



PROGRAM GUIDELINES

FOR

**DOWN PAYMENT ASSISTANCE
AND MORTGAGE CREDIT CERTIFICATE PROGRAMS**

Disclaimer: The Texas State Affordable Housing Corporation (TSAHC) provides these Program Guidelines (these “Guidelines”) as a service to its participating lenders (“Lenders”). While TSAHC strives to make the information in these Guidelines as accurate as possible, we make no claims, promises, or guarantees about the accuracy, completeness, or adequacy of these Guidelines. TSAHC expressly disclaims liability for errors and omissions in the contents of these Guidelines related to the eligibility and underwriting requirements of Lakeview Loan Servicing, LLC, Fannie Mae, FHA, USDA, and/or VA. For those requirements, Lenders should rely on their agreements with, and guidelines published by, the relevant entity.

REVISIONS TABLE

Section	Page	Revision	Date
Various	-	Revised to reflect Lakeview Loan Servicing, LLC (“Lakeview”), as master servicer for the Programs.	3/20/2017
7.2	16	Clarified process for requesting rate lock extensions and fees for same	3/30/2017
7.2	16	Post-Closing package due within five (5) calendar days of closing	4/06/2017
5.1	12	FHA Manual Underwrite – 640 FICO Minimum	4/19/2017
2.1	6	Added active military to veteran definition in reference to Homes for Texas Heroes	1/15/2018
2.3	8	Revised rental history requirement for first-time home buyers using MCC	1/15/2018
2.5	8	Clarification of Texas resident requirement for the Homes for Texas Heroes program	1/15/2018
5.2	13	Clarification of cosigner and non-occupying co-borrower requirements	1/15/2018
7.1	16-17	Revised down payment assistance funding process	1/15/2018
4.2, 5.1	9-10	Addition of manufactured housing to eligible property types	5/01/2018
2.3	4	Clarification for using TSAHC assistance multiple times	5/01/2018
2.1, 2.3	3-4	Clarified veteran definition in reference to waiving first-time home buyer requirement for Mortgage Credit Certificate	5/01/2018
2.6	6	Revised completion by at least one borrower of home buyer education course	5/05/2018
3.3, 5.1, 7.2	7, 11, 14, 15	Introducing TSAHC’s new soft second lien down payment assistance	8/20/2018
3.3	7	Clarified soft second lien repayment requirement	8/29/2018
3.3	7-8	Updated MCC credit rate from 40% to 30%	2/04/2019
3.4	8-9	Clarified usage of additional subsidy	2/04/2019

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SECTION 1 - INTRODUCTION TO THE TSAHC HOMEOWNERSHIP PROGRAMS

1.1 Foreword

The Texas State Affordable Housing Corporation (TSAHC) provides access to mortgage credit certificates (MCC) and fixed-rate mortgage loans that include down payment assistance (DPA) attached to the loan. Both MCCs and loans with DPA are available to teachers, veterans, police officers, corrections officers, fire fighters, and low to moderate-income home buyers through our Homes for Texas Heroes Program and Home Sweet Texas Loan Program (each a “Program” and together the “Programs”).

TSAHC provides an online reservation and compliance system (Lender Portal) at www.tsm-online.org where interest rates are locked and funds are reserved. TSAHC also provides these Program Guidelines (also referred to below as these “Guidelines”) and applicable forms and affidavits, and reviews compliance packages to ensure TSAHC’s eligibility requirements are met.

The Program Guidelines describe the current rules and requirements, outline the role of TSAHC, and set forth the requirements for Lenders to participate. TSAHC may revise the Guidelines from time to time. The most current version can be found on TSAHC’s website at www.tsahc.org and on the Lender Portal at www.tsm-online.org.

TSAHC’s master servicer for loans with down payment assistance is Lakeview Loan Servicing, LLC (“Lakeview”). All loans with TSAHC’s DPA, whether with or without an MCC, will be sold to and serviced by Lakeview. Loans with DPA must also follow the Lakeview Selling Guide and product matrices found on www.tsm-online.org.

SECTION 2 – MORTGAGOR ELIGIBILITY

2.1 Eligible Borrowers

A “Home Sweet Texas” eligible borrower is a person who at the time of loan application and loan closing has income no greater than the maximum income for the Home Sweet Texas Program found on TSAHC’s website at www.tsahc.org or the Lender Portal at www.tsm-online.org.

A “Texas Hero” eligible borrower is a person who at the time of loan application and loan closing (i) has income no greater than the maximum income for the Homes for Texas Heroes Program found on TSAHC’s website at www.tsahc.org or the Lender Portal at www.tsm-online.org, and (ii) is employed full-time as a(n):

Allied Health Faculty Member – a full-time member of the faculty of an undergraduate or graduate allied health program of a public or private institution of higher education in the state.

Corrections Officer – a full-time employee of the Texas Department of Criminal Justice (TDCJ) who receives hazardous duty pay.

County Jailer - a person employed full-time as a county jail guard under Section 85.005, Local Government Code. County jailers are licensed through the Texas Commission on Law Enforcement (TCOLE).

Emergency Medical Services Personnel – per Section 773.003, Health and Safety Code, emergency medical services personnel are full-time:

- emergency care attendants;
- emergency medical technicians;
- emergency medical technicians-intermediate;
- emergency medical technicians-paramedic; or
- licensed paramedics.

Fire Fighter – a member of a fire department who performs a function listed in Section 419.021(3)(c), Government Code. Permanent, full-time fire department employees who are not secretaries, stenographers, clerks, budget analysts, or similar support staff persons or other administrative employees and who are assigned duties in one or more of the following categories:

- fire suppression;
- fire inspection;
- fire and arson investigation;
- marine firefighting;
- aircraft rescue and firefighting;
- fire training;
- fire education;
- fire administration; and
- any other position necessarily or customarily related to fire prevention or suppression.

Juvenile Corrections Officer – a full-time employee of the Texas Juvenile Justice Department (TJJD) who receives hazardous duty pay. Juvenile corrections officers must have a VOE through TJJD.

Nursing Faculty Member – a full-time member of the faculty of either an undergraduate or graduate professional nursing program.

Peace Officer – a person elected, employed, or appointed as a full-time peace officer under Article 2.12, Code of Criminal Procedure; Section 51.212 or 51.214, Education Code; or other law. Peace officers are licensed through the Texas Commission on Law Enforcement (TCOLE).

Professional Educator – a full-time, public K-12:

- classroom teacher,
- teacher aide,
- school librarian,
- school counselor, or
- school nurse.

Public Security Officer – a person employed or appointed full-time as an armed security officer by this state or a political subdivision of this state. The term does not include a security officer employed by a private security company that contracts with this state or a political subdivision of this state to provide security services for the entity. Public security officers are licensed through the Texas Commission on Law Enforcement (TCOLE).

Veteran - a person who:

(A) is serving on active duty, at the time of application, assigned to a military base or facility in Texas, and has officially designated Texas as the applicant's home of record (Active duty military do not meet the definition of Qualified Veteran in reference to waiving the first-time home buyer requirement for the Mortgage Credit Certificate Program.); or

(B) meets each of the following 3 requirements:

(1) meets at least one of the following:

(i) served not less than 90 days, unless sooner discharged by reason of a service-connected disability, on active duty in the Army, Navy, Air Force, Coast Guard, United States Public Health Service (as constituted under 42 U.S.C. Section 201 et seq.), or Marine Corps of the United States after September 16, 1940, and who on the date of filing an application under the program has not been dishonorably discharged from the branch of the service in which the person served; or

(ii) has at least 20 years of active or reserve military service as computed when determining the person's eligibility to receive retired pay under applicable federal law; or

(iii) has enlisted or received an appointment in the Texas National Guard, who has completed all initial active duty training required as a condition of the enlistment or appointment, and who on the date of filing the person's application has not been dishonorably discharged from the Texas National Guard; or

(iv) served in the armed forces of the Republic of Vietnam between February 28, 1961 and May 7, 1975;

(2) at the time of the person's enlistment, induction, commissioning, appointment, or drafting was a bona fide resident of this state or has resided in this state at least one year immediately before the date of filing an application under this chapter; and

(3) at the time of the person's application under this chapter is a bona fide resident of this state. The term includes the unmarried surviving spouse of a veteran who died or who is identified as missing in action if the deceased or missing veteran meets the requirements of this section, with the exception that the deceased or missing veteran need not have served 90 days under Paragraph (A)(i) of this subdivision, and if the deceased or missing veteran was a bona fide resident of this state at the time of enlistment, induction, commissioning, appointment, or drafting.

2.2 Income Limitation

The income of the eligible borrower(s) must be less than or equal to the applicable Program maximum income limit. Please visit TSAHC's website at www.tsahc.org or the Lender Portal at www.tsm-online.org for the maximum income limits for the Programs.

For DPA Assistance (with no MCC): For purposes of meeting the eligibility criteria, only the income of the mortgagor(s) will be considered. The income of a non-purchasing spouse (NPS) will not be included in the calculation. For example, only the income used to qualify the mortgagor for repayment of the mortgage loan (from the 1003 loan application and/or the applicable underwriting worksheet) will be compared against the program limits.

For MCC Assistance (with or without DPA): For purposes of meeting the income eligibility criteria, income from all family members living in the home with an ownership interest is considered. Family income is calculated by taking the borrower's current gross monthly income from all sources, as well as that of anyone else who is expected to live in the residence and become liable on the deed of trust (including a non-purchasing spouse) and multiplying that amount by 12.

The Lender uses one of two methods of computation depending on whether the borrower is employed or self-employed. Generally, family income for an employed person is computed by multiplying the current gross monthly income figure by twelve. Sporadic income should be averaged and added to that base figure for a total. Family income for a self-employed person is computed by annualizing the year-to-date total on a current profit and loss statement and averaging that amount with the net income figures from the two most recent years' federal income tax returns (with depreciation added back in).

- a. Sources of Income. The IRS requires that every source of income, taxed or untaxed, be included in the calculation of family income for the MCC.
- b. Prior Year Earnings. On some pay stubs the year-to-date earnings include pay from the last part of the prior year. In such circumstances, the borrower should request that the employer provide a signed statement of verification. Otherwise, the borrower may be deemed to exceed the maximum family income limits, due to an inflated average, and be disqualified.

Please refer to the Appendix for more information about calculating income for MCC qualification purposes.

2.3 First-Time Home Buyer Requirement

For DPA Assistance Only (no MCC): Borrowers are not required to be first-time home buyers. Borrowers may have previously owned or may currently own a home, provided that the home being purchased becomes the borrower's principal residence upon loan closing. If the borrower purchased their current home using TSAHC's DPA program, they must sell their current home in order to be able to use the DPA program to purchase the new principal residence.

For MCC or MCC/DPA Assistance: Mortgagor(s) applying for an MCC cannot have had an ownership interest in a principal residence at any time during the preceding three years ending on the date the mortgage is executed. The mortgagor and spouse, and any other adult who will be named on the deed of trust, must meet this first-time home buyer requirement. This requirement also applies to separated (not divorced) couples; that is, even if the separated person lives in a separate home, the first-time home buyer requirement still applies to such person. The first-time home buyer requirement does not apply to acquisitions of homes in Targeted Areas or if a mortgagor is a Qualified Veteran (Active duty military do not meet the definition of Qualified Veteran in reference to waiving the first-time home buyer requirement for the Mortgage Credit Certificate Program.).

This requirement must be verified by the Lender's examination of the borrower's federal tax returns for the preceding 3 years (or by the other permitted documents described below) to determine whether the borrower has claimed a deduction for mortgage interest or taxes on real property claimed as a principal residence. In

addition, the Lender must obtain rental verification (either written or verbal) from the last tax return filed to the application date.

For purposes of the first-time home buyer requirement, a person is treated as having an ownership interest if such person is living in the home as his or her principal residence and is listed on the deed of trust, even if he or she does not take a mortgage interest deduction on his or her federal tax returns. For married couples, each spouse is treated as holding an ownership interest, even if not listed on the deed of trust. For a person who is not a spouse (for example, a parent of a mortgagor) who is a co-signor under, or a guarantor of, a promissory note secured by the mortgage, but who does not occupy the property and has no present ownership interest in the residence, is not required to satisfy the first-time home buyer requirement.

Each Borrower is required to submit acceptable documentation with his or her MCC application to demonstrate that he or she meets the first-time home buyer requirement. The following documentation options are acceptable:

- a. Signed and dated Form 1040, 1040A or 1040EZ federal income tax returns for the past 3 years with all schedules that show no deductions for mortgage interest or real estate taxes for a Principal Residence. **Please note: For any loan closing after February 15, the tax return for the prior year MUST be included. If the borrower has not yet filed a tax return for the prior year, the loan can close, but the MCC will not be issued until the prior year's tax return has been provided to, and reviewed for compliance by, TSAHC.**
- b. For borrowers who do not have copies of the actual tax returns submitted to the IRS, the borrower may submit printouts from the local IRS office that reflect his or her 3 most recent federal tax returns. The printouts from the IRS do not have to be signed. Provided that the printouts show that no mortgage interest deduction was taken, the printouts can be submitted in lieu of the tax return copies. However, if the IRS has determined that an error was made on any of the requested tax returns, the staff will not issue a printout; they will instead issue an IRS Letter 1722.
- c. For borrowers who are unable to obtain a computer printout from the IRS, as described above, the borrower can request instead IRS Letter 1722, which summarizes pertinent data from the Borrower's tax returns for the requested years. However, the Borrower must also obtain on the Letter 1722 a statement from the IRS that no mortgage interest deduction was taken during the 3-year period for each year the borrower filed a Form 1040 during the 3-year period.
- d. For borrowers who cannot locate copies of their actual tax returns submitted to the IRS, the borrower may request copies of the returns from the IRS using Form 4506.
- e. In the event the borrower was not obligated to file federal income tax returns for any of the preceding 3 years, the Lender must so indicate on the MCC Program Affidavit provided by TSAHC. A Borrower who cannot provide tax returns because they did not file them when required to do so (and failed to file for any applicable permitted extension), are not eligible for an MCC.

If one or more of a borrower's tax returns reflect that the borrower took a deduction for mortgage interest or real estate taxes on property claimed not to be the principal residence, documentation (rent receipts or canceled checks) of the rental history is required beginning with the period of said tax return through the MCC application date.

An ownership interest in a mobile home will be considered a prior ownership interest in a principal residence if the mobile home was (1) permanently attached or anchored to land and had the wheels and other components used in transportation removed, and (2) taxed as real property.

Remember, except for cases involving a self-employed borrower, the borrower submits copies of 3 years' tax returns NOT to verify income, but to verify first-time home buyer status.

2.4 Principal Residence Requirement

The financed residence must become the principal residence of the borrower within 60 days of loan closing. A residence that is a vacation home is not a principal residence. Additionally, no more than 15% of a qualifying residence may be used for trade or business purposes.

2.5 Residency Requirements

Homes for Texas Heroes Program: Borrowers must currently be a Texas resident or demonstrate intent to be a resident of Texas; therefore, individuals who are currently not living in Texas but have accepted a job in one of the eligible professions listed under the Homes for Texas Heroes Program are eligible. Please follow FHA, VA, USDA or Fannie Mae guidelines related to non-U.S. citizen Borrowers.

Home Sweet Texas Program: No residency requirements apply. Please follow FHA, VA, USDA or Fannie Mae guidelines related to non-U.S. citizen borrowers.

2.6 Home Buyer Education

At least one borrower must complete a home buyer education course prior to closing. This requirement can be met by attending an in-person or online counseling course listed at www.texasfinancialtoolbox.com.

SECTION 3 – LOAN ELIGIBILITY

3.1 Types of Loans

For DPA Assistance Only Loans or MCC/DPA Assistance Loans: Only 30-year, fixed-rate mortgage loans are allowed. Furthermore, the only loan types allowed are:

FHA Loans

- Must be originated and guaranteed in accordance with FHA guidelines and Lakeview guidelines.
- 30-year fixed and limited 203(k) only.
- Temporary buydowns are not permitted.

VA Loans

- Must be originated and guaranteed in accordance with VA guidelines and Lakeview guidelines.
- 30-year fixed only.
- Temporary buydowns are not permitted.

USDA Rural Housing Service (RHS) Loans

- Must be originated and guaranteed in accordance with USDA-RHS guidelines and Lakeview guidelines.
- 30-year fixed only.
- Temporary buydowns are not permitted.

Conventional Loans

- Must be originated and guaranteed in accordance with Fannie Mae and Lakeview guidelines for the HFA Preferred loan product.
- Temporary buydowns are not permitted.

For MCC Only Assistance: There are no restrictions on the mortgage financing with regard to loan type, term or rate. However, only fixed-rate first mortgages (as opposed to second mortgages) qualify. In addition, mortgage loans funded with qualified mortgage bonds or qualified veteran's mortgage bonds are not eligible.

3.2 Purpose of Loan

Only first lien purchase-money loans are eligible.

3.3 Assistance Options

DPA Assistance: TSAHC offers down payment assistance (DPA) in the form of a non-repayable grant and a deferred, repayable second lien. DPA may be used to fund the borrower's cash requirement to close, including the down payment, closing costs, pre-paid items and other related mortgage loan fees and expenses. No portion of the DPA can be paid to the borrower unless the borrower is being reimbursed for an overage of deposits for earnest money and/or items paid outside of closing, to the extent the minimum borrower contribution has been satisfied.

Grant Assistance

- Grant assistance is forgiven and never needs to be repaid after six months from the first lien mortgage loan closing date originated in conjunction with the down payment assistance grant.
- No second lien.
- Minimum 620 credit score.
- The borrower has the option to choose from three assistance levels: 3%, 4%, or 5% of the loan amount.
- All loan types available.

Soft Second

- 0% interest second lien with deferred payments.
- Minimum 680 credit score.
- No additional fees on second lien.
- Only available with the HFA Preferred conventional loan 5% assistance level.
- Repayable upon maturity, sale, transfer or refinance of the senior lien and failure to occupy property as principal residence.

MCC Assistance: With an MCC, the qualified home buyer is eligible to apply a portion of the annual interest paid on the mortgage as a special tax credit, up to \$2,000, during each year that the mortgagors occupy the home as their principal residence. The portion or amount of the tax credit is equal to the mortgage credit rate on the MCC (30%) multiplied by the annual interest paid, not to exceed \$2,000.

This credit reduces the federal income tax liability of the home buyer dollar-for-dollar, resulting in an increase in the home buyer's net earnings. Increased home buyer income results in increased home buyer capacity to qualify for the mortgage loan.

In the example below, the credit amount is equal to the mortgage credit rate multiplied by the annual interest paid on the mortgage Loan in that given year. For example:

Mortgage Loan Amount:	\$150,000
Interest Rate:	5.00%
Mortgage Credit Rate:	30%
$\$150,000 \times 5.00\% =$	\$7,500 (approximate interest paid in the first year)
$\$7,500 \times 30\% =$	<u>\$2,250 (Calculated Mortgage Credit Amount)</u>
	\$2,000 (Maximum Tax Credit)

Given the maximum credit allowed is \$2,000, the credit amount taken that year will be \$2,000.

Please note: The annual benefit to the borrower will be the lesser of the credit amount or the amount of federal taxes owed after all other credits and deductions have been taken. The benefit cannot exceed the borrower's federal income tax liability for the year. However, if the Borrower is unable to use all of the maximum available MCC tax credit in any year, the unused portion of the tax credit can be carried forward three tax years or until used, whichever comes first. Any amount of the mortgage credit in excess of the maximum \$2,000 may not be carried forward.

A home buyer receiving an MCC can still take the normal tax deduction for interest paid on the mortgage. However, the home buyer must deduct the claimed credit from the annual interest paid (\$7,500 - \$2,000 = \$5,500) before claiming a deduction for the balance.

The mortgagor(s) may receive the full MCC tax credit annually at the time they file their tax return or monthly by adjusting his or her federal income tax withholding by filing a revised Form W-4 with his or her employer.

A borrower who receives an MCC may be subject to a federally imposed mortgage subsidy recapture tax ("Recapture Tax") if the mortgagor sells his or her residence within nine years. The tax, if any, will always be the lesser of: half the gain from the sale of the home, or an amount based on a formula which takes into consideration: (1) the original principal amount of the home mortgage; (2) the number of complete years that pass before the home is sold; (3) the Applicable Median Family Income for the home buyer's area at the time he/she bought the home, and (4) the home buyer's adjusted gross income at the time the home is sold.

There are several conditions that can exempt the MCC holder from Recapture Tax. These include: (a) no net gain on the sale of the property, (b) insufficient increase in the income of the MCC holder between the time of purchase and the time of sale, (c) sale of the home after the ninth year, and (d) a sale due to death or divorce.

For MCC/DPA Assistance: Borrowers who are first-time home buyers may use both TSAHC's DPA and MCC Programs together, taking advantage of both forms of assistance. Borrowers must meet all the requirements of the stricter of the two forms of assistance to qualify.

3.4 Using Additional Subsidy Programs

Additional subsidy programs may be used in conjunction with TSAHC's Programs provided they meet FHA, VA, RHS, Ginnie Mae, Fannie Mae and Lakeview Guidelines, and provided that the subsidy funds are not attached to

the first lien mortgage, either as a gift or as a second lien. Please check with TSAHC if you have questions about combining another subsidy program with TSAHC’s down payment assistance.

SECTION 4 – PROPERTY ELIGIBILITY

4.1 Eligible Loan Area

The home being purchased must be located in the State of Texas. The Lender should verify the property’s location by reviewing the property appraisal and location where the property taxes are paid.

4.2 Qualifying Residences

	DPA or DPA/MCC Assistance		
	Government Loans	HFA Preferred Conventional Loans	Traditional Conventional Loans
New or existing single family home	✓	✓	✗
Condominium, townhouse, or unit in a PUD	✓ (Condo: FHA/VA approved)	✓ (Condo: Fannie Mae approved)	✗
2-4 unit property, provided that one of the units will be occupied by the borrower	✓	✓ (LTV ≤ 95%; 3% borrower’s own funds required)	✗
Manufactured homes that meet HUD guidelines (Doublewide or greater)	✓ (FHA and USDA only)	✗	✗

	MCC Assistance		
	Government Loans	HFA Preferred Conventional Loans	Traditional Conventional Loans
New or existing single family home	✓	✓	✓
Condominium, townhouse, or unit in a PUD	✓	✓	✓
2-4 unit property, provided that one of the units will be occupied by the borrower	✓	✓	✓
Manufactured homes that meet HUD guidelines	✓	✓	✓

Regardless of loan type, the following types of residences are not eligible:

- Rental homes
- Cooperative housing
- Homes used as investment properties
- Recreational, vacation or second homes
- Motor homes, campers and similar vehicles

4.3 Purchase Price or Appraised Value Limitation

The purchase price cannot exceed the maximum purchase price limit. Purchase price is simply the sales price of the property indicated on the property sales contract between the buyer and seller. For current maximum purchase price limits, visit TSAHC's website at www.tsahc.org or the Lender Portal at www.tsm-online.org.

4.4 Targeted Areas

Targeted Areas are certain census tracts identified as "areas of chronic economic distress". The benefits of originating a mortgage loan in a targeted area are higher income limits and higher purchase price limits. Additionally, the first-time home buyer requirement is waived for those utilizing TSAHC's MCC assistance. Visit TSAHC's website at www.tsahc.org or the Lender Portal at www.tsm-online.org for a list of targeted areas.

SECTION 5 – MORTGAGE LOAN UNDERWRITING AND PURCHASE

5.1 General Mortgage Underwriting

For DPA or DPA/MCC Assistance:

- a. Mortgage loans must be underwritten to the standards of the applicable loan type. In the case of conflicting guidelines, the Lender must follow the more restrictive to meet the credit, income limits, total debt-to-income ratio and loan and property requirements of TSAHC, Fannie Mae, Mortgage Insurer, Lender or Lakeview Loan Servicing.
- b. The following overlays apply:

For FHA Loans:

- Borrowers must have a minimum representative credit score of 620 or greater. A minimum representative credit score of 640 or greater is required for manufactured homes.
 - Loans with representative FICO credit scores of 620-639 are subject to a 0.50% origination charge.
- Loans must be submitted through FHA Total Scorecard and receive an Accept/Eligible recommendation.
- Loans may be manually underwritten in cases of an Accept/Eligible that requires a manual downgrade or if the loan receives a Refer/Eligible recommendation.
 - Maximum DTI for manually underwritten loans is 43.00%
 - Minimum FICO credit score of 640
 - Non-traditional credit is allowed
 - Manual underwriting is not permitted for manufactured homes

For VA or USDA Loans:

- Borrowers must have a minimum representative FICO credit score of 620 or greater. A minimum representative credit score of 640 or greater is required for manufactured homes (eligible for USDA only).
 - Loans with representative FICO credit scores of 620-639 are subject to a 0.50% origination charge

- Fannie Mae’s Desktop Underwriter (DU) or Freddie Mac’s Loan Product Advisor (LPA) are allowed for VA loans. GUS must be used for USDA loans.
- Manual underwriting is not allowed for either VA or USDA loans. However, the existing manufactured home pilot program requires a USDA manual underwrite and is allowed.
- Non-traditional credit is not allowed.
- Manufactured homes are not permitted with VA loans.

For Fannie Mae HFA Preferred Conventional Loans:

- Borrowers must have a minimum representative FICO credit score of 620 or higher for the grant assistance and 680 or higher for the soft second lien assistance.
 - Loans with representative FICO credit scores of 620-639 are subject to a 0.25% origination charge
 - A borrower with no FICO credit score may be eligible as long as an occupant borrower(s) has a credit score that meets the minimum 620, subject to AUS and Mortgage Insurance approval
- Fannie Mae’s Desktop Underwriter (DU) must be used. Freddie Mac’s Loan Product Advisor (LPA) is not allowed.
- Manual underwriting is not allowed.
- Non-traditional credit is not allowed.
- Manufactured homes are not permitted with conventional loans.

For MCC Assistance Only: The related mortgage loan must be a fixed-rate first lien. Otherwise, there are no credit overlays and lenders may underwrite, sell, and/or retain loans as they choose.

5.2 Cosigners and Non-Occupant Co-Borrowers

Only cosigners or non-occupying co-borrowers who **DO NOT sign the deed of trust** and will not take any ownership interest in the property are eligible for use. **Cosigners or non-occupying co-borrowers that WILL have ownership interest are not eligible for use under any circumstance.**

Cosigners (who DO NOT sign the deed of trust) are permitted on HFA Preferred and FHA loans only; they are not permitted on VA or USDA loans. Please follow agency guidelines for cosigners. In addition, the cosigner must meet the following conditions:

- The cosigner must not take any ownership interest in the property being financed with the mortgage loan, must not be on the title and must not sign the deed of trust.
- The cosigner must not occupy the property being financed with the mortgage loan and should not execute any of the program documents or affidavits.
- The cosigner’s income should not be considered when calculating the income for comparison against the maximum family income limits established for the program.

SECTION 6 – PROGRAM FEES AND CHARGES

6.1 Program Fees

For DPA Assistance: The following fees will be deducted from the mortgage loan purchase price by Lakeview:

- \$250 Funding Fee
- \$75 Tax Service Fee
- \$10 Flood Transfer Fee
- \$200 Compliance Review Fee
- For loans with representative FICO scores of 620-639, an origination charge of:
 - 0.25% of the loan amount for conventional loans
 - 0.50% of the loan amount for FHA, VA or USDA loans

For DPA/MCC Assistance: The following fees will be deducted from the mortgage loan purchase price by Lakeview:

- \$250 Funding Fee
- \$75 Tax Service Fee
- \$10 Flood Transfer Fee
- \$200 Compliance Review Fee
- For loans with representative FICO scores of 620-639, an origination charge of:
 - 0.25% of the loan amount for conventional loans
 - 0.50% of the loan amount for FHA, VA or USDA loans
- \$500 MCC Issuance Fee*

*The \$500 MCC Issuance Fee will **not** be charged to borrowers in the **Homes for Texas Heroes program only** who are receiving down payment assistance in combination with the MCC.

For MCC Assistance: The following fees will be due to the Texas State Affordable Housing Corporation:

- \$200 Compliance Review Fee
- \$500 MCC Issuance Fee

These fees must be remitted to TSAHC through an ACH transfer of funds. If an ACH transfer is not available, a corporate check for the fees may be sent to the following address:

Texas State Affordable Housing Corporation
2200 E. Martin Luther King Jr. Blvd.
Austin, Texas 78702-1344
Attn: MCC Compliance

6.2 Lender Compensation

For DPA or MCC/DPA Assistance: Mortgage loans originated using DPA assistance will be delivered to Lakeview. Lenders will be compensated by Lakeview upon loan purchase. Lender compensation will be in the form of a Servicing Released Premium equal to 2.50%.

Lenders may not charge origination or discount points except as provided in Section 6.1 for FICO scores of 620-639.

However, Lenders may collect all reasonable and customary fees and closing costs, provided all fees are fully disclosed in accordance with federal, state and local regulations.

For MCC Loans: Loans using only TSAHC's MCC assistance will not be delivered to Lakeview. The Lender may retain or sell such loans. TSAHC and Lakeview are not involved in Lender compensation for MCC-only loans.

6.3 Fees and Charges on the Closing Disclosure

All fees and charges must be properly listed on the Closing Disclosure.

SECTION 7 – LOAN RESERVATION, COMPLIANCE & FUNDING PROCEDURES

7.1 Lender Portal

The Lender Portal is an interactive, web-based application that Lenders use to reserve funds and submit Pre- and Post-Closing Compliance Packages. In addition, the Lender Portal allows Lenders to check the status of loans in their pipeline, view compliance conditions, print compliance approval (commitment) letters, run reports, view program guidelines and marketing materials, and keep up to date on other important information associated with the programs.

Each Lender will choose one staff member to manage the company's access to the Lender Portal. This "Administrator" will determine who within the company will have access to the Lender Portal and will determine which level of access each employee will have. Access levels range from "Read Only" to "Administrator" with other levels between.

7.2 Reservation, Compliance and Closing Steps

Step 1: Reserving Funds

At the time the Lender reserves a mortgage loan in the Lender Portal, the Lender must have a mortgage loan application from a borrower, and the Lender must have made a preliminary determination that the borrower qualifies for the program(s). In addition, the borrower must have furnished the Lender with a property sales contract or construction contract executed by the borrower and the seller or builder of a residence.

The reservation window is open Monday through Friday between 9:00 a.m. and 7:00 p.m. Central Time and will not be available on Saturdays, Sundays, certain holidays, and days when the financial markets are closed.

- Login to the TSAHC Lender Portal at www.tsm-online.org.
- Select the "New Reservation" tab in the upper left corner.
- Select the appropriate program from the list.

- Complete those fields marked with a red asterisk in the reservation form and click “Submit” at the bottom of the form.
- Once the loan is reserved, you will have the option to view or print your reservation confirmation.
- The reservation confirmation will include the TSAHC loan number, the date reserved and the commitment expiration date (60 days from the reservation date).

Step 2: Underwrite the Loan

The lender underwrites the loan in-house following the relevant agency guidelines on FHA, VA, USDA, or HFA Preferred Conventional (Fannie Mae), including TSAHC overlays provided in these Guidelines and any overlays provided by Lakeview.

Step 3: Pre-Closing Compliance Package Submission

- The next step is to complete and submit the Pre-Closing Compliance Package via the Lender Portal at least 5 calendar days prior to the anticipated closing date of your loan.
- Login to the Lender Portal at www.tsm-online.org.
- Click on the “Loan Status” tab and use the search engine to locate the applicable loan.
- Once the correct loan is identified, click on the “PDF Forms” tab associated with the selected loan.
- Select and download the DPA Pre-Closing Checklist. Ensure all documents listed on the checklist are uploaded AND submitted via the Lender Portal.
- Once the Pre-Closing Compliance Package has been approved/committed, the Lender may re-enter the Lender Portal and print out a Commitment Letter from the “PDF Forms” tab associated with the loan under the “Loan Status” tab.
- To prepare for closing, select and download the DPA Post-Closing Checklist to ensure all documents listed on the checklist are executed at closing.

Step 4: Funding of Down Payment Assistance

- ***This step is for DPA and MCC/DPA Loans Only. Those loans utilizing only TSAHC’s MCC assistance can skip to Step 5.***
- Provided the Pre-Closing Compliance Package is approved by TSAHC, the Lender will advance the down payment assistance funds at loan closing (beginning January 15, 2018, TSAHC will no longer fund the DPA Assistance directly at closing). Lenders will be reimbursed the amount of the funds advanced when the Mortgage Loan is purchased by Lakeview. Lakeview will reimburse the lender for the grant assistance and TSAHC will reimburse the lender for the soft second lien assistance. TSAHC reimburses the soft second lien assistance after Lakeview purchases the 1st lien. This is done in aggregate, the following month.
- If a prepayment of a newly originated Mortgage Loan is received by the originating Lender prior to the sale of such Mortgage Loan to Lakeview, TSAHC will reimburse the Lender directly for the original funding of the down payment assistance, but only after the Lender pays a non-delivery fee to TSAHC equal to the amount of the down payment assistance.
- If the Mortgage Loan is prepaid after Lakeview purchases such Mortgage Loan from the Lender and before Lakeview sells the related mortgage-backed security (i.e., a security backed in part by such Mortgage Loan), TSAHC will reimburse Lakeview for the related grant assistance or the lender for the related soft second lien assistance, but prior to such reimbursement, the Lender shall pay to TSAHC a non-delivery fee equal to the amount of the down payment assistance.

Step 5: Post-Closing Compliance Package Submission

- Upon closing, the Lender must submit the Post-Closing Compliance Package for TSAHC’s review and approval NO LATER than 5 days following loan closing. Those who repeatedly turn in late files may be fined or suspended.
- Login to the Lender Portal at www.tsm-online.org.
- Click on the “Loan Status” tab and use the search engine to locate the applicable loan.
- Once the correct loan is identified, click on the “PDF Forms” tab associated with the selected loan.
- Select and download the Post-Closing Checklist. Ensure all documents listed on the checklist are uploaded AND submitted via the Lender Portal.
- The loan will not be purchased by Lakeview, and/or the MCC will not be issued to the borrower, until the Post- Closing Compliance Package has been approved by TSAHC.

Step 6: Loan Purchase

- ***This step is for DPA and MCC/DPA Loans Only.***
- Upon closing, the Lender will deliver the closing package to Lakeview for purchase. Delivery and funding information for the mortgage loan file may be found on the Lakeview Seller Portal at www.lakeviewcorrespondent.com.
- The closing package must be delivered to Lakeview promptly after closing and must be purchased by Lakeview within 60 calendar days of loan reservation.
- If the loan is not eligible for purchase within the 60-day purchase period, the Lender may request a 7, 15 or 30-day extension at a cost of 1 basis point per day (7 bps, 15 bps or 30 bps, respectively).
 - This fee will be deducted from the Lender’s proceeds at the time the loan is purchased by Lakeview.
 - The Extension Request Form can be found under the “Loan Status” tab on the Lender Portal (click on the “PDF Forms” tab associated with the specific loan).
 - Extension requests beyond 30 days from the original expiration date will only be considered on a case-by-case basis. Lakeview may, but is under no obligation to, purchase loans beyond the 90-day period (initial 60-day period plus 30-day extension), subject to additional per diem charges.
- In the event a loan is not purchased by the later of the 60th day after initial loan reservation or the last day of any extension that was granted, TSAHC will reimburse the Lender for the down payment assistance funds advanced by the lender at loan closing, but only after the payment by the Lender to TSAHC of a non-delivery fee equal to such down payment assistance.
- Once all TSAHC and Lakeview conditions have been met, the loan will be purchased by Lakeview.
- Lenders will be reimbursed the amount of the funds advanced when the Mortgage Loan is purchased by Lakeview. Lakeview will reimburse the lender for the grant assistance and TSAHC will reimburse the lender for the soft second lien assistance. TSAHC reimburses the soft second lien assistance after Lakeview purchases the 1st lien. This is done in aggregate, the following month.

7.3 Electronic Submission of Required Documents

The Lender Portal allows Lenders to submit electronic documents from our list of “PDF Forms” or from your in-house loan file. Paper documents will not be accepted. All documents must be uploaded electronically through the Lender Portal.

- Under the Loan Status tab, click on the “PDF Forms” tab associated with the loan you are processing.

- Select the desired form and ensure all required fields are completed. The system will auto-fill the fields that were input at loan reservation.
- If the applicable form requires no signature, it will have an “Upload Package” button at the bottom of the document. Simply click the button after completing the form and it will automatically upload to the “eDocs” module of the Lender Portal.
- If the applicable form requires a signature, the form must be completed, printed and scanned to create a PDF document. The PDF document may then be uploaded to the system using the “eDocs” function associated with your loan under the “Loan Status” tab.
 - Simply click the “eDocs” tab and follow the instructions to upload the required documents.
 - Click the “Add New” button to upload a form. Click the “Click Here” button to access your computer files and select the document you wish to upload.
 - The next step is to name the document you are uploading. Choose an option from the drop-down list under “Select a document from the predefined list”. The drop-down will list all of the required documents for the applicable package. If you don’t see your document on the list, use the “Enter a customized document name” field to name the document you are uploading.
- Once all of the required documents (from the Pre-Closing Compliance Package Checklist or the Post-Closing Compliance Package Checklist) have been uploaded to the Lender Portal, click on the “Submit” button associated with the applicable package and TSAHC will be notified that your package has been delivered.

SECTION 8 – MODIFICATIONS

8.1 Changes in Current Income

Income eligibility is based upon the current family income of the borrower(s). The commitment is issued based on verified income as of the date the commitment is issued.

Increases in income from sources already reported (i.e., salary increase) will not affect the validity of a commitment as long as the loan closes within 30 days from the time the commitment was issued. If the loan does not close within 30 days, the “Reaffirmation of Borrower Form” (available in the “PDF Forms” tab in the Lender Portal) must be completed and uploaded to the Lender Portal.

If a borrower’s income increases between the execution of the Program Affidavit and the closing date of the mortgage loan (and if more than 30 calendar days has elapsed since execution of the Program Affidavit), and the “Reaffirmation of Borrower” cannot be executed due to the changes, the Lender must submit a corrected Program Affidavit through the Lender Portal for additional review. If the changes in income make the loan ineligible for purchase, the reservation will be cancelled by TSAHC.

8.2 Change in Purchase Price

For a change in purchase price after the commitment and prior to closing which does not exceed the maximum purchase price limit, the Lender will be required to submit a corrected Program Affidavit, re-executed by the borrower, through the Lender Portal for additional review. If the purchase price of the applicable residence increases so as to exceed the maximum purchase price limit, the commitment shall be revoked and the reservation cancelled.

8.3 Changes in Property Address

If a borrower has a pending reservation and changes the property he or she intends to purchase, the Lender must submit a new signed property sales agreement and a notice to TSAHC stating whether or not the mortgage amount has changed. If the change occurs after TSAHC has issued the commitment, the following documents should be revised and resubmitted through the Lender Portal to reflect the new property address and any change in mortgage amount:

- a. Copy of Program Affidavit (first page amended and initialed by the Borrower)
- b. Property sales contract (first and last pages and any counter offers)

8.4 Change in Loan Amount

Any change to the mortgage loan amount that occurs after the commitment is issued, but before loan closing, must be reported to TSAHC via email. TSAHC will revise the commitment with the new mortgage loan amount and notify the Lender when the revision is completed.

8.5 Lender's Obligation to Notify TSAHC of Material Changes

The issuance of a commitment is based (in part) upon the Program Affidavit and the Lender's certification that the program requirements have been met. Commitments are issued subject to the condition that all program requirements are or will be met prior to the closing of a mortgage loan. Thus, the Lender must immediately notify TSAHC of any change in the circumstances upon which the commitment was issued. If any change of circumstances occurs such that TSAHC requirements are not met, the commitment will be revoked and the mortgage loan cancelled.

SECTION 9 – ADDITIONAL PROVISIONS

9.1 Cancellation and Commitment Expirations

The Lender is responsible for cancelling all mortgage loans subject to a reservation if the mortgage loan will not be delivered. Please note, should the Lender cancel a reservation, the Lender will be prohibited from making another reservation for that borrower for a period of 90 days unless otherwise authorized by TSAHC.

- a. In a case where the borrower cancels or withdraws his or her application, the reservation of funds must be cancelled by contacting TSAHC.
- b. In a case where the Commitment expires, the Lender must request an extension using the Extension Request Form available through the Lender Portal, and provide the new estimated closing date.

In all cases, the expiration of the commitment without a cancellation or extension by the Lender may result in the Lender being placed on "Inactive Status", meaning the Lender may submit no new reservations until the problem is resolved. Failure to comply with this provision may result in the Lender's termination from the programs.

9.2 Delinquent Closing Documentation

If the Post-Closing Compliance Package is not submitted through the Lender Portal within ten (10) days of loan closing, TSAHC may contact the Lender to request the status of the mortgage loan. If the Lender fails to timely provide to TSAHC the required closing documentation, the corresponding reservation will be subject to cancellation. Such action may result in the Lender being suspended or terminated from the program until the problem is remedied.

9.3 Penalties for Borrower Misrepresentation

Strict penalties may be imposed on any Borrower making a material misstatement, misrepresentation or fraudulent act on an application or other document submitted to obtain assistance from TSAHC. Further, any person making a material misstatement or misrepresentation in any affidavit or certification made in connection with the application shall be subject to all applicable fines and penalties.

9.4 Revocations of MCC

- a. Revocation of an MCC will occur when the residence for which the MCC was issued ceases to be the MCC holder's principal residence.
- b. Revocation will occur upon discovery by TSAHC or a participating Lender of any material misstatement, whether negligent or intentional, made in connection with the issuance of the MCC.
- c. Revocation will occur if it is later discovered that the holder did not meet the requirements for an MCC.
- d. Revocation will occur if the original (first) mortgage loan is refinanced, unless the borrower applies for a re-issued MCC after the refinancing has closed. The tax credit may only be claimed for interest paid to the date of the recording of the refinancing, unless a re-issued MCC has been applied for and issued.

9.5 Reissued MCCs

TSAHC shall reissue an MCC for certain refinance transactions if TSAHC receives to its satisfaction evidence that:

- a. The reissued MCC is issued to the holder of an existing MCC with respect to the same property to which the existing MCC relates;
- b. The reissued MCC entirely replaces the existing MCC (that is, the holder cannot retain the existing MCC with respect to any portion of the outstanding balance of the certified mortgage indebtedness specified on the existing MCC);
- c. The certified mortgage indebtedness specified on the reissued MCC does not exceed the remaining outstanding balance of the certified mortgage indebtedness specified on the existing MCC; and
- d. The reissued MCC does not result in an increase in the tax credit that would otherwise have been allowable to the holder under the existing MCC for any taxable year. The holder of a reissued MCC determines the amount of tax credit that would otherwise have been allowable by multiplying the interest that was scheduled to have been paid on the refinanced loan by the MCC rate of the existing MCC. In the case of a series of refinance transactions, the tax credit that would otherwise have been allowable is determined from the amount of interest that was scheduled to have been paid on the original loan and the MCC rate of the original MCC.

9.6 Replacement MCCs

Upon the satisfaction of TSAHC that an MCC has been mutilated, destroyed, lost or stolen, including the surrendering of the mutilated MCC to TSAHC, and upon receipt by TSAHC of such indemnity or security as TSAHC

may require, TSAHC shall cancel the original MCC, noting in its records that such MCC was mutilated, destroyed, lost, or stolen, and issue a replacement MCC.

TSAHC shall charge the homeowner reasonable fees and expenses in connection with issuing a replacement MCC.

SECTION 10 – MCC REPORTING

10.1 Lender Record Keeping and Federal Report Filing

The Lender is required by the IRS to file a report on or before January 31 for all of the MCCs issued during the previous calendar year. In early January, TSAHC will send the Lender the completed IRS Form 8329 with the MCCs issued the previous year. It is the Lender's responsibility to verify that the information on the form is correct and, if necessary, make any changes or additions and then submit the form to the IRS.

For six years after each Closing, the Lender must retain:

1. Name, mailing address, and tax identification ("TIN") or social security number of the MCC holder.
2. Name, mailing address, and TIN of the Issuer.
3. Date of issuance for each MCC, the certified amount of indebtedness and the credit rate of the MCC.

TSAHC may conduct audits of Lender records to ensure compliance with the recordkeeping provisions.

10.2 TSAHC Reports

TSAHC must make quarterly reports on IRS Form 8330, beginning with the quarter in which the election for the MCC program is made. The report must include:

- Name, address, and TIN of the Issuer;
- Date of election;
- The sum of the products of the certified indebtedness amount (the mortgage amount or the initial principal balance) and the MCC credit rate for each MCC issued; and
- Name, address, and TIN of each MCC holder for whom an MCC was revoked.

TSAHC shall make an annual report to the IRS for each year beginning July 1 and ending June 30. The report will include:

- Number of MCCs issued by Income and Purchase Price; and
- Volume of MCCs issued by Income and Purchase Price.

In January following each year during which MCCs are issued, the Program Administrator will mail an IRS Form 8396, Mortgage Interest Credit, to each MCC holder of record as a reminder to properly declare the MCC tax credit for federal income tax purposes.

APPENDIX: MORTGAGE CREDIT CERTIFICATE INCOME GUIDELINES

General Guide

TSAHC is relying on the Lenders and borrowers to provide correct information on income. This reliance is based upon the Lender certifications about reasonable investigation of the borrower and statements by the borrower that facts are correct.

Each Lender and borrower provides information and signed certifications, which are specific about the information provided and its correctness. In the event of false statements or fraud, substantial penalties may be levied. Therefore, TSAHC encourages the Lenders and the borrowers to provide accurate information and ensure that calculations are within the limits.

IN MOST CASES, STANDARD CREDIT UNDERWRITING PROCEDURES ARE ACCEPTABLE. **THE MAIN EXCEPTION IS THAT FOR MCC COMPLIANCE PURPOSES ALL SOURCES OF INCOME MUST BE INCLUDED, WHETHER OR NOT USED TO QUALIFY BORROWERS UNDER STANDARD UNDERWRITING GUIDELINES.** Under no circumstances will the income used for MCC compliance be less than that used by the Lender when qualifying borrowers for repayment of their mortgage loan.

It is important to understand the basis upon which these guidelines are written. Congress has instituted maximum Income limits under which borrowers may qualify for loans made available through tax-exempt bonds. Congress and the Treasury Department have determined that the total of all sources of income of the borrowers may not be above the maximum Income levels to receive the benefits of the MCC. The total family income is to be recorded in the Affidavit that is signed by the borrower(s).

In cases that have complicated calculations, the Lenders are encouraged to communicate with TSAHC to ensure that calculations are within the guidelines.

TSAHC's maximum income limits are set pursuant to the Internal Revenue Code and restrictions of the Federal Department of Housing and Urban Development. For purposes of determining whether a borrower falls within the maximum income limit, the gross income of the borrower(s) must be determined. **The income of the following persons must be taken into account:**

1. Any Mortgagor (or co-Mortgagor) liable on the mortgage loan (i.e., the deed of trust).
2. Any other person who is "secondarily liable" and is expected to live in the financed residence.

The income of any persons listed on the deed of trust must be included to determine eligibility for MCC assistance. For a married couple, total gross income must be counted, regardless of who is on the title. In Texas, co-signers or guarantors execute only the Mortgage Note, which means their income does not need to be included.

Gross income shall not be reduced by the amount of child support payment a husband/wife makes for the care of a child or children. However, a husband/wife who receives child support payments must include this amount as income.

Net rental income is to be included in the income calculation.

If the prospective mortgagor has earned income during the current period (meaning the period beginning 12 months prior to the loan application and ending on the loan Closing Date) and has a history of such earnings, then the income is to be included in the Family Income.

Base pay is calculated based on current income. (I.e., if someone earning a salary has received or will receive a raise in the current period, the increased income should be used and not a year-to-date average.)

When calculating additional or other income, it is important to calculate the income on a pro-rata, monthly basis. This will assist in calculating the income accurately.

Information with respect to current gross monthly income may be obtained from available loan documents which include but are not limited to paycheck stubs and loan applications.

1. Gross Income Shall Be Determined Without Deductions for the Following:

- a. Funds paid into a tax sheltered retirement account.
- b. Child support payments made by a borrower for the benefit of the borrower's child or children.
- c. Alimony, separate maintenance, or similar periodic payments that and Borrower is required to make to a spouse or former spouse.
- d. Unreimbursed employee business expenses.

2. Gross Income Shall Include, but Not be Limited to, All of the Following:

- a. The gross amount, before payroll deductions, of wage and salaries, overtime pay, commissions; fees; tips; bonuses; gambling winnings and prizes (even if a one-time occurrence); and other compensation for personal services.

Overtime

Income earned from overtime will be included if the borrower has a history of such income or the income was earned during the current period. Even though overtime is not used in calculating ratios, it is always included in income.

Bonus

The gross amount of bonus earnings before any payroll deductions is to be included in the income calculation.

Bonus Income

The bonus is to be included in the income if:

1. The bonus is part of a collective bargaining agreement and must be paid; **or**
2. The bonus is included in the computation of income by the employer or if there is a history of bonuses.

If there is a history of bonuses but the borrower does not know if a bonus is planned, nor does the employer divulge its plans for a bonus nor the projected bonus amount, the Lender is to use an average of the past two years' bonuses to calculate income.

The bonus is not to be included in the Income if:

1. The bonus is totally discretionary by the employer and there is no previous bonus history; **and**
2. The borrowers cannot anticipate with certainty whether such bonus may be received in the future.

Seasonal/Part-Time/Temporary Income

Include part-time or seasonal employment in calculating income. For example, if the borrower worked for three months during the summer and earned an average of \$3,600 during each of the past two years, then divide the \$3,600 by 12 months which equals \$300 per month. Add the \$300 per month to the gross monthly income. Multiply by 12 to determine the income.

Include short-term, part-time or seasonal employment in calculating income if the mortgagor earned this in the last twelve months. For example, if the mortgagor earned \$1,000 during the application period by painting the mortgagor's parents' house, include this income.

- b. The net income from an operation of business or profession or from the rental of real personal property. For this purpose, if this operation results in a loss, the loss may not be used to offset income generated from other sources. For this purpose, any shareholder that owns 10 percent or more of any outstanding class of stock in a corporation shall also be deemed to have received income in its proportionate share of net earnings not otherwise distributed in salaries or dividends.
- c. All dividends and interest, including otherwise tax-exempt interest. Interest earnings from IRAs, VIPs and 401(k)s need not be included.
- d. The full amount of the periodic payments received from Social Security, housing assistance payments, annuities, insurance policies, retirement funds, pensions, disability or death benefits, and other similar types of periodic receipts including any lump sum payment for the delayed start of a periodic payment.
- e. Payments in lieu of earnings, such as unemployment and disability compensation, workers' compensation, and severance pay.
- f. The full amount of public assistance payments.
- g. Periodic and determinable allowances, such as alimony and separate maintenance payments received, housing allowances received, and regular contributions or gifts received from persons not residing in the dwelling, where such sums are received on a current basis and which may be reasonably expected to continue.
- h. The distributive share of partnership income.
- i. Child support payments received by a borrower for the benefit of the borrower's child or children.

- j. All regular pay, special pay and allowances of a member of the Armed Forces (whether or not living in the dwelling) who is the head of the household, spouse, or other person whose dependents are residing in the unit.
- k. Education Grants: the portion of the income from grants that is used for living expenses is to be added to the income.
- l. Car Allowance: income received from employers for car allowance must be included in the income calculation if the borrower has no accounting responsibility to their company. Example: If the borrower receives \$300 per month from his employer for car allowance and is not required to file a mileage/expense report monthly, then this income must be included in the income calculation.
- m. Capital Gains/Losses: both the taxable and non-taxable portions of capital gains are to be included as income if a history of these incomes exists. If the two-year average results in a gain, then it must be added to gross monthly income, and losses are to be disregarded (losses cannot be used to reduce gross monthly income).
- n. Rental Property (not subject property): Net rental income currently being received is to be used to calculate income; borrowers must provide leases and applicable tax forms.

3. Gross Income Does Not Include:

- a. Casual, sporadic or irregular gifts.
- b. Amounts which are specifically for, or in reimbursement of, medical expenses.
- c. Lump sum additions to family assets, such as inheritances, re-enlistment bonuses, insurance payments (including payments under health and accident insurance and workers' compensation), capital gains and settlement for personal property losses. If the income is received in any form other than lump sum (i.e., monthly or annual), then it must be treated as permanent income and added to the income calculation.
- d. Amounts of educational scholarships paid directly to the student or the educational institution, and the amount paid by the government to a veteran for use in meeting the cost of tuition, fees, books, and equipment.
- e. Special pay to a family member in the Armed Forces who is away from home and exposed to hostile fire.
- f. Relocation payments under Title II of the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970.
- g. Foster child care payments.
- h. The value of coupon allotments for the purchase of food pursuant to the Food Stamp Act of 1977, 7 U.S.C. Section 2011 and 2027, which is in excess of the amount actually charged the eligible household.

- i. Payments to volunteers under the Domestic Volunteer Service Act of 1973.
- j. Payments of allowances made under the Department of Health and Human Services' Low-Income Home Energy Assistance Program.
- k. Payments received from Job Training Partnership Act.
- l. Income from employment of children (including foster children) under the age of 18 years of age and under unless executing the Deed of Trust.
- m. Income from caring for one or more foster children.

Military Pay

For purposes of computing the borrower's gross monthly income regarding military pay, the monthly income is the "total entitlement" shown on the borrower's most recent monthly Leave and Earnings Statement. Non-taxed income, such as a housing allowance, is counted as income. Certain categories of pay, which may be revised only sporadically, may need to be considered on a case-by-case basis.

Self-Employed

The Lenders should watch for all types of self-employment (i.e., 1099 income received from employer run through Schedule C, Form 2106, etc.).

The procedure to calculate income for self-employed borrowers is the same as under the respective underwriting guidelines.

As in standard underwriting, depreciation, depletion and self-employment tax are to be "added back" to determine annual income. Tax returns and a self-employed YTD Profit and Loss are required for all self-employed borrowers.

EXAMPLES OF INCOME

The following examples are based upon standard credit underwriting guidelines. This illustrates the underwriting for MCC compliance and is not substantially different from your standard procedures. Please note that income earned in a manner as illustrated by these examples must be included in the income calculation.

Example: Permanent Seasonal Income

Include part-time or seasonal employment in calculating income if borrower works every summer. If borrower worked for 3 months and earned an average of \$3,600 during each of the past two years, then divide the \$3,600 by 12 months which equals \$300 per month. Add the \$300 per month to the gross monthly income. Multiply by 12 to determine the income.

Example: Seasonal/Temporary Income

Include short-term, part-term or seasonal employment in calculating income. If the borrower earned \$1,000 during the application period by painting the borrower's parents' house (unless the borrower is a painter either part-time or full-time), the \$1,000 must be counted as income. This is calculated by dividing the \$1,000 by 12 or \$83.33 per month. This amount of \$83.33 is added to gross monthly income. Multiply by 12 to determine the income.

Example: Overtime and Bonus

When calculating other income, the first thing that needs to be determined is base income. The base income is then multiplied by the number of months that has been covered by the most current pay stub. This calculation will give the year-to-date base income or the amount of income that would have been earned if compensation of another kind had not occurred. After having established a year-to-date base, subtract it from the year-to-date total gross income on the pay stub. The difference will be the year-to-date total of other income.

The next step is to determine the other income earned in the months missing from the 12-month period. (If the pay stub covered eight months, four months is still needed.) This is done by taking the current annual base and subtracting it from the W-2 from the previous year. This is the other income earned for the previous year. Divide this number by twelve and multiply by the number of months needed to complete the 12-month period.

Once a year-to-date total of other income from the pay stub and other income from the previous year are established, combine the two totals to get all other income earned in the previous 12 months.

Closing Date:	April 27, 2008
Pay Stub Dated:	March 15, 2008 (2.5 months)
Year-to-Date Gross:	\$4,625
Base Income:	\$1,800 (monthly)
2002 W-2:	\$22,500 (9.5 months of other income will be taken from this.)

<u>Year-to-Date Base</u>	<u>Year-to-Date Other</u>
\$1,800 x 2.5 = \$4,500	\$4,625 - \$4,500 = \$125

Other Income From Previous Year
 $\$22,500 - (\$1,800 \times 12) = (\$900/12) \times 9.5 = \712.50

Total Other Income, i.e. Overtime, Bonus
 $\$125 + \$712.50 = \$837.50^*$

*To be added to the current base income to determine total annual income.

Omission of Other Income, i.e. Overtime, Bonus

Omitting other income that has been earned in the last twelve months is only allowed if at least two of the items listed below are provided:

- At least two pay stubs showing compensation for base income only.
- A letter from the employer (on company letterhead) stating that compensation for overtime and bonus will not occur in the future.
- Documentation that employment status has changed from non-exempt to exempt.