

# Missouri Housing Development Commission

---

*First Place Loan Program*

Operations Manual

---



*Strength, Dignity, Quality of Life*

**MISSOURI HOUSING**  

---

**DEVELOPMENT COMMISSION**

**Updated June 2011**

## **Mission:**

***Missouri Housing Development Commission is dedicated to strengthening communities and the lives of Missourians through the financing, development and preservation of affordable housing.***

### **About Missouri Housing Development Commission**

The Missouri Housing Development Commission, created by the 75th General Assembly, is an instrumentality of the state of Missouri, which constitutes a body corporate and politic. MHDC has invested almost \$4 billion to construct, renovate and preserve affordable housing. MHDC functions as a bank, providing financing directly to developers of affordable rental properties. The commission also provides funding for home loans to qualified, first-time buyers through a network of certified, private mortgage lenders. Mortgage financing is provided through the sale of tax-exempt notes and bonds that the commission is authorized to issue.

The commission provides advisory, consultative, training and educational services to non-profit housing organizations.

The commission administers the federal and Missouri Low Income Housing Tax Credit (LIHTC) programs, federal HOME funds, the U.S. Department of Housing and Urban Development (HUD) Project Based Section 8 rental assistance contracts, the direct MHDC funding of several housing assistance programs and the Affordable Housing Assistance Program Tax Credit. Further, the commission administers the Missouri Housing Trust Fund to help prevent homelessness and to provide emergency housing assistance for very low-income Missourians.

The commission participates with the Department of Economic Development in preparing the state's Consolidated Plan for HUD.

The commission includes the governor, lieutenant governor, attorney general, state treasurer and six persons appointed by the governor with the advice and consent of the Senate.

# TABLE OF CONTENTS

<b>SECTION 1 - CERTIFIED LENDER ELIGIBILITY REQUIREMENTS .....</b>	<b>1-6</b>
<b>CONSTANT FUNDING .....</b>	<b>1-7</b>
<b>Third Party Originations .....</b>	<b>1-7</b>
<b>Loan Officer Certification Requirements.....</b>	<b>1-8</b>
<b>Lender Participation Application .....</b>	<b>1-9</b>
<b>SECTION 2 - RESERVATION OF FUNDS .....</b>	<b>2-1</b>
<b>Requirements.....</b>	<b>2-1</b>
<b>Reservation Procedure .....</b>	<b>2-1</b>
<b>Reservation Expiration Dates .....</b>	<b>2-2</b>
<b>Reservation Extensions.....</b>	<b>2-2</b>
<b>Reservation Change Requests.....</b>	<b>2-2</b>
<b>Approved Reservations .....</b>	<b>2-2</b>
<b>SECTION 3 - BORROWER ELIGIBILITY REQUIREMENTS.....</b>	<b>3-1</b>
<b>Definition of a First-Time Home Buyer.....</b>	<b>3-1</b>
<b>Exceptions to First-Time Homebuyer Requirements:.....</b>	<b>3-1</b>
<b>Definition of Present and Non-Present Ownership Interest .....</b>	<b>3-2</b>
<b>Present Ownership Interest.....</b>	<b>3-2</b>
<b>Non-Present Ownership Interest .....</b>	<b>3-2</b>
<b>Existing Mortgages .....</b>	<b>3-3</b>
<b>Persons Who Are Separated or Legally Separated/Waivers of Marital Rights.....</b>	<b>3-3</b>
<b>Applicants Who Own/Owned Rental Property .....</b>	<b>3-4</b>
<b>Applicants Whose Ex-Spouse Solely Owned Real Estate Prior to the Marriage.....</b>	<b>3-4</b>
<b>Applicants Who Own or Owned a Mobile Home within Past Three Years.....</b>	<b>3-4</b>
<b>Total Number in Family/Household.....</b>	<b>3-5</b>
<b>Total Family Household Income.....</b>	<b>3-6</b>
<b>Lenders Options for Verifying Income:.....</b>	<b>3-7</b>
<b>Treatment of Assets.....</b>	<b>3-13</b>
<b>Prior Approvals on Calculating Total Household Income.....</b>	<b>3-13</b>
<b>Owner-Occupancy Requirements.....</b>	<b>3-20</b>
<b>Non-U.S. Citizens .....</b>	<b>3-20</b>
<b>SECTION 4 - RESIDENCE ELIGIBILITY REQUIREMENTS.....</b>	<b>4-1</b>
<b>Flood plain zones .....</b>	<b>4-2</b>
<b>Flood Certification .....</b>	<b>4-4</b>

HUD-Owned Properties .....	4-4
Mobile Homes.....	4-4
Properties That Have Been Inherited .....	4-4
Acquisition Cost Limitations.....	4-5
Non-Realty Items .....	4-7
Sweat Equity.....	4-7
Buyers Paying for Repairs .....	4-8
Excess Land Included in the Sale of Property .....	4-8
<b>SECTION 5 - MORTGAGE LOAN REQUIREMENTS.....</b>	<b>5-1</b>
FICO Score .....	5-1
Lenders' Fees and Charges .....	5-1
Loan Closing Requirements .....	5-4
Eligible Loan Programs.....	5-5
Underwriting .....	5-5
Escrowing for Repairs .....	5-6
Mortgage Loan Insurance or Guaranty.....	5-6
FHA 203(k)s Loans .....	5-6
Relocation Companies.....	5-7
Borrowers to Receive a Rent Credit.....	5-7
Sellers to Remain in Property after Closing.....	5-7
Co-Signers/Co-Borrowers .....	5-7
Use of Power of Attorney (POA) For the Execution of MHDC Documents: .....	5-8
Borrowers under the Age of 18 .....	5-8
Prepays.....	5-8
Refinance Program:.....	5-9
<b>SECTION 6 - LOAN CLOSING DOCUMENTS.....</b>	<b>6-1</b>
MHDC Required Compliance Package Documentation.....	6-1
Verifications of Employment.....	6-1
Lender's Certificate (Form #520) .....	6-1
Seller's Affidavit (Form #525) .....	6-2
Federal Income Tax Returns.....	6-2
Real Estate Sales Contracts .....	6-3
HUD 1.....	6-4
Federal Recapture Tax.....	6-4
Information for Home Buyers Regarding Recapture Tax.....	6-5
<b>SECTION 7 - USE OF FIRST PLACE PROGRAM WITH OTHER PROGRAMS .....</b>	<b>7-1</b>
Secondary Financing.....	7-1

<b>SECTION 8 - SALE OF MORTGAGE LOANS</b> .....	<b>8-1</b>
<b>Amounts Paid to Originating Lenders</b> .....	8-1
<b>Master Servicer</b> .....	8-2
<b>SALE OF LOANS TO MASTER SERVICER</b> .....	8-2
<b>MHDC GEOGRAPHICAL AREAS</b> .....	8-3
<b>SECTION 9 - GROSS ANNUAL HOUSEHOLD INCOME LIMITS</b> .....	<b>9-1</b>
<b>MHDC Maximum Purchase Price Limits</b> .....	9-2
<b>SECTION 10 - STAFF NAMES AND TELEPHONE NUMBERS</b> .....	<b>10-1</b>
<b>SECTION 11 - FEDERALLY TARGETED CENSUS TRACT AREAS</b> .....	<b>I</b>
<b>LENDER ORIGINATION AGREEMENT</b> .....	<b>II</b>

## Section 1 - Certified Lender Eligibility Requirements

All financial institutions must meet the following requirements:

1. If the lender is a bank or savings and loan association, FDIC must insure the bank or savings and loan association depository accounts.
2. The financial institution must have a three-year history of continuous operation in the state of Missouri. Lender shall provide proof of date of incorporation in the state of Missouri, or license to operate in the state of Missouri.
3. The financial institution must have a minimum net worth of \$1,000,000. Lender shall provide most current audited financial statement.
4. The financial institution must have a history of combined production of not less than \$1 million per year in FHA/HUD, VA, Fannie Mae or USDA Rural Development loans. MHDC must be provided evidence of the sale into the secondary market of at least this volume of loans.
5. Lender must furnish and maintain evidence of \$500,000 in Error and Omissions coverage.
6. Lender must furnish and maintain evidence of Fidelity Bond coverage.
7. Lender must be approved as an FHA mortgage originator if originating FHA loans, as a VA mortgage originator if originating VA loans, and as a USDA Rural Development originator if originating rural development loans.
8. Lender must originate, process, underwrite, close and fund originated loans in their own name and using their own funds.
9. Lender must originate mortgages as a primary component of the company's overall business operations.
10. Lender must originate and close at least ten MHDC First Place Loan Program loans per year.
11. Lender that has previously participated in MHDC programs must have a satisfactory production and problem resolution record.
12. Lender must annually meet MHDC's financial requirements.
13. Lender must attend lender training.

Lenders must submit documentation supporting the above requirements. MHDC reserves the right to require current participating lenders to demonstrate that they satisfy these requirements.

MHDC, at its sole discretion, may waive one or more of the requirements in order to originate loans in some rural or Federally Targeted areas.

## CONSTANT FUNDING

MHDC has constant funding for the First Place Loan Program.

When a lender has been approved by MHDC to participate in the First Place Loan Program, MHDC will forward the Lender Origination Agreement, which must be executed by the lender before they can participate in the program. This document includes, but is not limited to:

1. Three signature pages of the Acceptance of Agreement

These documents must be returned to MHDC before the lender will be provided access to Lender Online.

## Third Party Originations

Certified Lenders may enter into correspondent arrangements with Third Party Originators, but the following restrictions apply:

1. There can be no increase in any fees. The allowed fees to the borrower must be split between the Certified Lender and the correspondent.
2. All loans close in the name of the Certified Lender. Loans cannot close in the name of the correspondent and then be sold to the Certified Lender.
3. The Certified Lender must make all reservations in the Lender Online system. The Certified Lender cannot provide a password and access to the Lender Online system to anyone other than their own employees.
4. The Certified Lender is responsible for ensuring that all underwriting is in compliance with Secondary Market standards and guidelines for FHA, VA, USDA Rural Development or Fannie Mae loans. In the event that the correspondent incorrectly underwrites a loan, and repurchase of the loan is necessary, it will be the Certified Lender, not the correspondent that will be required to buy the loan back.
5. Correspondents are not a Certified MHDC lender, and they may not advertise or represent themselves as such. Correspondents will not be listed on the MHDC website as Certified Lenders.

It will be the responsibility of the Certified Lender to perform any training needed by the correspondent's staff.

**Allowing access to the Lender Online system by the correspondent, or violating any of the above stated provisions, may subject the Certified Lender to possible termination of certified status, and immediate cancellation of all outstanding reservations.**

## Loan Officer Certification Requirements

Loan Officer Certification is optional. Loan officers are still eligible to do the First Place Loan Program as long as they are employed with a Certified Lender.

### Requirements:

All loan officers who wish to be certified must meet the following requirements:

1. Your current employer must be an approved certified lender and must meet lender eligibility requirements. (See Section 1 page 1-6.)
2. Loan officers who have less than five years experience in the First Place Loan Program, must take the Lender/Loan Officer Certification Training and pass the test with a percentage of 70% or higher.
3. Loan officers who have five or more years experience in the First Place Loan Program can opt out of taking the Lender/Loan Officer Certification Training but must pass the test with a percentage of 70% or higher.
4. A Loan officer certification will never expire as long as the loan officer shows active participation and/or the lender in which you are employed is a participating certified lender.
5. Loan officer may achieve four levels of excellence over their life time:

<b>Bronze</b>	Reach 25 approved bond loans
<b>Silver</b>	Reach 75 approved bond loans
<b>Gold</b>	Reach 125 approved bond loans
<b>Platinum</b>	Reach 250 approved bond loans

6. Loan officers will not be recognized by MHDC on website until they reach a level of excellence. All loans will accrue toward the next level of excellence.
7. Loan officer's level of excellence will carry to any participating lender in which employed.

Top lenders and loan officers will be recognized every year on the MHDC website. The recognition will be based solely on production of loans for that particular year. MHDC will award the top loan officer in production with "Loan Officer of the Year Award". MHDC will also award the "Lender of the Year Award". The "Lender of the Year Award" will be based not only on production but also on the quality and timeliness of the loans that are purchased.

## Lender Participation Application

To: Missouri Housing Development Commission  
3435 Broadway  
Kansas City, Missouri 64111  
Attn: Homeownership Department Manager

RE: Participation in Missouri First Place Loan Program

To Whom It May Concern:

Please consider our institution for participation as a Certified Lender under the First Place Loan Program. Our staff attended FIRST PLACE LOAN PROGRAM training on:

Location

:

Persons who attended/title:

_____	_____
_____	_____
_____	_____

(Attach a separate sheet if necessary)

We have attached the required exhibits as outlined on page 1-6 of the First Place Loan Program Manual. We stipulate that we are not currently suspended from participation in any MHDC loan programs.

We have read the Loan Origination Agreement as printed in the First Place Loan Program Operations Manual, and agree to comply with the requirements of that agreement, and with the program guidelines as stated in the First Place Loan Program Operations Manual. We understand that all loans will be sold to the master servicer, currently US Bank, and it is our responsibility to enter into a loan purchase contract with the master servicer.

Name of Institution \_\_\_\_\_

Address \_\_\_\_\_

City \_\_\_\_\_

ZIP \_\_\_\_\_

Contact Name \_\_\_\_\_

Contact Phone/Fax \_\_\_\_\_

Contact Email \_\_\_\_\_

Authorized Signature \_\_\_\_\_

Title \_\_\_\_\_

## Section 2 - Reservation of Funds

### Requirements

1. Prior to making a reservation, the lender must have:
  - A. an application from an applicant who has entered into a fully executed real estate sales contract with the seller of the residence (contracts must contain the acceptance signatures of both the buyer and seller, prior to requesting a reservation of funds); Real estate sales contracts **may** be written and dated prior to the sale of the "bonds" or the date reservations will be accepted.
  - B. made a preliminary determination that the applicant qualifies per the financial institution's guidelines for the mortgage loan; and
  - C. made a preliminary determination that the applicant is eligible to participate in the MHDC program, including but not limited to the first-time home buyer qualifications, maximum income limits and maximum purchase price limits in effect at that time.

**NOTE: MHDC encourages pre-qualification of potential borrowers.**

Lenders may use the pre-qualification credit report and verifications of employment provided they are dated within four months of the loan closing date.

2. To reserve funds, the lender must have access to MHDC's On-Line Reservation system, Lender Online. For a detailed explanation of this system, contact the MHDC homeownership department.
3. Funds will be reserved on an individual first-come, first-served basis.
4. There is no cost to the lender to participate in the program, nor to make reservations in Lender Online.

### Reservation Procedure

1. MHDC will announce changes and activate the reservation system so that reservations may be made.
2. Once the lender receives confirmation of reservation, the loan may now close.
3. Loans may not be canceled to re-reserve for a lower interest rate.
4. Funds in Federally Targeted Tracts will be the lowest-available rate offered by MHDC in the preceding 12 months.

## Reservation Expiration Dates

"Existing" home reservations will expire the earlier of:

- A. 45 days from the date of reservation approval

"New Construction" home reservations will expire the earlier of:

- B. 45 days from the date of reservation approval

Prior to the expiration date, the loan must be closed and proper documentation submitted to Missouri Housing Development Commission (MHDC) for approval.

**NOTE:** If a lender determines that a reserved loan will be denied, the reservation is to be canceled by the lender on Lender Online.

## Reservation Extensions

If the lender cannot complete the closing and submission to MHDC within this period, an extension of the expiration date is required. This may be accomplished by an email describing the reason for the extension request and the estimated date or period of time needed. Send this, along with the original approved reservation number, to any staff member in the homeownership department at MHDC.

A valid reason for the extension request is required. MHDC reserves the right to refuse any request. **Any request for an extension must be accompanied by a statement that a commitment letter has been issued to the borrower.** Loans that have not been approved by the end of the reservation period will not be extended.

**NOTES:** If a reservation has expired and MHDC has not received a request for an extension, the reservation will automatically be canceled.

## Reservation Change Requests

Lenders are required to notify MHDC immediately of any changes.

1. A written explanation describing the reason for the change must include the reservation number, borrower name, address and interest rate.
2. Increases in loan amounts in excess of \$3,000 must be approved prior to loan closing.

These changes are to be emailed to MHDC in accordance with the extension instructions.

## Approved Reservations

Loans may close as soon as the lender has received a confirmed reservation.

All loans must be closed and shipped to MHDC by the date specified on the reservation form.

**NOTE:** Reservations may not have a change in the property address. If the applicant(s) choose another property, their original approved reservation must be canceled and a new reservation made on Lender Online.

Reservations cannot be transferred to another certified lender. If the applicant chooses to apply with another lender, the original approved reservation must be canceled and a new reservation made on Lender Online.

Lenders may not transfer a loan that has been accepted for processing under a previous MHDC bond issue to a subsequent MHDC bond issue without the consent of MHDC staff.

## Section 3 - Borrower Eligibility Requirements

### Definition of a First-Time Home Buyer

To qualify for a FIRST PLACE LOAN, the purchaser and all other adults expected to reside in the home to be purchased must meet the definition of a first-time homebuyer.

A first-time homebuyer is defined as a person:

1. Who has not had a present ownership interest (see definition) in his or her principal residence within the past three years; and
2. Who has not taken a real estate tax deduction (on IRS Schedule A) for any residence within the past three years; and
3. Who has not taken a mortgage interest deduction (on IRS Schedule A) for any residence within the past three years.

**All persons expected to reside in the home to be purchased who have a primary interest or secondary interest in the property must meet the first-time homebuyer requirements.**

EXAMPLE: Two single persons are living together and only one is taking title and obtaining the loan. Both persons must submit tax returns and must meet the first-time homebuyer requirements and the maximum income limits.

EXAMPLE: Two married persons are purchasing a home, but one person will not take title due to credit issues. Both persons must submit tax returns, and both must meet the first-time homebuyer requirements and the maximum income limits.

*We will continue to gather information regarding number of household residents.*

### Exceptions to First-Time Homebuyer Requirements:

1. Applicants purchasing within Federally Targeted Census Tract Areas are not required to be first-time homebuyers. For more information on Federally Targeted Census Tract Areas, see Section 11-1.
2. Qualified veterans are not required to be first-time homebuyers. Qualified veterans means any veteran who;
  - a. Served on active duty, and;  
  
Applied for financing within 25 years after the date on which the veteran left active service.
  - b. Veteran's status must be documented by a DD Form 214, Certificate of Release or Discharge from Active Duty. Active duty veterans must obtain a statement of service signed by, or by direction of, the adjutant, personnel officer, or unit commander or higher headquarters showing date of entry on current active duty.

## Definition of Present and Non-Present Ownership Interest

Federal regulations define present ownership interest and non-present ownership interest as follows:

Applicants who hold or have held one of the following forms of present ownership interest in his or her principal residence within the past three years would not be considered a first-time homebuyer.

### Present Ownership Interest

- A fee simple interest;
- A joint tenancy, tenancy-in-common, tenancy by the entirety, or community property interest;
- The interest of a tenant-shareholder in a cooperative; however, this excludes the interest held by an applicant who lives/lived in a HUD-sponsored or regulated cooperative housing project, provided that:
  1. Such project is owned by a non-profit corporation;
  2. There is no stock issued by the corporation;
  3. Such persons possess only a membership in the corporation, and;
  4. Such persons occupy a specific unit in the project by virtue of an occupancy agreement or similar agreement which creates a landlord-tenant relationship pursuant to which the landlord may pursue remedies for breach in accordance with applicable landlord-tenant law.
- A life estate;
- A land contract or contract for deed (i.e., a contract pursuant to which possession and the benefits and burdens of ownership are transferred even though legal title is not transferred until some later time), whether legally filed or not.
- 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.

### Non-Present Ownership Interest

Applicants who hold or have held one of the following forms of non-present ownership interest **may** qualify as a first-time home buyer.

- A remainder interest;
- A lease with or without an option to purchase;
- A mere expectancy to inherit an interest in a principal residence;
- The interest that a purchaser of a residence acquires on the execution of a purchase contract, or
- An interest held in property that was not the principal residence during the prior three years;

## Existing Mortgages

A mortgagor shall not have had a mortgage (whether or not paid in full) on the subject residence at any time prior to the execution of the First Place Loan, and the proceeds of the First Place Loan will not be used to purchase or replace an existing mortgage.

For purposes of the preceding sentence, the replacement of construction period loans, bridge loans or similar temporary initial financing (i.e., financing which has a term of twenty-four months or less) will not be treated as an acquisition or replacement of an existing mortgage.

Exception: Borrowers can use the First Place Loan only for qualified refinance program approved by MHDC.

## Persons Who Are Separated or Legally Separated/Waivers of Marital Rights

Any applicant who is separated is still considered a married person; however, he or she may qualify for a First Place Program loan. A spouse who does not currently live with the potential borrower and who does not plan to live with the potential borrower may waive marital rights.

1. The non-borrowing spouse can not sign a Waiver of Marital Rights. He/she must sign the deed of trust.
2. The applicant and the spouse will be required to sign an MHDC Waiver of Marital Rights Affidavit, Forms #550-1 and #550-2. (There is a separate affidavit for spouse and potential borrower).
3. The lender must verify that the separation has been for a period of at least 12 months. (This verification is not submitted to MHDC.)

NOTE: The non-occupying spouse will not be required to meet First Place Program requirements. If the applicant and spouse currently reside, or plan to reside, in the subject property together after closing, use of Forms 550-1 and 550-2 affidavits are not required.

Lenders are required to utilize standard, customary underwriting procedures when underwriting any loan where only one spouse will act as the borrower due to poor credit of the non-borrowing spouse.

The non-borrowing spouse must sign the first Deed of Trust and Form #580, if applicable; however, they cannot sign the first note or second note or any other MHDC documents, nor can they take title to the property. (MHDC wants the warranty deed to mirror the note.)

Both spouses must meet all First Place Program requirements: income, first-time buyer status, etc.

### **Applicants Who Own/Owned Rental Property**

Applicants who own or have owned rental property may be considered eligible as a first-time homebuyer as long as they can prove the following:

- A. They did not live in any of the rental property for which they held ownership interest at any time within the past three years;
- B. A mortgage interest deduction was not taken as a personal deduction on Schedule A of their federal tax returns; or
- C. A real estate tax deduction was not taken as a personal deduction on Schedule A of their federal tax returns. (The person would probably have a rental schedule showing rental income on the tax return. This would be on the Schedule E, not on Schedule A.)
- D. Rental income must be counted when calculating for income guidelines.

### **Applicants Whose Ex-Spouse Solely Owned Real Estate Prior to the Marriage**

If an applicant/occupant was married within the past three years, but is now divorced, and the ex-spouse of the applicant/occupant owned the property prior to the marriage, the applicant/occupant would not be considered a first-time homebuyer.

In the state of Missouri, an applicant/occupant who is or was married to someone that owned property would be considered an owner of that property;

The applicant/occupant would not be considered a first-time homebuyer until:

- A. Three years from the date he or she stopped occupying the property as a principal residence, and;
- B. The applicant/occupant must have no mortgage interest or real estate tax deduction on any of his/her last three years of federal income tax returns.

### **Applicants Who Own or Owned a Mobile Home within Past Three Years**

An applicant may be considered a first-time homebuyer in the following circumstance:

- A. If the applicant owns a mobile home, and it is on leased land and still has the running gear on it (meaning it is NOT permanently fixed to a foundation), and the potential applicant has not taken a personal tax deduction for home mortgage interest or real estate taxes on their federal tax returns within the past three years.
- B. If the applicant owns/owned the land on which the mobile home is/was located, the following must apply:
  - 1. The mobile home must NOT be on a permanent foundation, and
  - 2. The applicant must not have taken a home mortgage interest deduction on Schedule A of the federal return at any time during the past three years, and

3. If the applicant took a real estate tax deduction on IRS Schedule A at any time during the past three years, he or she must prove or produce the tax receipt indicating that the real estate tax deduction was for unimproved (vacant) land.
  4. The lender must certify that the mobile home is indeed mobile. (A representative from the mortgage company must verify the mobility of the mobile home. This may be accomplished by completing MHDC Form #585-Mobile Home Certification.)
  5. If the mobile home is not sold, rental income must be calculated per income guidelines.
- C. An applicant would not be considered a first-time homebuyer under the following circumstances:
1. If the applicant owns/owned the land and the mobile home is/was permanently affixed, applicant is NOT eligible (regardless if a tax deduction was taken).
  2. If any home mortgage interest or real estate tax deduction is taken on IRS Schedule A for the mobile home, the applicant does not qualify as a first-time homebuyer.

Lenders are responsible for maintaining in their files all documentation regarding ownership or prior ownership of a mobile home. If you have a situation that is not addressed here, please call us or send us your letter outlining the circumstances in full detail, prior to loan closing, for approval.

### **Total Number in Family/Household**

Total number in family/household means the total number of persons who will be occupying the property as their full-time principal residence.

Families who are claiming dependents over the age of 18 who are full-time students must submit certification from the college/university that such dependent is a full-time student, per the college/university guidelines.

**A dependent, which is shown on a tax return for purposes of increasing the total number of persons occupying the subject property, may not be counted as a member of the household if the dependent will not be occupying the residence as his or her principal residence.**

A dependent may be counted as an occupant in each household if the dependent's parents are divorced and, per the divorce decree, each parent has physical custody 50% of the time.

Foster children are NOT counted as members of the household.

An unborn child may not count as a dependent.

## Total Family Household Income

To qualify for a First Place Loan, the total projected annual household income of the purchaser, and all others expected to execute the note *and* reside in the home to be purchased, must be less than the maximum income limit as calculated in accordance with the guidelines set forth by MHDC.

Total Projected Annual Household Income includes, but is not limited to, the following types of income:

- |  |   |
|--|---|
| 1. Gross pay                                 | 13. Welfare payments  |
| 2. Overtime                                  | 14. Social Security benefits  |
| 3. Bonuses                                   | 15. Disability payments   |
| 4. Part-time employment                      | 16. Alimony   |
| 5. Dividends                                 | 17. Support payments  |
| 6. Interest                                  | 18. Public assistance   |
| 7. Annuities                                 | 19. Sick pay  |
| 8. Pensions                                  | 20. Unemployment compensation   |
| 9. Veterans Administration (VA) Compensation | 21. Income received from trust or from business and investments   |
| 10. Gross rental or lease income             | 22. Any regularly occurring additional income from all sources (both taxable and non-taxable) including but not limited to earnings |
| 11. Commissions                              |   |
| 12. Deferred income                          |   |

Income exclusions include income from the following sources:

- A. Foster Children: Income received for the care of foster children is not considered in determining eligibility under the Maximum Income Guidelines.
- B. Food Stamps: Food stamps received are not to be considered in determining eligibility under the Maximum Income Guidelines.

**The above exclusions are not taken into consideration for determining eligibility under the MHDC Maximum Income Guidelines unless such income is taken into consideration in the credit underwriting of the loan.**

## Lenders Options for Verifying Income:

1. Alternative Documentation
2. Work-Number-For-Everyone
3. Third Party Verification of Income

### Option One - Alternative Documentation

These guidelines are used to verify W2-reported income only. These guidelines are similar to the Alternative Documentation requirements in place for use with FHA, VA, USDA Rural Development or Fannie Mae loans. Lenders must also comply with any alternative documentation requirements of VA, FHA, USDA Rural Development or Fannie Mae if using alternative documentation for underwriting purposes.

#### Acceptable Documentation:

Under this option, the lender may elect to have the borrower provide, in addition to the last three years' federal tax returns:

- Certified copies of W2s for the most recent year,
- Certified copies of 30 days of detailed year-to-date paycheck stubs, and
- A processor telephone certification, which may be no more than 30 days old at time of closing. This form must contain the borrower's name, lender's name and address and identify the processor/contact that verified the information, employer name and address, business telephone number, show the date of contact, state employment dates.
- An additional certified copy of a paycheck stub dated within 30 days of closing will be required prior to closing to verify that the borrower's rate of pay has not increased.
- Pay check stubs must reflect overtime, commission, rate of pay, etc. as separate entries, and check stubs must be either computer generated or typed.
- **If borrower has changed jobs, and a W2 for their current job is not available, Alternative Documentation may not be used.**

If detailed check stubs containing year-to-date income are not available, this method may not be used.

**Calculation Method for Alternative Documentation:**

To utilize this method, the lender shall annualize the borrowers most recent check stub. Lender shall:

- Determine the rate of pay, and the pay period type: hourly, bi-weekly, twice per month or monthly.
- This rate shall be multiplied by the number of annual units for that type: 2,080 hours (units) for hourly , 52 units for weekly, 26 units for bi-weekly, 24 units for twice-per-month, 12 for monthly etc. This shall be the base rate. For example:

\$10 hourly = 2,080x10=\$20,800 annually  
 \$600 weekly= 52x600=\$31,200 annually  
 \$1400 bi-weekly= 26x1,400=\$36,400  
 \$1800 semi-monthly= 24x\$1,800=\$43,200

- When using this method to determine first place program eligibility, income shall be the greater of the previous years' W2 income or the current years' annualized income from current paycheck stubs.

**Overtime, Commissions, etc.:**

If overtime, commissions, bonuses or any type of additional pay is disclosed on the paycheck stub, the lender shall annualize this income as well.

**Calculation Example:**

Three Person Household. Qualifying Non-Targeted income: \$65,550  
 Date of paycheck stubs: June 30, 2006

<b>Applicant</b>	<b>Borrower</b>	<b>Co-Borrower</b>
<b>Full Time Job</b>	<b>Yes</b>	<b>Yes</b>
<b>Start of Employment</b>	<b>6/30/2004</b>	<b>2/18/2004</b>
<b>Salary</b>	<b>\$450 weekly</b>	<b>\$15 hourly</b>
<b>Date of Next Increase</b>	<b>Not provided</b>	<b>Not provided</b>
<b>Date of Last Increase</b>	<b>Not Provided</b>	<b>Not Provided</b>
<b>YTD Base</b>	<b>\$11,700</b>	<b>\$15,600</b>
<b>YTD Comm./OT</b>	<b>0</b>	<b>\$125</b>
<b>2005 Income</b>	<b>\$22,750</b>	<b>\$35,360</b>

**All other forms of income (SSI, disability, child support, etc.) would be added to this figure on the Income Calculation Worksheet.**

## Option Two - "Work Number For Everyone"

MHDC will accept TALZ Corporation's verification providing the following is forwarded to MHDC in lieu of the verification of employment when this service is used:

1. The form must be a computer-generated or fax form indicating that it came directly from TALZ, "The Work Number for Everyone" program. MHDC must receive the full version, indicating salary and YTD and prior year earnings.
2. The form must carry a certification added to it by the lender, as follows:

We hereby certify that this form was generated by the Work Number for Everyone program and is being submitted as we received it:

(Name of Lender)

Date: \_\_\_\_\_ By: \_\_\_\_\_

(Typed Name of Person executing form)

The maximum fee charged to the buyer or seller by the lender cannot exceed \$15.00, which is the maximum allowed by HUD for this service. Other verification companies may be used, but the forms submitted must contain at least the information contained on a standard Fannie Mae Verification of Employment form.

## Option Three -Third Party Verification of Income

### Calculating Total Gross Annual Household Income

- A. SALARIED EMPLOYEES** - Use the current base earnings, whether hourly, weekly, or monthly, etc. and project forward for a full 12-month period.

If an applicant receives a pay increase prior to closing, the pay increase must be included in the base earnings.

If an applicant receives a pay increase and the mortgage lender closes the loan prior to the increase taking effect, then the increase would not be counted for income eligibility.

- B. IRREGULAR INCOME** such as overtime, bonuses, commissions, part-time pay and unemployment compensation will be projected using the exact amount of all such pay received in the most recent 12-month period. (This does not mean a calendar year.)

**This income must be counted, even if the employer states it is not likely to continue.**

If the loan closes prior to April 15, it is acceptable to use the overtime, bonuses, commissions, part-time and unemployment pay earned for the previous calendar year.

If the loan closes on or after April 15, employers must provide the most recent 12-

month period.

If an applicant has not been on the job for a full twelve months, determine the amount of overtime, bonuses, commissions, part-time and unemployment income earned within the period of time indicated. Divide the earnings received by the actual period of time worked. Multiply the result by 12 months or 52 weeks, depending upon the period used in the division.

**NOTE:** If an applicant is far below the MHDC Maximum Income Limit and it is easily determined that under no circumstance would it be possible to exceed the MHDC Maximum Limit, an exact 12-month breakdown is not required. **However, the irregular income must be included in the calculation for MHDC purposes.**

**CAUTION:** It has been brought to the attention of MHDC that, in some cases, the employer's records do not reflect the full amount of overtime received. The employer, when paying the applicant for overtime, may report part of the overtime in the base pay.

**EXAMPLE:** An applicant receives base pay of \$10.00 per hour and worked forty-four hours. The employer paid the employee:

<u>Pay Type</u>	<u># of Hours</u>	<u>Rate</u>	<u>Amount</u>
Regular Hours	44.00	\$10.00	\$440.00
Overtime	4.00	\$ 5.00	20.00

In this example, the actual amount of overtime the applicant received is \$60.00. The employer reported \$20.00.

**C. SEASONAL TYPE WORKERS** -- (i.e., construction workers) - Use the exact income received in the most recent 12-month period (this does not mean a calendar year), then project anticipated income.

If an applicant has not been on the job for a full 12 months, determine the amount of income earned within the period of employment. Divide the earnings received by the actual period of time worked. Multiply the result by 12 months or 52 weeks, depending upon the period used in the division.

**EXAMPLE:** Total earnings are \$17,653 for a period of 8 months, paid monthly.

$$\$17,653 / 8 = \$2,206.62$$

$$\$2,206.62 \times 12 = \underline{\$26,479.50}$$

\$26,479.50 is the projected annual income for qualifying purposes.

**D. SELF-EMPLOYED APPLICANTS** - Use net earnings from the most recently filed tax return. Deductions in connection with the business are allowable; however, all depreciation must be straight line depreciation. If net income is a loss, the amount of income would be -0-.

**NOTE:** If the loan closes after April 15, the previous year's federal income tax return will be required (e.g., loan closed April 16, 2011, the 2010 return will be required.)

If an applicant has not been self-employed for a full twelve months, determine the

amount of earnings within the period of self-employment. Divide the earnings received by the actual period of time worked. Multiply the result by 12 months or 52 weeks, depending upon the period used in the division. Use the projected income for qualifying. Verify income per standard underwriting procedures for this situation, interim financial statements, etc.

**E. BUSINESS INCOME FROM PARTNERSHIPS, S-CORPORATIONS** - In addition to income received from the business, make certain to include the income being retained in the business from the most recently filed corporate tax return. If the applicant owns the business 100%, include 100% of the business profit being retained in the company. If there are four equal partners, count 25% of the business profit being retained in the company for this applicant's qualifying income.

NOTE: If the loan file closes after the fiscal year ends for the corporation, the new return will be required.

If an applicant has not been in business for a full twelve months, determine the amount of earnings for the appropriate number of months. Divide the earnings received by the actual period of time in business. Multiply the result by 12 months or 52 weeks, depending upon the period used in the division. Use projected income for qualifying.

**F. MILITARY PERSONNEL** - You must include any housing allowance, food allowance, etc. that is paid to the applicant that is not paid as a reimbursement.

**G. PASTORS, MINISTERS** - You must include any housing allowance, food allowance, etc. that is paid to an applicant that is not paid as a reimbursement.

**H. CHILD SUPPORT** - Use total amount of child support received within past 12 months. A printout from the court is sufficient to show exact amounts of support received within past 12 months. In lieu of the printout, a copy of the divorce decree is acceptable.

If it is not paid through the courts, but the divorce decree states an amount, or if the applicant receives less than the amount stated in the divorce decree, a notarized statement from the applicant stating exact earnings will be acceptable.

If an applicant has not received child support for a full 12 months, determine the amount of child support earned for the appropriate number of months. Divide the earnings received by the actual period of time child support has been received. Multiply the result by 12 months or 52 weeks, depending upon the period used in the division. Use projected income for qualifying.

If the applicant receives no support for a minor child, MHDC Form #523 must be signed and notarized, stating that the child receives no child support, SSI or SSA, disability, etc.

**I. CAR ALLOWANCE** - If the car allowance is a reimbursement, the amount received would not be counted for MHDC purposes. However, if an applicant/occupant receives a car allowance without expenses to offset the allowance, it must be counted as income.

**J. UNEMPLOYMENT COMPENSATION** - If an applicant has a job where he and she is consistently laid off due to weather conditions, model changes, etc., the

unemployment compensation earned within the past 12 month period must be included in the calculation of income.

If an applicant has not been on the job for a full 12 months, determine the amount of unemployment compensation earned within the period of time of employment. Divide the regular earnings received by the actual period of time on the job. Multiply the result by 12 months or 52 weeks, depending upon the period used in the division. Add unemployment compensation to regular income. Use projected income for qualifying.

- K. TEACHERS** - The contract in effect at the time of loan closing will be utilized. In addition, any supplemental contracts or extra duty pay must also be counted. Any summer employment must be counted as well.

### **Miscellaneous Criteria (applicable regardless of calculation method used)**

#### **Layoffs Due to Illness or Injury**

The period of time that an applicant was not at work due to an illness or injury may NOT be counted to achieve a 12 month history for the purpose of overtime, bonuses, commissions, part-time employment, unemployment, seasonal work, etc.

To properly calculate income in this situation, determine the actual period of time worked within the 12 month period. Divide the earnings by actual period of time worked. Multiply the result by 12 months or 52 weeks, depending upon the period used in the division. Use projected income to qualify.

#### **Quitting a Job After Application**

If an applicant quits a job after the application has been taken, the income from that job must be used for MHDC purposes. **An applicant may not quit a job for purposes of qualifying for an MHDC loan.** The exception is:

1. Applicant quits a full time position to accept a new full time position, or
2. Applicant quits one or more part-time positions to accept a full-time position.

#### **Applicants Close to the MHDC Maximum Income Limits**

When the applicant is close to the maximum income limit and the employer will not provide the exact 12 month breakdown, the lender may NOT:

1. Use an average of more than twelve months, or
2. Attempt to project the income by taking previous year(s) earnings, dividing by twelve and multiplying by the number of months needed to achieve twelve months' earnings.

The lender may count all of the income earned in a period of time (if more than twelve months) and treat it as if it was earned within the twelve month period and **if** the applicant is still below the maximum an exact twelve months would not be required. However, if the

above cannot be accomplished and the employer cannot or will not break out the information, the mortgage loan will be denied.

### **Treatment of Assets**

Any liquid asset of \$5,000 or greater will need to be multiplied by 3% of the annual interest (which includes checking, savings, etc.) unless the funds are being applied toward the purchase of the property.

Exception: 401K, stock, etc. are excluded as long as consistent withdrawal transactions are not taking place.

Example: Checking account balance: \$10,500 x 3%= \$315 (this amount would be added to the borrowers annual income)

### **Prior Approvals on Calculating Total Household Income**

If an applicant is close to the Maximum Income Guidelines, the lender may request a prior approval from MHDC. To request prior approval, lenders should submit The Request for Prior Approval (Form #521), and the appropriate information detailed on this form for the type of prior approval requested. Such as:

- A. The number of persons intending to occupy the residence,
- B. The maximum income limits for the area where the property is located,
- C. Details regarding all persons who intend to occupy the subject property and execute the note, whether employed or receiving other forms of income,
- D. If overtime, commissions or bonuses are being used, the lender must set out details of exactly what was used and a schedule of income from pay stubs or other documentation used for arriving at the figures.

It is very difficult for MHDC staff to review a few pieces of paper and understand the entire situation. All applicable documentation including the current loan application must be included with the Form #521. This form will indicate what documentation must be included.

MHDC staff will not accept documents that do not provide background information and for which no income charts, etc. have been calculated. MHDC will either AGREE or DISAGREE with the method of lenders' calculations. We will not perform calculations for lenders.

Requests will be accepted only if Form #521 and certifications are executed by a person who the lender has authorized to sign, and such authorization has previously been sent to MHDC.

**MHDC requests that all prior approvals allow at least a 48-hour review time.**

**Additional Information to Calculate Total Household Income**

The following rule must be applied to the preceding methods for calculating total gross annual household income at all times.

**If the income figure for credit underwriting is higher than the projected income for MHDC, the income used for credit underwriting must be used. Be certain to indicate on the Gross Income Calculation Worksheet that the income for credit underwriting purposes was higher than income calculated for MHDC purposes.**

The exception is if you are using the income of a co-signor for qualification purposes. If the co-signor meets the definition found on pages 5-6, the co-signor's income would not have to be included for MHDC purposes.

The total household income may not exceed the current Maximum Income Limits as set out in Section Nine. Limits are subject to change from time to time. Make certain you are using a current chart.

**NOTE: The calculation method for purposes of determining bond eligibility is a different process than income used for credit underwriting. The calculations are used for two entirely different purposes.**

**NOTE:**

An exception to the above stated rules occurs when a borrower purchases both sides of a duplex or both floors of a two story flat. In this case only, the income anticipated to come from the rental of the second unit to be purchased may be used for underwriting purposes, which may exceed the income used for MHDC qualifying purposes by the amount of such rent. In addition, income from the second unit would not be included in the determination of compliance with the Maximum Income limits.

**Example of Calculation Method**  
Information Found on the VOE

<b>Applicant</b>	Mr. Davis	Mrs. Davis
<b>Job Description</b>	Sales & Service Rep	Medical Sec. Receptionist
<b>Full-Time Job</b>	Yes	Yes
<b>Start of Employment</b>	04/15/03	12/05/03
<b>Salary</b>	\$660 bi-weekly	\$14,560 yearly
<b>Date of Next Increase</b>	not provided	not provided
<b>Date of Last Increase</b>	not provided	not provided
<b>Info. Verified as of</b>	08/04/06	07/10/06
<b>Y-T-D Base</b>	\$8,500.00	\$7,400.00
<b>Y-T-D Commission</b>	\$6,234.73	0.00 (OT)
<b>2005 Base</b>	\$8,510.00	\$780.00
<b>2005 Commission</b>	\$10,889.21	0.00 (OT)
<b>Additional Information</b>	On leave from 5/13/06 to 8/4/06, received base only	None
<b>Anticipated Closing:</b>	10/22/06	

MHDC would calculate the income as follows:

<u>Applicant Name</u>	<u>Description and calculation method</u>	<u>Annual Amount</u>
Mr. Davis	Base: \$660 / bi-weekly X 26 weeks = Commissions: 2006* \$6,234.73 2005 + \$ _____ = _____ ÷ 9 mos x 12 mos =	\$17,160.00
Mrs. Davis	Base: _____ +	\$14,560.00
<b>TOTAL PROJECTED ANNUAL HOUSEHOLD INCOME:</b>		<b>\$ _____</b>

\*Earnings as of 5/13/06

MHDC would need to know the amount of commissions earned from 8/9/05 to 12/31/05.  
The employer verified the information as of 8/4/06; however, Mr. Davis did not work from 5/13/06 to 8/4/06; therefore, the actual period of time worked was determined and projected for 12 months.

**Example of Calculation Method**

Information Found on the VOE

<b>Applicant</b>	Mr. X	
<b>Job Description</b>		
<b>Full-Time Job</b>	yes	
<b>Start of Employment</b>	10/07/91	
<b>Salary</b>	\$18.46 hourly	
<b>Date of Next Increase</b>	not provided	
<b>Date of Last Increase</b>	not provided	
<b>Info. Verified as of</b>	08/14/06	
<b>Y-T-D Base</b>	\$23,016.55	
<b>Y-T-D Overtime</b>	\$5,511.37	
<b>2005 Base</b>	\$30,578.26	<b>Anticipated Closing Date:</b>
<b>2005 Commission</b>	\$6,614.39	9/15/06
<b>Additional Information</b>	Provided by the Work Number for Everyone (TALZ Corp.)	

MHDC would calculate the income as follows:

<u>Applicant Name</u>	<u>Description and calculation method</u>	<u>Annual Amount</u>
Mr. X	Base: \$18.46/hour X 40 hours X 52 weeks =	\$38,396.80
	Overtime: 2006 Y-T-D	\$5,511.37
	2005 (8/15/05 to 12/31/05) + _____ =	_____
<b>TOTAL PROJECTED ANNUAL HOUSEHOLD INCOME:</b>		<b>\$ _____</b>

NOTE: MHDC is unable to complete the projection, as the specific breakdown of overtime earned during the period of 8/15/05 to 12/31/05 was not provided.

Looking at worst case:

<u>Applicant Name</u>	<u>Description and calculation method</u>	<u>Annual Amount</u>
Mr. X	Base: \$18.46/hour X 40 hours X 52 weeks =	\$38,396.80
	Overtime: 2006 Y-T-D	\$12,125.76
<b>TOTAL PROJECTED ANNUAL HOUSEHOLD INCOME:</b>		<b>\$50,522.56</b>

If the applicant is under the maximum after you count all of the overtime earned in 2005+2006 as a full 12 month period, you would not need to obtain an exact 12-month breakdown.

**Example of Calculation Method**

Information found on the VOE

<b>Applicant</b>	Mr. Klein	Mrs. Klein
<b>Job Description</b>	Technician	Technician
<b>Full-Time Job</b>	Yes	Yes
<b>Start of Employment</b>	05/07/92	07/21/94
<b>Salary</b>	\$10.10 hourly plus .50¢ shift difference	
<b>Date of Next Increase</b>	6/07 = 3%	6/07 = 3%
<b>Date of Last Increase</b>	6/23/06 = 4%	6/23/06 = 4%
<b>Info. Verified as of</b>	07/11/06	07/11/06
<b>Y-T-D Base</b>	\$11,706.79	11,794.67
<b>Y-T-D Bonus</b>	\$409.20	\$409.37
<b>1996 Base</b>	\$19,635.05	\$20,366.54
<b>1996 Bonus</b>	\$838.77	\$865.22
<b>Additional Information</b>	OT Hrs included in base	OT Hrs included in base
<b>Anticipated Closing</b>	10/5/06	

**Additional information provided to MHDC:** (Note that both applicants work for same employer.)

- B. Letter from employer stating that there is a vacation shutdown in summer coinciding with a major auto maker's production schedule.

**MHDC requested additional information verified by the employer in writing:**  
*(Answers)*

- 1. During the period 7/1/05 to 6/30/06:

What has Mrs. Klein earned in overtime pay?	<b>\$1,318.20</b>
What has Mrs. Klein earned in bonus pay?	<b>\$1,026.00</b>
What has Mr. Klein earned in overtime pay?	<b>\$1,084.92</b>
What has Mr. Klein earned in bonus pay?	<b>\$1,002.60</b>
What amount has Mrs. Klein earned in unemployment compensation?	<b>\$39.00</b>
What amount has Mr. Klein earned in unemployment compensation?	<b>\$78.00</b>
How many weeks/days was Mrs. Klein laid off?	<b>8 days</b>
How many weeks/days was Mr. Klein laid off?	<b>8 days</b>

***Continued on next page.***

**MHDC FIRST PLACE LOAN OPERATIONS MANUAL**

---

*Continuation of Mr. & Mrs. Klein's projected income example.*

With the information on the previous page, MHDC projected Mr. & Mrs. Klein's total household income as follows:

<b><u>Applicant Name</u></b>	<b><u>Description and calculation method</u></b>	<b><u>Annual Amount</u></b>
Mr. Klein	Base: $\$10.10 + .50 = \$10.60 \times 40 \times 52 =$	\$22,048.00
	Overtime: (12 month earnings)	1,084.92
	Bonus: (12 month earnings)	1,002.60
	Unemployment Comp. (12 month earnings)	78.00
Mrs. Klein	Base: $\$10.10 + .50 = \$10.60 \times 40 \times 52 =$	22,048.00
	Overtime: (12 month earnings)	1,318.20
	Bonus: (12 month earnings)	1,026.00
	Unemployment compensation	39.00
		-----
		\$48,644.72

MHDC counted both applicants as working a full 40 hours per week, 52 weeks per year, in their base. In addition, MHDC also counted unemployment compensation against these applicants. The employer verified within the past 12 months that these applicants were laid off a total of 8 days. Therefore, MHDC deducted 8 days of pay for both applicants:

$\$10.60 \text{ hourly} \times 8 \text{ hours} \times 8 \text{ days} =$	
$\$678.40 \times \text{two applicants} =$	<1,356.80>
	-----

TOTAL PROJECTED ANNUAL HOUSEHOLD INCOME:	\$47,287.92
--	-------------

### Example of Calculation Method

General information from the applicants' VOEs for a projected closing date of July 18, 2006.

Mr. Smith

Full Time Job

Start of Employment:	5/15/96
Salary:	\$34,800 annually
Date of Last Increase:	8/18/05= \$1,800
Date of Next Increase:	8/15/06= undetermined
Date signed by employer:	6/7/06
Y-T-D earnings as of 5/21/97	\$12,046.23
1996 earnings:	\$21,183.61
Bonus received within last 12 mos:	\$225.00
Part-Time Job - Start Date:	2005 as needed
Salary:	None noted
Date signed by employer:	6/6/06
Total earnings within last 12 mos:	\$1,077.50

Mrs. Smith

Substitute Teacher obtained VOE's from all schools	
Part-Time summer job	
Start Date (Not employed after 9/30/06)	6/12/06
Earnings as of 7/13/06	\$700

---

MHDC would calculate the income as follows:

<u>Applicant Name</u>	<u>Description and calculation method</u>	<u>Annual Amount</u>
Mr. Smith	Full Time Job - Regular wages	\$34,800.00
	Bonus (from most recent 12-mos)	225.00
	Part-time Job - Total earnings (from most recent 12-mos)	1,077.50
Mrs. Smith	Substitute Teacher - Total earnings (from most recent 12-mos)	4,236.33
	Part-time Summer Job	2,450.00
	\$700 ÷ 1 month x 3.5 months work time (to project the income)	
	<b>TOTAL PROJECTED ANNUAL HOUSEHOLD INCOME</b>	<b>\$42,788.83</b>

## **Owner-Occupancy Requirements**

Mortgagors must occupy the residence within 60 days of loan closing, and continue to occupy, as long as the bond loan exists, as his or her principal residence.

Mortgagors may not rent or transfer the residence as long as the bond loan exists on the property. Any assumption must be to an income qualified buyer and be approved by MHDC.

The following will not be considered to be a principal residence and will not be financed with funds from the Tax-Exempt First Place Loan Programs:

- A. A residence that has more than 15% of the total area reasonably expected or otherwise primarily intended to be used in a trade or business. (i.e., Qualifying deduction as an expense for business use of the home under the Code);

NOTE: When there is a business in the home, a deduction for any cost of the home may not be taken as a business expense. (i.e., prorating the mortgage payment, taxes, insurance) and

- B. A residence utilized as an investment property; or
- C. A residence utilized as a recreational home.

## **Non-U.S. Citizens**

Each applicant must be a U.S. citizen or a lawful permanent resident alien to be eligible for MHDC financing. In addition, the subject property must be the borrower's principal residence and located within the state of Missouri. The borrower must also have their own valid Social Security number.

MHDC will also provide financing to non-permanent resident aliens, provided:

- A. Borrower occupies the property as the principal residence,
- B. Borrower has a valid Social Security number, and
- C. Borrower is eligible to work in the United States.

NOTE: Lenders may not remove a spouse from an application to qualify an eligible borrower if a co-occupying spouse is not a legal U.S. resident.

## Section 4 - Residence Eligibility Requirements

To qualify for the First Place Program, the residence to be purchased must meet the following definitions:

1. Residence – real property and improvements thereon.

A. Consisting Of:

1. A single-family detached building,
2. Row House,
3. Townhouse,
4. ½ Duplex, or
5. 2-Unit Duplex
6. Condominium.

(Note: Row Houses, Townhouses, Duplexes or Condominiums must have a fire wall.)

**NOTE: Effective 2004 both sides of an existing duplex or, both floors of a pair of flats may be purchased. Income limits are not changed, but rental income is not included in household income for the purposes of First Place Loan Program qualification. Sales price limits are 1.126 times the single family sales price limits. (See Sales Price Limits chart) FHA, VA, Fannie Mae or USDA Rural Development) Two-Family underwriting guidelines must be followed at all times. Also, the borrower must occupy one side of the duplex.**

**Only those two-family residences five years old or older are eligible for financing with First Place Loan Program Funds.**

B. To be owned by the mortgagor that:

1. Can reasonably be expected to become the principal residence of the mortgagor within a reasonable period of time (not to exceed sixty days after the execution of the applicable mortgage),
2. The mortgagor shall have agreed to reside in the principal place of residence, as long as it:
  - Is located within the program area,
  - Is an existing residence or a new residence, as applicable

<b><u>Definitions</u></b>	
<u>Existing Residence</u>	A residence which has been previously occupied.
<u>New Residence</u>	A residence which has not been previously occupied, prior to potential applicant occupying said residence.
<u>Program Area</u>	Anywhere within the State of Missouri.

**The residence cannot be located within a 100-year flood plain.**

*(Effective 5/20/94). This means no portion of the property being purchased can be located within the 100-year flood plain, not just that the dwelling may not be in the flood plain. An elevation certificate will not affect eligibility.*

**Flood plain zones:**

<u>Zone</u>	<u>Definition</u>
A	An area inundated by 100-year flooding for which no base flood elevations have been established.
AE	An area inundated by 100-year flooding for which base flood elevations have been established.
AO	Areas of 100-year shallow flooding where depths are between one and three feet; average depths of inundation are shown, but no flood hazard factors are determined.
AR	An area inundated by flooding, for which basic flood elevations or average depths have been determined.
AH	Areas of 100-year shallow flooding where depths are between one and three feet; base flood elevations are shown, but no flood hazard factors are determined.
ANI	An area that is located within a community or county that is not mapped on any published firm.
A99	An area inundated by 100-year flooding for which no base flood elevations have been established. Areas of 100-year flood to be protected by flood protection system under construction
B	Areas between limits of the 100-year flood and 600 year flood; or certain areas subject to 100-year flooding with average depths less than one foot or where the contributing drainage is less than one square mile; or areas protected by levees from the base flood.
C	Areas of minimal flooding; outside the limits of the 100-year and 500-year flood.

- D Areas of undetermined, but possible flood hazards.
- X Areas of 600-year flood; areas of 100-year flood with average depths of less than one foot or with drainage areas less than one square mile; and areas protected by levees from 100-year flood.
- X Areas determined to be outside 500-year flood plain.

Therefore, if a property is located within Zone A, AE, AO, AR, AH or A99, the property would not be considered an eligible property. For properties in Zone D, or in areas that have not been mapped, the Lender must obtain prior approval for the property from MHDC. The Lender must provide a signed letter from a local government official, on letterhead, stating he or she can verify, without hesitation, that the property did not flood in 1993. This must be done before loan closing. MHDC requests at least a 48 hour review time for all prior approvals.

Several of our lenders have experienced difficulty in obtaining a letter from City and County governments to satisfy our requirements on Flood Zone D. Use of the language indicated in the following letter may assist you in obtaining their cooperation.

**Note:** Flood zones that have an "\*" need a letter of explanation from the flood company.

**Issuing Government Letterhead**

Date

TO: Missouri Housing Development Commission  
FROM: Issuing Government  
RE: Subject Property Address

I, name, official title/office, am familiar with the property indicated above, I state, without hesitation, that this property did not flood in 1993 nor has it flooded since then. I understand that I am not being asked to comment on the possibility of future flooding, or on any measures that may have been taken that may affect future flooding. This statement is made based upon my personal experience, and is not provided as a function of my official office. By providing this letter, neither I nor my official office are accepting any liability should any flooding occur in the future.

This letter is provided only to comply with MHDC requirements for areas that do not participate in the Federal Flood Zone Mapping program.

## Flood Certification

All First Place Loans require a valid Flood Certification to be included with the loan package submitted to the master servicer. If a flood certification is not submitted with the loan package, and if the loan could be purchased if a flood certification had been provided, the master servicer will provide a Flood Certification at the cost of \$10, purchase the loan, and deduct the \$10 cost from the lenders' compensation.

## HUD-Owned Properties

HUD-owned properties are acceptable; however, an appraisal is also required. In lieu of the appraisal, a HUD-performed certification of value is acceptable. If a Certification of Value is used, sales price and loan amount may not exceed certified value. Either HUD or their appointed representative must sign the Seller's Affidavit.

## Mobile Homes

To qualify, the residence cannot be a mobile home, which is defined as follows:

1. A home that is transportable in one or more sections built on a permanent chassis.

The exception is a double-wide mobile home that meets ALL of the following criteria:

1. Must be placed on a permanent, poured foundation (i.e., a crawl space or basement) *A "Skirted" unit is never considered to be on a permanent foundation.*
2. Must be taxed as a single family residential home under the real estate tax rules and,
3. Must be insured as a regular single family dwelling under sections of the act by HUD/FHA, USDA Rural Development, VA or, if the loan is conventional, Fannie Mae eligible.
4. Must meet all of the master servicer's requirements.

**NOTE: Effective October 2003 no modular housing, manufactured housing or double wide mobile home, even if on permanent foundations, may be financed using any Fannie Mae product. All such homes must be financed using FHA, VA, or USDA Rural Development loans.**

## Properties That Have Been Inherited

An applicant's interest in a residence that has been inherited will not be taken into account unless the applicant has occupied the inherited property as their principal residence within the past three years.

However, a mortgagor may not purchase a residence from the estate of a deceased relative, if such mortgagor is entitled under state law to inherit any interest in such residence upon final disposition of the estate, the program may not be utilized to "buy out the interest" of other owners of an inherited property.

## Acquisition Cost Limitations

Acquisition Cost is the total cost of acquiring a residence from the seller as a completed residential unit.

- A. The acquisition cost or total principal amount of the First Place Loan cannot exceed the maximum sales price limits. (If the sales price is higher than the maximum, the difference between the sales price and maximum cannot be paid by anyone.)
- B. The acquisition cost or total principal amount of the First Place Loan cannot exceed the appraised value.

**EXCEPTION: Only USDA Rural Development and VA funding fees are allowed to exceed the appraised value.**

C. The acquisition cost includes:

- (1) All amounts paid, either in cash or in kind, by the mortgagor (or a related party or for the benefit of the mortgagor) to the seller (or a related party or for the benefit of the seller) as consideration for the residence (including the amount of any lien or assessment to which the residence is subject);
- (2) If the residence is incomplete, the reasonable cost of completing the residence whether or not the cost of completing construction is to be financed with the First Place Loan; and
- (3) If the residence is purchased subject to ground rent, the capitalized value of the ground rent calculated using a discount rate equal to the yield on the bonds as specified in the Commission Notice and assuming semi-annual compounding.

D. The acquisition cost does not include:

- (1) The usual and reasonable settlement or financing costs, including title and transfer costs, title insurance, survey fees or other similar costs, credit reference fees, legal fees, appraisal expenses, points which are paid by the mortgagor (but not the seller, even though borne by the mortgagor through a higher purchase price) or other costs of financing the residence, but only in each case to the extent that the amount does not exceed the usual and reasonable cost that would be paid by the Mortgagor where financing is not provided through the use of tax exempt bonds;
- (2) The value of services performed by the Mortgagor or members of the mortgagor's family, including only the mortgagor's brothers and sisters (whether by the whole or half-blood), spouse, ancestors and lineal descendants in completing the residence, e. g sweat equity; and
- (3) The cost of the land that has been owned by the mortgagor for at least two years prior to the date on which construction of the residence begins.

**To Determine Total Acquisition Cost:**

Real Estate Sales Price

**OR** Actual Cost to Construct \$ \_\_\_\_\_

Plus the cost of the land, unless owned by purchaser for at least two (2) years prior to the date of which construction began: + \_\_\_\_\_

Plus the value of any services performed by someone other than a related party to the applicant, for which said services have been bartered for + \_\_\_\_\_

Plus Amount of Rehabilitation: + \_\_\_\_\_

Less Sweat Equity (Labor ONLY) performed by purchaser or members of purchasers family, if included above - \_\_\_\_\_

Less Personal Property included in the Real Estate Sales Contract: - \_\_\_\_\_

**TOTAL ACQUISITION COST OF RESIDENCE:** \$ \_\_\_\_\_

The total acquisition cost cannot exceed the Maximum Purchase Price Limit.

## Non-Realty Items

All non-realty items included on the real estate sales contract, that are included in the contract purchase price, must be reflected on the Mortgagor's and Seller's Affidavits, as follows:

**Example:** The contract lists refrigerator, stove, microwave, and dishwasher as included in the sale. The following would then be inserted in the appropriate place on the affidavits:

*List each item of unattached*

personal property and the purchase price therefore:

*Refrigerator, stove, microwave, and dishwasher included in sales price.*

HOWEVER, if a side agreement exists or the borrower agrees (within the sales contract) to pay a price for non-realty items over and above the price of the property, the items must then be listed along with the total price being paid for the non-realty items.

**Example:** The sales contract states that the borrower agrees to pay the seller \$75 for a washer & dryer and \$100 for patio furniture. The following would then be inserted in the appropriate place on the affidavits:

*List each item of unattached*

personal property and the purchase price therefore:

Washer & Dryer = \$75.00

Patio Furniture = \$100.00

**CAUTION:** When many items, or items not considered appliances, are included with the sale or in a side agreement, please use caution in ascertaining that items are not being sold to offset any MHDC Maximum Purchase Price Limits or that items sold in a separate agreement are sold at fair market value.

## Sweat Equity

Sweat equity should be applied to the mortgage following the applicable insurer guidelines (HUD/FHA, VA, USDA Rural Development or Fannie Mae).

For purposes of determining the total acquisition cost of a residence, any labor performed by the applicant or immediate family (sweat equity) must be deducted.

An applicant may not receive any part of the sweat equity back at closing.

## **Buyers Paying for Repairs**

Buyers may not pay more for the property than the appraised value.

Therefore, if the contract sales price and the appraised value are the same, the buyer may not pay for any repairs that are required on the appraisal. This includes repairs which were required as a result of an inspection required by the appraiser.

The exception is if the buyer is paying less than the appraised value and the repairs plus the sales price does not exceed the appraised value.

**NOTE:** If you are using a title company or escrow closing company, this should be a standard item on your instructions to the closer. Often this is not known until closing (i.e., amendment to contract produced at closing). The paying off of special assessments by the buyer can also be a problem if the special assessment payoff plus the contract price exceeds the appraised value.

Lenders should always give specific instructions to the title company if the title company is doing the loan closing. Such instructions should include (but not be limited to) the fact that you are sending a copy of the real estate sales contract. No further amendments to the sales contract may be used unless approved by the lender. Also remember to spell out allowable charges.

## **Excess Land Included in the Sale of Property**

The federal regulations define land as follows:

**LAND:** Land appurtenant to a residence shall be considered as part of the residence only if such land reasonably maintains the basic livability of the residence and does not provide, other than incidentally, a source of income to the mortgagor.

### **Policy Change Effective January 15, 2005**

- A. Our bond counsel advises us that any rural property exceeding ten acres is not eligible for First Place financing. There will be no exceptions.
- B. All urban properties should include only the amount of land consistent with other homes in the neighborhood. (Example: All lots in a subdivision are typically 100 feet wide; a double size lot (two lots) would not be consistent or typical for the neighborhood.)
- C. In all cases, buyers shall stipulate that the land they are purchasing will not be used for agricultural production or for other income producing activities. This statement is included in the Mortgagors' Affidavit, MHDC Form #535.

## Section 5 - Mortgage Loan Requirements

### FICO Score

The following guideline change is effective on April 15, 2011 for all new mortgage reservations:

- Minimum Credit Score
  - MHDC loan recipients (CAL and NON CAL) must have a minimum credit score of 620; MHDC will allow loan recipients with credit scores < 620 if the back-end debt-to-income ratio does not exceed 31%. MHDC will not purchase loans with a FICO < 620 if the back-end debt-to-income ratios > 31% at the time of origination.

All loans must be originated and underwritten in compliance with FHA, VA, RD, FNMA or FHLBC guidelines, which may have a minimum credit score requirement greater than 620.

Lenders reserve the right to be more restrictive.

### Lenders' Fees and Charges

- A. **Allowable fees and points** which the lender may collect are the following:
1. No up-front origination fees or discount points are to be collected.
  2. Currently, a \$175 servicing fee is required to be charged on all second mortgages. **As of April 15, 2011, this fee may no longer be charged on new reservations.**
  3. As of April 15, 2011, an \$85 Purchase Review Fee must be collected on each first mortgage. The fee will be collected by MHDC's master servicer upon purchase of the mortgage.
  4. As of April 15, 2011, originating lenders may charge an Application/Processing Fee of up to \$350 on each first mortgage.
  5. The lender will be compensated with a 2% Servicing Release Premium (SRP) at the time of loan purchase.

**EXCEPTION:** On the Refinance program, lenders can charge a 1% origination fee and 1% in junk fees. The lender will still be compensated with a 2% SRP at the time of loan purchase. The actual amounts expended for:

- Credit reports and verifications,
- Home inspection fee, maximum amount **\$400**,
- Pests inspections or treatments,
- Flood letter,
- Survey,
- Title examination and opinion,
- Title insurance,
- Any required title policy endorsements,
- Mortgage insurance premium,
- Attorneys' fees,
- Appraisers' fees,
- Filing and recording fees,
- Desktop Underwriter and Loan Prospector
- Settlement/Closing Fees may not exceed \$250 each for the Borrower or Seller on the 1<sup>st</sup> HUD-1. The Seller may opt to pay the Borrower's fees which cannot exceed \$500 total. If using Cash Assistance Loan (CAL), the 2<sup>nd</sup> HUD-1 cannot exceed \$50.

provided such amounts are not more than the amount which would be paid by the applicant in financing offered by the lender in its usual course of residential mortgage lending; and

5. The actual amounts paid or escrowed for:

- Taxes,
- Insurance, and
- Mortgage insurance premiums (MIP).

No other fees, charges or other remuneration will be received directly or indirectly by the Lender in making any mortgage loan unless specifically authorized in writing by the Commission.

**The following fees may not be charged:**

Tax Service Escrow Fees

Document Preparation Fees

Underwriting Fees

If paid to a third party, then the actual cost of the service is eligible up to \$300.

Commitment Fees

Settlement/closing fees

These fees, when paid to a third party, are acceptable. However, the maximum allowable loan closing fee paid by the borrower or the seller or any amount paid on behalf of the borrower is \$250.00.

Discounts points

Not allowable except as set out in the Commission Notice.

Notary Fees

Note: \$15 maximum on FHA and conventional loans.

Real Estate Sales Commissions or Real Estate Administrative Fees

These fees may not be paid by the buyers.

Federal Express/overnight charges

To the buyer(s) are prohibited without prior written consent of the buyer and may be charged to the buyer only under certain circumstances. All charges in connection with loan papers being sent to FHA, VA, USDA Rural Development or MHDC (or in some cases to the Master Servicer for purchase) must be borne by the originating lender.

Such costs, fees and charges will be reviewed by MHDC and will be disapproved if MHDC determines that they exceed the usual and reasonable costs.

## **Loan Closing Requirements**

- A. All lenders will be responsible for closing loans they originate. This means that all lenders will be responsible for all buyers and sellers First Place Loan Program papers for home loans originated by them. However, a closing agent such as a title company or escrow closing company may be used.
- B. The First Place Loan must be:
- Held in a fee simple title;
  - Secured by a mortgage creating a first lien on a residence which is located within the program area;
  - Fully documented and underwritten in accordance with prudent industry standards in GNMA or Fannie Mae acceptable form and FHA, USDA Rural Development or VA acceptable form;
  - Made for the purpose of purchasing the residence and refinancing (only with the MHDC Refinance program) and not for the purpose of replacing any existing loan on any such property (other than a construction loan or similar temporary financing);
  - A term of 30 years and bear a specific interest rate, as defined in the "Commission Notice";
  - Payments come due on the first day of each month.
- C. The First Place Loan must not:
- Be subject to a "buy down" agreement (except for a "buy down" approved by the Commission in writing),
  - Be made to any of the officers, directors or principal shareholders of the Lender, any of the officers or directors of the Trustee or to Commissioners or executive officers of the Commission.
- D. Each lender will deliver a Lender's Certificate (Form #520) and copies of supporting documents for each mortgage loan originated by the lender to the commission within 15 days of the closing date.
- E. MHDC will issue an approval to the originating lender once the loan package is determined to be in compliance with the program. The approval letter (Form #195) will be sent via email to the contact person listed by the lender on Form #505. Lenders shall provide this approval to the master servicer.

## **Timely Delivery**

MHDC may, at its sole discretion, remove a lender from the First Place Loan Program if delivery of files is consistently late, and documents are regularly unacceptable.

## **Eligible Loan Programs**

**FHA Loans:** Must be originated and underwritten in compliance with FHA loan guidelines. The following FHA Insured loan programs are eligible: 203 (B), 234 (C), and other acceptable FHA insurance programs. If automated underwriting is used, only those loans rated "Accept" will be eligible for purchasing. If a loan receives other than an "Accept", it must be manually underwritten.

**VA Loans:** Must be originated and insured in accordance with VA guidelines under 1810 and 181A. If automated underwriting is used, only those loans rated "Accept" will be eligible for purchasing. If a loan receives other than an "Accept", it must be manually underwritten.

**USDA Rural Development Loans:** Must be originated and insured in accordance with the Guaranteed Rural Housing Program.

**Fannie Mae & Freddie Mac Conventional Loans: (Effective July 2008)** Must be originated under the Fannie Mae or the Freddie Mac mortgage loan programs. 100% LTV loans are allowed. Any other Fannie Mae or Freddie Mac loan is acceptable but all fees must be charged that are associated with the type of loan that is being done. (i.e. adverse market fee and LLPA fees).

Loans must be originated and insured in accordance with Fannie Mae guidelines. **Single Premium Mortgage Insurance is allowed.** If these options require a loan-level price adjustment, these options must be charged to the borrower.

For any concerns about eligible loan programs, please contact the Homeownership staff or the Master Servicer.

## **Underwriting**

### **NOTES:**

**MHDC does not participate in the underwriting process. Any underwriting questions should be referred to your staff underwriter or the master servicer.**

**Refer to First Place Program guidelines, for the applicable bond issue, for additional underwriting eligibility requirements.**

Lenders may utilize a contract underwriter. The fee for this service is an eligible closing cost.

In the event a Lender does not have the capacity to underwrite FHA or VA loans, these loans may be underwritten on a correspondent basis with the master servicer or by any other participating lender. Fees for this service are an eligible expense, subject to MHDC maximums, and should be negotiated by the originating lender.

## **Escrowing for Repairs**

- The MHDC documents recite that all funds have been disbursed.
- The IRS rules do not recite any provisions for escrowing for repairs. The lender should use discretion when agreeing to an escrow and all escrows should be weather-related.
- In addition, a minimum of two bids should be received by the lender and the lender must escrow a minimum of two times the highest bid.

## **Mortgage Loan Insurance or Guaranty**

The mortgage loan must be insured or guaranteed as follows:

- Insured by FHA
- Guaranteed by VA
- Guaranteed by USDA Rural Development, formerly known as FmHA or RECD
- Insured by a private mortgage insurer acceptable to Fannie Mae, if private mortgage insurance is required by Fannie Mae.

Refer to FNMA guidelines, to determine required levels of mortgage insurance coverage requirements.

The lender must use the appropriate note and deed of trust form as required by the mortgage loan insurer or guarantor.

## **FHA 203(ks) Loans**

It is acceptable for FHA 203(ks) loans to be included in this program. All regulations in accordance with HUD Handbook 4240.4 Rev-2, and any subsequent changes or mortgagee letters will be followed, with the exception of the following:

1. Borrowers must occupy the property within 60 days of loan closing if the rehab will not prevent occupancy; otherwise, within 30 days of completion.
2. Rehab must be completed within 180 days and final disbursement and all inspections completed prior to final closing date of the bond issue.
3. Discount fees approved by MHDC may not be included in the loan amount.
4. Additional discount fees may not be included in the loan amount.
5. Lenders will be required to forward all 203(ks) processing documents to the master servicer.
6. Lenders may charge a supplemental origination fee of \$250.

## **Relocation Companies**

Relocation companies may not sign the seller's affidavit (Form #525) as a power of attorney. The only time a relocation company may sign the seller's affidavit is when they take title and pass title to the MHDC borrower(s) by a warranty deed.

## **Borrowers to Receive a Rent Credit**

If a borrower had a lease with an option to purchase and executed that right to purchase, the total amount of rent credit that can be given to that applicant is the amount paid over and above the fair market rent for that particular area, as established by the appraisal. Lenders should be certain they are requesting the type of appraisal that reflects this information if they are using a rent credit.

## **Sellers to Remain in Property after Closing**

In the case where the seller is intending to occupy the residence after loan closing, it is acceptable for the seller to pay the buyer rent for a period up to, but not to exceed, 60 days. The amount of the rent may not be in excess of the actual payment.

However, if the rent is withheld at closing, the buyer may not receive any portion of these funds. The lender will need to place this money in an account and when the first payment is due, credit the amount toward the payment. The funds cannot be prepaid.

Federal regulations state that the buyer must occupy the residence within 60 days after closing.

## **Co-Signers/Co-Borrowers**

### **Co-Signers:**

- A. Co-Signers are acceptable if they are acceptable to FHA, VA, USDA Rural Development or Fannie Mae.
- B. Co-Signers sign only the note, Addendum to the Note (Form #570) and the Co-Signer's Affidavit (Form #575). The word "co-signer" must be typed and appear on both the note and the addendum below the line where the co-signer actually executes the document.
- C. Co-Signers:
  1. Must not live in the property.
  2. Do not sign the borrower's affidavit.
  3. Do not submit their tax returns to MHDC.
  4. Do not include their income for purposes of meeting MHDC maximum income limitations.
  5. Must not take title to the property.

**Co-Borrowers:**

- A. Co-Borrowers must live in the property and their income must be included in the calculation of total projected household income for MHDC purposes.
- B. Co-Borrowers:
  - 1. Must execute the borrower's affidavit.
  - 2. Must submit their tax returns to MHDC.
  - 3. Must include their income for the purpose of meeting MHDC maximum income limitations.
  - 4. Must occupy the property as their principal residence, for the duration of the tax-exempt bond loan.
  - 5. Must be a first-time homebuyer.

**Use of Power of Attorney (POA) For the Execution of MHDC Documents:**

- A. The seller's affidavit, when executed by an attorney-in-fact, must adhere to all requirements that would apply if the seller themselves were signing.
- B. It is the lender's responsibility to ensure that good title passes to the buyer when a Power of Attorney is used. Effective January 15, 2005, MHDC will no longer require prior approval of Powers of Attorney when used by the seller. In all cases, a Power of Attorney may only be used if the same POA was utilized to execute the real estate contract.
- C. Use of a Power of Attorney for a buyer is not acceptable under any circumstances, except active duty military personnel stationed outside of the Continental United States. In this case, a Power of Attorney issued by the Judge Advocate Generals' office will be acceptable.

**Borrowers under the Age of 18**

A minor (under the age of 18) in the state of Missouri, when married to an adult, becomes an adult for the purpose of real estate laws in Missouri and can own real estate.

A minor cannot be held liable on a note or security agreement regardless of the minor's marital status.

In this case, the minor will not sign the note or addendum to the note, but will sign all other MHDC documents. The minor's name will be on the title.

**Prepays**

Mortgagors are not required to pay their own prepays.

### **Refinance Program:**

The Housing and Economic Recovery Act of 2008 temporarily made refinancing an allowed use of tax-exempt bond authority through December 31, 2010.

The new mortgage loan must refinance an existing mortgage on a single family residence that meets one of the following criteria's:

- The new P&I can be lowered by at least \$100/month,
- The new mortgage loan is written as a fixed rate mortgage that provides an interest rate at least 1% point lower than the current rate, or the rate that will be established over the subsequent 12 months, or
- The current loan must be an adjustable rate mortgage or a balloon mortgage.

### **Borrower Requirements**

- Must meet current MRB income limits
- Must have face to face credit counseling from a HUD approved credit counseling agency

### **Property Requirements**

- Single-unit property only
- Must be owner-occupied
- Appraised value must be below the current MHDC sales price limits

### **Restrictions on the new loan:**

- No cash out
- Must be an MRB 30-year fixed loan

### **Extra documents that must be submitted to MHDC**

- Form #691 & Form #692 – Second Deed of Trust Note & Second Deed of Trust
- Appraisal
- Copy of the old note
- Credit counseling certificate

### **Documents that won't be required**

- Form #525 – Sellers Affidavit
- Form #555 - Potential Recapture Form

- Copy of sales contract

**Other Restrictions**

- The lender cannot reserve funds until they have a completed appraisal.
- Loans must be reserved in Lender on Line under the Refinance Program.
- Refinance loans will be eligible for 3% cash assistance or lower rate with no cash assistance.
- The 3% must be used for closing cost.
- CAL-PLUS will be available to assist above the 3% for homeowners that do not meet the minimum FHA LTV of 97.75%.
- All homeowners with insufficient home equity are eligible to increase the second mortgage an additional 10% of the primary loan, not to exceed \$10,000.
- The combined CAL and CAL PLUS cannot exceed \$13,000.

## Section 6 - Loan Closing Documents

All closing documents must be printed from the Lender Online website.

***Lenders are not permitted to retype these documents or make any corrections or additions to the documents. Hand-printed documents will not be accepted.***

MHDC receives originals of all bond specific documents after loans close (except the Addendum to Note (Form #570), and the Tax Exempt Financing Rider (Form #580) which must be delivered to the master servicer.)

Buyers and Sellers are requested to sign documents in blue ink. MHDC makes this request to simplify the verification of the authenticity of the documents.

### **MHDC Required Compliance Package Documentation**

- A. Form #505 – MHDC Cover Transmittal

#### **Bond Specific Document to be signed at the time of loan application**

The following document must be signed at the time of loan application or as soon as it is determined that the applicant is applying for a *First Place Loan Program* loan:

- A. Form #515 - Potential Borrower's Affidavit

#### **Bond Specific Documents to be signed at the time of loan closing:**

- A. Form #535 - Mortgagor's Affidavit
- B. Form #525 - Seller's Affidavit
- C. Form #560 - Notice to Mortgagors
- D. Form #570 - Addendum to Note
- E. Form #555 – Recapture Tax Notification
- F. Form # 580 – Tax Exempt Financing Rider
- G. Any other specialty form needed for a particular file.

### **Verifications of Employment**

Documentation must be included to support the calculated household income. This documentation may not be older than four months on the day of loan closing.

### **Lender's Certificate (Form #520)**

For clarification purposes, please note that page two of the Lender's Certificate, item number nine, must be completed only in the event that the lender has been unable to satisfy itself as to the truth of the statements made by the mortgagor in paragraph 16 of the Mortgagor's Affidavit, from other documentation.

Paragraph 16 of the Mortgagor's Affidavit is as follows:

My federal income tax return(s) provided in connection with the acquisition of the mortgage are complete, true and correct. I have not been lawfully entitled to claim any deductions for federal income tax purposes for taxes or interest on indebtedness with respect to real property constituting my principal residence for any portion of the three-year period prior to the date of execution hereof.

In the event the lender doubts this statement, a qualified employee of the lender will examine the tax, assessment or deed records of the county (and the mortgagor's last county of residence, if different than above) to determine whether any property was owned by the mortgagor in either of said counties during the prior three-year period . . .

If this is done, the name of the county for which the lender reviews the records should be placed into this blank. If this is not done, the line need not be completed.

### **Seller's Affidavit (Form #525)**

All parties involved in the sale of the subject property must sign the Seller's Affidavit. Any person executing the Warranty Deed must execute the Seller's Affidavit.

NOTE: This document may not be signed earlier than two weeks prior to loan closing unless authorized by MHDC.

If the property is in an estate and a personal representative/executor has been named, the personal representative/executor would sign the Seller's Affidavit.

EXAMPLE: If a husband and wife are selling the subject property, both must sign the Seller's Affidavit. If a spouse waives marital rights or signs a quit-claim deed prior to closing, for example to avoid taking a day off from work to be at the closing table, they must still sign the Seller's Affidavit.

Every person who signs the warranty deed must sign the Seller's Affidavit. This includes all spouses of individuals holding title. In the event that there is not a seller of the residence (i.e., the applicant owns the lot/land and performs the duty of a contractor), a Certification of Cost, Form #530, is used in lieu of the Seller's Affidavit.

### **Federal Income Tax Returns**

To comply with the first-time homebuyer requirements set out in numbers two and three on page 3-1, all persons expected to reside in the residence, and who will execute the note, or specifically waive marital rights due to poor credit, must submit complete copies of their most recent three years' Federal Income Tax Returns. Copies of the state income tax returns are not required.

**NOTE: Federal income tax returns cannot be amended after the date of application to comply with the first-time homebuyer requirement.**

If the mortgage loan closes after April 15, the prior year's federal tax return will be required. (e.g. A mortgage loan closes on April 16, 2011. The 2010 federal tax return is required in the MHDC loan submission package.)

## **MHDC-FIRST PLACE LOAN OPERATIONS MANUAL**

---

**Acceptable Forms:** The submitted return must show the form in which they filed and must reflect any deductions if taken.

- Tele-File Tax Record form may be acceptable, if it can be determined that the applicant did not itemize. Tele-File worksheet must be completed and signed by borrower.
- Computer filed tax returns (e.g. Turbo Tax, Tax Cut) are also acceptable.
- Tax transcripts from the IRS (4506) are acceptable. MHDC will accept either the actual tax returns or the transcripts not both.

**Unacceptable Forms:**

- Form 8453/8879 - U.S. Individual Income Tax Declaration for Electronic Filing
- Tax worksheets
- W2 reports from the IRS
- State returns
- Amended returns (must include their original return to be accepted)

Applicants and/or all other occupants who were not required to file (per the IRS guidelines) will be required to complete the Non-Filing Status Form #540.

If the applicant has filed an extension with the IRS, the loan may not be closed until the applicant has filed and can produce the actual filed tax return.

Applicants, who did not file their federal taxes for any reason other than those allowed by the IRS, do not qualify for a First Place Loan Program.

If an applicant or any other occupant cannot provide a copy of his or her federal income tax returns, he or she may:

1. Request a copy from the IRS
2. Request form #1722 from the IRS

If it is determined that the applicant did indeed itemize, a complete copy of the IRS return will be required, or

3. Reconstruct the returns from W-2s, etc.

**The copies of the last three years' federal tax returns must contain the signature of the applicant(s) or the occupant(s) on the signature line of the return, dated on or after the date of application. A photocopy is acceptable.**

**NOTE: If an applicant/occupant submits one of the above alternate forms, the applicant/occupant must still sign the form certifying that the information contained on these forms is the same as submitted to the IRS.**

### **Real Estate Sales Contracts**

As noted above, in some circumstances, there may not be a sales contract (i.e., applicants own the lot/land and they are performing the duty of a contractor). In these instances, applicants must complete a Certification of Cost (Form #530).

The real estate sales contracts must have been executed by the seller and purchaser.

All pages and addendums must be included in the MHDC loan submission package.

## **HUD 1**

On January 1, 2010, the new RESPA requirements regarding the good faith estimate and HUD-1 Settlement Statement went into effect. The HUD-1 must clearly identify all costs paid by the buyer and by the seller. It must also clearly identify the cash assistance loan (CAL), if utilized.

The fees must be broken out for MHDC loans in one of 3 ways:

1. Break out the fees on the GFE,
2. Break out the fees on the HUD 1, or
3. Break out the fees on a separate document just for MHDC.

If you are going to lump all the fees together on the GFE and the HUD-1 then you must break them out on a separate document for MHDC. If you lump in fees under the origination fee, it will be fine since this will not hurt the bonds because it is not a set point. As long as MHDC can have an itemized break out of the fees, it will pass compliance.

NOTE: In no case may any portion of the CAL be paid to the buyer. If closing costs and prepaid items do not equal the CAL amount, the first loan amount must be decreased. The buyer may also not receive any cash back for costs paid by the seller, any other loan program utilized in conjunction with the First Place Loan Program, or from any gifts provided on behalf of the buyer.

## **Federal Recapture Tax**

All loans under this bond issue and all loans that were closed on or after January 1, 1991, are subject to Federal Recapture Tax.

- A. The applicant(s) should be made aware from the onset of the application process that their loan will be subject to Potential Recapture Tax. All loan officers and persons taking loan applications should familiarize themselves with the Potential Recapture Tax provisions and be able to fully explain such regulations to the applicant(s).
- B. The following three items must occur in order for the borrower(s) to be subject to potential recapture tax:
  1. Borrower sells the home within the first nine years of the First Place Loan origination date;
  2. Borrower's adjusted gross income for the year that they sell the home exceeds the income set out on the chart for the year in which the home is sold (the chart is on page three of the Notice of Potential Recapture Tax\_Form #555.); and
  3. Residence is sold at a net profit (regardless of whether the gain is included in borrower's income for federal income tax purposes for that year).

Situations one, two and three must occur before the borrower is subject to recapture tax. If only one or two of the above situations occur and the others do not, the borrower would not be subject to recapture tax.

- C. The maximum recapture tax which the borrower may be required to pay is the lesser of:
1. 6.25% of the highest principal amount of the mortgage loan, or
  2. 50% of the gain on the sale of the property

It is not possible to predict the amount of recapture tax that would apply should the house be sold. It depends on the year in which the residence is sold, the amount of gain, etc.

**Recapture tax is imposed by an IRS regulation. Lenders should refer the applicant to a tax consultant, if additional information is sought. The IRS Form 8828, Instructions to Form 8828 and IRS Publication 551, Basis of Assets are available at [www.irs.gov](http://www.irs.gov). These forms, and Form #555, are needed to calculate the amount of tax that may be owed. In many cases, IRS Publication 551 will identify maintenance or improvement items that will increase the base price of the home, limiting the amount of Recapture Tax owed.**

### **Information for Home Buyers Regarding Recapture Tax**

Your mortgage loan has been financed with the proceeds of tax-exempt qualified mortgage bonds. As a result, pursuant to Section 143(m) of the Internal Revenue Code of 1986 (the code), at the time you dispose of your residence (through sale, exchange or gift) you may be subject to a special recapture tax for federal income tax purposes. The information contained in this summary may assist you in understanding the recapture tax. However, you should consult your own tax advisor at the time you dispose of your residence to determine the amount, if any, of such recapture tax.

The **recapture tax generally applies** if you dispose of your residence within nine years from the date of the closing of your loan or the date you first became liable in whole or in part on the loan (i.e., the date you assumed the loan from the previous owner of the residence), whichever is earlier. The recapture tax is limited to a maximum of 6.25% of the highest principal amount of the loan for which you were liable, or one-half of the gain realized from the sale or other disposition of the residence, whichever is less.

As described below, the amount of the recapture tax may be reduced depending on how long you remain in the residence and your family income at the time you dispose of the residence.

**Computation of recapture tax** The amount of the recapture tax, which is added to your individual income tax liability for the year in which the residence is disposed of, is equal to the lesser of:

- A. One-half of the gain realized from the disposition of your residence, or
- B. The product of
  1. The federally subsidized amount (FSA),
  2. The holding period percentage and
  3. The income percentage

The FSA is 6.25% of the highest principal amount of the loan for which you were liable. For example, if the principal amount of your loan on the date you became liable for the loan was \$50,000, the FSA is \$3,125 ( $\$50,000 \times 6.25\% = \$3,125$ ).

**Holding period percentage** is generally determined as follows:

If you dispose of your residence during a year after the date on which you first acquire your residence, which is:

The holding period percentage is:

The 1 <sup>st</sup> such year	20%
The 2 <sup>nd</sup> such year	20%
The 3 <sup>rd</sup> such year	60%
The 4 <sup>th</sup> such year	80%
The 5 <sup>th</sup> such year	100%
The 6 <sup>th</sup> such year	80%
The 7 <sup>th</sup> such year	60%
The 8 <sup>th</sup> such year	40%
The 9 <sup>th</sup> such year	20%

## **Information for Home Buyers Regarding Recapture Tax**

Special rules for calculating the holding period percentage apply if your tax-exempt bond-assisted loan is fully repaid without sale or other disposition of your residence during the nine-year recapture period.

**Income Percentage.** The income percentage is the percentage (not in excess of 100%) by which the excess of your modified adjusted gross income for the year you dispose of your residence exceeds the adjusted qualifying income for that year. Modified adjusted gross income is adjusted gross income plus tax exempt interest income, and is determined by excluding any gain recognized on the disposition of the residence. For example, if your modified adjusted gross income in the year you dispose of your residence is \$45,000, and the adjusted qualifying income in that year is \$42,500, the income percentage would be 50% ( $45,000 - 42,500 = 2,500$ ) ( $2,500 \div 5,000 = 50\%$ ). At the time you receive your loan, your lender will provide you with a form which will enable you to determine your adjusted qualifying income.

**Limit based on amount of gain.** The recapture tax can never be more than one-half of the gain realized on the disposition of your interest in the residence. For example, if you purchased your residence for \$50,000 and sold it for \$55,000 the recapture tax could not exceed \$2,500 ( $\$55,000 - \$50,000 = \$5,000 \div 2 = \$2,500$ ).

### **EXAMPLE**

Husband and wife buy a house on January 15, 1991, receiving a \$50,000 tax-exempt-bond financed loan. They sell the house on January 10, 1994, at a gain of \$1,500.

The FSA is \$3,125 (or 6.25% of \$50,000). Since they sold their house in the third year after its purchase, the holding period percentage from the table set forth on the reverse side is 60%. The income percentage (computed assuming the facts set forth on the above paragraph titled income percentage) is 50%. Husbands and wife's recapture amount would be \$937.50, computed as follows:

FSA	x	Holding Period Percentage	x	Income Percentage	=	
\$3,125	x	60%	x	50%	=	\$937.50

However, since \$937.50 is greater than one-half of the gain on the sale of the house,

( $\$1,500 \times 50\% = \$750$ ), the recapture tax would be \$750.

If Husband and wife had sold the house for a gain of \$2,000, the recapture tax would be \$937.50, since \$937.50 would be less than one-half the gain on the sale of the house [ $\$2,000 \times 50\% = \$1,000$ ].

**Refinancing or Prepayments.** Refinancing or prepayment of a loan without a disposition of the residence will not trigger the recapture tax. However, the tax will apply in the case of disposition during the nine-year recapture period, regardless if the house has been refinanced.

## **Information for Home Buyers Regarding Recapture Tax**

**Disposition in which the tax-exempt bond-assisted loan is assumed.** A residence disposition accompanied by a tax-exempt bond-assisted loan mortgage assumption triggers the recapture tax. Also, the new mortgagor who assumes the loan starts a new nine-year recapture period on his liability for the recapture tax.

### **Events in which "recapture tax" does not apply:**

1. Death of a mortgagor terminates his liability for the "recapture tax," but liability of other surviving mortgagors is unaffected.
2. If a residence is involuntarily converted as a result of a fire, storm or other casualty, and the mortgagor repairs the residence or builds a new residence on the site of the converted property within two years following the end of the year in which any part of the gain on the conversion is realized (as opposed to disposing of the house or the land), the recapture tax does not apply to the conversion. Liability for the recapture tax continues on the repaired or new house.
3. The recapture tax does not apply to a transfer of an interest in a residence to a spouse or former spouse in a transaction where no gain or loss is recognized. Generally, this occurs upon transfer between spouses during marriage or between former spouses as a result of a divorce. The person to whom the residence is transferred assumes the liability for the recapture tax, and is treated in the same manner as the transferor would have been treated had the transfer not occurred.
4. If using taxable bonds, recapture tax does not apply.

The "Information for Home Buyers Regarding Recapture Tax, and the "Notice to Mortgagor of Information Regarding Potential Recapture Tax," is provided by Missouri Housing Development Commission pursuant to Section 143(m) (7) of the code.

These forms will change when income limits change. Please check with MHDC to be certain that you are using the most current form.

## **Section 7 - Use of First Place Program with Other Programs**

- First Place Programs may be used in conjunction with programs offered by other entities, such as city or county government, provided that it is acceptable to use their program with the State of Missouri. The use of the Nehemiah Program or other similar seller-funded programs is specifically prohibited.
- *If MHDC is filing a second deed of trust, the other agency must take a third position lien or the borrower will have to use the NON cash assistance rate.*
- First Place Loan Programs may not be used in conjunction with Mortgage Credit Certificates.
- First Place Loan Programs may not be used with any type of interest bearing second mortgage product from a for-profit company.

### **Secondary Financing**

The agreement between MHDC and the master servicer does not preclude the mortgagor, who has purchased a residence and for which a mortgage loan was originated by a lender from granting on the closing date any second deed of trust or other lien or mortgage instrument that is junior to the lien created by the applicable mortgage loan, provided, however, that the creation of any such subordinated lien shall have been approved by lender, FHA, USDA Rural Development, VA or the PMI insurer and GNMA or Fannie Mae, as applicable.

- All secondary financing programs must be approved in advance by both MHDC and the master servicer.
- Purchase money second mortgage programs designed to avoid Private Mortgage Insurance (80/20, 80/10/10, etc.) are not allowed.

## Section 8 - Sale of Mortgage Loans

**NOTE:** Lenders may utilize Mortgage Electronic Registration System with loans sold to the master servicer. This is not mandatory. For more information on using MERS, please contact the master servicer.

### Amounts Paid to Originating Lenders

- A. For each first mortgage loan originated by a Lender, which is in compliance with all of the terms and conditions of the agreement between MHDC and US Bank, the master servicer shall pay to the lender a purchase price equal to the Mortgage Loan Purchase Price (as defined in the Commission Notice).
- B. On or prior to the date of purchase of the first mortgage loan, all mortgagor payments on account for taxes or insurance collected by the lender with respect to a mortgage loan prior to such purchase date will be held by the lender and will be transferred by the lender to the master servicer.
- C. As a condition of the purchase of the first mortgage loan by the master servicer, the mortgage loan will:
  - 1. Be current in payments of principal and interest, taxes and insurance, if required;
  - 2. Bear interest at the stated rate (as defined in the Commission Notice); and
  - 3. Be in compliance with the agreement between MHDC and the master servicer and the requirements of FHA, VA, RD, and GNMA or Fannie Mae, as applicable.
- D. Upon receipt of an approvable Compliance Package (including the original Second Note and Second Deed of Trust copy) by MHDC, and confirmation that the Master Servicer has purchased the first mortgage loan, the master servicer will purchase the CAL from the originating lender.
- E. Upon purchase of the mortgage loan, the master servicer and MHDC will pay the lender the following for loans:

100.00%	of the unpaid principal balance
2.00%	Servicing Release Fee (amount is subject to change)
-----	
102.00%	Payment by master servicer
3.00%	CAL reimbursement by MHDC
-----	
105.00%	Total payment

Please verify amounts in the Commission Notice.

**EXCEPTION:** Refinance program allows lenders to collect up to a 1% origination fee, 1% in junk fees and will be paid the 2% service release premium (SRP).

**NOTE:** If a first mortgage loan is paid in full prior to purchase, MHDC will not reimburse the CAL. If the first mortgage is not eligible for securitization, MHDC will require the repurchase of the first mortgage loans (the cash assistance first place loan and the second mortgage loan).

### **Master Servicer**

Prior to the purchase of GNMA/Fannie Mae Security, master servicer is to provide the trustee and MHDC the following:

- A. GNMA/Fannie Mae Security Form #11706, and
- B. Cover letter directing trustee and MHDC of the specific date of the intended funding

GNMA and Fannie Mae securities must contain an issue month identical to the month of the funding. (A security cannot have an issue date of January, and fund in the month of February.)

All originating lenders must sell all loans to MHDC's designated master servicer.

### **SALE OF LOANS TO MASTER SERVICER**

**Note:** These instructions are specific to selling loans to US Bank, master servicer as of 8/01/08. Should the master servicer change, sale procedures will change. Please refer to <https.usbank.com>.

**MHDC GEOGRAPHICAL AREAS**

<b>St. Louis Metro:</b>	Counties:	Franklin, Lincoln, Jefferson, St. Charles, St. Louis County, Warren, Crawford (Sullivan City only) and St. Louis City
<b>Kansas City Metro:</b>	Counties:	Caldwell, Cass, Clay, Clinton, Lafayette, Platte, Ray and Jackson County
<b>Columbia Metro:</b>	Counties:	Boone and Howard County
<b>Joplin Metro:</b>	Counties:	Jasper and Newton
<b>Springfield Metro:</b>	Counties:	Greene, Christian, Webster, Dallas and Polk
<b>St. Joseph Metro:</b>	Counties:	Buchanan, Andrew and DeKalb
<b>Jefferson City Metro:</b>	Counties:	Cole, Callaway and Osage

**OUTSTATE (RURAL):**

Northeast Counties:	Adair, Audrain, Clark, Cooper, Knox, Lewis, Macon, Marion, Monroe, Montgomery, Pike, Ralls, Randolph, Schuyler, Scotland and Shelby
Northwest Counties:	Atchison, Carroll, Chariton, Daviess, Gentry, Grundy, Harrison, Holt, Johnson, Linn, Livingston, Mercer, Moniteau, Nodaway, Pettis, Putnam, Saline, Sullivan and Worth
Southeast Counties:	Butler, Bollinger, Cape Girardeau, Carter, Crawford, Dent, Douglas Dunklin, Gasconade, Howell, Iron, Madison, Maries, Mississippi, New Madrid, Oregon, Ozark, Pemiscot, Perry, Phelps, Reynolds, Ripley, Scott, Shannon, St. Francois, Ste. Genevieve, Stoddard, Texas, Washington, Wayne and Wright
Southwest Counties:	Barry, Barton, Bates, Benton, Camden, Cedar, Dade, Henry, Hickory, Laclede, Lawrence, McDonald, Miller, Morgan, Pulaski, Stone, St. Clair, Taney and Vernon

## Section 9 - Gross Annual Household Income Limits

Effective 5/31/11

---

### MHDC *First Place Loan Program* State of Missouri

---

	<u>NON-TARGETED AREAS</u>		<u>TARGETED AREAS</u>	
	<u>1-2 persons</u>	<u>3+ persons</u>	<u>1-2 persons</u>	<u>3+ persons</u>
<b>Kansas City MSA</b> <i>(Counties of Caldwell, Cass, Clay, Clinton, Jackson, Lafayette, Platte and Ray)</i>	<b>\$72,300</b>	<b>\$83,145</b>	<b>\$86,760</b>	<b>\$101,220</b>
<b>Jefferson City MSA</b> <i>(Counties of Cole, Osage)</i>	<b>69,000</b>	<b>79,350</b>	<b>82,800</b>	<b>96,600</b>
<b>Columbia MSA</b> <i>(Counties of Boone and Howard)</i>	<b>65,100</b>	<b>74,865</b>	<b>78,120</b>	<b>91,140</b>
<b>St. Louis MSA</b> <i>(Counties of Franklin, Jefferson, Lincoln, St. Charles, St. Louis City, St. Louis County and Warren)</i>	<b>69,500</b>	<b>79,925</b>	<b>83,400</b>	<b>97,300</b>
<b>All Other Areas</b>	<b>59,900</b>	<b>68,885</b>	<b>71,880</b>	<b>83,860</b>

---

***SUBJECT TO CHANGE***

***PLEASE MAKE CERTAIN YOU ARE ALWAYS USING  
THE CORRECT CHART.***

## **MHDC Maximum Purchase Price Limits**

These are subject to change from time to time in accordance with regulations.

**Effective March 22, 2011 there will be a single set of purchase price limits used state-wide.**

**Two-family units are allowed, but must they be at least 5 years old.**

### **Non-Target**

**1 Family: \$247,032**

**2 Family: \$316,252**

### **Target**

**1 Family: \$301,929**

**2 Family: \$386,531**

## Section 10 - Staff Names and Telephone Numbers

Missouri Housing Development Commission  
3435 Broadway, Kansas City, MO 64111-2403  
816-759-6600

Homeownership Department		Phone
Greg Spurgeon	Single-family Administrator	(816)759-7228
Don Brinker	Homeownership Manager	(816)759-6814
Beverly Brackney	MCC/DPA/First Place Loan Program	(816) 759-6812
Rachel Davis	Homeownership Outreach Coordinator	(816)759-6818
Rosie Moore	Homeownership Clerk	(816)759-6893

**Homeownership Department Fax Number:** (816) 759-6803

**TDD Number** (816) 759-6839

<b>E-Mail Addresses:</b>	Greg Spurgeon	<a href="mailto:gspurgeon@mhdc.com">gspurgeon@mhdc.com</a>
	Don Brinker	<a href="mailto:dbrinker@mhdc.com">dbrinker@mhdc.com</a>
	Beverly Brackney	<a href="mailto:bbrackney@mhdc.com">bbrackney@mhdc.com</a>
	Rachel Davis	<a href="mailto:rdavis@mhdc.com">rdavis@mhdc.com</a>
	Rosie Moore	<a href="mailto:rmoore@mhdc.com">rmoore@mhdc.com</a>

Information on MHDC programs, including the First Place Loan Program, can be found on our website:

<http://www.mhdc.com>

## Section 11 - Federally Targeted Census Tract Areas

Targeted Area means an area in which 70% or more of the families have an income that is 80% or less of the statewide median income or an area of chronic economic distress in such an area has been designated by the commission and approved by the secretaries of the Treasury and Housing and Urban Development; provided that, in either case, only those areas meeting the foregoing criteria and designated by the commission as Targeted Areas shall be deemed to constitute Targeted Areas.

**NOTE:** Borrowers purchasing within a Targeted Area do not have to meet the first-time homebuyer requirement, and the income limits and purchase price limits are higher for said areas.

Please use the website [www.ffiec.gov](http://www.ffiec.gov) to locate census tract numbers.

### 2003 Federally Targeted Census Tracts are:

COUNTY	CENSUS TRACT NUMBER
Adair	9510
Boone	0001, 0004.01, 0004.02, 0005, 0008 & 0009
Buchanan	0010
Butler	9505 & 9507
Cape Girardeau	9814
Clay	0200
Cole	0101
Dunklin	9601
Greene	0001, 0002, 0005, 0008, 0019, & 0055
Hickory	9703
Howell	9902 & 9907
Jackson	0014, 0015, 0016, 0017, 0021, 0022, 0024, 0029, 0032, 0035.02, 0036.02, 0055, 0058.01, 0059.01, & 0063
Marion	9608
Oregon	9801
Pemiscot	9702 & 9704
Shannon	9702
St. Louis City	1054, 1061, 1062, 1063, 1066, 1097, 1102, 1105, 1112, 1114, 1115, 1123, 1164, 1181, 1193, 1201, 1203, 1211, 1212, 1213, 1224, 1241, 1242, 1246, 1257, 1266 & 1267
St. Louis County	2139 & 2141

---

**LENDER ORIGINATION AGREEMENT**

**MISSOURI HOUSING DEVELOPMENT COMMISSION**

**and**

**EACH OF THE LENDERS EXECUTING THIS AGREEMENT**

**LENDER ORIGINATION AGREEMENT**

**Missouri Housing Development Commission**

**Single Family Homeownership Programs**

---

**Revised March 2010**

**ORIGINATION, SERVICING AND ADMINISTRATION AGREEMENT**

**TABLE OF CONTENTS**

	<b><u>Page</u></b>
Preambles and Parties .....	1
<b>ARTICLE I DEFINITIONS</b>	
Section 1.01. Definitions .....	2
Section 1.02. Interpretations .....	11
<b>ARTICLE II REPRESENTATIONS</b>	
Section 2.01. Representations, Warranties and Covenants of Commission .....	12
Section 2.02. Representations, Warranties and Covenants of Lender .....	12
<b>ARTICLE III ISSUANCE OF BONDS; ACQUISITION OF GNMA SECURITIES</b>	
Section 3.01. Agreement to Issue Bonds; Application of Bond Proceeds .....	17
Section 3.02. Limited Liability .....	17
<b>ARTICLE IV ORIGINATION OF MORTGAGE LOANS</b>	
Section 4.01. Commitment to Originate Mortgage Loans.....	18
Section 4.02. Mortgage Loan Eligibility Requirements .....	18
Section 4.03. RESERVED.....	18
Section 4.04. RESERVED.....	18
Section 4.05. Fees Upon Origination; Cash Assistance Amount .....	18
Section 4.06. Mortgage Loan Submission and Origination .....	19
Section 4.07. Mortgage Loan File .....	19
Section 4.08. Defective Documents .....	19
Section 4.09. Representations, Warranties and Covenants of the Lenders Concerning Mortgage Loans; Repurchase of Certain Mortgage Loans.....	20
Section 4.10. Purchases of Mortgage Loans .....	25
Section 4.11. Extension of Origination Period or Delivery Period.....	25
<b>ARTICLE V MORTGAGOR AND RESIDENCE ELIGIBILITY REQUIREMENTS</b>	
Section 5.01. Applicability of Eligibility Requirements .....	27
Section 5.02. Mortgagor Income Limitations .....	27
Section 5.03. Owner-Occupancy Requirements.....	27
Section 5.04. Prior Ownership Interest in a Principal Residence.....	27

Section 5.05. Acquisition Cost Limitation .....	28
Section 5.06. Residence Requirements .....	29
Section 5.07. New Mortgage Requirement .....	29
Section 5.08. Verification by Lender that Eligibility Requirements are Met .....	29
Section 5.09. Lender as Agent for the Commission .....	31
Section 5.10. Rehabilitation Loan Requirements .....	31

**ARTICLE VI  
ASSIGNMENT OF MORTGAGE LOANS**

Section 6.01. Assignment of Mortgage Loans .....	33
--	----

**ARTICLE VII  
OTHER COVENANTS OF LENDERS**

Section 7.01. Files .....	34
Section 7.02. No Discrimination .....	34
Section 7.03. Equal Opportunity .....	34
Section 7.04. Ownership; Confidentiality .....	34
Section 7.05. Changes in Organization; Bankruptcy; Fraud .....	35
Section 7.06. Certain Covenants .....	35
Section 7.07. Modification .....	35
Section 7.08. Agreement to Pay Attorneys' Fees and Expenses .....	35
Section 7.09. Indemnification .....	35

**ARTICLE VIII  
TERMINATION**

Section 8.01. Causes of Termination of this Agreement Defined .....	37
Section 8.02. Remedies .....	37
Section 8.03. Appointment of Successor .....	38
Section 8.04. No Remedy Exclusive .....	38
Section 8.05. Agreement to Pay Attorneys Fee and Expenses .....	38

**ARTICLE IX  
MISCELLANEOUS PROVISIONS**

Section 9.01. Amendments, Changes and Modifications .....	39
Section 9.02. Changes in Applicable Laws .....	39
Section 9.03. Limitation on Rights of Bondholders .....	39
Section 9.04. Governing Law .....	39
Section 9.05. Counterparts .....	39
Section 9.06. Notices .....	39
Section 9.07. Severability .....	39
Section 9.08. Further Assurances and Corporate Instruments .....	39
Section 9.09. Litigation Regarding Acceleration Clauses .....	40
Section 9.10. Term of Agreement .....	40
Section 9.11. Limitation on Trustee's Liability .....	40
Section 9.12. Pledge or Assignment .....	40

Section 9.13. Waiver .....	40
Section 9.14. Indemnity .....	40
Section 9.15. Time of Essence .....	40
Section 9.16. Limitation on Liability of the Parties.....	40
Section 9.17. No Liability for Removal of a Lender .....	41
Section 9.18. No Remedy Exclusive .....	41
Signatures .....	42
Acceptance of Agreement.....	43

## ORIGINATION, SERVICING AND ADMINISTRATION AGREEMENT

THIS LENDER ORIGINATION AGREEMENT (the "Agreement"), is by and between each mortgage lending institution accepting the terms of this Agreement by executing the Acceptance of Agreement attached hereto with respect to the Series of Bonds specified thereon (referred to herein as the "Lender") and the MISSOURI HOUSING DEVELOPMENT COMMISSION, a governmental instrumentality of the State of Missouri (the "Commission").

### W I T N E S S E T H

WHEREAS, the Commission has been created and organized pursuant to and in accordance with the provisions of Chapter 215, Revised Statutes of Missouri 1986, as amended, and Appendix B(1) thereto (the "Act") for the purpose, *inter alia*, of providing a means of financing the cost of residential ownership and development that will provide decent, safe and sanitary housing for residents of low or moderate income within the State of Missouri;

WHEREAS, the Commission issues, sells and delivers its Single Family Mortgage Revenue Bonds (Homeownership Loan Program) in one or more Series (the "Bonds") for the purposes of providing funds to finance mortgage loans on single-family residences (the "Mortgage Loans" as more fully described herein);

WHEREAS, the Commission has entered into an indenture of trust with the Trustee to provide for the issuance of the Bonds (said indenture, as amended and supplemented, the "Indenture"), pursuant to which the Trustee will be empowered to purchase on behalf of the Commission Guaranteed Mortgage Securities backed by Mortgage Loans which have been originated by Lenders, subject, among other things, to certain of the terms and conditions hereinafter set forth;

WHEREAS, to assist in effectuating the Commission's homeownership mortgage loan programs (the "Program"), the Commission and the Lenders have undertaken to enter into this Agreement pursuant to which the Lenders which become signatories agree to assist the Commission by originating Mortgage Loans under the Program in a competent and professional manner;

WHEREAS, the Commission and the Lenders desire to set forth the terms and conditions upon which the Lenders will provide assistance to the Commission and the Trustee by originating such Mortgage Loans under the Program.

NOW, THEREFORE, in consideration of the acceptance and the mutual covenants hereinafter provided, the Commission and the Lenders hereby agree as follows:

**ARTICLE I  
DEFINITIONS**

**Section 1.01. Definitions.** Unless the context clearly otherwise requires, each capitalized word or phrase appearing herein which is defined in the Indenture shall have the same meaning in this Agreement as is given it in the Indenture. In addition thereto, unless the context clearly requires otherwise, the following terms shall have the following respective meanings:

"Acquisition Cost" means the cost of acquiring a Residence from the seller as a completed residential unit, including all of those costs set forth in **Section 5.05(b)** hereof; but exclusive of those costs set forth in **Section 5.05(c)** hereof. In the case of a Rehabilitation Loan, for purposes of determining the Average Area Acquisition Cost, Acquisition Cost shall include the cost of the rehabilitation.

"Act" means Chapter 215 of the Revised Statutes of Missouri 1986, as amended, and Appendix B(1) thereto.

"Appraisal" means an appraisal by an individual or firm acceptable to FHA, Fannie Mae, FHLMC, USDA Rural Development, or VA, as applicable.

"Average Area Acquisition Cost" means the most current applicable average purchase price safe harbor limitations from time to time published, or established pursuant to private letter ruling, by the Department of the Treasury for the applicable area of the State, provided that in the absence of such safe harbor limitations, the Average Area Acquisition Cost shall be determined by the Commission in accordance with the Code.

"Bonds" means the applicable Series of the Commission's Single Family Mortgage Revenue Bonds (Homeownership Loan Program).

"Cash Assistance" shall mean moneys in an amount equal to the percentage of the original principal amount of a Cash Assistance Loan specified in a Commission Notice.

"Cash Assistance Loan" shall mean a Mortgage Loan for which Cash Assistance is provided to the Mortgagor by the Commission, which Mortgage Loan shall bear interest at the rate per annum specified in a Commission Notice.

"Closing Costs" means the costs associated with the closing of a Mortgage Loan, including any of the following, but only to the extent that such amounts do not exceed amounts customarily charged in the area in cases where owner financing is not provided through the issuance of obligations the interest on which is excluded from gross income for federal income tax purposes and are approved by FHA, VA, USDA Rural Development, GNMA, FHLMC or Fannie Mae, as applicable: hazard insurance premiums, premiums for a Policy of Title Insurance, premiums for FHA mortgage insurance, the VA and USDA Rural Development guaranty or the private mortgage insurance in connection with a Conventional Mortgage Loan (to the extent not paid from the proceeds of the Mortgage Loan), appraisal fees, abstract and attorney's fees, recording or registration charges, escrow fees, credit report fees, termite report fees, inspection fees and similar settlement or financing costs.

"Closing Date" means the date on which a Mortgage Loan is made by a Lender to a Mortgagor.

"Code" means the Internal Revenue Code of 1986, as amended, together with corresponding and applicable final, temporary or proposed regulations and revenue rulings issued or amended with respect thereto by the United States Treasury Department or Internal Revenue Service, to the extent applicable to the Bonds.

"Commission Notice" means a notice from the Commission forwarded to a Lender, as amended and supplemented from time to time, which sets forth information with respect to the Program.

"Commission Certificate" means the Commission Certificate in the form approved by the Commission and acceptable to the Trustee.

"Commitment Letter" means a document similar to the type a lending institution would ordinarily provide a prospective mortgagor of a single-family residence where financing is not provided from the proceeds of obligations issued by a public entity, and which commits a stated amount of money to a specific individual for a stated period of time for the purchase of a specified Residence at a stated interest rate.

"Conventional Mortgage Loan" means a Mortgage Loan which is not FHA Insured, VA Guaranteed or the subject of an USDA Rural Development Guaranty.

"Delivery Period" means the period specified in a Commission Notice relating to the applicable Series of Bonds during which period Guaranteed Mortgage Securities may be sold to the Trustee by the Master Servicer, unless extended as provided in a Commission Notice.

"Escrow Payments" includes all payments made by or on behalf of a Mortgagor in order to obtain or maintain mortgage insurance, if applicable, and fire, flood and other hazard insurance, and any payments required to be made by or on behalf of a Mortgagor with respect to a Mortgage for real estate taxes or other governmental charges or other similar charges to a Mortgagor customarily required to be escrowed.

"Existing Residence" means a Residence which has been previously occupied.

"Family Income" means the Mortgagor's or Mortgagors' annualized gross income. Annualized gross income is gross monthly income multiplied by 12. Gross monthly income is the sum of: monthly gross pay; any additional income from overtime, part-time employment, bonuses, dividends, interest, royalties, pensions, Veterans Administration (VA) compensation, net rental income, etc.; and other income (such as alimony, child support, public assistance, sick pay, social security benefits, unemployment compensation, income received from trusts, and income received from business activities or investments). Irregular income such as overtime, bonuses and commissions shall be projected using the most recent 12-month period. Information with respect to gross monthly income may be obtained from available loan documents (e.g. lines 23D and 23E on the Application for VA or USDA Rural Development Home Loan Guaranty or for HUD/FHA Insured Mortgage (VA Form 26-1802a, HUD 92900, Jan. 1982), or the total line from the Gross Monthly Income section of FHLMC Residential Loan Application form (FHLMC 65 Rev. 8/78) executed during the 4-month period ending on the Closing Date of the Mortgage Loan, provided that any gross

monthly income not included on the loan documents must be included in determining gross monthly income. Thus, for example, if the Mortgagor does not include alimony on the loan documents, the amount of alimony must be added to the amount shown on the loan documents to determine gross monthly income. The income to be taken into account in determining the gross monthly income is the income of the Mortgagor (or Mortgagors) and any other person (other than a dependent child who is a full time student) who is expected to live in the residence being financed and execute the Note.

"FDIC" means the Federal Deposit Insurance Corporation, and its successors and assigns.

"FHA" means the Federal Housing Administration of the Department of Housing and Urban Development of the United States of America or any successor thereto.

"FHA Insurance" means FHA mortgage insurance issued under Section 203(b), 203(k), 234 or other applicable section of the National Housing Act, as amended (12 U.S.C. §1716, et. seq.).

"FHA Insured Mortgage Loan" means a Mortgage Loan insured by FHA in accordance with the provisions hereof.

"FHLMC" means the Federal Home Loan Mortgage Corporation, and its successors and assigns.

"FHLMC Guides" means the FHLMC Selling and Servicing Guides, as amended from time to time, as modified by the Pool Purchase Contract.

"FHLMC Securities" means mortgage participation certificates issued by FHLMC and representing an undivided interest in a pool of conventional mortgage loans identified by particular alphanumeric numbers and CUSIP number and guaranteed as to timely payment of principal and interest by FHLMC.

"Fannie Mae" means the Federal National Mortgage Association, and its successors and assigns.

"Fannie Mae Guides" means the Fannie Mae Selling and Servicing Guides, as amended from time to time, as modified by the Pool Purchase Contract.

"Fannie Mae Securities" means single pool, guaranteed mortgage pass-through Fannie Mae Mortgage-Backed Securities, issued by Fannie Mae and guaranteed as to timely payment of principal and interest by Fannie Mae and backed by conventional mortgage loans.

"Fidelity Bond" means a standard form fidelity bond, in form and substance required of mortgage sellers/servicers by Fannie Mae or FHLMC.

"First Time Homebuyer" means an individual who has not had a present ownership interest (within the meaning of the Code as set forth in **Section 5.04(c)** hereof) in his or her principal residence (within the meaning of the Code as set forth in **Section 5.03** hereof) at any time during the three (3) year period ending on the date he or she executes the Mortgage Loan.

"Force Majeure" means any cause or event not within the control of a party hereto which prevents that party from performing any of its obligations hereunder, including, without limitation, the following: acts of God; strikes, lockouts or other industrial disturbances; acts of public enemies; orders or restraints of any kind of the government of the United States of America or of the State or any of their departments, agencies or officials, or any civil or military authority; insurrections; riots; landslides; adverse weather conditions; earthquakes; fires; storms; droughts; floods; explosions; and breakage or accident to transmission wires, machinery, transmission pipes or canals.

"GNMA" means the Government National Mortgage Association, a wholly-owned corporate instrumentality of the United States of America within the Department of Housing and Urban Development, whose powers are prescribed generally by Title III of the National Housing Act, as amended (12 U.S.C. §1716, et seq.).

"GNMA Commitment" means a Commitment or Commitments to Guarantee Mortgage-Backed Securities (HUD Form 11704) from GNMA to the Servicer.

"GNMA Guaranty Agreement" means the one or more Guaranty Agreements between the Servicers and GNMA now or hereafter in effect pursuant to which GNMA has agreed or will agree to guarantee GNMA Securities.

"GNMA Guide" shall mean the GNMA I and GNMA II Mortgage-Backed Securities Guides, GNMA Handbook 5500.1 and 5500.2, respectively, as amended from time to time.

"GNMA Security" means a certificate purchased by the Trustee, issued by the Servicer and guaranteed by GNMA pursuant to GNMA's GNMA I or GNMA II mortgage-backed securities program under Section 306(g) and other related provisions of the National Housing Act, as amended, and based on and backed by Mortgage Loans referred to in the GNMA Guaranty Agreement, which certificate shall unconditionally obligate the Servicer to remit monthly, either directly or indirectly, to the holder thereof its pro rata share of (x) principal payments and prepayments made in respect of the Mortgage Pool represented by the GNMA Security and (y) interest received in an amount equal to the Pass-Through Rate.

"Guaranteed Mortgage Securities" means obligations representing undivided beneficial ownership interests (unless any other interest therein is allowed by the Act) in Mortgage Loans, which obligations are issued by or guaranteed by GNMA, Fannie Mae or FHLMC (as specified in a Commission Notice) or any other agency or instrumentality of or chartered by the United States to which the powers of any of them have been transferred or which have similar powers to purchase or guarantee timely payment of mortgage loans; provided, that unless the Commission specifies otherwise in a Commission Notice, Guaranteed Mortgage Securities with respect to the Bonds means only GNMA Securities and Fannie Mae Securities.

"Indenture" means the Indenture of Trust, dated as of June 15, 1995, by and between the Commission and the Trustee, as supplemented by the applicable Series Supplement, as from time to time supplemented or amended.

"Lender" means a financial institution executing this Agreement which agrees to originate Mortgage Loans hereunder and assign such Mortgage Loans and the servicing in connection therewith to the Master Servicer.

"Lender Certificate" means a certificate delivered by a Lender in the form required by the Commission pursuant to the Operations Manual.

"Loan-to-Value Ratio" means the ratio of the original principal amount of a Mortgage Loan to the lesser of an Appraisal or the Acquisition Cost of a Residence. For purposes of this definition, the term "Acquisition Cost" shall include that portion of the purchase price of the Residence attributable to payment by the seller of any usual and reasonable settlement costs, including title and transfer costs, title insurance, survey fees or other similar costs, credit reference fees, legal appraisal expenses, points or other costs of financing the Residence.

"Low Rate Loan" shall mean a Mortgage Loan for which no Cash Assistance is provided to the Mortgagor by the Commission, which Mortgage Loan shall bear interest at the rate per annum specified in a Commission Notice.

"Master Servicer" means the financial institution designated by the Commission which agrees to service Mortgage Loans originated hereunder, accept assignments of Mortgage Loans and the servicing in connection therewith from a Lender, and deliver to the Trustee Guaranteed Mortgage Securities backed by a Mortgage Pool consisting of Mortgage Loans originated by a Lender and assigned to the Master Servicer by a Lender.

"Maximum Acquisition Cost" means an amount which does not exceed ninety percent (90%) of the Average Area Acquisition Cost - New in the case of a New Residence or ninety percent (90%) of the Average Area Acquisition Cost - Existing in the case of an Existing Residence. With respect to Residences in a Targeted Area, the limitations of the immediately preceding sentence shall be applied by substituting "110%" for "90%". The Maximum Acquisition Cost shall be determined as of the earlier of the date a Lender makes a commitment to provide financing or the date of the purchase contract under which the Residence is purchased. A different Maximum Acquisition Cost may be specified by the Commission in a Commission Notice in connection with Taxable Loan Programs or to take into account changes in the Code.

"Maximum Family Income" means Family Income in an amount equal to or less than 100 percent of the applicable median family income (with respect to Residences for one and two-person families) and 115 percent (with respect to Residences for families of three or more persons). In the case of Mortgage Loans for Residences in the Targeted Area, the limitations of the immediately preceding sentence shall be applied by substituting "120" percent for "100" percent and "140" percent for "115" percent. Applicable median family income is the greater of (A) the area median gross income for the area in which the Residence is located or (B) the area median gross income for the State. The "area median gross income" for an area or the State shall be determined in a manner consistent with the determination of "median gross income" for the area or the State under section 8 of the United States Housing Act of 1937, as amended, with adjustments for areas of unusually high or low income. These adjustments shall be made in the manner that these adjustments are made for purposes of section 8 of the United States Housing Act of 1937, as amended. Thus, in

determining area median gross income, the Revised Income Limits for Lower Income and Very Low Income under the Housing Act of 1937 shall be used. A different Maximum Family Income may be specified by the Commission in a Commission Notice in connection with Taxable Loan Programs or to take into account changes in the Code.

In no event shall Maximum Family Income exceed the maximum total annual income determined by the Commission from time to time in accordance with applicable Missouri law.

"Mobile Home" means a home that is transportable in one or more sections built on a permanent chassis.

"Mortgage" means the deed of trust securing the related Mortgage Loan and encumbering a Residence, which instrument shall be the then-effective form required by FHA for FHA Insured Mortgage Loan, the form required by VA for VA Guaranteed Mortgage Loans, the form required by USDA Rural Development for USDA Rural Development Guaranteed Mortgage Loans and the form required by Fannie Mae or FHLMC for Conventional Mortgage Loans, as applicable, with such modifications as may be required by the terms hereof (particularly the restriction on assumptions set forth in the Operations Manual).

"Mortgage Documents" means the documents pertaining to a particular Mortgage Loan.

"Mortgage Loan" means a loan originated by a Lender with respect to a New Residence, Existing Residence or a Rehabilitation Loan pursuant to and in accordance with the Act, this Agreement, the Indenture and the Program evidenced by a Note and secured by a Mortgage, which, together with the applicable Mortgagor and Residence, meets the applicable requirements of the Act, this Agreement and the Program.

"Mortgage Loan Purchase Price" means an amount specified in a Commission Notice relating to the applicable Series of Bonds.

"Mortgage Pool" means all Mortgage Loans held as part of a particular Guaranteed Mortgage Security.

"Mortgagor" means the maker of a Note in connection with the acquisition of a Residence through the borrowing of money pursuant to a Mortgage Loan, and includes, where appropriate, a subsequent owner of such Residence who purchases such Residence subject to such Mortgage Loan or who assumes such Note, and who in each case, meets the requirements of the Act, this Agreement and the Program. Except as otherwise provided in this Agreement, "Mortgagor" does *not* include a person such as a guarantor or cosigner who does not have a present ownership interest in the Residence.

"Mortgagor's Affidavit" means the Affidavit of the Mortgagor in substantially the form specified in the Operations Manual.

"New Residence" means a Residence which has not been previously occupied.

"Note" means the promissory note or other document or documents executed by a Mortgagor to evidence such Mortgagor's obligation to repay a Mortgage Loan.

"Notice Address" means the following addresses (or such alternate addresses subsequently provided pursuant to a Commission Notice):

(a) As to the Commission:

3435 Broadway  
Kansas City, Missouri 64111  
Attention: Executive Director

(b) As to the Trustee:

UMB Bank  
2 South Broadway Suite 435  
St. Louis, Missouri 63102  
Attention: Corporate Trust Department

(c) As to each Lender:

The address shown on the Lender's signature page to this Agreement.

"Operations Manual" means the Missouri Housing Development Commission Single Family *First Place Loan Program Operations Manual*, as amended and supplemented from time to time.

"Origination Period" means the period for the origination of Mortgage Loans hereunder specified in a Commission Notice relating to the applicable Series of Bonds unless extended pursuant to **Section 4.11** hereof.

"Permitted Encumbrances" means those encumbrances with respect to a Residence permitted by FHA, USDA Rural Development, VA, FHLMC or Fannie Mae, as applicable, to the extent that such encumbrances do not impair the security for the Mortgage Loan, are matters of public record as of the date the related Mortgage is recorded, and are taken into account and reflected in the Appraisal submitted to a Lender in connection with the origination of the related Mortgage Loan.

"PMI Insurer" means any private mortgage insurance company approved by Fannie Mae or FHLMC, as applicable, and providing Private Mortgage Guaranty Insurance on Conventional Mortgage Loans.

"Policy of Title Insurance" means a current American Land Title Association standard form lender's policy of title insurance initially in the amount of the original principal amount of such Mortgage Loan, payable to the benefit of the Trustee as its interest may appear, issued by a Qualified Title Insurance Company, insuring title to the real property subject to the Mortgage as being vested in the Mortgagor, subject only to the lien of the Mortgage Loan and to Permitted Encumbrances.

"Private Mortgage Guaranty Insurance" means a private mortgage guaranty insurance policy issued by a PMI Insurer with respect to a Conventional Mortgage Loan in accordance with the terms hereof in a form and providing coverage in an amount in accordance with the Fannie Mae Guides or FHLMC Guides, as applicable.

"Program" means the Commission's program of financing Mortgage Loans pursuant to the Indenture, the Act and this Agreement, as such documents may from time to time be amended in accordance with their terms.

"Program Area" means the State of Missouri, unless otherwise specified in a Commission Notice.

"Qualified Insurer" means any insurance company qualified to provide insurance on mortgages insured by FHA or guaranteed by VA or USDA Rural Development or with respect to Conventional Mortgage Loans, acceptable to Fannie Mae or FHLMC, as applicable, in the State of Missouri.

"Qualified Title Insurance Company" means a title insurance company duly qualified to do business under the laws of the State of Missouri.

"USDA-RD" means USDA Rural Development Service (formerly the Farmers Home Administration) of the United States Department of Agriculture, its successors and assigns.

"USDA-RD Guaranteed Mortgage Loan" means a Mortgage Loan guaranteed by USDA-RD pursuant to the USDA-RD Section 502 Single Family Rural Housing Loan Program.

"Rehabilitation Loan" means, unless specified in a Commission Notice, a Mortgage Loan originated for the rehabilitation of a Residence to the extent permitted by the Act and as qualified by the provisions thereof and in accordance with the requirements of Section 143 of the Code.

"Residence" means real property and improvements thereon consisting of a single family detached or attached (rowhouse, townhouse, condominium) residential unit (but not including a Mobile Home) owned by a Mortgagor which can reasonably be expected to become the principal residence of the Mortgagor within a reasonable period of time (which shall not exceed sixty (60) days) after the execution of the applicable Mortgage, which the Mortgagor shall have agreed to reside in as the principal place of residence of the Mortgagor, which is located within the Program Area, which is an Existing Residence or a New Residence, as applicable, and for which a Mortgage Loan will be originated.

"Seller's Affidavit" means the Affidavit of the Seller in substantially the form set forth in the Operations Manual.

"Series" means the applicable Series of Bonds issued under the Indenture and the applicable Series Supplement.

"Series Supplement" means the Series Supplement relating to the applicable Series of Bonds as specified in a Commission Notice.

"Servicer" means the Master Servicer.

"Standard Hazard Insurance" means a standard policy of hazard insurance required by Fannie Mae, FHLMC, FHA, VA or USDA-RD.

"State" means the State of Missouri.

"Stated Rate" means the rate of interest borne by the Mortgage Loans as specified in a Commission Notice relating to the applicable Series of Bonds.

"Taxable Loan Programs" means Commission single family homeownership loan programs not funded in whole or in part with the proceeds of Bonds the interest on which is excluded from gross income for federal income tax purposes as specified in a Commission Notice.

"Tax-Exempt Bonds" means an applicable Series of Bonds the interest on which is excluded from gross income for federal income tax purposes.

"Targeted Area" means an area in which 70% or more of the families have an income which is 80% or less of the State-wide median income or an area of chronic economic distress if such an area has been designated by the Commission and approved by the Secretaries of the Treasury and Housing and Urban Development; provided that, in either case only those areas meeting the foregoing criteria and designated by the Commission as Targeted Areas shall be deemed to constitute Targeted Areas. As of the date hereof the Targeted Areas are the following census tracts in the Program Area: 951000 of Adair County; ; 000100, 000401 000402, 0005.00 0-0080 and 000900 of Boone County; 001000 of Buchanan County; 950500 and 950700 of Butler County; 981400 of Cape Girardeau County; 020000 of Clay County; 010100 of Cole County; 960100 of Dunklin County; 000100, 000200, 000500, 000800, 001900 and 005500 of Greene County; 970300 of Hickory County; 9902,.00 and 990700 of Howell County; 001400, 001500, 001600, 001700, 002100, 002200, 002400, 002900, 003200, 003502, 003602, 005500, 005801, 005901 and 006300 of Jackson County; ; 960800 of Marion County; 9801.00 of Oregon County; 970200 and 970400 of Pemiscot County; ; 213900 and 214000 of St. Louis County; 970200 of Shannon County; ; and 105400, 106100, 106200, 106300, 106600, 109700, 110200, 110500, 111200, 111400, 111500, 112300, 1164000, 118100, 119300, 120100, 120300, 121100, 121200, 1213000, 122400, 124100,124200, 124600, 125700, 126600 and 126700 in the City of St. Louis.

"Targeted Area Loan" means a Mortgage Loan for a Residence located in the Targeted Area.

"Targeted Area Reservation Amount" means the amount specified with respect to an issue of Tax-Exempt Bonds.

"VA" means the Department of Veterans Affairs, an agency of the United States of America, or any successors to its function.

"VA Guaranteed Mortgage Loan" means a Mortgage Loan guaranteed by VA in accordance with the provisions hereof and under the Serviceman's Readjustment Act of 1944, as amended.

"Yield on the Bonds" means the yield on the applicable Series of Tax-Exempt Bonds as determined by the Commission in accordance with the Code and as specified by the Commission in the Commission Notice.

**Section 1.02. Interpretations.**

(a) In this Agreement, unless the context otherwise requires:

(1) the terms "hereby," "hereof," "hereto," "herein," "hereunder" and any similar terms refer to this Agreement, and the term "heretofore" means before and the term "hereafter" means after the date of this Agreement;

(2) words of the masculine gender mean and include correlative words of the feminine and neuter genders, and words importing the singular number mean and include the plural number and vice versa;

(3) words importing persons mean and include words importing firms, associations, partnerships (including limited partnerships), trusts, corporations and other legal entities, including public bodies, as well as natural persons;

(4) any headings preceding the texts of the several Articles and Sections of this Agreement, and any table of contents or marginal notes appended to copies hereof, shall be solely for convenience of reference and shall not constitute a part of this Agreement, nor shall they affect its meaning, construction or effect; and

(5) this Agreement shall be governed by and construed in accordance with the applicable laws of the State.

(b) Nothing in this Agreement expressed or implied is intended or shall be construed to confer upon, or to give to any person, other than the Commission, the Lenders, and the Owners of the Bonds, any right, remedy or claim under or by reason of this Agreement, or any covenant, condition or stipulation hereof. All the covenants, stipulations, promises and agreements herein contained by and on behalf of the Commission shall be for the sole and exclusive benefit of the Commission, the Lenders, the Trustee and the registered owners of the Bonds.

(c) If any covenant or agreement provided herein on the part of the Commission or the Lenders to be performed should be contrary to law, then such covenant or agreement shall be deemed separable from the remaining covenants and agreements hereof, and shall in no way affect the validity of the other provisions of this Agreement.

(d) All terms not otherwise defined herein shall have the same meaning as set forth in the Indenture.

(End of **Article I**)

## **ARTICLE II**

### **REPRESENTATIONS**

**Section 2.01. Representations, Warranties and Covenants of Commission.** The Commission represents and warrants to, and covenants with, the Lenders which are signatories hereto that:

(a) The Commission is a governmental instrumentality of the State, duly organized and existing under the Constitution and laws of the State. Pursuant to the Act, the Commission has authorized the execution and delivery of this Agreement and the Indenture.

(b) The Commission has found and declared that the financing of Mortgage Loans under the terms of this Agreement and the Program will further the purposes of the Act.

(c) The Commission has complied or will comply with all of the provisions of the Constitution and laws of the State including the Act, and has full power and authority to consummate all transactions contemplated by this Agreement and the Indenture and any and all other agreements relating thereto.

(d) To accomplish the foregoing, the Commission proposes to issue the Bonds on the terms set forth in the Indenture and to use the proceeds thereof as specified in this Agreement and the Indenture.

(e) No officer or official of the Commission has any prohibited interest, as defined by the applicable laws of the State, in any Lender or in the transactions contemplated by this Agreement.

(f) The Commission will make any and all findings or determinations required to be made by it pursuant to this Agreement in good faith and with due diligence.

(g) This Agreement has been duly authorized, executed and delivered by the Commission and, when executed and delivered by the Lenders, will constitute the legal, valid and binding obligation of the Commission enforceable in accordance with its terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, or other laws or equitable principles affecting creditors generally, and will not conflict with or result in a breach of any of the terms, conditions or provisions of any legal restriction or any agreement or instrument to which the Commission is now a party or by which it is bound or constitute a default under any of the foregoing.

(h) To the best of the Commission's knowledge, no litigation is pending or threatened against the Commission which would prohibit its entering into this Agreement or consummation of the transactions contemplated hereby.

**Section 2.02. Representations, Warranties and Covenants of Lender.** Each Lender which becomes a signatory hereto represents and warrants to, and covenants with, the Commission, the Trustee and the Master Servicer, that:

(a) The Lender is an entity duly organized, validly existing and in good standing under the laws of the United States of America or the state of its organization, is duly qualified and in good standing to transact business in the State, and possesses

all requisite authority, power, licenses, permits and franchises to conduct any and all business contemplated by the Program and to execute, deliver and comply with its obligations under the terms of this Agreement, the execution and delivery and performance of which have been duly authorized by all necessary corporate action.

(b) The Lender agrees that during the term of this Agreement it will remain subject to supervision and examination by state or federal authorities, as may be applicable, and that it will remain in good standing and qualified to do business under the laws of the United States of America, the state of its organization and of the State.

(c) The Lender shall not, without the prior written consent of Commission, consolidate with or merge into another entity, or permit one or more entities to consolidate with or merge into, or sell or otherwise transfer to another such entity all or substantially all of its assets as an entirety and thereafter dissolve unless the surviving, resulting or transfer entity, as the case may be, shall be subject to the supervision and examination of state or federal authorities, as may be applicable, and shall assume in writing all of the obligations, representations and warranties of the Lender hereunder (in the case of a sale of all or substantially all of Lender's assets, the Commission shall release the Lender in writing, concurrently with and contingent upon such assumption, from all liability hereunder).

(d) The Lender has capital and surplus, as evidenced by its most recent audited financial statements, calculated in accordance with generally accepted accounting principles or applicable federal or state regulatory authority of not less than \$1,000,000.

(e) The Lender has the power to execute and deliver this Agreement, to accept the terms hereof, to enter into the transactions contemplated hereby, and the acceptance and performance hereof has been duly authorized by all necessary corporate and other action.

(f) 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 will not violate (i) its certificate of incorporation or bylaws or other organizational documents, or (ii) any laws which 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, and will not constitute a material default (or an event which, 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 which may be applicable to it or any of its assets.

(g) 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.

(h) This Agreement, and all documents and instruments contemplated hereby, which are executed and delivered by the Lender, have been duly authorized and constitute valid, legal and binding obligations of the Lender, enforceable in accordance with their respective terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, or other laws or equitable principles affecting creditors generally, and do not and will not conflict with or result in a breach of any of the terms,

conditions or provisions of any legal restriction or any agreement or instrument to which the Lender is now a party or by which it is bound or constitute a default under any of the foregoing.

(i) The Lender will not knowingly take any action or permit any action which is within its control to be taken which would impair the exclusion of interest on the Bonds from gross income for federal income tax purposes.

(j) The Lender (including any "related person" thereof, within the meaning of Section 144(a)(3) of the Code) shall not, pursuant to any arrangement, formal or informal, purchase Tax-Exempt Bonds in an amount related to the amount of Mortgage Loans to be originated by the Lender pursuant to this Agreement.

(k) The Lender is a mortgage banker or other financial institution or a commercial bank or savings and loan association in good standing with the FDIC that customarily provides service or otherwise aids in the financing of mortgage loans on single family residential housing, or is a holding company of one or more of the foregoing and the Lender is currently authorized to make mortgage loans in the State.

(l) [Reserved].

(m) The Lender is or will be, (i) at the time of the origination by the Lender of any FHA Insured Mortgage Loan under the Program, an FHA-approved mortgagee in good standing, (ii) at the time of the origination by the Lender of any VA Guaranteed Mortgage Loan under the Program, an eligible lender in good standing for VA-guaranteed mortgage loans and (iii) at the time of the origination by the Lender of any USDA-RD Guaranteed Mortgage Loan, an eligible Lender in good standing for USDA-RD Guaranteed Mortgage Loans.

(n) The Lender will comply, (i) with respect to each FHA Insured Mortgage Loan, with the National Housing Act, as amended, with all rules and regulations issued thereunder and with all applicable administrative publications, (ii) with respect to each VA Guaranteed Mortgage Loan, with the Servicemen's Readjustment Act, as amended, with all rules and regulations issued thereunder and with all administrative publications, (iii) with respect to each USDA-RD Insured Mortgage Loan, with all rules and regulations of USDA-RD applicable to the Section 502 Single Family Rural Housing Program, (iv) with respect to each Mortgage Loan, as determined as of the Closing Date, with all the requirements of the GNMA Guide and/or Fannie Mae Guides or FHLMC Guides, as applicable, and (v) any and all applicable laws governing or regulating the origination of mortgage loans, including, but not limited to, any applicable "truth in lending" or disclosure laws.

(o) The Lender will comply with the non-discrimination provisions of the Civil Rights Act of 1964, the regulations promulgated thereunder, and Executive Order 11246, Equal Employment Opportunity, dated October 24, 1965.

(p) No information, certificate of an officer, statement furnished in writing, or report required hereunder or under the Operations Manual, delivered to the Master Servicer, the Commission or the Trustee will, to the knowledge of the Lender, contain any untrue statement of a material fact or omit a material fact necessary to make the information, certificate, statement or report not misleading.

(q) The Lender shall indemnify and hold harmless the Commission, the Master Servicer and the Trustee and their officers, directors, employees and agents against any liability for all claims, cause of action, costs and expenses (including attorneys' fees), judgments, fines and penalties which 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, its agents or employees.

(r) Notwithstanding any other provisions of this Agreement, under no circumstances shall this Agreement or the relationship between the Commission and the Lender created thereby be construed as creating a fiduciary relationship between the Commission and the Lender or as granting to or creating in the Lender any legal or equitable interest, right or title in or to any funds or accounts created under the Indenture.

(s) The Lender shall promptly notify the Commission, the Trustee and the Master Servicer of any suspension or termination of powers to do business as contemplated by this Agreement, or any substantial changes in personnel of the Lender's loan originating staff or administration.

(t) The Lender will not make any Mortgage Loans (1) to any of its officers, directors, or principal shareholders, (2) to the officers or directors of the Trustee, or (3) to Commissioners or executive officers (i.e. Executive Director or any Deputy Director) of the Commission.

(u) The Lender shall provide to the Commission, at the Lender's expense, copies of all Mortgage Loan file documents, loan applications and all related materials from its file on each Mortgage Loan.

(v) The Lender shall keep proper books, records and accounts in which complete and correct copies of all certificates and documents required to be filed with it hereunder shall be maintained and preserved for a reasonable period of time. The Lender shall make such books and records available for inspection by the Commission, the Master Servicer and the Trustee during reasonable hours and under reasonable conditions. The Commission, the Master Servicer, the custodian for GNMA or Fannie Mae or FHLMC or the Trustee shall have the right to require the Lender to furnish said documents, at the Lender's expense, as such requesting entity, in its sole discretion and from time to time, deems necessary to determine that the provisions of the Indenture, the applicable custodial agreement and this Agreement have been complied with and to satisfy Commission's statutory record-keeping requirements.

(w) Any review or approval by the Commission of any Mortgage Loan or the credit or tax compliance information in connection therewith shall not relieve the Lender of any responsibility or liability for the performance or nonperformance of its obligations hereunder.

(x) The Lender shall use diligent, reasonable efforts to become and to remain familiar with all GNMA, FHLMC and Fannie Mae rules and regulations applicable to the Program. Any failure of the Commission, the Trustee or the Master Servicer to inform the Lender of changes or proposed changes in GNMA, FHLMC or Fannie Mae rules and regulations affecting the Program shall not relieve the Lender of its obligations under this subsection (x).

(End of **Article II**)

**ARTICLE III**

**ISSUANCE OF BONDS; ACQUISITION OF GNMA SECURITIES**

**Section 3.01. Agreement to Issue Bonds; Application of Bond Proceeds.**

The Commission agrees to use its best efforts to issue, sell and deliver Bonds from time to time under the Indenture on the terms and bases set forth in the Indenture. As provided in the Indenture, the proceeds of the Bonds will be deposited with the Trustee and will be disbursed as provided therein and this Agreement for the purpose of acquiring Guaranteed Mortgage Securities backed by the Mortgage Loans.

**Section 3.02. Limited Liability.** All obligations of the Commission incurred hereunder shall be limited obligations of the Commission, payable solely from Bond proceeds, amounts paid by the Commission to the Trustee on the date of delivery of the Bonds, and the revenues and funds established in connection therewith, and nothing contained hereunder shall create any indebtedness or be construed to create any moral obligation on the part of the Commission, or permit any person to compel the exercise of the taxing power of the State or any political subdivision thereof. All obligations of the Commission incurred hereunder shall be subordinated to the obligations of the Commission to the Owners of the Bonds, and shall be payable only after all obligations of the Commission to the Owners of the Bonds shall have been satisfied.

**(End of Article III)**

**ARTICLE IV**

**ORIGINATION OF MORTGAGE LOANS**

**Section 4.01. Commitment to Originate Mortgage Loans.**

(a) Each Lender acting on its own behalf shall exercise due diligence and use its best efforts during the Origination Period to process applications and issue Commitment Letters for and to originate Mortgage Loans and the Lender shall use its best efforts to assign such Mortgage Loans and the servicing in connection therewith to the Master Servicer as set forth in **Article VI** hereof so as to enable the Master Servicer to issue Guaranteed Mortgage Securities with respect to such Mortgage Loans during the Delivery Period.

(b) With respect to Mortgage Loans to be funded with the proceeds of Tax-Exempt Bonds, the Commission and the Lenders hereby covenant to use their best efforts to originate Targeted Area Loans in an amount equal to not less than the Targeted Area Reservation Amount and to make reasonable efforts to inform potential Mortgagors of the availability of Mortgage Loans for Residences in the Targeted Area.

(c) Each Lender shall, during the Origination Period, maintain current records with respect to the principal amounts of Mortgage Loans for which such Lender has accepted applications, the Mortgage Loans which such Lender anticipates to be funded within the next succeeding thirty (30) days and the aggregate principal amount of Mortgage Loans that have previously been funded for the purpose of determining the date on which any Guaranteed Mortgage Security based on and backed by the Mortgage Pool shall be issued by the Master Servicer. Each Lender shall exercise its best judgment to cause the aggregation of Mortgage Loans to enable the formation of a Mortgage Pool by the Master Servicer in as expeditious a manner as possible.

**Section 4.02. Mortgage Loan Eligibility Requirements.** The Lenders shall originate only Mortgage Loans with respect to which the eligibility requirements set forth in this Article and **Article V** hereof are met.

**Section 4.03. RESERVED.**

**Section 4.04. RESERVED.**

**Section 4.05. Fees Upon Origination; Cash Assistance Amount.**

(a) **Cash Assistance Loans.** Unless otherwise specified in a Commission Notice, on the Closing Date with respect to each Cash Assistance Loan the Lender, as agent for the Commission, shall pay, on behalf of the Mortgagor the Cash Assistance Amount which shall be applied at settlement of such Cash Assistance Loan (i) to the payment of Closing Costs and (ii) to the extent the Closing Costs specified in clause (i) are less than the Cash Assistance Amount, the remaining portion of the Cash Assistance Amount shall be applied to increase the Mortgagor's downpayment with respect to the Cash Assistance Loan. Under no circumstances shall any portion of the Cash Assistance Amount be paid directly to the Mortgagor. HUD-1 settlement statements and relating loan documents shall clearly indicate that the Cash Assistance Amount, for which the Lender will be reimbursed by the Commission, was provided on behalf of the Mortgagor by the Commission. The Lender may collect from the

Mortgagor (or Seller) the origination fee and discount fee, if any, specified in a Commission Notice. Except as specified in a Commission Notice, no other charge or remuneration shall be made to a Mortgagor (or Seller) in connection with the origination of a Cash Assistance Loan hereunder.

(b) **Low Rate Loans.** On or before the Closing Date with respect to each Low Rate Loan, the Lender may collect from either the Mortgagor or the seller of the Residence, the Closing Costs. The Lender may collect from the Mortgagor (or Seller) the origination fee and discount fee, if any, specified in a Commission Notice. Except as specified in a Commission Notice, no other charge or remuneration shall be made to a Mortgagor (or Seller) in connection with the origination of a Low Rate Loan hereunder.

(c) **Commission Review.** Closing Costs with respect to each Mortgage Loan shall be reviewed by the Commission and shall be disapproved if the Commission shall determine that such costs exceed the usual and reasonable costs customarily charged in the applicable market area that would be paid by a mortgagor or seller where the financing is not provided through qualified mortgage bonds.

#### **Section 4.06. Mortgage Loan Submission and Origination.**

(a) Unless otherwise specified by the Commission, each Lender shall deliver a Lender's Certificate and copies of supporting documents for each Mortgage Loan originated by the Lender to the Commission within fifteen (15) days of the Closing Date. The Commission shall review each Lender's Certificate and accompanying documents for the Mortgage Loan to determine whether documentary evidence exists that the Mortgage Loan is in compliance with this Agreement and any standards promulgated hereunder. The Commission may rely upon any certificate or statement executed by the Lender, the Mortgagor or the seller with respect to compliance of the Mortgage Loans with the requirements to be approved by the Commission pursuant to the terms of the Indenture and this Agreement, unless the Commission has actual knowledge that such certificate or statement is untrue. Upon the determination by the Commission that the Mortgage Loans comply with this Agreement, the Commission will deliver the Commission Certificate to the Trustee, with a copy to the Lender.

(b) Each Lender shall also provide to the Trustee and the Commission such other certificates, affidavits, reports or other information regarding the Mortgage Loans originated by the Lender as required by the Operations Manual.

(c) Only Mortgage Loans originated in accordance with this Section and which conform to the requirements of the Operations Manual, this Agreement, the Indenture, the Act, the Code and the Program shall be originated by the Lenders.

**Section 4.07. Mortgage Loan File.** Each Lender shall maintain a file for each Mortgage Loan containing originals (or copies if originals are to be delivered to the Master Servicer GNMA, FHLMC or Fannie Mae) of the Mortgage Documents pertaining to the Mortgage Loan, and all other documents as are customarily maintained in mortgage loan files by private institutional mortgage servicers originators. Such file shall be maintained by the Lender for a minimum of three (3) years from the date the Mortgage Loan is fully paid or otherwise terminated sold.

**Section 4.08. Defective Documents.** Notwithstanding the review pursuant to **Section 4.06** hereof, if at any time (i) any document or documents constituting a part of a Mortgage Loan file are, in the reasonable opinion of the Commission or the Trustee, defective or inaccurate in any material respect or in any respect whatsoever which may affect the exclusion of interest on the Bonds from federal gross income, or if any Mortgage Loan, the Residence financed thereby, or the Mortgagor with respect thereto fails to meet the requirements set forth in the Operations Manual and **Article IV** hereof, or (ii) the Lender fails to deliver to the Trustee or the Commission any document constituting a part of the Mortgage Loan file in accordance with this Agreement, the Lender shall cure the defect or inaccuracy within sixty (60) days (or such shorter period of time as may be required by law) from the time the Master Servicer, Trustee or the Commission has notified the Lender of the existence of the material deficiency or inaccuracy. Each Lender hereby covenants and agrees as to each Mortgage Loan originated by it that, if any such defect is not cured to the satisfaction of the Commission within such sixty-day period (or such shorter period of time as may be required by law), the Lender shall purchase the Mortgage Loan from the Master Servicer, GNMA, FHLMC or Fannie Mae, as applicable, for its own account at a price equal to the outstanding principal balance thereof plus accrued interest thereon, and the Trustee and the Lender shall consider such purchase to be a Prepayment of a Mortgage Loan within the Mortgage Pool backing a GNMA Security, Fannie Mae Security or FHLMC Security, as applicable, and the outstanding principal amount of and payments to be made with respect to such GNMA Security, Fannie Mae Security or FHLMC Security, as applicable, shall be correspondingly reduced. Each Lender shall indemnify and hold harmless the Commission, the Master Servicer and the Trustee for any and all loss, damage or expense (including attorneys' fees) incurred by it in connection with any challenge to, or loss of, the exclusion of interest on the Bonds from federal gross income arising out of such defect, inaccuracy, nondelivery, or unauthorized assumption.

**Section 4.09. Representations, Warranties and Covenants of the Lenders Concerning Mortgage Loans; Repurchase of Certain Mortgage Loans.**

(a) Each Lender hereby represents and warrants to, and covenants with, the Commission, the Master Servicer and the Trustee with respect to each Mortgage Loan originated by the Lender that as of the Closing Date:

(i) To the best knowledge of the Lender, the information set forth in the Lender's Certificate is true and correct and the Mortgage Loan has been closed after the delivery of this Agreement;

(ii) The Mortgage Loan (A) will be secured by a Mortgage creating a first lien (subject only to Permitted Encumbrances) on a Residence which is located within the Program Area, (B) will be fully documented and underwritten in accordance with prudent industry standards in GNMA acceptable form, as applicable, and in form acceptable to FHA, in the case of FHA Insured Mortgage Loans, to USDA-RD, in the case of USDA-RD Guaranteed Mortgage Loans, or to VA, in the case of VA Guaranteed Mortgage Loans or in Fannie Mae or FHLMC acceptable form in the case of Conventional Mortgage Loans (in each case including any requirements pertaining to flood or earthquake insurance to the extent required by FHA, USDA-RD, VA, FHLMC or Fannie Mae), (C) will be made for the purpose of purchasing the Residence subject to the related Mortgage

Loan and not for the purpose of refinancing or replacing any existing loan on any such property (other than a construction loan or similar temporary financing or Rehabilitation Loans), (D) will have a term of thirty (30) years and will bear interest at the Stated Rate, provided that, with respect to a VA Guaranteed Mortgage Loan, the VA Guaranty shall be in an amount equal to the maximum permissible under current law with respect to such VA Guaranteed Mortgage Loan and (E) will not be the subject of a "buy-down" agreement (except for a "buy-down" approved by the Commission);

(iii) The Mortgage Loan will be eligible for endorsement for insurance under either a binding commitment for FHA Insurance, a binding commitment for a VA Guaranty under the Serviceman's Readjustment Act of 1944, a binding Commitment for USDA-RD Guaranty pursuant to the USDA-RD Section 502 Single Family Rural Housing Loan Program or a binding commitment for Private Mortgage Guaranty Insurance, in each case such that the Mortgage Loan may be included in a Mortgage Pool backing a GNMA Security, Fannie Mae Security or FHLMC Security; and such FHA Insurance, USDA-RD Guaranty, VA Guaranty or Private Mortgage Guaranty Insurance shall be maintained in force and effect during all times such Lender owns an interest in the Mortgage Loan under the Program;

(iv) The Residence will be covered by all insurance required by FHA, VA, USDA-RD, FHLMC or Fannie Mae, as applicable, issued by a Qualified Insurer, prior to the assignment, if any, of the Mortgage Loan and the applicable Lender shall cause to be maintained such insurance as required by FHA, USDA-RD, VA, FHLMC or Fannie Mae, the Lender shall have used its best efforts to ensure that the Mortgage, the Mortgagor and the Residence eligibility requirements of **Articles IV and V** hereof have been met and the Lender shall have no reason to believe that such requirements will not be met;

(v) The terms, covenants and conditions of the Mortgage Loan shall not have been waived, altered, impaired or modified in any respect which would materially affect the value, validity, enforceability, or prompt payment of the Mortgage Loan, or the security of the lien of the Mortgage, except for such waivers, alterations and the like accomplished by the Lender prior to the Closing Date and disclosed in writing to the Commission;

(vi) Any construction work financed by an FHA Insured Mortgage Loan, VA Guaranteed Mortgage Loan, USDA-RD Guaranteed Mortgage Loan or Conventional Mortgage Loan will be completed to the satisfaction of FHA, VA, USDA-RD or the PMI Insurer, as applicable, and for each Mortgage Loan there shall be no mechanics liens or claims for work, labor or material affecting the property financed by the Mortgage Loan which are or may be a lien prior to, or equal with, the lien of the Mortgage securing the Mortgage Loan subject only to the Permitted Encumbrances, and the Policy of Title Insurance will insure against such risks;

(vii) In making the Mortgage Loan, the Lender shall originate the Mortgage Loans in accordance with acceptable mortgage practices of prudent lending institutions, and all statements prepared or transmitted with respect to the Mortgage Loan, including the Note and the Mortgage, shall comply with all

relevant and applicable requirements of any State or federal laws, rules or truth-in-lending requirements, including, in particular the Truth-in-Lending Act, the Real Estate Settlement Procedures Act , the Equal Credit Opportunity Act and the Consumer Credit Protection Act;

(viii) The Mortgage Loan shall comply with the applicable State and federal usury laws;

(ix) To the best knowledge of the Lender, the Mortgagor shall not have conveyed the Mortgagor's right, title or interest to or in the Residence to any party other than a deed of trust trustee for the benefit of the beneficiary under a Mortgage;

(x) The fees, costs and charges to be paid by the Mortgagor or seller and retained by the Lender shall be in compliance with **Section 4.05** hereof;

(xi) The Mortgagor shall have executed and delivered a Mortgagor's Affidavit to the Lender (together with such supplemental affidavits as the Commission shall require) and the Lender shall have no reason to believe that such affidavits contain any misstatements or omit to state any information requested therein;

(xii) Except with respect to Taxable Loan Programs, to the best knowledge of the Lender, the Mortgagor is a First Time Homebuyer (except with respect to Targeted Area Loans and Rehabilitation Loans);

(xiii) To the best knowledge of the Lender, the Mortgagor is not a person ineligible to receive a Mortgage Loan pursuant to **Section 2.02(u)** hereof;

(xiv) Unless otherwise specified in a Commission Notice, the Mortgagor(s) shall have executed (A) the Note Rider ([Form \_\_\_\_]), (B) the Mortgage Rider ([Form\_\_\_\_]), (C) the Notice to Buyers ([Form \_\_\_\_]), (D) the VA Guaranty Applicant's Certificate of Understanding and Consent provided in Form \_\_\_\_ or the Uniform Mortgage Rider ([Form \_\_\_\_]), as applicable, and, with respect to Mortgage Loans funded in whole or in part with the proceeds of Tax-Exempt Bonds, the Lender shall provide each Mortgagor on the Closing Date, the "Notice to Mortgagor of Information Regarding Potential Recapture Tax" ([Form\_\_\_\_]) and, if applicable, the "Letter Regarding Potential Tax Consequences of Homebuyer Cash Assistance" ([Form \_\_\_\_]), and the Lender shall obtain the social security number of the Mortgagor(s) by using IRS Form W-9;

(xv) The seller shall have executed and delivered a Seller's Affidavit in substantially (Forms \_\_\_\_ and \_\_\_\_ ) (together with such supplemental affidavits as the Commission shall require in connection with a Rehabilitation Loan) and the Lender shall have no reason to believe that such affidavits contain any misstatements or omit to state any information requested therein;

(xvi) Neither the Lender nor any other person (insofar as the Lender is aware) has charged, directly or indirectly, either the Mortgagor or the seller of the Residence any fee, charge or remuneration of any kind for the services provided or to be provided by such Lender pursuant to this Agreement except

those fees, charges and remunerations specifically provided for in **Section 4.05**;

(xvii) The Residence is not a Mobile Home;

(xviii) Neither the Lender nor the seller of the Residence are aware of, or in the exercise of due diligence should have knowledge after due inquiry, that there is any litigation pending or threatened challenging any zoning ordinance or general plan designation of the city or county in which the Residence is located or the issuance of a building permit or a certificate of completion applicable to the Residence for which the Mortgage Loan was originated;

(xix) The Lender shall have obtained appropriately executed and binding releases, indemnification and disclosure acknowledgments from the Mortgagor for the benefit of the Commission, and for the Lender if deemed necessary by the Lender, with respect to the requirement of the Commission that all information constituting the Mortgage Documents and the Mortgage Loan file and any other information or documents upon which the Lender relied in the origination of the Mortgage Loan shall be made available to the Commission and any employee, officer or official thereof upon the reasonable request of the Commission or any employee, officer or official thereof in furtherance of the Program;

(xx) The Lender shall not have transferred a loan application which was accepted for processing under any financing program unless the applicant thereunder has been rejected for lack of income unless waived by the Commission; and

(xxi) The Residence is not located in a 100-year flood plain.

(b) Each Lender hereby agrees to repurchase any Mortgage Loan sold to the Master Servicer at any time during the life of such Mortgage Loan upon the occurrence of any of the following events:

(1) Master Servicer reasonably believes any violations of any rule, regulation, or requirement of the applicable agencies i.e. FHA, VA, USDA-RD, FHLMC, Fannie Mae, GNMA or any other investor as may be identified in the Program, or specific guidelines as outlined in this Agreements or the Operations Manual; or

(2) For Mortgage Loans not underwritten by the Master Servicer or its approved designees, should the Mortgagor fail to make the first payment due to the Master Servicer by the due date of the next mortgage payment, the Lender shall not have the right to advance any funds for or on behalf of a Mortgagor for any delinquent payment, or to otherwise make funds available to any Mortgagor to aide or cure a default by the Mortgagor; payment, for which the Master Servicer deducted funds at the time the loan is purchased from the Lender, shall not be considered the first payment due the Master Servicer; or

(3) Any false statement, misstatement, or act of omission of material fact contained in the Mortgage Documents resulting from the Lender's negligence

or failure to exercise due diligence as disclosed by actual inspection by the Master Servicer or its representative, or otherwise disclosed; or

(4) Lender fails to obtain FHA insurance, VA or USDA-RD guaranty, private mortgage insurance, or if such insurance or guaranty lapses or for any reason becomes unavailable, as a result of any negligent act or omission by the Lender, or the failure by the Lender to obtain such insurance or guaranty within ninety (90) days from the date of purchase; or

(5) Master Servicer is required to repurchase any Loan sold by it to GNMA, Fannie Mae, FHLMC or any other investor, by reason of a deficiency in or omission with respect to the Mortgage Documents, instruments, and agreements, pertaining to any Mortgage Loan; or

(6) Any representation or warranty made by the Lender under this Agreement or Operations Manual with respect to any Mortgage Loan shall, in the reasonable opinion of the Master Servicer, be, in whole or in part and with or without knowledge of the Lender, false at the time when made by Lender or become false upon the occurrence of subsequent events; or

(7) Any material fraud, misrepresentation or act of omission with respect to the information submitted on a particular Mortgage Loan is determined to exist by the Master Servicer or another investor. This includes, but is not limited to, Mortgagor or other third party fraud or misrepresentation, and any misrepresentation of Mortgagor's income, funds on deposit, or employment, or of the occupancy status of the Mortgaged Residence; or

(8) Lender's breach of any covenant or obligation to the Master Servicer with respect to the Mortgage Loan under this Agreement, the Operations Manual or other documents relating to the Program.

The repurchase price for any Mortgage Loan that the Lender is required to repurchase from the Master Servicer shall be an amount equal to its then unpaid principal balance of the Mortgage Loan on the date of repurchase, plus accrued interest, any servicing release premium paid, and direct expenses (including attorney's fees) incurred by the Master Servicer for any actions taken by it concerning, as a result of, or in connection with, any of the events or circumstances set forth herein as cause for repurchase. Master Servicer's exercise of its right to have the Lender repurchase any Mortgage Loan hereunder shall be in addition to, and not in lieu of, any other rights or remedies which Master Servicer may have against the Participating Lender hereunder or under applicable law.

(c) If any Mortgage Loan is prepaid in full within six (6) months following the date of purchase from the Lender by the Master Servicer, the Lender shall refund to the Master Servicer all service release premiums received from the Master Servicer with respect to that Mortgage Loan.

(d) Excluding a first payment default as defined in subsection (b) above, if any Mortgage Loan, underwritten by the Lender, becomes 90 days delinquent within the first six months after the loan was purchased by the Master Servicer, and is not brought current by the Mortgagor within 90 days of such delinquency, the Lender shall refund to the Master Servicer all service release premiums received from the Master Servicer with respect to that Mortgage Loan plus an indemnification fee of \$1,000 on conventional loans and \$2,000 on government loans. For this purpose,

the Mortgagor shall be considered 90 days delinquent on a monthly payment when that payment is not received by the Master Servicer by the first day of the third month, regardless of the number of the days in the month. For example, the borrower has not made his/her January payment by the last day of March, the borrower shall be considered 90 days delinquent with respect to the January payment.

(e) It is understood and agreed that the representations, warranties and covenants set forth in this Section shall survive the origination of the Mortgage Loans by the Lenders and that the representations, warranties and covenants shall inure to the benefit of the transferees and the assigns of the Commission, the Master Servicer or the Trustee. Upon discovery at any time by the Commission, the Lender or the Trustee of a breach of any of the foregoing representations, warranties and covenants which may materially and adversely affect the value of the Mortgage Loan or the interest of the Lender in the Mortgage Loan or the exclusion of interest on the Bonds from federal gross income, the party discovering such breach shall give prompt written notice to the others. Within sixty (60) days (or such shorter period of time as may be required by law) of its discovery or its receipt of notice of breach, a Lender shall cure such breach in all material respects or shall take such action as set forth in **Section 4.08** hereof.

#### **Section 4.10. Purchases of Mortgage Loans.**

(a) For each Mortgage Loan originated by an Originating Lender which is in compliance with all the terms and conditions of this Agreement, for which a Lender's Certificate and Commission Certificate have been delivered and for which funds are available under the Indenture for the purchase of Guaranteed Mortgage Securities, the Master Servicer shall pay to the Lender, under the terms and conditions specified herein, on each purchase date for each Mortgage Loan a purchase price equal to the Mortgage Loan Purchase Price.

(b) On or prior to the date of purchase of the Mortgage Loan, all Mortgagor payments on account of taxes or insurance collected by the Lender with respect to a Mortgage Loan prior to such purchase date shall be held by the Lender and shall be transferred by the Lender to the Master Servicer as if such amount had been received subsequent to the purchase.

(c) The Lender acknowledges that, as a condition of the purchase of the Mortgage Loan by the Master Servicer, the Mortgage Loan shall (i) be current in payments of principal and interest, taxes and insurance, if required, (ii) shall bear interest at the Stated Rate and (iii) be in compliance with this Agreement and the requirements of FHA, VA, USDA-RD and GNMA, FHLMC or Fannie Mae, as applicable.

(d) All final documentation with respect to the Mortgage Loan shall be delivered to the Master Servicer within 90 days of the date of purchase. Failure to provide documentation within 90 days may result in penalties or possible repurchase of the Mortgage Loan.

**Section 4.11. Extension of Origination Period or Delivery Period.** Any extension of the Origination Period by the Commission shall be at the sole discretion of the Commission and shall be upon the terms and conditions set forth in the Series Supplement and upon such other terms and conditions as the Commission may specify

in a Commission Notice; provided, however, with respect to any such extension, the Origination Period shall end not later than forty-five days prior to the end of the Delivery Period, as established pursuant to the Indenture.

(End of **Article IV**)

**ARTICLE V**

**MORTGAGOR AND RESIDENCE ELIGIBILITY REQUIREMENTS**

**Section 5.01. Applicability of Eligibility Requirements.** Each Mortgage Loan shall be made to a Mortgagor who meets, and to finance the acquisition of a Residence which meets, the eligibility requirements set forth in the Operations Manual and **Sections 5.02** through **5.07** hereof.

**Section 5.02. Mortgagor Income Limitations.**

(a) Each Mortgage Loan shall be made to a Mortgagor whose Family Income shall not exceed the Maximum Family Income.

(b) If a Mortgage Loan is assumed, the Maximum Family Income shall be the Maximum Family Income in effect at the time of the assumption.

(c) A person other than the Mortgagor who is liable on a Note secured by a Mortgage need not meet the requirements of this Section, provided that such person executes and provides the Lender with his or her declaration, under penalty of perjury, or affidavit that (1) he or she is executing the Note solely for purposes of providing additional security, (2) he or she has no other financial or ownership interest in the property subject to the Mortgage Loan, and (3) he or she has no intention to, and will not, occupy the Residence at any time.

**Section 5.03. Owner-Occupancy Requirements.** Each Mortgage Loan shall be made to a Mortgagor who intends to occupy the Residence, and who has no present intention to, and has not entered into any arrangement to, rent, sell, assign or transfer the Residence. The following shall not be considered to be a principal place of residence and shall not be financed with a Mortgage Loan: a residence more than fifteen percent (15%) of the total area of which is reasonably expected or which is otherwise primarily intended to be used in a trade or business (i.e., qualifying for a deduction for expenses for business use of home under the Code); a residence used as investment property; or a residence used as a recreational home. In addition, the Residence and land appurtenant thereto shall not be in excess of that which reasonably maintains the basic livability of the Residence and shall not provide a source of income to the Mortgagor.

**Section 5.04. Prior Ownership Interest in a Principal Residence.**

(a) Except for Taxable Program Loans, Rehabilitation Loans and Targeted Area Loans, each Mortgagor shall not have had a present ownership interest in a principal residence of such Mortgagor at any time during the three-year period prior to the date on which the Mortgage Loan is executed. For purposes of this Section, a Mortgagor's interest in the Residence with respect to which the Mortgage Loan is being provided shall not be taken into account; provided, that a Mortgagor may not purchase a Residence from the estate of a deceased relative if such Mortgagor is entitled under state law to inherit any interest in such Residence upon final disposition of the estate.

(b) If a Residence (other than a Residence located in a Targeted Area or a Residence originally financed with a Taxable Program Loan) is resold, each Mortgagor who assumes the related Mortgage Loan must not have had a present ownership interest in a principal residence at any time during the three-year period prior to the date on which the Mortgage Loan is assumed if the First Time Homebuyer requirement in paragraph (a) applied as aforesaid to the original Mortgagor of such Residence.

(c) The following are present ownership interests:

(i) a fee simple interest,

(ii) a joint tenancy, tenancy-in-common, tenancy by the entirety, or community property interest,

(iii) the interest of a tenant-shareholder in a cooperative,

(iv) a life estate,

(v) a land contract (i.e., a contract pursuant to which possession and the benefits and burdens of ownership are transferred even though legal title is not transferred until some later time), and

(vi) 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.

(d) The following are not present ownership interests:

(i) a remainder interest,

(ii) a lease with or without an option to purchase,

(iii) a mere expectancy to inherit an interest in a principal residence,

(iv) the interest that a purchaser of a residence acquires on the execution of a purchase contract, and

(v) an interest in other than a principal residence during the prior three (3) years.

**Section 5.05. Acquisition Cost Limitation.**

(a) No Residence shall have an Acquisition Cost that exceeds the Maximum Acquisition Cost nor shall the total principal amount of a Mortgage Loan with respect to a Residence exceed the Maximum Acquisition Cost.

(b) The Acquisition Cost shall include:

(i) all amounts paid, either in cash or in kind, by the Mortgagor (or a related party or for the benefit of the Mortgagor) to the seller (or a related party

or for the benefit of the seller) as consideration for the Residence (including the amount of any lien or assessment to which the Residence is subject);

(ii) if a Residence is incomplete, the reasonable cost of completing the Residence whether or not the cost of completing construction is to be financed with the Mortgage Loan; and

(iii) if the Residence is purchased subject to a ground rent, the capitalized value of the ground rent calculated using a discount rate equal to the Yield on the Bonds as specified in the Commission Notice and assuming semi-annual compounding.

(c) The Acquisition Cost shall not include the following:

(i) the usual and reasonable settlement or financing costs, including title and transfer costs, title insurance, survey fees or other similar costs, credit reference fees, legal fees, appraisal expenses, points which are paid by the Mortgagor (but not the seller, even though borne by the Mortgagor through a higher purchase price) or other costs of financing the Residence, but only in each case to the extent that the amounts do not exceed the usual and reasonable costs which would be paid by the Mortgagor where financing is not provided through the use of tax exempt bonds;

(ii) the value of services performed by the Mortgagor or members of the Mortgagor's family, including only the Mortgagor's brothers and sisters (whether by the whole or half blood), spouse, ancestors and lineal descendants in completing the Residence; and

(iii) the cost of land which has been owned by the Mortgagor for at least two (2) years prior to the date which construction of the Residence begins.

(d) In the case of a Rehabilitation Loan, the Acquisition Cost shall include the cost of the rehabilitation.

**Section 5.06. Residence Requirements.** Each Residence with respect to which a Mortgage Loan is made, shall be a single-family (i.e., one unit) residence located within the Program Area. The Residence, if newly constructed, shall not have been previously occupied except by the Mortgagor on an interim rental basis at rents not to exceed fair rental value as determined by the Lender, pursuant to a temporary rental agreement with the seller until the Closing Date.

**Section 5.07. New Mortgage Requirement.** Except as provided in a Commission Notice, a Mortgagor shall not have had a mortgage (whether or not paid in full) on the Residence at any time prior to the execution of the Mortgage Loan, and the proceeds of the Mortgage Loan shall not be used to purchase or replace an existing mortgage. For purposes of the preceding sentence, the replacement of construction period loans, bridge loans or similar temporary initial financing (i.e., financing which has a term of twenty-four (24) months or less) or, in the case of a Rehabilitation Loan, the replacement of an existing mortgage, shall not be treated as the acquisition or replacement of an existing mortgage.

**Section 5.08. Verification by Lender that Eligibility Requirements are Met.**

(a) Each Lender shall exercise due diligence to establish such procedures as are necessary to reasonably assure the compliance of each Mortgage Loan, the Residence and the Mortgagor with the requirements of this Agreement, the Act and the Indenture. Such procedures shall include, without limitation, reviewing and examining the Mortgage Loan application of each potential Mortgagor, and performing the other verification procedures set forth in this Article, to determine whether such person, the Residence being purchased by such person and financed, and the Mortgage Loan meet the requirements of this Article, the Act and the Indenture. In addition, each Lender shall establish such other procedures and conduct such other investigations as are necessary to reasonably assure the Lender of the accuracy and veracity of the information contained in the Mortgage Loan application of such potential Mortgagor, and to otherwise assure such Lender that said requirements are met, including without limitation, completing the Lender's Certificate and obtaining the following affidavits and certificates, together with any exhibits, attachments or verifications required thereby:

(i) from each Mortgagor, a Mortgagor's Affidavit, the contents of which, together with the consequences of any material misstatement made therein or omission therefrom shall be explained to the Mortgagor by the Lender; and

(ii) from each seller of a Residence, a Seller's Affidavit in the form attached hereto.

The Lender shall compare the affidavits, certificates and other information obtained pursuant to this paragraph (a) and otherwise pursuant to this Section for internal consistency, and shall verify the statements contained in such affidavits, certificates and other information for completeness and accuracy by undertaking the procedures set forth in this Article and any other procedures which said Lender deems necessary or advisable.

(b) Each Lender shall verify, in the manner requested by the Commission, that the Maximum Family Income is not exceeded by examining the income figures set forth in the following documents:

(i) the Mortgagor's Affidavit;

(ii) current wage statements of the Mortgagor and all other persons intending to reside permanently in the Residence; and

(iii) the Mortgagor's most recent tax return, if any, obtained by the Lender pursuant to paragraph (c)(ii) of this Section.

(c) Except with respect to Taxable Program Loans, Targeted Area Loans and Rehabilitation Loans, a Lender shall verify that the Mortgagor has not had an ownership interest in a principal residence during the three-year period prior to execution of the Mortgage as described in **Section 5.04** by:

(i) reviewing the Mortgagor's Affidavit;

(ii) obtaining with respect to each of the three (3) years preceding the execution of the Mortgage Loan either (1) a copy of such Mortgagor's signed federal income tax returns for such years and verifying that the Mortgagor did not claim, with respect to real property which was the Mortgagor's principal residence, a deduction pursuant to Section 164(a)(1) of the Code for taxes or a deduction pursuant to Section 163 of the Code for interest on indebtedness with respect to real property constituting the Mortgagor's principal residence, or (2) an affidavit that the Mortgagor was not required to file such return in accordance with Section 6012 of the Code; provided that for purposes of clause (1), the Lender's investigation with respect to such tax returns shall be deemed to be sufficient if the Commission complies fully with the requirements of Revenue Procedure 82-16 as published in Internal Revenue Bulletin No. 1982-9; and

(iii) if the documentary evidence specified in clause (ii) of this subsection is for any reason inconclusive as to any portion of or all of said three-year period, obtaining other documentary evidence acceptable to the Commission such as letters from prior landlords, letters from others in a position to know of the Mortgagor's accommodations (such as military base commanders) or photographic evidence that the Mortgagor's prior accommodations qualified the Mortgagor as meeting said requirements.

(d) For the purposes of assisting the Commission in filing certain information reports required by the Code, the Lender shall also indicate in the Lender's Certificate whether a Mortgagor obtaining a Targeted Area Loan or a Rehabilitation Loan had a present ownership interest in a principal residence during the three-year period prior to the date upon which the Mortgage Loan is executed. Notwithstanding the reporting requirement of the immediately preceding sentence, Mortgagors obtaining Taxable Program Loans, Targeted Area Loans or Rehabilitation Loans need not satisfy the First Time Homebuyer requirement.

(e) The Lender shall verify that the Acquisition Cost of the Residence does not exceed the limitation specified in **Section 5.05** hereof by computing the Acquisition Cost and comparing said amount with the total on the acquisition cost worksheet employed by the Lender, as verified by reference to the Mortgagor's Affidavit and the Seller's Affidavit.

**Section 5.09. Lender as Agent for the Commission.** The Commission hereby appoints each Lender, and each Lender hereby agrees to act, as the Commission's agent in accordance with the provisions of the Act and, if applicable, Section 143 of the Code for the purposes of reviewing and examining all affidavits, certificates, tax returns and other information submitted pursuant to and in accordance with this Agreement in order to determine compliance of the Mortgage Loan, the Mortgagor and the Residence with all requirements of the Act and, if applicable, Section 143 of the Code, and, as agent of the Commission, each Lender shall take all steps necessary or appropriate to assure that the Mortgage Loans, the Residences financed thereby, and, if applicable, the Mortgagors, meet all the requirements of Section 143(c), (d), (e) and (i) of the Code, before the Mortgage Loans are executed or assumed, and to correct as provided herein any failure to meet such requirements as soon as possible after discovery of such failure. Nothing contained in the foregoing sentence shall limit the Commission's review of all documentation in connection with

the delivery of the Commission Certificate or otherwise limit any rights and obligations of the Commission contained in the Agreement.

**Section 5.10. Rehabilitation Loan Requirements.**

(a) A Rehabilitation Loan shall include any owner-financing provided to a Mortgagor in connection with either (i) a qualified rehabilitation, or (ii) the acquisition of a Residence with respect to which there has been a qualified rehabilitation, but only if the Mortgagor is the first occupant of the Residence after the completion of the rehabilitation.

(b) For purposes of paragraph (a) above, the term "qualified rehabilitation" means any rehabilitation of a building if:

(i) there is a period of at least twenty (20) years between the date on which the building was first used and the date on which the physical work on such rehabilitation begins; and

(ii) in the rehabilitation process, (1) 50% or more of the existing external walls of such building are retained in place as external walls, (2) 75% or more of the existing external walls of such building are retained in place as internal or external walls, and (3) 75% or more of the existing internal structural framework of such building is retained in place;

(iii) the expenditures for such rehabilitation are twenty-five percent (25%) or more of the Mortgagor's adjusted basis in the Residence being rehabilitated (including the land on which the Residence is located); and

(iv) the Mortgagor is the first occupant of the Residence following completion of the rehabilitation.

For purposes of paragraph (iii) above, the Mortgagor's adjusted basis shall be determined as of the completion of the rehabilitation or, if later, the date on which the Mortgagor acquires the Residence.

(End of **Article V**)

**ARTICLE VI**

**ASSIGNMENTS OF MORTGAGE LOANS**

The Lender shall assign the Mortgage Loans it originates hereunder and the servicing in connection therewith to the Master Servicer, which Mortgage Loans shall be included in Mortgage Pools backing Guaranteed Mortgage Securities to be issued by the Master Servicer. At the time of the assignment, the Lender shall be entitled to receive, and the Master Servicer shall pay to the Lender, an amount equal to the Mortgage Loan Purchase Price. Such assignments shall be made within 30 days of the date of origination of a Mortgage Loan and the assigning Lender shall provide to the Master Servicer such warranties with respect to the Mortgage Loans being assigned as the Master Servicer shall reasonably request. The Master Servicer shall not accept any such assignments after the Delivery Period.

(End of **Article VI**)

## **ARTICLE VII**

### **OTHER COVENANTS OF LENDERS**

**Section 7.01. Files.** Each Lender shall keep all Mortgage Loan files and related documents and records held pursuant hereto with the same care exercised by private institutional mortgage investors for their own investments. Each Lender shall bear the entire cost of restoration of any files, documents and records relating to Mortgage Loans damaged or lost from any cause.

**Section 7.02. No Discrimination.** The Lenders will consider all applications for Mortgage Loans in the order in which they are received on a fair and equal basis and will not, other than as specifically required by this Agreement, the PMI Insurer, FHA, USDA-RD or VA, reject an application because of the location and/or age of the property, and, in the case of a proposed Mortgagor, will not vary the terms of a loan or the application procedures therefore, or reject a Mortgage Loan applicant because of the race, color, religion, national origin, age, creed, sex or marital status of such applicant. Except as may otherwise be expressly provided in this Agreement, the Lenders shall not enter into any agreement or arrangement with any person, firm or corporation to prefer any applicant or group of applicants for Mortgage Loans over any other applicant or group of applicants for such Mortgage Loans. In accepting, evaluating and acting upon such applications, the Lenders shall comply, if applicable, 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 Lenders for three (3) years from the date of the application.

**Section 7.03. Equal Opportunity.** The Lenders shall comply with Titles VI and VII of the Civil Rights Act of 1964 and any applicable regulations and orders thereunder and with Executive Order 11063, Equal Opportunity in Housing, issued by the President of the United States. The Lenders shall comply with all applicable federal, State and local non-discrimination laws.

**Section 7.04. Ownership; Confidentiality.** All files and records maintained by a Lender hereunder, whether or not developed or originated by such Lender, shall be the property of the Commission and the Trustee and shall be delivered to the Commission or the Trustee upon the written request of either party. No Lender shall destroy the contents of any such files or records without the prior written consent of either the Commission or the Trustee (unless such is customary for such Lender in its normal servicing activities and such Lender has made other arrangements for the retention of the information contained therein). Each Lender shall protect the confidentiality of all files and records maintained pursuant to this Agreement.

**Section 7.05. Changes in Organization; Bankruptcy; Fraud.** A Lender shall immediately notify the Trustee and the Commission of any contemplated, material change in its organization, including, but not limited to, mergers or consolidations and change of name or corporate charter. A Lender shall immediately notify the Commission and the Trustee of any voluntary or involuntary proceedings which might result in bankruptcy, reorganization, dissolution, liquidation, the appointment of a

trustee or receiver, an assignment for the benefit of creditors, or such Lender having its activities restructured in any manner related to its performance or material obligations hereunder by any government agency. A Lender shall promptly notify the Commission and the Trustee of all cases of embezzlement, fraud and criminal or dishonest acts of any employee, officer or agent, or of the cancellation or non-renewal of fidelity bonding coverage relating to or having an effect upon the Commission's and the Trustee's respective rights with respect to any Mortgage Loan made or serviced hereunder.

**Section 7.06. Certain Covenants.** If any claim, suit, action or proceeding is commenced or brought against the Commission, the Master Servicer, the Trustee or any employees or agents thereof (or in which the Commission, the Trustee or any such employees or agents is named as a party) which is based upon the alleged taking of any action by or on behalf of a Lender, or the alleged failure of a Lender to take any action in connection with the origination or servicing by such Lender of a Mortgage Loan, or the denial of a Mortgage Loan, such Lender agrees to bear the cost of any judgment, loss, damage, cost or expense resulting from such claim, demand, suit, action or proceeding, or incurred in the defense thereof; but only if such action or failure to take action is not required by law or the terms of this Agreement and if the Commission, the Master Servicer or the Trustee shall give adequate written notice to such Lender of the existence of such claim, demand, suit, action or proceeding. A Lender may elect, with the consent of the Commission, the Master Servicer, the Trustee or such employees or agents, as appropriate, to defend and represent the Commission, the Master Servicer, the Trustee or such employees or agents as appropriate, in connection therewith, but in such event such Lender agrees to preserve and protect the interest of the Commission, the Master Servicer or the Trustee and such employees and agents, and hold the Commission, the Master Servicer or the Trustee harmless against any loss, in connection with such claim, demand, suit, action or proceeding.

**Section 7.07. Modification.** No Lender will modify, release, waive, change or amend any term or condition of any document attached as an Exhibit to this Agreement or the Operations Manual without the prior written consent of the Trustee and the Commission.

**Section 7.08. Agreement to Pay Attorneys' Fees and Expenses.** In the event a Lender should fail to perform its obligations under any of the provisions of this Agreement or the Operations Manual and the Commission, the Master Servicer or the Trustee should employ attorneys or incur other expenses for the enforcement of performance or observance of any obligation or agreement on the part of the Lender herein contained, the Lender agrees that to the extent permitted by law it will pay or reimburse the Commission, the Master Servicer or the Trustee on demand the reasonable fee of such attorneys and such other expenses incurred in connection with its failure to perform its obligations hereunder.

**Section 7.09. Indemnification.** The Lender shall protect, indemnify, and hold Master Servicer harmless from and in respect to, any and all losses, liabilities, reasonable costs, and expenses (including attorneys' fees) that may be incurred by Master Servicer with respect to, or proximately resulting from any breach of, any representation, warranty, or covenant of the Lender hereunder. Master Servicer shall be entitled to rely upon the Lender as assembler and preparer of all Mortgage Documents, and is under no duty whatsoever to investigate or confirm any of the

information set forth therein as to its honesty, accuracy, or completeness. Lender hereby agrees to indemnify and hold the Master Servicer harmless from any claim, loss or other damage to the Master Servicer including reasonable attorneys fees resulting in whole or in part from any inaccuracy or incompleteness in the Mortgage Documents or any act or omission by the Lender, its agents and employees, including but not limited to failure to comply with applicable state, federal and local statutes or regulations. To the extent the Lender, its agents or employees, commits an actual wrong, or makes some error or omission in the preparation of any Mortgage Loan or related Mortgage Documents and as a result thereof, and based thereon, the Master Servicer commits an act or omission for which it becomes liable to the Mortgagor(s) or any third party and/or a claim or cause of action is instituted against the Master Servicer, the Lender shall and hereby agrees to indemnify and hold Master Servicer harmless from any such loss or damage, including reasonable attorneys fees, resulting therefrom.

(End of **Article VII**)

**ARTICLE VIII**

**TERMINATION**

**Section 8.01. Causes of Termination of this Agreement Defined.**

Upon the happening of any one or more of the following events, the Commission shall terminate this Agreement with respect to any Lender as provided in **Section 8.02** hereof and shall have the other remedies specified therein:

(a) Failure by the Lender duly to observe or perform in any material respect any other covenant, condition or agreement herein to be observed or performed, for a period of thirty (30) days after written notice, specifying such failure and requesting that it be remedied, given to the Lender by the Commission, unless the Commission shall agree in writing to an extension of such time prior to its expiration; provided, however, if the failure stated in the notice cannot be corrected within the applicable period, the Commission will not unreasonably withhold its consent to an extension of such time if corrective action is instituted by the Lender within the applicable period and diligently pursued until the default is corrected;

(b) The Master Servicer has been required to repurchase a Mortgage Loan as a result of a failure of the assigning Lender to abide by the provisions of this Agreement and the Master Servicer has not timely repurchased said Mortgage Loan upon proper notice hereunder;

(c) A decree or order of a court or agency or supervisory authority having jurisdiction in the premises for the appointment of a conservator or receiver or liquidator in any insolvency, readjustment of debt, marshalling of assets and liabilities or similar proceedings, or for the winding up or liquidation of its affairs, shall have been entered against the Lender and such decree or order shall have remedies in force undischarged or unstayed for a period of sixty (60) days;

(d) The Lender shall consent to the appointment of a conservator or receiver or liquidator in any insolvency, readjustment of debt, marshalling of assets and liabilities or similar proceedings of or relating to the Lender or of or relating to all or substantially all of its property;

(e) The Lender shall admit in writing its inability to pay its debts generally as they become due, file a petition to take advantage of any applicable insolvency or reorganization statute, make an assignment for the benefit of its creditors, or voluntarily suspend payment of its obligations;

(f) The Commission and the Trustee shall discover or be notified that any representation of or warranty by the Lender to the Commission or the Trustee is false in any material respect; and/or

(g) There occurs prior to purchase of any Mortgage Loan a change in status of the Lender originating such Mortgage Loan with respect to the Lender's approval as either an FHA, VA, USDA-RD, GNMA, FHLMC or Fannie Mae approved mortgagee.

**Section 8.02. Remedies.**

(a) Whenever any cause referred to in **Section 8.01** hereof shall have happened and be continuing, the Commission may take whatever action at law or in equity may appear necessary or desirable to collect the amounts then due and thereafter to become due hereunder or other damages, or to enforce performance and observance of any obligation, agreement or covenant of the Lender hereunder.

(b) Any amounts collected pursuant to action taken under this Section shall be applied in accordance with the provisions of the Indenture.

**Section 8.03. Appointment of Successor.** At the time a Lender receives a notice of termination, the Commission shall transfer such function to another home mortgage lending institution acceptable to the Commission.

**Section 8.04. No Remedy Exclusive.** Unless otherwise expressly provided, no remedy herein conferred upon or reserved is intended to be exclusive of any other available remedy, but each remedy shall be cumulative and shall be in addition to other remedies given hereunder or existing at law or in equity. No delay or omission to exercise any right or power accruing hereunder upon the happening of any event set forth in **Section 8.02** hereof shall impair any such right or power or shall be construed to be a waiver thereof, but any such right or power may be exercised from time to time and as often as may be deemed expedient.

**Section 8.05. Agreement to Pay Attorney's Fees and Expenses.** In the event the Lender should fail to perform its obligations under any of the provisions hereof and the Commission should employ attorneys or incur other expenses for the enforcement of performance or observance of any obligation or agreement on the part of the lender herein contained, the Lender agrees that to the extent permitted by law it will pay or reimburse the Commission on demand the reasonable fee of attorneys and such other incurred expenses.

(End of **Article VIII**)

## **ARTICLE IX**

### **MISCELLANEOUS PROVISIONS**

**Section 9.01. Amendments, Changes and Modifications.** This Agreement may not be effectively amended, changed, modified, altered or terminated without the written approval of the Commission and the Lenders affected thereby and receipt by the Commission of an opinion of nationally recognized bond counsel that such amendments, changes or modifications will not cause the interest on the Bonds to be included in federal gross income; provided, that the consent of the Lenders shall not be required to any amendment hereof required to satisfy the requirements of the Code.

**Section 9.02. Changes in Applicable Laws.** In the event the Act or the Code is amended so as, in the opinion of nationally recognized bond counsel, to reduce or eliminate any restriction therein applicable to the use of the proceeds of the Bonds, the Commission may, at its option, similarly reduce or eliminate the comparable restriction contained herein so as to conform to such amendment by giving notice thereof to the Lenders and to the other parties hereto.

**Section 9.03. Limitation on Rights of Bondholders.** No Bondholder shall have any right to institute a suit with respect to this Agreement except as otherwise provided in the Indenture and only if for the equal benefit of all Bondholders. This Section may be enforced by the Trustee or any Bondholder.

**Section 9.04. Governing Law.** This Agreement shall be construed in accordance with the laws of the State and the obligations, rights and remedies of the parties hereunder shall be determined in accordance with their own account.

**Section 9.05. Counterparts.** This Agreement may be simultaneously executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

**Section 9.06. Notices.** All notices, certificates, or other communications hereunder shall be sufficiently given and shall be deemed given when delivered or mailed by registered mail, postage prepaid, or overnight delivery service, addressed to the appropriate Notice Address. A duplicate copy of each notice, certificate or other communication given hereunder to the Commission, a Lender and the Trustee shall also be given to the others but only to the extent such others are directly affected by such notice. Any of the parties may, by notice given hereunder, designate any further or different addresses to which subsequent notices, certificates or other communications shall be sent.

**Section 9.07. Severability.** In the event any provision of this Agreement shall be held illegal or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

**Section 9.08. Further Assurances and Corporate Instruments.** To the extent permitted by law, the Commission and the Lenders, severally and not jointly, agree that they 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 be reasonably required for carrying out the intention of or facilitating the performance of this Agreement.

**Section 9.09. Litigation Regarding Acceleration Clauses.** In the event that the exercise of any acceleration clause contained in any rider set forth in **Exhibit B** hereto gives rise to litigation challenging the constitutionality or legality of such clause generally (as opposed, for example, to the manner in which it was exercised or the application thereof to a particular set of circumstances) the Lenders need not be responsible for pursuing or defending such litigation unless the Commission agrees to pay such reasonable costs and attorneys fees as may be incurred by the Lender in pursuing or defending such acceleration clause.

**Section 9.10. Term of Agreement.** This Agreement shall be in full force and effect from the date of the execution hereof and shall continue in effect so long as any Bonds are Outstanding or the Commission shall own any Guaranteed Mortgage Securities backed by Mortgage Loans whichever is later.

**Section 9.11. Limitation on Trustee's Liability.** Nothing in this Agreement shall be construed to impose any duties upon the Trustee beyond those set forth in the Indenture. All immunities, exemptions, indemnifications and other provisions of the Indenture insofar as they relate to the Trustee shall apply to this Agreement.

**Section 9.12. Pledge or Assignment.** The Commission may, at any time, assign or pledge for the benefit and security of the registered owners of the Bonds, any or all of its rights, title and interest in and under this Agreement (including all agreements entered into hereunder). The Lenders hereby consent to such assignment and pledge. The Lenders may not assign or transfer any of their rights or interests pursuant to this Agreement, except as expressly provided in **Section 6.05** hereof.

**Section 9.13. Waiver.** No failure on the part of any party hereto to enforce any covenant or provision herein contained, or any waiver of any right hereunder, shall discharge or invalidate such covenant or provision or affect the right of such party to enforce the same in the event of any subsequent breach or default; failure to demand strict performance of any covenant or condition of this Agreement shall not be deemed a waiver of such covenant or condition.

**Section 9.14. Indemnity.** Each Lender shall indemnify the Commission, the Master Servicer and the Trustee and hold them harmless of and from any and all loss, penalty, fine, forfeiture, reasonable attorneys fees, damage or expense that any of them may sustain or incur as a result of any failure on the part of such Lender to perform its services, duties and obligations under the terms and provisions of this Agreement.

**Section 9.15. Time of Essence.** Time is of the essence of this Agreement.

**Section 9.16. Limitation on Liability of the Parties.** No director, supervisor, commissioner, officer, employee or agent of the Commission, the Master Servicer, the Trustee or the Lenders shall be under a liability to the Commission, the Trustee, any Lender or the registered owners of the Bonds for any action taken or for refraining from the taking of an action in good faith pursuant to this Agreement, or for such errors in

judgment as a reasonably prudent business person would make. Each party to this Agreement shall be liable hereunder only to the extent that obligations are explicitly imposed upon and undertaken by the party against whom enforcement is sought. The Commission shall not be held liable for any expenses incurred by any party hereto due to the approval or recommendation of any action or expenditure, payment for which is due from the Trustee or from funds over which the Commission has no control.

**Section 9.17. No Liability for Removal of a Lender.** Notwithstanding any provision in this Agreement to the contrary, neither the Commission, the Master Servicer, nor the Trustee shall be liable in any respect for the removal of a Lender or owe any duty to any such Lender if terminated.

**Section 9.18. No Remedy Exclusive.** Unless otherwise expressly provided, no remedy herein conferred or reserved is intended to be exclusive of any other available remedy, but each remedy shall be cumulative and shall be in addition to other remedies given under this Agreement or existing at law or in equity. No delay or omission to exercise any right or power accruing under this Agreement shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient.

In order to entitle the Commission to exercise any remedy reserved to it in this Article, it shall not be necessary to give any notice, other than such notice as may be required by this Article.

(End of **Article IX**)

IN WITNESS WHEREOF, the Commission has caused this Agreement to be signed by its authorized official, officer or representative, all as of September 1, 2009.

MISSOURI HOUSING DEVELOPMENT  
COMMISSION, as Commission

By: \_\_\_\_\_  
Margaret Lineberry, Executive Director

(SEAL)

**ACCEPTANCE OF AGREEMENT**

This Lender Origination Agreement, including the Operations Manual is hereby accepted and agreed to by the undersigned institution, as a Lender, as indicated below:

\_\_\_\_\_, 20\_\_.

LENDER:

Name and Address of Institution:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

By: \_\_\_\_\_

Title: \_\_\_\_\_

ATTEST:

\_\_\_\_\_

Title: \_\_\_\_\_

Lender Acceptance of Agreement  
Lender Origination Agreement  
Missouri Housing Development Commission  
(Single Family Homeownership Programs)

