LENDERS' MANUAL FOR

THE MARYLAND MORTGAGE PROGRAM,

THE MARYLAND HOMECREDIT PROGRAM AND

THE DOWNPAYMENT AND CLOSING COST ASSISTANCE PROGRAM

Updated on July 18, 2019

(The information in this document is current at the time of publication. Please check with all the third parties involved in your transaction for any updates at the time you are reserving an MMP loan to ensure the loan fully complies with all the applicable requirements.)

Table of Contents

PURPOSE

The main objective of the Maryland Mortgage Program (the Program) is to provide homeownership opportunities to eligible homebuyers in the State of Maryland. This objective is accomplished through the issuance of Single Family Program bonds and notes and/or by purchasing securities backed by complying mortgage loans that are originated through a network of approved lenders. The Program provides financing for single family residences located within the State, occupied principally by first-time homebuyers who meet income limits established by the Community Development Administration and satisfy certain other criteria. The houses acquired through the Program must be occupied as the homebuyers' principal residence.

This program is offered pursuant to Title 2, Subtitle 4 of the Housing and Community Development Article of the Maryland Annotated Code ("the Act"). It is further governed by Program regulations contained in COMAR 05.03.02, as amended. All loans will be made in conformance with the Act, Program regulations, applicable federal tax law, and Community Development Administration (CDA) bond documents.

This manual is also an Exhibit of the Mortgage Origination Agreement executed by CDA and each lender partner. In that document, the lender agrees to comply with the requirements set forth in this manual. CDA must rely upon all participating lenders to comply with the requirements when making mortgage loans to be purchased by U.S. Bank Home Mortgage, the Master Servicer.

The manual is not a checklist of all the requirements for an MMP loan and it has to be used in conjunction with the fact sheets specific for each product, MMP directives and notifications and the guidelines and overlays issued by all the third parties involved in the respective transaction.

Mortgage loans that do not comply with these requirements may not be purchased by the Master Servicer. Originating lenders will be responsible for loans that don't meet the requirements of CDA, insurers, Master Servicer, and/or investors, IRS etc.

MARYLAND MORTGAGE PROGRAM WEBSITE

The Maryland Mortgage website offers information and resources for potential borrowers and real estate professionals. Homebuyers can be referred to a top producing loan officer, find homebuyer education providers and find information about available products. Lenders and realtors can access additional information on the below website.

http://mmp.maryland.gov

PROFESSIONAL PORTAL
(which is currently under review to be changed into a more accessible section of the MMP website)

The Professional Portal section provides the documents, links and data that lenders need to work with homebuyers to apply for a Maryland Mortgage program loan, as well as training materials, compliance manuals and fact sheets to help lenders understand the details of the program. Some documents can only be accessed through Lender Online after loan approval.

http://mmp.maryland.gov/Lenders/Pages/default.aspx

MASTER SERVICER – U.S. BANK

The Master Servicer for the Maryland Mortgage program is U.S. Bank Home Mortgage ("U.S. Bank"). U.S. Bank is responsible for ensuring that the loan application adheres to industry-acceptable underwriting standards and for funding the loans. U.S. Bank's website provides manuals, checklists, bulletins, documentation and other information.

http://mrbp.usbank.com

It is each lender's responsibility to ensure the loans reserved with MMP and submitted to U.S. Bank for purchase meet U.S. Bank's guidelines for each and every loan. MMP has only the responsibility of its own guidelines/requirements and it cannot be held responsible if an MMP loan is not meeting any of the third party's requirements that may affect the loan.

APPROVAL OF PARTICIPATING LENDERS

All lenders must be approved by U.S. Bank. Interested lenders should contact U.S. Bank's Lender Help Desk by phone at 800-562-5165.

In addition to U.S. Bank approval, the lender must be approved by CDA. This includes providing CDA with a contact list, Maryland origination branch list, Opinion of Counsel, Resolutions, and executed Mortgage Origination Agreement (the Agreement), which form the contractual relationship governing participation in the Program by the lender and CDA. After a lender has provided the necessary documentation, it is required to have its staff participate in Maryland Mortgage Program training before it is approved to reserve loans under the program. Requirements, forms, and templates for becoming an approved Program lender are located in Lender Resources here:

http://mmp.maryland.gov/Lenders/Pages/Application.aspx.

By signing the Mortgage Origination Agreement, the Lender agrees to process loans in compliance with the Lender's Manual and fact sheets, U.S. Bank's Closing & Delivery Guidelines, and to use the Program documents as specified.

Upon approval, the lender's designated "Administrative Contact" will be issued a user name and password that will permit access to the Lender Online system. The Administrative Contact is responsible for setting up user accounts and managing passwords for the lender's staff.

Lenders with questions concerning this process can e-mail SingleFamilyHousing.dhcd@maryland.gov or cecilia.weller@maryland.gov.

INTEREST RATES

Interest rates are set when the funds are reserved in the Lender Online system.

LENDERS ARE RESPONSIBLE FOR OBTAINING A RESERVATION NUMBER AND THE ASSIGNED INTEREST RATE BEFORE COMMITTING TO A BORROWER.

Interest rates are subject to change daily or more frequently. Current interest rates may be obtained here:

https://mmp.maryland.gov/Lenders/Pages/Interest-Rates.aspx

Please use the SUBSCRIBE button in the middle of the page to sign up to receive the Program's interest rate notifications.

RECAPTURE TAX REIMBURSEMENT

Federal law provides for a possible Recapture Tax when some homeowners sell their home within the first nine years after receiving a mortgage through the CDA Maryland Mortgage Program. In order to alleviate confusion and concern about having to pay a recapture tax when the home is sold, CDA agrees to reimburse any CDA Borrower(s) (which includes any co-borrower) the amount of any recapture tax that the Borrower(s) pays in connection with the sale of the home.

CDA will not calculate the recapture amount. Upon sale or disposition of the residence, the Borrower(s) must consult a personal tax adviser or the IRS.

In order to request a recapture tax reimbursement from CDA, the Borrower(s) first must request the IRS to send CDA a copy of each Borrower(s)'s federal tax return covering the calendar year in which the residence was sold. This is done by using Form 4506T; the IRS should send the information to:

Maryland DHCD
Attn: CDA Single Family - Recapture Tax Reimbursement
7800 Harkins RD, 3rd Floor
Lanham, MD 20706

The Borrower(s) must send a written request for reimbursement to CDA at the address above by July 15th of the calendar year after the residence is sold, accompanied by the following:

a. a copy of the signed final Closing Disclosure from the sale or disposition of the property;
b. the address to which the reimbursement should be mailed;

c. any additional documentation CDA may request to approve the reimbursement.

CDA will not act on the request for reimbursement until the copies of the Borrower(s) tax returns are received from the IRS. CDA will only reimburse the Recapture Amount actually paid, and will not reimburse fees, interest, expenses or penalties incurred.

Be advised that CDA will issue an IRS Form 1099, so the amount of any recapture tax that CDA reimburses to the Borrower(s) will be reported to the IRS as income.

RESOURCES - WEBSITES

Lender Online (LOL)	https://lol.dhcd.state.md.us/Bin/Display.exe/ShowSection
Loan Status on LOL log in and click on "Loan Status"	https://lol.dhcd.state.md.us/Bin/Display.exe/ShowSection
Maryland Mortgage Program	http://mmp.maryland.gov
Interest Rates	http://mmp.maryland.gov/Lenders/Pages/Interest-Rates.aspx
Loan Documents	http://mmp.maryland.gov/Lenders/Pages/LoanDocumentation.aspx
Directives	http://mmp.maryland.gov/Lenders/Pages/Directives.aspx
The Mapper	http://www.dhcd.state.md.us/GIS/MMP/index.html
US BANK	http://www.mrbp.usbank.com

SECTION 1 - LOAN APPLICATION AND RESERVATION PROCEDURES

1.1 *APPLICATION REQUIREMENTS*

A. Application Documents

In addition to presenting information concerning income, assets, debts, etc., at the time of application, Borrower(s) must:

1. Present an eligible, Ratified Contract of Sale; ***if the property is involved in a short sale transaction, lender approval of the transaction is required to meet the fully ratified sales contract requirement*** (see section on "Ineligible Use of Loan Proceeds" for further

information on contracts of sale);

2. Complete initial Buyer's Affidavit;

3. Complete a Uniform Residential Loan Application (Freddie Mac Form 65/ Fannie Mae Form 1003);

4. Provide documentation of meeting ownership status as identified in Section 2.3 below, "FIRST-TIME HOMEBUYER" AND "PRESENT HOMEOWNERSHIP INTEREST." Reminder: Borrower(s) may not own any other real property at time of closing.

B. Preliminary Interview

Prior to requesting a reservation of funds through Lender Online (LOL), the lender must interview borrower to determine eligibility for the program. The lender must also pre-qualify mortgage insurance company).

C. Limitation on Points, Fees and Charges

1. Lender may not charge any fees at time of application other than the amounts needed for a credit report, appraisal, flood certification, and home inspection. See DIRECTIVE 2016-15 for detailed direction if the lender is opting to combine fees into an Origination Fee or Origination Charge.

2. The Lender may **NOT** charge points, unless the transaction is an MCC-ONLY. (See Section 8.3)

1.2 ***LOAN RESERVATION***

Lenders must submit reservations for Program funds through LOL. A fully ratified sales contract is required prior to submitting the reservation request. If the property is involved in a short sale transaction, lender approval of the transaction is required to meet the fully ratified sales contract requirement. Instructions for reserving funds are provided in the training materials.

Your complete and eligible request will be processed by LOL and assigned a reservation number.

A sample reservation number would be: 123-456-007890. The first three digits designates the Bond Series and indicates that funds been reserved under that series. The next three digits of the reservation number are the Lender Number and then the next six digits of the reservation number are the sequential loan number. The issuance of a loan reservation number constitutes an obligation of U.S. Bank to purchase an eligible loan, as reserved, as long as applicable deadlines are met.

1.3 ***DEADLINES***

Recommended Timeframe for Submitting Pre-Closing Compliance File

When Pre-Closing Compliance Submissions are received, they are reviewed on a first-received, first-reviewed basis. Any conditions/exceptions will be listed in LOL. When new supporting documentation is provided, it will be reviewed and any additional conditions listed. Turnaround time is generally within 48 business hours.

To ensure sufficient time for compliance approval and maximum compensation to the Lender, the Pre-Closing Compliance Submission should be submitted to CDA/CDA within 30 days of the reservation date for all loans.

1.4 ***RESERVATION PIPELINE REPORT***

The Lender can access information on LOL about its loan pipeline. **It is each Lender's responsibility to reconcile its loan pipeline and cancel its inactive loans using the Attachment R.**

1.5 ***RESERVATION RESTRICTIONS***

A. Changes

1. Once a loan has been reserved, major changes are prohibited except in unusual circumstances approved by CDA, in its sole discretion. Examples of prohibited changes include, but are not limited to:

a. Substitution or deletion of a household member from the Buyer's Affidavit, when inclusion of that household member's income would have resulted in the household income exceeding the Program's income limit for that jurisdiction.

b. Substitution of another property, except as a result of an unsatisfactory home inspection or failure of the seller to proceed with the sale.

Lenders should be careful when pre-qualifying a Borrower so as to provide accurate income and loan amount information on LOL. Any requests for change in interest rate or loan amount are subject to the availability of funds.

2. To request a change to a reserved loan, complete the Request for Change to Reservation of Funds form (Attachment R) and submit it with all necessary documentation to CDA via the Attachment R mailbox. The request will be reviewed and a response returned to the Lender by e-mail. If the documentation exceeds 10 pages, it should be submitted via Lender Online and a note should be made on the Attachment R.

B. Duplicate Reservations

1. Different Interest Rates. LOL will accept the first reservation received for the Borrower(s). Subsequent attempts to input another reservation for the same Borrower will not be accepted.

2. Different Lenders. If a Borrower has applied at two different Lenders, LOL will only accept the first reserved loan. It will be left up to the Lenders to determine who should proceed with the application (see D. Assignments below).

C. Cancellation of Funds

1. If a Borrower wishes to withdraw their application from the Program after funds have been reserved, they should be informed that they would be prohibited from obtaining another reservation of funds for 6 months after the date they initially reserved the funds. The Lender requests the cancellation of a reservation by completing a Request for Change to Reservation of Funds form (Attachment R) within **five business** days after the Borrower's withdrawal from the Program.

2. Property inspection problems or refusal by the Seller to make necessary repairs or complete the sale should be handled as a substitution of property**.** Upon receipt of a Request for Change to Reservation of Funds form (Attachment R) with "Substitute New Property" selected, along with a release from the original contract of sale and the reason for the release, the lender either requests that the original reservation be:

a. ***deleted*** and the lender then reserves a loan on the new property (compensation to lender based on the **new** reservation date); or

b. ***retained*** and the lender provides corrected information on the new property (address, purchase price, loan amount, etc.) under "Other" (compensation to lender based on the **original** reservation date).

2. If a Borrower's loan request is declined due to eligibility or credit/affordability issues, the **reservation should not be canceled until all reconsideration processes have been completed. Within five business days** after the final denial, the Lender must request

the cancellation of the reservation using the Request for Change to Reservation of Funds form (Attachment R).

D. Assignments

Lenders may assign open (not canceled) reservations to other participating lenders. The new lender would complete a Request for Change to Reservation of Funds form (Attachment R) and submit it to CDA with a copy of the assignment letter from the first lender. The original reservation for the loan will be deleted by CDA and the new lender will then be instructed to **reserve the loan as a new loan at the currentinterest rate**.

SECTION 2 - COMPLIANCE REQUIREMENTS

2.1 *GENERAL BORROWER ELIGIBILITY*

A. Applications will be accepted with no discrimination as to race, color, religion, creed, national origin, sex, marital status, physical or mental disability or sexual orientation. Citizenship of the United States is not required; however, Borrower must have a social security number and be eligible to work in the United States.

B. Each single borrower and at least one person of a married couple must be eighteen years of age or older.

C. If married, both spouses are not required to apply, but documentation may be required of a non-borrowing spouse.

NOTE: The lender may not require the signature of a Borrower's spouse or other person (other than a joint borrower) on any credit instrument if the borrower qualifies under the lender's standards of creditworthiness for the amount and terms of the mortgage.

D. If a non-borrowing occupant takes title to the property and appears on the Deed and Deed of Trust, the following must occur:

1. The borrower and non-borrowing occupant must execute the Buyer's Affidavit and Buyer's Confirming Affidavit;
2. If the property is located in a non-targeted area, borrower and non-borrowing occupant must meet the "first-time homebuyer" definition or qualify for an exception (see Section 2.3 below).
3. The CDA Tax-Exempt Financing Rider must be executed by the borrower and non-borrowing occupant; and
4. The title policy must show the title vested in both occupants without exception for the rights of the non-borrowing occupant.

E. If separated, a Separation Affidavit (Attachment A) must be completed by the borrower.

F. Borrowers must be named on all the closing documents.

2.2 ***TAKING TITLE***

A. TENANTS IN COMMON is not allowed.

B. **Single Person** – SOLE OWNER (can be listed just as the Borrower's name – does not have to reflect as "sole owner")

C. **Husband and Wife** – TENANTS BY THE ENTIRETY and can be stated in the following ways:
John Doe, sole owner (if taking title alone)
John Doe and Mary Doe, his wife
John Doe and Mary Doe, husband and wife
John Doe and Mary Doe, tenants by the entirety
John Doe and Mary Doe, married

D. Borrowers must meet the applicable underwriting standards of insurer/guarantor.

E. Co-signers are not permitted

F. Borrowers must intend to occupy the property as their principal residence within 60 days of the closing of the mortgage loan.

2.3 ***"FIRST-TIME HOMEBUYER" AND "PRESENT OWNERSHIP INTEREST"***

Federal law defines a "first-time homebuyer" as someone who has not had a "present ownership interest" in a principal residence anywhere in the world at any time during the three years immediately preceding the date of the mortgage application. The requirement is waived if: 1) one of the borrowers is a veteran 2) provides lender with a copy of their DD-214 (this exemption may only be used once). Borrowers purchasing in targeted areas do not have to be first-time homebuyers. 3) Borrowers using the Grant Assist products or the Maryland Preferred Rate without a mortgage credit certificate.

CDA requires that the borrowers sell or transfer their interest in any real property they own prior to the settlement on the Program loan, regardless of whether the property is their principal residence. If an existing residence is deeded in the name of the spouse/non-borrower only, it must still be sold or transferred prior to Program approval. CDA has to meet its obligation under federal tax law which requires the new home to be the principal residence of the Borrower. If the husband and wife own separate homes, it cannot be assumed that the new home will be the Borrower's principal residence.

Individuals who are separated or divorced and had an interest in real property during the last three years may be eligible for the Program if they can document that they did not live in the property during the last three years. In addition, they must no longer have title to the property or divest themselves of title to the property before the closing of the Program loan.

A. Ownership of a co-op unit occupied as a Borrower's principal residence will disqualify the Borrower.

B. Exclusions

1) A "present ownership interest" in a principal residence excludes:

a. An ordinary lease, with or without a purchase option;

b. The interest of a buyer under a standard residential purchase contract;

c. An expectancy to inherit property; or

d. A remainder or reverted interest.

2) A mobile home occupied as a Borrower's principal residence may not disqualify the borrower unless the mobile home is/was permanently attached to real property owned by the Borrower.

2.4 ***PROHIBITED OWNERSHIP INTERESTS IN CERTAIN PROPERTY***

State regulation requires that, at the time of closing on the Program loan, Borrowers may not have any ownership interests in certain types of property, anywhere in the world.

A. Property prohibited from ownership at the time of loan closing includes:

1. Any mobile home on a permanent foundation;
2. Raw land;
3. A building lot (except for the lot on which the house being financed has been built);
4. Any principal residence;
5. A vacation home;
6. A rental property;
7. An inherited property;
8. Commercial property;
9. Any jointly held property;
10. A cooperative; and
11. Any other real property.

2.5 ***TARGETED AREAS, PRIORITY FUNDING AREAS, SUSTAINABLE COMMUNITIES***

A. **Targeted Areas** are established by the U.S. Census Bureau, and are geographic zones inside of which there are fewer restrictions for homebuyers using the Program.

Maryland's Counties fall into three categories when it comes to Targeted Areas.

1. Fully Targeted – All properties in these counties are in a Targeted Area.
2. Partially Targeted – Some properties are in a Targeted Area
3. Non-Targeted Counties – No properties are in a Targeted Area.

B. **Priority Funding Areas** are located in existing communities or locally-designated growth areas where State and local governments already have a significant financial investment in the existing infrastructure and want to concentrate their efforts to conserve natural resources and farmland while encouraging and supporting sensible economic and residential growth. These include:

1. Every Maryland municipality, as they existed in 1997.
2. Areas in Maryland that are inside the Washington Beltway and the Baltimore Beltway.
3. Areas that have been designated as enterprise zones, neighborhood revitalization areas, heritage areas and existing industrial land.

C. **Sustainable Communities** are regions across the state where governments, business and communities coordinate investments to achieve sustainable growth, good jobs and thriving neighborhoods. Additionally, many Sustainable Communities are historically or culturally significant, with a local or national historic district designation.

In Sustainable Communities, local governments work with the State to build on assets and create opportunities where public and private investments and partnerships can achieve:

1. A healthy local economy;
2. Protection and appreciation of historical and cultural resources;
3. A mix of land uses;
4. Affordable and sustainable housing, and employment options.

To determine if a property is located within one of the geographic areas noted above, utilize the Program Mapper tool: http://www.dhcd.state.md.us/GIS/MMP/index.html

D. Ownership of a co-op unit occupied as a Borrower's principal residence will disqualify the Borrower.

E. Exclusions

1. "Present ownership interest" in a principal residence excludes:

a. An ordinary lease, with or without a purchase option;

b. The interest of a buyer under a standard residential purchase contract;

c. An expectancy to inherit property; or

d. A remainder or reverted interest.

2. A mobile home occupied as a Borrower's principal residence may not disqualify the borrower unless the mobile home is/was permanently attached to real property owned by the Borrower.

2.6 ***PROHIBITED OWNERSHIP INTERESTS IN CERTAIN PROPERTY***

State regulation requires that, at the time of closing on the Program loan, Borrowers may not have any ownership interests in certain types of property, anywhere in the world.

A. Property prohibited from ownership at the time of loan closing includes:

1. Any mobile home on a permanent foundation;

2. Raw land;

3. A building lot (except for the lot on which the house being financed has been built);

4. Any principal residence;

5. A vacation home;

6. A rental property;

7. An inherited property;

8. Commercial property;

9. Any jointly held property;

10. A cooperative; and

11. Any other real property.

B. Property which may be owned at the time of loan closing includes:

1. A cemetery plot;

2. A recreational vehicle lot; or

3. A 1/20th (2.6 weeks) or less interest in a time-sharing unit.

C. In order to be eligible for a mortgage loan under the Program, any Borrower who has an ownership interest in any type of property listed in paragraph A must either:

1. Provide a contract of sale for the property at the time of application and submit documentation, i.e., settlement sheet, title for mobile home, verifying the sale of the property prior to closing of the Program loan; or

2. Provide a copy of a deed showing that the Borrower has divested ownership in the property.

2.7 ***PURCHASING IN A "NON-TARGETED AREA"***

A. If property is located in a non-targeted area, the following must be submitted:

1. Federal income tax returns for the preceding three years substantiating borrower's status as a "first-time homebuyer"; or
2. A tri-merge credit report that reflects a three-year rental history or is accompanied by a three-year verification of rent; or
3. A copy of the DD-214 if Borrower is a veteran using the exemption for the first time.

B. Up until the current year's filing deadline, the borrower must submit signed tax returns with all schedules for the two years prior to last year plus an executed Affidavit in Lieu of Current Year's Tax Returns (Attachment J) for the current year's tax return which has not yet been filed. If the current year's tax return has been filed, it should be submitted. For example, if the borrower applies on January 30th and last year's tax return was not filed, he would provide tax returns for the two years prior to last year, as well as an executed Affidavit in Lieu of Current Year's Tax Returns (Attachment J) for last year.

C. After the current year's filing deadline, the Borrower must submit signed tax returns for last year plus the two years prior to last year. For example, if during the current year, the Borrower applies after the IRS filing deadline, he would provide tax returns for last year plus the two years prior to last year.

D. All tax returns must be signed by the Borrower, including electronic returns and computerized summaries from the IRS. In addition, the top portion of the return (name, address and social security number) must be completed.

E. Most types of returns filed with the IRS, including electronic returns, are acceptable; however, the return must:

1. Be the type of return (e.g. the 1040EZ or 1040A) which does not allow for the deduction of mortgage interest or real estate taxes; OR

2. Be a return which includes information which would enable CDA to determine that the borrower claimed the standard deduction (e.g. 1040 showing a standard deduction).

If the information on the return indicates that the borrower did not claim a standard deduction, then a full copy of the return with all schedules must be provided.

3. If the tax returns have been reconstructed, a notarized affidavit from the borrower must be provided stating that the returns are a true and correct reconstruction.

NOTE: Electronic Filing Summary, IRS Form 8453 is not acceptable because it does not provide the necessary information.

F. IRS Form 4506T, Request for Transcript of Tax Return (Attachment B), can be used to request a transcript of the Borrower's tax return(s). Make sure that all schedules are included and the borrower signs and dates the transcript.

G. If the borrower was not required to file a tax return, he must provide an executed Affidavit Regarding Not Being Required to File Tax Return(s) (Attachment S) stating that he was not required to file and the reason why he was not required to file. Documentation to support the reason for not filing may be required.

H. If a non-borrowing occupant is taking title to property in a non-targeted area, federal income tax returns for the preceding three years must also be provided unless tri-merge credit report and Verification of Rent are provided and they reflect a 3-year history.

2.8 ***ELIGIBILITY INCOME***

A. Total Projected ANNUAL Household Income may not exceed applicable Income Limit.

Total projected ANNUAL gross income from all household members occupying the property being purchased, except for dependents less than 18 years old, may not exceed the applicable income limit for the Program. Income Limits may be found at

http://mmp.maryland.gov/Lenders/Pages/Income-and-Purchase-Limits.aspx

Income for household members who are 18 years old or older and enrolled full-time in high school or college should not be included in the total projected annual household income unless that individual is a borrower on the loan. An unborn child can be treated as an "individual" (household member) when the birth of the child will change the household size and result in an increase in the applicable Income Limit. A Certification of Pregnancy (Attachment T) must be completed and executed by the pregnant Borrower's physician.

B. Projecting Eligibility Income at Time of Reservation

As of the date of **reservation in Lender Online**, the lender is to project the eligibility income for the year following the date of the loan closing for all household members, using the Income Eligibility Worksheet and Lender Certification (Attachment D) and information on income calculation in this Manual, as well as standard industry underwriting standards established by FNMA, Freddie Mac or FHA. This information should then be provided to the Borrower to complete the Buyer's Affidavit.

C. Verification of Income

The lender will verify all sources of income (including part-time jobs, overtime, bonuses and commissions) for each household member who is 18 years old or older (except the income of full-time high school or undergraduate students unless that individual is a borrower on the loan) and then project the anticipated household income for a period of 12 months from the date of the loan closing. The lender will then prepare a final Income Eligibility Worksheet and Lender Certification (Attachment D) with the verified information and submit it in the Pre-Closing Compliance Submission.

If a household member 18 years or older has no income, then provide a notarized statement executed by the individual stating this.

Provide documentation to substantiate receipt of child support and/or alimony income by any household member.

Income may be documented by a standard written Verification of Employment (VOE) or by Alternative Documentation (e.g. verbal VOE, one month’s paystubs and previous two years’ W- 2s).

D. Calculating Income

Income from all applicable household members must be included in the eligibility income calculation. Any household member who is 18 years of age or older, and not a full-time high school or undergraduate student (unless a borrower), must provide documentation supporting their income. This documentation may include Verification of Earnings (VOEs), “Work Number” verifications with detailed income information for the last three years plus one paystub or alternative documentation that includes: paystub(s) covering the most recent thirty-day period, the previous year’s W-2 forms, and a verbal VOE (“Work Number” verification without detailed income information may be substituted for the verbal VOE).

NOTE: Lender should exclude income from sources listed under the "Exclusions From Income" section.

1. Calculating a Base Income

Take the base income from the most recent paystub or the VOE and annualize it. For example, if the borrower is paid a base income of $1,150 biweekly, the biweekly amount should be multiplied by 26 to determine the borrower’s annual base income of $29,900.

NOTE: If there is a significant discrepancy in the base income calculated above and the year-to-date base income, a written explanation must be obtained from the employer in order to make an appropriate calculation.

The base income amount must be placed on the "Wages, Salaries, etc." line on the <u>Income Eligibility Worksheet and Lender Certification</u> (Attachment D).

2. <u>Documented future pay raises</u>

Because of their arbitrary nature, it is not necessary to include future pay raises in the calculation of the eligibility income.

3. <u>Non-traditional</u>

If a borrower is a teacher, it must be determined whether the borrower is paid over nine, ten or twelve months. For example, if the borrower is paid over nine months and the income is $2,000 per month, multiply the monthly amount by nine to determine the annual income of the borrower.

4. <u>Income of union workers (where the borrower had numerous jobs)</u>

The income from all of the borrower's employers for the last two full calendar years is totaled and divided by two to determine the borrower's average annual income.

5. <u>Employee Business Expenses / IRS Form 2106)</u>

DO NOT reduce the borrower's total **ANNUAL** household income by this amount. This deduction from income is reported on Schedule A, and includes expenses for which an employee is not reimbursed by his employer.

E. Overtime, Commission & Bonus Income

1. Overtime and Commissions

This type of income must be projected in an amount consistent with the earnings history of the household member. Typically, this type of income may be averaged (if VOE obtained) by totaling the last two years plus year-to-date and then dividing by the total number of months this period represents and then multiplying by 12 to calculate an annual income. For example, if the year-to-date overtime is $400 and it is as of March 8th and the overtime for last year was $2,150 and for the prior year was $2,000, the total overtime of $4,550 is divided by 26.26 (which is the total of 24 months for the previous two years plus 2.26 months for the year-to-date overtime), which equals $173.27 per month or $2,079.24 per year.

NOTE: IF THERE IS A SIGNIFICANT INCREASE OR DECREASE IN OVERTIME, THEN AVERAGING MAY NOT BE ACCEPTABLE.

If the VOE shows current year-to-date overtime which is significantly (+/-25%) higher or lower when annualized than previous years, it would NOT be consistent to average.

Instead, overtime must be based on the current year to date overtime unless the employer documents that it is seasonal or a single occurrence.

If the VOE combines base pay with overtime, the base pay and overtime must be calculated separately. A copy of the most recent paystub must be provided and must confirm the VOE information. If it doesn't, an explanation must be obtained from the employer in order to make an appropriate calculation. The projected overtime amount must be placed on the "Overtime, etc." line on the Income Eligibility Worksheet.

If using alternative documentation (paystubs, W2s), take the year-to-date overtime figure and annualize it. Compare this amount (added to base and other sources of income) to last year's W2 income figure. If there is a significant increase or decrease (+-25%), then either additional documentation must be obtained from the employer explaining the discrepancy, or the higher of the current year annualized income or previous year's W2 income must be used.

2. Bonus income

This type of income must also be projected in an amount consistent with the earnings history of the household member. The lender must first determine how this type of income is paid; it normally is earned in one year and paid at the beginning of the following year. If the VOE or alternative documentation is not self- explanatory, obtain a written explanation from the employer. Bonus income must be placed on the "Overtime, etc." line on the Income Eligibility Worksheet.

a. Business Income/Self-Employed Borrower

Total the NET income plus the depreciation and depletion from the most recent two tax years AND, after the first three months of the current year, also include the net income plus depreciation and depletion from a year-to-date profit and loss (P&L) statement and divide by the total number of months covered by the tax returns and the P&L statement. For example, if the total net income plus depreciation and depletion for the two tax years and the year-to-date P&L statement is $72,500, and the year-to-date P&L statement is for five months, the total income of $72,500 would be divided by 29 (24 months for the two tax years plus five months for the year-to-date P&L statement), and then the result should be multiplied by 12 to arrive at an annual income of $30,000.

b. Interest and Dividends

Deduct the amount of estimated closing costs and any down payment from the available liquid assets as verified by bank or other asset statements (amounts in checking and savings accounts, stocks and bonds, equity in real property, etc.) and if the net value of the assets after closing is $5,000 or more, multiply the amount by one-quarter of a percent (.25%).

c. Insurance, Pensions, Social Security, Workman's Compensation and Other Periodic Payments.

This includes all periodic payments received from social security, annuities, insurance policies, retirement funds, pensions, disability or death benefits, or other similar periodic payments including: lump sum payments for the delayed start of a period payment; payments in lieu of earnings, such as unemployment and disability compensation; workers compensation; and severance pay (see Exclusions From Income section).

d. Unemployment Compensation

If a borrower has a pattern of receiving unemployment compensation as evidenced by his/her tax returns or annual unemployment compensation statements, an average annual amount is calculated by totaling the unemployment compensation received for the last two years and dividing this amount by two. Place the total amount of unemployment compensation on the "Insurance, Pensions, etc." line on the Income Eligibility Worksheet.

e. Alimony or child support

Court ordered alimony and/or child support received by <u>any household member</u> MUST be annualized and the total amount placed on the "alimony/child support" line on the Income Eligibility Worksheet unless it is substantiated that scheduled payments have not been received. <u>If no alimony and/or child support is received,enter "$0" in the appropriate blank.</u>

f. Public Assistance

This includes maximum amount of public assistance where such payments include amounts specifically designated for shelter and utilities that are subject to adjustment.

g. Gifts

Includes periodic and determinable payments and/or regular contributions received from someone not residing in the dwelling.

h. Allowances, etc.

Includes all regular pay, special pay, and allowances of a member of the Armed Forces (whether or not living in the dwelling) who is head of family or a spouse.

i. Tax Credits

Includes any earned income tax credit in excess of income tax liability.

F. Exclusions From Income

1. Exclude income from the following sources from the total household income calculation:

a. Casual, sporadic or irregular gifts;

b. Amounts which are reimbursements for the cost of medical expenses;

c. Lump sum additions to family assets, such as inheritances, insurance payments (including payments under health and accident insurance and workers compensation), capital gains and settlements for personal property losses (but see Subsection 1.e. "Income to Be Included" section);

Amounts of educational scholarships paid directly to the student or the educational institution, and amounts paid by the government to a veteran for use of such scholarships (Note: Amounts which are available for subsistence are to be included in income);

d. Hazardous duty pay to a serviceman, away from home and exposed to hostile fire;

e. Relocation payments made pursuant to Title II of the Uniform Relocation Assistance in Real Property Acquisition Policies Act of 1970;

f. Foster child care payments (unless formerly adopted and receiving foster subsidy);

g. Income of a live-in aide providing necessary support services for elderly, disabled or handicapped persons;

h. Payments to volunteers under the Domestic Volunteer Service Act of 1973;

i. The value of the allotment to an eligible household for coupons under the Food Stamp Act of 1977;

j. Income from the employment outside the home of dependent children (including foster children) under the age of 18 years;

k. Payments or allowances made under the Low Income Energy Assistance program; and

l. Payments received from the Job Training Partnership Act.

2. Complete a new Income Eligibility Worksheet and Lender Certification (Attachment D) with the verified information and submit in the Pre-Closing Compliance File.

3. If, upon verifying income, the borrower's annual household income exceeds the income limit, the lender must reject the loan application. The borrower has the right to request a reconsideration of your decision. See "Eligibility Reconsideration" section.

4. Reductions in Income. The following household income reductions will make a loan ineligible for the Program:

a. Borrower taking a voluntary reduction in pay or voluntarily terminating a job within six months of the date of application when that prior income would have made the loan ineligible for the Program.

b. Deletion of a borrower from the loan application or a household member from the Buyer's Affidavit when that person's income would have made the loan ineligible for the Program.

G. Pre-Closing Compliance Review of Income

1. The eligibility income for an RHS guaranteed loan is the <u>*lesser of the applicable Program or RHS income limit*</u>.

2. The <u>Income Eligibility Worksheet and Lender Certification</u> (Attachment D) indicates that the income is within the income limit for the Program. The Lender will also certify that the loan has been underwritten for all other requirements of the Program and that the loan is an eligible loan under the Program.

3. Applications for which the eligibility income exceeds the income limit for the Program will not be approved at the pre-closing compliance review and will not be purchased by the master servicer. If incomes are determined to be ineligible during quality control reviews, the affected loans must be are the responsibility of the Lender.

H. Confirming Income at Settlement

The borrower will complete the Buyer's Confirming Affidavit at settlement and indicate whether the anticipated eligibility income or any other eligibility information has changed.

2.9 <u>*ASSETS*</u>

A. Borrower's Required Investment in the Property

A borrower's required investment in the property is the minimum required by the insurer/guarantor. A borrower's sweat equity investment which meets requirements of the insurer/guarantor is acceptable under the Program.

B. Asset Test Procedure

The <u>Asset Test Worksheet</u> is only completed for Borrowers whose liquid assets equal or exceed 20% of the purchase price of the property. Included in liquid assets are gifts in the form of cash or equity. **The lender will complete the Asset Test Worksheet and submit to CDA for review regardless of a Pass or Fail**

result. CDA then reviews the worksheet and will either approve, deny or consider an exception as noted in #3 below.

A "Gift of Equity" is defined as the difference between the loan amount and the appraised value in a "non-arm's length" transaction (i.e., parent to child, employer to employee). Borrowers with liquid assets equal to 20% or more of the sales price may not be eligible for the Program if they can afford a mortgage at the applicable asset test interest rate. Contact Single Family Housing at 800-756-0119 or email singlefamilyhousing.dhcd@maryland.gov at to obtain the asset test interest rate for the applicable reservation date and point program). The lender will verify **all** assets (see below) for each Borrower by obtaining written Verifications of Deposit or alternative documentation (one month's most recent bank statement for each account as of the date of **reservation**) and list them on the Fannie Mae Form 1003/Freddie Mac Form 65 Loan Application.

The computations on the Asset Test Worksheet will indicate that the loan application is eligible OR a waiver has been pre-approved by CDA. The Worksheet must be completed, signed and dated by the lender's authorized representative.

C. When calculating a borrower's assets, all assets are to be considered, including but not limited to the following:

a. Items paid outside of closing (examples include but are not limited to: appraisal, credit report, home inspection and deposit on property);
b. Savings accounts;
c. Checking accounts;
d. Certificates of deposit;
e. The total balance of any joint accounts;
f. Money market or mutual fund accounts;
g. In trust for accounts (amount accessible);
h. Chapter S corporate bank accounts (borrower owner of the Chapter S corporation)
i. Any other bank accounts;
j. Any stocks or bonds;
k. Funds from gift letters;
l. Any funds derived or to be derived from the sale of real property, any mobile home or other property prior to loan closing. Documentation showing net proceeds from any such sale is required;
m. Amount used or borrowed from a life insurance policy, IRA or 401K (less penalty); and
n. Gifts of equity (difference between the appraised value and the purchase price) in a non- arm's length transaction [if it is necessary to complete the Asset Test Worksheet (Attachment F), the appraised value is listed on line 1 of the Asset Test Worksheet

D. Exclusions

1. The cash surrender value of a life insurance policy, the value of an IRA account, the value of a 401k account or the value of a 529 College Saving Plan may be excluded from the liquid assets as well as from the Income Eligibility Worksheet unless the borrower intends to use or borrow against a portion of these funds for settlement expenses. In this instance, only the amount being used or borrowed, less any penalty, is to be included in the liquid assets.
2. The value of a lot on which the borrower is building a home to be financed by the Program loan may be excluded.
3. **Proceeds from any secondary financing or grant used for the purchase of the home.**
4. Relocation benefits under the Federal Uniform Relocation Act in connection with condemnation proceedings (to be substantiated by a letter in the Pre-Closing Compliance Submission).

E. Exceptions

All Fail results are required to be reviewed by the operations and underwriting managers for consideration of a possible exception in conjunction with, but not limited to, the requirements below:

a. the borrower's household income is at or below 55 percent of statewide median income for a family of four, as published by HUD;
b. the regular income is fixed, such as pension or social security; and
c. the interest or dividend earnings on the assets equal at least 50 percent of the total household income.

2.10 ***PROPERTY REQUIREMENTS***

A. Priority Funding Areas – New Construction

New Construction must be located in a Priority Funding Area ONLY

Lenders need to validate that the property location is acceptable. Identify this using The Mapper:

http://www.dhcd.state.md.us/GIS/MMP/index.html

Print the screen confirming the Priority Funding Area status and include it in the Pre-Closing Compliance submission. For more information about using The Mapper, there is information on our website here: http://mmp.maryland.gov/Pages/MMP-Mapper.aspx.

If the property is too new to show on The Mapper, email Christina James at the Maryland Department of Planning (MDP) for confirmation at christina.james@maryland.gov. For an official determination, MDP requires that each PFA request provide the following real property information for the parcel(s) in question:

Map Number
Grid Number
Parcel Number
Full Premise Address (Including County and ZIP Code)
Vicinity Map

This real property information allows MDP to accurately locate and assess the parcel(s) or subdivision in question and then generate a thorough PFA Determination.

You can locate this information through the State Department of Assessment and Taxation (SDAT) using the following instructions:

Click on the "Real Property Search" Link below to begin this process. You will need to select the county where the parcel in question is located and then input the premise number (not required) and premise name. No premise type is needed (i.e.; St., Rd., Ln., etc.).

https://sdat.dat.maryland.gov/RealProperty/Pages/default.aspx

Include the required real property information as listed above in the email to Christina James. You may either copy and paste the link for the Real Property Search Results into an email or carefully note the requested details.

B. Residences over one year old that have not been previously occupied are considered existing units.

C. Residences less than a year old are considered new.

D. Occupying the Residence

1. Buyers must intend to occupy the residence within 60 days of settlement. However, a post settlement rental agreement with the seller is permitted if the seller is waiting for completion of a new home and the completion is expected to be within 120 days.

E. Eligible residences include single-unit residences that are:

1. detached, one-half of a duplex (semi-detached), or attached (townhouse) units;
2. modular homes that have the State seal of approval;
3. condominium units approved by the insurer/guarantor;

F. Ineligible Residences – Housing types excluded from the Program: Housing types excluded from the Program are:

1. Mobile Homes that are not permanently based and are not registered in Land

Records.

2. Cooperatives
3. Rental homes or any home a portion of which is to be rented;
4. Investment homes;
5. Properties from which a trade or business is conducted in the principal structure or out buildings without the prior written CDA approval of the proposed business use. Refer to the Additional Buyer's Affidavit Relating to Business Use of Residence (Attachment N); and section F below.
6. "Like Kind" exchange properties under Section 1031 of the Internal Revenue Code UNLESS PRE-APPROVED BY CDA (See Section 2.9H); or
7. Properties purchased through the sale of contract rights.

See Ineligible Use of Loan Proceeds (Section 2.11) for further information.

G. Proposed Business Use of Residence

1. The Additional Buyer's Affidavit Relating to Business Use of Residence (Attachment N) must be submitted to and approved by the Program prior to the submission of the Pre-Closing Compliance submission.

2. For all business use, other than daycare services, the applicable percentage is the Percent of the Area. For daycare services, the applicable percentage of the residence that will be used for daycare is the Use Percentage. If the applicable percentage calculated under 4(c) or 4(d)(ii) in the Additional Buyer's Affidavit Relating to Business Use (Attachment N) exceeds 15%, the business use will not be approved.

3. The Additional Buyer's Affidavit Relating to Business Use of Residence (Attachment N) approved by the Program must be included in the Pre-Closing Compliance Submission.

H. Maximum Lot Size

The maximum lot size under the Program is 4 acres; however exceptions may be requested from the Program, by the Lender, for septic and/or zoning considerations that require additional acreage. The maximum exception will not exceed 10 acres. The Lender will request the exception from the Program's Single Family Housing Operations Manager listing the reason(s) why the exception should be made. Provide the borrower's name, address and loan number plus any pertinent documentation with your request. This should be requested as soon as the Lender is made aware of the situation.

I. Maximum Loan Amount

Please refer to the MMP website and the link below as these limits are updated yearly by jurisdiction.

https://mmp.maryland.gov/Lenders/Pages/Income-and-Purchase-Limits.aspx

J. Maximum Acquisition Cost

Acquisition cost for the purpose of this Program is defined in accordance with the Internal Revenue Code of 1986, as amended, and is to be reflected in the initial Buyer's Affidavit.

1. The total acquisition cost of the property must not exceed the limit established by the Program for the applicable jurisdiction. These limits may change from time to time in accordance with requirements of the Program and the federal government.

2. If, prior to loan closing, there is an increase in the total acquisition cost of the property and the new total exceeds the applicable limit, the property is no longer eligible and the loan cannot be purchased and should not be closed.

3. Exclusions from the acquisition cost calculation are:

   a. Customary closing costs;

   b. Prepaid expenses;

   c. Points and origination fees; and

   d. Any financed UFMIP or VA funding fee

4. The calculation for the acquisition cost must include:

   a. the contract sales price less the cost of personal property (the cost of fixtures is not deducted) included in the price;

   b. any capitalized ground rent, the amount of which is to be calculated using a ground rent factor of 200. The capitalized ground rent is determined by multiplying 200 times the monthly ground rent. (EXAMPLE: Yearly ground rent of $120 divided by 12 equals a $10 monthly ground rent. Monthly ground rent of $10 times 200 equals $2,000, which is the amount of the capitalized ground rent to be listed in the Buyer's Affidavit.);

   c. any additional costs to complete the dwelling not included in the sales contract, such as options, well and septic systems, other site development costs, any contemporaneous arrangement for other work or services in completing or adding to the dwelling, and/or the cost of replacing fixtures removed by the seller;

d. any other financial consideration between the buyer and the seller in connection with the property such as UDAG/CDBG grants, site completion, etc.; and

e. the appropriate value of a lot owned by the borrower for two years or less on which the dwelling is to be built.

K. Value for Buyer’s Affidavit

When a dwelling is to be built on a lot owned by the borrower for two (2) years or less, the greater of the cost or current appraised fair market value of the lot must be included in the Buyer’s Affidavit for determining the acquisition cost.

1. Financing Criteria

When a dwelling is to be built on a lot owned by the borrower for two years or less, either free and clear or by a mortgage having an initial term and any subsequent term not exceeding two years, it may be mortgaged through the Program up to an amount equal to the payoff of any lot loan and closing costs.

2. Mortgage Loan Limit

The mortgaged value attributable to the lot may not exceed the lesser of its cost to the borrower or its current appraised value. The borrower, in either of these circumstances, must submit evidence of the cost of the land and the term(s) of any temporary financing.

3. Not Financeable

A lot owned by the borrower for more than two years may not be mortgaged through the Program and the home being built is eligible only if the lot is currently owned free and clear.

4. Maximum Appraised Value

The appraised value of the property may not exceed 125% of the current Maximum Acquisition Cost for the applicable jurisdiction

5. Property Appraisal

A current appraisal is required, with the origination lender as the “client.”

i.

2.11 *INELIGIBLE USE OF LOAN PROCEEDS*

A. Except as authorized in writing by CDA in its sole discretion, no portion of the proceeds of a Program loan may be used to enrich the borrower; or refinance, directly or indirectly, an existing mortgage loan or loans of the borrower on the residence other than:

a. a qualified lot loan [see 2.7 I, 4 e(2) & (3)]; and

b. a construction loan or a bridge loan or other similar temporary initial financing.

1. pay any financing or settlement costs (except for any financed FHA UFMIP, VA funding fee, RHS guarantee fee or Conventional single premium mortgage insurance) or any other adjustments;

2. pay the cost of any items deducted from the sales contract price in computing the acquisition cost of the residence as identified in the Buyer's Affidavit;

3. finance a land installment contract;

4. finance a wrap-around mortgage;

5. facilitate the selling of contract rights; or

6. finance a "like-kind" exchange of properties under Section 1031 of the Internal Revenue Code ("1031 exchange"), when an intermediary or other entity is executing the deed transferring the home to the buyer **UNLESS A CDA LEGAL REVIEW IS PERFORMED PRIOR TO THE CLOSING.** In order to be approved, the lender must submit a copy of the Intermediary/Exchange Agreement between the seller and the intermediary entity, along with a complete copy of the contract of sale and Seller's Affidavits completed by the seller and the intermediary, to CDA prior to submitting the Pre-Closing MMP/MBS Compliance Submission. The Confirming Seller's Affidavits completed by the Seller and the Intermediary must be included in the Post-Closing MMP/MBS Compliance Submission (Attachment EE). However, if the seller, who is holder of legal title to the home, executes the deed transferring the home to the buyer, a loan that involves a 1031 exchange may be purchased **WITHOUT A LEGAL REVIEW** of the real estate exchange agreement and other documentation in connection with the 1031 exchange.

SECTION 3 - COMPLIANCE REVIEW AND SUBMISSION

3.1 *PRE-CLOSING COMPLIANCE*

A. Mandatory Review

Prior to closing, Program staff will complete a compliance review of all loans.

B. Delivery of Pre-Closing Compliance Packages

Participating lenders shall submit to the Program a Pre-Closing Compliance package for the first mortgage loan (using Attachment CC) and second mortgage loan (using Attachment DD), if applicable, for compliance review/approval.

The checklist lists the documents required for submission of a Pre-Closing Compliance package to the Program for approval. The package must be submitted with the documents in the order shown on the checklists before CDA will approve the loan for Pre-Closing Compliance. Loan packages must be submitted in a PDF file using eDocs on Lender Online:

https://lol.dhcd.state.md.us/Bin/Display.exe/ShowSection

Program staff will review each file to verify that all documentation is complete and that the loan file meets the terms and conditions of the Program.

All applicable affidavits must be accurately completed and included in the file submitted to the Program. **VA, HUD, Fannie Mae, and Freddie Mac are not required to execute a Seller's Affidavit or Seller's Confirming Affidavit in connection with the selling of their Real Estate Owned (REO) single family homes.** Neither CDA nor U.S. Bank has the authority to alter or waive any applicable affidavits.

The Pre-Closing Compliance package will be reviewed on a "first-submitted, first-reviewed" basis. Program staff will post deficiencies ("Compliance Conditions") on Lender Online. It is the Lender's responsibility to review and respond promptly to any documentation requirements for Pre-Closing Compliance approval.

Documentation to fulfill compliance conditions are to be submitted using eDocs on Lender Online. The most current attachments and loan documents are posted on Lender Online and/or downloadable as part of the closing package from Lender Online. Lender should always use the current downloadable documents to ensure the most current version.

https://lol.dhcd.state.md.us/Bin/Display.exe/ShowSection

C. Compliance Package Review

It is the lender's responsibility to certify that each borrower and the property submitted for compliance review meets the eligibility requirements as stated in this Manual.

1. The lender must thoroughly investigate each area of eligibility and collect sufficient documentation to establish compliance with the requirements.
2. The lender must sign the Income Eligibility Worksheet and Lender Certification

(Attachment D), which contains a Lender Certification section, for each loan.

3. Once the UW/Compl Review status is listed as "APPROVED" in Lender Online, the lender may close the loan.

D. Approval

If the pre-closing compliance file is complete and meets all of the eligibility criteria for Program compliance, CDA will approve the pre-closing compliance file and the approval will be listed on Lender On-Line as "UW/Compl Review/APPROVED on [*the date of approval*]." The "UW/Compl Review/Approved" status in Lender Online indicates that a pre-closing compliance review of the loan has been performed, and the loan is in compliance as of the time of the pre-closing compliance review. Once the "UW/Compl Review" status is listed as "APPROVED" in LOL, the lender may close the loan. It is recommended that the Lender print the LOL Loan Status page for their records.

***IMPORTANT*: BORROWERS MUST MEET THE ELIGIBILITY REQUIREMENTS NOT ONLY AT THE TIME OF THE PRE-CLOSING COMPLIANCE REVIEW BUT ALSO AT THE TIME OF THE LOAN CLOSING.**

ADDITIONALLY, IT IS EACH LENDER'S RESPONSIBILITY TO ENSURE THE LOANS RESERVED WITH MMP SUBMITTED TO U.S. BANK FOR PURCHASE MEET U.S. BANK'S GUIDELINES FOR EACH AND EVERY LOAN. MMP HAS ONLY THE RESPONSIBILITY OF ITS OWN GUIDELINES/REQUIREMENTS AND IT CANNOT BE HELD RESPONSIBLE IF AN MMP LOAN IS NOT MEETING ANY OF THE THIRD PARTY'S REQUIREMENTS THAT MAY AFFECT THE LOAN.

Events that may occur after the pre-closing compliance review which would make the loan ineligible for purchase by CDA include, but are not limited to: an increase in household income, an increase in the acquisition cost of the property, failure to sell other real property before closing the Program loan, and failure to obtain the necessary documents at loan closing. The borrower(s) and seller (s) must sign a Confirming Affidavit at closing either to affirm that the representations contained in the initial Affidavit are true and correct as of the date of the closing or to reflect any changes occurring subsequent to the initial Affidavit.

E. Eligibility Reconsideration

Should the lender or CDA determine that a borrower is not eligible for the Program pre-closing, the borrower should be informed of his right to request a reconsideration of the denial.

1. Each reconsideration request must be made in writing by the borrower, be

submitted through the lender within 30 days of the denial notice, and contain the following information:

a. a cover letter from the Lender requesting consideration of the borrower's request;
b. a copy of the letter from the lender rejecting the borrower's application;
c. the borrower's signed reconsideration request;
d. a copy of the loan application;
e. documentation describing the basis for the request;
f. a copy of all the information and documentation submitted by the borrower supporting the basis of the reconsideration request; and
g. a copy of the Income Eligibility Worksheet and income documentation when income is the issue.

2. All reconsideration requests are to be mailed to:

   CDA/Single Family Housing
   MMP Reconsideration Committee
   7800 Harkins RD, 3rd[th] Floor,
   Lanham, Maryland 20706

3. The Reconsideration Committee will review each reconsideration request and will notify the lender and the borrower of the final decision. Any questions concerning a reconsideration request should be directed to CDA at (301) 429-7826.

4. The financing of any mortgage loan as a result of a successful reconsideration is subject to the availability of Program funds at the time of approval.

3.2 ***POST-CLOSING COMPLIANCE***

A. Delivery of Post-Closing Compliance Files

Immediately after closing, lender must submit a Post-Closing Compliance Submission package for the first (using Attachment EE) and second (using Attachment FF), if applicable, mortgage loan to CDA for compliance review/approval before the loan will be considered for purchase by the Master Servicer.

Submit package in PDF using eDocs on Lender Online.

https://lol.dhcd.state.md.us/Bin/Display.exe/ShowSection

Post-Closing Compliance packages will be reviewed on a "first-submitted, first-reviewed" basis. Program staff will post any deficiencies ("Compliance Conditions") on Lender Online. It is the lender's responsibility to review and respond promptly to any documentation requirements for Post-Closing

Compliance approval.

Compliance Conditions are to be submitted using eDocs on Lender Online.

https://lol.dhcd.state.md.us/Bin/Display.exe/ShowSection

B. CDA Post-Closing Compliance Approval

If the Post-Closing Compliance file is complete and meets all of the eligibility criteria for Program compliance, CDA will approve the Post-Closing Compliance file and the approval will be listed on LOL as "Commit/Complian/APPROVED on [*the date of approval*]". The "Commit/Complian/ APPROVED" status in LOL indicates that a Post-Closing Compliance review of the loan has been performed, and the loan is in compliance as of the time of the Post-Closing Compliance review. It is recommended that the Lender print the LOL Loan Status page for their records.

C. CDA Compliance Approval Certificate

Approval certificates can be generated once the "Commit/Compliant" stage status is listed as APPROVED in LOL. Lenders are responsible for providing the approval letter to the Master Servicer as soon as it is available in LOL.

NOTE: If the post-closing file is not approved by CDA and it includes a down payment assistance lien (DPA), the lender will have to return the down payment assistance funds to CDA (in case CDA has paid for the DPA) and provide the following documents to CDA, to enable CDA to release the DPA lien:

1. Certificate of Satisfaction (release of mortgage) or
2. Assignment of deed of trust and note (assignment).
3. Along (same as assignment #2)

Please refer to the Down Payment Assistance Program Section 7 for further details on DPA and Grants.

D. Eligibility Reconsideration

Should the Lender or CDA determine that a borrower is not eligible for the Program post-closing, the borrower should be informed of his right to request a reconsideration of the denial.

1. Each reconsideration request must be made in writing by the borrower, be submitted through the lender within 30 days of the denial notice, and contain the following information:

   a. a cover letter from the lender requesting consideration of the borrower's request;

b. a copy of the letter from the Lender rejecting the borrower's application;

c. the borrower's signed reconsideration request;

d. a copy of the loan application;

e. documentation describing the basis for the request;

f. a copy of all the information and documentation submitted by the borrower supporting the basis of the reconsideration request; and

g. a copy of the Income Eligibility Worksheet and income documentation when income is the issue.

2. All reconsideration requests are to be mailed to:

CDA/Single Family Housing
MMP Reconsideration Committee
7800 Harkins RD, 3rd[h] Floor
Lanham, MD 20706

3. The Reconsideration Committee will review each reconsideration request and will notify the lender and the borrower of the final decision. Any questions concerning a reconsideration request should be directed to CDA at (301) 429-7826.

4. The financing of any mortgage loan as a result of a successful reconsideration is subject to the availability of Program funds at the time of approval.

SECTION 4 - MORTGAGE INSURANCE/GUARANTY

4.1 CONVENTIONAL UNINSURED (LTV RATIO OF 80% OR LESS) AND INSURED

NOTE: Please refer to each fact sheet specific to each of the MMP products for particular underwriting criteria.
It is each lender's responsibility to ensure the loans reserved under MMP and submitted to U.S. Bank for purchase meet U.S. Bank's guidelines for each and every loan. MMP has only the responsibility of its own guidelines/requirements and it cannot be held responsible if an MMP loan is not meeting any of the third party's requirements that may affect the loan.

1. must be underwritten to current Fannie Mae **HFA Preferred** underwriting guidelines

2. **"HFA Preferred" must be selected when loan is run through automated underwriting.**

3. secondary financing must meet Fannie Mae's guidelines for "Community Seconds"

For Automated and Manual Underwriting the lenders should follow the respective guidelines of MMP (fact sheets), U.S. Bank, MIs and GSEs.

4.2 LOANS WITH LTV RATIONS GREATER THAN 80%

A. Must be insured or guaranteed by one of the following:

1. Federal Housing Administration (FHA);
2. Veterans Administration (VA);
3. Rural Housing Services (RHS); or
4. A participating private mortgage insurance company (MI company), as defined in Section B below.

B. Private Mortgage Insurance

1. in order to be eligible for purchase by U.S. Bank, the loan must be insured by an MI company that meets the following requirements:
   a. name of the MI company must appear on CDA's "Participating Private Mortgage Insurance Companies" list
   b. the originating lender must ensure the following:
      1. The MI Company is a duly organized and existing entity authorized to issue mortgage insurance in the State of Maryland; and
      2. The MI company is a "qualified mortgage insurer" as defined and approved by Fannie Mae and U.S. Bank.

C. Private Mortgage Insurance Coverage

Must provide coverage required by Fannie Mae's HFA Preferred Program:

1. 18% for LTVs > 95% and <=97%
2. 16% for LTVs > 90% and <=95%
3. 12% for LTVs > 85% and <=90%
4. 6% for LTVs > 80% and <=85%

D. Continuous Coverage

To the extent permitted by the Homeowners Protection Act, the policy must provide for continuous insurance coverage to CDA, as long as CDA is the mortgagee and the premium is being paid.

E. Private Mortgage Insurance Premium

Premiums must be paid in one of the following ways:

1. Monthly, by the borrower, to U.S. Bank, the Master Servicer. U.S. Bank will remit payment of insurance premiums to the MI company.
2. One-time upfront mortgage insurance premium, either paid by the borrower at closing or added to the loan amount (the gross LTV ratio is determined after the financed premium is added; the mortgage insurance premium is determined

before the premium is added to the loan amount).

F. Homeowners Protection Act
Lender shall provide the borrower with notices and disclosures required by the Homeowners Protection Act at the time of closing.

G. Cancellation of Private Mortgage Insurance
Borrower will have termination and cancellation rights available under the Homeowners Protection Act.

If the borrower does not request private mortgage insurance cancellation, U.S. Bank will automatically cancel private mortgage insurance on these loans when the LTV ratio is scheduled to reach 78 percent, based on the value of the home at loan origination, provided the loan is current at that time.

H. Evaluation of MI companies

MI companies will be evaluated based on the following criteria:

1. Turnaround time – number of claims paid by MI company in relation to total claims
2. Amount paid – the amount of percentage coverage based on coverage required by Fannie Mae's HFA Preferred Program
3. Support – evaluation of the advice and assistance provided by MI company for deeds in lieu of foreclosure/short sale approval, etc.
4. Customer Service – rating from sub-servicers based on response time and services offered by MI company.

SECTION 5 – 97% LTV CONVENTIONAL REFINANCE PROGRAM

5. 1 ***PURPOSE***

CDA offers a product called the **97% LTV Conventional Refinance Program**. The minimum "representative" credit score for this program is 680. The **97% LTV Conventional Refinance Program** provides a 30-year fully amortizing, limited cash-out refinance loan.

NOTE: Please refer to each fact sheet specific to each of the MMP products for particular underwriting criteria. For Automated and Manual Underwriting the lenders should follow the respective guidelines of MMP (fact sheets), U.S. Bank, MIs and GSEs.

SECTION 6 - HOMEBUYER EDUCATION

6.1 Homebuyer education is MANDATORY for all purchase money mortgages, and each Program Borrower must complete the requirement whether or not they are first-time homebuyers. Borrowers are required to receive homebuyer education that meets at least the minimum FNMA, FHLMC, or FHA standards. See additional requirements in 6.2 below.

A. Homebuyer Education is required prior to loan approval.
B. Certification can be no more than 12 months old at the time of closing.

6.2 If the borrower is utilizing funds from an external source, the homebuyer education requirements established by the funding source must be met.

(Effective for MMP reservations dated on or after January 1, 2019, the following statewide requirements are implemented:

- Homebuyer education classes can be any class approved by HUD, Fannie Mae, Freddie Mac, or private mortgage insurers. Classes can be online or in-person, but a dated completion certificate must be issued.

- The class must be completed within 12 months **prior to closing**. All pre-contract restrictions have been eliminated.

- Homebuyer education completion certificates are transportable across Maryland jurisdictions; a certificate earned in one jurisdiction will qualify for purchase in another jurisdiction.

PLEASE NOTE: When using funds from another source, the borrower must still align with all the source's applicable requirements and guidelines.

More information about homebuyer education choices can be found on our website:
https://mmp.maryland.gov/Pages/Homebuyer-Education.aspx

SECTION 7 – DOWN PAYMENT ASSISTANCE (DPA) LOANS AND GRANTS

7.1 ***ELIGIBLE JURISIDICTIONS***

Available statewide.

7.2 ***ELIGIBLE SETTLEMENT EXPENSES***

DPA loans and grants may be used to fund settlement expenses and/or down payment subject to the requirements of the insurer/guarantor. Included are settlement expenses that are paid when a home is purchased, such as:

A. Fees or premiums for title examination, title insurance or similar expenses;
B. Fees for preparation of a deed, settlement statement, or other documents;
C. Payments owed at the time of settlement for property taxes or hazard insurance coverage;
D. Escrows for future payments of taxes and hazard insurance;
E. Fees for notarizing deeds and other documents;
F. Transfer and recordation taxes and fees;
G. Fees for premiums for mortgage insurance or guarantee;
H. Up to 30 days of prepaid interest;
I. Appraisal and credit report fees;
J. Home inspection fees;
K. Home warranty fees; and
L. Other reasonable and customary prepaid expenses.

7.3 ***ELIGIBLE FIRST MORTGAGES***

A. Must be a purchase money mortgage loan originated under CDA's Maryland Mortgage Program (MMP); fact sheet for first mortgage must allow DPA.

NOTE: Please refer to each fact sheet specific to each of the MMP products for particular underwriting criteria. For Automated and Manual Underwriting the lenders should follow the respective guidelines of MMP (fact sheets), U.S. Bank, MIs and GSEs.

B. May not be used in conjunction with a refinance loan

7.4 ***LOAN RESERVATION***

DPA funds are reserved in Lender Online when the MMP First Mortgage is reserved.

7.5 ***LIEN POSITION***

If borrower is receiving MMP and assistance loans (either MMP DPA or other):

A. MMP first mortgage loan must be recorded in first lien position.

B. DPA/Partner Match Program loan must be recorded in second lien position or third lien position (with CDA's approval). CDA will consider approval of DPA loan in third lien position if the loan in second lien position is a loan from a federal, state or local government agency or a nonprofit agency considered an instrumentality of government. For subordinate lien position exceptions, a *DPA Attachment D – Request for Lien Exception* must be submitted (form available on Lender Online).

7.6 ***TITLE INSURANCE***

A. Title insurance is not required on a DPA Loan

B. DPA/Partner Match Program loan must be shown on the title policy as being in second (or third, with CDA approval) lien position

7.7 ***FEES***

A. No settlement fees may be charged to close the DPA/Partner Match Program loan

B. The only fee that may be charged on a DPA/Partner Match Program loan is the Deed of Trust recording fee.

7.8 ***DOWN PAYMENT ASSISTANCE PROGRAM FUNDS***

Lenders are responsible for funding the Down Payment Assistance loans and Grants at closing. The Community Development Administration will reimburse the lender in the month following the MMP loan purchase.

7.9 ***PARTNER MATCH PROGRAMS***

Partner Match Programs offer additional down payment and/or closing cost assistance for qualified borrowers utilizing a Maryland Mortgage Program (MMP) loan. Participating partners provide assistance to borrowers who meet the criteria established by the partner. CDA matches the funds dollar-for-dollar up to a maximum of $2,500 in the form of a 0% deferred loan which is repayable when the home is sold or transferred, or when the first mortgage is paid off or refinanced. Partner Match funds may be combined with MMP down payment funds or assistance from other non-MMP programs or jurisdictions (unless the fact sheet restricts that).

1. HOUSE KEYS 4 EMPLOYEES (HK4E). Partners are participating employers.
2. SMART KEYS 4 EMPLOYEES (SK4E) PROGRAMS. An add-on for HK4E loans, it allows a $1,000 additional amount from MMP, under the same terms, for

borrowers purchasing in a Priority Funding Area and within 10 miles or in the same jurisdiction of their employment.

3. BUILDER/DEVELOPER INCENTIVE PROGRAM (BDIP). Partners are participating builders and/or developers.
4. COMMUNITY PARTNERS INCENTIVE PROGRAM (CPIP). Partners are participating community organizations, not-for-profits, and government entities.

Partners establish the eligibility criteria and terms for their contribution, which can be a loan or a grant. A list of partners and information about each program can be found on the Maryland Mortgage Program website: mmp.maryland.gov/pages/downpayment.aspx.

Maryland State employees may get the maximum partner match benefit of $2,500, in the same terms. State employees do not submit a Verification of Partner Contribution; the POSC paystub serves in place of that.

Employee receives employment compensation through the Maryland POSC payroll system.
Quasi- and independent agencies of the State of Maryland are not considered Maryland state employers under this program. They can sign up separately as employers, but must provide the employer contribution.
Education systems do not qualify as Maryland state employers under this program. They can sign up separately as employers, but must provide the employer contribution.

7.10 ***PARTNER MATCH PROGRAM UTILIZATION***

A. Partner must sign up using the Participation Agreement forms. These are found on the website with the partner listing for each of the Partner Match programs. https://mmp.maryland.gov/Pages/Downpayment.aspx
B. Borrower and Partner complete the Verification of Partner Contribution form (unless the borrower is requesting State of Maryland HK4E per 7.11 above) and submit it to the Lender. Verification forms are available on the Loan Documentation page under Second Mortgage Pre-Closing: Documents That Are Sometimes Required.
C. Lender requests the Partner Match funds along with the regular DPA funds through Lender Online.
D. Partner must provide contribution at closing in order for MMP Partner Match funds to be utilized.

7.11 ***DPA/PARTNER MATCH MORTGAGE TERM***

Same as MMP first mortgage.

NOTE: Please refer to each fact sheet specific to each of the MMP products for particular underwriting criteria.

The DPA/Partner Match Program mortgage is a deferred loan, not a grant, and is due at the earlier of maturity or prepayment of the first mortgage, sale or transfer of the property or default under the DPA/Partner Match Program loan.

7.12 ***INTEREST RATE***

The interest rate is currently 0% per annum.

7.13 ***ASSUMPTION***

A DPA loan may not be assumed unless the property is transferred to a spouse, divorced spouse, or child who resides in the mortgaged property, or the transfer is otherwise in accordance with federal law and the written pre-approval of the insurer or guarantor of the first mortgage and the Division of Credit Assurance is obtained. Send request to:

Department of Housing and Community Development
Division of Credit Assurance - Single Family
7800 Harkins Road
Lanham, MD 20706

7.14 ***LOAN CLOSING – FEES***

No fee may be paid to lender over and above the fees charged on the first mortgage loan.

The only fee to be listed as the buyer’s closing cost on the DPA HUD-I (if provided) is the recording fee for the DPA Deed of Trust.

The DPA/Partner Match Program deed of trust is exempt from recordation and transfer taxes pursuant to Sections 12-108 (a)(1), 13-207 (a)(1), and 13-402.1 (b)(2) of the Tax Property Article of the Maryland Annotated Code.

7.15 ***GRANT ELIGIBILITY***

From time to time, CDA offers one or more grant products. The grants are only available with an MMP first mortgage purchase loan. Some grants have specific income restrictions and some can be layered with other assistance products; see product fact sheets for specifics.

Product fact sheets are available here:
https://mmp.maryland.gov/Lenders/Pages/Marketing-Tools.aspx

SECTION 8 – MARYLAND HOME CREDIT PROGRAM

8.1 ***PURPOSE***

The objective of the Maryland Home Credit Program (the "MHCP") is to provide homeownership opportunities to eligible low to moderate income homebuyers in the State of Maryland. The Community Development Administration ("CDA") accomplishes this objective by issuing Mortgage Credit Certificates ("MCCs") to eligible mortgagors who may use the MCCs to claim a credit on their federal tax returns for a portion of the interest they pay on mortgage loans to finance the purchase of a principal residence. The tax credit percentage is 25% of the interest paid on the mortgage each year up to a maximum $2000 credit per year – this is a dollar-for-dollar reduction against the borrower's federal tax liability. The remaining portion of the mortgage interest may continue to qualify as an itemized deduction. The annual amount the borrower receives will change as the mortgage loan amount decreases, but the tax credit percentage never changes. The mortgage loans in the MHCP are made by the Lenders independently of CDA or in conjunction with one or more of CDA's mortgage loan programs. The mortgage loans cannot be made with the proceeds of tax-exempt qualified mortgage bonds or qualified veteran's mortgage bonds issued by CDA or any other entity. CDA does not give tax advice; Borrowers needing this assistance should consult a tax professional.

This program is offered pursuant to Title 2, Subtitle 4 of the Housing and Community Development Article of the Maryland Annotated Code (“the Act”). It is further governed by Program regulations contained in COMAR 05.03.02, as amended. All loans will be made in conformance with the Act, Program regulations, applicable federal tax law, and Community Development Administration (CDA) bond documents. MCC will be issued only in conformance with the ACT, Program Documents, and applicable federal tax law.

The lender agrees in the Mortgage Credit Certificate Agreement, of which this manual is a part, to comply with the requirements set forth in this manual. CDA must rely upon all participating lenders to comply with the requirements when making mortgage loans to be purchased by U.S. Bank, the Master Servicer.

The link to the MCC Fact Sheet is:

http://mmp.maryland.gov/Lenders/Documents/FactSheets/MMP_FactSheet_HomeCredit.pdf

8.2 ***ELIGIBILITY / DOCUMENTATION***

Eligibility requirements for borrowers and properties in the MHCP align with requirements for CDA's Maryland Mortgage Program ("MMP") and many of the documents to be used in connection with the MHCP are the same as for MMP loans.

8.3 ***MORTGAGE CREDIT CERTIFICATE***

The Certificate Credit Rate is 25%. This entitles the borrower to claim up to 25% of the interest paid during the year on a mortgage loan up to a maximum of $2,000.00 as a dollar for dollar reduction against the borrower annual federal tax liability.

8.4 ***MCC-ONLY – NON-MMP FIRST MORTGAGE***

Borrowers have the option of taking the MCC-ONLY. The lender sets the interest rate, may charge points and the first mortgage is a NON-MMP Product. There is no DPA available. The loan is not sold to US BANK. Other MMP or agency/insurer requirements still apply, including: first-time homebuyer, not owning other property, principal residence, income and purchase price limits

Minimum Credit Score of 640 is required.

Debt to Income Ratio – 45.00%. However, exceptions may be considered for Debt to Income ratios between 45.01% to 50.00% on a limited basis.

Recapture Tax – The Department WILL NOT reimburse the borrower for any Recapture Tax.

Loan Approvals - Transactions must still be approved through CDA pre-closing and post-closing compliance.

Homebuyer Education - Homebuyer education is not required, but is still encouraged.

8.5 ***MCC FEE SCHEDULE***

See the MCC Fact Sheet for the most recent fees for MCC, MCC-ONLY and MCC refinanced transactions.

8.6 ***ISSUANCE OF MORTGAGE CREDIT CERTIFICATE***

The MCC certificate is provided in the Closing Package when it is downloaded from Lender Online after pre-closing compliance approval.

8.7 ***RE-ISSUANCE OF AN EXISTING MCC***

Borrowers who are refinancing a loan with an existing MCC can have the MCC reissued, even if they are refinancing into a non-MMP loan product. The following applies to reissue transactions:

- Refinance with an MMP refinance loan: Use the regular first mortgage checklists (CC and EE).
- Refinance with a non-MMP refinance loan: Use MCC-Reissue checklists (JJ and KK).

8.8 ***REPORTING AND RECORDKEEPING REQUIREMENTS***

A. Lender Reporting Requirements

Any Lender that makes a mortgage loan in conjunction with the MHCP and provides a certified indebtedness amount must submit file IRS Form 8329, annually, on or before January 31 of the year following the calendar year to which the report relates.

A separate Form 8329 shall be filed for each issue of MCC with respect to which the Lender made mortgage loans during the preceding calendar year.

A copy of Form 8329 must be submitted to CDA.

As a courtesy only, for MCCs issued with an MMP first mortgage loan, CDA will provide a list of the year's loans for use in filing the 8329. It is the lender's responsibility to verify the accuracy of the list before filing.

B. **Failure to File**

Failure to file the Form 8329 could result in penalties imposed by the IRS.

C. **Lender Recordkeeping Requirements**

Lenders must retain certain information on their books and records for 6 years following the year in which the loan was made.

With respect to each loan, Lenders must retain the following information:

Name, address, and TIN of each holder of a qualified MCC with respect to which a loan is made;

Name, address, and TIN (526002033) of CDA; and

The date the loan for the certified indebtedness amount is closed, the certified indebtedness amount, and the Certificate Credit Rate of the MCC.

8.9 ***CDA REPORTING REQUIRMENTS***

CDA shall file quarterly reports with the IRS on Form 8330 and annual reports of mortgagor income and targeted area loans as required by Treas. Reg. § 1.25-4T.