tsahc
TEXAS
State Affordable Housing Corporation

Guidelines for Down Payment Assistance (Bond and Non-Bond) and Mortgage Credit Certificates

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Revisions Table.

Section	Page	Description of Revisions	Date
Various	-	Revised to reflect Lakeview Loan Servicing, LLC ("Lakeview"), as master servicer for the Programs.	3/20/2017
7.2	22-25	Clarified process for requesting rate lock extensions and fees for same	3/30/2017
7.2	22-25	Post-Closing package due within five (5) calendar days of closing	4/06/2017
5.1	19-20	FHA Manual Underwrite – 640 FICO Minimum	4/19/2017
2.1	5-8	Added active military to veteran definition in reference to Homes for Texas Heroes	1/15/2018
2.3	9-10	Revised rental history requirement for first-time home buyers using MCC	1/15/2018
2.5	10-11	Clarification of Texas resident requirement for the Homes for Texas Heroes program	1/15/2018
5.2	20	Clarification of cosigner and non-occupying co-borrower requirements	1/15/2018
7.1	22	Revised down payment assistance funding process	1/15/2018
4.2, 5.1	14-17, 19-20	Addition of manufactured housing to eligible condos	5/01/2018
2.3	9-10	Clarification for using TSAHC assistance multiple times	5/01/2018
2.1, 2.3	5-8, 9-10	Clarified veteran definition in reference to waiving first-time home buyer requirement for Mortgage Credit Certificate	5/01/2018
2.6	11	Revised completion by at least one borrower of home buyer education course	5/05/2018
3.3, 5.1, 7.2	12-14, 19-20, 22-25	Introducing TSAHC's new soft second lien down payment assistance	8/20/2018
3.3	12-14	Clarified soft second lien repayment requirement	8/29/2018
3.3	12-14	Revised MCC credit rate from 40% to 30%	2/04/2019
3.4	14	Clarified usage of additional subsidy	2/04/2019
3.3	12-14	Revised MCC credit rate from 30% to 20% and removed $2,000 max credit	2/27/2019
Various	-	Added Bond DPA-related provisions	4/03/2019
Various	-	Added HFA Preferred PLUS product including additional second lien options	4/03/2019
Various	-	Clarified changes to the HFA Preferred PLUS product	9/05/2019

3.1	11-12	Added back the option to combine the MCC to the HFA Preferred Conventional DPA	9/05/2019
2.3	9-10	Revised rental history requirement for first-time home buyers	10/01/2019
Various	-	Eliminated TSAHC's grant and soft second lien for use with conventional loan types	11/29/2019
3.3, 5.1, 7.2	12-14, 19-20, 22-25	Introducing TSAHC's new 3-year Deferred Forgivable Second Lien for all loan types	12/02/2019
5.1	19-20	Now accepting Freddie Mac HFA Advantage with LPA AUS up to 115% AMFI	12/02/2019
5.1	19-20	Fannie Mae HFA Preferred Conventional limited to < 80% AMFI	12/02/2019
5.2	20	Cosigners or non-occupying co-borrowers are now permitted on all government loans	12/02/2019
5.2	20	Clarified cosigners or non-occupying co-borrowers are not permitted on conventional	2/03/2020
2.3	9-10	Changed IRS printouts to read IRS transcripts	2/03/2020
5.1	19-20	Now accepting Fannie Mae HFA Preferred Conventional up to 115% AMFI	2/03/2020
5.1	19-20	In response to the COVID-19 pandemic, the following interim guidance will be effective with all locks on or after May 4,2020, the minimum FICO score for FHA, VA and USDA products is 700 when the DTI is >45%.	5/04/2020
3.3	12-14	Clarified that the DPA is based on TOTAL loan amount	9/2/2020
3.3	12-14	Clarified that a principal reduction is acceptable use of DPA	9/2/2020
5.2	20	Clarified only occupying borrowers and non-purchasing spouses (NPS) may have an ownership interest in the subject property	4/15/2021
7,2	24	Update to reservation extension fees	4/15/2021
5.1	19	Removed the minimum 700 FICO score when the DTI is >45% for FHA, VA and USDA products effective with new reservations April 29, 2021.	4/29/2021
4.3	17	Eliminating purchase price limits for Non-Bond DPA when used by itself (no MCC).	10/01/2021
7.2	22	Update to extension fees effective with new reservations May 20, 2022	5/20/2022
3.3	12-13	Addition of 2% DPA for all products with new reservations April 20, 2022	4/20/2022
4.2	14-15	Removed specific FNMA 2-4 unit requirements since FHLMC is aligned	8/26/2022
3.3	12-13	Added link to DPA 3-year Deferred Forgivable Second Lien FAQ	8/26/2022
7.2	22-24	Correction by deleting extension request language that incorrectly limited extensions to 90-days	8/26/2022
5.2	20	Cosigners or non-occupying co-borrowers are now allowed with all loan types	8/26/2022
6.2	21-22	Reduced lender compensation Servicing Released Premium from 2.50% to 1.50% and now allowing lenders to charge a 1.00% origination charge	12/5/2022

Appendix	31	Clarifying a married couple's total gross income of both persons must be counted in household income for MCC and Bond loan eligibility purposes	12/15/2022
6.1	21	MCC Fee mailing address updated to correct address	12/15/2022
3.3	13	Included 3-year Deferred Forgivable Second Lien option with Bond DPA	2/1/2023
7.2	25	Update to reservation extension fees	5/15/2023
3.3	14	Clarified 3-year forgivable second lien repayment terms	6/12/2023
3.3	14	Clarified language about second lien assistance amounts	8/22/2023
The MCC only program (standalone MCC) has been discontinued indefinitely.			11/1/2023
3.3	13	Revised MCC credit rate from 20% to 15%	4/1/2024
6.1	20	Reduced MCC issuance fee from $500 to $400	4/1/2024
Various	-	Revised to reflect new software changes.	4/1/2024
3.3	13	Removed principal reduction as acceptable use of DPA funds to match existing agency guidelines.	4/1/2024
7.2	22	Lender Portal now allows registration of the loan without locking the interest rate. If you choose to float the interest rate, the DPA product may or may not be available at the time of lock.	4/1/2024
4.2	16	Clarified manufactured housing requirements.	10/8/2024
5.2	20	Clarified all borrowers including Cosigners or non-occupying co-borrowers must meet minimum FICO requirements.	10/8/2024
3.3	13	Clarified closing costs definition includes items related to real estate and financing transaction such as a real estate agent commission.	10/8/2024
5.2	20	Cosigner's or non-occupying co-borrower's income must be considered for comparison against the maximum family income limits on conventional loan types.	10/8/2024
3.1	13	Temporary buydowns (2-1, 1-1, 1-0) are now permitted on new locks for conventional loans only.	2/3/2025
6.1	21	Update to program fees.	2/6/2025
5.1 & 6.1	19-21	Reduced 620-639 FICO origination charge from 0.50% to 0.25%.	2/20/2025
Various	-	Addition of No DPA loan product with new reservations starting April 14th.	4/1/2025
3.1	12-13	Temporary buydowns (2-1, 1-1, 1-0) are now permitted on new locks for all loan products.	6/18/2025

Table of Contents.

Section 1 - Introduction to the TSAHC Homeownership Programs.

1.1 General

The Texas State Affordable Housing Corporation (TSAHC) provides (1) fixed-rate mortgage loans with down payment assistance (DPA) to qualified mortgagors, and (2) mortgage credit certificates (MCCs) to qualified mortgagors (3) fixed-rate mortgage loans with no DPA to qualified mortgagors.

The DPA is provided from two different sources: (i) "Non-Bond DPA" which is financed through non-bond, market sales of mortgage-backed securities backed by the loans, and (ii) "Bond DPA" which is provided from the proceeds of tax-exempt single family mortgage revenue bonds issued under Section 143 of the Internal Revenue Code.

MCCs, which are issued under Section 25 of the Internal Revenue Code, provide a tax credit to the borrower based on the amount of the loan interest paid. MCCs may be issued with respect to loans with Non-Bond DPA (but not Bond DPA).

Non-Bond DPA, Bond DPA and MCCs 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 registration and compliance system (LoanDock or Lender Portal) at www.bayviewtpo.com 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 Program 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.bayviewtpo.com.

TSAHC's master servicer for all loans is Lakeview Loan Servicing, LLC ("Lakeview"). All loans will be sold to and serviced by Lakeview. Loans must also follow the Lakeview Selling Guide and product matrices found on www.bayviewtpo.com.

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 applicable maximum income for the Home Sweet Texas Program found on TSAHC's website at www.tsahc.org or the Lender Portal at www.bayviewtpo.com.

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 applicable maximum income for the Homes for Texas Heroes Program found on TSAHC's website at www.tsahc.org or the Lender Portal at www.bayviewtpo.com, 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. (note: this definition of "Veteran" is different from the definition of "Qualified Veteran" (see section 2.3 below) used to determine if the first-time home buyer requirement can be waived for Bond DPA or an MCC); 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

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

The income of the eligible borrower(s) must be less than or equal to the applicable Program maximum income limit. Note that the Program maximum income limits are significantly higher for homes located in Targeted Areas. The Maximum Family Income limits and the list of Targeted Areas are set forth on TSAHC's website at https://www.tsahc.org/lenders/resources-for-lenders#Income_and_Guidelines and the Lender Portal at www.bayviewtpo.com.

For Non-Bond DPA and No DPA (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 Non-Bond DPA and No DPA (with MCC), or Bond 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.

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.

2.3 First-Time Home Buyer Requirement

For Non-Bond DPA and No DPA (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 Non-Bond DPA and No DPA (with MCC), or Bond DPA: Mortgagor(s) applying for Bond DPA or 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. The first-time home buyer requirement does not apply to acquisitions of homes in Targeted Areas or if a mortgagor is a "Qualified Veteran" as defined in the next paragraph.

"Qualified Veteran" means a person who is a "veteran" (as defined in 38 U.S.C. Section 101) who has not previously obtained a loan financed by single family mortgage revenue bonds utilizing the Qualified Veteran's exception to the first-time homebuyer requirement (as set forth in Section 143(d)(2)(D) of the Code). Under this definition of "veteran" (unlike the definition of "Veteran" under section 2.1 above), active duty military do not qualify as a Qualified Veteran.)

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.

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. Each borrower is required to submit acceptable documentation with his or her MCC or Bond Loan 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.

b. For borrowers who do not have copies of the actual tax returns submitted to the IRS, the borrower may submit transcripts from the IRS that reflect his or her 3 most recent federal tax returns. The transcripts from the IRS do not have to be signed. The transcripts can be submitted in lieu of the tax return copies, provided that the transcripts show that no mortgage interest deduction was taken.

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, this must be indicated on the Bond Program Affidavit or the MCC Program Affidavit, as applicable. A borrower who cannot provide tax returns because he/she did not file them when required to do so (and failed to file for any applicable permitted extension), are not eligible for Bond DPA or 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 Bond DPA or 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 New Mortgage Requirement/No Refinancing

The proceeds of the new mortgage loan cannot be used to acquire or replace an existing mortgage, i.e., each mortgage loan must be made to a person who did not have a mortgage (whether or not paid off) on the residence securing such mortgage loan at any time prior to the execution of the mortgage loan, except for certain temporary initial financing for a mortgage securing a construction period loan, a construction bridge loan, or similar temporary initial construction financing initially incurred for the sole purpose of acquiring the Residence and initially incurred within twenty four (24) months of the loan closing date, having an original term of twenty four (24) months or less, and not providing for scheduled payments of principal during such term

2.5 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.

2.6 Residency Requirements

Homes for Texas Heroes Program: Borrowers must currently be a Texas resident or demonstrate intent to be a resident of Texas. 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 Lakeview, FHA, VA, USDA-RHS, Fannie Mae or Freddie Mac guidelines related to non-U.S. citizen borrowers.

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

2.7 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 Non-Bond Loans or Bond 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 permitted.*

VA Loans

- Must be originated and guaranteed in accordance with VA guidelines and Lakeview guidelines.
- 30-year fixed only.
- Temporary buydowns are 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 permitted.*

<u>HFA Conventional Loans</u>

- Must be originated and guaranteed in accordance with Lakeview guidelines and Fannie Mae for the HFA Preferred loan product or Freddie Mac for the HFA Advantage loan product.
- 30-year fixed only.
- Temporary buydowns are permitted.*

<u>*Temporary buydown requirements for all loan types:</u>

- 2-1, 1-1 and 1-0 permitted
- Allowable buydown contributors: builder/seller; lender; or other interested 3rd party (as permitted per agency guidelines)
- Borrower funded buydowns are not permitted
- Buydown agreement required to be in the file

3.2 Purpose of Loans

Only first lien mortgage loans for the purchase of a residence are eligible. No refinancing of existing mortgage loans is permitted.

3.3 Assistance Options – Non-Bond DPA (with or without MCC) or Bond

DPA: TSAHC offers down payment assistance (DPA) in the form of a non-repayable grant or a 3-year Deferred Forgivable Second Lien loan, as follows:

- For Non-Bond DPA Conventional Loans –3-year Deferred Forgivable Second Lien
- For Non-Bond DPA FHA/VA/RHS Loans – Grant and 3-year Deferred Forgivable Second Lien
- For Bond DPA FHA/VA/RHS Loans – Grant and 3-year Deferred Forgivable Second Lien

The 3-year deferred forgivable second lien and grant are funded by the Lender at mortgage closing. DPA may be used to fund the borrower's cash requirement to close, including the down payment, closing costs (Closing costs definition can include items related to the real estate and financing transaction such as real estate agent commission. Follow agency guidelines.), pre-paid items, and other related mortgage loan fees and expenses. No portion of the DPA can be used to pay down debts, for a principal reduction of the first lien, or 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.

<u>DPA Grant</u>

- Grant assistance does not need 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

- Borrower has the option to choose from four assistance levels: 2%, 3%, 4%, or 5% of the total loan amount
- Available only with government loan types, the grant is not available for the HFA conventional loan options

DPA 3-year Deferred Forgivable Second Lien

- 0% interest with deferred principal payments (no monthly payments due)
- Forgiven, in full, upon maturity (third anniversary of the date of the Note)
- Repayable, in full, during 3-year term upon sale, transfer, refinance, or if the first lien mortgage is paid in full for any reason or failure to occupy property as principal residence or other event of default
- Second lien
- Minimum 620 credit score for government loans and 640 for HFA Conventional loans
- No additional fees on 3-year Deferred Forgivable Second Lien
- The borrower has the option to choose from four assistance levels: 2%, 3%, 4%, or 5% of the total loan amount
- Available with all loan types
- Link to DPA 3-year Deferred Forgivable Second Lien FAQ

MCC: With an MCC, the qualified home buyer is eligible to apply a portion of the annual interest paid on the mortgage as a federal tax credit, 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 (15%) multiplied by the annual interest paid.

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:	$240,000
Interest Rate:	7.50%
Mortgage Credit Rate:	15%

$240,000 x 7.50% =	$18,000 (approximate interest paid in the first year)
$18,000 x 15% =	$2,700 (Calculated Mortgage Credit Amount)

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 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.

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 ($18,000 - $2,700 = $15,300) 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.

MCCs: Borrowers who are first-time home buyers (and meet all applicable requirements) may combine the MCC with the No-DPA or Non-Bond DPA, taking advantage of both forms of assistance. Borrowers must meet all the requirements relating to MCCs (and No DPA or Non-Bond DPA) to qualify. <u>MCCs may not be used in conjunction with a Bond DPA. MCCs are only available if combined with No DPA or Non-Bond DPA program.</u>

3.4 Using Additional Subsidy Programs

Additional subsidy programs may be used in conjunction with TSAHC's Programs provided they meet the applicable FHA, VA, RHS, Ginnie Mae, Fannie Mae, Freddie Mac 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 contact TSAHC if you have questions about combining another subsidy program with TSAHC's down payment assistance. Remember, if using TSAHC's down payment assistance (whether Bond DPA or Non-Bond DPA) provided in the form of a grant (and not in the form of a second lien loan), then second lien assistance from other sources may be permitted in certain cases.

3.5 Mortgage Subsidy Recapture Tax

A borrower who receives Bond DPA or an MCC (combined with No DPA or Non-Bond DPA) may be subject to a federally imposed mortgage subsidy recapture tax ("Recapture Tax") if the mortgagor sells his or her residence within nine years of settlement. The tax, if any, will always be the lesser of: (a) 50% of the gain from the sale of the home, and (b) an amount based on a formula which takes into consideration: (1) the original principal amount of the first mortgage loan; (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 a borrower from Recapture Tax. These include: (a) no net gain on the sale of the property, (b) insufficient increase in the income of the borrower 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.

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 and Mortgage Loans

Set forth below are tables showing the types of residences and first lien mortgage loans that qualify for such assistance. Definitions of certain terms are set forth below the tables.

	Non-Bond DPA (with or without MCCs)		
Type of Residence	Government Loans (FHA/VA/USDA-RHS)	HFA Conventional Loans	Traditional Conventional Loans
New or existing detached single family home	✓	✓	×
New or existing condominium, townhouse, or unit in a PUD or de minimus PUD	✓ (Condo: FHA/VA approved)	✓ (Condo: Fannie Mae or Freddie Mac approved)	×
Existing 2, 3 or 4-unit property, provided that one of the units will be occupied by the borrower and the property has been occupied for residential purposes for at least 5 years	✓	✓	×
New or existing manufactured homes that meet HUD guidelines (doublewide or greater)	✓	×	×

	Bond DPA		
Type of Residence	Government Loans (FHA/VA/USDA-RHS)	HFA Conventional Loans	Traditional Conventional Loans
New or existing detached single family home	✓	×	×
New or existing condominium, townhouse, or unit in a PUD or de minimus PUD	✓	×	×
Existing 2, 3 or 4-unit property, provided that one of the units will be occupied by the borrower and the property has been occupied for residential purposes for at least 5 years	✓	×	×
New or existing manufactured homes that meet HUD guidelines (doublewide or greater)	✓	×	×

Note: In addition to the foregoing requirements, all manufactured homes must:

- be affixed to land and constitute "real property" under Texas law, and
- have at least 400 square feet of living space and a minimum width in excess of 102

inches, and

- which is customarily used at a fixed location, and
- must be doublewide or greater.

The following types of residences are not eligible, regardless of loan type:

- Mobile homes (whether or not permanently affixed to land)
- Rental homes
- Cooperative housing
- Homes used as investment properties
- Recreational, vacation or second homes
- Motor homes, campers and similar vehicles

The following definitions apply to terms used in the tables above:

- "Condominium" means a unit in a "Condominium Development" which is a real estate development: (i) formed pursuant to the condominium statutes of the State of Texas and a recorded declaration and other constituent documents; (ii) the unit owners of which have title to a unit in a development, and may have the right to the exclusive use of certain limited common areas; and (iii) the common areas of which are administered and maintained by, but not owned by, an owners association, which may levy assessments against each unit estate.
- "PUD" (planned unit development) means a real estate development of separately owned lots, other than a de minimus PUD, with: (i) contiguous or noncontiguous areas or facilities normally owned by an owners association in which the owners of the lots have a stock or membership interest; (ii) title to the real estate under the dwelling units being held by the individual lot owners and not by the owners association; (iii) the association having title to and responsibility for the administering of the common areas, and levying monthly charges against the lot owners for common areas expenses; and (iv) membership in the owners association not being severed from the ownership of an individual unit.
- "de minimus PUD" means: (i) a planned unit development that meets the definition of a "de minimus PUD," as defined in the Fannie Mae Conventional Home Mortgage Selling Contract Supplement or any applicable Freddie Mac document; or (ii) a planned unit development (a) whose organizational or other relevant documents provide that the lien for any homeowner assessment or charge is subordinate to the lien of any purchase money mortgage, and (b) the maximum permissible annual homeowner assessments and/or charges with respect to the property being financed, as of the closing date of the mortgage loan, is no greater than the lesser of $600.00 or 1% of the Sales Price. "Sales Price" means the price of a residence as indicated in the contract of sale, including any collateral agreements attached to or made a part of the sales contract between the borrower and the seller of the residence, exclusive of any closing costs.

4.3 Purchase Price Limitation

The purchase price of the residence cannot exceed the applicable maximum purchase price limit. The applicable maximum purchase price limits are set forth on TSAHC's website at https://www.tsahc.org/lenders/resources-for-lenders#Income_and_Guidelines and the Lender Portal at www.bayviewtpo.com.

For Non-Bond DPA (no MCC), there are no purchase price limits when using the Non-Bond DPA by itself.

For Bond DPA and MCCs, "purchase price" may be the sales price on the sales contract, but under the applicable federal tax regulations, the purchase price calculation must consider specific federal tax rules.

Under these rules, purchase price includes the following amounts:

a. all amounts paid, either in cash or in kind, by the mortgagor (or a related party or for the benefit of the mortgagor) to the seller (or a related party or for the benefit of the seller) as consideration for the residence. A residence includes property such as light fixtures or wall-to-wall carpeting, so long as such property is considered to be a fixture under state law. If the mortgagor separately purchases such fixtures, the cost of those fixtures must be included in the purchase price. Property such as furniture or appliances is not considered part of a residence so long as such property is not considered to be a fixture under State of Texas law and the cost of acquiring such items is not included in the purchase price (unless the cost of acquiring such items is in excess of fair market value, in which case the amount of the excess must be included in the purchase price). Thus, if the mortgagor agrees to purchase the refrigerator, washer, and dryer from the Seller for $1,000 more than the fair market value of such items, the additional $1,000 must be included in the purchase price.

b. If in connection with the purchase of a Residence the Mortgagor agrees to pay or assume liability for a debt of the seller, the amount of such debt must be included as part of the purchase price;

c. If a residence is incomplete or in need of rehabilitation, the reasonable cost of completing or rehabilitating the residence, whether or not such cost is financed with the proceeds of the mortgage loan, must be included in the purchase price.

d. If the Residence is purchased subject to a ground lease, the capitalized value of the ground rent using a discount rate equal to the Bond Yield must be included in the purchase price. The Lender must contact TSAHC for the applicable Bond Yield.

Under these rules, "purchase price" does not include (i) usual and reasonable settlement costs or financing costs; (ii) the value of services performed by the mortgagor or members of the mortgagor's family in completing the residence; (iii) the cost of land that has been owned by the mortgagor for at least two years prior to the date on which construction of the residence begins; (iv) amounts paid by the mortgagor (or a related party for the benefit of the mortgagor) for non-fixtured personal property; (v) amounts paid for painting, minor repairs, floor refinishing or other fix-up expenses; and (vi) the amount of financing provided under a "qualified program" under section 143(k)(10) of the Internal Revenue Code (Code), but only if the residence is located in a high housing cost area, as defined in section 143(f)(5) of the Code.

"Settlement costs" include titling and transfer costs, title insurance, survey fees, or other similar costs. Financing costs include credit reference fees, legal fees, appraisal expenses, "points" that are paid by the mortgagor (but not the seller, even though borne by the mortgagor through a higher purchase price) or other costs of financing the residence. However, such amounts will be excluded in determining purchase price only to the extent that the amounts do not exceed the usual and reasonable costs which would be paid by a buyer where financing is not provided through a qualified mortgage bond program. For example, if the Mortgagor agrees to pay to the seller more than a *pro rata* share of property taxes, such excess shall be treated as part of the purchase price.

For purposes of determining the value of services performed by the mortgagor's family in completing the residence, the family of an individual shall include only the individual's brothers and sisters (whether by the whole or half-blood), spouse, ancestors, and lineal descendants. For example, where the mortgagor builds a residence alone or with the help of family members, the purchase price includes the cost of materials provided and work performed by subcontractors (whether or not related to the mortgagor) but does not include the imputed cost of any labor actually performed by the mortgagor or a member of the mortgagor's family in constructing the residence. Similarly, where the mortgagor purchases an incomplete residence the purchase price includes the cost of material and labor paid by the mortgagor to complete the residence but does not include the imputed value of the mortgagor's labor or the labor of the mortgagor's family in completing the residence.

4.4 Targeted Areas

Targeted Areas are areas identified by the IRS as "qualified census tracts" or "areas of chronic economic distress". The benefits of originating a mortgage loan in a Targeted Area are significantly higher income limits and significantly higher purchase price limits. Additionally, for borrowers utilizing Bond DPA or receiving an MCC, the first-time home buyer requirement is waived. Targeted Areas in the State of Texas are listed on TSAHC's website at https://www.tsahc.org/lenders/resources-for-lenders#Income_and_Guidelines and the Lender Portal at www.bayviewtpo.com.

Section 5 – Mortgage Loan Underwriting and Purchase.

5.1 General Mortgage Underwriting

For Mortgage Loans with No DPA, Non-Bond DPA or Bond DPA:

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, Freddie Mac, FHA, VA, RHS or private mortgage insurer, the 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 0.25% origination charge.
- Loans must be submitted through FHA Total Scorecard (DU or LPA) 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-RHS 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-RHS loans only).
    - Loans with representative FICO credit scores of 620-639 are subject to a 0.25% 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-RHS loans.
- Manual underwriting is not allowed for either VA or USDA-RHS loans. However, the existing manufactured home pilot program requires a USDA manual underwrite and is allowed.
- Non-traditional credit is not allowed.

For HFA Conventional Loans:

- Borrowers must have a minimum representative FICO credit score of 640 or higher.
    - A borrower with no FICO credit score may be eligible if an occupant borrower(s) has a credit score that meets the minimum 640, subject to AUS and Mortgage Insurance approval
- Fannie Mae's Desktop Underwriter (DU) for HFA Preferred and Freddie Mac's Loan Product Advisor (LPA) for HFA Advantage are allowed.
- Manual underwriting is not allowed.
- Non-traditional credit is not allowed.
- Manufactured homes are not permitted with conventional loans.

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.** Only occupying borrowers and non-purchasing spouses (NPS) may have an ownership interest in the subject property.

Cosigners or non-occupying co-borrowers (who DO NOT sign the deed of trust) are permitted on all loan types. Please follow agency guidelines. In addition, they must meet the following conditions:

- All borrowers including Cosigners or non-occupying co-borrowers must meet minimum FICO requirements.
- 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.
- 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 or non-occupying co-borrower's income should not be considered for FHA, VA and USDA loan types when calculating the income for comparison against the maximum family income limits established for the program. This income must be considered for comparison against the maximum family income limits on conventional loan types.

Section 6 – Program Fees and Charges.

6.1 Program Fees

For No DPA, Non-Bond DPA (no MCC) and Bond DPA: The following fees will be deducted from the mortgage loan purchase price by Lakeview:

- $250 Funding Fee
- $85 Tax Service 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 FHA, VA or USDA-RHS loans

For No DPA or Non-Bond DPA (with MCC): The following fees will be deducted from the mortgage loan purchase price by Lakeview:

- $250 Funding Fee
- $85 Tax Service 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 FHA, VA or USDA-RHS loans
- $400 MCC Issuance Fee*

*The $400 MCC Issuance Fee will **not** be charged to borrowers in the **Homes for Texas Heroes program** who are receiving non-bond down payment assistance in combination with the MCC. The$400 MCC Issuance Fee will be charged to borrowers under the Home Sweet Texas program.

6.2 Lender Compensation

For Loans with No DPA, Non-Bond DPA or Bond DPA: Mortgage loans originated with No DPA, Non-Bond DPA (including loans with MCCs) or Bond DPA will be delivered to Lakeview. Lenders will be compensated by Lakeview upon loan purchase. Effective for new reservations on or after December 5, 2022, Lender compensation will be in the form of a Servicing Released Premium equal to 1.50%. Lenders may now charge a 1% origination or discount point in addition to the fee for FICO scores of 620-639 as provided in Section 6.1.

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 the Bond Program, such fees may not exceed reasonable and customary fees and closing costs that do not exceed fees and costs that would be charged for a mortgage loan that is not financed with the proceed of tax-exempt mortgage revenue bonds (such as the Bonds).

6.3 Fees and Charges on the Closing Disclosure

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

Section 7 – Loan Registraion, Lock, Compliance & Funding Procedures.

7.1 Lender Portal

The Lender Portal is an interactive, web-based application that Lenders use to reserve funds and submit the Pre-Closing Compliance Package. All TSAHC closing documents will be submitted directly to Lakeview with the closed loan. In addition, the Lender Portal allows Lenders to float or lock the interest rate, 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.

The Lender Portal lock 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.

Each Lender will choose one staff member to manage the company's access to the Lender Portal. This "Web Administrator" will determine who within the company will have access to the Lender Portal.

7.2 Registration, Compliance and Closing Steps

Step 1: Loan Registration, Lock or Float and Download Documents

For a complete step-by-step process, please refer to the Step-by-Step Loan Registration & TSAHC Approval Procedures guide found on TSAHC's website at https://www.tsahc.org/lenders/resources-for-lenders#Income_and_Guidelines and the Lender Portal at www.bayviewtpo.com.

Please note, the TSAHC Lender Portal now allows registration of the loan without locking the interest rate. Upon registration, you will have the option to either float or lock. If you choose to float the interest rate, the DPA product may or may not be available at the time of lock. To start the loan registration process and to download the TSAHC specific documents, login to the TSAHC Lender Portal at www.bayviewtpo.com.

At the time the Lender registers 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, at the time of locking the interest rate 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.

Step 2: Underwrite the Mortgage Loan

The Lender underwrites the loan in-house following the relevant agency guidelines on FHA, VA, USDA-RHS, or Conventional (Freddie Mac or 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.bayviewtpo.com.
- Select and download the Pre-Closing Checklist. Ensure all documents listed on the checklist are uploaded AND submitted via the Lender Portal.
- All documents listed on the Pre-Closing Checklist must be uploaded and the loan must be locked prior to the loan being reviewed by TSAHC for approval.
- Once the Pre-Closing Compliance Package has been approved/committed by TSAHC, the Lender may re-enter the Lender Portal and print out a TSAHC Commitment Letter.
- To prepare for closing, select and download the TSAHC closing documents to ensure all documents are executed at closing.

Step 4: Funding of Down Payment Assistance (DPA)

- ***This step is for Non-Bond DPA Loans (with or without an MCC) and Bond DPA Loans.*** *(No DPA program follows the same steps, but no assistance is advanced).*
- Provided the Pre-Closing Compliance Package is approved by TSAHC, the Lender will advance the down payment assistance funds at loan closing. Lenders will be reimbursed by Lakeview for the funds advanced when the mortgage loan is purchased by Lakeview.
- 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 down payment 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: TSAHC Closing Documents Submission

- TSAHC closing documents will no longer be submitted directly to TSAHC for review. All TSAHC closing documents will be delivered to Lakeview with the loan closing package for loan purchase review by Lakeview. See step 6.
- The loan will not be purchased by Lakeview, and/or the MCC will not be issued to the borrower, until the TSAHC closing documents have been approved by Lakeview.

Step 6: Loan Purchase

- Upon closing, the Lender will deliver TSAHC closing documents and the mortgage loan 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.
- TSAHC closing documents and the mortgage loan closing package must be delivered to Lakeview promptly after closing and must be purchased by Lakeview within 60 calendar days of locking the interest rate.
- If the loan is not eligible for purchase within the 60-day purchase period, the Lender may request a 15, 30 or 45-day extension at a cost of 12.5 bps per 15-day increment (0.125, 0.250 or 0.375, respectively).
    - This fee will be deducted from the Lender's proceeds at the time the loan is purchased by Lakeview.
    - A lock extension may be requested by contacting Lakeview Commitment Desk for assistance at 855-Lakeview Opt. 1.
- In the event a loan is not purchased by the later of the 60th day after locking the interest rate 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 by Lakeview the amount of down payment assistance advanced when the mortgage loan is purchased by Lakeview.

7.3 Electronic Submission of Required Documents

The Lender Portal allows Lenders to submit electronic documents. Paper documents will not be accepted. All documents must be uploaded electronically through the Lender Portal.

- Select the desired form and ensure all required fields are completed. The system will auto-fill the fields that were input at loan registration.
- 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 Lender Portal.
- Once all required documents (from the Pre-Closing Compliance Package Checklist) have been uploaded to the Lender Portal and the loan has been locked, 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 if the loan closes within 30 days from the time the commitment was issued.

If a borrower's income increases between the execution of the TSAHC Commitment Letter and the closing date of the mortgage loan, 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 registered/locked loan 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 registered/locked loan will be cancelled.

8.3 Changes in Property Address

If a borrower has a pending locked loan 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 the Lakeview Commitment Desk at 855-Lakeview Opt. 1 and 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 if the mortgage loan will not be delivered. Please note, should the Lender cancel a locked loan, the Lender will be prohibited from locking another loan for that borrower for a period of 30 days unless otherwise authorized by TSAHC.

a. In a case where the borrower cancels or withdraws his or her application, the locked loan must be cancelled by contacting the Lakeview Commitment Desk at 855-Lakeview Opt. 1.

b. In a case where the Commitment or lock expires, the Lender must request an extension by contacting the Lakeview Commitment Desk at 855-Lakeview Opt. 1.

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 registered loans 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 TSAHC closing documents are not delivered to Lakeview within ten (10) days of loan closing, Lakeview may contact the Lender to request the status of the mortgage loan. If the Lender fails to timely provide to Lakeview the required closing documentation, the corresponding locked loan 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 of such year for all 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 the related loan 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 (same as related loan date), 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 must 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: Income Guidelines for Borrowers Receiving Bond DPA or MCCs.

General

These income guidelines apply to borrower(s) receiving: (1) Bond DPA or (2) an MCC (with Non-Bond DPA). These guidelines are required under Section 143 of the Internal Revenue Code and related regulations and rulings. Lenders and borrowers must meet these guidelines in order to receive the benefits of Bond DPA or an MCC.

TSAHC is relying on the lenders and borrowers to provide correct information on income. This reliance is based upon lender certifications following a reasonable investigation of the borrower's income sources and the borrowers review, completion and execution of the applicable Program Affidavit.

In the event of false statements or fraud, substantial penalties may be levied. Therefore, TSAHC requires the Lenders and the borrowers to provide accurate income-related information to ensure that calculations are within the limits.

FOR BOND DPA AND MCC INCOME 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 to determine qualification for Bond DPA or an MCC be less than that used by the Lender when qualifying borrowers for repayment of their mortgage loan.

In the case of complicated calculations, Lenders should contact TSAHC to ensure that calculations meet the applicable rules.

For purposes of determining income, the gross "family income" of the borrower(s) must be determined. **The income of the following persons must be considered:**

1. Any mortgagor and any co-mortgagor listed on the mortgage (deed of trust).
2. Any other person who is "secondarily liable" on the mortgage (deed of trust) and who is expected to live in the residence.

Therefore, the income of any person listed on the deed of trust must be included, regardless of occupancy.

In Texas, a co-signer or guarantor executes only the mortgage note, so that such person's income does not need to be included if such person is not an occupant. This includes a spouse of the co-signer or guarantor that is a non-occupant of the residence.

For a married couple, the total gross income of both persons must be counted, even if a spouse is not listed on the title to the residence.

Gross income is not 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 in gross income.

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

With regard to income in addition to base salary, if the 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 income, then that income will be included in 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 to include in gross 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 any 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 if 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 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. These examples also illustrate the underwriting for MCC or Bond Loan compliance and are 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, 2018
Pay Stub Dated:	March 15, 2018 (2.5 months)
Year-to-Date Gross:	$4,625
Base Income:	$1,800 (monthly)
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

<u>Other Income From Previous Year</u>
$22,500 – ($1,800 x 12) = ($900/12) x 9.5 = $712.50

<u>Total Other Income, i.e. Overtime, Bonus</u>
$125 + $712.50 = $837.50*
*To be added to the current base income to determine total annual income.

<u>Omission of Other Income, i.e. Overtime, Bonus</u>

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.