Mortgage Credit Certificate Program
Lender Application Package

Thank You for Your Interest

Texas State Affordable Housing Corporation ("TSAHC") is pleased to extend an invitation to its qualified lenders (each a "Lender") for participation in its Mortgage Credit Certificate Program (the "MCC Program") when originating Mortgage Loans for TSAHC Eligible Borrowers. The MCC Program will be subject to the terms set forth in the MCC Lender Participation Agreement and the MCC Program Guidelines attached to this MCC Lender Application Package.

Additionally, each Lender will be responsible for working with TSAHC's Single Family Compliance staff to ensure Mortgage Loans are MCC Program compliant. An online reservation system will be made available to approved Lenders.

Lender Eligibility

TSAHC, in its sole discretion, will determine eligibility of each Lender for participation in the MCC Program. TSAHC will suspend or terminate any Lender from the MCC Program if, in TSAHC's opinion, such Lender is not satisfactorily originating Mortgage Loans per the MCC Program Guidelines or for other factors related to the Lender's performance.

Each Lender must:

1. Be authorized to do business in Texas.
2. Have an audited net worth of at least $1,000,000;
3. If it is not a financial institution, have a warehouse line of not less than $3,000,000;
4. Have mortgage banking operations with personnel responsible for underwriting and funding loans; and
5. Maintain current Errors and Omissions and/or Fidelity Bond coverage of not less than $300,000 (maximum deductible of $50,000).

Additionally, each Lender must satisfy at least one of the following:

6. Be a FHA-approved mortgagee to originate FHA-insured Mortgage Loans;
7. Be approved by Fannie Mae or Freddie Mac to originate conventional Mortgage Loans;
8. Be a VA-approved mortgagee to originate VA-guaranteed Mortgage Loans; or
9. Be a USDA-RHS-approved mortgagee to originate USDA-RHS-guaranteed Mortgage Loans.

Procedure

Each Lender is required to submit to TSAHC the following items:

1) A $500 Annual Participation Fee. Checks should be made payable to the *Texas State Affordable Housing Corporation*;

2) A completed Lender Reservation Access Form (attached); and

3) Three (3) signed originals of the MCC Program Lender Participation Agreement (signature pages only).

a ail the required fee, the Lender Reservation Access Form, and three signed originals of the executed Lender Participation Agreement directly to:

Texas State Affordable Housing Corporation
Attn: Paige Omohundro
2200 East Martin Luther King Jr. Blvd.
Austin, Texas 78702

Upon Approval

Once all documentation has been submitted and reviewed, TSAHC will notify the Lender of its approval to participate in the MCC Program. It will be at that time that training and loan reservation information will be provided.

We thank you for your interest in becoming a Lender under the MCC Program and look forward to working with you. Should you have any questions or need additional information regarding the approval process, please contact Paige Omohundro at (512) 477-3561 or pomohundro@tsahc.org.

For additional information on TSAHC's programs and services, please visit www.tsahc.org.

T E X A S
State Affordable Housing Corporation

Lender Reservation Access Form

Each Lender is required to designate a "corporate office" (and a "main branch" if different from the corporate office) and a contact person at that corporate office or branch who will be responsible for granting and setting up access to TSAHC's online loan reservation and compliance system for their loan officers, as well as all correspondence. Representatives from each branch are encouraged to complete TSAHC's reservation and compliance training before submitting MCC reservations. If additional space is needed to list other branches, please use extra copies of this form.

Corporate Office:	
Company Name	
Address:	
City, State & Zip:	
Phone:	
Fax:	
Contact Name:	
Contact Email:	

Main Branch: *(If different from Corporate Office.)*	
Company Name	
Address:	
City, State & Zip:	
Phone:	
Fax:	
Contact Name:	
Contact Email:	

Branch 1: *(If there are more than two branches, please use additional copies of this form.)*	
Address:	
City, State & Zip:	
Phone:	
Contact Name:	
Contact Email:	

Branch 2:	
Address:	
City, State & Zip:	
Phone:	
Contact Name:	
Contact Email:	

MORTGAGE CREDIT CERTIFICATE PROGRAM

LENDER PARTICIPATION AGREEMENT

This MCC Lender Participation Agreement (this "Agreement") is entered into, as of the date set forth below, by and between the Texas State Affordable Housing Corporation ("TSAHC") and the lending institution executing this Agreement (the "Lender") in connection with TSAHC's Mortgage Credit Certificate Program (the "MCC Program") to Eligible Borrowers.

WHEREAS, TSAHC has been duly created and organized pursuant to and in accordance with the provisions of the Texas Non-Profit Corporation Act, Article 1396-1.01 et seq. Vernon's Annotated Texas Civil Statutes, as amended and under the authority of Subchapter Y of Chapter 2306, Texas Government Code, as amended (the "Act"), TSAHC is authorized to establish a program to provide eligible mortgagors with low-interest home mortgage loans;

WHEREAS, TSAHC has determined to implement the MCC Program to assist Eligible Borrowers to afford the costs of acquiring and owning decent, safe and sanitary housing within the State and in connection therewith, has made an election under Section 25 of the Code to exchange its bond authority for the authority to issue mortgage credit certificates ("MCCs") to qualified persons.

WHEREAS, the Lender wishes to participate in the MCC Program and has agreed to make Mortgage Loans to Eligible Borrowers in full compliance with this Agreement and the attached MCC Program Guidelines; and

NOW, THEREFORE, in consideration of the promises set forth herein, the parties mutually agree as follows:

Section 1. Covenant to Originate Mortgage Loans with an MCC. The Lender hereby acknowledges its receipt of the MCC Program Guidelines, and the Lender hereby covenants and agrees to originate Mortgage Loans for which MCC's are issued in accordance with this Agreement and the MCC Program Guidelines. Failure by the Lender to perform its obligations under this Agreement and the MCC Program Guidelines may result in a suspension or termination of its participation in the MCC Program.

Section 2. Representations, Warranties and Covenants of TSAHC. TSAHC represents and warrants that:

(a) TSAHC is a non-profit corporation, duly organized and validly existing under the Act and the laws of the State. TSAHC has full power and authority to consummate all transactions, execute all documents, and issue all instruments contemplated by this Agreement.

(b) TSAHC has found and determined that the origination of MCCs by the Lenders to assist in the purchase of Residences by Eligible Borrowers, will further and fulfill the public purposes of the Act.

(c) The execution and delivery of this Agreement by TSAHC and the performance of and compliance with the terms thereof by TSAHC will not, to its knowledge, violate any applicable laws in any respect that could have any material adverse effect whatsoever upon the validity, performance, or enforceability of any of the terms of this Agreement.

(d) This Agreement constitutes a valid and binding obligation of TSAHC, enforceable in accordance with its terms, except as the enforcement thereof may be limited by applicable bankruptcy, insolvency, moratorium, reorganization and other similar laws affecting creditors' rights generally and general principles of equity and by principles of sovereign immunity.

Section 3. Representations, Warranties, and Covenants of the Lender. The Lender represents and warrants to, and covenants with, TSAHC that:

(a) The Lender will duly execute this Agreement and any other applicable MCC Program Document prior to participation in the MCC Program.

(b) The Lender is duly organized, validly existing, and in good standing under the laws governing its creation and existence, is duly authorized and qualified to do in the State of Texas any and all business contemplated by this Agreement and possesses all requisite authority, power, licenses, permits and franchises to conduct its business and to execute, deliver and comply with its obligations under the terms of this Agreement, and to the execution, delivery, and performance of which have been duly authorized by all necessary action.

(b) Neither the execution and delivery of this Agreement by the Lender nor the performance and compliance with the terms hereof by the Lender will (i) violate the instruments creating the Lender or governing its operations, (ii) violate any laws that could have any material adverse effect whatsoever upon the validity, performance, or enforceability of any of the terms of this Agreement applicable to the Lender, or (iii) constitute a material default (or an event that, with notice or lapse of time or both, would constitute a material default) under, or result in the breach of, any material contract, agreement, or other instrument to which the Lender is a party or that may be applicable to the Lender or any of its assets.

(c) The execution and delivery of this Agreement by the Lender in the manner contemplated herein and the performance and compliance with the terms hereof by it do not require the consent or approval of any governmental authority or, if such consent or approval is required, it has been obtained.

(d) This Agreement constitutes a valid, legal and binding obligation of the Lender, enforceable in accordance with its terms, except as the enforcement thereof may be limited by applicable liquidation, conservatorship, bankruptcy, insolvency, rearrangement, moratorium, reorganization and other similar laws affecting creditors' rights generally and general principles of equity.

(e) The Lender will comply with the non-discrimination provisions of the Civil Rights Act of 1965 (78 Stat. 252), the regulations issued pursuant to such Act, and Executive Order 11246, Equal Employment Opportunity, dated September 24, 1965, in connection with the origination of Mortgage Loans under the MCC Program.

(f) No information, certificate, statement, report or affidavit submitted by the Lender to TSAHC pursuant to this Agreement or the MCC Program Guidelines shall, to the knowledge of the Lender, contain any untrue statement of a material fact or omit to state a material fact necessary to make the information, certificate, statement, report or affidavit not misleading,

(g) The Lender is a bank, trust company, savings bank, national banking association, savings and loan association, building and loan association, mortgage banker, mortgage company, credit union, life insurance company, or other financial institution that actively provides service or otherwise aids in the financing of mortgages on single family residential housing located within the State, or is a holding company of any of the foregoing.

(h) The Lender shall indemnify and hold harmless TSAHC and its officers, governing board, and employees against all liability incurred by TSAHC for any and all claims, causes of action, costs, and expenses (including attorneys' fees), judgments, fines, and penalties that may be related to or arise out of any violation of law or breach of this Agreement resulting from an act or omission of the Lender hereunder.

(i) The Lender shall not engage in any predatory or deceptive lending practices in originating any Mortgage Loan, including but not limited to the extension of credit without regard for a Mortgagor's ability to repay the related Mortgage Loan, and/or the extension of credit which has no apparent benefit to the Mortgagor will be employed in connection with the Mortgage Loan application. Each Mortgage Loan application is in compliance with anti-predatory lending eligibility requirements of the MCC Program Documents and any applicable federal, state and local laws, rules and regulations.

(j) The compliance review of an MCC by TSAHC shall not relieve the Lender of any responsibility or liability for the performance or non-performance of any obligation under this Agreement, the Participating Lender Agreement or any other MCC Program Document.

(k) The Lender shall do every act and thing that may be necessary or required to perform its duties under this Agreement, the MCC Program Guidelines and all other MCC Program Documents.

Section 4. Representations, Warranties and Covenants Relating to MCC Program Generally. TSAHC and the Lender hereby declare their understanding and intent that the MCCs entitle the holders thereof to credits against their federal income taxes under Section 25 of the Code, and hereby each covenant to take such actions as are necessary to maintain such entitlement and not to knowingly take or permit or omit to take any action that would impair such entitlement. Without limiting the foregoing, TSAHC and the Lender each further recognize that Section 25 of the Code imposes certain eligibility requirements with respect to the Residences and the Mortgagors eligible to receive MCCs, including those set forth in this Agreement and in the MCC Program Guidelines.

Section 25 of the Code requires that TSAHC attempt in good faith to meet all such requirements by promulgating guidelines for the issuance of MCCs only in accordance with such requirements and by establishing reasonable procedures to ensure compliance with such requirements, including reasonable investigations by TSAHC or its agents, including the Lender, to determine that such requirements are satisfied.

TSAHC and the Lender each hereby covenant and agree to establish and follow reasonable procedures as set forth herein and in the MCC Program Guidelines to ensure compliance with the foregoing requirements.

In the event requirements or procedures, other than those stated herein or in the MCC Program Guidelines, should become applicable to the MCCs and such requirements or procedures must be met in order to assure the validity of any of the MCCs, TSAHC and the Lender each hereby covenant and agree to meet such requirements or procedures.

Section 5. MCC Program Participation.

(a) *General*. The Lender will originate MCC's and related Mortgage Loans in accordance with the requirements of this Agreement and the MCC Program Guidelines, and will submit all items required by TSAHC to participate in the MCC Program.

(b) *MCC Funding Availability*. There may be limitations on the funding availability for MCC's under the MCC Program, which limitations which will be announced to Lenders from time to time by TSAHC under the MCC Program Guidelines or by other means of notification. All funding amounts under the MCC Program will be made available to Lenders on a first-come, first-served basis. TSAHC may add new Lenders to the MCC Program in TSAHC's sole discretion.

(c) *Timeline for MCC Compliance Review*. (i) The Lender must have a fully executed sales contract for a Residence before an application for an MCC may be submitted to TSAHC.

(ii) Mortgage Loans must be closed and funded within the period specified in the MCC Program Guidelines (initially, within 120 calendar days of loan reservation).

(iii) Mortgage Loans must be reviewed and approved for compliance with applicable MCC Program requirements by TSAHC before the MCC certificate will be issued to the Eligible Borrower.

(iv) The Lender must submit both a Pre-Closing Compliance Package and a Post-Closing Compliance Package to TSAHC for review of the eligibility criteria established for the MCC Program. The Lender must submit the Pre-closing Compliance Package at least ten (10) calendar days prior to Closing (or such other period specified in the Program Guidelines). Upon approval of the Pre-Closing Compliance Package, the Lender will be provided a Compliance Commitment Letter (evidencing preliminary compliance approval) through the Lender Portal. To complete the compliance approval process, the Lender must submit the Post-Closing Compliance Package to TSAHC within thirty (30) calendar days following loan Closing, but in no event after the Commitment Expiration Date. Upon approval of the Post-Closing Compliance Package, the status code of the applicable MCC application will reflect "Approved" in the Lender Portal and an MCC Certificate will be mailed to the Eligible Borrower.

(d) *Down Payment Assistance Permitted*. MCC's may be issued with respect to Mortgage Loans for which down payment assistance is made available.

(e) *Processing of MCC Applications by Lender*. The Lender shall process borrower applications for MCC's on a first-come, first-served basis.

(f) *Notice of Failure to Close Mortgage Loan or to Meet MCC Criteria*. If the Lender becomes aware that a Mortgage Loan will not proceed to Closing for any reason (and therefore no MCC will be issued), or if the Lender becomes aware prior to Closing that the Mortgagor no longer qualifies under the MCC issuance criteria set forth herein and in the MCC Program Guidelines, the Lender shall promptly cancel the Mortgage Loan on the Lender Portal.

(g) *Homebuyer Education*. To qualify for an MCC under the MCC Program, each Eligible Borrower must complete a homebuyer education course before Closing. The homebuyer education requirement may be met by attending one-on-one counseling as provided through TSAHC's network of certified Texas Statewide Homebuyer Education Providers, HUD-approved counseling agencies', online courses offered through mortgage insurance companies, and/or HUD, Fannie Mae or Freddie Mac approved counseling programs.

Section 6. MCC Program Fees and Charges.

The MCC Program fees and charges will be set forth in detail in the MCC Program Guidelines and are subject to change in the discretion of TSAHC from time to time. Initially, each Eligible Borrower who obtains an MCC will be charged an amount equal to one percent (1%) of the initial principal amount of his or her Mortgage Loan as an MCC Program participation fee. In addition, for the MCC compliance review, a fee of $200 will be charged, which fee may be charged by the Lender to the Eligible Borrower at Closing. If the Eligible Borrower obtains a Mortgage Loan under a TSAHC Homeownership Loan Program in conjunction with a TSAHC provided MCC, then only one compliance fee shall be charged to the Eligible Borrower.

Section 7. Representations, Warranties and Covenants of Lender Relating to Compliance with MCC Program Requirements. (a) The Lender understands that the MCC Program requirements must be met with respect to each Mortgage Loan, and the Lender agrees to take all actions reasonably necessary to ensure compliance with such requirements, including the following:

(i) that each Residence financed with a Mortgage Loan under the MCC Program shall be located within the State of Texas and shall be made to an Eligible Borrower;

(ii) that each Residence financed with a Mortgage Loan under the MCC Program shall be a Residence that, at the time of execution of the Mortgage, can reasonably be expected to become the Principal Residence of the Mortgagor within a reasonable period of time (not to exceed 60 days after the Closing Date of the Mortgage Loan);

(iii) that, except as provided in the definition of Eligible Borrower, the Mortgagors shall not have had a Present Ownership Interest in a Principal Residence (other than the Residence being financed with the Mortgage Loan) at any time during the three (3) year period ending on the Closing Date (proceeds used to finance Targeted Area Residences and Mortgage Loans to Qualified Veterans shall be deemed to have satisfied this requirement);

(iv) that each Residence financed with a Mortgage Loan under the MCC Program shall have a Purchase Price not in excess of the applicable Maximum Purchase Price;

(v) that the proceeds of each Mortgage Loan under the MCC Program shall not be used to acquire or replace an existing mortgage, i.e., that each Mortgage Loan made under the MCC Program shall 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, 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 Closing Date, having an original term of twenty four (24) months or less, and not providing for scheduled payments of principal during such term;

(vi) that each Mortgage Loan under the MCC Program must be provided to a Mortgagor or Mortgagors whose Family Income does not exceed the applicable Maximum Family Income;

(vii) that, in the event of an assumption of any Mortgage Loan originally made under the MCC Program, the requirements of subparagraphs (i) through (iii), inclusive, and subparagraphs (iv) and (vi) shall be met with respect to such assumption at the time of such assumption; and

(viii) that no Mortgage Loan under the MCC Program shall be made with respect to a two (2) to four (4) family Residence unless (A) one unit of the Residence is the Principal Residence of the Mortgagor and (B) the Residence is an Existing Residence that was first occupied for residential purposes at least five years before the Mortgage Loan is executed. The requirement of clause (B) does not apply in the case of a two (2) family residence that is a Targeted Area Residence. No more than 13% of the aggregate principal amount of the Mortgage Loans made by any Lender shall be made with respect to two to four family Residences.

(b) The Lender covenants and agrees to establish and follow reasonable procedures as set forth in this Agreement, the MCC Program Guidelines and any other MCC Program Document to ensure compliance with the foregoing requirements.

(c) The Lender covenants and agrees that to the extent there are changes to federal, state or local law which requires changes to any MCC Program requirements, the Lender will enter into amendments to this Agreement and any other that incorporates such amendments into this Agreement.

Section 8. Verification of MCC Eligibility Requirements. In order to ensure that each Mortgage Loan is made to an Eligible Borrower to finance a Residence in accordance with the MCC Program rules, the Lender shall use good faith efforts and diligence in carrying out the following procedures with respect to each Mortgage Loan:

(i) the Lender shall obtain an MCC Program Affidavit duly executed by the Mortgagor and the Lender and shall review, verify and certify that the requirements of this Agreement and the MCC Program Guidelines are met;

(ii) the Lender shall perform such additional investigation as may be appropriate under the circumstances (including, but not limited to, personal or telephone interviews with the Mortgagor and the Seller, examination of canceled checks or receipts evidencing payment of rent, review of employment and utility records, review of the purchase contract for the Residence to determine the Purchase Price, and review of title information to verify the absence of any existing permanent mortgage on the Residence executed by the Mortgagor) to verify that the applicable Purchase Price Limit is satisfied as of the date of the execution of the Mortgage Loan;

(iii) the Lender shall review the draft settlement statement to assure that all fees and charges comply with the requirements of this Agreement and the MCC Program Guidelines;

(iv) the Lender shall prepare, execute and deliver the MCC Program Affidavit and all additional required program documentation; and

(v) the Lender shall carry out such additional verification procedures as may be reasonably requested by TSAHC.

If, at any time, any representation, warranty or covenant of the Lender set forth in this Agreement or any other MCC Program Document would not be true and correct in all respects if made by the Lender at such time (regardless of whether such representation or warranty is actually made, deemed to be made, or required to be made at such time), the Lender shall immediately notify TSAHC of such fact and provide a full and accurate explanation thereof.

Section 9. Compliance with MCC Program Guidelines. The Lender shall strictly follow and observe all procedures contained in the MCC Program Guidelines regarding the origination of Mortgage Loans under the MCC Program, the verification of information regarding Eligible Borrowers and the submission of documentation to TSAHC with respect thereto. The Lender understands that it is not entitled to a specific allocation of MCCs and that MCCs will be issued by TSAHC in accordance with the MCC Program Guidelines to Eligible Borrowers on a first-come, first-served basis. The Lender also acknowledges that TSAHC may, in its discretion, include a lending institution in the MCC Program who agrees to abide by the procedures set forth in the MCC Program Guidelines by entering into this Agreement with TSAHC and who pays the MCC Participation Fee then in effect.

Section 10. Amendments and Revisions to the MCC Program. This Lender Participation Agreement (including the MCC Program Guidelines) is subject to change with prior notice to the Lender. No such amendment or revision shall adversely affect any Mortgage Loan for which a commitment has been previously made.

Section 11. TSAHC Review of Lender's Performance. (a) TSAHC at any time, and from time to time, shall have the right to review the performance of the Lender to determine if the Lender is performing in accordance with the requirements of this Agreement and the MCC Program Guidelines.

If TSAHC determines that the Lender is not performing in accordance with such standards, TSAHC shall notify the Lender of any such deficiency, and if such deficiency is sufficient to warrant termination of the Lender by TSAHC, then TSAHC shall notify the Lender that it is being terminated under the MCC Program and the date on which such termination shall be effective.

Section 12. Involuntary Termination of Lender. In addition to its termination rights under Section 11, TSAHC may terminate this Agreement with respect to the Lender upon the occurrence of any one or more of the following events:

(a) Any representation, warranty or covenant of the Lender under this Agreement shall be false in any material respect;

(b) Any failure of the Lender to comply in all respects with its obligations under this Agreement, the MCC Program Guidelines or any other MCC Program Document;

(c) Failure of the Lender to duly observe or perform in any material respect any other covenant, condition, or agreement herein to be observed or performed by the Lender other than as referred to in Sections 12(a) or (b), for a period of thirty (30) days after a written notice to the Lender from TSAHC specifying such failure and requesting that it be remedied; *provided, however,* that if the failure stated in such notice cannot be corrected within the applicable period, the person giving such notice shall consent to a reasonable extension of time if corrective action is instituted by the Lender within the applicable period and diligently pursued until fully corrected; *provided further,* that if the failure cannot be corrected within such period, the Lender may be terminated pursuant to this Section 12;

(d) Issuance or entry of a decree or order of a court, agency, or supervisory authority having jurisdiction in the premises appointing a conservator, receiver, or liquidator in any insolvency, readjustment of debt, marshaling of assets and liabilities, or similar proceeding affecting the Lender or substantially all of its properties, or for the winding-up or liquidation of its affairs, if such decree or order shall have remained in force undischarged or unstayed for a period of sixty (60) days;

(e) Consent by the Lender to the appointment of a conservator, receiver, or liquidator in any insolvency, readjustment of debt, marshaling of assets and liabilities, or similar proceeding affecting the Lender or substantially all of its properties; or

(f) Admission in writing by the Lender of its inability to pay debts generally as they mature, or the filing of a petition to take advantage of any applicable bankruptcy or insolvency statute or Debtor Relief Laws, or the making of an assignment for the benefit of creditors.

If any of the events specified in (d), (e), or (f) shall occur, the Lender shall provide written notice of such occurrence to TSAHC immediately upon the happening of such event (and in no event more than two (2) Business Days after such event).

Section 13. Prohibition of Discrimination. With respect to each Mortgage Loan under the MCC Program, the Lender shall not arbitrarily reject an application because of the location and/or age of the property, or in the case of a proposed Mortgagor, arbitrarily vary the terms of a loan or the application procedures therefor or reject a Mortgage Loan applicant because of the race, color, religion, national origin, age, sex or marital status of such applicant. In accepting, evaluating and acting upon such applications, the Lender shall comply, if applicable, with the Federal Fair Housing Act and with the Federal Equal Credit Opportunity Act and Regulation B promulgated thereunder. All applications for Mortgage Loans and evidence of actions taken with respect thereto shall be retained by the Lender until the Mortgage Loan is fully paid.

Section 14. Resignation by Lender. The Lender may resign from the obligations and duties imposed on it pursuant to this Agreement provided that any Mortgage Loan for which an MCC reservation has been granted prior to the effective date of the Lender's resignation shall, to the extent such Mortgage Loan meets the terms and conditions of this Agreement, be closed under the MCC Program.

Section 15. Notices. All notices, certificates, or other communications hereunder shall be deemed given when delivered or five (5) Business Days after mailing by certified or registered mail, postage prepaid, return receipt requested, addressed to the appropriate Notice Address. TSAHC or any Lender may, by notice given hereunder, designate any further or different address to which subsequent notices, certificates, and other communications shall be sent.

Section 16. Severability. If one or more provisions of this Agreement, or the applicability of any such provision or provisions under any set of circumstances, shall be determined to be invalid or ineffective for any reason, such determination shall not affect the validity and enforceability of the remaining provisions of this Agreement or the applicability of the provisions found to be invalid or ineffective for a specific set of circumstances to other circumstances.

Section 17. Further Assurances and Corrective Instruments. The Lender agrees that it will, from time to time, execute, acknowledge, and deliver, or cause to be executed, acknowledged, and delivered, such supplements hereto and such further instruments as may reasonably be required or appropriate to further express the intention, or to facilitate the performance, of this Agreement.

Section 18. Term of Agreement. This Agreement shall continue in full force and effect until TSAHC provides written notice to the Lender that the MCC Program is terminated. At such time the Lender shall cease originating Mortgage Loans with MCC's, but this Agreement shall remain in effect for Mortgage Loans for which reservations have been made.

Section 19. No Rights Conferred on Others. Nothing in this Agreement shall confer any right upon any persons other than TSAHC and the Lender.

Section 20. Limitation on Liability of Parties. Each party to this Agreement shall be liable under this Agreement only to the extent that obligations are explicitly imposed upon and undertaken by the party against whom enforcement is sought. TSAHC shall not be held liable for any expenses incurred by the Lender under the MCC Program. TSAHC shall not be liable to the Lender, or any other person, for the taking of any action, or for refraining to take any action, in good faith pursuant to this Agreement, or for errors in judgment. In addition, in the event any party to this Agreement is entitled to indemnification hereunder, the officers, directors, employees, and agents of such party shall also be entitled to indemnification hereunder to the same extent and under the same circumstances as such party.

Section 21. Limitation on Liability of Directors, Officers, Employees, and Agents of a Party. No director, officer, employee, agent or governmental official of any party to this Agreement shall be individually liable to any other party for the taking of any action, or for refraining to take any action, pursuant to this Agreement, or for errors in judgment.

Section 22. Survival of Obligations and Covenants. Notwithstanding anything to the contrary herein, the expiration of this Agreement or the termination or resignation of any Lender under this Agreement shall not affect any obligations of such Lender under this Agreement. The representations, warranties, and covenants of Lender under Sections 3 and 4 shall continue without regard to any termination of the Lender hereunder. Any indemnities in this Agreement shall survive the termination of the Lender hereunder.

Section 23. Reports and Payments Due on Weekends and Holidays. Any report, certificate, or payment required hereunder falling due on a Saturday, Sunday, or other day on which banking institutions in the State are authorized or obligated by Law or executive order to close shall be due on the next succeeding day which is not a Saturday, Sunday, or a day on which banking institutions are authorized or obligated by law of Texas to close.

Section 24. Attorney Fees. In the event the Lender should fail to materially perform its obligations under any of the provisions of this Agreement or any other MCC Program Document, and

TSAHC should employ attorneys or incur other expenses for the enforcement of performance or observance of any material obligation or agreement on the part of the Lender herein or therein contained, the Lender agrees that to the extent permitted by law they will pay or reimburse TSAHC, on demand, the reasonable fee of such attorneys and such other reasonable expenses incurred in connection with the Lender's material failure to perform its obligations hereunder.

Section 25. Limited Liability. All monetary obligations of TSAHC incurred hereunder, and any remedies arising against TSAHC by reason of its default, shall be payable solely out of, and all liability of TSAHC shall be limited to, revenues and receipts derived from the transactions contemplated and performed pursuant to the MCC Program Documents.

Section 26. No Liability for Termination. Notwithstanding any provision in this Agreement to the contrary, TSAHC shall not be liable in any respect for the termination of this Agreement or owe any duty to the Lender if this Agreement is terminated pursuant thereto.

Section 27. Access to Lender's Records. TSAHC and its respective agents may from time to time request the Lender to allow the inspection of any of the Lender's books and records pertaining to the MCC Program, and the Lender shall allow such inspections and access to such books and records at reasonable times during the Lender's normal business hours and upon reasonable terms.

Section 28. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Texas, without regard to conflict of law principles.

Section 29. Severability. If one or more provisions of this Agreement, or the applicability of any such provision or provisions under any set of circumstances, shall be determined to be invalid or ineffective for any reason, such determination shall not affect the validity and enforceability of the remaining provisions of this Agreement or the applicability of the provisions found to be invalid or ineffective for a specific set of circumstances to other circumstances.

Section 30. Counterparts. This Agreement may be executed in counterparts by the parties hereto, and each such counterpart shall be considered an original and all such counterparts shall constitute one and the same instrument.

THIS AGREEMENT has been executed as of ___________, 201_ and is signed by an authorized representative of TSAHC and the Lender, respectively.

	Texas State Affordable Housing Corporation
Signature:	
Name [Printed]:	David Long
Title:	President

Lender Name:	
Signature:	
Name [Printed]:	
Title:	
Email:	

PROGRAM GUIDELINES

FOR

FIXED RATE LOANS with DOWN PAYMENT ASSISTANCE & MORTGAGE CREDIT CERTIFICATE PROGRAMS

January 1, 2015

2015 REVISIONS TABLE

Section	Page	Revision	Date

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SECTION 1 - INTRODUCTION TO THE TSAHC HOMEOWNERSHIP PROGRAMS

1.1 Forward

The Texas State Affordable Housing Corporation (TSAHC) provides access to fixed-rate mortgage loans with down payment assistance grants (DPA) and mortgage credit certificates (MCC) for teachers, veterans, police officers, corrections officers, fire fighters, and low to moderate-income homebuyers through our Homes for Texas Heroes and Home Sweet Texas Loan Programs.

TSAHC provides the online reservation and compliance system (Lender Portal) at www.tsam-online.org where rates and funds are locked. TSAHC also provides the program guidelines, 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.

SECTION 2 – MORTGAGOR ELIGIBILITY

2.1 Eligible Borrowers

Eligible Borrowers include "Home Sweet Texas" and "Texas Heroes" borrowers defined below.

"Home Sweet Texas". A person who at the time of loan application and loan closing whose income is no greater than 80% of applicable median family income, by county, without adjustment for family size.

"Texas Hero". A person who at the time of loan application and loan closing is employed full-time as a:

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 – all full-time employees of the Texas Department of Criminal Justice (TDCJ) who receive 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 attendant;
- emergency medical technicians;
- emergency medical technicians-intermediate;

- emergency medical technicians-paramedic; or
- licensed paramedic.

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 – all full-time employees of the Texas Juvenile Justice Department (TJJD) who receive hazardous duty pay. Juvenile corrections officers must have a VOE through TJJD.

Nursing Faculty Member – means a full-time member 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 – means a full-time, public:

- 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 officer are licensed through the Texas Commission on Law Enforcement (TCOLE).

Veteran - a person who:
(A)(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;
(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;

(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;

(B) 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

(C) 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

Eligible borrowers' income must be within program limitations. Please visit TSAHC's website at www.tsahc.org or the Lender Portal at www.tsm-online.org for the maximum family income limits.

For DPA Assistance: 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 or MCC/DPA Assistance: For purposes of meeting the eligibility criteria, all family income is considered. Family income is calculated by taking the borrower's current gross monthly income, 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 may 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.

2.3 Homebuyer Requirement

For DPA Assistance: Borrowers are not required to be first-time homebuyers. Borrowers may have previously owned or may currently own a home; provided that the home being purchased or refinanced becomes or remains the borrower's principal residence upon loan closing. The only exception is for those borrowers using the HFA Preferred conventional product. In such a case, any residential property currently owned must be sold prior to loan closing.

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 reflected on the deed of trust, must meet this first-time homebuyer requirement. This requirement also applies to separated couples. The first-time home buyer requirement does not apply to acquisitions of homes in Targeted Areas or if a mortgagor is a Qualified Veteran.

This must be verified by the lender's examination of the borrower's federal tax returns for the preceding 3 years (or by acceptable alternate documents, discussed 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.

Any person who is living in the home as his or her principal residence and is listed on the deed of trust has an ownership interest, even if he or she does not take a deduction for mortgage interest on his or her federal tax returns. For married couples, both spouses hold an ownership interest, even if only one is listed on the deed of trust. However, a person (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, need not satisfy the first-time homebuyer 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 homebuyer requirement. The following documentation options will satisfy this requirement:

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 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 printout shows that no mortgage interest deduction was taken, the printout 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 if the borrower filed a Form 1040 (long form) for one or more of the 3 years.

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, it will be necessary for the Lender to so indicate on the MCC Program Affidavit provided by TSAHC.

Borrowers who cannot provide tax returns because they did not file them when required to do so, and who have failed to file for an extension, are not eligible for a 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 for the period from the last tax return filed to 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 has 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 homebuyer status.

2.4 Principal Residence Requirement

The borrower must use the residence financed as his or her principal residence with 60 days of loan closing. A residence that is primarily intended to be used as a vacation home or in a trade or business is not a principal residence. Additionally, no more than 15% of the residency may be used for business purposes.

2.5 Residency Requirements

Borrowers must be a Texas resident. Please follow FHA, VA, USDA or FNMA guidelines related to non-U.S. citizen Borrowers.

2.6 Homebuyer Education

Borrowers purchasing a home must complete a homebuyer education course prior to closing. This requirement may be met by attending an in-person counseling course as provided through TSAHC's network of housing counseling agencies, online courses, and/or HUD, Fannie Mae or Freddie Mac approved counseling programs. Borrowers can visit www.texasfinancialtoolbox.com to find a provider in their area.

Homebuyer education is not required for those individuals refinancing their current loan.

SECTION 3 – LOAN ELIGIBILITY

3.1 Types of Loans

Only 30-year, fixed rate mortgage loans are allowed. Furthermore, the only loan types allowed are:

For DPA Assistance or MCC/DPA Assistance:

<u>FHA Loans</u>

- 203(b), 203(b)(2), 203(h), 203(k)s and 234(c)
- Temporary buydowns permitted (FHA loans only) – limited to 1 or 2-year buydowns with a maximum interest rate change of 1.00% per year. Refer to U.S. Bank Lender's Guide for additional rules regarding buydowns.

<u>VA Loans</u>

- Must be originated and guaranteed in accordance with VA guidelines 1810 and 181A.
- Temporary buydowns are <u>not</u> permitted for VA loans.

<u>USDA Rural Housing Service (RHS) Loans</u>

- Must be originated and guaranteed in accordance with USDA-RHS guidelines.
- Temporary buydowns are <u>not</u> permitted for USDA-RHS loans.

<u>Conventional Loans</u>

- Fannie Mae (FNMA) HFA Preferred
- Must be originated and guaranteed in accordance with Fannie Mae and U.S. Bank guidelines
- Temporary buydowns are <u>not</u> permitted for Fannie Mae loans.

For MCC 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, mortgages funded with a qualified mortgage bond or a qualified veteran's mortgage bond are not eligible.

3.2 Purpose of Loan

For DPA Assistance: First lien purchase or rate/term refinance loans are eligible. Cash-out refinance loans and streamline refinance transactions are not eligible. A full appraisal and full credit underwriting must be performed in conjunction with all refinance transactions.

For MCC and MCC/DPA Assistance: Only first lien purchase loans are eligible.

3.3 Assistance Options

For DPA Assistance:
Borrowers may select a government or HFA Preferred conventional loan. Both government and HFA Preferred conventional loans offer three interest rates with the following levels of DPA:

- 3 points of the final loan amount,
- 4 points of the final loan amount, or
- 5 points of the final loan amount.

TSAHC will provide down payment and closing cost assistance in the form of a grant. It may be used to fund up to 100% of 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 grant can be paid to the borrower unless the borrower is being reimbursed for an overage of his/her earnest money deposit to the extent the minimum borrower contribution has been satisfied.

Under the rate/term refinance option, the down payment assistance can be used toward closing costs. Any funds above the amount needed to pay the borrower's loan related costs must be used to reduce the principal amount of the mortgage loan.

For MCC Assistance: With an MCC, the qualified home buyer is eligible to write off a portion of the annual interest paid on the mortgage as a special tax credit, not to exceed $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 (40%) multiplied by the annual interest paid.

This credit reduces the federal income taxes 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:	$120,000
Interest Rate:	4.50%
Mortgage Credit Rate:	40%
$120,000 x 4.50% =	$5,400 (Interest paid for the first year)
$5,400 x 40% =	$2,160 (Calculated Mortgage Credit Amount)
	$2,000 (Maximum Tax Credit)

Given the maximum credit allowed is $2,000, the credit amount taken that year will be $2,000. Tax credit amounts not used in a given year may be carried forward into subsequent years.

A home buyer receiving a MCC can still take the normal tax deduction for interest paid on the mortgage. However, the homebuyer must deduct the claimed credit from the annual interest paid ($5,400 - $2,000 = $3,400).

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. **Please note: Mortgagors must have tax liability that year in order to benefit from the MCC for that particular year.**

A borrower who receives a 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 a tax 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 homebuyer's area at the time he/she bought the home, and (4) the homebuyer'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 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 U.S. Bank Guidelines. Remember, there is no second lien associated with TSAHC's DPA assistance allowing other second lien assistance to be utilized.

SECTION 4 – PROPERTY ELIGIBILITY

4.1 Eligible Loan Area

The home being purchased or home loan being refinanced must be located in Texas. Lender should verify the property's location by reviewing the property appraisal and location where the property taxes are paid.

4.2 Qualifying Residences

For FHA, VA, USDA, or Traditional Conventional loans:

- New or existing single family homes;
- A single unit in a condominium, townhouse, or PUD;
- A single unit in a duplex, triplex, or fourplex, or an entire duplex, triplex, or fourplex provided that one of the units will be occupied by the borrower; or
- Manufactured homes that meet HUD guidelines.
    - A manufactured home must be manufactured in a factory after June 15, 1976, delivered to a home site in more than one section and affixed on a permanent foundation.
    - The dimensions of the completed dwelling shall be not less than 20 feet by 40 feet, the roof must be sloping and the siding and roofing must be substantially similar to those found in site built dwellings.
    - Refer to the U.S. Bank Lender's Guide for additional information on the origination and purchase of manufactured housing.

For HFA Preferred conventional loans:

- New or existing single family homes,
- Townhomes, or
- A single unit in a PUD.

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 (or appraised value in a rate/term refinance transaction) 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. For FHA, VA or USDA Loans: Mortgage loans must be underwritten to the standards of the applicable loan type. Mortgage loans may be underwritten through an Automated Underwriting System (AUS) – Fannie Mae's Desktop Underwriter (DU) or Freddie Mac's Loan Prospector (LP), or manually underwritten according to the criteria established for the applicable loan product.

   Additionally, borrowers must have a minimum representative score of 640 or greater, with the following DTI requirements:

   - A maximum DTI of 45% will be required for borrowers with FICO scores of 640 to 659.
   - A maximum DTI of 50% will be allowed for those borrowers with FICO scores of 660 or greater.

b. For HFA Preferred Loans: Mortgage loans must be run through Fannie Mae's DU and receive an "Approve/Eligible". Lenders without special approval by U.S. Bank are then required to submit those HFA Preferred loans with LTVs of 95.01 to 97% to U.S. Bank for further underwriting. Please visit www.mrbp.usbank.com to access the US Bank Lender Manual for the LTVs of 95.01 to 97% underwriting guidelines. Only HFA Preferred mortgage loans with LTVs of 95% or less may be solely underwritten by the lender following FNMA underwriting guidelines.

   Additionally:

   For LTVs of 95% or Lower: Borrowers must have a minimum representative score 640, with the following DTI requirements:

   - A maximum DTI of 45% will be required for borrowers with FICO scores of 640 to 659.
   - Although rare, a maximum DTI of 50% will be allowed for borrowers with FICO scores of 660 or greater assuming borrowers have considerable reserves, assets, additional down payment and strong credit histories.

   For LTVs of 95.01 to 97%: Borrowers must have a minimum representative score of 680 or greater, with the following DTI requirements:

   - A maximum DTI of 45% will be required for borrowers with FICO scores of 680 or greater

c. Regardless of loan type, please pay extra attention to the following:

- If minimum credit score required by an Agency is higher than the program minimum, then you must follow Agency guidelines.
- If as a Lender your internal requirements dictate a higher minimum credit score, you must adhere to your lending guidelines.
- If a tri-merged credit report is used, the middle score must be the program minimum or higher.
- If a merged credit report only returns two scores, the lower of the two scores must be the program minimum or higher.
- Please see the U. S. Bank website "Bulletins" regarding manual underwriting.

For MCC Assistance: Lenders will underwrite, sell, and/or retain loans as they would any traditional mortgage loan.

5.2 Cosigners

Non-occupying co-signers are only permitted for FHA mortgage loans. The cosigner must meet the following conditions:

1. The cosigner may not take any ownership interest in the property being financed with the mortgage loan and may not sign the deed of trust.
2. The cosigner may not occupy the property being financed with the mortgage loan and should not execute any of the program documents or affidavits.
3. The co-signer's income should <u>not</u> be considered when calculating the income for comparison against the maximum family income limits established for the program.

<u>Non-occupying co-borrowers are not eligible under any circumstance.</u>

SECTION 6 – PROGRAM FEES AND CHARGES

6.1 Program Fees

For DPA or MCC/DPA Assistance: The following fees, which may be passed onto the borrower, will be charged by U.S Bank and deducted from the mortgage loan purchase price:

- $300 Funding Fee
- $85 Tax Service Fee
- $200 Compliance Review Fee

For MCC Assistance: The following fees must be remitted to the Texas State Affordable Housing Corporation 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:

- $200 Compliance Review Fee
- 1% Issuance Fee

6.2 Mortgage Loan Purchase Price and Lender Compensation

For DPA or MCC/DPA Assistance: Mortgage loans originated using DPA assistance will be purchased by U.S. Bank. Lenders will be compensated by U.S. Bank upon loan purchase. Total lender compensation will be:

- 2.5% for each FHA, USDA-RHS, or FNMA HFA Preferred loan, and
- 2.0% for each VA loan.

Lenders <u>may not</u> charge origination or discount points.

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, including the 0.25% Adverse Market Delivery Charge for HFA Preferred conventional loans. Lenders may not charge ancillary fees not collected from non-TSAHC borrowers.

For MCC Loans: Lenders originating loans solely with TSAHC's MCC assistance will not be purchased by U.S. Bank. The lender may retain or sell such loans. Lenders are compensated as they traditionally would be originating any other mortgage loan.

6.3 Fees & Charges Placement on the HUD-1

All fees and charges must be properly listed on the HUD-1.

SECTION 7 – LOAN RESERVATION, COMPLIANCE & FUNDING PROCEDURES

7.1 Lender Portal

The Lender Portal is the software application that lenders use to reserve funds and submit Pre and Post-Closing Compliance Packages. In addition to managing the reservation and compliance functions, the Lender Portal is an interactive, web-based tool that 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, for purchase loans, 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 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 (70 days from the reservation date).

Step 2: Underwritter Certification Form

- ***This step is for DPA and MCC/DPA Loans Only. Those loans utilizing solely TSAHC's MCC assistance can skip to Step 3.***
- This form is due within 15 calendar days of loan reservation.
- 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 the Underwriter's Certification Form. Simply complete all required fields and click "Upload Package" at the bottom of the screen. No signature is needed.
- The form will be automatically uploaded and attached electronically to your loan package.
- Click on the "Loan Status" tab to find applicable loan again. Then, click on "eDocs" tab associated with the loan.
- **Important:** Click the "Submit" button to notify TSAHC that the form has been uploaded.

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 10 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, 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.

Step 4: Down Payment Assistance Grant Request

- ***This step is for DPA and MCC/DPA Loans Only. Those loans utilizing solely TSAHC's MCC assistance can skip to Step 5.***
- At least 2 days prior to loan closing and once the Pre-Closing Compliance Package is approved by TSAHC, the lender can email the Funding Request Form (available in the "PDF Forms" tab of the Lender Portal) to TSAHC along with the final HUD-1 Settlement Statement to wire.request@tsahc.org.
- TSAHC will review the information on the Funding Request Form to ensure accuracy and notify the lender of any inconsistencies prior to the loan closing date.
- TSAHC will process the request and wire the funds to the escrow/closing agent on the scheduled day of closing.
- The lender should request a copy of the wire transmission from the title company/escrow agent to keep with the loan file for audit purposes.

Step 5: Fund & Close Loan

- Upon closing, the lender must submit the Post-Closing Compliance Package for TSAHC's review and approval within ten (10) calendar days of loan closing.
- 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 Post-Closing Checklist. Ensure all documents listed on the checklist are uploaded AND submitted via the Lender Portal.
- Only after the Post-Compliance Closing Package has been approved, may the loan be purchased by U.S. Bank and/or the MCC issued to the borrower.

Step 6: Loan Purchase

- ***This step is for DPA and MCC/DPA Loans Only.***
- Upon closing, the lender will need to deliver the closing package to U.S. Bank for purchase. Delivery and funding information for the mortgage loan file can be found at www.mrbp.usbank.com.
- The closing package must be delivered to U.S. Bank within 45 calendar days of loan reservation and must be purchased by U.S. Bank within 70 calendar days of loan reservation.
- The Lender may request a 30-day extension to the commitment expiration date for a fee of $375.00 (thus permitting the mortgage loan purchase to occur within 100 calendar days of loan reservation).
    - This fee will be deducted from the lender's wire at the time the loan is purchased by U.S. Bank.
    - The extension fee is due regardless of whether or not the loan is actually purchased within the extension period.
    - If the extended mortgage loan is not purchased within 100 calendar days from loan reservation, the loan will become ineligible for purchase and the lender will be billed by TSAHC for the $375 extension fee.
- In the event a loan is not purchased by the later of the 70th day after initial loan reservation or the last day of any extension that was granted, the lender must reimburse TSAHC for the down payment assistance funds TSAHC provided at loan closing. In such cases, TSAHC will notify the lender and the lender will have 15 days to remit the funds owed to TSAHC.

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 and the following screen appears. 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(s) have 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 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 under the applicable Homeownership Program. 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 or 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 the required action 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 expulsion from the programs.

9.2 Delinquent Closing Documentation

If the Post-Closing Compliance Package is not submitted through the Lender Portal within ten (10) 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 automatically be considered delinquent and the reservation 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 occurs 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

e. 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 they 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

a. 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.

b. For six years after each Closing, the lender must retain:

    1. Name, mailing address, and tax identification or social security number ("TIN") 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.

c. TSAHC may conduct audits of participating 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:

a. Name, address, and TIN of the Issuer;
b. Date of election;
c. 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
d. Name, address, and TIN of each MCC holder where 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:

a. Number of MCCs issued by Income and Purchase Price; and
b. 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 A: SAMPLE CHECKLISTS AND FORMS

Form 1 – PRE-CLOSING COMPLIANCE PACKAGE CHECKLIST

Form 2 – PROGRAM AFFIDAVIT

Form 3 – NOTICE OF DOWN PAYMENT ASSISTANCE GRANT

Form 4 – POST-CLOSING COMPLIANCE PACKAGE CHECKLIST

Form 5 – REAFFIRMATION OF BORROWER

Form 6 – UNDERWRITER'S CERTIFICATION

Form 7 – EXTENSION REQUEST FORM

Form 8 – COMMITMENT LETTER

Form 9 – FUNDING REQUEST FORM

FORM 1

PRE-CLOSING COMPLIANCE PACKAGE CHECKLIST – HOMEOWNERSHIP PROGRAMS

BORROWER INFORMATION

TSAHC Loan Number	
Borrower Name	
Property Address	
Loan Amount	$

LENDER CONTACT INFORMATION

Lender	
Contact Name	
Phone Number	
Email	

This Pre-Closing Compliance Package contains:

1. **<u>This Checklist</u>**

2. **<u>MCC Program Affidavit</u>**
    a. Review to ensure all information is correct and complete.
    b. Signed and dated by all Mortgagors, i.e., anyone who executes the deed of trust.
    c. Signed and dated by Lender

2. Copy of initial **<u>Loan Application (1003)</u>**

3. Copy of **<u>Purchase Contract,</u>** signed by both Mortgagor and Seller. Only include first and last pages and any counter-offers.

4. Copy of **<u>Tax Returns</u>** for each Mortgagor (anyone who executes the deed of trust): Three (3) most recent years are required. Not required if purchasing a home in a Targeted Area or if Mortgagor is a Qualified Veteran.
    a. Returns must be signed if they are the forms the Mortgagor filed with the IRS. Printouts directly from the IRS do not have to be signed.
    b. Please complete the appropriate section of the MCC Program Affidavit if the Mortgagor was not required to file tax returns.

The original, executed Notice of Assistance Grant and Wire Request forms should be included in the closed loan package when submitted to the Servicer for loan purchase.*

FORM 2

PROGRAM AFFIDAVIT – DPA PROGRAM

The undersigned Mortgagor hereby states under oath that:

(1) I am a purchaser and Mortgagor of the Residence which is a ☐ new ☐ existing Residence and is located at ____ and is located within the Eligible Loan Area.

(2) I will occupy such Residence as my Principal Residence within 60 days of Closing.

(3) No part of the Mortgage Loan proceeds is or will be used to acquire or replace an existing mortgage, and I did not have a mortgage (whether or not paid off) on said Residence at any time prior to the execution of the mortgage (except that I may have a construction period loan or temporary initial financing of 24 months or less with respect to the Residence and may use the proceeds of the mortgage to repay such financing).

(4) The Purchase Price of the Residence, including fixtures, is $___________ or less and does not exceed the applicable maximum Purchase Price Limit. "Purchase Price" means the cost of acquiring the Residence excluding usual and customary settlement or closing costs. If the Mortgagor agrees to pay a cost usually paid by the Seller, that amount must be included in the above figure representing the Purchase Price.

(5) I am <u>**one**</u> of the following:

☐ 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.

☐ Emergency Medical Services Personnel – a full-time employee as assigned by Section 773.003, Health and Safety Code.

☐ Fire Fighter – a member of a fire department who performs a function listed in Section 419.021(3)(c), Government Code.

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

☐ 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.

☐ Professional Educator – a full-time classroom teacher, full-time paid teacher's aide, full-time librarian, full-time school nurse, or full-time counselor, as certified under Subchapter B, Chapter 21 of the Texas Education Code, a Professional Nursing Program Faculty Member, or an Allied Health Program Faculty Member.

☐ 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.*

☐ Veteran – as assigned by Section 161.001, Natural Resources Code.

(6) The residence ☐ is ☐ is not in a Targeted Area.

The Mortgagor or Co-Mortgagor ☐ is ☐ is not a Qualified Veteran. If the Mortgagor or Co-Mortgagor is a Qualified Veteran, then such person intends to occupy the residence as his or her Principal Residence. A "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 or a loan which utilized a mortgage credit certificate program using the veteran's exception to the 3-year requirement set forth in Section 143(d)(2)(D) of the Code. The Qualified Veteran must provide true and correct copies of their discharge or release papers, which demonstrate that such discharge or release was other than dishonorable.

If the residence is not in a Targeted Area or if the Mortgagor or Co-Mortgagor is not a Qualified Veteran, I have not had a present ownership interest in a Principal Residence of mine at any time during the three-year period prior to the date on which I am executing the mortgage on said Residence, and to the best of my knowledge, the same is true with respect to each other person (if any) purchasing and mortgaging said Residence with me. I have provided true and correct copies of the federal income tax returns filed by me or any Co-Mortgagor for the previous three years. If not required to file, the immediately following section has been completed.

I hereby certify that I was not required by law to file a federal tax return for the following year(s):

Mortgagor	**Co-Mortgagor**	**Non-Purchasing Spouse**
☐ 2012	☐ 2012	☐ 2012
☐ 2011	☐ 2011	☐ 2011
☐ 2010	☐ 2010	☐ 2010

Federal income tax returns are not required if Residence is located in a Targeted Area or if Mortgagor is a Qualified Veteran.

I understand that for the purposes of the foregoing, examples of interests which constitute Present Ownership Interests (and thus would result in me not meeting such requirements) are the following: (a) a fee simple interest; (b) a joint tenancy, tenancy in common, or tenancy by the entirety; (c) the interest of a tenant-shareholder in a cooperative; (d) a life estate; (e) a land contract or contract for deed (i.e., a contract pursuant to which possession and the benefits and burdens of ownership are transferred although legal title is not transferred until some later time); (f) an interest held in trust for the Mortgagor (whether or not created by the Mortgagor) that would constitute a present ownership interest if held directly by the Mortgagor; and (g) an interest in a mobile home that is required to be taxed as real property under Texas law.

(7) I will not permit any person to assume my obligations under the mortgage (and related mortgage note) unless such person is approved by the Program Administrator in accordance with the requirements of the Issuer's Program.

(8) I do not expect to use the Residence or any part thereof in a trade or business. The land appurtenant to the Residence is only that amount of land which reasonably maintains the basic livability of the Residence and will not provide a source of income to the Mortgagor.

(9) I understand that Family Income means the current annualized family income at the time of Closing, as determined in accordance with the IRS Code. Income means the gross monthly income of all Mortgagors living in the property and liable on the deed of trust, multiplied by 12.

Gross monthly income includes the sum of current monthly gross pay AND any additional income from investments, pensions, VA compensation, part-time employment, bonuses, dividends, interest, current overtime pay, net rental income, royalties, etc. Other income must also be included such as alimony and child support, public assistance, sick pay, social security benefits, unemployment compensation, income received from Trusts, business activities or investments. In determining gross monthly income, the income of all mortgagors living on the property and liable on the deed of trust must be taken into account. The income of a spouse who will live in the Residence must be included, and he/she must meet all other bond requirements and sign all Affidavits.

Under no circumstances will the income used for bond compliance (Family Income) be less than that uses by the Lender when qualifying Mortgagors for repayment of their Mortgage Loan (i.e., income used to calculate qualifying ratios).

COMPUTATION OF FAMILY INCOME

Type of Income	Mortgagor	Co-Mortgagor or Spouse	Other Co-Mortgagors	Total Family Income*
Total Annual Income (must include any & all types of Income earned as stated above)	$	$	$	$

This total cannot exceed the Maximum Family Income limits established for the Program.

(10) The number of persons constituting my family who will reside in the Residence (together with any other persons who will reside in the Residence) is ☐.

(11) I understand, acknowledge, and agree that in the event I sell the Residence within nine years from the date that the Mortgage Loan is originated, the IRS may levy a tax on me upon such disposition up to a maximum of 50% of the amount of gain that I realized upon the disposition, depending upon my income level, the amount of the Mortgage Loan, and the number of years I hold the Residence. I further acknowledge that I have received and read the Recapture Tax Notice that describes the potential interest recapture in detail and that was provided to me by the Lender that is providing the financing for my purchase of the Residence.

(12) **INITIAL NOTICE TO MORTGAGOR OF POTENTIAL RECAPTURE TAX** - Notice is hereby given that you may be subject to a special "Recapture Tax" for federal income tax purposes, which would be imposed at the time you sell the residence for which you obtained an MCC ("Residence"), if you sell the Residence within the first nine years. This potential tax, which is not imposed unless and until you sell your home, is based on the concept that through the MCC, the federal government has enabled you to take a tax credit of the interest you pay on your home mortgage. The amount of the potential tax increases for the first five years that you own the home and thereafter declines. No tax is imposed if you hold (do not sell) your home for a total of nine or more years. In the event you sell your home within the first nine years, a number of factors determine the amount of tax, if any, imposed at the time of the sale of the home. These include: (1) the original principal amount of the home mortgage, (2) the number of complete years that pass before you sell the home, (3) the median family income for your area at the time you bought the home, and (4) your modified, or adjusted, gross annual income at the time you sell the home. If you sell the Residence more than nine years after the close of escrow, no recapture liability arises. Also, if you sell the Residence during the first nine years after Closing, but your income does not increase more than 5% per year during that period, you will likely not incur recapture liability. In addition, if there is no net gain on the sale of the home, no recapture liability arises. Finally, in no case will the recapture liability exceed 50% of your gain from the sale of the Residence. When preparing your post-sale tax return, you should consult a tax professional regarding your calculation. After your loan closes, you will be given a second notice by the Program Administrator with a more detailed explanation of the recapture tax and certain additional information that will be needed to calculate the amount, if any, of Recapture Tax liability you may have.

(13) I have not made application to and been rejected by another Lender for an MCC under the Program for a loan similar in type and amount, and I have not been the recipient of an MCC under the Program.

(14) I have not been required to seek financing for the purchase of the Residence through any particular Lender.

(15) I understand in the event that I sell the Residence at any time and desire to have my MCC transferred pursuant to the transfer provisions of the Program that the person assuming my loan

must qualify as a Mortgagor and that the Purchase Price may not exceed the maximum Purchase Price then applicable to Existing Housing.

(16) The program fees to be charged to receive assistance from the Texas State Affordable Housing Corporation have been explained to me by the Lender as follows:

a. Compliance Fee of $200
b. MCC Issuance Fee of 1% of Loan amount

(17) The above information is being submitted for the purposes of establishing eligibility for the Program. Because the Lender has explained the Program to me, I am familiar with and understand the provisions of the Program. I (we) agree to submit such other evidence of income as may be reasonably required by the Lender including, but not limited to, pay stubs and copies of federal income tax returns. The statements and information set forth herein are made under penalty of perjury. I understand that perjury is a felony offense punishable by fine or imprisonment or both.
Date: ___________________________

Mortgagor's Printed Name:_______________________________________

Mortgagor's Signature:_______________________________________

Mortgagor's Printed Name:_______________________________________

Mortgagor's Signature:_______________________________________

CERTIFICATION OF THE LENDER

Based upon reasonable investigation, the Lender has no reason to believe that either the Mortgagor or the Seller of the Residence has made any negligent or fraudulent material misstatements in connection with the Mortgagor's application for an MCC, and submits the completed information above as accurate and true to the best of the Lender's knowledge. I certify that I have reviewed this MCC Program Affidavit for accuracy and completeness. I also certify that the financing attached to this MCC does not use any of the prohibited financing such as any mortgage funded with a qualified mortgage bond or a qualified veteran's mortgage bond.

Date: ___________________________

Company Name:_______________________________________

Authorized Lender Representative:_______________________________________

Title of Lender Representative:_______________________________________

Signature of Lender Representative:_______________________________________

FORM 3
NOTICE OF ASSISTANCE GRANT – HOMEOWNERSHIP PROGRAMS

Date: ______________________________

To: ______________________________

From: Texas State Affordable Housing Corporation

Subject: Notice of Down Payment/Closing Cost Assistance Grant

Please be advised that the Texas State Affordable Housing Corporation (TSAHC) is providing a down payment and/or closing cost assistance grant, with no repayment required, to be used as Minimum Cash Investment in conjunction with a TSAHC Homeownership Program as follows:

Borrower(s): ______________________________

Loan Number: ______________________________

Property Address: ______________________________

Assistance Amount: ______________________________

____
David Long, President
Texas State Affordable Housing Corporation

____
Borrower's Signature

____
Co-Borrower's Signature

____
Borrower's Printed Name

____
Co-Borrower's Printed Name

FORM 4

POST-CLOSING COMPLIANCE PACKAGE CHECKLIST – HOMEOWNERSHIP PROGRAMS

BORROWER INFORMATION

TSAHC Loan Number	
Borrower Name	
Property Address	
Loan Amount	$

LENDER CONTACT INFORMATION

Lender	
Contact Name	
Phone Number	
Email	

This Homeownership Program Closing Package contains:

1. **This Checklist**
2. **Seller's Affidavit**
    a. Signed and dated by Seller(s).
3. **Reaffirmation of Mortgagor**
    a. Signed and dated by all Mortgagors including anyone who executes the deed of trust.
    b. Affidavit must be notarized.
4. Copy of **Homebuyer Education Certificate**
5. Copy of **final, executed HUD-1 Settlement Statement**
    a. Ensure the correct program fees have been charged and properly documented. Follow the suggested format found on the Funding Request Form.
6. **ACH Transfer** for payment of Program fees (Instructions for ACH transfer are detailed on the ACH Transfer Form).
    a. 1.0% of Mortgage Loan amount.
    b. $200 MCC Compliance Fee.
7. Final, executed **Loan Application (1003)**
8. Copy of the **Uniform Residential Appraisal Report** *(Only applicable for refinance transactions.)*

FORM 5
REAFFIRMATION OF MORTGAGOR – HOMEOWNERSHIP PROGRAMS
(To Be Executed at the Time of Closing)

STATE OF____)
) ss.
COUNTY OF ____)

TSAHC Loan Number: ____
Property Address: ____

The undersigned (jointly and severally, the "Mortgagor") being duly sworn according to Law, deposes and says under penalty of perjury:

I hereby reaffirm that the statements and information contained in the Program Affidavit which I executed on the _________ day of __________________________ , 20_____ were true, accurate and complete when made and remain true, accurate, complete and unchanged.

_____________________________________	_____________________________________
Mortgagor's Signature	**Mortgagor's Signature**
_____________________________________	_____________________________________
Mortgagor's Printed Name	**Mortgagor's Printed Name**

Before me on this day personally appeared the foregoing individual(s) known to me to be the person(s) whose true and genuine signature(s) were subscribed to the foregoing instrument in my presence.

[SEAL]

____
Notary Public

My Commission Expires:

______

FORM 6

REAFFIRMATION OF MORTGAGOR – MCC PROGRAM
(To Be Executed at the Time of Closing)

STATE OF ___________________________________)
) ss.
COUNTY OF _________________________________)

TSAHC Loan Number: ____
Property Address: ____

The undersigned (jointly and severally, the "Mortgagor") being duly sworn according to Law, deposes and says under penalty of perjury:

I hereby reaffirm that the statements and information contained in the MCC Program Affidavit which I executed on the   day of   ,20   were true, accurate and complete when made and remain true, accurate, complete and unchanged.

_____________________________________ _____________________________________

Mortgagor's Signature Mortgagor's Signature

_____________________________________ _____________________________________

Mortgagor's Printed Name Mortgagor's Printed Name

Before me on this day personally appeared the foregoing individual(s) known to me to be the person(s) whose true and genuine signature(s) were subscribed to the foregoing instrument in my presence.

[SEAL]

____
Notary Public

My Commission Expires:

____

FORM 7
UNDERWRITER'S CERTIFICATION – HOMEOWNERSHIP PROGRAMS

Borrower/Property Information

Program Name: ____

TSAHC Loan Number: ____

Lender Loan Number: ____

Borrower Name: ________________________________ Co-Borrower Name: ______________________________

Borrower Occupation: ___________________________ Co-Borrower Occupation: _________________________

Property Address: ____

Loan Characteristics

Loan Amount: __________________________ Credit Score (Borrower): __________________________

Appraised Value: ________________________ Credit Score (Co-Borrower): _________________________

Interest Rate: ___________________________ Mortgage loan Term: _____________________________

Qualifying Income (1003): ________________ Loan Type: ______________________________________

Loan Purpose:__________________________

Compliance Criteria

Annual Household Income: ____________________ Household Size: __________________________

Targeted/Non-Targeted: _______________________ Census Tract: ____________________________

Acquisition Cost (Purchase only):________________ First Time Buyer: _________________________

Certification

I have reviewed the Mortgage loan file for the above referenced Borrower(s) and found the Mortgage loan to be in compliance with the eligibility criteria outlined in the Program Guidelines. In addition, I have reviewed the Mortgage loan file for the purposes of credit qualifying and confirm that the Borrower(s) are eligible for financing under the terms of the applicable Loan Type and that the Mortgage loan conforms to Ginnie Mae, Fannie Mae or Freddie Mac guidelines.

____
Lender

____ ______________________________________
Underwriter Name **Approval Date**

FORM 8
EXTENSION REQUEST FORM – HOMEOWNERSHIP PROGRAMS

If approved, this form will be signed by the Program Administrator and delivered via email back to the referenced Lender Representative.

TSAHC Loan Number	
Lender Loan Number	
Borrower	
Property Address	
Initial Commitment Expiration	

LENDER REQUEST:

The Lender hereby requests a 30-day extension for the above referenced Mortgage loan. The Extension Fee of $375 will be deducted from the Mortgage loan Purchase Price.

____
Lender

____ ______________________________________
Name – Authorized Lender Representative **Lender Representative Email Address**

PROGRAM ADMINISTRATOR APPROVAL:

As the Program Administrator, the Texas State Affordable Housing Corporation hereby grants a 30-day extension from the original commitment date for the above referenced Borrower. This extension expires on:_____________________ *(To be completed by Program Administrator*).

TEXAS STATE AFFORDABLE HOUSING CORPORATION

Program Administrator

____ ______________________________________
Name and Title **Signature**

FORM 9
COMMITMENT LETTER – HOMEOWNERSHIP PROGRAMS

TSAHC Loan Number	
Lender Loan Number	
Commitment Expiration Date	
Lender Name	
Loan Amount	

TO THE ABOVE BORROWER AND LENDER:

A Program Affidavit and related documentation pursuant to a Texas State Affordable Housing Corporation's Homeownership Program (a "Program"), has been received by the Texas State Affordable Housing Corporation (the "Program Administrator") and reviewed for its compliance with the terms and conditions of the Program. The Program Administrator has determined that the Borrower has complied with the initial requirements of the Program.

Subject to completion of the remaining terms and conditions of the Program in conjunction with the applicable Program Guidelines, the Program Administrator will notify the Servicer that the referenced Borrower meets the eligibility criteria associated with the applicable Program and authorize the Servicer to purchase the referenced Mortgage loan. To be eligible for purchase by the Servicer, the referenced Mortgage loan must be current in principal and interest payments and must have satisfied all of the Servicer's outstanding conditions and requirements.

The terms of this Commitment Letter are governed by the Program Guidelines which is incorporated herein by reference as if fully set forth at length. THIS COMMITMENT WILL EXPIRE ON THE COMMITMENT EXPIRATION DATED INDICATED ABOVE, which is seventy (70) calendar days from the date the Mortgage loan was initially reserved. If you require an extension, an Extension Request Form must be filed prior to the Commitment Expiration Date, or you may lose this Commitment.

PLEASE BE SURE to submit all required closing documents from the Post-Closing Compliance Package Checklist to the Program Administrator via the eDocs module of the Lender Portal at www.tsm-online.org within 10 days of the loan Closing Date.

Commitment Date: ______________________

Contact Name: Tim Almquist

Title: Single Family Compliance Manager

Signature: ______________________

FORM 10

FUNDING REQUEST FORM - *Please email completed form to wire.request@tsahc.org*

The Funding Request Form will not be processed, nor will funds be wired to the escrow/title agent, until TSAHC is in receipt of the approved HUD-1 Settlement Statement. At that time, the information provided below will be verified. Funds will be wired per the instructions below on the scheduled closing date.

MORTGAGOR INFORMATION		
	Primary Mortgagor	**Co-Mortgagor**
Name(s):		

LENDER INFORMATION	
Company Name:	
Contact Name:	
Phone Number:	
Email:	

LOAN INFORMATION			
Final Loan Amount: $	Interest Rate: %	Term: Months	Final Sales Price: $
Closing Date:	Loan Type:	TSAHC Bond Loan #:	

PROGRAM FUNDS AND FEES INFORMATION		
HUD-1 Line Item Description	Amount	Suggested Placement on HUD-1
TSAHC Downpayment Grant:		Block 200
Funding Fee to US Bank:	$300	Block 800
Tax Service Fee to US Bank	$85	Block 800, Line 806
Compliance Fee to TSAHC	$200	Block 800
MCC Issuance Fee to TSAHC (equal to 1% of Loan Amount):		Block 800

* The amount of down payment and closing cost assistance provided by TSAHC under the homeownership Programs is equal to 5.0% of the final loan amount (note amount) and serves as a Minimum Cash Investment.

WIRING INFORMATION – All blanks must be completed.			
Title Company:		Bank Name:	
Contact Name:		Bank's ABA #:	
General File # (HUD-1 Box 6):		Account #:	
		Bank Account Name:	

****Blank Funding Request Forms that refer to attached wiring instructions will not be processed. Please type, as no handwritten forms wills be will accepted. ****

APPENDIX B: 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 and is signed.

In cases that have complicated calculations, the lenders are encouraged to communicate with TSAHC to assure themselves 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 whether a borrower has exceeded 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. on 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 used to calculate income.

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

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. If the mortgagor earned $1,000 during the application period by painting the Borrower's parents' house, add this income to the 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 earning from IRAs, VIPs and 401ks 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 of spouse (or other persons 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 other 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 buyer'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 mortgagors 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 mortgagors.

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 fashion as illustrated by these examples must be added to 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). 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 is 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.)

Year-to-Date Base	Year-to-Date Other
$1,800 x 2.5 = $4,500	$4,625 - $4,500 = $125

Other Income From Previous Year
$22,500 – ($1,800 x 12) = ($900/12) x 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.