published each day, and in the event of an intraday rate change, an email notification will be distributed to all participating lender staff who have a Pipeline Plus user account.

Lock-in terms may vary by product. PHFA currently offers lock-in terms of 60, 90 and 240 days. The 240 day option is available only for construction-to-permanent loans within the Keystone Home Loan program.

A complete loan package eligible for purchase by the Agency must be received by the lock expiration date. A daily late fee of two basis points will begin to accrue on files that cannot be purchased within seven calendar days from the expiration date. Please note the Agency requires four business days to process loans for funding. For additional delivery information, refer to Chapter 10 of the Seller's Guide.

REVISIONS TO AN ACTIVE LOCK

Extension Policy

A request to extend the lock period of an active lock must be received by PHFA on or before the lock expiration date. Extension fees are as follows and are subject to change at any time:

Calendar Days	Cost (% of loan amount)
3	No cost (limited to once per loan)
7	0.125
15	0.250
30	0.375

A maximum of 30 days worth of extensions are allowable. Extension requests and payment must be submitted and sent via Form 45 (Request for Extension Form) to secondary@phfa.org. The lock will be extended upon receipt of the appropriate fee. Extension fees are non-refundable.

Relocks or Changes

A request to reactivate an expired or canceled rate lock will be subject to a relock. Relock requests made within 60 days of lock expiration or cancellation will be subject to a worse-case relock. Relock requests made after 60 days of lock expiration or cancellation will be subject to current market rates. All relock and change requests should be submitted to secondary@phfa.org with the loan number, borrower name, and explanation.

In the event of a change of products or loan types (i.e. Keystone Home Loan to Keystone Government Loan), the original lock will be revised subject to current market rates and applicable new lock periods.

In the event of a change of interest rate structure within the same product (i.e. Keystone Government 0 point option to Keystone Government 1 point option), the rate quote will be based on the day of the original lock, and the current lock expiration period will continue to be active.

The Agency's rate guarantee is made on the basis of a loan application and specific property. If a change of property occurs, the subsequent application would be treated as a new loan for application and rate lock purposes. Therefore, it would be subject to current market rates and applicable new lock periods.

Lock Cancellation

Lenders are required to deliver a cancellation notice to the Agency as soon as it is determined that the borrower will not qualify for the program or has withdrawn their application for consideration. The lender should notify the Agency of cancellation immediately after making such determination or having knowledge of such circumstances by emailing secondary@phfa.org and notating the loan number, borrower name, and reason for the cancellation.

On loans not yet closed, the Agency will automatically cancel the lock on the day immediately following the expiration date if an extension request has not been submitted by the lender. Lenders should use extreme caution when monitoring their rate expiration pipeline, as a closed loan with an expired lock will incur fees and ultimately may not be purchasable. Keep in mind this also applies to files that have been submitted to PHFA for purchase but are ineligible for purchase.

PIPELINE MANAGEMENT

The PHFA Pipeline Plus, located at lenders.phfa.org, is used to lock in loans with PHFA and then monitor them from the time of reservation through the post-closing process. It is also used to approve loans by lenders who have Delegated Underwriting authority. The lender chooses an employee to serve as the administrator of the online system. If desired, additional administrators can be created. The administrator can then set up various staff members or approved third-party originators with their own account for the various different options that Pipeline Plus has to offer. Lenders are encouraged to review their list of online users and to update it at least annually, or immediately in the case of a new hire or a terminated employee.

TRAINING FOR PIPELINE PLUS

Upon being approved as a participating lender, PHFA will contact the lender to schedule training for Pipeline Plus. Since most of the communications between PHFA and the lender are done through this website, training is required prior to submitting your first lock. If you have been previously trained on the old website but would like to be trained on the new Pipeline Plus, please contact the Agency at 800.822.1174.

Once an account is created by the administrator, the user can log into PHFA Pipeline Plus.

LOG IN SCREEN

The log in for PHFA Pipeline Plus is the user's e-mail address and the password that was established by the administrator.

Forgot Password Link

If you have forgotten your password for Pipeline Plus, click the Forgot Password link on the log in page. You will be prompted to enter the e-mail address for your account and the security phrase shown. An e-mail will be sent to you with a temporary password. You will be prompted to change your password when you log in.

If your account has been suspended, you must contact your administrator or the Agency at 800.822.1174.

Request an Account Link

If you do not currently have an account for Pipeline Plus, you can request one by clicking the Request an Account link. You will be required to select the name of your lending institution and enter some basic information. An e-mail will then be sent to your lender's administrator(s) requesting them to create your account.

Home Screen

The Home Screen is the first screen you will come to upon logging in to PHFA Pipeline Plus. It will include informative messages as well as the Lock Desk hours. Clicking the PHFA logo, while on any screen in Pipeline Plus, will return you to the Home Screen. The drop down box in the upper right corner of the screen is how you will navigate to the options you were assigned. The question mark button, or help button, will provide you with Frequently Asked Questions for the section of Pipeline Plus that you are currently on.

My Account

This section is where you can change your password and modify your contact information. It will show what options you have been assigned as well as which reports and notices you have elected to receive. Administrators can us the option to modify their own account as well.

User Accounts Admin

This is where administrators will create and maintain all of the user accounts for the lending institution. Accounts can be edited or deleted. Deleted accounts can be restored; however all of the previously assigned options will be removed upon restoration of the account and will need to be reassigned accordingly.

This is also the area where administrators will establish who should view which reports and/or loan-level notices. *See Reports & Notices for more information.*

NOTE: Every user must be set up with their own unique e-mail address. For security purposes, no one should be logging in using another user's profile.

My Administrators

The My Administrators option will automatically be given to every user. This page identifies the administrator(s) for your organization. Administrators have the ability to add, modify and delete user accounts, as well as reactivate suspended accounts. They also now have the ability to assign individual reports to each user. This was previously a function that had to be done by the Agency.

Incomplete Reservations

There may be instances, while locking a reservation via the Internet, where the lender is unable to complete the input of the reservation. As long as the first screen has been completed, the information will be saved under the "Incomplete Reservations" button for 30 days. Incomplete reservations may only be completed by the user who started it.

In the Incomplete Reservations section, lenders can view which loans are incomplete and will be given an option to restart, resume or delete the reservation. This screen will also show any reservations that have been completed but not yet processed by PHFA.

Please be sure to check the incomplete reservations periodically, as the interest rate is not locked in until the reservation is fully completed.

Loan Setup

The "Loan Setup" button is how lenders electronically submit the information after closing so that the loan may be set up on PHFA's servicing system.

See Preliminary Loan Set-up in CHAPTER 10.

Delegated Underwriting

See CHAPTER 7.

Pipeline Loans (Loan Status)

The "Pipeline Loans" button allows lender employees the ability to follow their PHFA loans without having the ability to reserve the loan. This screen gives a view-only snapshot of the current status of any PHFA loan for that lender and should be given to any employee needing to check the loan status.

We strongly encourage lenders to use Pipeline Plus to look up loan status. The system is available 24/7 and enables lenders to track the progress of their loans *at any stage* of the pipeline.

The categories for Pipeline Loans are as follows: *Not Yet Reserved, Reserved Only, Received Not Reviewed by Underwriting, Suspended, Approved Not Closed or Purchased, Approved and Closed not Purchased, Purchased with Outstanding Conditions, Waiting for Recorded Documents, Cleared for 2nd SRP Payment, Sold to PHFA and All Conditions Cleared, and Cancelled.*

Lenders can select any loan under one of the categories to get the details of that particular loan. If the status of a particular loan is not known, a Social Security search option is available.

Reports & Notices

The Reports and Notices option must be given to anyone that should receive summary reports and/or loan-level notices. Once the option is given, the administrator can then give the user access to any of the reports listed on the screen.

When retrieving a report, the user would select the Reports and Notices option. They will then have to select the type of report they are looking for from the drop down list provided. The user will only see a list of reports that they have been assigned to receive. A six month history for all instances of that report will be available to view as a PDF document.

NOTE: The reports and notices available through Pipeline Plus are a snapshot of the loan taken at the time the notice was generated. For the most up to date information on any loan, refer to the Pipeline Loans section.

The reports currently available are listed below:

- Reservation Confirmation
- Amended Reservation Confirmation

- Cancellation of Reservation(s) Report
- Expiration of Reservation(s) Report
- Compliance Approval Notification
- Compliance Suspension Notification
- Compliance Denial Notification
- Lender Compliance Report – Comment Detail
- Lender Compliance Report - Evaluation
- Quality Control Compliance Report – Delegated Loans
- Notification of Loan Purchase (Purchase Advice)
- Ineligible Purchase Submission
- Post Purchase – Escrow Conditions
- Post Purchase Conditions
- Final Document Conditions
- Deficient Loan Tracking Report
- Final SRP Payment Advice

CHAPTER 3 - FIRST MORTGAGE PRODUCTS FOR HOMEBUYERS

Loans must comply with the respective program-specific eligibility criteria set forth in Chapters 3, 4 and 5, as well as all applicable PHFA standard underwriting guidelines as set forth in Chapter 6 and any applicable federal guidelines depending on the loan type (FHA, VA, RD). In cases where the federal underwriting or eligibility guideline is stricter than that of PHFA, the federal guideline shall be followed.

KEYSTONE HOME LOAN PROGRAM (KHL)

Home purchase loans are available to qualifying homebuyers throughout the Commonwealth under PHFA's Keystone Home Loan Program. Buyers also save on fees, including a 25 percent discount on title insurance in most cases, upon request. Both new and existing homes are eligible for Agency financing. Because the Agency may use tax-exempt Mortgage Revenue Bonds (MRB's) to fund loans under the Keystone Home Loan program, the loans must comply with certain requirements as set forth by the IRS and as described below. For standard, non product-specific underwriting guidelines see Chapter 6.

Eligibility Requirements

All borrowers applying for a Keystone Home Loan must complete a Mortgagor's Affidavit (Form 3), to acknowledge that they understand the program requirements and to attest that they meet them. The lender is also required to sign this form to indicate it was explained to the borrower. The borrower must sign the Mortgagor's Reaffirmation at Loan Closing (part of Form 3) to indicate they still meet the program requirements. The Seller must complete the Affidavit of Seller at closing (also part of Form 3) to verify compliance with the program requirements.

The primary eligibility requirements for the Keystone Home Loan Program are listed below.

First-time Homebuyer

The borrower and all other adults who intend to live in the home within 12 months from closing must be first-time homebuyers. This is defined as someone who has not had an ownership interest in (not listed on the deed of) their principal residence during the previous three years.

The first-time buyer requirement does not apply if the borrower is purchasing in a targeted county or area. Target counties are indicated by a "T" in the listing of Purchase Price and Income Limits (Appendix A). Please note that some non-target counties have targeted neighborhoods within them as listed in the appendix. To determine the census tract of a specific property, visit www.ffiec.gov and click on Geocoding/Mapping System.

Veterans (and their spouses, if applicable) do not need to meet the first-time homebuyer requirement in non-target areas under the Keystone Home Loan Program. A veteran, for this purpose, is defined as someone who served in active duty of the Armed Forces or Reserves and who was discharged or released under conditions other than dishonorable. Veterans using this exception must sign Addendum D of the Mortgagor's Affidavit (Form 3) and provide a copy of their discharge papers.

Examples of "ownership interests" are:

- A fee simple interest
- A joint tenancy, tenancy in common or tenancy by the entirety
- The interest of a tenant-shareholder in a cooperative
- A life estate
- The interest of a purchaser under a land contract or installment sales agreement with a TERM which exceeds 24 months under which the purchaser takes possession even though legal title is not transferred until some later time
- An interest held in trust for the borrower (whether or not created by the borrower) that would constitute as present ownership interest held directly by the borrower
- An ownership interest in a mobile home or other factory-made housing which was permanently affixed to land owned by the borrower

Examples of interests which do **not** constitute "ownership interests" are:

- Ownership of a mobile/manufactured home on a rented lot
- A remainder interest
- A lease with or without an option to purchase
- A mere expectancy to inherit an interest in a principal residence
- The interest that a purchaser of a residence acquires upon the execution of a standard purchase contract, without a right of possession
- An ownership interest in other than a principal residence during the previous three (3) years

Borrowers must reference at least three full years of their most recent rental information on Page 2 of the Mortgagor's Affidavit (Form 3) including the relationship of the owner, for all loans in non-target counties under the Keystone Home Loan program and all loans under the HOMEstead programs. Specific dates must be included if only three years of information is provided. For example, "2004 to 2007" would not be acceptable.

The Agency reserves the right to investigate or require further substantiation of the borrower's ownership status.

Income Limit

The gross annual income, (projected over the next 12 months) for all adults that intend to occupy the home within one year from loan closing, must not exceed the Keystone Home Loan Program income limit (as specified in Appendix A). All sources of income must be included, except for income received by persons under age 18 and income received by dependants enrolled in a full-time undergraduate program of at least 12 credits per semester.

The total Annual Household Income is to be completed at the time of application. If this income increases after the date of application or the loan does not close within four (4) months of application, the income must be re-certified. A new page two of the Mortgagor's Affidavit (Form 3) must be completed with the new income information and initialed by the borrower.

If the new Annual Household Income exceeds the Income Limit for the area in which the residence is being purchased, the borrower is not eligible for the program.

For construction/permanent loans, income eligibility must be determined at the time of the construction loan closing. For permanent loans (where there is a second closing), which are paying off construction loans, income eligibility must be determined at the time the permanent loan closes to pay off the construction loan.

Care must be exercised when determining household size, especially when there is a change between the time of application and closing (for example, if it is determined that another adult will reside in the property within 12 months from closing). Any changes to family size and household income must be noted on the "Mortgagor's Affidavit Reaffirmation at Loan Closing". The loan cannot close as a PHFA loan if the borrower is no longer eligible for the program.

The following sources of income **must** be included but are not limited to:

- Gross income, before any payroll deductions, of wages (including part-time income), salaries, overtime, commissions, fees, tips and bonuses
- Net income from operation of a business or profession
- Income from trusts and investments
- Interest, dividends, royalties, net rentals and other net income from real or personal property
- Periodic payments from social security, annuities, insurance policies, retirement funds, pensions, VA compensation, disability or death benefits and other similar types of periodic payments
- Payments in lieu of earnings, such as unemployment and disability compensation, sick pay, worker's compensation and severance pay
- Public assistance income, where payments include amounts specifically designated for shelter and utilities
- Periodic and determinable allowances, such as alimony and child support, and regular contributions or gifts from persons not residing in the dwelling
- All regular and special pay and allowances of members of the Armed Forces (whether or not living in the dwelling) who are the head of the family or spouse
- Any employer-related benefit such as a company car (for which a $200 per month amount is assigned), car allowance, etc.
- Any un-reimbursed employee expenses not paid by his/her employer as evidenced by the borrower's Federal Income Tax returns. An average monthly amount of un-reimbursed expenses is to be calculated from the two most current years' Federal Income Tax returns and deducted from the borrower's gross monthly income

The following can be excluded:

- Casual, sporadic or irregular gifts
- Amounts which are specifically for reimbursement of medical expenses
- Lump sum additions to family assets, such as inheritances, insurance payments (including payments under health and accident insurance and worker's compensation), capital gains and settlement for personal or property losses
- Amounts of educational scholarships paid directly to the student or the educational institution, and amounts paid by the government to a veteran for use in meeting the costs of tuition, fees, books and equipment, but in any such case only to the extent used for such purposes
- Special pay to a serviceman head of family who is away from home and exposed to hostile fire
- Relocation payments under Title II of the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970
- Foster child care payments (unless it is included in income used for qualifying)
- Payments received pursuant to participation in ACTION volunteer Programs
- Income from the employment of children (including foster children) under the age of 18 years

Purchase Price Limit

The purchase price of the prospective home cannot exceed the Keystone Home Loan Program purchase price limit (See Appendix A). This includes all costs for a complete home and is also known as the total acquisition cost. For two-unit properties, the purchase price may exceed the applicable published limit by ten percent.

Use the following instructions when calculating the total acquisition cost for new construction to ensure it meets the applicable PHFA limit:

- The appraised value of land owned outright for more than two years does not need to be included.

- Include the cost of all items for a completed home, such as painting, decks, patios, walks, driveways and final grading and seeding. The lender must be thorough when reviewing construction contracts for new homes to be sure that all costs to complete the home are included in the purchase price and comply with the applicable PHFA limit. 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. This includes items that the borrower may pay for outside of the mortgage transaction. Also, 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. For example, if the plans include a deck which will be completed after closing, it must be included in the purchase price calculation, even if it is to be paid separately by the borrower.

Use the following instructions for Arms Length Transactions (buyer and seller not related) for new and existing homes to ensure compliance with the purchase price limit:

- For loan transactions that are arm's length the market value of the property may not exceed 110 percent of the Maximum Purchase Price for the area in which it is located.

- If a loan transaction involves a lot purchased within the last two years through an "Arm's Length Transaction", the actual purchase price of the land is to be used in calculating the Total Acquisition Cost.

Use the following instructions for Non-Arms Length Transactions (buyer and seller are related) for new and existing homes to ensure compliance with the purchase price limit:

- The greater of the value determined by the cost approach (from appraisal) ***or*** the market value (from appraisal) minus the appraised value of any land owned more than two years and not the Purchase Price (from the Agreement of Sale/Construction Contract) is to be used to determine if the loan is in compliance with the maximum applicable purchase price.

- Although the greater of the value determined by the cost approach or the market value (collectively called "appraised value") of the subject property is used for determining compliance with the maximum purchase price, whichever is less of the appraised value or the purchased price listed in the Agreement of Sale is to be used in the calculation of the Loan-to-Value ratio.

- If a loan transaction involves a lot purchased within the last two years through a non-arm's length transaction, the "Estimated Site Value" from the "Cost Approach" section on the reverse side of the appraisal and NOT the purchase price of the land is to be used in the calculation of the Total Acquisition Cost (refer to Page 2 of Form 3). As a result, the total of the "Estimated Site Value" plus the total construction costs is used to determine compliance within the Maximum Purchase Price. However, the loan-to-value ratio is calculated by using whichever is less of the "Estimated Site Value" OR the Purchase Price of the lot combined with the total construction costs.

Recapture Tax

A Federal Tax known as "Recapture" became effective for all loans closed after January 1, 1991. As enacted, a Borrower may be subject to this tax if the home is sold or disposed of within nine years of the purchase. The tax would be payable with the Borrower's Federal Income Tax Return for the year in which the home was disposed off. The maximum tax is 6.25 percent of the mortgage amount or 50 percent of the gain on the sale, whichever is less. There are other factors which affect the amount of tax which may be due, including family size and income at the time of the disposition of the property. **The Notice to Mortgagor of Potential Recapture Tax (Form 4) must be completed by the participant and then executed by the borrowers prior to or at the loan closing.** The only exception is a construction loan, in which case the recapture tax form is to be prepared by the lender and signed by the borrowers when it converts to the PHFA permanent loan. The recapture tax figures applicable at the conversion date are to be used. The completed form is to be included in the Purchase Submission. **PHFA will reimburse any borrower who ever has to pay a Recapture Tax in connection with the sale of their home.** This applies to all borrowers who make application for a PHFA loan on or after January 1, 2004.

No Refinances

The loan must be a new loan on the property for the borrower. Thus, if the borrower has paid off a previous permanent loan on the property or is seeking to refinance an existing permanent loan, the borrower is not eligible.

Loan Assumptions

Assumptions are permitted only with the approval of the Agency, acting in its sole discretion, and then, only if all requirements of the applicable sections of the Internal Revenue Code of 1986, as amended, including the Income Limitation, Principal Residence Requirement, and Three-Year Non-Homeowner Requirement and the Purchase Price Limitations are met with respect to the assumption. It also provides for an acceleration of the mortgage loan if the mortgagor sells, rents or otherwise transfers any interest in the property without prior approval of the Agency or fails to occupy the premises as a principal residence.

The lender must make the borrower aware that when he or she seeks to sell his or her home, if he or she offers a loan assumption, the household assuming the loan must:

- Occupy the residence as their principal residence
- Qualify under the "first-time" homeowner or "three (3) year" requirements (except in target areas)
- Purchase the residence at a price that does not exceed the PHFA Maximum Purchase Price in effect for an existing property at the time of assumption
- Have a current annual household income that does not exceed the Income Limit established by PHFA in effect at the time of assumption.
- The amount assumed may not exceed the payoff amount.

When the assumption occurs, the residence is considered to be an existing property for PHFA purposes, regardless of the fact that the home was considered new when the loan closed. The lender must also inform the borrower that if they allow someone to assume their mortgage, both the borrower and the assuming borrower may be subject to the Federal Recapture Tax, if the sale occurs within nine (9) years following the original closing date.

KEYSTONE HOME LOAN PLUS PROGRAM—DISCONTINUED

THE KEYSTONE HOME LOAN PLUS PROGRAM HAS BEEN DISCONTINUED FOR ANY NEW LOAN LOCKS MADE AFTER 12 PM EST ON JANUARY 27, 2012.

KEYSTONE GOVERNMENT LOAN PROGRAM

The Keystone Government Loan Program provides first mortgage financing on loans insured by FHA or guaranteed by RD or VA. Loans are underwritten using the guidelines of the respective federal agency providing the insurance/guaranty. PHFA does not impose any additional guidelines except as noted in this section.

Eligibility Requirements

Borrower Eligibility

Borrower eligibility is determined by the respective federal agency guidelines. There is no PHFA-specific income or purchase price limit. Additionally, there is no first-time homebuyer requirement.

Borrowers with a middle or low credit score below 660 must complete a homebuyer education class prior to closing, provided by one of PHFA's approved counseling organizations.

Borrowers may be eligible for downpayment and/or closing cost assistance through the Keystone Advantage Assistance Loan program (see Chapter 4).

Non-occupying co-borrowers are permitted on FHA-insured Keystone Government Loans under the following conditions:

- For loans that receive an Approve or Accept finding, the ratios **with** the non-occupying co-borrower cannot exceed 40/50. The occupying borrower's ratios **alone** cannot exceed 45/55.
- For manually underwritten loans, the occupying borrower's ratios alone cannot exceed 36/48. The ratios including the non-occupying borrower's income and debts cannot exceed 31/43.
- The non-occupying borrower must provide a statement that he/she understands he/she is equally responsible with the primary borrower for the monthly mortgage payments and that failure to make payments as scheduled will negatively impact the credit history of both parties.

Property Eligibility

Properties must meet the respective guidelines for the type of financing being obtained.

In addition, properties must meet PHFA's guidelines as described in Appendix I of the Sellers' Guide (e.g., Wood Destroying Insect Certifications, Well Certifications, etc).

Owner occupied, one or two units.

Lender Instructions and Procedures

Lender Compensation

See Chapter 1.

Reservations of Funds

Lenders may lock in a loan under the Keystone Government Loan program by using the PHFA Pipeline PLUS. See Chapter 2 for details.

Underwriting and Closing Procedures

Keystone Government loans are underwritten, closed and funded according to PHFA's standard procedures as outlined in the Sellers' Guide and the Master Origination and Sale Agreement. Loans must also comply with the guidelines of the respective federal government agency depending on the loan type (FHA, RD or VA). Any exceptions to standard procedures for this program are noted in this section. Use Form 51 for the underwriting package submission and Form 58 for submission of the file for purchase. See Form 53 for closing instructions.

The following PHFA-specific documents are **not** required:

- Mortgagor's/Seller's Affidavit (Form 3)
- Recapture Tax Notice (Form 4)

The Original title policy or Instant Short Form Residential Policy must still be included with the purchase package. Keystone Government loans may be eligible for discounted title insurance if they meet the following, per the most recent manual of the Title Insurance Rating Bureau of Pennsylvania:

> *Charges for Properties Covered by the Community Reinvestment Act*
> *"When title insurance is issued on a property that has been registered and identified by the insured lender as one participating in a program under the Community Reinvestment Act or under the Pennsylvania Housing Finance Agency Law and that program is designed either: (i) to assist low and moderate income borrowers, or (ii) to assist economically distressed neighborhoods, a Charge of 75% of the basic rate will apply. This Charge is applicable only where a policy is issued in the amount of $200,000 or less. If an owner's and loan policy are issued simultaneously, then the higher policy amount must be $200,000 or less in order to qualify for this discount."*

An Administration Fee no greater than $550 may be charged to cover the lender's overhead expenses. No additional overhead fees such as doc prep, underwriting, etc., may be charged. The normal and customary fees for expense items may be charged; e.g., credit report, appraisal, etc. A tax service fee cannot be charged.

PURCHASE & IMPROVEMENT PROGRAM

PHFA's Purchase & Improvement Program is designed for homebuyers to purchase and improve a home within the same mortgage transaction. This program is limited to the Conventional Keystone Home Loan program.

Mortgage Terms

The interest rate is based on the current Agency rates for the Purchase & Improvement Program, fixed with a 30 year term. It is generally about 25 to 50 bps higher than the respective rate for the Keystone Home Loan. Check the Rate Sheet for current pricing.

The program is available with conventional financing only. The maximum mortgage amount cannot exceed 97 percent of the lesser of the total acquisition cost or the "as completed" appraised value (borrower must have a middle credit score of at least 660; otherwise, he/she must go with 95 percent financing. The total acquisition cost is defined as the total cost to purchase the property plus the costs of the repairs and/or improvements.

The "total acquisition cost" cannot exceed the Maximum Purchase Price limit for the applicable county under the applicable program. (Keystone Home Loan).

Eligibility Requirements

Eligible Buyers

All Purchase & Improvement loans must meet the current underwriting and eligibility guidelines for the Keystone Home Loan Program.

Eligible Properties

The property may be an existing owner occupied single family dwelling (attached or detached), including condominium units. If the property is a two-unit residence, the borrower must intend to live in one of the units.

Eligible Repairs & Improvements

The home improvement portion of the loan is limited to no more than $15,000. If home inspection fees and construction inspection fees are incurred and are to be financed they should be included in the home improvement portion of the mortgage. They are not to be considered as closing costs.

The home improvement portion of the loan proceeds may only be used for necessary repairs, alterations or improvements to substantially protect or improve the basic livability, energy efficiency, or safety of the acquired property. Eligible repairs, alterations and/or improvements include such items as: roof repair/replacement, installation or improvement of heating and/or air conditioning systems, renovation to kitchen and/or bath areas, repairs/improvements to plumbing and/or electric systems, and the improvement of living space. Energy conservation and solar energy improvements are also eligible. **Not eligible:** Luxury amenities such as: swimming pools, tennis courts, hot tubs/Jacuzzis, saunas or other recreational or entertainment facilities. Total rehabs are not eligible under this program.
All repairs, alterations, or improvements must be completed by a contractor who is registered with the state, and qualified to do the work. If licensure is applicable, contractor must be licensed. The contract for the work must conform to section 1 of PHFA Form 50.

The purchase price of the home being financed plus the cost of the improvements to the home must be equal to or less than the "as improved" appraised value. Improvement costs which exceed the appraised value shall be the sole responsibility of the borrower.

All repairs, alterations or improvements must be completed within 90 days (3 months) of closing. The borrowers must occupy the property within 60 days (2 months) of closing to comply with federal tax law eligibility requirements.

Borrower Instructions

- Determine what repairs are required and ensure that they are completed within 90 days of closing.

- Execute the Purchase & Improvement/Access Home Modification Program Acknowledgment (Form 48) at time of application.

- Provide the lender with all estimates, specifications, firm contracts, etc. from qualified, licensed and Pennsylvania-registered contractors.

- Fund any cost overruns, unforeseen expenses, work not approved by the Lender and/or PHFA, and the cost of any work that exceeds the "as approved" appraised value. Lenders will collect these funds from borrowers at the Loan Closing.

- Execute Form 49 to ensure timely payments to contractors.

- Borrowers may NOT act as their own contractors unless that is their trade or profession and they hold all required licenses, registrations, and insurance coverage (in which case, program funds are limited to materials only, not labor).

Lender Instructions and Procedures

Application/Origination

The reservation procedure remains the same for the Purchase & Improvement loans as it does for loans in the other programs. This program is limited to the Conventional Keystone Home Loan program.

The lender is required to collect the current prescribed fees designated for the specific program, plus any inspection fees (not to exceed the normal and customary amount, maximum of (2) two inspections) for the work and any normal closing costs.

Provide the borrower with Form 48 and Form 50 at the time of application and make sure they understand the information on the forms.

Underwriting/Processing

Analyze the construction contracts, estimates, etc. submitted by the borrower to determine the credibility and legitimacy of the proposals for the required repairs/improvements, and also that all necessary information is included in the contract per Form 48 and Form 50.

If the amount of the repairs exceeds the maximum amount of $15,000 the lender will be responsible to insure that any additional funds secured by the borrower are obtained in a manner that will not affect the priority of the PHFA lien or jeopardize the borrower's ability to repay the mortgage.

Provide all repair/improvement information submitted by the borrower to the appraiser to determine the "as completed" value of the property.

Provide a copy of the contract(s) with any specifications, estimates, drawings, etc including Form 48 in the Credit/Pre-Compliance submission to PHFA using Form 51. Please indicate on the top of Form 51 that it is a "Purchase & Improvement Loan".

Closing the Loan and Selling it to PHFA

The lender will close the loan and indicate on the escrow agreement (Form 65) who will hold the repair escrow (the lender or PHFA). If PHFA is to hold the escrow funds, include a check for the total escrow amount with the Purchase Submission Package. The Agency will purchase the loan prior to the repairs being completed. If the cost of the work to be done exceeds the Improvement portion of the borrowers' Purchase & Improvement Loan, the borrowers must provide the additional funds needed to the Lender at Loan Closing. The Lender must escrow these funds with the Improvement escrow if they are holding the Escrow or remit them to PHFA if the Agency will hold the escrow. Lenders should remit borrower funds with the Purchase Submission Package, and indicate on Form 58 or via a separate cover letter the amount of borrower funds sent.

All funds disbursed must be used for home purchase and repair/improvement purposes. Unused funds will be applied to the principal loan balance.

Escrow Administration

There are two options available for choosing an Escrow Administrator.

1. The Lender may choose to serve as the Escrow Administrator, which includes holding the escrow funds, administering the draws, ordering inspections and obtaining the completion certificate using PHFA Form 49 and closing the escrow account.

OR

2. The Lender may choose to have PHFA hold the escrow funds, administer the draws, order the inspections and obtain the completion certificate and close the escrow account. If this option is chosen, PHFA will still purchase the loan at the full Note amount. The lender will then submit a check to PHFA with the purchase submission package for the amount of the improvements minus any funds advanced at closing. If funds were advanced at closing, and PHFA will hold escrow, lender must submit Form 49 in Purchase Submission Package with Initial Payment column completed.

Funds Disbursement

Unless otherwise agreed to in writing by PHFA, there is a maximum of two draws, and there are two options available for the draw schedule:

1. **50/50**. Under this option, a draw is released when half of the work has been completed and then the final draw is made upon full completion. This is the preferred method. Two inspection fees may be provided to the appraiser for the interim and final inspections (normal and customary amount to be charged for inspections).

OR

2. **25/75**. At the borrower's request prior to the work starting, an initial draw of up to 25 percent of the escrow funds may be disbursed at or after closing to pay the contractor for materials, based on invoices for materials purchased or vendor quotes for materials to be purchased. The contractor must provide an invoice of the materials that were purchased or an estimate of the

materials to be purchased. The second draw is then disbursed when the job is fully completed. Only one inspection fee may be provided to the appraiser for the final inspection.

Draws should be made payable to the borrower and the contractor or made payable to the contractor but sent to the borrower, to be given to the contractor. The draws can be released upon a satisfactory inspection by the appraiser and execution of Form 49 by the borrower (s), the contractor, and the appraiser for each draw. A completed Form 49 signed by the appraiser must be submitted to the Escrow Administrator upon final completion of all repairs/improvements.

CHAPTER 4 - DOWNPAYMENT & CLOSING COST ASSISTANCE PROGRAMS

KEYSTONE ADVANTAGE ASSISTANCE LOAN PROGRAM

General Program Description

The Advantage assistance loan is available to buyers eligible for a PHFA government-insured first mortgage (FHA, RD, VA) under either the Keystone Home Loan or Keystone Government Loan programs. Through Advantage, qualified homebuyers are able to borrow a portion of the funds needed to cover their downpayment requirement and/or closing costs associated with the purchase of their home.

> *Note regarding conventional financing: The Advantage assistance loan is not currently available in conjunction with conventional first mortgage financing since those buyers must have 20% down, effective January 1, 2012 with the elimination of PHIF (Pennsylvania Housing Insurance Fund). PHFA is planning to roll out a new 97% conventional product in the spring of 2012 that will also allow for the use of the Advantage assistance loan.*

Loan Terms and Usage

The maximum amount of assistance to eligible homebuyers will be the lesser of two percent of the purchase price or $4,000. The minimum loan amount is $500. The funds must be used to help cover the borrower's downpayment requirement and/or closing costs.

The Advantage loan carries the same fixed interest rate as the first mortgage but a term of 10 years. There is no prepayment penalty for paying off the Advantage loan early.

Borrowers must require maximum PHFA financing. Any Advantage funds exceeding the borrower's minimum downpayment requirement may be used to cover closing costs. Advantage funds may not be used to fund down money in excess of the minimum required depending on the loan type. PHFA guidelines as detailed in this Sellers' Guide, as well as all applicable FHA, VA, or RD guidelines apply, including loan to value and downpayment requirements.

The Advantage program may not be combined with any other PHFA assistance programs, with the exception of the Access Modification Loan Program.

Eligibility Requirements

Buyers must meet the requirements of the applicable PHFA first mortgage program, as well as the criteria below. Being a first time homebuyer is only required if it is applicable to the first mortgage program.

Liquid Asset Limitation

Household liquid assets may not be greater than $5,000 after deducting the funds needed to close on the loan. This includes cash and funds in checking and savings accounts, stocks, bonds, certificates of deposit and similar liquid accounts. Funds from retirement accounts, such as 401(k)'s, IRAs, and pension funds, will only be considered if they can be withdrawn without a penalty due to the borrower meeting the age requirement and/or being retired.

Participating lenders are to determine the amount of assistance a borrower needs by completing a Needs Assessment Form (Form 56ADV) and submitting it to PHFA with the compliance/underwriting package. Directions to complete the form can be found on the second page of the form.

Downpayment Requirement

All conventional borrowers with a middle credit score at or above 660 must contribute a minimum downpayment of $1,000 from their own funds towards the purchase of their home. Conventional borrowers with middle credit scores below 660 must contribute at least 3% of their own funds. Government insured/guaranteed loans follow the downpayment requirement of the respective federal agency.

Lender Instructions and Procedures

Reservation of Funds

The Advantage loan is locked simultaneously with the first mortgage by choosing the appropriate loan product based on the loan type, lock period, and specific PHFA program.

Underwriting Procedures

The PHFA delegated underwriting system is available on Advantage loans for those lenders that have that authority. See Chapter 7 for details.

For underwriting purposes, the lender must include the Advantage loan payment in the borrower's housing to income (front end) ratio. The payment is calculated using the full amount of the Advantage loan at the same interest rate as the first mortgage and with a ten year term. The findings report from a PHFA approved Automated Underwriting System (AUS) must include the Advantage loan payment in the PITI.

The Advantage loan amount being requested must be indicated in the "Details of Transaction" section of the mortgage application. The PHFA Credit/Pre-Compliance Approval Notification will indicate whether the Advantage loan was approved and if so, for how much.

Closing Procedures

The first mortgage closes in the lender's name, but the subordinate Advantage loan closes in PHFA's name. Lenders are responsible for completing the GFE, TIL and HUD1 for the subordinate Advantage loan using industry-standard and compliant forms. The Advantage loan is not assumable. The late fee would be the same as for the first mortgage.

The Advantage loan must be recorded in second lien position. This will be verified post closing by PHFA.

The lender also prepares the Subordinate Mortgage and Note but uses PHFA's forms for those documents (Form 54 ADV and Form 55 ADV, respectively). The amount must be the actual assistance being disbursed at closing and listed on the HUD1, rounded to the nearest dollar. The Subordinate Mortgage Instrument shall be recorded directly behind the first mortgage instrument as a second lien. No assignment of the subordinate mortgage is required since it closes in PHFA's name.

Also, the lender must complete and provide a separate Notification of Servicing Transfer (PHFA Form 28) for the Advantage loan, including the temporary coupon section.

At closing, the lender is to disburse only the actual amount of assistance needed, rounded off to the nearest dollar, up to the amount initially approved by PHFA to pay for the minimum required downpayment and/or closing costs. Cash back to the borrower is limited to $100 in excess of reimbursement of POC items.

Post-Closing

When the Agency purchases the first mortgage, it will also reimburse the lender for the actual amount of funds used by the borrower under the Advantage loan as listed on the HUD1.

The lender is to forward to the Agency the following executed subordinate mortgage documents in the purchase package:

- Original and final Truth-in-Lending and GFE disclosures
- Subordinate Mortgage Note (Form 54 ADV)
- Certified copy of the Subordinate Mortgage (Form 55 ADV) with evidence it was sent for recording.
- A copy of any other subordinate Mortgage(s) with evidence it was sent for recording (for any other downpayment/closing cost/rehab funds received for which a mortgage is recorded). Please note that the Advantage loan must be recorded in second lien position.

The HUD 1 settlement sheet submitted with the SRP portion of the file (Page 4, Form 58) will be used to verify the amount of funds that were used by the borrower. The lender is to forward the original recorded mortgage document (Form 55 ADV) to the Agency within sixty days from the date of purchase. The lender is also responsible to forward a copy of the recorded mortgage that was used for any other downpayment/closing cost/rehab programs, if applicable. This will confirm that the PHFA Advantage Mortgage was recorded in second lien position. The mortgages are to be attached to a properly completed Form 30 and submitted to the Agency at the address referenced on the form.

KEYSTONE ASSISTANCE LOAN - DISCONTINUED

THE KEYSTONE ASSISTANCE LOAN PROGRAM HAS BEEN DISCONTINUED FOR ANY NEW LOAN LOCKS MADE AFTER 12 PM EST ON JANUARY 27, 2012. SEE 'KEYSTONE ADVANTAGE ASSISTANCE LOAN.'

KEYSTONE GOVERNMENT ASSISTANCE LOAN- DISCONTINUED

THE KEYSTONE GOVERNMENT ASSISTANCE LOAN PROGRAM HAS BEEN DISCONTINUED FOR ANY NEW LOAN LOCKS MADE AFTER 12 PM EST ON JANUARY 27, 2012. SEE 'KEYSTONE ADVANTAGE ASSISTANCE LOAN.'

HOMESTEAD

The HOMEstead Program provides subordinate mortgage financing up to $10,000 for qualified first-time homebuyers. The financing is made available in combination with a first mortgage funded by PHFA. The second mortgage is also provided by PHFA but uses funds from the HOME Investment Partnership Program (HOME) and the American Dream Downpayment Initiative (ADDI), both of which are administered by the U.S. Department of Housing and Urban Development (HUD). The program is intended to assist first-time homebuyers with their downpayment and closing costs. The amount of funds approved will depend upon the need of the borrower. It may be used to lower the front end ratio to 30 percent. The minimum loan amount is $1,000.

The HOMEstead mortgage is a non-interest bearing loan with no monthly payment. HOMEstead loans are forgiven on an annual basis over five years at a rate of 20 percent per year. The first mortgage can be an FHA insured, VA or RD Guaranteed or a Conventional loan which is originated in accordance with the Homeownership Program guidelines, including the Master Origination and Sale Agreement and this guide. These loans are sold "service released" to the Agency.

Lenders are responsible to determine that borrowers comply with ***both*** the PHFA first mortgage program guidelines as detailed in this guide as well as the HOME Program guidelines within this section.

The HOMEstead Program is not available for use with a Keystone Government Loan.

Availability of Funds

Reservation of funds for the HOMEstead Program is on a first-come, first-serve basis done in conjunction with the reservation of funds for the Agency's Homeownership Program. The process will follow the current procedure now in effect. There is a separate line on the Reservation Form (Form 18) to request HOMEstead funds when reserving via fax. When the loan is reserved over the Internet Reservation System, a box will appear on the Subordinate Mortgages page for you to enter the assistance amount.

Eligible Lending Areas

Due to the HOME regulations, some areas of the state are not eligible for HOMEstead funds administered by the Agency. These areas are known by HUD as Participating Jurisdictions (PJ's) and they have received their own allocation of funds, therefore, excluding them from the funds allocated to the Agency. *See Appendices 1 or 2 for a listing of eligible areas.*

Borrowers pursuing a home purchase in the areas not included in the Agency's HOMEstead Program may still be eligible for this program if they are purchasing a new home in a development that has received financing through the Agency's Homeownership Choice Program, as long as that jurisdiction has not received its own allocation of ADDI funding from HUD. The borrower may also be eligible for a first mortgage through the Agency and a second HOME funded mortgage through their participating locality, depending on the guidelines in that specific locality. Borrowers should contact the Department of Community and Economic Development regarding availability of funds in their area.

Borrower Eligibility

Borrowers must meet the eligibility requirements listed below.

First-time Homebuyer

Borrowers must be a first-time homebuyer (i.e. has not at anytime during the three years preceding the date of loan closing had an ownership interest in a principal residence). In addition, a borrower eligible for Assistance may not have an interest in any other real estate or an interest in a business other than the business which is his or her primary source of income. This requirement applies to all persons living in the property. Borrowers acquiring a home in a Target Area *(See Appendix A for a list of "targeted" areas)* are not required to be first-time homebuyers if one of the follow is true:

- The borrower is a single parent which is defined as an individual who is unmarried or legally separated from a spouse; and has one or more minor children for whom the individual has custody or joint custody; or is pregnant.
- The borrower owns or has owned a principal residence during the three-year period before loan closing but the residence was not permanently affixed to real property or was not in compliance with state, local, or Model Building Codes and cannot be brought into compliance with such codes, or other applicable codes, for less than the cost of constructing a permanent structure.

Income Limit

Borrowers must not have income which exceeds the program income limits for the geographic area in which the single family residence being acquired in located. (*See Appendix 1*) PLEASE NOTE: The income limits are based on 80 percent of the Area Median Income (AMI) and differ from those of the PHFA Keystone Program limits; however, calculation of income for qualification is computed in the same manner as the income requirements for the PHFA first mortgage products. Please note that an unborn child cannot be included in the family size to determine the number of family members for income limit purposes.

Program Affiliation

No person who is an employee, agent, consultant, officer, or an elected or appointed official of the Pennsylvania Department of Community and Economic Development, [formerly the Department of Community Affairs] or the Pennsylvania Housing Finance Agency, who has participated in or is participating in any functions or responsibilities related to the HOMEstead Program or has held or has access to inside information regarding the HOMEstead Program, is not eligible to receive a HOMEstead Program loan.

Loan Features & Guidelines

- The amount of the HOMEstead mortgage is limited to no less than $1,000 and no more than $10,000. Loans are forgiven on an annual basis over five years at a rate of 20 percent per year. (Please note that PHFA does not require the assistance to be entered as a subordinate loan for automated underwriting purposes. Instead, it can be listed as an asset.)

- The loan must finance the purchase of a single family owner-occupied (1 unit) residence. Loan proceeds cannot finance any of the following: the acquisition of personal property; land not adjoining to the residence; land adjoining the residence but not necessary to maintain the basic livability of the residence and which provides, other than incidentally, a source of income to the borrowers; settlement and financing costs which are in excess of that considered usual and reasonable.

- The loan cannot refinance an existing loan or acquire or replace existing mortgages of the borrowers for the property, except for some types of temporary financing.

- The closing date of the loan cannot precede the Approval Notification Date on the Approval Letter.

- The amount of the first mortgage with Conventional financing cannot exceed 97 percent of the appraised value or the purchase price of the property, whichever is less.

Property Guidelines

The subject property must meet the guidelines listed below:

Lead-based Paint

Existing properties must have been built after 1978, due to HUD's lead-based paint regulations which require that homes built prior to 1978 must be inspected for any chipping, peeling, flaking, loose, scaling or cracking paint. If any of these paint conditions exist, the home must be tested for lead-based paint. The borrower and seller would negotiate on who pays for the test. Then, depending on the results, there could be additional costs involved. Therefore, PHFA has elected to limit its HOMEstead program to those homes that are not affected by the regulations.

The Agency may still provide assistance under the HOMEstead Program for homes that were built before 1978 if one of the following is true:

- The borrower is purchasing the home from a local housing or redevelopment authority or a non-profit organization which has recently remodeled the home and would be able to certify in writing that it contains no lead-based paint.

- Based upon an inspection (appraisal) of the property, it was found to be clear of any chipping, peeling, flaking, loose, scaling or cracking paints both on the interior and exterior.

Acquisition Cost

The Acquisition Cost of the residence must not exceed the applicable Program Acquisition Cost Limits. (*See Appendix 2)* The Acquisition Cost is calculated in the same manner as in the PHFA first mortgage programs. The estimated appraised value at acquisition, or after any needed repairs to meet the property standards as required by the Property Inspection Checklist (Appendix 5), also cannot exceed these limits. All properties must be single units. Two-Unit properties are not acceptable under the HOMEstead program.

Existing Homes

For existing homes only, an FHA appraisal must be obtained. Any adverse property conditions noted by the appraiser must be documented. In addition, a Property Inspection Checklist (Appendix 5) must be completed and signed by the appraiser and submitted along with the appraisal in the Credit/Pre-Compliance Submission Package. The appraiser must be paid an additional Property Inspection Fee not to exceed $150. This fee is paid for by the borrower but can be included in the HOMEstead assistance amount. All existing homes must be appraised by an FHA appraiser and reviewed by a Direct Endorsement underwriter. FHA lenders must have their Direct Endorsement (DE) underwriter complete and sign the Conditional Commitment – even on a conventional loan. Lenders who are not approved as a non-supervised FHA lender doing a HOMEstead loan conventionally, must still obtain an FHA appraisal since the HOME guidelines require that the property meet FHA minimum property standards. No matter what type of financing is being obtained, a DE Underwriter at the Agency will determine what repairs will need to be completed prior to loan closing for the conventional lenders. Properties insured by RD or VA must also meet their prospective property requirements in addition to the FHA minimum property standards. VA loans can only be done by VA approved lenders. The final disposition of the conditions needing correction must be documented on the Compliance Inspection Report Form HUD-92051 (Appendix 8). A copy of the final Compliance Inspection Report must be submitted with the purchase package.

Newly Constructed Homes

For newly constructed homes, a Conventional appraisal may be obtained (unless the loan is FHA insured, VA or RD guaranteed). All properties must meet the Pennsylvania Uniform Construction Code and any applicable local building codes. A construction completion certification and a use and occupancy certification is required on all newly constructed homes.

Tenant-Occupied

Unless the borrower is the tenant, no property that was tenant-occupied at the time the Agreement of Sale was signed can participate in the program. This is due to the Federal Uniform Relocation Act that applies to HOME funding. The seller of the home must certify that the home is not tenant-occupied. The Notice to Seller (Appendix 7) is to be executed during the application process and a copy is to be submitted in the Credit/Pre-Compliance Submission to the Agency.

Calculation of Assistance

The amount of assistance is based on the borrower's need. For Conventional loans, the borrower is required to contribute at least three percent of his or her own funds towards the downpayment and/or closing costs. If the borrower has a credit score (middle FICO) of at least 660, the required amount of down money that must be from his or her own funds is $1,000. In either case, the HOMEstead loan may be used for the remaining downpayment required and/or balance of closing costs and any additional downpayment necessary to make the purchase affordable to the homebuyer. For FHA loans, the HOMEstead funds can be used to cover the borrower's required investment and any closing costs not being paid by the seller or financed in the first mortgage amount. For VA or RD loans, the HOMEstead funds can be used for downpayment and/or closing costs.

HOMEstead funds may be used to lower the front-end ratio to 30 percent and to help cover closing costs. Assistance cannot be used to offset a high back-end ratio. Please note, all other funds must be utilized to their fullest extent before applying HOMEstead funds. This includes cash and gifts, grants, seller assistance, land equity, liquid assets in excess of $5,000, etc.

In order to calculate the amount of assistance needed, a Needs Assessment Form (Appendix 3) must be completed. The borrower may retain up to $5,000 of their own funds after closing. Assets include those of all adults intending to occupy the property.

Funding Procedures

The HOMEstead Needs Assessment Form (Appendix 3) is to be completed by the lender and included in the Credit/Pre-Compliance Submission.

After the loan is approved by PHFA a check in an amount, rounded to the nearest dollar, will be mailed to the lender. The PHFA Approval Notification will specify the amount of HOMEstead Assistance that has been approved. The check will be attached to the original copy of the Needs Assessment Form with the appropriate section completed by PHFA.

At closing, the lender is to disburse funds only for the actual amount of assistance needed, up to the amount initially approved and issued by PHFA. Cash back to the borrower is limited to $100 in excess of reimbursement for POC items. Any additional funds must be reimbursed to PHFA, and the HOMEstead loan must be reduced accordingly.

After Closing, the lender is to forward to the Agency the following items with the Purchase Submission:

- A copy of the HUD-1 Settlement Sheet verifying the actual amount of HOMEstead Assistance disbursed at closing;

- A refund check payable to PHFA for any unused HOMEstead loan funds, rounded off to the nearest dollar, (if the amount exceeds $100).

Loan Documents

In addition to the HOMEstead Appendices mentioned in these guidelines, the following documentation is required.

- A Truth in Lending disclosure and Subordinate Mortgage Note (Form 54a) and a Subordinate Mortgage Instrument (Form 55) payable to PHFA shall be executed for each HOMEstead loan for the amount of actual assistance, rounded up to the nearest dollar. The interest rate in the documentation shall be at zero percent.

- The "Annual Percentage Rate" on the TIL disclosure at the top of Form 54a shall be zero percent (0%) interest with no finance charge. The "amount financed" and "total of payments" will be the amount rounded off to the nearest dollar that was issued to the borrower for Assistance. For the payment schedule, enter the amount in the first five rows using the calculation shown on the form. For example, if a borrower received $10,000 in assistance, the payment schedule would look like this:

Your payment schedule will be

Number of Payments	Amount of Payments	When Payments are Due Monthly, Beginning
1	$ 10,000	If sale or transfer of property or refinance of first mortgage occurs **within one year** from closing.
1	$ 8,000	If sale or transfer of property or refinance of first mortgage occurs **within two years** from closing.
1	$ 6,000	If sale or transfer of property or refinance of first mortgage occurs **within three years** from closing.
1	$ 4,000	If sale or transfer of property or refinance of first mortgage occurs **within four years** from closing.
1	$ 2,000	If sale or transfer of property or refinance of first mortgage occurs **within five years** from closing.
0	$0	If sale or transfer of property or refinance of first mortgage occurs **after five years** from closing.

- The Subordinate Mortgage Instrument shall be recorded as a second mortgage lien. No assignment of the second mortgage is required, as it is closed in the name of PHFA.

- The original Subordinate Mortgage Instrument should be submitted in the Final Document file. If PHFA does not receive this recorded document within 60 days from settlement, a request for the document will be sent to your office.

- The homeowner's insurance should list, "Pennsylvania Housing Finance Agency, its Successor and/or Assigns", as first **AND** second mortgagee. Also, the insurance coverage must be in an amount sufficient to cover both loans.

- Schedule B of the Title Policy should list Pennsylvania Housing Finance Agency as second mortgagee.

**Use the HOMEstead Checklist (Appendix 10) as a reference when submitting loans for Compliance.*

ACCESS DOWNPAYMENT & CLOSING COST ASSISTANCE

See ACCESS DOWNPAYMENT & CLOSING COST ASSISTANCE in CHAPTER 5.

EMPLOYER ASSISTED HOUSING (EAH)

PHFA offers an Employer Assisted Housing (EAH) Initiative to help address the issues regarding the lack of affordable housing for low to moderate-income workers. Throughout the country and certainly throughout Pennsylvania, homeownership is beyond the reach of core community employees which include medical personnel, school employees, police and fire personnel, county workers, laborers, service industry staff, etc. Many are forced to find housing outside of the communities they serve. This increases commute time, decreases family time, and detracts from the employee's connection to the community they serve.

Participating Employers who offer a monetary home purchase benefit partner with PHFA to stretch their employee's home buying dollars even further. Although the employer's benefits do not have to be contingent on a PHFA mortgage, if the employee does obtain a PHFA mortgage, through a participating lender, the borrower will receive substantial additional financial advantages at no cost to the employer. An Employer Assisted Housing program benefits everyone; the employer, the employee, and the local community.

Benefits to the Employee

The benefits to the employee going through an EAH program are:

- An interest rate one quarter percent (.25%) lower than the qualifying program rate.

Benefits to the Employer

The benefits to the employer for sponsoring an EAH program are:

- Reduced turnover costs
- Greater retention
- Attractive recruiting feature
- Controlled expense (can set a pre-determined budgeted amount)
- Community revitalization
- Eases tardiness and sick leave use
- Strengthens loyalty and morale
- Good public relations

Combining the employer's benefit with a PHFA mortgage will save the employee thousands of dollars over the life of the mortgage loan. All PHFA loans offer the following advantages to eligible borrowers:

- Lower than market rates and fees
- Free homebuyer counseling
- Downpayment and closing cost assistance
- 30 year, fixed-rate terms
- PHFA services for the life of the loan
- Mortgages for new or existing homes
- Conventional, FHA, VA, and RD loan types available, depending on the participating lender
- 25 percent discount on Title Policy available
- Assumable to qualified borrowers (if permitted under first mortgage program)
- Eight month lock on new construction loan.

Lender Instructions and Procedures

The EAH program in an enhancement to the existing mortgage programs. When reserving the loan via the PHFA Pipeline PLUS, be sure to select the Employer from the dropdown menu on the Mortgage Programs screen.

The Credit/Pre-Compliance package will need to contain written notification from the employer detailing the benefit the employee will receive (amount, repayment terms, etc.).

For additional information on the Employer Assisted Housing Initiative, please call 717.780.3908.

ADDITIONAL APPROVED ASSISTANCE PROGRAMS

PHFA financing can often be combined with assistance programs offered by various local government and nonprofit organizations. Many such county assistance programs have already been approved to be used in conjunction with a PHFA home loan. In the event a particular program is not on the list, please contact PHFA with the program information at 717.780.3871. The information will be reviewed and, if approved, added to the list.

The PHFA assistance loan must be in second lien position unless otherwise approved by PHFA in writing. In calculating how much PHFA is needed, funds from other programs must be applied first. If there is still a gap, the borrower may apply for PHFA assistance, but it cannot be used as additional down money.

CHAPTER 5 – SPECIAL PROGRAMS FOR PERSONS WITH DISABILITIES

ACCESS HOME MODIFICATION PROGRAM

The Access Home Modification Program is a home modification program administered by the Pennsylvania Housing Finance Agency (PHFA). The program provides financial assistance to persons with disabilities or who have a disabled family member living with them to purchase a home and make it accessible according to their needs.

Program Description

The PHFA Access Home Modification Program provides subordinate mortgage financing for persons with disabilities who qualify for one of the Agency's home purchase programs. The mortgage financing is available in conjunction with the Agency's conventional, Rural Development or FHA insured home purchase first mortgage programs.

The amount of the Access Home Modification loan is limited to no less than $1,000 and no more than $10,000.

The Access Home Modification mortgage is a non-interest bearing loan with no monthly payment. Repayment of this debt is required upon the sale, transfer (except by inheritance or between spouses) or non-owner occupancy of the property. Repayment is not required upon payoff of the first mortgage as long as the borrower continues to occupy the home. Upon refinance of the first mortgage, the borrower may include the payoff of the assistance funds in the new mortgage or the Agency may once again subordinate the original assistance mortgage depending on the terms of the transaction.

The Access Home Modification loan program can be used in conjunction with any of the Agency's Down Payment and Closing Cost Assistance programs (and generally with any local assistance programs funded by the municipality or a non-profit organization). When doing so, the borrower(s) must meet all guidelines of that program including income and purchase price limits, property, counseling, etc.

Eligibility Requirements

Eligible Applicants

- Persons applying under any of PHFA's home purchase programs must meet the eligibility and underwriting standards for the first mortgage program they are applying for (i.e. Keystone Home Loan, Keystone Government)

- Persons with a permanent disability or persons who have a family member (s) living with them who have a permanent disability.

- Applicant (s) must be in the process of purchasing a new or existing home that needs access modifications.

Eligible Loans

- Loan proceeds will only be available to make necessary modifications, improvements, or repairs to single family homes financed with one of PHFA's home purchase programs. The home adaptations must be specifically designed for the individual needs of the person with the disability. Agency staff will review the plans and specifications for the work to be conducted at the time of the compliance submission. However, the Agency will not certify or be responsible for the work completed.

- The maximum loan amount is $10,000. The minimum loan amount is $1,000.

- The Access Home Modification loan will be secured by a second mortgage (PHFA Down Payment and/or Closing Cost Assistance should be filed in third lien position). Repayment of the Access Home Modification loan is due upon sale, transfer or non-owner occupancy of property.

- Loan proceeds may not be used to reimburse Borrower (s) for materials they have purchased or work they have completed prior to the date of application.

Eligible Home Modifications

The home modifications should be designed to meet the individual needs of the person with the permanent physical disability who resides in the home. They must be completed within 90 days of closing and may include such things as:

- Bathroom modifications
- Installation of grab bars and handrails
- Kitchen modifications such as: lowering cupboards, countertops, appliances, light switches and electrical outlets
- Lifting devices: Elevator, Chair lift, Stair glide
- Main level bathroom addition
- Ramp and/or sidewalk addition or repair
- Widening doorways and/or hallways
- Assistive Technology

Lender Instructions and Procedures

Reservation of Funds

The participating lender must reserve the modification funds at the same time they reserve the funds for the first mortgage.

Underwriting

Lenders must provide borrowers with PHFA Forms 48 and 50. Lenders should make borrowers aware that the first item in Form 50 provides the standards that construction contracts for Access Home Modification work must meet, and the balance of the form provides guidance to borrowers to help them have a successful construction experience.

Lenders must complete Form 62 to indicate whether the lender or PHFA will hold the escrow. And, if PHFA is holding the escrow whether or not the lender is requesting that a portion of the escrow be sent to them to provide an Initial Payment* to the contractor at the Loan Closing. Form 62 should be sent to PHFA in the underwriting/compliance package.

> * This initial payment may not exceed 25 percent of the total Access Home Modification Loan amount. Borrowers must approve this payment in writing. Lenders should request that borrowers complete the first column of PHFA Form 49 and execute it to indicate their approval. Form 49 should be sent to PHFA in the Purchase/Submission package.

If the Contractor makes the lender aware that he or she will require an Initial Payment after the Compliance/underwriting package has been submitted, Lenders should provide the Initial Payment and request reimbursement from PHFA after Loan Closing using Form 49, submitted in the Purchase Submission File

The Lender must ensure that the appraiser receives a copy of the construction contract to include plans, and specifications, etc. so that he/she can inspect the home once the work is complete. However, the home is to be appraised "As is" and is not to be based on the modification changes. The lender's normal and customary inspection fee can be charged for the final inspection.

In addition to the customary documents, specified on Form 51, the Lender Underwriting Submission Checklist, the compliance/underwriting package that includes an Access Home Modification Loan must also include Forms 48, 62, and a copy of the contract and any applicable specifications, drawings, etc. The contract must meet the requirements described in section 1 of PHFA Form 50. The contract will be reviewed by the PHFA Technical Services Division to ensure that proposals are reasonable. However, this review will not certify any of the work, its quality or the suitability of approved modifications for the borrower or family member needing them. Lenders should encourage borrowers to obtain design assistance from professionals who specialize in accessibility modifications and Assistive Technology. These resources are described further in PHFA Form 50, Borrower guidance for PHFA Home Improvement Loans.

Upon receipt of PHFA loan approval, the participating lender shall issue a written loan commitment to the borrower (s) identifying all loans for which they have been approved.

> NOTE: If any changes are needed to the work contract, whether requested by PHFA or by the borrower or contractor, they must be approved by PHFA prior to loan closing.

Closing and Post-Closing/Final Docs

Disbursed funds cannot exceed the total loan amount approved. If the modifications to be completed cost more than the borrowers' Access Home Modification Loan amount, then borrower funds must be collected at closing and held in escrow. Government modification funds that are paid directly from the governmental or nonprofit entity to the contractor do not have to be escrowed. However, if these funds are paid to the borrower to pay the contractor then they must be collected at closing and escrowed. Should there be an increase in costs during the modification period; the borrower(s) must fund the amount of the increase.

The lender must complete and have the borrower execute at closing a Subordinate Mortgage and Note (Forms 54 and 55) for the Access Modification Loan in an amount equal to the total funding approved for the access modifications. The loan is to be closed in PHFA's name and recorded in second lien position. An additional Subordinate Mortgage and Note (Forms 54 and 55) must be executed if PHFA is also providing any closing cost/downpayment assistance. This loan should be recorded in third lien position. The interest rate in the documents shall be zero percent (0%) interest with the proceeds of the Access Home Modification loan due and payable upon sale, transfer or non-owner occupancy of the property in accordance with the provisions of the note. No assignment of the second/third mortgage is required, due to the fact that the mortgage is to Pennsylvania Housing Finance Agency. There may not be more than one PHFA lien superior to the Access Home Modification Loan.

Form 58 describes the normal and customary documents required in the Purchase Submission package to PHFA. Lenders must include an Escrow Agreement (PHFA Form 65) regardless of whether the Lender or PHFA will hold the borrower's escrow. In addition, Lenders must submit an executed Form 49 if PHFA will be holding the escrow and the lender needs to be reimbursed for an Initial Payment they have made to the contractor at the loan closing.

If PHFA will be holding the escrow and administering all draws, Form 49 will be submitted directly to PHFA by the borrowers. Borrowers may call PHFA 1.800.822.1174 or email us at SFPurchasing@phfa.org to request a copy of this form. Lenders may also provide it from the Agency website.

If the Lender will be holding the escrow and administering all payments to the contractor, the lender must execute and send a Form 49 to PHFA to indicate that the job is complete.

Escrow Administration

Lenders must complete Form 62 to indicate whether the lender or PHFA will hold the escrow. And, if PHFA is holding the escrow, whether or not the lender is requesting that a portion of the escrow be sent to them to provide an Initial Payment* to the contractor at the Loan Closing. Form 62 should be sent to PHFA in the underwriting/compliance package.

> * This initial payment may not exceed 25% of the total Access Home Modification Loan amount. Borrowers must approve this payment in writing. Lenders should request that borrowers complete the first column of PHFA Form 49 and execute it to indicate their approval.

Lender-Held Escrow

<u>Steps to follow when the **lender is holding the escrow funds**</u>:

1. After a mortgage loan has been approved and an Approval Notification has been issued, PHFA will issue a check in the amount approved for the Access Modification funds to a lender intending to hold the escrow. The Closing Date of the loan cannot precede the Approval Notification Date.

2. The check will be sent to the lender within seven (7) days of loan approval.

3. Lenders should administer the escrow with a minimum number of draw payments. Each draw, including any Initial Payments to contractors provided at the Loan Closing and the final payment at construction completion must be approved in writing by the borrower. PHFA Form 49 may be used by the lender for these purposes.

4. Upon completion of the work the Agency requires an inspection to certify that the work has been completed as proposed in the contract submitted in the underwriting package. Form 49 also contains space for the Inspector's signature. The Form 49 indicating that work is completed and accepted by the borrower must be sent to PHFA in the Final Documents Package. .

PHFA-Held Escrow

Steps to follow when PHFA **is holding the escrow funds**:

1. If the lender informs PHFA through Form 62 that the Agency will be holding the escrow funds, PHFA will retain these funds, not send them to the lender. PHFA will provide Form 49 to borrowers to request payments to their contractor (limited to two). PHFA will also schedule the initial and final inspections.

2. If the lender's Form 62, enclosed in the compliance/underwriting package, indicates that the borrower has approved an Initial Payment to the Contractor at Loan Closing PHFA will send a check, made out to the contractor, to the lender for distribution at closing. Lenders must ensure that borrower approval is documented in writing on Form 49 to be enclosed in the Purchase Submission file.

If the lender determines after submission of the compliance/underwriting file that an Initial Payment is approved by the borrower, Lenders should provide the Initial Payment and request reimbursement from PHFA after Loan Closing using Form 49, submitted in the Purchase Submission File. Again, borrowers must indicate their approval of the Initial Payment by completing column 1 of Form 49 and executing the form.

In either situation, this initial payment may not exceed 25 percent of the total Access Home Modification Loan amount.

ACCESS DOWNPAYMENT & CLOSING COST ASSISTANCE

The Access Downpayment and Closing Cost Assistance Program provides mortgage loans to assist persons with disabilities or who have a permanently disabled family member living in the household who are purchasing homes and need downpayment and closing cost assistance. This program provides a deferred payment loan, with no interest. The loan becomes due and payable upon sale, transfer, or non-owner occupancy of the property. It may not be combined with other PHFA downpayment and closing costs assistance programs.

Eligible Applicants

- Applicants must also need and be obtaining a PHFA Access Home Modification Loan.

- The household income of the applicants obtaining an Access Downpayment and Closing Cost Assistance loan cannot exceed 80 percent of Statewide Family Median Income as determined by the Federal Department of Housing and Urban Development.

- Household liquid assets after closing cannot exceed $5,000

- Applicants must be disabled homebuyers who are persons with a disability, or have a disabled family member living in the household with a permanent disability, who are purchasing a new or existing home.

- Applicants who are purchasing a home in an area that is not eligible for HOMEstead may apply for this loan in conjunction with a first mortgage under the Agency's Keystone Home Loan Program without the Keystone Advantage Assistance Loan. Applicants must meet all of the Agency's underwriting guidelines for the program they are applying for.

- Borrowers must require maximum financing. In other words, the Access Assistance Loan cannot be used for additional down money beyond the minimum required.

Mortgage Amounts

- Not less than $1,000 and no more than $15,000. Funds will be available on a first come, first serve basis.

- This is a non-interest-bearing loan with no monthly payment. The loan becomes due and payable upon sale, transfer or non-owner occupancy of the property.

Lender Instructions and Procedures

Reserving/Approval

The participating lender is to reserve the Access Downpayment and Closing Cost Assistance funds at the same time they reserve the funds for the first mortgage and the Access Modification Loan.

The lender shall also submit the Needs Assessment Form (Form 61) in the Credit/Pre-Compliance Submission (Form 51).

Closing

After a mortgage loan has been approved and an Approval Notification has been issued, PHFA will authorize and issue a check in the amount required to complete the transaction. The check will be sent to the lender within seven (7) days of loan approval. A separate check will be issued for the Access Modification funds.

A Truth-in-Lending Disclosure and a Subordinate Mortgage Note (Form 54) and Subordinate Mortgage Instrument (Form 55) payable to PHFA shall be executed for the amount of the actual assistance, rounded off to the nearest dollar.

The "Annual Percentage Rate" in the TIL section at the top of Form 54 shall be zero percent (0%) interest with no finance charge. The "amount financed", "total of payments" and "amount of payments" will be the amount rounded off to the nearest dollar that was issued to the borrower for Assistance.

The Subordinate Mortgage Instrument shall be recorded directly behind the first mortgage instrument as a second lien. No assignment of the subordinate mortgage is required.

At closing, the lender is to disburse only the actual amount of assistance needed, rounded off to the nearest dollar, up to the amount initially approved by PHFA. Cash back to the borrower is limited to $100 in excess of reimbursement for POC items. Any additional funds must be reimbursed to PHFA, and the Access Assistance Loan will be reduced accordingly.

Post-Closing

The purchase package should contain a check (if applicable) for any unused Access Downpayment and Closing Cost Assistance or Home Modification funds. It needs to be clear in the file as to which funds are being returned so that they can be applied to the correct principal balance.

The lender is to forward to the Agency the following subordinate mortgage documents in the purchase package:

- Original Truth-in-Lending disclosure and Subordinate Mortgage Note (Form 54).
- Certified copy of the Subordinate Mortgage (Form 55) with evidence it was sent for recording.
- The HUD-1 settlement sheet that discloses the actual amount of closing cost assistance used by the borrower.

The lender is to forward the original recorded mortgage document (Form 55) to the Agency within sixty days from the date of purchase. The mortgage is to be attached to a properly completed Form 30 and submitted to the Agency at the address referenced on the form.

CHAPTER 6 - UNDERWRITING GUIDELINES

Loans must comply with the respective program-specific eligibility criteria set forth in Chapters 3, 4 and 5, as well as all applicable PHFA standard underwriting guidelines as set forth in this chapter and any applicable federal guidelines depending on the loan type (FHA, VA, RD). In cases where the federal underwriting guideline is stricter than that of PHFA, the federal guideline shall be followed. Conventional insured loans must also meet the criteria of the Pennsylvania Housing Self Insurance Fund (PHIF) as listed in Appendix G.

GENERAL UNDERWRITING PROCEDURES

It is the lender's responsibility to underwrite the file and then submit the underwriting/compliance package to PHFA (See Form 51 for required documents and submission instructions). Please note that all loans must first be reserved/locked in with PHFA—See Chapter 2 for details. The Agency will then issue a notice with the results of its review as follows:

Approval Notice

An *approval notice* is issued if the loan is eligible for sale to PHFA. The notice will contain purchase conditions; any documentation obtained to clear the conditions should be included with the purchase package as requested on Form 58. PHFA will only review individual items if the lender is unsure whether the documentation would be acceptable to PHFA in order to purchase the loan.

Suspense Notice

If PHFA can not complete its review due to missing documentation or incomplete information, it will issue a *suspense notice* specifying the additional information or documentation that is required. PHFA will continue its review once all required information is submitted.

Denial Notice

If PHFA can not approve the loan, it will issue a *denial notice* to indicate that the loan is not eligible for sale to PHFA. The denial may be based on underwriting criteria and/or program compliance issues.

Although PHFA will generally complete its review within two to three business days, please allow for up to five business days for this process.

The Agency monitors and evaluates the quality of the underwriting submissions. A score card is sent to the lenders advising them of their performance on a semi-annual basis. The score card also indicates the various levels of performance. When a lender has a score of 60 percent or lower, training is mandatory. The percent is based on the number of files that are approved upon initial review by PHFA without the need to clarify or request additional information.

The date of the Credit and Compliance documents cannot exceed 120 days from the date the Note was signed. For new construction loans, the documents cannot exceed 180 days from the date the Note was signed. If the age of the documents exceeds these time frames, a lender will be responsible to have all information re-verified. Upon receipt of the updated information, the lender must review it to ensure it still meets the applicable program guidelines. If this new information indicates the borrowers are no longer in compliance with any applicable program guidelines, the loan cannot be purchased by the Agency.

PHFA does not issue preapproval or prequalification letters. Lenders may choose to do so if they wish but are encouraged to indicate that it is contingent upon PHFA's approval. For unique or borderline cases on a particular issue, a lender may seek PHFA's preapproval of the item in question by submitting a request for a preliminary determination using Form 1. This process can be used for questionable compliance issues (income limit, purchase price limit, etc.) or a general underwriting issue (credit, ratios, income, property, etc.). Please note, however, that for general underwriting issues on loans with less than 20 percent down, the lender's underwriter must first make a determination based on the loan type (FHA, RD, VA) or the private mortgage insurance company's guidelines in the case of a conventional loan. For conventional loans seeking inclusion in the Pennsylvania Housing Insurance Fund (PHIF), a preliminary request can be submitted to PHIF.

PERFORMANCE STANDARDS

See PARTICIPANT EVALUATION in CHAPTER 1.

UNDERWRITING TOPICS - LISTED IN ALPHABETICAL ORDER

Assets/Source of Funds

Assets must be verified and documented to ensure the borrower has sufficient funds to close. They can also be used as a compensating factor on loans with questionable ratios or credit.

Please note that satisfactory explanations must be provided for large deposits, withdrawals or other inconsistencies as applicable; generally, this would apply only to amounts larger than $500 that cannot be directly connected to a specified source (payroll, child support, SSI, etc.).

Also, note that if the borrower is receiving PHFA closing cost assistance or is utilizing the HOMEstead programs, this documentation must be provided for all adult occupants; otherwise, it is only needed for the borrowers.

The following documentation is acceptable:

- Verification of Deposit (VOD) with average balance completed; OR
- Three months of recent bank statements (or two months if the previous month's balance is listed).
- Note: If bank statements show a history of overdraft fees, a satisfactory written explanation from the borrower for those fees is required.

Bonuses

Bonus income (for example, when received in a lump sum) may be considered as an acceptable source of funds; however, it cannot be used as both a source of funds *and* monthly income.

Gifts

A Borrower can use funds obtained as a gift to satisfy part of the cash requirement for closing from an acceptable relative (specifically a brother, sister, child, parent, grandparent, aunt or uncle), from a participating PHFA Employer (EAH) or an approved local housing program. A properly completed and signed gift letter is to be placed in the underwriting file stating the donor's name, relationship, gift amount, address and phone number, or all of this information can be completed on the asset section of the application. If an "Approve/Eligible" or "Accept" findings report indicates that a gift letter is not necessary as long as certain, specific information is obtained about the donor and provided on the loan application, PHFA will also accept that as sufficient documentation (as long as the ratios do not exceed 40/50). The amount of gift funds allowed to cover closing costs varies depending on the type of financing (i.e. Conventional, FHA, VA or RD).

Government Bonds

The bonds should be valued at their purchase price unless the redemption value can be verified. Receipt of the funds must be verified.

Lease Purchase

The term of the lease cannot exceed twenty-four months. Only the portion of the lease/rent payment in excess of the fair market rent as listed on the appraisal can be applied to the down payment.

Life Insurance

Verify receipt of funds from insurance company. Provide proof of life insurance in borrower's name. If funds are to be repaid, they must be included as a debt.

Lot Equity

Land equity may be used to meet the minimum down payment. If the lot was owned for less than two years, the lesser of the purchase price or appraised value of the land is to be used to determine value. The value of land owned for more than two years or purchased from a relative will be based on the current appraised value.

Minimum Required Investment/Borrower Contribution

- For 80 percent LTV Conventional loans, the source of the borrower's entire downpayment can be a gift.

- For 95 percent LTV Conventional loans, borrowers must contribute at least three percent of the purchase price from their own verified funds; the balance of the five percent can be a gift.

  - Borrowers with credit scores greater than or equal to 660 only need to contribute $1,000 of their own funds. The balance of the five percent can be a gift.

- For 97 percent LTV Conventional loans, borrowers only need $1,000 of their own funds. The balance of the three percent can be a gift. (Must have a credit score of 660 to be eligible for 97% conventional financing.)

- For FHA, VA and RD loans; the borrower's entire downpayment can be a gift.

Personal Assets

Assets such as coins, stamps, antiques, art, classic or antique automobiles, inheritance or insurance settlement are acceptable sources of assets that can be converted to liquid assets for the down payment and closing costs. Borrower has to provide proof of ownership. Evidence of liquidation will be required along with proof of value for collectibles. The purchaser of the assets cannot be party to the sale or transaction of the property.

Relocation Program

Borrowers who are covered by a corporate relocation program will need to provide a signed and dated copy of the agreement between the employer and the borrower stating the amount of funds to be received. Receipt of funds must be verified at or before closing.

Retirement Accounts

Funds from retirement accounts (IRA/Keogh and 401K accounts) may be used as the source of funds for the down payment and closing costs. After withdrawal penalties or income tax is subtracted only the net withdrawal amount is counted. Borrowed funds that have to be repaid must be included as a debt.

Seller Contributions

For conventional loans, the maximum allowable contributions from the seller or any other party to the transaction are limited to:

- 3 percent of the purchase price if the LTV is greater than 90 percent
- 6 percent of the purchase price if the LTV is equal to or less than 90 percent

The impact of seller contributions must be addressed within the appraisal report or addendum. The amount must be specified in the sales agreement or an addendum to it.

For underwriting purposes, the lender must make a downward adjustment to the sales price to reflect the amount of any contributions that exceed these limitations. The maximum LTV ratio must then be calculated on the reduced sales price or the appraised value, whichever is less.

The cost of any contributions that are in the form of personal property, such as furniture, decorator items, automobiles or other "giveaways", must always be deducted from the sales price.

Contributions made by a non-participant to the sales transaction, such as the borrower's employer or a family member, have no limitations.

Sweat Equity

See Sweat Equity in CHAPTER 8.

Stocks

The market value must be verified by a current statement. Evidence of liquidation will be required if they are to be used for the down payment and/or closing costs.

Subordinate Financing/Community Assistance Programs

See also ADDITIONAL ASSISTANCE PROGRAMS.

PHFA must pre-approve all subordinate financing programs intended to be used with PHFA first mortgage financing. Many programs have already been approved to be used in conjunction with a PHFA home loan. (See http://www.phfa.org/forms/counseling_agencies/ctyprog.pdf). See Appendix D the list of requirements and the checklist used to obtain PHFA approval for a new program.

If the borrower is also seeking downpayment and closing cost assistance from PHFA, the PHFA assistance loan must be in second lien position unless otherwise approved by PHFA in writing. To ensure this requirement is met, a copy of any other subordinate Mortgage(s) with evidence it was sent for recording (for any other downpayment/closing cost/rehab funds received for which a mortgage is recorded) is required in the purchase package submission to PHFA.

In calculating how much PHFA assistance is needed, funds from other programs must be applied first. If there is still a gap, the borrower may apply for PHFA assistance, but it cannot be used as additional down money.

Tax Refund

A tax refund may be considered as an acceptable source of down payment provided the amount and receipt can be verified.

- Copy of the actual check
- Proof of Direct Deposit
- Copy of borrower's tax return

Unacceptable Funds

The following sources of funds are not acceptable:

- Line of Credit
- Unsecured bank loan
- Personal loan from a relative or friend
- Pledged collateral
- Donated Funds
- Gift from unacceptable donor
- Cash on Hand is not permitted by PHIF. For Conventional loans with an LTV of 80 percent or below, it is permitted up to $500 or over that if it can be satisfactorily explained and documented.

Wedding Gift Funds

This is an acceptable source of funds with a copy of the marriage certificate.

Automated Underwriting Systems

The Agency allows the use of, but does not require, the following automated underwriting systems: Fannie Mae's Desktop Underwriter (DU); Freddie Mac's Loan Prospector (LP); Wells Fargo's Decision Server; JPMorgan Chase's Zippy, and Rural Development's Guaranteed Underwriting System (GUS). The lender is responsible for entering complete and accurate information into the system and for submitting the correct findings report to the Agency in the compliance package.

If the Findings Report generates a result of "Approve/Eligible" or "Accept" (or the equivalent from one of the other systems) AND the ratios do not exceed 40/50, PHFA will accept the findings as they relate to the credit underwriting review of the file and the lender need not perform a manual review of the credit (although the lender is responsible for ensuring the data is verified and accurate). A full manual review is required on all loans seeking PHIF coverage (see Appendix G).

The lender is responsible to ensure that the Purchase Submission package contains the documentation needed to satisfy the findings report.

However, please note that the following documentation is still required regardless of the finding:

- Complete income verification and documentation;
- A standard, full interior and exterior appraisal (1004);
- Standard mortgage insurance coverage for conventional loans (reduced coverage not permitted);
- Compliance with any applicable program-specific guidelines and documentation as outlined in this chapter, as well as Chapters 3, 4 and 5;
- Compliance with any applicable federal guidelines depending on the loan type (FHA, VA, RD);

If the Finding is an Expanded Approval, Refer or Caution (or similar risk classification), the lender must perform a manual underwriting review of the file, and the loan must meet PHFA's standard underwriting guidelines as outlined in this guide (and any that apply as a result of the loan type; i.e., FHA, VA, RD) or the private mortgage insurer in the case of a conventional loan (see Appendix G for the guidelines of the Agency's self insurance fund, PHIF).

If a manual review is required or is chosen by the lender, the loan must meet PHFA's standard underwriting guidelines as outlined in this chapter and any that apply as a result of the loan type (i.e., FHA, VA, RD) or the private mortgage insurer in the case of a conventional loan (see Appendix G for the guidelines of the Agency's self insurance fund, PHIF). The stricter of the PHFA, applicable federal agency guideline or mortgage insurer shall apply.

Citizenship

PHFA will purchase loans made to United States Citizens and also to non-citizens who can demonstrate legal residency. All applicants must have a valid social security number.

For Lawful Permanent Residents, the lender must document the file with evidence of permanent residency (Green Card) and indicate on the loan application that the borrower is a Lawful Permanent Resident.

Non-Permanent Residents are citizens or subjects of other countries who are seeking to enter the United States temporarily for a specific purpose, such as business or pleasure, temporary workers, students attending U.S. schools, foreign exchange students, etc. They are non-immigrants in that they do not have the stated goal of making the U.S. their permanent residence. They enter the U.S. for a temporary period of time and once here are restricted to the activity or reason for which their visa was issued. PHFA will purchase a loan made to a Non-Permanent Resident provided the property will become the borrower's principal residence, the borrower has a valid social security number and the borrower is eligible to work in the U.S. as evidenced by an Employment Authorization Document (EAD) issued by U.S. Citizenship Immigration Services (USCIS). If the authorization for temporary residency status will expire within one year and a prior history of residency status renewals exists, the lender may assume continuation will be granted. If there are no prior renewals, the lender must determine the likelihood of renewal, based upon information from the USCIS. Please note that PHIF has additional criteria for Permanent and Non-permanent Resident Aliens; see Appendix G if applicable.

Note: Borrowers residing in the U.S. by virtue of refugee or asylee status granted by USCIS are automatically eligible to work in this country. An EAD is not required.

Non-U.S. citizens who cannot demonstrate legal residency are not eligible for PHFA mortgages.

Compensating Factors

PHFA recognizes the following as compensating factors. This is not an exclusive list and having one or more of these factors identified in a file does not guarantee approval of the loan. However, these factors, when identified and properly documented, may reasonably offset negative aspects of the file such as high ratios.

- Two months PITI in reserves
- Two full years of stable income
- Payment shock less than 50 percent
- Twelve months timely rental payments verified by a non-relative
- Underwriting ratios at or below 33/38

Co-Signers

Co-signers may be used as a compensating factor to offset high underwriting ratios provided that the conditions below are met. A co-signer may not be used to compensate for a borrower's derogatory credit.

- The co-signer must be a relative (specifically brother, sister, child, parent, grandparent, aunt or uncle, cousin, or legal guardian) OR the borrower's spouse/significant other who will also reside in the home;
- The co-signer is acting in the capacity solely for the purpose of providing additional security for the mortgage loan;

- The co-signer has no other financial interest in the residence;
- The co-signer will execute the mortgage note and the Co-Signer's Certification (Form 21). *The co-signer is NOT to execute the deed or mortgage.*
- If the co-signer will live in the property being purchased, her/his income and assets must be included for any applicable program-specific income limit and they must also meet the first-time homebuyer requirement, if applicable to the program.
- On Conventional loans, the borrower's underwriting ratios cannot exceed 35/43 percent. With the co-signers income and debts included, the underwriting ratios should not exceed 33/38 percent.
- On FHA loans, in order to qualify for a co-signer, a borrower's underwriting ratios should fall close to the 31/43 percent FHA ratios without the co-signer's income and debts included. The acceptability of a co-signer is determined by subtracting the total of all of the co-signer's monthly debt payments and monthly housing expenses from the co-signer's gross monthly income to arrive at a residual income which should be sufficient to permit the co-signer to make the monthly mortgage payments in the event of a temporary or prolonged adversity.
- Co-Signers are not permitted on VA and RD loans.

When submitting the mortgage loan package to PHFA, only reference the borrower's ratio on the transmittal summary. A co-signer is considered as a compensating factor only.

Credit Report and Debt

The lender is responsible for reviewing the credit histories of the borrowers. A Residential Mortgage Credit Report must be obtained for all borrowers. The credit score used for qualifying purposes is the middle one. For borrowers with two scores, the lowest one is used. If there are three scores, but two are identical, the lower score would also be used. For example, if the scores are 689,689, and 655, the score used for qualifying purposes would be 655 (the two identical scores are treated as one score).

Adverse Credit

For government insured/guaranteed loans, follow the guidelines of the respective federal agency (FHA, RD, VA) for acceptability of adverse credit and documentation required.

- Bankruptcy

  Chapter 7 – A four year time period is required from the dismissal or discharge date in order to re-establish good credit.

  Chapter 13 – A period of two years from the discharged date or four years from the dismissed date is required, with satisfactory re-established credit for at least 12 months.

  For loans at or below 80 percent LTV, two years is required for a Chapter 7 or a 13 discharge, and three years is needed for a dismissed Chapter 13. Satisfactory re-established credit for at least 12 months is required in these situations.

  If there is more than one bankruptcy filing within the past seven years, a five year period is required to re-establish credit from the most recent dismissal or discharge date, with a minimum of three accounts open and active for 12 months with no late payments during that period.

- Collection Accounts

  For files that require a manual review, all non-medical collection accounts must be satisfactorily explained. For conventional loans at or below 80 percent LTV, non-medical collections need not be paid off if permitted by an AUS approve/eligible or accept finding with ratios not exceeding 40/50. See Appendix G for PHIF's guidelines for conventional insured loans.

- Deed-in-Lieu of Foreclosure

  A four year period is required to re-establish credit from the completion date of the deed-in-lieu action as reported on the credit report or other documents provided by the borrower. (Note: the LTV on PHIF-insured loans is limited to 90 percent from years four to seven following the completion date.) For conventional loans at or below 80 percent LTV, only two years is required.

- Foreclosure

  A four year period is required to re-establish credit from the completion date of the foreclosure action as reported on the credit report or other foreclosure documents provided by the borrower. (Note: the LTV on PHIF-insured loans is limited to 90 percent from years four to seven following the completion date.)

- Judgments and Liens

  Must be paid in full at or prior to closing. The borrower must have satisfactory re-established credit for at least 12 months (minimum of three accounts open and active with no late payments).

- Short Sales

  A two year period is required to re-establish credit from the completion date of the short sale as reported on the credit report or other documentation provided by the borrower.

Authorized User

Accounts for which the borrower is listed as an "authorized user" need not be included in the debt to income ratio.

Bankruptcy

See Adverse Credit.

Collection Accounts

See Adverse Credit.

Co-signed Loans

The monthly payments on loans for which the borrower is a co-signor are considered debts. However, with supporting documentation that the co-signed loan is being paid as agreed by the borrower and has been current for the past 12 months, the debt does not have to be included in the total debt ratio.
Child Support and/or Alimony Payments

Include as a debt if more than 10 payments remain. Use amount on court order, paystub, or amount disclosed by borrower if not court ordered.

Commuting Expense

See [Employment History/Stability](#).

Debt Not Listed on Credit Report

Any debt disclosed by the borrower but not listed and/or rated on the Credit Report must be included. It must have a separate verification indicating the current balance, the monthly payment and the payment history of the account.

Deed in Lieu of Foreclosure

See [Adverse Credit](#).

Foreclosure

See [Adverse Credit](#).

Homebuyer Education

All borrowers with a middle credit score below 660 (regardless of the first mortgage program) must attend an in-person [Homebuyer Education](#) workshop or counseling session with a [PHFA approved counseling agency](#) **prior to** closing. PHFA pays the counseling agency for this service; there is no charge to the borrower except for the credit report. If both borrowers have credit scores below 660, they both must attend counseling.

A Certificate of Completion for the borrowers should be included in the Underwriting/Compliance package to PHFA. If it is missing, it will appear as a purchase condition.

The lender should complete and the borrowers should sign the Pre-Closing Counseling Referral ([Form 63](#)) and take it with them when they complete the counseling.

Any borrower with a credit score of 660 or higher may still participate in PHFA's homebuyer education program free of charge. This is highly recommended for any first time buyer, regardless of their credit score.

Installment Debts

In calculating the debt ratio, include all debts with more than 10 payments remaining. Verification must be submitted for all debts with more than 10 remaining payments not appearing on the credit report.

Joint Debts

All joint debts must be included in the back ratio, including those accounts that are being paid by another individual as part of a divorce or separation agreement. (May be excluded with documentation showing 12 months of timely payments by the other party on conventional loans at or below 80 percent, or as permitted by FHA, VA or RD.)

Judgments and Liens

See Adverse Credit.

Nontraditional Credit

For borrowers who do not have the types of credit that appear on a traditional Residential Mortgage Credit Report, the lender is to obtain or compile a Nontraditional Mortgage Credit Report. The Nontraditional Credit report should be required after all three repositories were checked to verify the borrower's credit. Nontraditional credit reports are to be used for borrowers who do not use traditional credit or who have an insufficient amount of traditional credit (not enough to generate a credit score). The report is not to be used to offset derogatory credit such as collection accounts, judgments, numerous recent late payments, etc. that were found on the traditional credit report. If you have sufficient information on the traditional report to approve or decline the borrower, there is no reason to pursue the development of a Nontraditional Mortgage Credit Report. The credit reporting agency, when developing a Nontraditional Mortgage Credit Report, should consider only the types of credit that requires an applicant to make periodic payments on a regular basis (intervals of no more than every three months).

A Nontraditional Report will need to show four (4) to six (6) forms of credit. These requirements apply to all loan types; Conventional, FHA, VA and RD when there is no traditional credit established. The following lists the acceptable forms of alternative credit categorized and ranked in order of their weight.

- TIER I – Includes rental payments, utility payments (if not included in rent), electricity, gas, water, telephone and cable service payments. When verifying the rental payments, the reporting agency is to specify in the report if the verification was obtained by a professional management company or an individual landlord. If the verification was obtained by someone other than a professional management company, the lender should ask for 12 months cancelled rent checks or other proof of timely rent payments (such as bank statements to show payments made on time).

- TIER II – Includes medical and life insurance policy payments (excluding payroll deductions), auto insurance policy payments and/or renter's insurance payments.

- TIER III – Includes regular repayments to local stores, furniture, appliance, specialty stores, etc.; rental payments related to durable goods (including automobiles); medical bills, school tuition and child care payments; and loan payments to an individual if the repayment terms are documented in a written agreement and the borrower can provide copies of cancelled checks to show the payments to be of a continual nature.

Overdrafts

If bank statements show a history of overdraft fees, a satisfactory written explanation from the borrower for those fees is required.

Retirement Accounts

Retirement accounts pledged for borrowed funds that have to be repaid must be included as a debt if more than 10 payments remain.

Rent Verification

A verification of rental payments may be used as a credit source or compensating factor. The acceptable forms of verification are:

- Rental reference from the landlord (who is not related to the borrower) for at least 12 months' payment history.
- Cancelled checks for the 12 most recent months.
- Rent receipts signed by the landlord for the 12 most recent months.

Revolving Accounts

Regardless of the balance or remaining term, use the monthly payment as stated on the credit report or five percent of the outstanding balance in the absence of a stated payment, with a minimum payment of $10.00. Revolving accounts cannot be paid off or reduced to 10 payments or less to qualify. If either takes place the scheduled payment or $10.00 will still be used as a debt.

Short Sales

See Adverse Credit.

Student Loans

Student loans deferred for at least 12 months (per the credit report or other acceptable documentation) need not be included in the debt to income ratio. (Note: PHIF requires them to be included even if deferred.) If no payment is listed on the credit report, use two percent of the balance, unless the actual payment amount is documented by the credit grantor (for example, on a statement).

Tax Abatement Programs

If the property is part of a tax abatement program, the escrow amount used for closing and the HUD1 should be based on the actual amount due under the abatement program for the upcoming year. For underwriting purposes, the full amount (i.e., the amount that will be due after the abatement period is over) is to be used if the taxes are only abated for 5 years or less. If they are fully abated for six or more years (or there is a phase in amount beginning in year six), the abated amount that is currently due may be utilized for underwriting purposes.

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Trade Lines

Three lines of credit are required with at least a 12 month history for each.

Undisclosed Debt

If the Credit Report reveals significant debt that the borrower did not disclose on the mortgage application, he or she may have been attempting to conceal liabilities in order to qualify for the mortgage. The borrower must provide a written explanation for the omission.

Delegated Underwriting Authority (PHFA)

See CHAPTER 7.

Employment History/Stability

See also, Income.

PHFA requires at least two years of employment to be verified as follows:

- A full Verification of Employment (signed and dated by the employer) using the FNMA form (for employees who have been with their current employer less than 24 months, two years of W-2's are also required in addition to the VOE)

Or

- A verbal Verification of Employment indicating the start date, along with a current pay stub showing gross year-to-date earnings or a print-out from an automated telephonic system (AKA 'Work Number'); AND two years of W-2's.

The above documentation must be obtained for all borrowers (and any other adult occupants in the case of a program with an income limit).

If the file contains W-2's from a different employer, the file must also contain a signed processor's certification or completed Verification of Employment verifying the borrower is no longer with the previous employer.

The borrower who voluntarily changes jobs without improvement of financial condition or changes from one line of work to another must submit a satisfactory written explanation for frequent changes of employment.

When reviewing the borrower's income, the Agency looks for characteristics that evidence a likelihood of stable and continuing income, including, but not limited to:

- Occupation
- Tenure on current job
- Employment opportunities
- Educational background and training for the position occupied

The Agency will compare the borrower's present earnings and those anticipated in the future to current obligations and those obligations expected to be incurred through normal expenditures in the future.

Employment history of less than two years may be acceptable if the borrower was previously in college, trade school, or the military. A former student must provide a copy of his/her diploma or transcript. Discharged military personnel must provide a copy of the Certificate of Release or Discharge from Active Duty Form DD214. The education or military service must be related to the present employment for credit to be given.

Commuting

The borrower may commute to a place of employment up to 100 miles one way without making an adjustment to the debt to income ratios. If more than 100 miles each way, the lender must document and calculate the monthly cost for vehicle maintenance, public transportation, tolls and any travel expenses occurred if borrower would be staying overnight (lodging, food, etc.). This amount must then be included as a monthly debt in the qualifying debt to income ratio. Also, the loan must qualify as owner occupied; for example, a borrower who works out of town during the week but his/her family remains in the financed property. For government insured/guaranteed loans, follow the guidelines of the respective federal agency (FHA, RD, VA).

Employed by a Relative

If the borrower is employed by a relative and has an ownership interest in the business, two years of the most recent federal income tax returns must be provided along with the standard income documentation. Any self-employed income/loss shown on the returns must be considered.

Union Employment

See Income.

First-time Homebuyer

First-time homebuyer requirements, if any, are detailed in Chapters 3, 4 and 5 under the various loan program descriptions.

Gifts

See Assets.

Income

See also Employment History/Stability.

See Chapters 3, 4 and 5 for program-specific income limits and details on how to calculate income to ensure it complies with any applicable maximum limit. The income as it is calculated for income limit purposes may be very different from the income that is calculated for qualifying purposes. This is because *all* income received by all adult *occupants* must be included to ensure compliance with any applicable income limit, but only consistent and fully documented income that is expected to continue for the *borrowers* is included for qualifying purposes. The information contained in this chapter describes how to calculate and document income for qualifying purposes.

Annuity

A copy of the most recent updated renewal statement showing effective date, amount, frequency, and duration will be required. Payments are expected to continue for at least three years.

Car Allowance

If an applicant receives a car allowance in addition to reimbursements for gas, oil, maintenance, etc., the car allowance may be used to offset the car payments if received for two years. If the car allowance is greater than the car payment or lease payment, the difference is treated as income; if the car allowance is less than the car payment or lease payment, the difference is included as a debt.

Child Support and Alimony

If child support and/or alimony is being used for qualifying, the file must contain court ordered documentation verifying this or a print out from Domestic Relations OR verification of child custody along with 12 months of consecutive cancelled checks (or bank statements) verifying child support/alimony has been received regularly for at least 12 months. If one of these options cannot be obtained, this income cannot be used for qualifying.

If the file contains evidence support is being received, it must be calculated and included in the income for limit purposes if applicable to the program (even if it is not fully documented as listed above and therefore not being used to qualify).

Arrearages are not used for qualifying or for income limit purposes.

Child support may be grossed up 25 percent for underwriting purposes; only the face amount would be used for income limit purposes if applicable to the program.

Clergy Income

A verified housing allowance will be accepted as qualifying income in addition to annual salary.

Disability Income

Income should be documented by an "Award Letter" or a letter from the source or company providing the income and a copy of the two most recent checks or check stubs.

Foster-care Income

Income received from a county agency for the temporary care of children may be considered as acceptable income as long as the borrower has a two year history of providing foster-care. Foster-care income must be verified by the appropriate county agency or bank statements.

Interest/Dividend Income

To use as qualifying income, calculate the two year average from the most recent two years of signed tax returns with applicable schedules or the past two years Interest Income Form 1099-INT or Dividend Income Form 1099-DIV. Assets should be sufficient to continue generating income for at least three years. Assets used for the down payment and closing costs must be subtracted from the total assets before calculating the interest or dividend income.

Military Income

In addition to base pay, flight or hazard pay, rations, clothing allowance, quarters allowance and proficiency pay (propay) may be used to qualify as long as its future continuance can be established.

Overtime/Bonus/Commission Income

This type of income may be used for qualification purposes if it has been consistently received from the same employer or from employment in the same line of work for at least two years. It is calculated by adding the year-to-date income (only if the year-to-date income is consistent with the previous two years of income) to the previous two years and then dividing by the total number of months.

Inconsistent or sporadic overtime, bonus and/or commission income may be used as a compensating factor, but not as qualifying income. If the earnings show a decline in the current year, there must be strong offsetting factors to include it as qualifying income, such as a letter from the employer.

Bonus income may be considered as an acceptable source of down payment; however, it cannot be used as both a source of monthly income and down payment.

Overtime, bonus and commission income must be included for determining compliance with any applicable income limit, even if it is not or cannot be used for qualification purposes.

Part-Time Income

In order to use part-time income for qualifying purposes, it must be received consistently for at least two years on conventional loans. Inconsistent or sporadic part-time income may be used as a compensating factor, but not as qualifying income.

Part-time income must be included for determining compliance with any applicable income limit, even if it is not or cannot be used for qualification purposes.

Seasonal part-time income will be considered if employed by the same employer for the last two years. The probability of continued seasonal employment must be indicated on the VOE.

Public Assistance

Income received from a public assistance program may be grossed up 25 percent for underwriting purposes. Only the face amount would be used for income limit purposes if applicable to the program. It must be documented with an award letter or the last 12 months of bank statements showing regular direct deposit of the payments.

Public assistance for specific items other than housing (for example, 'food stamps') may not be used to qualify, and is not included in the income limit calculation either.

Rental Income

The borrower must provide Federal Income Tax Returns, including Schedule E for the previous two years as evidence of rental income. Net rental income/loss can be determined in one of the following two ways:

- Depreciation is added to the net rental income/loss listed on Schedule E of the most recent Federal Income Tax Return and the result divided by 12.
- Executed long-term (term of one year or more) leases may be submitted for properties not appearing on Schedule E of the most recent Federal Income Tax Return. The rental income/loss is calculated by multiplying the gross verifiable monthly rental income by 75% (25% deduction from gross rental income is to cover maintenance and vacancy expenses) and subtracting the total PITI from the net rental income to arrive at a gross income or negative cash flow figure.

The resulting income will be added to the borrower's gross monthly income or the loss will be added to the borrower's total monthly obligations.

If the borrower is purchasing a two-unit property, the rental income from the second unit need <u>not</u> be included in the income limit calculation. However, rental income received from another property would need to be included.

Retirement Income

Payments will be considered if they can be substantiated by a photocopy of the retirement award letter, tax returns, or bank statements showing the regular deposit of the payments.

Seasonal Part-Time Income

See Part-Time Income.

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Section 8 Homeownership Voucher

PHFA allows Section 8 Homeownership Vouchers to be used on any loan type in one of the two ways listed below. The Agency does not specify one way or another. It is left up to the lender to determine which way would be more beneficial to qualify the potential homebuyer.

- The voucher amount can be added to the borrower's income for qualifying purposes. If this is the case, PHFA would allow the amount to be grossed up 25 percent. (Ex. $500/month times 125% = $625) As a result, $625, instead of $500, could be added to his or her other income before calculating the underwriting ratios.

- The voucher amount can be used as a direct reduction from the PITI payment. In this instance only the flat amount may be used. According to the example given above, $500.

A Borrower's Authorization Form (Form 66) must be signed by all borrowers using a Section 8 Homeownership Voucher in conjunction with a PHFA loan, in addition to a notification from the Housing Authority specifying how the voucher is paid (to the borrower or directly to the servicer). There is a list of Housing Authorities (Appendix Y) that are approved to utilize their Section 8 Homeownership Voucher program in conjunction with PHFA financing on our website.

Self-Employed Borrowers

To determine income for self-employed borrowers, two years of net income (plus depreciation) from the borrower's two most recent Federal Income Tax returns must be averaged. After the first three months of the year, a Profit and Loss Statement completed by a disinterested third party is also required, and this income is added to the previous two years of income and then averaged only if the year-to-date income is consistent with the previous two years of income.

Social Security Income

Income received from Social Security due to age and/or disability may be grossed up 25 percent for underwriting purposes. Provide a copy of the Social Security Administration's award letter or copies of the borrower's last 12 months bank statements to confirm the regular deposit of the payments.

Social Security Income received by a household member who is not a borrower may not be used to qualify, unless the borrower is designated as the representative payee.

Only the face amount would be used for income limit purposes if applicable to the program.

Tips

Tip income may be used to qualify the borrower if verified that the borrower has received it for the last two years. Average the past two years tips income as listed on the tax returns, VOE or paystubs to determine the amount that may be considered.

Trust Income

A copy of the Trust Agreement or Trustee's Statement will be required to confirm the amount, frequency and duration of payments. The Trust Income must continue for at least three years.

Unacceptable Income

Calculation of qualifying income will not include the following types of income or compensation:

- Education benefits for specific expenses such as tuition and/or books;
- Retained earnings in a business or company;
- Rent from boarders;
- Draws which are usually advanced against future commissions;
- Employee expense reimbursement (e.g., mileage, gas, uniform);
- Any source of income that cannot be verified by the lender;
- Public assistance income for specific items other than housing (for example, 'food stamps');
- Any income received by persons not listed on the Note;
- Social Security Income received by a household member not obligated on Note, unless the borrower is designated as the representative payee.

Unemployment Compensation

If a borrower has a pattern of receiving unemployment compensation as evidenced by his/her Federal Income Tax Returns for at least 2 years, an average monthly amount should be calculated for the unemployment and added to the borrower's income.

Union Employees

A union member who works for different employers should be qualified using an average of the previous two year's income from his/her tax returns. Credit for unemployment will be given if it is reported on the previous two year's Federal Income Tax Returns. A VOE from the Union and the current employer will be required.

Unreimbursed Business Expenses

The two-year average of unreimbursed business expenses as listed on the most recent Federal Income Tax Returns should be listed on the loan application and deducted from the qualifying income. It would also be deducted for the income limit calculation, if applicable to the program.

VA Benefits

Provide a letter or distribution forms from the Department of Veterans Affairs as proof of payment. Payments must continue for at least three years from the date of the mortgage application.

Insurance

See CHAPTER 12, *Insurance Requirements*, for details on Mortgage, Homeowner's, Flood, and Title Insurance.

Loan Terms

Each mortgage loan must be for a term of thirty (30) years, at the fixed interest rate specified on the Credit/Pre-Compliance Approval Notification with level monthly payment provisions. The thirty-year term is both a minimum and maximum term.

The loans may be prepaid in whole or in part at any time without penalty.

No part of the proceeds of the mortgage loan can be used to finance anything other than the residence. Any land appurtenant to the residence which is not necessary to maintain the basic livability of the residence, or items of personal property such as appliances (with the exception of the stove, refrigerator, and any built-in appliances), furniture and the like which under Pennsylvania law are not fixtures, may not be financed with the proceeds of the mortgage loan.

Loan Types

Conventional

The maximum LTV on Conventional loans is 80 percent, effective January 1, 2012 and until further notice.

Combination Loans

Combination structured loans are acceptable under the Keystone Home Loan Program only, as long as they meet the conditions set forth herein. The Agency will purchase the first mortgage only per the normal policies and procedures. The second mortgage may be funded by the participating lender or another mortgage lending institution. Acceptable combination structures are those utilizing the combination of 80/10/10 or 80/15/5, where the first mortgage is 80 percent of the purchase price or appraised value, whichever is less, the second mortgage is 10 or 15 percent of the same, and the borrower is funding the ten or five percent downpayment. At least three percent of the downpayment must come from the borrower's own funds. The remaining may come from an acceptable gift or grant. For borrowers with middle credit scores of 660 or higher, the minimum contribution from documented funds is $1,000. The balance needed to cover the three percent (3%) can also come from an acceptable gift or grant.

The second mortgage must be a fully amortizing fixed rate loan for a minimum of 15 years and a maximum of 30 years with no pre-payment penalty and no balloon payment. We will not accept seconds that are amortized for one term but balloon in a shorter term. The interest rate cannot be greater than three percent (3%) above the Agency's first mortgage rate. The monthly payment must be included in the housing expense ratio (PITI). Loans under this program must be underwritten using an approved automated underwriting system and receive an Approve/Eligible or Accept rating. If an automated underwriting system is not utilized, all borrowers on the loan must have a middle FICO score of at least 660.

When submitting the Credit/Pre-Compliance Package, provide a copy of the commitment letter for the second mortgage to verify that the terms of the combination loan meet the above guidelines. Place this documentation in the "verification of funds" section of the loan file as indicated on Form 51, the Credit/Pre-Compliance Package Checklist. The PHFA Approval Notification will include a condition requesting a copy of the executed Note meeting our guidelines and proof that the payment used to underwrite the loan remained the same. To satisfy this condition; attach a copy of the executed Note to the PHFA Approval Notification, per number two of Form 58, the Purchase Submission Checklist. The HUD1 must also reflect that the funds from the second mortgage were received.

Debt to Income Ratios

For a manually underwritten conventional loan, the standard underwriting ratios are 33 percent of gross monthly income for Principal, Interest, Taxes & Insurance (PITI) and 38 percent for the total debts. These ratios may not be exceeded without acceptable compensating factors.

When utilizing an approved automated underwriting system for Conventional loans, the maximum underwriting ratios for "Approve" or "Accept" findings are 40 percent for PITI and 50 percent for total debts. Loans with ratios exceeding 42 percent for the front end ratio and 52 percent for the back must be preapproved by PHFA on a case by case basis using the Preliminary Determination process (See Form 1). Note: PHIF's maximums are 40/45.

Any loan that receives an expanded approval, "Refer" or "Caution" finding must be manually underwritten.

For government insured/guaranteed loans, follow the debt to income ratio tolerances as established by the respective federal agency (FHA, RD, VA).

Seller Contributions

See Assets/Source of Funds.

FHA

FHA insured loans must comply with the respective PHFA program-specific eligibility criteria set forth in this chapter, as well as chapters 3, 4 and 5, as well as all applicable FHA underwriting guidelines (see www.fha.gov).

The lender must be approved by HUD as a Title II Supervised or Non-Supervised Mortgagee and must have Direct Endorsement (DE) underwriting authority.

PHFA's downpayment and closing cost assistance may be used towards the borrower's 3.5 percent downpayment as required by FHA. Furthermore, FHA's Combined Loan to Value Ratio (CLTV) maximum of 100 percent may be exceeded by the amount of any PHFA assistance received.

The Agency will purchase both one and two unit properties (duplexes) under the FHA 203(b) loan program. The Agency will also allow 223(e), 234(c) and 203(k) loans. These loans must be reviewed and approved by the lender's Direct Endorsement Underwriter as eligible loans for FHA Insurance.

203(k)

In addition to meeting all FHA guidelines for 203K loans, the following PHFA requirements also apply:

- Owner occupied properties only (no investor loans).
- Properties must be at least 20 years old.
- The total acquisition cost of the property equals the purchase price of the home plus all improvement costs. The total acquisition cost cannot exceed PHFA's Purchase Price Limit if applicable to the mortgage program.
- In addition to the normal fee allowed you may also charge and retain up to one percent (1%) discount plus the FHA Supplemental Origination Fee, which is the greater of one and one half percent (1½%) of the Rehabilitation portion of the loan or $350.
- Improvements must be completed within 180 days of closing. Borrowers must occupy the home within 60 days of the completion of the improvement.
- The Agency will purchase the loan prior to the improvement being completed, as long as the home is habitable.
- The lender will establish and administer the escrow funds.
- Unused escrow funds are not to be returned to the borrowers, but are to be applied to the principal loan balance. (Note; should this occur, PHFA will not permit modification of the monthly principal and interest payment.)

Non-occupant co-borrowers

Non-occupant co-borrowers are not permitted on FHA insured loans under PHFA's Keystone Home Loan or HOMEstead programs. They are permitted under the Keystone Government Program.

RD

Rural Development (RD) guaranteed loans are eligible under PHFA's Homeownership Programs. RD guaranteed loans must comply with the respective PHFA program-specific eligibility criteria set forth in this chapter as well as chapters 3, 4 and 5, as well as all applicable RD underwriting guidelines (see www.rurdev.usda.gov).

For RD guaranteed loans, the lender must be approved by the United States Department of Agriculture (USDA) for underwriting and servicing Guaranteed Rural Housing loans in accordance with Section 1980.309 of FMHA Instruction 1980-D.

VA

VA guaranteed loans must comply with the respective PHFA program-specific eligibility criteria set forth in this chapter, as well as chapters 3, 4 and 5, as well as all applicable VA underwriting guidelines (see www.va.gov).

The lender must have Automatic Authority (aka Authority to Close Loans on an Automatic Basis) from the United States Veterans' Administration (VA); this can be a Supervised Lender or a Non-

Supervised Lender with Automatic Authority. The lender must also have Lender Appraisal Processing Program (LAPP) approval.

LTV

The maximum loan to value ratio is dependent upon the loan type (FHA, RD, VA, Conventional). See *LOAN TYPES*

Non-Liable Co-Occupants

If the borrower's spouse or other adult occupant will be listed on the deed, he or she must also be listed on the mortgage, the assignment, the title policy and the TIL, but **not** on the Note. The co-occupant's income would need to be included for any applicable program-specific income limit but may not be used as qualifying income. Also, a credit report need not be run for the co-occupant. Please be sure to provide a processor's certification in the underwriting package with the name and social security number of the non-liable co-occupant. It must also be listed on Form 58 which is submitted with purchase package.

Owner Occupancy

All borrowers must occupy the mortgaged property as a principal residence within 60 days after closing the mortgage loan. The borrower is not permitted to rent any portion of the property subsequent to closing, except that the borrower may rent the property back to the previous owner for up to, but no more than, 60 days following closing (with the exception of two units where the borrower resides in one unit and rents the other one).

The property must be maintained as the principal residence of the borrower during the outstanding term of the mortgage loan (unless the loan is assumed by a PHFA approved mortgagor).

PHFA will not purchase loans for residences which are primarily intended to be used as an investment property, as a recreational home or in a trade or business. Any use of a residence in trade or business which qualifies under Section 280A of the Internal Revenue Code of 1986 for a deduction allowable for certain expenses incurred in connection with the business use of a home shall not disqualify a residence from meeting the Principal Residence Requirement unless more than 15 percent of the total area of the residence is reasonably expected to be used.

Subordinate loans

See Combination Loans in CHAPTER 6. See also ADDITIONAL ASSISTANCE PROGRAMS in CHAPTER 4.

Underwriting Ratios

The maximum acceptable debt to income ratios are dependent upon the loan type (FHA, RD, VA, and Conventional). See *LOAN TYPES*

CHAPTER 7 – PHFA DELEGATED UNDERWRITING AUTHORITY

ELIGIBILITY CRITERIA

In order to qualify for Delegated Underwriting Authority (DUA), a lender must achieve and maintain certain performance standards in all areas. A description of the requirements can be found at the end of this chapter. Once this rating has been established for a minimum of six months, the lender may designate an underwriter or underwriters from their shop to obtain PHFA DUA. PHFA will also have to approve this person or persons. Once approved, the underwriters will need to complete a half day training course. Upon completion of the training, each person will be assigned a Delegated Underwriter Number. A separate number will be assigned to each approved delegated underwriter working for XYZ lender. An individual with DUA will have the ability to approve loans for credit and PHFA compliance on behalf of the Agency without having to submit an underwriting package. A web based "Loan Approval Form" located on our Internet Reservation site will need to be completed and transmitted to the Agency prior to submitting the full loan package for purchase. As a result of completing this information in the system, you will receive an approval which must be submitted in the purchase package. Please note: the loan will not be eligible for purchase without this information being completed and submitted to the Agency.

The first 10 loans submitted by each approved delegated underwriter will be considered as test cases and will be reviewed prior to purchase to ensure the credit and compliance documents are adequate. Upon satisfactorily completing these test cases, a lender may continue to utilize their DUA. From that point on, the Agency will review a percentage of every delegated underwriter's loans after purchase. Should it be discovered that any of the required information is missing, the lender will be notified and have 30 days to obtain and submit the necessary documentation. If the documentation cannot be obtained, the lender may be required to re-purchase the loan. In order to continue utilizing your delegated underwriting authority, the lender and underwriter must continue meeting the requirements referenced at the end of this appendix. Each lender will be evaluated on a monthly basis. A copy of the evaluation form that will be used to rate the delegated submissions is available to all lenders upon request.

When a delegated underwriter leaves their current lender, their delegated underwriting number will be disabled. If the delegated underwriter becomes employed with another approved lender, and the new lender wishes to utilize this persons' authority, the delegated underwriter number will be re-activated under the new lender. IF the delegated underwriter becomes employed with a PHFA lender who is not approved for delegated underwriting, they will not automatically be eligible to submit loans this way. Before the underwriter can continue to use their delegated underwriting authority, the lender will have to meet the requirements detailed at the end of this appendix. Once the requirements have been achieved, the delegated underwriter may once again receive delegated underwriting authority.

LOANS THAT CAN BE DELEGATED

Loans that may be selected for delegated underwriting are those that were processed through an Agency approved automated underwriting system and received an "Approve" or an "Accept" rating. Loans that have received a Refer, Ineligible, Out of Scope or Expanded Approval rating or simply have no credit scores must be manually underwritten by an underwriter within your organization. If acceptable, the loan may be submitted to PHFA for pre-approval prior to purchase.

Since some lenders do not have access to or choose not to use an approved automated underwriting system, we will allow loans to borrowers who have median credit scores of 660 or higher to be delegated. The minimum credit score requirement pertains to all potential borrowers on the loan. As a result, if any of the borrowers have a median credit score below 660, a manual underwrite must be performed and if found acceptable, the complete underwriting package is to be submitted to PHFA for pre-approval prior to purchase.

LOANS INELIGIBLE FOR DELEGATED

The following products are ineligible for delegated underwriting; HOMEstead, Access Modification, Access Down Payment and Closing Cost Assistance, and Employer Assisted Housing loans.

WHERE TO BEGIN/GETTING STARTED

After approved as a delegated underwriter and assigned a number, you may begin using the new system. To get started, go to our website at www.phfa.org. Once there, click on "Log-In" under the and then click the "Participating Lender Log-In" selection. On the next screen key in your lender number, your username and your password; then click on "Log-in". The next screen will be the "Lender Menu" and it is here where the "Delegated Underwriting" button will appear. Note, only those who have been approved and assigned a DUA number will have this "Delegated Underwriting" option on their screen.

Once signed into the system, select the "Delegated Underwriting" button to begin. The next screen is titled: "Loans Eligible for Delegated Underwriting by XYZ Lender". From this screen, there are two choices: "Show Loans Not Approved" and "Show Loans Approved but Not Closed".
To locate the loan to be delegated, click on the "Show Loans Not Approved", button. All loans reserved by your organization will appear; just select the loan to be processed through delegated underwriting.

To select the borrower for underwriting, click on the button to the left of their name and then click "Select for Loan Approval" (at the top or bottom of the page). A one page form will appear. The information submitted at the time of reservation will already be completed. At this point, the balance of the information will need to be completed in order for our system to accept the purchase package submission. Since several of the fields contain a drop down box requiring a code to be selected or requiring information you may not be familiar with, we have added a "?" (description box) to provide an explanation of the information or code needed to complete the information accurately. In addition to the "?", a "reference sheet" has been developed to facilitate the selection process. This identifies all of the codes and provides a definition for each. This alternative to the "?" can be found at the end of this chapter. Please feel free to print it and refer to it while completing the approval process.

The second option, "Show Loans Approved but Not Closed" shows all of the loans approved and submitted through the delegated underwriting system. To view the information on a particular loan, or to make certain changes on an approved loan, click on the button in front of the name and click on "Select for Update". From here you will be able to change certain information as explained below. This option should also be used whenever there is a change to the borrower's information such as increase/decrease in loan amount or you need to correct a typo, etc.

NOTE: Once a closing date is entered into the system, you will no longer be able to make any changes to the loan through the delegated system.

Demographic Section

The first section to be completed is the borrower's "Demographics". Please note most of the information was "auto populated" from the reservation, so please review for accuracy. Changes can be made to the borrower's name, age and gender. Due to security purposes and the possibility of having more than one reservation for a borrower, the social security number field will be locked. If a correction to the social security number is needed, please contact our underwriting department at 717.780.3871 to make the correction.

Credit Scores

Reference the borrower's middle FICO score; do not leave the space blank or use anything other than the borrower's 3-digit score. You will only need to input a credit score for the first two borrowers. If there are more than two borrowers, you will not need to reference the credit score of the additional borrowers.

Co-Owners

If the borrower's significant other intends to take title of the property by being on the Deed, Mortgage, and Title Policy, place their name and Social Security number (if available) in the appropriate fields. If they have no intention on being on any documents, do not reference them in any fields.

Ethnicity

You will need to reference the ethnicity of the first two borrowers. We require this information for HMDA purposes. The ethnicity will either be "Non-Hispanic" or "Hispanic".

Race

You will need to select the category that best describes the race the borrower selected on the application.

Head of Household

Select the appropriate household composition. Please note that a traditional married couple with or without children is to be coded "None of the Above".

Property Section

The property address and the new or existing home type will be displayed as it was completed on the reservation screen and must be reviewed for accuracy. Corrections can be made to the street name, city, zip code and the type of property that was selected (new or existing). If a loan was registered in the wrong county, it will be necessary to contact the compliance department at the Agency to have the correction made.

Home Type

A drop down box provides the various property types, i.e. detached, semi-detached, condo, row, etc.; select the appropriate type.

Flood Zone

The flood zone should be entered from the data listed on the LOL Certificate. If the LOL differs from the appraisal, a manual recertification is required.

Financial Section

Like the other areas, some sections are auto populated with the information from the reservation. Review for accuracy and make any necessary changes. All dollar amounts are to be referenced in whole numbers; no cents can be entered.

Purchase Price

Complete cost to purchase home. Includes any/all improvements and land if obtained separately on new construction. For land purchased in past two years, use the actual cost. Use the estimated site value from the appraisal for land owned more than two years or if acquired as a gift at any time.

Market Value

Reflect the appraised value from the appraisal.

Loan Amount

Total amount to be financed as the first mortgage. This amount should also include any fees being financed in the mortgage amount. For example; FHA upfront premium, VA fee, RD Guaranty fee and when utilizing the "Split Premium" options conventionally.

MIP/VA/RD Fee

Show amount of FHA/MIP, VA Funding Fee, RD Guaranty Fee or amount of the upfront Mortgage Insurance being financed. If not being financed, leave blank.

Closing Costs

For RD loans only. Reference the amount of closing costs the borrower is financing in the mortgage amount. Do not include the Guaranty Fee. Do not reference the PHFA Assistance in this section.

Existing Improvements

For existing properties under the Purchase & Improvement program, enter cost of repairs and/or improvements. For new construction, reference the "as is" value of the site improvements (found in the "cost approach" section of the appraisal) for any existing improvements (i.e. septic, well, driveway, etc.).

Land Value

If new construction and the land was owned over two years, use the estimated site value from the appraisal.

Purchase TAC

Actual cost to complete home, including any/all improvements. For land purchased within the last two years, use actual cost. If it was acquired from a relative as a gift within the past two years, use the estimated site value from the appraisal. Do not include land if obtained over two years ago. If the property is existing, use the purchase price for the property and any of the seller's costs being paid by the borrowers, if applicable.

Household Current Income

Reference the projected annual income of all adult members to live in the home. Do not include income from dependent children who are full time undergraduate students.

PHFA Assistance

Amount of assistance will be calculated by the system upon completion of the Needs Assessment Form. The Needs Assessment Form will automatically appear as the last screen to be completed if the borrowers qualify for assistance. If the borrower is not requesting Assistance from PHFA, do not complete the Needs Assessment Form.

LTV

No entry required. The system will calculate this field by dividing the loan amount by whichever is less of the purchase price or appraised value. If you wish to see the LTV ratio before submitting the loan for approval, click on the "Calculate" button at the bottom of the screen. The system will instantly calculate the LTV and display it on the screen.

Gift Amount

Reference the dollar amount of the gift being given. Then choose the source of the gift from the selections provided. If borrower receives downpayment and/or closing cost assistance from a previously approved organization and there is a monthly repayment due and payable in the future, select "subordinate financing" as the gift category. If they are forgiven immediately or over a period of time, select "non-profit organization". Loans receiving gifts, grants or subordinate seconds will automatically receive a condition for proof of receipt of the funds. Be sure the purchase package contains the proof.

Mortgage Insurance Section

To complete this section, select the Mortgage Insurer or Guaranty provider from the list provided. When selecting the MI Company for Conventional loans, be sure to also select the correct "Plan" being utilized (i.e. Level, Standard, Monthly, No Upfront, 97 percent, etc.). Please be sure to read the options carefully. Each insurer has several available. It is essential that you choose the correct plan. If a Conventional loan has an LTV equal to or less than 80 percent select the option "Pool Only". The Commitment Effective Date is the date the insurer issued their certificate or conditional commitment. The field requires a 2-digit month and day and a 4-digit year. The Approval Certificate number is to be the commitment number of the Mortgage Insurer, FHA, VA or RD. When referencing the RD certificate number, drop the zero (-0-) after the state code of "44" and before the county code. The system will only accept 13 digits. If the zero is not dropped, the system will drop the last number which, in turn, will result in an incorrect number. The last piece of data shows the amount of coverage required on a Conventional loan. The system will automatically complete this section based upon the calculated LTV. If you wish to see this percentage before submitting the loan, click on the "Calculate" button at the bottom of the screen. The system will instantly respond and show you the percent of coverage required. Review the Mortgage Insurance Certificate to ensure it reflects the correct premiums and amount of coverage needed.

Miscellaneous Section

All areas in this section must be completed. In order to do so, the following represents what must be inputted and/or selected in each box:

Program Code

Only needed when the borrower is receiving a Section 8 Homeownership Voucher from a Housing Authority. If this is the case, select the payment type of the Voucher. If this does not apply, leave blank.

Automated Underwriting

Select the approved automated underwriting system used for approving this loan. Expanded Approvals, Ineligibles, Refers, and Cautions are not eligible. If the loan is being delegated because all borrowers have a median credit score above 660, leave blank.

Underwriting Ratios

Enter the borrower's front end ratio in the first box and enter the total debt to income ratio in the second box. You must enter three digits in each box (including the decimal point). For example if the ratio is 26.0, you must enter 26.0. Do not drop the third number no matter what it is.

Counselor Code

If either or all of the borrowers have a credit score below 660, counseling is required. If the borrower has already received his or her certificate from a PHFA approved counseling agency, select the Counseling Agency from the list provided. If they have not yet completed the required counseling sessions, leave blank. If counseling is completed prior to purchase, you are to go into the system and complete this information. The system will automatically condition the file for the Counseling certificate if it has not been entered. You will need to include that certificate in the Purchase Package and we will complete this field.

Loan Type

Select the type of loan being underwritten: Conventional, VA, FHA 203(b), FHA 223E, FHA 234C, RD Guaranteed, FHA/VA or FHA 203K.

Combination Loan Type

Select the type of Combination loan that is being used; 80/10/10 or 80/15/5.

Notepad

A 200 character notepad has been provided to enable a lender to add any additional conditions the loan is subject to. For example, if the property has a well, the notepad is the place to condition for a well cert. or any other items that may be required.

Needs Assessment Form

If the loan selected will be utilizing the Keystone Advantage Assistance Loan program, an additional screen titled “Needs Assessment” will appear after the Miscellaneous section.

The form is designed to mimic the paper version that you are familiar with. If the borrower is not requesting Assistance, no additional information is required, scroll down and click the “Loan Approval” button. If however, the borrower is looking to obtain Assistance, the Needs Assessment information must be completed online; do not delegate the loan and then request the assistance via the paper version in the purchase package. When completing the information online, some of the sections will automatically be calculated for you based upon the information you key on. For this reason, you must select the “Calculate” button before you select “Approve Loan”. This way you can be sure that what you thought the borrower should be receiving in assistance is what is being given. The description of the sections are as follows:

Asset Verification

Enter the amounts in whole dollars. If a section does not apply, leave it blank. The system will calculate certain fields in this section.

Total Borrower Assets

Enter the amount of funds in the borrower's (and any other additional adult household members) bank accounts. Include any Earnest or Hand Money that have not cleared the accounts. Include CD's regardless of maturity dates, Profit sharing (if funds can be withdrawn without penalty), amount of any other closing costs not deducted in Line "P" of the Details of Transaction on Page 3 of the application.

Minimum Required Investment from Borrower

Assets necessary for the minimum down payment must be deducted from the total assets to determine the subtotal of assets available for closing costs. Note: For Conventional Loans only. Enter zero (0) for all other loan types.

- For 95 percent Conventional Loans, borrowers must have three percent of the purchase price (borrowers with credit scores greater than or equal to 660, only need $1,000 of their own funds); the balance of the five percent can be a gift.

- For 97 percent loans, borrowers only need $1,000 of their own funds. The balance of the three percent can be a gift.

- For FHA, VA and RD loans; zero (-0-) is to be listed on this line.

Subtotal

This is an automatically calculated field. The system will take the total assets and deduct the Minimum Required Investment.

Asset Allowance

This is an automatically calculated field. The system will deduct the amount of allowable assets the borrower may keep.

Additional Assets Available

This is an automatically calculated field. The system will determine the amount, if applicable; the borrower has in excess of the $5,000 asset limitation. If the amount is less than or equal to zero, it will place a zero on the line. In all cases, we will require verification that the borrower has sufficient funds to cover his or her minimum required investment and closing costs from an acceptable source.

Cash Required for Transaction

Enter the amount in whole dollars. If a section does not apply, leave the field blank.

Total Funds Needed from Borrower at Closing

This is the Total amount required from line “P” on Page 3 of the mortgage application under “Details of Transaction” section. These costs must come from the Good Faith Estimate of Closing Costs issued to the borrower by the lender. This estimate is NOT to include any monthly PITI reserves. Please note: The VA Funding Fee, the RD Guarantee Fee and the FHA Upfront MIP are NOT eligible closing costs because they can be financed in the mortgage.

Gifts and Grants

Enter the amount of any other assistance that is being received that was not included in the details of transaction.

Additional Assets Available

This field is automatically calculated based upon any additional funds available as calculated above.

Total Amount of Assistance Needed

This field will automatically be calculated by the system when the “Calculate” button at the bottom of the screen is pressed. If the system calculates it to be a negative amount, the borrower is not to be given any PHFA Assistance.

Total Amount of Assistance Granted

Based upon the calculation above, the system will show the amount of assistance the borrower is qualified for. If the amount needed ended up as a negative, this line will be blank. If assistance is to be granted, this line will vary between $150 and $1,500 or $3,000; the amount of funds the borrower is eligible to receive, depending on the first mortgage program. In no instance should a borrower receive more than what is approved.

If upon hitting the “Calculate” button it is discovered that the borrowers are not going to receive the amount of funds as originally thought, you may want to double check your figures. The system is only as good as the information provided. If an amount was entered incorrectly, correct it and click the “Calculate” button again. The system will automatically recalculate the assistance based upon the new information entered. Please Note: the “Loan Approval” button will also complete the calculated fields. It is not recommended to use this button first because once the “Loan Approval” button is selected, the information is submitted to PHFA (as long as all information has been entered correctly). Should you happen to hit the “Loan Approval” button first, you can go into the “Show Loans Approved but not Closed” from the Delegated screen and select the borrower you just approved. Simply go to the Needs Assessment form, make the necessary correction and hit calculate again. The system will accept them. Complete the HUD1 and subordinate mortgage forms with the actual amount of Assistance disbursed. When the loan is submitted for purchase, in addition to the first mortgage funds, we will reimburse the lender for the Assistance.

After completing the required information, you are ready to submit the loan information to the Agency. Click on the “Approve Loan” button at the bottom of the screen. As mentioned previously, any fields that are to be calculated by the system will be done so at this time. As long as all of the required fields have been completed, the information is transmitted to our system without delay. If there was any missing or incorrect information based upon the loan type selected, the system will send an error message. The error message will give an indication of what the problem is. When this happens, review the information, make the necessary corrections and click the "Approve Loan" button again. Once the program has accepted the information, the loan is considered "approved" and the system will return to the "Loans Eligible for Delegated Underwriting" screen. You will now see the loan you just completed under the "Show Loans Approved but Not Closed" option. By selecting this option and clicking on the loan just approved, you will be able to view the information that was submitted. Conditions like wood destroying insect certifications, Counseling Certificates, construction completion certification, Assistance and a few others have been pre-programmed into the system based upon the information provided. This, however, does not release you from the responsibility of providing any and all additional documentation required for credit, compliance, and property issues necessary to meet the underwriting requirements for the type of loan it has been approved under, (i.e. Conventional, FHA, VA or RD). If the borrower decides to change the loan amount or if something else changes, you will need to go back into the loan information and correct it before submitting the Loan Set Up sheet and purchase package to the Agency.

All delegated underwritten loans will receive a PHFA approval notification via fax or email. As previously indicated, the Approval Notification along with any conditions must be included in the purchase package. On the Delegated Underwriter Approval Notification, the Delegated Underwriter's name will appear instead of the PHFA Underwriter's initials. This version of the Approval Notification will also contain fewer conditions and include the following statement: "This loan has been approved through the PHFA Delegated Underwriting System". The participating lender will be responsible for ensuring this loan complies with all applicable guidelines established for the respective PHFA program for which it was reserved, as outlined in the Seller's Guide and Master Origination and Sale Agreement. The purchase package must contain all applicable completed, signed and dated credit and compliance documents listed on Form 51. Form 51 and the items referenced on it will still be required to be submitted in the Purchase Submission Package. See specific details in the Purchase Submission section referenced below.

CANCELLATION OF AN APPROVED DELEGATED LOAN

To cancel a loan that was approved through delegated underwriting, fax a copy of the Approval Notification with "CANCEL" written across it along with the reason for the cancellation.

POST-CLOSING – DELIVERY OF PURCHASE SUBMISSION

When submitting a loan for purchase please be sure to indicate that it is a Delegated loan on Page 1 of the purchase checklist, Form 58. By indicating this on Form 58 it will alert the purchase staff that it is a Delegated loan.

On Page 2 of Form 58, please refer to the instructions and warning sections on the top of this page for the items that are required on Delegated loans. The purchase package must contain the Mortgagor's and Seller's Affidavits (Form 3), if either document is missing we will not purchase the loan. The other item that is needed in order to purchase the loan is the underwriting package including Form 51.

The other items that are required regardless if the loan is Delegated or Non Delegated are the Recapture Tax Notice (Form 4), the Servicing Submission package (Page 4 of Form 58) and items 7 through 11 on Page 2 of Form 58, if they apply to the loan. Page 3 of Form 58 does not list any items specific to Delegated Underwriting, these items are required by the Agency to purchase the loan. If these items are missing we will not purchase the loan.

On Delegated loans there is no need to fill out the Needs Assessment Form (Form 56) for the Keystone Advantage Loan. The closing cost information is entered into the system as previously explained in this chapter. Purchase staff will rely on the HUD1, submitted in the Servicing Package section of the Purchase Package, to verify the amount of assistance disbursed at closing. The Purchase staff will make changes in our system, if needed, to the final amount of assistance actually given at closing. The closing cost assistance money that was provided by your institution at closing will be electronically transferred along with the other loan funds when we purchase the loan. The transfer of these funds is the same on Delegated and Non Delegated loans. Please remember if you are processing a loan with any other type of additional assistance, the loan will not be eligible for Delegated underwriting.

TRAINING FOR THE DELEGATED UNDERWRITING SYSTEM

See PARTICIPANT TRAINING in CHAPTER 1.

MISC. CODES FOR DELEGATED UNDERWRITING

LOAN TYPE	PROP. TYPE	NEW/EXIST	RACE
01-CONV.	1-DETACHED	1 / 2	0-UNKNOWN
02-VA	2-SEMI DET.		1-AMER INDIAN
03-FHA 203B	3-2 UNIT PROPERTY (DUPLEX)		2-ASIAN/PACIF.
34-221D2 (3BDRM) 36.008	4-TOWNHOUSE/ROW		3-BLACK
44-221D2 (4BDRM) 42.000	5-CONDO		
05-223E	6-PUD		5-WHITE
06-234C	7-MANUFACTURE/MOBIL		6-OTHER
07-RD & RD BUYDOWN	8-MODULAR		7-PACIFIC ISLAN /NATIVE HAWIA
13-FHA/VA			8-AMER. IND/AL ASKAN/WHITE
14-FHA 203K			9-ASIAN/WHITE
18-FIXED RATE JOINT			10-BLACK/WHT
			11-AMER. IND/ ALASKAN & BLK
			12 OTHER MULTI RACIAL

INSUR. CODE	PLAN CODE	RATIO'S
01- NO INSURANCE	8 – MONTLY (TRIAD & UG)	33/38 CONVENTIONAL/RD LEV.
4-RADIAN	11- 3/2(MGIC, UG, RMIC)	31/43 FHA, RD GUAR
6-GE	12 – 3/2 (TRIAD)	/41 VA
9-MCIC	13 – 3/2 (TRIAD)	40/50 DU/LP/CLUES Approve/Accepts
10-PMI	19 – SINGLE PREMIUM (RMIC, TRIAD & UG)	
11-RMIC	30- RADIAN FREE AFTER FIVE	**HOMEOWNER**
13-AIG/UG (UG)		1-FIRST TIME
15-VA		2-SECOND TIME
16-FHA	33 – PMI & RADIAN'S SPLIT PREMIUM PLAN	**ETHNICITY**
18-RD	34 - UG – SPLIT EDGE PLAN	1--- NOT HISPANIC
19 TRIAD GUARANTY		
22-CMG	35 – PMI & RADIAN'S MORTGAGE PROTECTION FOR ALL MONTHLY PLANS EXCEPT SPLIT PREMIUM	2--- HISPANIC
	36—MGIC'S, RMIC & GE 3 Year MORTGAGE PROTECTION	
	37—MGIC & GE SPLIT PREMIUM PLANS 3 YEAR PROTECTION	

HEAD HOUSEHOLD	RATE LOCK	CCA PAYMENT TYPE ID
1-SINGLE PARENT	1-90 DAYS	DS-CCA DUE ON SALE
02-VET.	2-240 DAYS	
03-SINGLE PARENT VET		COMBINATION LOANS
04-NONE OF THE ABOVE		**ASSOCIATION TYPE**
05-SINGLE –NON-ELDERLY		01 – 80/10/10
06-ELDERLY (62)		02 – 80/15/5
07-DISABLED BORROWER		
08-DISABLED FAMILY MEMBER		
09-DISABLED VET.		

LENDER DELEGATED UNDERWRITING ELIGIBILITY CRITERIA

Process	Item	Criteria
Originations	Pre-closing Approval Submissions (underwriting/pre-compliance)	At least 80 percent of files submitted for the pre-closing (underwriting/pre-compliance) approval must be approved upon initial PHFA review; i.e., the file was submitted with all information and documentation necessary for an approval.
Post-Closing	Timeliness of Purchase Files	At least 80 percent must be delivered purchasable and on time.
Post-Closing	Post-Purchase Conditions	At least 80 percent of the total number of loans originated over previous 12 months must be cleared of all conditions, and no loans can have conditions with expired deadlines. Includes both purchasing and final document conditions on the Deficient Loan Tracking Report. Extensions are granted, when applicable, upon request.
Loan Set-Up/Servicing	Loan Set Up Sheet	The Loan Setup information (formerly Form 26) must be submitted online within 4 business days from closing on at least 80 percent of files. This is necessary to facilitate a timely set up in the Agency's servicing system.
Loan Set-Up/Servicing	FHA Endorsement	At least 80 percent of FHA loans must be endorsed within 60 calendar days of closing.
Originations	Quality Control	Once a lender achieves delegated underwriting status; 10 percent of their files will be fully reviewed post-purchase to ensure underwriting and compliance guidelines are adhered to per PHFA's Sellers' Guide and Master Origination and Sales Agreement. A delegated underwriter must maintain an average rating of at least a 95 percent (i.e., no missing or incomplete information or documents).

The following items will be monitored independently as they occur: reservation cancellations, misdirected payments, delinquent recorded final documents (except when cause is the courthouse), and delinquency rates. Patterns that present concern will be discussed with the lender and handled as appropriate.

New lenders may request to have delegated authority once they have been in the program for 6 months from their date of reservation authority, at which time their performance will be evaluated using the above criteria.

Delegated underwriting authority will be suspended for any lender who does not utilize the system within a six-month period.

CHAPTER 8 - PROPERTY GUIDELINES

The Agency's 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. While home inspections and warranties are not required, PHFA strongly encourages them.

Eligible properties must be modest in size, style and design and in compliance with all applicable 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.

APPRAISAL REPORT

Also see Appendix I. Appraisal Review Sheet.

All Credit/Pre-Compliance (underwriting package) submissions to PHFA must be accompanied by a copy of the "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 its various property requirements.

The date of the appraisal cannot exceed 120 days from the date the Note is signed. A recertification is required after 120 days, and a new appraisal is required after 180 days. (For new construction, the respective timeframes are 180 and 240 days).

The appraised value of the property must 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.

FHA appraisals must be accompanied by a "Conditional Commitment/Direct Endorsement Statement of Appraised Value" (HUD 92800.5B). VA appraisals must be accompanied by a "Certificate of Reasonable Value" (VA 26-1843) or the Lender's Notice of Value.

For mortgage loans submitted under the HUD Property Disposition Program Set-Asides, the Agency requires the URAR, the Conditional Commitment and the photographs if available.

All existing property appraisals must be accompanied by clear photographs of the front and rear view of the subject property, and the street scene including the subject property. Photographs of the comparables used must also be provided. (Excluding VA loans and HUD Property Disposition Program Set-Aside Loans if photos are not available.)

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

The 1004 appraisal is required on all properties. The 2055, revised 3/05, is not acceptable. The appraisal should be complete with photos, comparables, addendums, appropriate FHA, VA or RD attachments, Statements of Limiting Condition, etc.

APPRAISER STANDARDS

The lender must be able to furnish, upon request from the Agency, evidence that any appraiser they are doing business with has adequate experience and expertise or has been approved by FHA or VA. This generally means that the appraiser:

- Is a real estate appraiser licensed and in good standing with the Commonwealth of Pennsylvania as a General Appraiser or Residential Appraiser and not previously disqualified by the Agency,
- Has successfully completed a national recognized basic appraisal course and has at least two years full-time real estate appraisal experience,
- Has demonstrated a high level of integrity, professional ethics and technical ability,
- Is approved by FHA or VA (for Conventional loans, the FHA or VA status is not required if the above criteria are met).

PROPERTY GUIDELINES IN ALPHABETICAL ORDER BY TOPIC

60-AMP Electrical Service

The appraiser is to state that this is common to the area or the service must be upgraded to 100 AMPS. If common, at least one comparable must have service less than 100 AMPS. Any visible knob and tube wiring must be replaced. See details in that section below.

Acreage

Properties cannot exceed four acres unless one or more of the following conditions are present:

- current zoning requires properties in excess of four acres
- subdivision of the larger lot is not feasible due to topography
- properties in the immediate area have equivalent acreage

Additional exceptions will be considered upon request. The appraiser should indicate the reason for the additional acreage. For example, stating that this acreage is common to the area and provide a copy of the county tax map confirming this. Properties in excess of 10 acres are not eligible. In the event the appraisal states 10+/- acres, documentation must be provided to determine that the property does not even minimally exceed the 10 acre limit.

If an exception is granted for a reason other than one of the reasons listed above, the appraiser is to assign a value to both the four acres of land appurtenant to the house and the entire tract. These values are to be placed on the “Estimated Site Value” line under the “Cost Approach” section on the appraisal and are to clearly state what each value represents. Next, the appraiser is to state that only the assigned value of the four acres was considered in the estimate of the market value for the property. To determine the purchase price eligibility of the property, the difference between the value assigned to the four acres and the entire tract are to be added to the purchase price the borrower paid for the house and four acres.

Address

The town/city name must be included in the property address. In some areas, it is common practice to include the township name as part of the property address. This is acceptable, but on the legal documents, it must be listed in parentheses behind the zip. It cannot be listed in lieu of the town/city name (except in those few cases where the township name is actually the official name of the town/city).

Asbestos

If the asbestos is deteriorating, provide proof it has been contained or removed and provide a hold-harmless letter from the borrower. Exterior asbestos shingles are acceptable.

Basement Kitchen/Bathroom

If the only kitchen is located in the basement, there must be an outside entry or the loan cannot be done as a conventional product. If the only bathroom is in the basement the loan cannot be done as a conventional product. If either of these conditions exists, the loan must be under the FHA or VA program.

Certifications

The following certifications will be required as noted below or when it is a condition of the Appraisal Report, Home Inspection Report or when deemed necessary from reviewing the Appraisal Report and pictures of the subject property. Deficiencies should be corrected prior to closing. Certifications must be provided from a qualified contractor on letterhead or using a standard industry form. These certifications may include:

Central Air Conditioning

Confirms that the air conditioning system servicing the premises is in good working condition, operational, functional and adequate.

Electrical/Heating/Plumbing

This is required if the property is determined to be vacant or if the systems were not on at the time of inspection. An electrical certification is required for knob and tube wiring systems. See details listed in that section below. Verifies that the systems servicing the premises are in good working condition, operational, functioning and adequate for the premises.

Roofing

Verifies that the roof on the home is sealed and currently free of any water leakage and states the estimated remaining life of the roof.

Structural

Provides assurance from a structural engineer or qualified contractor that the home is structurally sound. May be required due to termite damage, settlement issues, water issues, etc.

Septic

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 because there is no other alternative may be eligible for PHFA financing. However, certain conditions must be met. These conditions are addressed in 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. Do not automatically assume it is unacceptable.

Well

Potability Test – All private water supplies (wells, springs, etc.) must be tested and a recent report, no older than 120 days, must be provided at loan closing from a certified EPA/DEP 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.

Wood-Destroying Insects

The lender is to provide a copy of a clear wood-destroying insect certification (dated within 120 days of closing) in the Purchase Submission for all existing homes. If evidence of infestation was observed, an inspection graph must be provided. If the infestation is active, or prior infestation is referenced and treatment is recommended, proper control measures must have been taken. If structural damage resulted from the infestation, the lender 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.

Coal Furnaces

Verify if the furnace is an auto or manual fed system. If manual fed there must be a back-up heating system that provides heat to all living spaces. The appraiser is to comment if these systems are accepted and common to the area and what affect, if any, it will have on marketability.

Condos and PUD Units

For Conventional loans with Loan-to-Value ratios above 80 percent, see Appendix G. For Conventional loans with LTV ratios at or below 80 percent, the Agency only requires proof of the development's insurance. For FHA, VA or RD loans, PHFA will require evidence that the condominium or PUD project is approved by the particular agency who will be the insurer/guarantor.

The maximum LTV ratio on a condominium unit will be limited to the maximum LTV 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.

The Agency reserves the right to reject any mortgage loan on a condominium unit if it is determined, by their discretion, that the project, it's developer, it's owner's association, condominium documents, or any combination of these constitutes an excessive underwriting risk.

Cosmetic Repairs

Cosmetic repairs are defined as those not affecting the safety, structural integrity, mechanical systems or habitability of the improvements. These need not be repaired as long as the appraiser states that they do not affect the marketability or value of the property, the necessary adjustments have been made to the comparables and the appraisal is not made subject to repairs. Examples of cosmetic repairs include: worn floor coverings, minor cracks in windows, minor cracks and small holes in interior walls, etc.

Dampness and/or 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 to the structural integrity of the improvements.

Dirt Basements

Dirt basements must be cemented unless the appraiser states that they are common to the area and will have no effect on marketability. The mechanical systems must be on concrete slabs.

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 Performance Guidelines
- 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.

Escrows for Incomplete Weather-Related items

Except for under the Purchase & Improvement Program (see chapter 3) and the FHA 203(k) program, incomplete items at the time of closing may not include any item that affects the livability or safety 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 only on a case by case basis.

If there are items that are incomplete due to weather related issues, please complete Form 65 (or a similar form if the lender or closing agent will be holding the escrow funds). The items that appear on this form should be estimates for items such as the cost of a deck, patio, walks, steps, repairs, painting, final grading and 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. If the lender is holding the funds, the lender is also 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 is the only item that states the actual cost.

A copy of the escrow agreement must 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 Purchasing Department.

An escrow agreement is NOT required if:

- The LTV ratio is 80 percent or below and the cost to complete the items is three percent (3%) or less of the total acquisition cost or the appraised value, whichever is less.

OR

- The LTV ratio is above 80 percent and the cost to complete the items is one percent (1%) or less of the total acquisition cost or the appraised value, whichever is less.

Gas Wells (as heating source)

Is the well on the subject property? If not, provide a recorded maintenance agreement and a right-of-way to the well. A back-up heating system is required and must be identified by the appraiser. Disclose the number of properties serviced by the well. Is the amount of gas produced consistent throughout the year or does it fluctuate? Provide a history of the well confirming that it is sufficient to service the number of homes stated.

Hazardous Materials

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, hazardous wastes, toxic substances, polychlorinated biphenyls (PCBs), urea formaldehyde insulation, radon, gas, any indication that the property or any nearby site is or has been used as a landfill, or signs of any activity related to or used for the storage of oil, asbestos, PCBs, other hazardous wastes or toxic substances.

If any of these items are observed by the appraiser, he/she must:

- Note the hazardous condition in the appraisal.
- Comment on any influence the hazard has on the property's value and marketability (if it is measurable through an analysis of comparable market data as of the effective date of the appraisal).
- Make appropriate adjustments in the overall analysis of the property's value.

Clean up or containment will be required to ensure the property is safe for habitation, and the borrowers will be required to execute a notarized statement that they are aware of the presence of hazardous materials and that they hold the lender, PHFA, and PHIF harmless of any liability. PHFA will deny financing for a loan on any property that is deemed, in the Agency's opinion, to be unsafe.

Investment Properties

Investment properties are not permitted under any of PHFA's Homeownership Programs. The property must be occupied as a principal residence of the borrower.

Knob and Tube Wiring

All visible knob and tube wiring must be replaced, and a qualified electrician must provide a statement that the system is in satisfactory condition. Also, the borrower(s) must sign a statement acknowledging that they understand: (1) they cannot insulate interior wall cavities or floor/ceiling joist spaces that contain knob and tube wiring as it could lead to fire; (2) knob and tube wiring is not grounded but grounding can be accomplished by replacing existing older receptacles connected to knob and tube wiring with GFI receptacles, or protecting the circuit with a GFI breaker.

Leasehold

The Leasehold requirements are listed below:

- Not permitted with Balloon Mortgages,
- Must be in an area where leaseholds are acceptable in the marketplace,
- Mortgage must cover the property improvements and the mortgagor's leasehold interest in the property,
- The leasehold estate and the improvements must constitute real property, be subject to the mortgage lien and be insured by a lender's title policy,
- The term of the estate should run for at least five years beyond the maturity date of the mortgage,
- The leasehold estate must be assignable or transferable,
- The leasehold must contain no default provisions that could give rise to forfeiture or termination of the lease except for non-payment of the lease rents and should guarantee the investor the right to receive notice of any default by the borrower and to cure the default,
- The lease provides provisions to protect the mortgagee's interests in the event of a property condemnation,
- The borrower must not be in default under any other provision of the lease, nor may such a default have been claimed by the lessor,
- The lease must be valid, in good standing and in full force and effect,
- The lease must provide that the borrower will pay taxes, insurance and any owner's association dues related to the land in addition to those he or she is paying on the improvements,
- The borrower must retain voting rights in any owner's association,
- The lease is not required to include an option for the borrower to purchase the fee interest in the land, but if included the purchase must be:
    - At the borrower's sole option and there can be no time limit within which the option must be exercised. Both the lease and the option to purchase must be assignable.
    - The purchase price must be the lower of the current appraised value of the land or the amount that results when a percentage of the total original appraised value that represented the land alone is applied to the current appraised value of the land and improvements.
- The lease must provide that the leasehold can be transferred, mortgaged and sublet an unlimited number of times either without restriction or on a payment of a reasonable fee and delivery of reasonable documentation to the lessor,
- The lessor may not require a credit review or impose other qualifying criteria on any transferee, mortgagee or sub lessee,
- The leasehold estate and the mortgage must not be impaired by any merger of title between the lessor and lessee or by any default of a sub-lessor.

Manufactured Housing

The Agency will consider loans for properties which include a manufactured or factory-built home providing that it has been built under the Federal Manufactured Home Construction and Safety Standards that were established June 15, 1976. For details and guidance from the Pennsylvania Department of Community and Economic Development (DCED), please see www.newpa.com/mh.

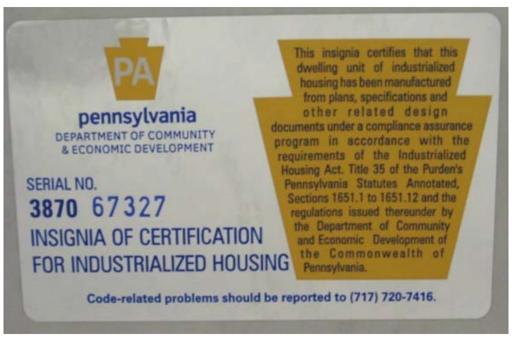
The purchase package must contain evidence that the title was retired for loans on properties with manufactured homes (new and existing) by providing a completed and endorsed PennDOT form MV-16.

For government insured/guaranteed loans (FHA, RD, VA), the lender is to follow the respective federal agency's guidelines for manufactured housing.

PHFA's guidelines for conventional loans are as follows:

- Home must be defined, deeded and taxed as fee simple real estate.
- The purchase of the land and the home must represent a single real estate transaction under applicable state law.
- The financing must be evidenced by a mortgage recorded in the land records. A combination of a chattel and real estate mortgage is not acceptable.
- Wheels, axles, and hitches must be removed when the home is placed on its permanent site.
- New manufactured homes must be permanently affixed to a foundation and in conformance with the Pennsylvania Manufactured Housing Improvement Act 158 of 2004.
- Existing manufactured homes must be permanently affixed to one of the foundation requirements set forth below. See www.newpa.com/mh for additional state guidance.
    - A foundation that has footings located below the frost line. If piers are used, they must be placed where the unit manufacturer recommends. 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.
    - A "floating slab" foundation may be considered if they meet the minimum standards as described in Appendix S and there are no local or state codes that are more stringent. Specifications for the foundations must be provided to the lender by the contractor. It is the lender's responsibility to make sure they meet the appropriate specifications.
    - If the local code mandates that existing manufactured homes must be reinstalled in conformance with the state code, then it must meet the requirement listed above for new manufactured homes.
- Each home must have sufficient square footage and room sizes to be acceptable to typical purchasers in the market area. Except for single-section manufactured units (permitted only on FHA loans), the Agency does not have minimum requirements for width, size or roof pitch.
- 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 may be included in the mortgage.

- The appraiser must address both the marketability and comparability of manufactured homes. 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 home, 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 homes 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 homes, comparing multi-sectional homes with other multi-sectional homes. If comparable sales of similar homes are not available, the appraiser may use site-built housing as comparables as long as it is explained 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 homes.
- Industrialized modular housing must meet all applicable building codes and have a Department of Community and Economic Development (DCED) insignia (shown below, not to size), in addition to the criteria above.



Please note that private mortgage insurance companies may have standards that are more restrictive than those listed above.

If the property is a single-section manufactured home that will be insured by FHA because it meets all the FHA property requirements as well as the above bullet points, the Agency will consider it.

Mineral Rights

If the property is subject to existing mineral, oil, gas or timber leases, or the seller is choosing to retain those rights after the sale, and it does not adversely affect the property, it is acceptable. However, the borrower must provide a written statement indicating he/she is aware the mineral rights (i.e., future income streams and use of the property for obtaining the respective resources) are being retained by the seller or another party.

Minimum Square Footage

There is no specific minimum square footage requirement; however, the property must be supported by three comparables in the appraisal report with similar square footage. Also, the home must be adequate in both size and layout to provide sufficient living space and privacy for the household.

Mold

If the appraiser cites the presence of mold, provide a hold-harmless letter from the borrower. If the appraiser is calling for an evaluation for the possible presence of mold, a certification from a qualified professional is required.

Multiple Lots

Land appurtenant to a residence shall be considered as part of the residence only if such land reasonably maintains the basic livability of the residence and does not provide a source of income to the mortgagor. If the property consists of more than one lot, it must be contiguous and on the same deed, and removing the lot(s) from the deed would either have a negative impact on the home's marketability and/or would not be allowed by the municipality.

New Construction

PHFA funds are not available for interim construction financing but can be used for the permanent end loan. If the lender provides the interim financing, they may charge their standard reasonable and customary rates and fees during the construction period.

For construction/permanent loan transactions (one closing), the Addendum to Note/Construction Loan (Form 19) is to be used for changing the construction loan rate to the permanent loan rate which will take effect when the loan converts to permanent financing upon construction completion. This form must accompany the original Note at the time of loan purchase. The first payment date on the Note can be one of the following: 1) the first day of the second month following loan conversion or 2) if it converts within the first 5 calendar days of the month it could be the first of the month following the conversion. (This applies to "short term interest" or "interest credit" options.) The conversion date is the date the loan converts to the permanent terms at the time the home is complete and ready to be occupied (the occupancy certificate must have been obtained). If the first payment date and maturity date changed from what was listed on the Note and Mortgage (due to a delay in the construction, or when construction is completed ahead of schedule), a Mortgage Modification Agreement (Form 40) is needed to amend these dates. See Chapter 10 for further details.

Loan set up on construction/permanent loans should be completed at the time of conversion to permanent financing, not after the initial closing prior to the start of construction. See Chapter 10 for details.

For construction/permanent loans the Mortgagor's Reaffirmation at Loan Closing (Form 3) must be completed at the time the loan converts to permanent financing.

If there will be two closings, the PHFA end loan must be replacing a temporary construction loan with a maturity date of less than two years. Form 19 is not necessary in this case.

PHFA financing cannot serve to refinance a permanent loan.

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:

- not permitting a borrower who is not a general contractor by profession to act as his/her own general contractor;
- filing stipulations against liens;
- obtaining construction contracts for completed homes;
- executing the required documents;
- collecting fees;
- charging construction rates;
- working with reputable and properly licensed builders;
- the use of bonding inspections.

When reviewing mortgage loans for homes to be constructed, the lender must ensure 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. 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.

PHFA will accept FHA required warranties on new construction and will require a clear final inspection for an RD or Conventional mortgage loan.

When submitting mortgage loans for new construction the plans and specifications must be included in the Credit/ Pre-Compliance (Underwriting Package) Submission if the borrower has contracted with a builder to erect a home on his/her 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 are not 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.

Outdoor (wood) Furnaces

The property must have a back-up heating system that provides heat to all living areas. The appraiser is to comment if these systems are accepted and common to the area and what affect, if any, it will have on value and marketability. Verification it is acceptable in the community and that there is no ordinance against their use is required.

Private Roads

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 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.

Private Sewage Disposal

The appraiser must clearly identify the exact type and location of the private sewer system servicing the property. "On site" is not acceptable. Shared septic systems are not permitted. If public sewer is available, the subject property must be connected. See 'Certifications' section above for when a Septic Certification would be required.

Cesspools

The appraiser is to state if they are acceptable and common to the area. A qualified inspector must certify that the system is working properly. The appraiser should use comparables with cesspools or make appropriate adjustments.

Holding Tanks

How often must the tank be emptied? This cost must be reflected in the borrower's PITI ratios. Are holding tanks acceptable to the township? Provide a statement as to why the property is using a holding tank and ascertain if a regular system may be installed. The appraiser is to use comparables that use holding tanks or make the appropriate adjustments

Wildcat Sewer Systems

The appraiser must state if it is common to the area and what effect it may have on value and marketability. The SEO or township official must provide a statement stating that they are aware of this type of system and due to specific reasons (such as topography) it is acceptable and no changes are required. The appraiser is to provide at least one comparable with this type of sewage system (PHIF requires two). The borrowers are to provide a hold-harmless letter. *See Appendix W for more information.*

Private Water Supply

The appraiser must clearly identify the exact type and location of the private water system servicing the property. "Onsite" is not acceptable. If public water is available, the subject property must be connected. *See Well under Certifications for more information.*

Cisterns

The appraiser must state if cisterns are common to the area and if they impact marketability. Does it provide an adequate water supply? The comparables should have cisterns but if they don't, appropriate adjustments should be made. Potability test is required if the water is collected at the subject property and then run through a filtration system. If the water is supplied from a public utility that pumps the water into the storage tank, no potability test is needed.

Community Water Systems

Under state and federal law, the system must be DEP regulated if it serves at least 15 connections and/or 25 residents; for more information, visit DEP's Web site at www.depweb.state.pa.us, keyword: "Drinking Water" or contact PHFA.

Shared Wells

No more than two residences may share a well unless it is DEP approved. Please provide the percentage of cost for the maintenance of the shared well that the borrower will be responsible for – this should not exceed 50 percent. The deed must verify the easement and that it will pass on to the buyer's heirs, assigns, etc. A flow and potability test must be performed. Provide a history of the well- is it subject to dry spells? How many properties are serviced by the well? Is the well on the subject property? If not, provide proof of ingress, egress and regress to maintain the well.

Springs

Flow and potability tests are required. The following questions must be addressed: Does flow fluctuate seasonally? Is there a storage tank and pump? Is the spring on the subject property? Is it the only source of water? The appraiser should be able to answer if there is a recorded easement and if it is the property's only source of water. If the spring is shared and is not located on the subject property, we will require a maintenance agreement as well as a recorded easement and right-of-way (must pass on to heirs, assigns, etc.). No more than two properties may share a spring.

Wells

The well must be located on the exterior of the property. There must be at least 100 feet between the well and the septic drain field/absorption bed. If there is less than 100 feet on an existing property, it may be acceptable if the municipal code official provides a statement that it is acceptable due to being grandfathered. See Wells under 'Certifications' section above for additional information.

Purchase Price Limits

See Chapter 3 for information on program-specific purchase price limits and how to ensure compliance with any applicable limit.

Remaining 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 RD loans under the "Comments on Cost Approach" section on the reverse side of the appraisal. If the appraiser states the remaining economic life, it must be at least the term of the loan (30 years).

Sweat Equity

The Agency will consider sweat equity subject to the following:

- The contributory value of the labor the borrower will be providing must be documented by the contractor.
- The construction contract must attribute a specific dollar amount for any labor provided by the borrower.
- Provide proof from suppliers for the cost of materials and source of funds for purchase(s).
- Sweat equity may NOT be used to fund any part of the minimum required downpayment.
- The entire credit for sweat equity must be applied to closing costs and/or reducing the LTV ratio. The borrower is not permitted to receive any cash back.
- Sweat equity is limited to five percent (5%) of the purchase price.
- Labor provided by the borrower is limited to painting/staining, final grading and seeding/landscaping.

The borrower is credited for his or her labor at closing, thereby reducing the cash required for closing costs and/or increasing the downpayment to reduce the LTV ratio.

Two-Unit Dwellings

Two-unit properties, in addition to meeting all applicable federal agency (FHA or VA only; two unit financing not available with RD loans) or mortgage insurance company guidelines, must meet the following Agency requirements:

- One unit must become the borrower's principal residence within 60 days of closing.
- If rental income is being used for qualification purposes and there is no current signed lease agreement, the Estimated Market Rent and Gross Rent Multiplier section on Page 2 of the Appraisal must be completed by the appraiser.
- The borrower must sign and date the last page of the PHFA "Two-Unit Information Guide" (Appendix C).

- The following additional guidelines apply to two unit properties being financed under the Keystone Home Loan program:
  - The property must be at least five years old.
  - Rental income from the second unit need not be included for income limit purposes even if it is used for qualification purposes.
  - The purchase price may exceed the applicable published purchase price limit by 10 percent, not to exceed $417,000.

Underground Fuel/Gas Tanks

If the tanks are for residential heating purposes then they are acceptable. Gasoline tanks must be removed and the soil tested for contamination.

Unheated Living Spaces

All living areas must have a heat source. The minimum requirement is the installation of floor/wall registers. Space heaters must be vented and properly operating.

Vacant Property

For all loans, the appraiser must indicate that all mechanical systems are on and operational or clear plumbing, electrical and heating certificates must be provided.

Zoning

The property must conform to current zoning regulations, since non-conforming properties may not be able to be rebuilt if partially or completely destroyed.

CHAPTER 9 – LOAN CLOSING

GENERAL INFORMATION

Lenders should follow the instructions in this chapter for closing loans that will be sold to PHFA. This chapter outlines information regarding the completion of the various required documents, as well as procedure to be followed.

A summary of PHFA's Closing Instructions are available on Form 53. Lenders are encouraged to provide the Closing Agent with a copy of that form.

It is also advisable for the lender's closing staff and the closing agent to review Form 58, the Purchase Submission Checklist, as this contains the documents that are required in order for PHFA to purchase the loan. More details about selling the loan to PHFA are contained in Chapter 10.

The lender should not close the loan without written approval from PHFA, which is provided upon a satisfactory review of the underwriting package. The conditions noted on the PHFA approval should generally be obtained prior to or at closing, but are not required to be provided to PHFA until the purchase package is submitted.

The first mortgage is funded by the lender and closed in its name and then sold to PHFA by the expiration of the rate lock period. Extensions to the rate lock are available using Form 45. See 'Lock Policy' in Chapter 2 for details on extensions as well as late fees for files not delivered on time.

The Keystone Advantage Assistance Loan, if applicable, is funded at closing by the lender but closes in PHFA's name. PHFA then includes the assistance amount with the loan purchase proceeds. Subordinate loans for the following PHFA assistance programs are funded by PHFA prior to closing and close in PHFA's name: HOMEstead, Access Home Modification and Access Assistance Loan programs. More details follow in this chapter regarding subordinate loans, as well as in Chapter 4.

It is the lender's responsibility to make sure that all pertinent closing, shipping and final document personnel have been trained to process PHFA loans, as well as the closing agent, to ensure all closing and post closing activities and submissions conform to Agency guidelines. If additional training is needed please contact the Homeownership Programs Division at 717.780.3871. Also, the list of currently scheduled webinars is available at www.phfa.org.

FEES

An Administration Fee no greater than $550 may be charged to cover the lender's overhead expenses. No additional overhead fees, such as doc prep, underwriting, etc., may be charged. The normal and customary fees for expense items may be charged: credit report, appraisal, etc.

PHFA carefully reviews each HUD1 statement, and the lender will be required to refund to the borrower any prohibited or excessive fees that were charged.

No Cash Back

Cash back to the borrower at closing is limited to $100 in excess of reimbursement for POC items. Any additional funds must be reimbursed to the lender, and any PHFA subordinate closing cost/downpayment assistance loan must be reduced accordingly (or the first mortgage when there is no PHFA second).

Title Insurance

See Chapter 12, Insurance Requirements for full details on PHFA's requirements. Please note that the Short Form Residential Policy is preferred. Also, the actual policy is needed for loan purchase by PHFA, not just the Commitment or Binder.

Mortgage Instrument(s) and Assignment

The town/city name must be included in the property address. In some areas, it is common practice to include the township name as part of the property address. This is acceptable, but on the legal documents, it must be listed in parentheses behind the zip. It cannot be listed in lieu of the town/city name (except in those few cases where the township name is actually the official name of the town/city).

Mortgage Instrument

The applicable standard mortgage instrument is to be utilized for the first mortgage. The legal description must be included, as well as any applicable riders (Condo, PUD, etc.).

Mortgage Assignment

The first mortgage closes in the lender's name and then is immediately assigned to PHFA using Form 20. The Assignment cannot be dated prior to the mortgage; it should have the same date as the mortgage.

Subordinate Mortgage(s)

The following documents are used for the subordinate mortgage when PHFA is providing assistance:

- Keystone Advantage Assistance Loan: Form 55ADV
- HOMEstead Loan, Access Home Modification Loan and Access Downpayment and Closing Cost Assistance Loan: Form 55

The PHFA mortgage assignment is not required for PHFA subordinate loans because they close in PHFA's name.

The PHFA subordinate mortgage must be recorded in second lien position. Therefore, in addition to the PHFA subordinate loan documentation requirements, the lender must also provide copies of any additional subordinate mortgages utilized in the transaction (with recording information included).

Certified Copies

Copies of the first mortgage, assignment and subordinate mortgage(s) if applicable, including any subordinate mortgage(s) for other local/county PHFA-approved assistance programs, that were signed at loan closing must be certified as true and correct copies of the originals that were sent for recording.

NOTE

First Payment Date

The First Payment Date on the Note can be one of the following:

- The first day of the second month following loan closing, funding or construction conversion.
- If the loan closes within the first five calendar days of the month, it could be the first of the month following loan closing. (This applies to "short term interest" or "interest credit" options.)

Endorsement

All First Mortgage Notes submitted for purchase must have the following Legible Endorsement: "Pay without recourse to the Pennsylvania Housing Finance Agency". The endorsement must be signed by an authorized officer of the lender. The lender's name should appear above signature of officer. The officer's name and title are to appear with the signature. Use PHFA Form 29 to update the list of authorized officers/signers.

If applicable, provide a legible endorsement from a PHFA-authorized affiliated entity to the participating lender submitting the loan for purchase. "Pay without recourse to (name of PHFA participating lender submitting loan package)". It must also be signed by an authorized officer of the affiliated entity.

Accuracy

Please double check the following items for accuracy on the Note:

- The loan amount and P & I payment;
- The Interest Rate is that which was reserved with PHFA and listed on the PHFA Approval Notification;
- The Maturity Date is one month preceding the 1st payment date plus 30 years;
- Late Charges: (15 days after due date) Four percent (4%) FHA, VA and RHS Guaranteed; Five percent (5%) Conventional.

Subordinate Loans

The following document is used for the subordinate note for the PHFA Keystone Advantage Assistance Loan: Form 54ADV

The following documents are used for the subordinate note and TIL statement when PHFA is providing assistance:

- Access Home Modification Loan and Access Downpayment and Closing Cost Assistance Loan: Form 54
- HOMEstead Loan: Form 54a

CONSISTENCY OF BORROWER NAMES

In cases where there is a borrower and a co-borrower the mortgagors' names must be the same on the Title Policy, the Deed, the Mortgage, the Note, the Assignment of Mortgage, the Mortgage insurance certification, FHA mortgage insurance certification, VA loan guaranty certificate, and RD loan note guaranty. Use a name affidavit to address any inconsistencies.

NON-LIABLE CO-OCCUPANTS

A non-liable co-occupant may take title to the property. Their name must be on the Deed and mortgage. He/she will also appear on the Title Insurance policy. They do not sign the note. Please be sure to provide a processor's certification in the underwriting package with the name and social security number of the non-liable co-occupant. It must also be listed on Form 58 which is submitted with purchase package.

Please note that the non-liable co-occupant's (and any adult occupant who will reside in the home within 12 months from closing regardless of whether they will be an owner) income must have been disclosed to PHFA during the underwriting process IF the program has a PHFA income limit (Keystone Home Loan or HOMEstead).

POWER OF ATTORNEY

PHFA will allow a Power of Attorney for the borrower only in rare circumstances such as when the borrower is hospitalized or on active military duty overseas. Lenders should seek PHFA approval prior to closing. A Power of Attorney for the Seller is acceptable. In either case, the proper documentation must be obtained and provided to PHFA in the purchase package.

PHFA BORROWER FORMS

During closing, the following forms must be executed and notarized, if applicable as noted below.

- Recapture Tax Form (Form 4) (*Keystone Home Loan program*)
- Re-Affirmation of Mortgagor's Affidavit (Page 4 of Form 3) (*Keystone Home Loan program*)
- Borrowers to sign respective name affidavits, if necessary
- Automatic Withdrawal Form (Form 67) (optional).

Homeowner's Insurance Policy

The homeowner's insurance policy must be pre-paid for a full 12 months. The Homeowner's, Flood and/or Mine Subsidence (if applicable) must carry the following Mortgagee clause:

> Pennsylvania Housing Finance Agency, It's Successors and/or Assigns
> 211 North Front Street, P.O. Box 15057, Harrisburg, PA 17105-5057

If the clause is missing or incorrect, please request an addendum to make the necessary corrections. See Chapter 12, Insurance Requirements, for more details related to Homeowner's and other required insurance.

Mortgage Insurance Premiums

When processing the Mortgage Insurance premiums, please follow the procedures listed below. There are four types of remittances. See Chapter 12, Insurance Requirements, for more details related to Mortgage Insurance.

- Monthly – Forward two months of premiums to the MI Company. A copy of the check must be included in the purchase package. *Refer to Page 4 of Form 58.*
- For the Zero Up-Front Monthly Program (deferred monthly), collect and forward one month premium to the Private Mortgage Insurer.
- For PHIF (PA Housing Insurance Fund) insured loans, no monthly premiums need to be collected at closing.
- FHA MIP Premium – Do not remit any monthly premiums to FHA. Please continue to forward the UPFRONT Premiums to FHA.

Taxes

All taxes that are due and payable must be paid at loan closing. Also, extra funds should be collected to account for any interim assessments.

A Tax Certification is required to verify taxes were paid for School, County and City/Township or Borough as applicable. PHFA Form 27 may be used in place of an actual tax certification form, but it must be fully completed with all taxing authorities, tax amounts and discount dates listed and also signed by the lender. Taxes must be verified and receipts or certifications of the last items paid should be attached to the form.

If the lender has its own form that includes this information, it may be used and attached to PHFA Form 27, as long as all information requested by the PHFA form is provided. For example, if the tax collector phone number is missing from the lender's form, list it on Form 27.

Please use the last month of the discount period for the disbursement due date on all real estate taxes. The disbursement month must remain consistent from year to year or it will affect the aggregate analysis. This information should be available at settlement to comply with RESPA Aggregate Analysis procedures.

Please advise the borrowers that if they receive tax bills from their tax collector, they should forward them to the Agency for payment in sufficient time to take advantage of the discount. The Agency will not be responsible for penalties due to the late submission of bills. These should be sent to PHFA, Accounting & Loan Servicing Division/Escrow Department, 211 North Front Street, P.O. Box 15057, Harrisburg, PA 17105-5057.

Tax and Insurance Escrow

The Initial Escrow Account Disclosure statement must be completed accurately to be sure sufficient funds are collected at closing and netted from the lender's purchase proceeds. If a real estate tax is due to be paid from the borrower's escrow account shortly after the loan closes, please include the real estate tax amount and the correct month the bill is due.

When calculating the initial deposit to escrow, no monthly cushion is to be collected.

Do not include interest collected at closing, as these funds belong to you, the lender.

If the loan is on a newly constructed home, estimate the monthly escrow amount for taxes based on an "as completed" property, which would include land and improvements.

If the property is part of a tax abatement program, the escrow amount used for closing and the HUD1 should be based on the actual amount due under the abatement program for the upcoming year.

The borrower's escrow funds do earn interest which is posted directly to the escrow accounts. The rate is determined by the Agency and is subject to change.

TRANSFER OF SERVICING

All loans are sold servicing-released to PHFA; the lender may not perform any interim servicing. All PHFA loans, including the Keystone Advantage Assistance Loan if applicable, must have a copy of the Hello/Goodbye Letter (Form 28). The information on this form must be completed and the mortgagor(s) must receive a copy of this letter as required under RESPA. The Loan Setup must be submitted online within four business days of closing, and requires certification that Form 28 was given to the mortgagor(s).

The lender and/or closing agent should instruct the borrower to send their first mortgage payment to the Pennsylvania Housing Finance Agency (whether or not the loan is purchased by the time the first payment is due). Do not provide the borrower with a lender coupon book or temporary payment coupon instructing them to send their mortgage payment to the lender. To assure that the first payment is sent to the Agency, the Hello/Goodbye letter (Form 28) includes a temporary coupon instructing the borrower to make their first payment to the Agency.

The lender and/or closing agent should inform the borrower that they may access their account online at www.phfa.org after they receive their first monthly billing. They can also make payments to PHFA through this account. PHFA does not charge any additional fees for this service.

Borrowers may call the PHFA Customer Service Toll Free number of 800.346.3597 if they have any questions regarding their mortgage loan.

Mortgage payments are due on the first day of the month. Late charges will be due if the payment is not posted to their account by the close of business on the sixteenth day. Any overnight express mail should be sent to Pennsylvania Housing Finance Agency, 211 North Front Street, Harrisburg, PA 17101.

CHAPTER 10 - SELLING THE LOAN TO PHFA

PERFORMANCE STANDARDS

It is the lender's responsibility to ensure the closing, shipping and final document personnel have been trained to process PHFA loans, as well as the closing agent, to ensure all Closing and Post Closing Activities conform to Agency guidelines. If additional training is needed please contact the Homeownership Programs Division at 717.780.3871. Also, the list of currently scheduled webinars is available at www.phfa.org.

See PARTICIPANT EVALUATION in CHAPTER 1.

If at any time during the life of a mortgage loan a quality control review reveals the lender has failed to follow procedures or clear an outstanding issue or any material defect or inaccuracy cannot be rectified to the satisfaction of the Agency or the Trustee, the lender may be required to repurchase the mortgage loan from the Agency as outlined in the Master Origination and Sales Agreement.

PRELIMINARY LOAN SET-UP

The Lender is responsible for completing the preliminary loan set-up information online **within four (4) business days from the date of closing** or after construction completion on new homes (when the loan converts to the permanent terms and the regular principal and interest payments are to begin).

If the Loan Setup has not been completed prior to the Agency receiving the purchase package, the loan will be ineligible for purchase.

SUBMITTING THE PURCHASE PACKAGE

Purchase Submission Deadline

To avoid late delivery fees, the lender should deliver a *complete* Purchase Submission Package on or before the reservation expiration date.

Any applicable late fees will appear as a deduction on the purchase advice. The late fee is two basis points of the loan amount multiplied by the number of days past due. The lending institution will receive a weekly report listing the loans that will soon expire. The report, known as the 'Expired Reservation Report', is available on the PHFA secure lender web site, the Pipeline PLUS, and is updated each Monday evening. The report will not display any loans if all loans are purchased prior to the rate lock expiration date and there are no additional loans with reservations about to expire.

Delivery

Send **OVERNIGHT** mail to the following address:

Homeownership Programs/Purchase Dept.
Pennsylvania Housing Finance Agency
211 North Front Street
Harrisburg, PA 17101

Send **REGULAR** mail to the following address:

Homeownership Programs/Purchase Dept.
Pennsylvania Housing Finance Agency
P.O. Box 8029
Harrisburg, PA 17105-8029

Purchase Submission Checklist

To complete a purchase submission package use Form 58 as a guide to assemble and check off the items that are being submitted. The information on this form will aid in submitting a complete purchase package. It indicates when the original documents are required and what items are needed for the different types of programs offered by PHFA.

Execution of Legal Documents

PHFA retains on file a list of authorized officers who are able to sign the legal documents on behalf of each participating lender. Use Form 29 to update the list when necessary.

Mortgage Modification Agreements

A Mortgage Modification Agreement (Form 40) is required to correct an error or omission on the **recorded** mortgage or for new construction loans when the payments begin on a date different than stated on the Note and Mortgage.

The steps to complete the mortgage modification process agreement are as follows:

1. Lender to complete all information on Page 1 including the date of the note plus the mortgage and assignment recording information. If any document has been recorded more than once, all information must be listed as it is listed on the recorded Mortgage.

2. Lender to complete all applicable information on Page 2. This page indicates the addition, correction or change being made. If the change requires that a document must be added, please be sure to add it.

3. Lender to complete the top half of Page 3. This section is also signed by the mortgagor. The signature must be notarized.

4. PHFA will complete the top half of Page 4. Lender to complete the information on the principal place of business and address on Page 4 as follows: c/o your lending institution, your address.

If the County Recorder's Office, where this document is to be recorded, requires a legal description to be part of the modification form please be sure to add it to the form before sending it to PHFA for signature.

When the Mortgage Modification Agreement is completed, signed by the mortgagors and notarized, send the original agreement to PHFA to the attention of Purchase or Final Documents Department, whichever department requested the Mortgage Modification Agreement. The original Mortgage Modification Agreement will be executed by PHFA and returned to your office to be recorded when the change in the Mortgage or Note warrants the Mortgage Modification Agreement to be recorded.

After recordation, the agreement is returned to the lender and the lender sends it to PHFA to the address listed below under Delivery.

SERVICING PROCEDURES AND DOCUMENTS

All loans are sold servicing-released to PHFA; the lender may not perform any interim servicing. The lender is to sell the loan servicing-released to PHFA immediately following closing, but no later than the expiration of the delivery period or 21 calendar days from closing, whichever occurs first. The last page of the Purchase Submission Checklist (Form 58) contains the documents that are required for the servicing transfer to PHFA. Follow the instructions on Form 58. Some additional details are contained below for the items which are generally completed by the lender after closing.

Tax Certification

A Tax Certification is required to verify taxes were paid for School, County and City/Township or Borough as applicable. PHFA Form 27 may be used in place of an actual tax certification form, but it must be fully completed with all taxing authorities, tax amounts and discount dates listed and also signed by the lender. Taxes must be verified and receipts or certifications of the last items paid should be attached to the form.

If the lender has its own form that includes this information, it may be used and attached to PHFA Form 27, as long as all information requested by the PHFA form is provided. For example, if the tax collector phone number is missing from the lender's form, list it on Form 27.

Please use the last month of the discount period for the disbursement due date on all real estate taxes. The disbursement month must remain consistent from year to year or it will affect the aggregate analysis. This information should be available at settlement to comply with RESPA Aggregate Analysis procedures.

If the property is part of a tax abatement program, the escrow amount used for closing and the HUD1 should be based on the actual amount due under the abatement program for the upcoming year.

Insurance Policies

Forward the insurance declaration pages for Homeowners and/or Flood Insurance with a copy of the check or receipt for one full year's premium. If this payment is included on the settlement statement, it is not necessary to send copies of the check or receipt. The first mortgagee clause on all insurance policies is to read Pennsylvania Housing Finance Agency its Successors and/or Assigns, P.O. Box 15057, Harrisburg, PA 17105-5057. For HOMEstead Assistance loans, PHFA must also be listed as second mortgagee. Dwelling coverage on homeowner's policy shall be sufficient to cover both loan amounts.

See Chapter 12, Insurance Requirements, for more information about the various types of insurance required.

Condominium Insurance and/or Mine Subsidence Insurance

For condominiums it is the lender's responsibility to obtain proof of insurance from the homeowner and the Condo Association to establish that there is a sufficient amount of Replacement Value insurance to completely rebuild the unit in the event of a total loss. Provide the HO6 policy of the homeowner's policy and a Certificate(s) of Insurance from the Condominium Association for Hazard Insurance including flood and/or mine subsidence, if applicable.

Notification to Insurance Agents

The lender may use PHFA's sample notification forms (Form 41 or 42) to inform insurance agents that all future bills are to be sent to the Agency. Please be sure to forward them to the following address: PHFA, P.O. Box 15057, Harrisburg, PA 17105-5057. The bills should **not** be mailed to the lock box address in Pittsburgh.

Copy of MI Certificate

Please be sure to include a copy of the MI certificate and a copy of the check that was sent to the MI Company for payment of the first premium in the servicing package. Please notify the MI Company that this loan has been sold to the Pennsylvania Housing Finance Agency. The Agency Master Policy Numbers on the change form are as follows: MGIC 37-278-3-0673, Radian 11524-000, PMI 5548-0001-0, G.E. B222223LJS, FHA 4258110013, Triad 380006-0000, REMIC 42515, UG 37-0175-000 and RHCDS 231733024.

Reporting to IRS

The lender is required by Federal Law to report to the IRS points paid on all mortgages and interest collected at closing in accordance with IRS regulations. This is your responsibility as the originating lender.

LOAN LEVEL NOTICES

When items are missing from the purchase package there are three types of notices that are issued and available online via the PHFA Pipeline PLUS.

Conditional Purchase Exception

This notice is applicable when the loan is purchased, but with conditions. When it states a deadline date, the item must be received by the date specified on the notification. If the lender cannot deliver the item to the Agency by the expiration date, they must submit an explanation why and request approval for a designated extended expiration date. The Agency grants extensions on missing items on a case by case basis.

Ineligible Purchase Submission Exception

A loan will be rendered ***ineligible*** for purchase when any one or more of the items critical for purchase are incomplete, inaccurate or missing from the purchase submission. These items are listed on Form 58. The loan will be purchased as soon as the missing items are sent to PHFA. The late fee accrues until the items are received on loans not purchased within the acceptable timeframe.

Post-Purchase Exception

The "Notification of Post Purchase Review" and "Notification of Conditional Purchase Exception" apply when the loan has been funded and follow up documentation is needed. Post-Purchase deficiency exceptions should be received and cleared by the Agency within 30 days from the exception date on the notification.

SUMMARY REPORTS

Expired Reservation Report

The lending institution will receive this weekly report listing the loans that will expire within two weeks. It is available on the PHFA secure lender web site, the Pipeline PLUS, and is updated each Monday evening. The report will not display any loans if all loans are purchased prior to the rate lock expiration date and there are no additional loans with reservations about to expire.

Deficient Loan Tracking Report

This summary report is updated weekly and available online using the PHFA Pipeline PLUS. It inventories the outstanding Purchase and Final document exceptions. F is for Final Document; PP is for Post Purchase; PC is for Purchase Conditional and PI is for Ineligible for Purchase. All items appearing on the report would have previously been requested through a loan level Purchase or Final Document Notice. (See Chapter 11 for details on final doc notices.) The items must be submitted to the appropriate Purchasing or Final Document department staff as indicated on the report. Email addresses for the units are as follows: sfpurchasing@phfa.org or sffinaldocs@phfa.org.

The Deficient Loan Tracking Report is an extremely effective tool in identifying recurrent issues and problem areas which should be corrected.

Outstanding items will appear on the report until they are cleared.

FINAL DOCUMENTS

The final recorded documents (mortgage and assignment, and subordinate mortgage(s)) are to be received by the Agency **within sixty (60) calendar days from the purchase date** of the loan. There are exceptions from time to time when PHFA will allow additional time to submit recorded documents; for example, if the recorder of deeds requires additional time for recording them.

If the recorded final documents are available at the time the purchase package is submitted, they should be included as indicated on Form 58, the Purchase Submission Checklist. See Chapter 11 for more details on Final Documents.

CHAPTER 11 – FINAL DOCUMENT SUBMISSSIONS

PERFORMANCE STANDARDS

See PARTICIPANT EVALUATION in CHAPTER 1.

DELIVERY DEADLINE

The final recorded documents (mortgage and assignment, subordinate mortgage(s) if applicable, and a mortgage modification if applicable) are to be received by the Agency **within sixty (60) calendar days from the purchase date** of the loan.

There are exceptions from time to time when PHFA will allow additional time to submit recorded documents; for example, if the recorder of deeds requires additional time for recording them. Requests for extensions should be submitted to the Final Docs Department via fax to 717.780.3872 or email to SFFinalDocs@phfa.org. When the request has been approved, the lender will receive a notice advising of the new submission deadline.

If the recorded final documents are available at the time the purchase package is submitted, they should be included as indicated on Form 58, the Purchase Submission Checklist.

Unless submitting the docs with the purchase package, it is recommended that recorded final documents or items to correct a final document deficiency error should be attached to a copy of the Final Document Notice letter, the Deficient Loan Tracking Report or the Final Document Submission Cover Letter (Form 30).

Delivery

It is recommended that recorded final documents or items to correct a final document deficiency error be attached to a copy of the Final Document Notice letter, the Deficient Loan Tracking Report or the Final Document Submission Cover Letter (Form 30) and mailed as follows.

Send **OVERNIGHT** mail to the following address:

Homeownership Programs/Final Documents Dept.
PENNSYLVANIA HOUSING FINANCE AGENCY
211 North Front Street
Harrisburg, PA 17101

Send **REGULAR** mail to the following address:

Homeownership Programs/Final Document Dept.
PENNSYLVANIA HOUSING FINANCE AGENCY
P.O. Box 8029
Harrisburg, PA 17105-8029

FINAL DOCUMENT FILE

The final documents consist of the items listed below

Mortgage

The recorded mortgage must be sent to PHFA in the final submission package.

Recorded Subordinate Mortgage

If PHFA provided additional financing on the mortgage transaction, the recorded subordinate mortgage(s) must be included in the final submission package.

If any other (non-PHFA) assistance program was utilized in the transaction for which a lien was secured, a copy of that recorded mortgage is also required, along with any deed covenants if applicable.

Assignment

The recorded assignment must reference the mortgage book and page numbers or instrument number within the body of the assignment OR it must be recorded in the same book as the mortgage and recorded after the last page or instrument number of the mortgage. The lender must use PHFA Form 20 or an alternate form which has been approved by PHFA.

Mortgage Insurance/Guarantee Certificate

An original or legible copy of the Private Mortgage Insurance Certificate, the VA Loan Guarantee Certification (LGC) or the FHA Mortgage Insurance Certification (MIC), whichever applies, must be provided. Only an original of the RD Loan Note Guarantee (LNG) will be accepted.

Mortgage Modification

A recorded mortgage modification should be submitted when applicable. See Chapter 10 for more information on mortgage modifications.

FINAL DOCUMENT EXCEPTION NOTICE

This loan level report advises the lender of missing items or deficiencies discovered upon review of the recorded Mortgage and Assignment, Title Policy/Endorsements, copy of the Deed and the Government Insuring Certificates. Final Document deficiencies should be received by PHFA prior to the deadline stated on the Final Document Notice.

It is recommended that recorded final documents or items to correct a final document deficiency error should be attached to a copy of the Final Document Notice letter, the Deficient Loan Tracking Report or the Final Document Submission Cover Letter (Form 30).

SUMMARY REPORTS

Deficient Loan Tracking Report

This summary report is updated weekly and is available online via the PHFA Pipeline PLUS. It inventories the outstanding Purchase and Final document exceptions. F is for Final Document; PP is for Post Purchase; PC is for Purchase Conditional and PI is for Ineligible for Purchase. All items appearing on the report would have previously been requested through a loan level Purchase or Final Document Notice. (See Chapter 10 for details on purchase notices.)

The Deficient Loan Tracking Report is an extremely effective tool in identifying recurrent issues and problem areas which should be corrected.

Outstanding items will appear on the report until they are cleared.

Delinquent Final Delivery Package Report

This report is e-mailed or faxed monthly (within the first week) and lists loans with delinquent final documents along with their purchase date and the date of delinquency. The loans appear on this report when the recorded documents are not delivered to PHFA within 60 days from the date of Purchase. A "Y" is listed in the Subordinate Mortgage column if a recorded Subordinate Mortgage is also required. This report is an effective tool in monitoring that the recorded documents are received by PHFA.

Loans Cleared for SRP Report

This report shows loans that have entered the queue for the second payment of the SRP, which is paid on the first Monday of the month (or the next business day if the first Monday is a holiday). See Chapter 1 for details on lender compensation.

CHAPTER 12 – INSURANCE REQUIREMENTS

MORTGAGE INSURANCE

All Conventional loans with a loan to value ratio (LTV) greater than 80 percent must have mortgage insurance coverage provided by a qualified private mortgage insurance company, or they must be submitted for inclusion in PHFA's Pennsylvania Housing Insurance Fund (PHIF). The LTV is calculated using the lesser of the sales price or appraised value. If the loan is on a newly constructed home, the LTV ratio will be based on the lower of the total applicable value for land and construction costs OR the appraised value.

Lenders may use their delegated MI underwriting approval authority. The insurance certificate must be included with the underwriting package to PHFA.

The minimum coverage is as follows. Lower amounts are not permitted even if indicated by a Findings Report:

LTV RATIO	COVERAGE
95.01-97.00 (97%)	35%
90.01-95.00 (95%)	30%
85.01-90.00 (90%)	25%
80.01-85.00 (85%)	20%

Participating private mortgage insurers and rates are listed in Appendix F.

Guidelines, pricing, and procedures for the Pennsylvania Housing Insurance Fund can be found in Appendix G.

FLOOD INSURANCE

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 1.800.480.250 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, its 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 applicants 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 the 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 borrower to do the same, when originating any PHFA loans. The deductible may not exceed the greater of $1,000 or one percent (1%) 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 guaranteed or insured by the Federal government must meet the applicable entity's requirements.

PUD Homeowner's Associations

The required amount of coverage the PUD Homeowner's 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 percent 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 percent (1%) of the policy face amount. Funds to cover this deductible amount should be included in the owners' association 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, 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 outlined below.

Building Coverage

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.

Contents Coverage

The contents coverage should equal 100 percent 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.

Unit Coverage

The coverage for each unit should be the lesser of $250,000 or the amount of the unit's 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 or one percent (1%) 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 borrower's 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.

Preferred Risk Policy

A preferred risk policy is a residential policy, based on preferred rates for qualified structures in moderate-to-low risk areas (zones B, C and X). Do not close a loan with a Preferred Risk Policy if the home is or may be located within a SFHA.

Flood Determination

If the determination is unclear or in conflict with another determination (or the appraisal), 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.

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.

A manual re-check is also required for Partial Zones or if the determination is unclear or in conflict with the Appraisal, to rule our possible errors in the initial determination and/or to rectify the conflicting information. It helps to confirm the property address and the parcel identification number with the local tax assessment office personnel (or tax assessment website), etc. before ordering a manual re-check. Please note to inform the flood vendor if there are detached structures being used as collateral for the loan; if there are, they will be need to be covered by the policy.

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. Also, not all determination companies are members of the NFDA.

Assistance from FEMA

Letter of Determination Review (LODR). If the issue is still unresolved after contacting NFDA, the lender and 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.

Letter of Map Amendment (LOMA) or Letter of Map Revision based on Fill (LOMR-F). This option may be used as an alternative 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 one percent (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 viewed online at www.msc.fema.gov, or call 1.800.FEMA.MAP.

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

HOMEOWNER'S INSURANCE

The homeowner's insurance policy must be pre-paid for a full 12 months. The Homeowner's, Flood and/or Mine Subsidence (if applicable) must carry the following Mortgagee clause:

> Pennsylvania Housing Finance Agency, It's Successors and/or Assigns
> 211 North Front Street, P.O. Box 15057, Harrisburg, PA 17105-5057

If the clause is missing or incorrect, please request an addendum to make the necessary corrections. The lender must ensure that the property securing each Mortgage Loan is covered by hazard insurance that, at a minimum, meets the requirements listed below.

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 PHFA for purchase. The maximum allowed deductible is the higher of $1,000 or one percent (1%) of the face amount of the policy. If the mortgage is secured by a PUD unit that is covered under a blanket policy for the project, the maximum allowable deductible is the higher of $1,000 or one percent (1%) of the replacement cost for the unit rather than on the face amount of the policy.

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 equal to or greater than the lesser of:

- The outstanding principal balance of the mortgage loan at the time it is delivered to PHFA for purchase

OR

- 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.

Other Hazards

If the lender is aware that a mortgaged property is exposed to any appreciable hazard against which standard fire and extended coverage does not afford protection, the lender must advise the Agency of the nature of the hazard immediately and the additional insurance coverage, if any, which should be obtained or which the lender has obtained due to the mortgagor's failure to obtain adequate insurance. The Agency may require the lender to obtain additional coverage, in accordance with the terms of the mortgage documents, as the Agency determines necessary.

TITLE INSURANCE

When ordering the title insurance please be sure to request the **Title Insurance Discount.** PHFA loans with a sales price of $200,000 or less are eligible for a charge of 75 percent of the basic rate for Title Insurance. Please Note: If an owner's and loan policy are issued simultaneously, then the higher policy amount cannot exceed $200,000 to qualify for the discount. For further details refer to Chapter 5 of the PA Title Insurance Ratings Manual, the Policies and Rates Section.

The **Original Instant Mortgagee Residential Short Form** policy in an amount equal to the principal amount of the mortgage indebtedness is required at the time of purchase. 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.

The long form policy is also acceptable with the endorsements referenced in this section.

A counter-signed policy is required on all PHFA loans.

The **original title policy** or one of the following alternatives must be submitted in the **purchase submission package:**

- An emailed copy of the title policy is acceptable as long as a copy of the **email from the title agent to the lender** is included with it in the final document portion of the purchase package.
- A faxed copy of the title policy is acceptable only a **cover page or endorsement is included stating that PHFA is authorized to accept the copy of the title policy.** This endorsement or letter must be signed by an authorized title agent.
- A certified copy of acceptable as long as it includes the original **certification and signature of the title agent.**
- A computer generated title policy is acceptable if it has **an "Original" stamp** on it.

Please Note: We will not purchase loans with Title Commitments.

PHFA strongly encourages the use of the Residential Short Form Title Policy because there is no need to require separate 100, 300 and 8.1 Endorsements. Please note, though, that if the policy references an agreement to remove minerals from the property an Endorsement 1030 is required. This type of policy consists of one page with information on both sides of the document. Schedule A is on side one and Schedule B is on side two. Schedule A must indicate that the environmental endorsement is included. The 100 and 300 endorsements are included without being referenced. The affirmative coverage for the 100 and 300 endorsement appears on Schedule B. If this policy does not include a title jacket that was revised as of 6/17/06, it must be dated as of closing with the phrase added: "or the date of constructive notice, whichever date is later" **OR** the policy must be dated the same date the mortgage was recorded. When the revised jacket in not utilized, the constructive notice phrase eliminates potential problems in the date. **The Agency encourages the use of these title policies on all loans submitted to PHFA.**

When the traditional long form is used (current version per the American Land Title Association), the following endorsements must be included with the policy:

- 100 (If there are no restrictions, and an Endorsement 100 is not being issued, this information must be stated on a signed letter to PHFA from the title agent regarding the missing Endorsement 100.)
- 300 except when a Condo or a PUD
- 8.1 or 900 Environmental
- 1030 Mineral Rights Endorsement (Endorsement 100 is not needed when the Endorsement 1030 is purchased.)

Schedule A – The date of the policy should be the date of settlement and include the following: "or the date of the recording, whichever is later." This language is **not needed** if the policy contains a revised (6/17/06) title jacket. The language regarding the recording date is preprinted in the revised jacket.

Schedule A – The name insured should be the name of the lender. For example, "ABC Mortgage", followed by "it's successors and/or assigns".

There is no need to list the assignment of the mortgage on Schedule A.

PHFA does not require an endorsement to reflect the recording data.

The borrower's name should be the same on the Deed, Mortgage, Note, Assignment and Title Policy.

Title Policy with all schedules and endorsements: If the policy contains a title jacket that was revised as of 6/17/06 the constructive notice phrase is not required. If the policy does not include a jacket that was revised as of 6/17/06, then Title Policy should be dated the date of settlement and contain the following phrase: "or date of constructive notice whichever date is later". The Agency <u>does not</u> require a follow up endorsement reflecting the recording information. However, if this information is provided, it must be correct.

It is the lender's responsibility to review the Short Form Residential Title Insurance Policy or the Title Policy with all schedules and endorsements before the loan is submitted for purchase to ensure that the Policy is free from errors or omissions. If you discover an error or omission, and are unable to correct the deficiency prior to submitting the Policy to the Agency in the Purchase Submission, the Policy must be accompanied by our written request to your closing agent for correction. A copy of the request for correction to the Title Company will indicate to PHFA that you have recognized the error or omission and that you have ordered an endorsement. Title Policies with errors and omissions may only be submitted on an occasional basis, not at your normal business practice. **When Residential Short Form Title Policies are used instead of the traditional long form, there is minimal information in the Short Form, which reduces the margin of error.**

Schedule A

Schedule A must be checked for the following:

1. Date of Policy: If the title jacket was revised as of 6/17/06 the constructive notice phrase is not needed. If the policy does not include the revised title jacket, it must be dated as of closing with the phrase added: "or the date of constructive notice, whichever date is later" ***or*** the policy must be dated the same date the mortgage was recorded. When the revised jacket is not utilized, the constructive notice phrase eliminates potential problems in the date.

2. Amount of Loan Policy or amount of insurance: Must be at least the amount of our Mortgage.

3. Name Insured: First choice – Participating Lender's name, its successors and assigns. Second choice – "Pennsylvania Housing Finance Agency, its successors and assigns".

4. Mortgagor's Name: Name the title is vested in.

5. Mortgage: Must refer specifically to our mortgage document including the names of the mortgagors, mortgage amount, mortgagee (your lending institution), and date of the mortgage.

6. Assignment: If listed, it must be to Pennsylvania Housing Finance Agency.

7. Property description: If your Title Policy refers to the property as any of the following, it is acceptable as long as it agrees with the Mortgage:

    - 123 Main Street, Anyplace, PA ZZZZZ;

    - R.D. or R.R. 3, Box 123 Your Town, PA ZZZZZ;

    - The legal description is attached as a schedule or exhibit to the Title Policy and the description in the Title Policy matches the legal description in the Deed and Mortgage.

    - The same as described in a mortgage from John Doe & Mary, H/W to any lender dated MM/DD/YY and recorded MM/DD/YY in Wonderland County in book_______, page _______".

    - The same as described in a Deed from John Smith and Alice, H/W to John Doe and Mary, H/W dated MM/DD/YY and recorded MM/DD/YY in Wonderland County in Deed Book _______, Page _______" or "to be recorded". A copy of the signed Deed must accompany the Title Policy.

Schedule B

If the long form Title Policy is issued or if an Addendum is added to the Short Form Title Policy the exceptions that appear on Schedule B or the Addendum must be reviewed by your staff to determine if they need to be removed. The use of the Mortgagee Residential Short Form Title Policy minimizes the amount of time spend on reviewing Schedule B. The standard items on Schedule B in the Mortgagee Residential Short Form are standard exceptions with affirmative assurance on each item.

Standard acceptable exceptions:

- Taxes and assessments not yet due and payable;
- Utility easements which provide utility service to the residence and/or the development in which it is located (beware of large easements for pipelines and high tension wires and the like that may overly restrict the use to the property);
- Other matters that are subsequent or subordinate to our mortgage. These types of items should appear on a Schedule B II form.
- Water and sewer rents due and payable *after* settlement. This is determined by the language in the exception referencing the paid to date.

Standard ***unacceptable*** exceptions. These exceptions must be removed by a signed endorsement;

- Encroachments (depending upon the extent of the violation and how it may affect marketability);
- Lack of access to property;
- Taxes and assessments for prior years (i.e. which would have been due and payable). **NOTE:** A policy may show taxes for the current year where a portion is not yet payable. The title company may add “not yet due and payable” with an endorsement and the unacceptable exception becomes acceptable.
- Water and sewer charges that were not paid, or may not have been paid, prior to the date of settlement. Rents due prior to the settlement with the “not yet due and payable” phrase **must be removed** by an endorsement. This includes the exceptions that usually appear in Title Policies on Philadelphia properties;
- Rights or claims of parties in possession not shown in the public records.
- Mechanics liens;
- A recorded lease or agreement on mining, coal, oil – the title company must add, “the company will insure against future surface mining” to make this exception acceptable.
- Defects, liens, encumbrances, adverse claims or other matters, if any, created, first appearing in public records or attaching subsequent to the effective date hereof **but prior to the date the proposed insurance acquires for value of record the estate or interest or mortgage thereon covered by this commitment.** *(If the portion in bold is removed, the item would become acceptable.)*

From time to time Schedule B in an Instant Title Policy will be overloaded with exceptions that seem to relate to the project or development and not the unit being mortgaged. These exceptions should be removed, or we should be "insured against loss by reason thereof" in an endorsement. Please note: You will not encounter this situation with a Mortgagee Short Form Residential Title Policy.

Endorsements

Every Instant Title Policy must include the 100, 300 and environmental (8.1) endorsements. The Agency accepts the Residential endorsement in lieu of issuing separate endorsements. If the 100 endorsement does not apply, an original "letter in lieu of" is required and must be signed by the title agent.

All original endorsements sent to PHFA ***must be*** countersigned when there is a space for the title agent's signature.

An 801 endorsement or the equivalent is required on PUD units and an 800 endorsement or the equivalent is required on condominium units. When the property is a PUD or CONDO we do not require the endorsement 300. This is the only exception where the 300 is not required.

CHAPTER 13 - PROGRAMS FOR HOMEOWNERS

Note: these programs are not included in the Master Origination and Sale Agreement (MOSA), but they are included in this guide for informational purposes.

HOMEOWNERS' EMERGENCY MORTGAGE ASSISTANCE PROGRAM (HEMAP) – DISCONTINUED UNTIL FURTHER NOTICE

Thousands of Pennsylvania families faced with the possible loss of their homes through foreclosure have received help from the Homeowners' Emergency Mortgage Assistance Program (HEMAP). This unique program, created by Act 91 of 1983, is the only one of its kind in the nation. HEMAP is a cost effective means to prevent homelessness among Pennsylvanians. By giving assurance of steady mortgage payments, it allows homeowners to seek alternate employment, job training, and/or education when they need it most. The program is funded by State appropriations and repayment of existing HEMAP loans.

HEMAP is a loan program designed to protect Pennsylvanians who, through no fault of their own, are financially unable to make their mortgage payments and are in danger of losing their homes to foreclosure. HEMAP funds loaned to prevent foreclosure are not a grant. These funds are a loan and must be repaid. Please note that FHA Title II (purchase) mortgages are not eligible under this program.

When approved for HEMAP assistance, a loan is created (secured by a mortgage on the property being threatened by foreclosure) to bring the delinquent payments current. Two types of assistance are available to the homeowner depending on their income and financial situation: continuing mortgage assistance loans and non–continuing mortgage assistance loans.

If a homeowner qualifies for a non–continuing mortgage assistance loan, their mortgage is brought current to a specified date and the homeowner is responsible for making all subsequent monthly mortgage payments to their lender along with a monthly payment to HEMAP. The homeowner may also be required to make a cash contribution toward the mortgage delinquency at the time the HEMAP loan closes.

If a homeowner qualifies for a continuing mortgage assistance loan, their mortgage is brought current to a specified date and then HEMAP subsidizes their monthly mortgage payment to their lender.

All HEMAP loans, continuing or non–continuing, are limited to a maximum of 24 months from the date of the mortgage delinquency, or to a maximum of $60,000.00, whichever comes first.

HEMAP loan recipients are required to pay up to 40 percent of their net monthly income, as determined by HEMAP, towards their total housing expense. The minimum monthly payment/contribution to HEMAP, set by law, is $25.00 per month per mortgage assisted.

Total housing expense is the sum of the mortgagor's monthly mortgage payments, including escrows, utility costs, hazard insurance expenses, real property taxes and, in the case of cooperatives and condominiums, the monthly amount the unit is assessed for the maintenance of common elements.

If the homeowner qualifies for a continuing mortgage assistance loan, the homeowner sends their designated monthly payment/contribution amount to HEMAP. HEMAP combines the amount sent by the homeowner with HEMAP funds and forwards the full monthly mortgage payment directly to the lender on the homeowner's behalf. Homeowner's contributions are set at 40 percent of the household net monthly income (NMI) less the utility expense and homeowners insurance costs, if it is not escrowed.

The interest rate on mortgage assistance loans is nine percent when household income requires repayment based on the 40 percent calculation. If income does not require repayment based on the 40 percent calculation, interest will not be charged and will be adjusted back and forth to nine percent as necessary. There is a mandatory minimum payment of $25.00 per month per mortgage assisted.

Interested homeowners can select the Frequently Asked Questions link to receive more information about the HEMAP application process; or choose the Search for a Participating Counseling Agency by County link to find an approved agency near you.

PENNVEST

The Pennsylvania Infrastructure Investment Authority (PENNVEST) has teamed with the Pennsylvania Housing Finance Agency (PHFA) and the Pennsylvania Department of Environmental Protection (DEP) to offer this special funding program. This assistance is available to eligible homeowners who do not have access to a public sewage system and need to repair or replace their individual on-lot sewage disposal system.

All assistance to homeowners under the On-lot Funding Program is in the form of loans at an interest rate of one percent. The monthly payment also includes a .75 percent servicing and insurance fee. Loans will be secured by a mortgage on the borrower's home. The maximum term of a loan is 20 years and loan repayment commences within 60 days after the date of loan disbursement. A loan must be immediately repaid in full if the property on which the project is located is either sold or transferred. Loan origination fees will also be charged in connection with a loan.

Benefits to You

The low cost financing available to you under the On-Lot Funding Program can provide you with an adequate on-lot sewage disposal system and save money at the same time. For example, the interest cost savings on a 15 year, $10,000 loan under this program, compared with a conventional loan, could range from $3,000 to $6,000. At the same time, you will be contributing to a cleaner environment for all of Pennsylvania.

Your Continuing Responsibility

A basic requirement of the program is that you keep your upgraded or new on-lot system in good repair, have it pumped out regularly, and ensure that it does not malfunction, fail to adequately treat wastewater, or cause a public health hazard. DEP will help you comply with these requirements. Simple common sense and reasonable regular upkeep should be sufficient to avoid any problems. A pumping schedule and reporting requirements will be included in your loan agreement.

Eligibility

Loans offered under the On-lot Funding Program are available to all citizens of the Commonwealth, with limited exceptions, as noted below. Information on eligibility requirements is also available by contacting a PENNVEST Participating Lender or your local Sewage Enforcement Officer.
Family income may not exceed $73,996. This is determined using the Adjusted Gross Income from the most current federal income tax returns.

- **Credit Worthiness:** financial ability to repay the loan.
- **Loan Amount Maximum:** $25,000.
- **Project Type:** rehabilitation, improvement, repair, or replacement of an existing system located on a single family, owner occupied property which is the primary residence of the owner.
- **Project Location:** all areas are eligible unless a community wastewater collection and treatment system is either in place or will be constructed in the next five years.
- **Project Costs:** construction fees and costs, permit fees, loan origination fees, and legal fees.
- **Documentation:** all applicable permits, verification from your local municipality that a community wastewater disposal system neither exists nor is planned in the next five years, income, and other credit information.

How to Apply

- Your first step should be to contact a PENNVEST Participating Lender to see if you qualify for a loan. An application fee of $65 will be collected, but it is a reimbursable fee if your loan is closed and disbursed.
- If approval is given, you should then contact your municipal officials (city, township, or borough office) and have them sign a standard form certifying that your proposed project is not in an area which is currently served by public sewers and will not be served by public sewers within five years. Once this is completed, contact the sewage enforcement officer (SEO) serving your municipality to determine if a repair or replacement of your on-lot system is permissible under all applicable Pennsylvania regulations.
- If a repair or replacement is permitted, the system must then be designed, and the designing SEO or professional engineer (PE) must certify that the system proposed is the most cost-effective system available for your property. Your municipality's SEO then reviews the design and, if acceptable, issues a permit for the system. Where conditions are not suitable for a standard or alternative subsurface disposal system, small flow treatment systems with a discharge may also be eligible. In these cases a PE must design the system and it must be permitted by DEP.
- Your next step is to obtain bids from contractors who could do the work you are considering. Where possible, a minimum of three responsible bids is recommended. Have each contractor provide you with a written copy of the bid.
- Once these steps are completed, take the permit application, permit, bids, and the certifications from both the designer and municipal officials to the participating local lending institution you contacted in the first step to complete your application for funding. That institution may request additional information and documentation.

RENOVATE & REPAIR (CONTRACT FOR PARTICIPANTS IS SEPARATE FROM MOSA)

Renovate & Repair loans are provided to eligible homeowners by a PHFA-approved Local Program Administrator (LPA). Eligible Local Program Administrators include but are not limited to the following:

- County Housing Authorities.
- Housing Redevelopment Authorities.
- Community Action Agencies.
- Community Development Corporations.
- Housing Development Corporations.
- Municipalities.
- Lenders.
- Other non-profit organizations with related housing experience.

This program is designed to help households with a combined household income no greater than approximately 150 percent of the statewide median income (adjusted upwards in high-cost areas) rehabilitate and/or improve their homes (R&R Income Limits). Borrowers' ability to repay loans is determined by the LPA either independently or with assistance from a local lender.

Not only does the R&R loan provide an attractive interest rate, it also provides the homeowner with the LPA's help in determining the repairs and/or improvements to be done. In this regard, the program provides much more than a loan–it provides peace of mind in knowing that the right home repairs are done and were completed in a timely manner with quality workmanship. The program is intended to finance renovations to improve the basic livability of the home, as well as repairs to items affecting health, safety, energy efficiency, accessibility, and code violations. Additions, and kitchen and bathroom remodeling are permitted uses of R&R loans, but luxury and purely cosmetic items such as hot tubs, pools, gazebos, etc., are not.

Why offer the R&R loan?

- Offers a flexible funding source to local community and housing organizations and lenders to help bolster community development efforts; curb predatory lending; and, improve the critical linkages between contractors, government programs, housing counseling, and Pennsylvania citizens.
- The program is another source of match and leverage when partnered with existing housing programs.
- Reach additional constituents.
- Strengthen partnerships with other organizations.
- Additional fee income.

The R&R loan differs from other home equity loans in many ways:

- No cash out.
- Limited maximum loan amount ($35,000).
- CLTV 120 percent.
- Total Debt to Income Ratio 45 percent.
- Guidance for the Borrower that needs help in prioritizing how to spend the funds.

- No 'preferred borrower' interest rates.
- Limited activities: home repair, improvement, or conversion back to single family home.

For more information on the next Information Session contact PHFA at 717.780.3871.

How can my organization offer the R&R loan?

LPAs are approved by PHFA to participate in the program through an open application process. The Invitation to Participate , which includes the application, is available to all interested eligible parties. The application may also be obtained by contacting the Agency at 717.780.3871 or 1.800.822.1174, or in writing to PHFA, Homeownership Programs Division, 211 North Front Street, P.O. Box 8029, Harrisburg, PA 17105-8029.