Origination Guide

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Homeownership Originations Department
ORIGINATION GUIDE

601 South Belvidere Street
Richmond, Virginia 23220

Revised: December 2022

Introduction

Mission Statement

Our mission is *Helping Virginians attain quality, affordable housing.*

Note to Lenders

This guide has been designed to provide our participating lenders with the information they need to carry out their responsibilities as Virginia Housing Originating Lenders.

Background

The Virginia General assembly established the Virginia Housing Development Authority (Virginia Housing), a public mortgage finance company, in 1972. Virginia Housing is self-supporting. No federal or state tax dollars are received by Virginia Housing for the funding of its lending programs. Substantially all the funds for Virginia Housing programs are provided by the private sector through the purchase of Virginia Housing Development Authority bonds. Virginia Housing offers a variety of loan programs developed to meet the needs of low to moderate-income homebuyers. These loans are originated primarily through our network of private lenders serving as Virginia Housing Originating Lenders.

Table of Contents

1 Originating Lender Participation....................4

1.1 Originating Lender Qualifications 4

1.2 Originating Lender Approval Process 5

1.3 Maintaining Originating Lender Approval Status 6

1.4 Delegating Originating Lender – Qualifications 8

1.5 Delegated Originating Lender Approval Process 8

1.6 Origination Responsibilities 9

1.7 Originating Lender Compensation / Fees Responsibilities 11

1.8 Originating Lender Non-Compliance and Remedies 12

2 Eligibility Requirements....................15

2.1 Borrower Eligibility Requirements 15

2.2 Property Eligibility Requirements 21

2.3 Underwriting Requirements 28

2.4 Loan Terms and Requirements 30

2.5 Closing Requirements 30

2.6 Purchase Requirements 36

3 Origination Procedures....................39

3.1 Lock-In Policies and Procedures 39

3.2 Non-Delegated Origination Procedures 41

3.3 Delegated Origination Procedures 42

4 Virginia Housing Loan Programs....................46

5 Automated Underwriting....................49

5.1 Programs Eligible for Automated Underwriting 49

5.2 Mortgage Revenue Bond and MCC Requirements 49

5.3 Maximum Debt to Income Ratio 49

5.4 Manual Approvals 49

6 Recapture Tax....................50

6.1 Purpose 50

6.2 Recapture Concept 50

6.3 Disclosure of Recapture 50

6.4 Explanation of Recapture Tax Calculations 50

6.5 Guidelines for Recapture Requirement 51

6.6 Allowable Adjusted Qualifying Income 51

6.7 Calculation of Recapture 51

7 Homeownership Education 53

7.1 Virginia Housing's Homeownership Education Program 53

8 Loan Assumption 54

8.1 General Loan Assumption Requirements 54

9 Explanation of Virginia Housing Forms, Exhibits, and Documents 55

9.1 Electronic Signatures 55

9.2 Virginia Housing Origination Forms, Exhibits and Documents 55

10 Virginia Housing Fair Housing Policy 58

1 Originating Lender Participation

1.1 Originating Lender Qualifications

To be approved as a Virginia Housing Originating Lender, the Lender must meet the following qualifications:

A. **Authorization to do business –** Must be authorized to do business in the Commonwealth of Virginia and be licensed as a mortgage lender under the Virginia Mortgage Lender and Broker Act.

B. **Net Worth Requirement** – Must have a net worth equal to or in excess of requirements mandated by FHA. If requesting participation in programs offered by Fannie Mae and/or Freddie Mac; must also meet Fannie Mae and/or Freddie Mac requirements.

C. **Audited Financial Statements –** Must provide most recent audited financial statements prepared in accordance with GAAP, including supplemental information. Supplemental information must include the independent auditor's report in accordance with GAAS and GAGAS on Internal Control, Compliance with HUD Programs, Schedule of Findings, and any Corrective Action Plan, if applicable. Consolidated statements with other entities must show consolidated information by entity and show separately the entity intended to do business with Virginia Housing Development Authority. In addition, we require HUD's Calculation of Net Worth and for first time lenders we require two years of audited financials.

D. **Insurance Requirements** – Must have fidelity bond and mortgage errors and omissions coverage in an amount at least equal to $500,000.00. Provide a certificate from the insurance carrier naming the Virginia Housing Development Authority as a party in interest to the bonds, or the policies or bonds shall name the Virginia Housing Development Authority as one of the parties insured.

E. **Experienced Staff** – Must have a staff with demonstrated ability and experience in mortgage loan origination, processing, underwriting, closing, and post-closing. Lenders that are applying to re-enter the program or who have senior management with prior Virginia Housing experience must have a proven track record with Virginia Housing in all aspects of mortgage loan origination.

F. **Required Purchase Agreements** – Must have executed a Virginia Housing Development Authority Purchase Agreement.

G. **Quality Control Plan** – Must provide a quality control plan that meets all Government Sponsored Enterprise (GSE) / insurer / guarantor requirements as they apply to loans originated.

H. **Insurer Approvals** – Must have appropriate approval for the insurer / guarantor for loans to be originated (i.e. FHA, VA, Rural Housing or individual private mortgage insurers), including FHA Director Endorsement and VA Automatic Approval (if applicable).

I. **Origination Capacity** – Must be eligible (and have qualified staff) to originate loans under all applicable Virginia Housing loan programs (unless otherwise approved for lenders originating loans in underserved markets). Originating Lenders are expected to offer all Virginia Housing products including Down Payment Assistance and Mortgage Credit Certificates.

J. **Performance History** – Must have a past history of satisfactory performance with Virginia Housing, other mortgage lenders, and insurers demonstrating the ability to meet obligations of Virginia Housing lender participation. Any applicant previously terminated shall not be eligible to reapply for 24 months.

K. **Virginia Housing Fair Housing Policy** – Must certify that lender has read Virginia Housing's Fair Housing Policy and acknowledges that, if approved as a Virginia Housing Originating Lender, such organization must comply with such policy in originating, processing, and closing Virginia Housing loans.

L. **Branch Locations** – Have a physical office located in Virginia to which the general public may make loan application which has originated loans for a period of not less than 12 months. Exception may be considered if the company has acquired loan officers with significant Virginia Housing Origination experience in the previous 12 months.

   - Loan Officers located in branches that are in states contiguous to Virginia may originate Virginia Housing loans if their lending institution has a branch meeting the guidelines stated above.

M. **Neighborhood Watch** – FHA comparison ratio should not exceed 120% of the National, State, or Regional Field Office. Exceptions may be granted on a case by case basis.

N. **Appraisal Independence Standards** – Must provide a copy of acceptable Appraiser Independence Standards.

O. **Hiring Procedures** – Must provide a copy of company's hiring procedures for checking all employees, including management, involved with the origination of mortgage loans against the GSA Exclusionary List and HUD LDP List.

P. **Information Security Policy –** Must provide information security policy that is revised on an annual basis.

Q. **Other Qualifications –** Meet such other qualifications as the Executive Director shall deem to be related to the performance of its duties and responsibilities.

1.2 Originating Lender Approval Process

The following details the process for application for approvals as a Virginia Housing Originating Lender:

A. **Application –** Virginia Housing uses the Comergence® system to process new lender applications. Lenders must contact Virginia Housing's Business Development Training Manager to start the application process and pay the required application fee. No documents should be overnighted or emailed to Virginia Housing unless requested.

B. **Approval Notification** – Virginia Housing's Homeownership management will review the application and respond by letter of approval or rejection to the lender's senior management.

C. **Required Training** – Approved Originating Lender's staff must complete required Virginia Housing training prior to being authorized to originate loans. Training includes all aspects of the loan origination process.

1.3 Maintaining Originating Lender Approval Status

After initial approval, each Originating Lender will be required to meet the following specified requirements to maintain their status as an approved Virginia Housing Originating Lender:

A. **Insurance and Net Worth Requirements** - Must maintain required fidelity bond, errors, and omissions insurance in an amount equal to at least $500,000 and net worth requirements stated in 1.1 B.

B. **Annual Financial Statement** – Must provide Virginia Housing with financial re-certification documentation, as required by HUD, within 90 days of the Originating Lender's fiscal year end. Financial statement shall include a balance sheet, an income statement, and a statement of retained earnings, all related notes and the opinion of an independent Certified Public Accountant as to the correctness of those statements. Provide copy of FHA acceptance of financials through LASS.

C. **Information Security** – Lender must provide current information security policy. Written notice must also be provided to document any information security incident or breaches that have taken place in the past three years.

D. **Certificate of Insurance** – Provide certificate from the insurance provider confirming that the fidelity bond and mortgage errors and omissions insurance is still in effect. Certificates are to be provided when coverage is renewed or a new policy issued.

E. **Quality Control** – Provide annual certification that Quality Control Plan meets applicable GSE, insurer and guarantor guidelines. Provide copies of any notification forwarded to an insurer / guarantor for violations of law or regulations, false statements or program abuses by the Originating Lender, its employees or any other party to the transaction as required under the respective Quality Control plan to Virginia Housing.

- **Procedures:** Originating Lenders shall follow VA, FHA, Rural Housing, Fannie Mae and Freddie Mac quality control procedures as they apply. Fannie Mae or Freddie Mac procedures must be followed for Virginia Housing conventional loans unless otherwise instructed per program guidelines.

- **Virginia Housing Quality Control Reviews:** Virginia Housing will typically perform a monthly Quality Control review of no less than 10% of loans purchased by Virginia Housing. The selection will include random, discretionary, and EPD loans. The Originating Lender will be notified of any significant or unacceptable loan ratings and will assist Virginia Housing as needed to mitigate loan level defects. If insignificant loan ratings, the Originating Lender will submit any loan level documentation requested by Virginia Housing to clear necessary defects.

F. **Minimum Origination Volume** – Originate no fewer than 10 first mortgage loans which are purchased by Virginia Housing during the first twelve months and each full calendar year thereafter, unless otherwise approved by Virginia Housing. Consideration of lesser volume will be given in underserved or rural areas.

G. **Notification of Organizational Changes** – Provide written notice to Virginia Housing of any major organizational changes contemplated, including but not limited to:

- Resignation or replacement of senior management personnel.
- Resignation or replacement of designated Virginia Housing delegated staff.
- Mergers, acquisitions or corporate name change.
- Change in savings and loan association charter to become banking association.
- Change in financial position.
- Any reorganization, which centralizes or decentralizes a primary function (i.e. underwriting, closing or post-closing).
- Opening or closing of offices originating Virginia Housing loans (include address, phone number and branch manager's name).

H. **Compliance with Virginia Housing Requirements** – Maintain compliance with Virginia Housing policies, procedures, rules, and regulations as stated in this Origination Guide and subsequent notifications. Comply with terms and conditions contained in the Purchase Agreement.

I. **Acceptable Loan Performance** – Originate loans resulting in a delinquency rate determined to represent an acceptable risk to Virginia Housing.

J. **Agency Reports** – Provide a copy of any standard agency performance report to Virginia Housing within 60 days of receipt, or as may be requested by Virginia Housing.

K. **Neighborhood Watch** – FHA comparison ratio should not exceed 150% of National, State or Regional Field Office.

L. **Lender Performance** – If a lender's performance is identified as presenting a significant risk to Virginia Housing, Virginia Housing reserves the right to impose any of the following restrictions:

- Place on probationary status,
- Suspension of loan locking privileges,
- Removal of delegated approval authority, and/or
- Retention of lender compensation.

M. **Record Retention** – Lenders are to maintain records in accordance with the applicable GSE, insurer or guarantor guidelines and in adherence with all regulatory requirements.

N. **Early Loan Payoff** – Virginia Housing will monitor the early loan payoff reports and reserves the right to impose fees for excessive payoffs.

1.4 Delegating Originating Lender – Qualifications

Subject to meeting specified criteria, the Originating Lender may be authorized to underwrite and close Virginia Housing loans under Virginia Housing's delegated procedures, without prior review by Virginia Housing. The delegated procedures enable Originating Lenders to reduce the time involved in underwriting and closing Virginia Housing loans.

All lenders are expected to achieve delegated authority for continued participation in Virginia Housing programs. To be approved to participate as a Delegated Originating Lender, the lender must meet the following qualifications.

A. **Performance** – Originating Lender must have a proven performance record in all aspects of the origination process. This includes, but is not limited to, initial file submission, underwriting, closing, post-closing, and shipping.

B. **Virginia Housing Origination Experience** – Satisfactorily originate, underwrite, submit for review, close and deliver final documents for a minimum of ten loans within a six-month period.

C. **Approved Designated Delegated Staff** – In addition to the requirements stated below, the Originating Lender's staff that will be acting in a delegated capacity must be so designated by the Originating Lender. The Originating Lender will designate the staff and certify to their meeting the requirements stated below on Attachment A to the Purchase Agreement.

   - **Delegated Underwriters** – Designated Originating Lender staff that will be underwriting loans must attend a Virginia Housing Delegated Underwriting Training session. Underwriters must have three years underwriting experience, and possess FHA Direct Endorsement Authority unless otherwise approved by Virginia Housing.

   - **Delegated Loan Closers** – Designated Originating Lender staff that will be performing pre-closing review should have sufficient experience in the closing of all loan types. Knowledge of Virginia Housing programs and policies is recommended and should be experienced in the mortgage closing process.

D. **Information to Staff / Key Contact** – The Originating Lender will be responsible for informing all staff of Virginia Housing procedural changes and requirements. The Originating Lender will designate key contacts for receipt of correspondence and will notify Virginia Housing of changes in the staff contacts.

1.5 Delegated Originating Lender Approval Process

Upon satisfactorily meeting the criteria set forth in Section 1.4 and the following requirements, the Originating Lender will be approved to participate as a Delegated Originating Lender.

A. **Staff Training** – Originating Lender underwriting staff must attend required Virginia Housing Delegated Training sessions. It is recommended that closing, shipping, and post-closing staff also attend a Virginia Housing Closing training session.

B. **Review Period** - A **minimum** of 10 satisfactorily submitted loans all closed within a six-month period, and must be reviewed before approval will be granted to participate as a Delegated Originating Lender. The number may vary based on previous performance, volume, and number of branches. The review performed will be based on the quality and completeness of the original loan submission for underwriting, the pre-closing review, the timeliness and completeness of final loan submission after closing, and the timeliness of the submission of post-closing documents.

C. **Approval Notification** – Virginia Housing will notify the Originating Lender in writing of their approval to participate as a Delegated Originating Lender. The Originating Lender will then be required to execute the "Exhibit A" of the Purchase Agreement designating authorized staff to participate in underwriting and closing responsibilities.

D. **Probationary Period** – All newly approved Delegated Originating Lenders will participate in a probationary status for the initial six-month period for an evaluation of their overall performance.

E. **Approved Status** – Virginia Housing has total discretion in approving or suspending any lender from participating in a delegated capacity based on performance. Unacceptable performance will result in the Originating Lender being placed on a probationary status and/or removal from participation in a delegated capacity.

1.6 Origination Responsibilities

A. **Origination**

The Originating Lender is responsible for originating, processing, underwriting, closing, post-closing and insuring all Virginia Housing loans in accordance with the guidelines and procedures stated in this Origination Guide, the appropriate GSE, insurer or guarantor requirements, and all regulatory requirements of the following: RESPA, Regulation X, ECOA, Regulation B, FCRA, Regulation V, TILA, Regulation Z, Fair Housing Act, Homeowners Protection Act of 1998, Flood Act, the CFPB any other applicable federal and state laws and regulations.

- **Higher Priced Mortgage Loans (HPML) – All Virginia Housing Loan Programs**
  - A loan is an HPML if the APR exceeds the APOR (Average Prime Offer Rate) by 1.50% or more for first mortgages or 3.50% or more for second mortgages. All HPML loans must comply with the flipping requirements of the TILA HPML Appraisal Rule, or otherwise meet the definition of CFPB qualified mortgages (safe harbor (QM) or rebuttable presumption (ATR)) so as not to trigger the requirements of the TILA HPML Appraisal Rule.
  - If a loan is an HPML, then per the CFPB an additional appraisal is required if the property is being resold within 90 – 180 days of acquisition and there is a price increase of:
    - More than 10% if the property was acquired in the past 90 days.
    - More than 20% if the property was acquired in the past 91 – 180 days.

  There are some exceptions governed by the CFPB, which would not require an additional appraisal (property from a local, state, federal government, nonprofits, inheritance, employee relocation, service member deployment, some rural and underserved areas, etc.).

B. **Application / Customer Information**
Originating Lender staff is to be knowledgeable of Virginia Housing programs and guidelines, prior to discussing qualifications with borrowers. The Originating Lender is to provide information to potential borrowers concerning Virginia Housing loan programs, procedures and requirements. Prior to locking a Virginia Housing loan, the Originating Lender is to assess the borrowers' qualifications to determine adherence to program.

C. **Loan Processing**
Originating Lender is to process loans in accordance with Virginia Housing guidelines and procedures and submit to Virginia Housing for approval (unless the Originating Lender has Virginia Housing delegated authority).

D. **Underwriting**
The Originating Lender will obtain approval for the appropriate insurer / guarantor, underwrite the loan in accordance with Virginia Housing requirements and the appropriate GSE, insurer or guarantor requirements, and render a loan decision. Originating Lenders without Virginia Housing delegated authority must submit underwriting package to Virginia Housing for review after a decision is rendered. Originating Lenders with Virginia Housing delegated authority will approve loans in accordance with Virginia Housing policies and procedures.

E. **Closing**
Originating Lender will provide closing instructions and documents to the closing agent. The Originating Lender will perform a preliminary review for compliance with Virginia Housing and the appropriate GSE, insurer or guarantor's requirements. New Non-delegated lenders may be required to submit loans to Virginia Housing for closing review for an introductory period based on each lenders performance. Originating Lenders with Virginia Housing delegated authority will approve documents for closing.

F. **Funding**
Virginia Housing will perform a full review of loans within ten business days of receipt of an acceptable loan package. Correct and conforming Collateral documents for both first and Plus Second Mortgage loans (if applicable) will be required for purchase approval. Virginia Housing will notify the lender of approval for purchase or if the loan(s) has been pended for required corrections. Loans not purchased within 10 days will incur 0.125% penalty at 10-day increments.

G. **1098 Reporting**
The Originating Lender is responsible for 1098 reporting for all fees paid at closing for loans that are funded by the lender.

H. **Loan Submission for Purchase**
Originating Lender must provide one complete loan package including required underwriting and closing documents within 10 calendar days of loan closing. Loans with an interest credit will be due by either the 15th of the month preceding the first payment date or 10 calendar days after closing, whichever is first. Wiring instructions

are to be included in the loan package. First and second loan packages must be submitted individually.

I. **FHA Mortgage Insurance Certificate (MIC), VA Loan Guaranty Certificate (LGC) and RHS Loan Note Guarantee (LNG)**
The Originating Lender will submit all necessary documents directly to the insurer / guarantor in compliance with the insurer or guarantor's requirements. The Originating Lender will obtain and submit to Virginia Housing the documents evidencing such MIC, LGC, or LNG within 90 days of loan closing.

J. **Post-closing Documents**
The Originating Lender will submit any outstanding post-closing documents including, but not limited to, the final title policy, recorded Deed of Trust, and applicable mortgage insurance / guaranty certificate to Virginia Housing within 90 days of loan closing.

K. **Outsourcing Responsibilities and Third Party Originations**
Prior to outsourcing or subcontracting any duties stated above including, but not limited to, contract underwriting and post-closing, the Originating Lender must obtain prior written approval from Virginia Housing. The Originating Lender shall remain responsible to Virginia Housing for the performance of such third party as if the Originating Lender had itself performed such duties.

1.7 Originating Lender Compensation / Fees Responsibilities

A. **Origination**
Unless otherwise stated in specific program guidelines, the Originating Lender may not earn in excess of 2.5% compensation (including any points charged and the Service Release Premium) on each loan. Any excess compensation must be applied as a lender credit to the borrower. In addition, the Originating Lender may collect fees for reimbursement of costs incurred such as; credit reports, appraisals, tax service fees, or flood certification fees as applicable.

B. **Service Release Premium Fee**
Unless otherwise noted, a 1.5% service release premium will be paid to the Originating Lender by Virginia Housing at the time of purchase. The premium will be for both first and second mortgages if applicable. This will be included in the net price of the loan when purchased by Virginia Housing.

C. **Ancillary Fees**
For all programs, Originating Lenders are allowed to collect customary miscellaneous fees (i.e. underwriting, document review fees) that have been properly disclosed to the borrower at the time of loan application.

D. **Principal Curtailment**
Loans with a net price exceeding 2.5% must show an application of lender credit to the borrower on the Closing Disclosure (CD). If the appropriate lender credit is not issued to the borrower, Virginia Housing will calculate the amount for principal curtailment which will be netted from the lender on loan purchase.

1.8 Originating Lender Non-Compliance and Remedies

A. **Imposition of Late Delivery Fees**
Virginia Housing may impose penalties for a failure by the Originating Lender to submit required loan documents within the required time period.

- Wiring instructions are to be included in the loan package. Failure to meet delivery timelines may result in temporary suspension from the Virginia Housing Rate Lock System, imposing additional fees or repricing of the loan.
- Virginia Housing reserves the right to impose penalties for the late delivery of closed loan packages or documents requested to resolve any deficiency identified in the submitted closed loan package. The Originating Lender will be notified in writing of the late fees due. Penalties will be deducted from lender's net proceeds.

B. **Repurchase of Non-compliant Loans**
A purchase request for any loan will be for an amount equal to the then unpaid principal balance of such mortgage loan, plus accrued interest and costs incurred by Virginia Housing and any service release premium paid to the Originating Lender for the subject loan. The lender may be required to return any Grant funds provided by Virginia Housing. The grounds for, and terms of, repurchase are more fully set forth in the Purchase Agreement.

C. **Non-compliance with Virginia Housing Requirements or Documentation**
Virginia Housing reserves the right to have the Originating Lender purchase loans which have not been originated in compliance with Virginia Housing guidelines, rules and regulations, or for which required documentation has not been submitted to Virginia Housing within the required time frame. Purchase of loans may be required based on non-compliance with federal tax-exempt bond requirements, non-compliance with critical underwriting or closing requirements failure to provide critical documents (including those required for tax-exempt bond compliance), applicable mortgage insurance, guaranty certificate, and critical documents related to the security of the mortgage loan (i.e. note, deed of trust or title policy). Failure to obtain applicable mortgage insurance, submit the certificate, or guaranty evidencing such insurance will result in the required purchase of the loan by the Originating Lender.

D. **Failure to Comply with Federal or State Regulations**
Virginia Housing will require purchase of any loan for which Virginia Housing suffers or is threatened with a material loss due to the Originating Lender's failure to comply with any state or federal regulations.

E. **Misrepresentation or Misstatement**
Virginia Housing will require purchase of any loan for which the borrower has made any misrepresentation or misstatement of a material fact in any document related to the mortgage loan with the knowledge of the Originating Lender or for any misrepresentation or misstatement of a material fact by the Originating Lender.

F. **Incorrect Documents**
Virginia Housing will require purchase of any loan for which the Originating Lender amends, modifies, or incorrectly reproduces Virginia Housing documents. Virginia

Housing will require purchase of any loan where the lender utilizes any document, which does not comply with state or federal law or the requirements of the appropriate GSE / insurer / guarantor and Virginia Housing. The purchase requirement is at the discretion of Virginia Housing if Virginia Housing determines that such incorrect form affects the loans' security, compliance with mortgage bond regulations, or other applicable law or regulation.

G. **Early Default**
Virginia Housing will require purchase of any loan if, within the first four payments of principal and interest due under the mortgage note, any mortgage loan becomes two months or more in arrears as to payment of principal and interest, or otherwise in default which, after any required notice and any cure period, would give Virginia Housing the right to foreclose.

H. **Failure to Deliver Good Title**
Virginia Housing will require purchase of any loan that is not free and clear of liens, encumbrances or claims by third parties.

I. **Unauthorized Sales**
Virginia Housing will require purchase of any loan where Virginia Housing determines that the Originating Lender was not authorized to sell the Mortgage Loan or that the sale of the Mortgage Loan violated any law, regulation, or order or decision of any court or governmental agency, or is otherwise invalid, void or voidable.

J. **Suspension from Origination Activity**
Virginia Housing, at its sole discretion, may suspend the Originating Lender from participating in Virginia Housing origination activities based on the Originating Lender's failure to comply with Virginia Housing guidelines, procedures, requirements, or any change in staff, which would affect the Originating Lender's ability to perform these responsibilities on behalf of Virginia Housing. The Originating Lender will be notified in writing of any suspension of origination activity.

K. **Termination as a Virginia Housing Originating Lender**
Virginia Housing shall terminate immediately upon delivery of a written notice, the Originating Lenders' authority to participate as a Virginia Housing Originating Lender upon the occurrence of any of the following:

- The violation by the Originating Lender of any provision of the Purchase Agreement.
- If the Originating Lender is required to file a Capital Plan pursuant to the provisions of the Financial Institutions Reform, Recovery and Enforcement Act of 1989, as amended from time to time, or any of the following occurs: (i) the appointment of a receiver or liquidation of or for the Originating Lender, (ii) the making of an assignment for the benefit of creditors, (iii) the composition with creditors by the Originating Lender, (iv) an adjudication of insolvency of the Originating Lender, or (v) the filing of an involuntary petition in bankruptcy against the Originating Lender. The Originating Lender agrees that if any of the events specified in this subsection shall occur, it will be given written notice thereof to Virginia Housing within two (2) days after the happening of such an event. Upon

notice of termination pursuant to this section, the rights of the Originating Lender and its rights to compensation hereunder shall terminate.

- Virginia Housing receives notice of a planned sale or transfer of a majority ownership interest, merger, consolidation, or change in legal structure of the Originating Lender, unless Virginia Housing approves the change in writing.
- Virginia Housing may terminate the Originating Lender's authority to participate as a Virginia Housing Originating Lender, with or without cause, with thirty days' written notice to the Originating Lender. Refer to Purchase Agreement for more details concerning Termination.

2 Eligibility Requirements

Chapter 2 addresses requirements for eligibility for all loans funded by Virginia Housing tax-exempt bonds, Mortgage Credit Certificates, and other programs as noted in specific program guidelines. Refer to specific program guidelines for more information. Some products offered with other funding (such as Fannie Mae or Freddie Mac) may have more flexible guidelines.

2.1 Borrower Eligibility Requirements

A. **Borrower Age**
Borrowers must be eighteen (18) years of age or older, or have been declared emancipated by a court having jurisdiction.

B. **Family / Household**
One person or multiple persons are eligible to be a borrower or borrowers of a single-family loan if such person or all such persons satisfy the criteria and requirements in these rules and regulations. All references in these rules and regulations to an applicant or borrower shall, in the case of multiple applicants or borrowers, refer to each applicant or borrower individually unless the provision containing such reference expressly refers to the applicants or borrowers collectively.

C. **Citizenship**
Mortgages are provided to U.S. citizens, permanent resident aliens, or to non-permanent resident aliens provided the borrower occupies the property as a principal residence, has a valid Social Security Number (SSN) (or Individual Taxpayer Identification Number (ITIN) if acceptable by the applicable GSE, insurer, or guarantor), and is eligible to work in the United States. Lenders are required to certify that borrowers meet these guidelines and to provide evidence that the appropriate GSE, insurer, or guarantor requirements are met. This eligibility applies to all Virginia Housing loan programs.

D. **Co-signers / Non-Occupant Co-Borrowers**
Co-signers are not allowed on Virginia Housing loans. All borrowers must occupy the property as their primary residence.

E. **Prior Homeownership Three-year Requirement**
Eligible borrower(s) may not have had a present ownership interest in his/her principal residence within the three years preceding the date of execution of the mortgage loan documents (loan closing). The three-year requirement does *not* apply for residences being financed in "targeted areas." See Section 2.2 for "targeted area" information.

- **Present Ownership Interest includes:**
    - A fee simple interest.
    - A joint tenancy, a tenancy in common, or a tenancy by the entirety.
    - The interest of a tenant shareholder in a cooperative.
    - A life estate.

- A land contract, under which possession and the benefits and burdens of ownership are transferred, although legal title is not transferred until some later time.
- An interest held in trust for the eligible borrower (whether or not created by the eligible borrower) that would constitute a present ownership interest if held directly by the borrower.
- **Manufactured Home Ownership**: An ownership interest in a manufactured home is considered "present ownership interest" if the manufactured home is permanently attached to land and has had wheels and other components used for transportation removed.

- **Interests that do not constitute present ownership interest:**
  - An interest in a residence other than a principal residence during the previous three years.
  - Remainder interest.
  - An ordinary 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 an accepted offer to purchase real estate.
  - **Manufactured Home Ownership**: An ownership interest in a manufactured home, which is not permanently attached to the land, does not constitute present ownership interest for purposes of meeting this requirement.
- **Required documentation to evidence First-time Homebuyer**
  To verify that the borrower(s) meet the three-year requirement, the Originating Lender must obtain:
  - The fully executed Programs Disclosure and Borrower Affidavit (Exhibit E),
  - A completed and fully executed Uniform Residential Loan Application (URLA), and
  - The credit report for all borrowers.

  If unable to confirm from the Exhibit E, the URLA, or the credit report the borrower(s) are a first-time homebuyer, additional documentation may be required, such as:
  - Three years' federal tax returns / tax transcripts
  - Rent verification(s)
  - Other reports such as a Lender Data Integrity Report (Examples: Drive Report, FraudGuard, Loansafe)

  <u>Notes</u>:
  - If any of the above items are in the loan file, (even it not required) the Originating Lender must review for prior homeownership.

- If the borrower(s) owns a dwelling that is not a primary residence, the value of the dwelling will be included in the net worth calculation (See Net Worth Restrictions).

F. **Principal Residence / Occupancy Requirements / Use of Property**

- **Owner Occupancy:** Borrower(s) must intend to occupy the financed dwelling as a principal residence within 60 days after the closing of the loan. A certification of the owner occupancy is to be made by the borrower(s) on the Borrower Affidavit.
- **Leasing Financed Properties:** While federal law prohibits Virginia Housing from financing properties, which will not be used as a primary residence, it is reasonable that a borrower's life circumstances may later change (i.e. a borrower who is relocated due to employment changes). Virginia Housing's loan servicing policies have been designed to allow a reasonable amount of flexibility where such changes occur, while at the same time adhering to the intent of federal law. Borrowers should contact Virginia Housing's loan servicing department if such circumstances arise to discuss the procedures for possible leasing of the property.

G. **Principal Residence / Property Use / Business Use Restriction**
The subject property may not be used for the following:

- As a recreational or second home.
- As an investment property.
- The residence being purchased may not have additional living space, which would be typically used for investment or rental purposes.
- Use in a trade or business.
    - The financed dwelling may not be used in any manner, which would permit more than 15% of the total living area to be used primarily in a trade or business.
        - The borrower(s) must fully execute the Business Use of Home Certification if the borrower has disclosed that a part of the current residence is being used primarily for a trade or business or if there is any other evidence in the file, such as:
        - The employment business address is the same as the borrower's current residence and/or the borrower has marked yes for mixed-use property on the URLA, or
        - Federal tax returns are provided and show the "business in home" deduction was taken (Typically this shows on Schedule C, line 30).
        - The Business Use of Home Certification certifies that not more than 15% of the total living area of the subject property will be used primarily in a trade or business. If greater than 15% will be used in the subject dwelling, then the borrower is not eligible.

H. **Use of Land -** The borrower(s) must certify the following on the Borrower Affidavit:

- No portion of the land financed provides a source of income (other than incidental income).
- The borrower(s) does not intend to farm any portion (other than as a garden for personal use)
- The borrower(s) does not intend to subdivide the property.

I. **New Mortgage Requirement / No Refinances**

Virginia Housing loans may be made for purchases only; refinances are not allowed (except as stated below for temporary financing). Loan proceeds may not be made to acquire or replace an existing mortgage (whether or not paid off). Proceeds may be used to pay off temporary financing (i.e. construction or bridge loans), which have an initial (not remaining) term of 24 months or less.

- For the purpose of applying the above requirement, an existing mortgage includes: deeds of trust, conditional land sales contracts (generally where regular monthly installments are paid and applied to sales price), pledges, Purchase Agreements to hold title in escrow, a lease with an option to purchase which is treated as an installment sale for federal income tax purposes, and any other form of owner-financing.
- A Virginia Housing loan may be made to finance a residence (including the land) if the borrower(s) have previously had a mortgage loan on the land only. (See Section 2.1 E concerning unattached mobile homes.)
- Virginia Housing provides refinances under specific refinance programs such as FHA Streamline Refinance, VA IRRRL, Fannie Mae and Freddie Mac products.

J. **Maximum Borrower(s) Net Worth**

- Eligible borrower(s) cannot have a net worth exceeding 50% of the sales price of the dwelling being financed.
- The value of life insurance policies, retirement plans, and furniture and household goods shall not be included in determining net worth.
- In addition, the portion of the borrower's liquid assets, which are used to make the down payment and to pay closing costs, up to a maximum of 25% of the sales price, will not be included in the net worth calculation.
- Any income-producing assets needed as a source of income in order to meet the minimum qualifying requirements will not be included in the borrower's net worth for the purpose of determining if this net worth limitation has been violated.

K. **Maximum Gross Income (Maximum Household Income)**

Virginia Housing publishes maximum "gross income" limits, which are established to comply with the limits imposed by the U.S. Treasury limits. The "gross income" as defined below may not exceed the published Virginia Housing income limits. These limits are available at VirginiaHousing.com Income and Sales Price / Loan Limits.

- "Gross Income" includes the combined annualized gross income of all borrowers from whatever source derived and before taxes or withholdings."

Note: Some programs such as Virginia Housing Grant assistance may have different requirements that require the inclusion of all household member income.

- Gross income is calculated by projecting gross income forward for the 12-month period beginning on the date of loan application. Typically, income such as bonuses, overtime, and commissions will be averaged for the most recent 12-month period. If information is unavailable for this period, the Originating Lender may average the past year and year-to-date bonuses, overtime, and commissions. This average multiplied by 12 will be added to current base salary to determine gross income. All such earnings must be included in gross income unless the employer documents that such earnings will not be continued.

  Note: Income, which may not be eligible for use in credit qualifying, may be required to be included in determining gross income for maximum income eligibility purposes**.**

- **The following are included in Gross Income:**
  - Base salary,
  - Overtime,
  - Bonuses,
  - Commissions,
  - Part-time and seasonal employment,
  - Dividends,
  - Interest,
  - Royalties,
  - Pensions,
  - Net rental income,
  - Alimony and child support,

    Note: Alimony and child support must be included in determining maximum gross income, if such income is specified in a divorce settlement, separation agreement, or is voluntary. See below for when this income may be excluded.
  - Veterans Administration compensation,
  - All military pay and allowances including periodic bonus payments (see below for any military pay that may be excluded),
  - Public Assistance,
  - Sick pay,
  - Social Security Income / Benefits,
  - Unemployment compensation,
  - Car allowance,

- Income from trusts, and
- Income from business activities or investments.

Note: Non-Reimbursed Employee expenses or income losses (schedule C or E) are not to be deducted from "gross income" calculations.

- **The following may be excluded from Gross Income:**
  - Income received as a one-time lump sum (such as inheritance, settlement of insurance claim, military re-enlistment bonus), which is nonrecurring, does not need to be included in gross annual income.
  - Military hazard duty pay.
  - Alimony or child support does not have to be included if the borrower certifies that the income is not being received and documents that he/she has made reasonable effort to collect the amount due including filing with courts or agencies responsible for enforcing payments.
  - The “grossed up” portion of non-taxable or tax exempt income per the appropriate GSE, insurer, or guarantor guidelines for qualifying purposes is not required included in gross annual income.
  - MCC income.

L. **Other Household Members**

If the loan is originated with a Virginia Housing Grant, income of other household members must also be included for the purposes of determining whether the Virginia Housing maximum income limits have been exceeded. If not using a Virginia Housing Grant, the income of all other household members does not need to be included for household income. Under no circumstances can a non-borrowing occupant’s income be considered for credit qualifying purposes.

If the income of other household members must be included for household income, it must be disclosed on the Programs Disclosure and Borrower Affidavit (Exhibit E). Any other household member that does not have income must be identified and $0.00 reflected in the annual income section.

M. **Dependents (Maximum Household Income)**

- Income of all dependents liable on the loan must be included in the household income calculation.
- Income of dependents not liable on the loan will be excluded from the household income calculation.

Examples of dependents are: minors, students, elderly parents. If information is not disclosed or there are discrepancies noted within the file documentation, then typically dependent(s) can be confirmed on the most recent tax return.

N. **Multiple Loans**
No borrower may have more than one outstanding Virginia Housing loan.

2.2 Property Eligibility Requirements

A. General Requirements

In order to qualify as an eligible dwelling for a Virginia Housing loan, the residence must:

- Be located in the Commonwealth of Virginia.
- Be a single-family residence, a townhouse, or a unit of an eligible condominium.
- The residence may not have additional living space, which would be typically used for investment purposes, such as a living space with separate kitchen, utilities, and access. Exceptions may be considered based on family need and borrower intent for use.
- Be owned or to be owned by the borrower in the form of fee simple interest.
- Satisfy the other requirements noted in this section.

B. Virginia Housing Sales Price and Loan Limits

Virginia Housing publishes maximum sales price and loan limits. Properties being financed by Virginia Housing cannot exceed these limits. The limit is the highest of the gross loan amount(s), sales price, and acquisition cost. These limits are available on-line. To view Virginia Housing limits go to VirginiaHousing.com Income and Sales Price / Loan Limits.

C. New / Existing Construction

An existing dwelling is defined as any dwelling that has been previously occupied and/or is more than 12 months old from the date of completion. New construction is defined as any dwelling, which has never been occupied and is less than 12 months old from the date of completion or issuance of the certificate of occupancy. This definition is not currently used to apply the appropriate sales price limit.

D. Acquisition Cost Requirements

Acquisition cost is the cost of acquiring the eligible dwelling from the seller as a completed residence. The acquisition costs of a property to be financed may not exceed limits, which have been established by the U.S. Department of The Treasury, in effect at the time of application. In all cases for new loans, these limits equal or exceed Virginia Housing's sales price limits; therefore, for new loans the residence meets this requirement by meeting Virginia Housing sales price limits. In the event that the acquisition costs exceed Virginia Housing's sales price limit as a result of the estimated cost to complete unfinished area (see below), the Originating Lender must contact Virginia Housing to determine if the residence is eligible.

- **Acquisition Cost includes the following:**
  - Amount paid, in cash or in kind, by the borrower to or for the benefit of the seller (or related party) for the land and the residence (excluding any personal property that is not a fixture).
  - If new construction and personal property items are conveyed (included in the sales price) then the value of those personal property items must be subtracted from the acquisition cost. See below for information about

Personal Property (Example Sales Price of $200,000 with $5,000 included for washer, dryer and refrigerator the amount entered would be $195,000).

- Amount paid, in cash or in kind, by any other person to or for the benefit of the seller (or related party) for the land and residence (excluding any personal property that is not a fixture).
- Amounts paid for fixtures (if not a part of the price of the land and residence included in the 2 bullets above). Example: Sales Price of $200,000, flooring paid separately to the flooring supplier in the amount of $10,000 and not included in the sales price paid to the seller – include $10,000 on the line related to fixtures.
- Additional reasonable costs of completing or rehabilitating the residence (whether or not the cost of completing construction or rehabilitation is to be financed with the mortgage loan) if the eligible dwelling is incomplete or is to be rehabilitated. Example, residence that has unfinished areas (i.e. an area designed or intended to be completed or refurbished and used as living space, such as the lower level of a tri-level, unfinished basement, or the upstairs of a cape cod) shall be deemed incomplete, and the costs of finishing such areas must be included in the acquisition cost. Lenders may obtain the cost to complete unfinished areas from the appraiser or by using $15 per square foot for basements and $20 per square foot for above grade areas. Also cost for any rehabilitation or improvements, which have been included in the loan for financing (i.e. cost for energy efficient items) must be included in the acquisition costs.
- Cost of land owned by borrower less than two years prior to commencement of construction of the residence thereon.

- **Non-Acquisition Cost**

  The acquisition cost does not include the following:

  - Usual and reasonable settlement or financing costs, these excluded costs include title insurance, survey fees and other similar costs. Excluded financing costs, credit report fees, legal fees, and appraisal expenses, points that are paid by the borrower(s). Such amounts must not exceed the usual and reasonable costs which otherwise would be paid. Where the borrower(s) pays more than the typical, pro rata share, the excess is to be included as part of the acquisition costs.
  - The value of services performed by the eligible borrower or members of his family in constructing or completing the residence.
  - The costs of land owned two-years or longer by the borrower.
  - Personal property.

- **Calculation of Acquisition costs**
  The Originating Lender will assist in the calculation of the acquisition costs. The figures are to be included on the Borrower and Seller Affidavits. Information

related to the costs of the property and unfinished area should be compared to the information included on the sales contract, Closing Disclosure, and appraisal.

E. **Personal Property Restrictions**

Federal Regulations prohibit Virginia Housing from financing personal property transferring with the residence with the proceeds of tax-exempt bonds. To eliminate the need for adjustment to the sales transaction, the value of the personal property transferring can be offset by any of the following sources: (i) the borrower's down payment; (ii) non-Virginia Housing financing; and (iii) funds contributed (by purchaser or by seller on purchaser's behalf) at closing for purchaser's closing costs. These funds are referred to as "Good Funds."

- To ensure that the fair market value of the personal property transferring with the residence does not exceed the Good Funds, the Seller Affidavit (Exhibit F) and Borrower Affidavit (Exhibit E) are structured to include this information:
    - **Seller Affidavit:** In section 3, the seller states the value of the personal property. This statement is applicable only to new construction. It has been added because the value of the personal property in new construction may be substantial and should be easily quantifiable by the seller / builder.
    - **Borrower Affidavit:** Section 14 – the borrower(s) certify that the fair market value of any personal property does not exceed the sum of (i) their down payment; (ii) any non-Virginia Housing financing; and (iii) closing costs which they reasonably expect to pay, or expect the seller to pay on their behalf, at loan closing.
- The Originating Lender must review the Seller Affidavit (if new construction) and Borrower Affidavit to be certain that the fair market value of the personal property transferring with the residence does not exceed the Good Funds.
- If the Good Funds are greater than the value of the personal property, a separate bill of sale for the personal property or an addendum to contract deleting the personal property is not required.
- In the event the Originating Lender determines that the Good Funds are less than the fair market value of the personal property, the Originating Lender must contact Virginia Housing for additional instructions prior to processing the loan.
- Failure by the Originating Lender to properly examine the Seller Affidavit (if new construction) and Borrower Affidavit for these personal property issues may result in repurchase of the loan from Virginia Housing.

F. **Maximum Lot Size**

- The maximum lot size is 2 acres. Exceptions may be made to permit lots larger than 2 acres, but in no event in excess of 10 acres. Lots in excess of 5 acres are ineligible for an MCC. Exceptions to the 2-acre limit may be granted based on any one or more of the following:
    - If the land is owned free and clear and is not to be financed by the loan, the lot may be as large as 10 acres (5 acres if originated with an MCC).

  - If difficulty is encountered locating a well or septic field, the lot may include the additional acreage needed.
  - If local city or county ordinances (not just subdivision restrictions) require more acreage.
  - If the lot size is determined to be usual and customary in the area for comparably priced homes.
- If originated with an MCC, the acreage also is not in excess of basic livability of the residence, and does not provide, other than incidentally, a source of income to the mortgagor, and the lot cannot be subdivided.

This subsection is intended to allow for consideration of lots over 2 acres in rural areas where smaller parcels are not usual and customary and are not readily available. In determining if subsection is applicable, the lot sizes of the comparable sites provided by the appraiser must demonstrate that size is usual for similarly priced homes in the area. The appraiser must also indicate that the lot size is typical for homes of similar price and size in the area.

Note: **Acreage Exceptions:** The lender's underwriter must review and render a decision and must acknowledge the acreage exception on a memo to the file sent to Virginia Housing for purchase. Justification for the exception must be included. A minimum of two comparable properties should support the acreage.

- There is no acreage limitation on Virginia Housing conventional financing unless it is originated with an MCC, Plus Second Mortgage, and/or DPA Grant. See above if it is originated with any of these, otherwise follow the applicable GSE, insurer, or guarantor requirements.

G. **Appraisals**

- The Originating Lender is responsible for obtaining and submitting a Uniform Residential Appraisal Report that has been prepared by an appraiser licensed in the State of Virginia.
- Virginia Housing reserves the right to obtain an independent appraisal in order to establish the fair market value of the property and to determine whether the property is eligible for the mortgage loan requested.
- Appraisal requirements in accordance with FHA, VA, or Rural Housing must be followed for applicable loans.
- Appraisals for conventional loans must be provided in accordance with established Fannie Mae and/or Freddie Mac requirements.

  Note: Appraisal waivers using conventional financing are not permitted, however an exception may be considered when Fannie Mae or Freddie Mac and AUS have granted the appraisal waiver. The exception request must be submitted to Virginia Housing for consideration and the loan cannot be originated with an MCC, Plus Second Mortgage, or DPA Grant.

- Property values and improvements must be well supported as typical for the market area based on comparable sales with similar characteristics and improvements.
- Properties with unique or non-typical improvements will require special consideration by Virginia Housing.

H. **Manufactured Homes**

Virginia Housing distinguishes between two types of manufactured homes:

- **Modular Homes:** Homes built to state building codes and delivered to the site in modular sections. Modular homes are acceptable for all financing types subject to the approval of the appropriate GSE, insurer or guarantor.
- **Manufactured Homes:** Homes built to Federal Manufactured Home Construction Safety Standards, administered by HUD. The homes are built on wheeled chassis, which remain a basic structural element. Manufactured homes must be permanently attached to the land in accordance with the insurer / guarantor requirements including a foundation inspection and certification.
    - Virginia Housing will allow the financing of manufactured homes through FHA, VA, and Rural Housing loan programs meeting the following requirements as well as those required by the applicable insurer / guarantor:

      Note: Manufactured homes are not eligible for Virginia Housing Conventional and Virginia Housing Conventional No MI programs – refer to the applicable Program Guidelines.

        - **All Manufactured Home Units:**
            - Units must be multi-sectioned (double-wide). Single-wide allowed with FHA only.
            - Foundation must be permanently attached and anchored per manufacturer specifications and/or state and local building codes meeting any perimeter enclosure requirements set forth by the insurer / guarantor. Wheels, axles and trailer hitches must be removed.

              Note: A structural engineer certification may be required based on insurer / guarantor’s requirements.
            - Must have permanent steps and stoops on proper footings.
            - Must provide photographs of HUD seal plates with the numbers reflected on the Appraisal Report or Final Inspection.
            - At minimum, two comparables must be manufactured homes.
            - Must be assessed / taxed as real estate. Must provide evidence that title has been surrendered to DMV and all liens released. Refer to section 2.5 for additional information regarding closing and title requirements for manufactured homes.

- **New Construction Manufactured Homes:**
  - Certificate of Occupancy must be provided.
  - Turnkey contracts only – All construction and installation to be included in the contract with the dealer.
  - No furniture or personal property other than appliances may be included in the transaction.
- **Existing Construction Manufactured Homes:**
  - No changes to the original structure may have been made (i.e. removal of walls and/or additions, etc.) unless all requirements of the insurer / guarantor have been met. This may require additional documentation such as a satisfactory structural engineer certification.
  - Properties must have been constructed since 1976, have a remaining economic life of no less than 30 years and meet HUD manufactured housing standards.
  - Properties constructed prior to July 1, 2014 require a report from DMV confirming surrender of title or indication that no title was found. If the title has not been surrendered, it must be done under the statutory requirements.
  - Properties constructed after July 1, 2014 must submit Affidavit for Manufactured Home Conversion to Real Property Form VSA 35 to DMV.
    - Once DMV rescinds and cancels the title, a confirmation will be issued. The Affidavit with attached DMV confirmation must be recorded where the property is located. Virginia Housing will require proof prior to file completion.
  - Units must be located on the original site and not moved from a previous location.

I. **Condominiums**

Virginia Housing typically follows industry guidelines regarding the financing of condominium units. Virginia Housing does not approve condominium projects. Condominium guidelines and requirements vary based on the Virginia Housing product and the status of the condominium project.

In addition to the condominium project guidelines stated below, the appraisal must clearly establish market acceptance for the project through comparable sales within the subject market and the project. Virginia Housing reserves the right to limit the total number of units financed in any project or phase to no more than 25% of the units.

- **Virginia Housing Conventional Financing:** The condominium must meet the project eligibility guidelines for the applicable GSE and private mortgage insurance company guidelines. The lender's underwriter must indicate the warranty classification on the Loan Transmittal or by separate statement and include all GSE documentation in accordance with the approval type.

- **Virginia Housing FHA, VA, and RHS Financing:** The condominium must be approved in accordance with the applicable insurer or guarantor guidelines and include all documentation in accordance with the approval type.

J. **Affordable Dwelling Units/Re-Sale Restrictions**

Virginia Housing requires re-sale restrictions related to Affordable Dwelling Units or other affordable housing programs to meet FHA guidelines. These guidelines require all re-sale restrictions relating to affordable housing programs to terminate upon foreclosure, deed-in-lieu of foreclosure, or assignment of the insured mortgage to HUD. Originating Lenders must discuss this requirement with local governments that have re-sale restrictions in their program to ensure they meet requirements (Compliance with Single Family Housing Policy Handbook 4000.1). The Affordable Housing Programs and Secondary Financing Certification (Exhibit LL) form must be executed by the Originating Lender and the affordable housing provider and included in the submission package to Virginia Housing.

Note: In the event, the re-sale restrictions do not comply with FHA guidelines, and the loan program requested is conventional financing, contact Virginia Housing for exception consideration.

K. **Cisterns**

Virginia Housing does not consider cisterns to be an acceptable water source. However, if a cistern is the only available water source for the property, and it is common and customary for the market area, contact Virginia Housing for exception consideration.

L. **Property Requirements for FHA, Rural Housing, and VA Loans**

Unless otherwise stated above, Virginia Housing will accept the property requirements of the appropriate insurer or guarantor for each individual loan. All properties must be structurally sound and in adequate condition to preserve the continued marketability of the property and to protect the health and safety of the occupants.

M. **Property Requirements for Conventional Loans**

All properties must be structurally sound and in adequate condition to preserve the continued marketability of the property and to protect the health and safety of the occupants. Eligible properties must possess features, which are acceptable to typical purchasers in the subject market area and provide adequate amenities. Eligible properties must meet the applicable GSE’s property guidelines unless stated below or otherwise approved by Virginia Housing. Properties located in declining markets must be supported with additional documentation to support value and may be subject to reduced loan to value. Follow the applicable GSE guidelines for conventional programs.

N. **Post-Closing Repairs**

- Escrows for post-closing repairs are considered on a case by case basis. No structural or major mechanical repairs.

- The Originating Lender's underwriter may review and render a decision and must acknowledge the exception on a memo to the file sent to Virginia Housing for purchase. A written quote from contractors for the work to be performed is required. If the appraisal was performed without electric and/or water service, a separate inspection report providing testing of the electrical and plumbing systems will be required. Major post-closing repairs that impact the mechanical systems or structural soundness of the property. Are not allowed.
- See Section 4 below for additional requirements regarding Energy Efficient Mortgages and HUD REO with Repair Escrow programs.

O. **Targeted Areas**

A targeted area is an area that meets one of the definitions below:

- **Qualified Census Tract:** A census tract in the Commonwealth of Virginia in which 70% or more of the families have an income of 80% or less of the statewide median family income based on the most recent "safe harbor" statistics published by the U.S. Treasury.
- **Chronic Economic Distress:** An area designated as such by the Commonwealth of Virginia and approved by the Secretaries of Housing and Urban Development and the Treasury under criteria specified in the tax code.
- **Eligibility / Waiver of Three-year prior homeownership requirement:** Mortgage loans for dwellings located in targeted areas must comply in all respects with the requirements of the regulations and those stated in this guide, with the exception of the three-year requirement (prior homeownership).
- **Documenting Targeted Areas:** Originating Lenders must indicate on the Originating Lender's Loan Submission Cover Letter (Exhibit O) the target area status (targeted area yes or no).
- **Locating Targeted Areas:** Should an Originating Lender need assistance in determining targeted areas, they can visit Areas of Economic Opportunity on Virginia Housing's Website or they can call their local city/county planning office.
- **Federal Targeted Area Limits:** Some, but not all properties located in a Targeted Area have higher income and sales price limits. The higher Targeted Income limits do not apply to loans originated with the DPA Grant or CCA Grant. Refer to the Federal Targeted Income limits Virginia Housing's website.

2.3 Underwriting Requirements

A. **General Underwriting Requirements**

To be eligible for Virginia Housing financing, borrower(s) must demonstrate the willingness and ability to repay the mortgage debt and adequately maintain the financed property. All borrowers must meet requirements and guidelines of the applicable GSE, insurer, or guarantor. In addition, the borrower(s) must satisfy the requirements stated below. Originating Lenders must contact Virginia Housing directly to discuss any exceptions to these requirements.

- **Stable Employment:** Borrower(s) must document the receipt of stable income indicating that the borrower will receive future income sufficient to enable the timely repayment of the mortgage loan as well as other existing obligations and living expenses.
- **Credit History:** Borrower(s) must possess a credit history that reflects the ability to successfully meet financial obligations and a willingness to repay obligations in accordance with established credit repayment terms. A minimum 620 credit score is required unless otherwise noted in specific program requirements.
- **Housing Choice Voucher (HCV) Subsidy:** HCVs are acceptable as long as the following are met:
    - All of the requirements of the applicable GSE, insurer, or guarantor are met, and
    - One check for the housing payment made payable to Virginia Housing from the borrower is preferred, or
    - If there are two checks (one from the borrower and the other from the HCV entity), the checks must be sent to Virginia Housing at the same time. The HCV entity check must be made payable to Virginia Housing. If the check is made payable to Virginia Housing and the borrower, the borrower must sign the check. The borrower must include the Virginia Housing Servicing loan number on the check from the HCV entity.

B. **Secondary Financing:** Any secondary financing (including soft seconds – with or without deferred repayments) must meet the requirements stated in the Affordable Housing Programs and Secondary Financing Certification (Exhibit LL). This form must be executed by the Originating Lender and the secondary financing provider and included in the submission package to Virginia Housing.

Note: Exhibit LL is not required with loans on which Virginia Housing or Federal Home Loan Bank is providing down payment assistance. If the first mortgage is Conventional, the Originating Lender may use the applicable GSE's Community Seconds Checklist or Affordable Seconds Checklist in lieu of Exhibit LL.

The following applies to Secondary Financing:

- Payment for the first and second mortgage are to be used in both qualifying ratios.
- Funds may only be used for down payment, closing costs, or pre-paids.
- Maximum loan (including all liens) may not exceed the lesser of sales price or appraised value plus standard closing costs and pre-paids (unless limited by the appropriate GSE, insurer or guarantor).
- **Secondary Financing Terms:**
    - **Interest Rate:**
        - Fixed rate only.
        - May not exceed the rate of the first mortgage.

- **Terms:**
  - No balloon payments.
  - No negative amortized loans.
  - No prepayment penalty.
- **Eligible Sources:**
  - Federal, State, Local Government, or Non-Profit agencies administering funds of such entities or through an employment assistance program.
- **Shared Appreciation:**
  - Any shared appreciation provision must be approved in advance by Virginia Housing.

C. **Sweat Equity:** Sweat equity (the value of services performed by the borrower or members of his family) in constructing or completing the residence, generally is not an acceptable source of funds for down payment and closing costs. Any sweat equity allowance must be approved by Virginia Housing prior to loan approval.

2.4 Loan Terms and Requirements

A. **Term:** A 30-year term is the only term available for Virginia Housing loans.

B. **Maximum Loan Amount / Total Loan Amount / Total Loan to Value:** Refer to the applicable Loan Program Guidelines and Procedures.

C. **Private Mortgage Insurance Coverage Requirements:** Refer to specific conventional program guidelines for mortgage insurance coverage requirements.

Note: Lenders are reminded that all Virginia Housing loans that require mortgage insurance must comply with the individual mortgage insurer guidelines. Even though Virginia Housing may offer more flexible guidelines, loans must meet the stricter of Virginia Housing or the insurer guidelines. This includes adherence to criteria such as maximum LTV / CLTV, minimum credit scores, cash reserves, maximum seller contributions, maximum ratios, minimum borrower contribution, and property requirements.

2.5 Closing Requirements

In general, these closing requirements apply to all Virginia Housing programs unless otherwise specified in Virginia Housing loan program guidelines. Originating Lenders must contact Virginia Housing directly to discuss any exceptions to these guidelines. The accuracy of the borrower's name, property address, and legal description must be confirmed and consistent on all documents throughout the loan file. If there are inconsistencies in the borrowers' names or property address, a name affidavit or address certification must be provided to Virginia Housing. All underwriting conditions required by the approval letter, conditions of the appraisal, and the appropriate GSE, insurer or guarantor requirements must be satisfied prior to closing and included with loan submission.

The following documents must be contained and reviewed in the Closing Lender's preliminary review package.

For current forms and documents go to VirginiaHousing.com. These forms and documents can be completed online.

A. **Final Loan Application (URLA)**
Final loan application reflecting verified information should be signed at closing. If changes in information on the final application are disclosed, the Closing Lender must not proceed with closing. The Closing Lender or Originating Lender must immediately notify Virginia Housing of the changes, and await further instruction from Virginia Housing.

B. **Deed of Bargain and Sale**
The grantor must be the same party reflected in the title binder, as the seller in the sales contract, appraisal and on the Seller Affidavit.

C. **First Mortgage Note and Second Mortgage Note (if applicable)**

- The lender will fund the First and (if applicable) Second Mortgage Loan.
- The First Loan and Second Mortgage must be closed in the name of the Originating Lender and contain required MERS language.
- A late fee of 5% is due 15 days after the due date on Virginia Housing Conventional loans and Plus Second Mortgage loans; and 4% is due 15 days after the due date on Rural Housing, FHA, and VA loans.
- No prepayment penalty may be imposed on any Virginia Housing loan.

D. **First Deed of Trust and Attachments and Second Deed of Trust and Attachments** (if applicable)

- No chattels are financed by any Virginia Housing mortgage loan; therefore, no chattels shall be included in the property description of the Deed of Trust.
- "Trustee's fee" is 5%.
- The appropriate box in the section entitled "Riders of this Security Instrument" must be checked and the appropriate riders must be affixed and recorded with the Deed of Trust. If property is a PUD or Condominium, standard PUD or Condo riders must be used. If property is a manufactured home, a manufactured housing rider is required.
- Any Virginia Housing Second Deed of Trust must have the following language on the first page in bold and capitalized letters:

  "THIS DEED OF TRUST SHALL NOT, WITHOUT THE CONSENT OF THE SECURED PARTY HEREUNDER, BE SUBORDINATED UPON THE REFINANCING OF ANY PRIOR MORTGAGE."

E. **Formal Title Insurance Binder / Policy**

- The "insured" must include, "their successors or assigns as their interest may appear" or be endorsed to Virginia Housing Development Authority after closing.

  - For VA loans, the "insured" should also include the Secretary of Veterans Affairs.
  - For FHA loans, the "insured" should also include the Secretary of Housing and Urban Development.
- The title binder must state that the Closing Lender is covered under the title company's insured closing service, and a Closing Protection Letter from the title company's headquarters (not the agency) insuring the Closing Lender must be received prior to releasing funds for closing.
- The Closing Protection Letter and Title Binder cannot be more than 90 days old at the time of closing.
- Plus Second Mortgage loans do not require title insurance.
- **Title Binder Exceptions:**
  - Each exception appearing in the title binder must be described and located. If not, the title binder must provide affirmative coverage prior to closing against any loss or damage resulting from the exception (Do not provide copies of customary easements unless specifically requested by Virginia Housing).
  - Oil and mineral rights / leases may require explanatory documentation, specific affirmative coverage, and prior approval by Virginia Housing.
  - The following exceptions are not acceptable to Virginia Housing and cannot appear in the final title policy:
    - Property taxes (unless for current and supplemental taxes not yet due and payable).
    - Survey (Exceptions must specifically reference what is shown on the survey provided for review). If a survey is not provided, survey exceptions are not allowed.
    - Rights of parties in possession.
    - Mechanic's and material man's liens.
    - Judgments, including any against the borrower.
    - Unreleased deeds of trust, even if affirmative coverage is provided to lender.
    - Rights of present or future spouse.
    - Oil and mineral rights / leases (unless has affirmative coverage and prior approval by Virginia Housing). ALTA 9 contains sufficient language for coverage.
- In addition, the following must be met:
  - A notation on the face of the binder stating that preprinted exceptions will not appear in the final policy or that they do not apply to the lender's policy will be acceptable.

- All recorded liens, such as judgments and unreleased deeds of trust, must be paid and released prior to disbursement of loan check for closing, even if affirmative coverage is provided by the title company.
- Affirmative insurance coverage must be provided that applicable restrictive covenants "have not been violated and that a future violation will not cause a forfeiture or reversion of title". Do not provide copies of applicable restrictive covenants unless specifically requested by Virginia Housing.
- The title binder must have appropriate ALTA Endorsements attached if the property is a PUD or Condominium. Do not provide copies of homeowners' association documents unless specifically requested by Virginia Housing.
- Any easements that adversely affect the property's use, enjoyment, or marketability, such as high-tension power lines, will be unacceptable.
- An ALTA 8.1 is required on all loans.
- **Manufactured Homes**: Title insurance should include an ALTA Form 7 endorsement to extend title coverage to the manufactured home. Generally, this requires confirmation that the manufactured home is permanently attached to the land, that all personal and real estate taxes have been paid, and that the Certificate of Title has been surrendered. Levels of proof will differ by Title Company.

F. **Private Roads**

Follow applicable GSE, insurer, or guarantor guidelines. Provide all documentation required by the insurer or FHA, VA, or RHS loans.

G. **Well and Septic**

Well and Septic inspection reports are not required by Virginia Housing unless required by the underwriter or the applicable GSE, insurer, or guarantor.

H. **Survey**

A survey is not required unless the title insurance policy takes an exception to a survey. Originating Lenders must comply with the appropriate GSE, insurer or guarantor's requirements**.** Alta 9 does not cover exceptions for general matters of current survey.

I. **Flood Certification**

- To comply with the National Flood Insurance Reformation Act of 1994, a Flood Certification must be provided by a licensed vendor that guarantees the accuracy of the information provided.
- The same or another licensed vendor must provide Life of Loan tracking.
- If flood insurance is required on the property:
  - A copy of the flood insurance application must be reviewed.
  - The loan cannot close prior to the effective date of the policy.

    - The policy must include the name and address of the mortgagor, name and address of the mortgagee, and a description of the insured property.
- The Flood Certification takes precedence over any other documentation provided.

J. **Termite Inspection and Guarantees**

- **Existing Structures:**
    - Current infestation report is required only if it is a requirement of the appropriate GSE, insurer or guarantor or a condition of appraisal or underwriting.
    - A reputable termite company must provide appropriate form as required by the appropriate GSE, insurer or guarantor.
    - Reports expire 90 days from the date of the inspection, unless otherwise stated on the report.
    - If damage or moisture is reported, the termite company or a licensed contractor must state that the problem has been corrected. If wood-destroying infestation is reported, the termite company must furnish evidence that property was satisfactorily treated, and provide an acceptable guarantee against future infestation.
- **New Construction:**
    - Current soil treatment guarantees on the appropriate form as required by t the appropriate GSE, insurer or guarantor must be provided by reputable termite company and countersigned by the builder.
    - Guarantee must be valid for at least one (1) year from the date of treatment. Evidence of a termite shield or a bait system is acceptable.

K. **Final or Repair Inspection and Escrows**

- Escrows for post-closing repairs are considered on a case by case basis. No structural or major mechanical repairs. The Originating Lender’s underwriter may review and render a decision and must acknowledge the exception on a memo to the file sent to Virginia Housing for purchase.
- A final or repair inspection is required if indicated as a condition of the appraisal report.
- Inspection report by appropriate inspector must indicate that all improvements are complete and satisfactory, and must be reviewed prior to releasing the loan funds for closing.
- See Section 4 below for additional requirements regarding Energy Efficient Mortgages and HUD REO with Repair Escrow programs.

L. **Hazard Insurance Binder / Policy**

- The insurance company must be rated at least B+ in the Best’s Key Rating Guide or Demotech.com. If the rating is below B+, a re-insurance certificate from a second company whose rating is at least B+ must be provided. If the insurance company is not rated in the Best Key Rating Guide or Demotech.com, contact Virginia Housing's Servicing Department to determine if the company has been approved by Virginia Housing.

- Policies, or temporary written contracts of insurance (binders), are acceptable. The master policy referencing unit and borrower are required on condominiums. Hazard Insurance coverage is not required on the Plus Second Mortgage loan. Applications for insurance are not acceptable. Policies / Binders must include the following information:
  - Name and address of the mortgagor.
  - Name and address of the mortgagee.
  - Description of the insured collateral.
  - Provision that binder may not be cancelled within the stated term, except upon 10 days' written notice to the mortgagee.
  - State that the company will issue the policy within 45 days from issuance of the binder.
- The mortgagee clause should reflect the Originating Lender information. After purchase the mortgagee clause should be endorsed to read:

  Virginia Housing Development Authority
  c/o Central Servicing
  P.O. Box 4628
  Richmond, VA 23220-8628

- The amount of coverage must be stated in numerals and be at least equal to the lesser of the appraised value of the property less the value of the land as shown on the appraisal, or the loan amount. Replacement coverage alone does not eliminate the required dollar amount coverage.
- The description of the insured property should include the legal description and the mailing address.
- The loan cannot close prior to the effective date of the policy / binder.

M. **Closing Disclosure**

- All charges in connection with closing, including prepaid items and closing costs, must be included in the Closing Disclosure and must reflect to whom charges are payable. Changes at closing such as charges for extras paid by the borrower, or changes to the sales price, will affect the acquisition costs and require re-execution of the Borrower Affidavit and Seller Affidavit.
- The Closing Disclosure must be fully executed by all parties to the transaction. The Originating Lender should ensure that it is filled out correctly, including any addendums.
- Borrower may not receive funds in excess of POC items and EMD (Earnest Money Deposit) back at closing. Costs must be shown as POC to be included in

allowable cash back to borrower. Excess funds to borrower at closing require reduction of the loan amount or applicable second.

- The Originating Lender is responsible for complying with requirements for allowable fees.
- A separate Closing Disclosure(s) is required for all 1st and 2nd loans. 2nd loans are subject to and must comply with disclosure time frames per RESPA, CFPB and TILA guidelines.

N. **Income producing/Ancillary Fees**
Total Ancillary Fees may not exceed common and customary income producing fees and must be reflected on the Closing Disclosure.

O. **Per Diem Interest:** Per diem interest should be collected from the date of closing through the last day of the month and be calculated on 365 days for FHA / VA / RHS and 360 days for Conventional loans. On the Plus Second Mortgage, closing interest is required using 360 days.

P. **Escrow Reserves:** Escrow reserves must be collected in accordance with RESPA requirements. Lender must collect a minimum two months' cushion for initial escrow account set up.

Note: If the property is a condominium, escrow reserves must be collected on the H06 Policy.

Q. **Accurate Tax Escrow Estimation for New Construction:** Lenders are reminded that tax escrows for new construction are to be based on estimates of the property taxes considering the value of land and improvements. When qualifying borrowers and conducting the settlement, realistic estimates of property taxes reflecting the value when assessed should be used in qualifying and in the establishing the escrow amounts at closing. Lenders are responsible for reviewing the Closing Disclosure and instructing the closing agent to establish tax escrows based on the estimated value with improvements.

R. **Secondary Financing:** A separate Loan Estimate and Closing Disclosure is required for all second mortgages including the Plus Second Mortgage to be in compliance with RESPA, CFPB and TILA.

S. **Errors and Omissions Agreement:** Must be completed and signed by all borrowers at closing.

2.6 Purchase Requirements

These purchase requirements apply to all Virginia Housing programs unless otherwise specified in specific loan programs guidelines. Originating Lenders must contact Virginia Housing directly to discuss any exceptions to these guidelines.

A. **Accuracy and Completion**

- The accuracy of the borrower's name, property address, and legal description must be confirmed and consistent on all documents throughout the file.
- A name affidavit is required on all loans.

- An address certification must be provided to Virginia Housing if there are inconsistencies on documents.
- Loan documents must be completed and executed by the borrowers and in accordance with the loan terms reflected on the Virginia Housing Delegated Approval Confirmation or Virginia Housing Loan Review Notification.
- All conditions that were not provided to Virginia Housing prior to closing must be provided to Virginia Housing in the closed loan package.
- The critical documents listed below must be submitted to, and will be retained by Virginia Housing.
- The Compliance Agreement (Ex. CA) must be executed by the borrowers and included in the closed loan package.

B. **First Mortgage Note and Second Mortgage Note (if applicable)**

The Note(s), including the second mortgage if applicable, must be submitted to Virginia Housing via overnight mail. **All notes must reflect the Originating Lender's** name. Notes must be delivered to:

Virginia Housing
601 S. Belvidere St.
Richmond, VA 23220
Attn: Homeownership Document Control

C. **Endorsement of Note(s)**

An original signature is required for the endorsement of the Note(s) – a signature stamp is not acceptable. The endorsement may be on the Note(s) or in a separate Allonge. The following language must be used to endorse the Note:

- "Pay to the order of Virginia Housing Development Authority without recourse"
- Lender's Name
- Authorized Signature
- Name of Authorized Signer
- Title of Authorized Signer

D. **Deeds of Trust:**

- All Deeds of Trust must be drawn with required MERS language.
- Lender MUST provide a copy of the fully executed document in the closed loan package along with evidence of recording receipt.
- The original must be provided within 90 days from closing. The document must be submitted overnight with Virginia Housing Document Transmittal form to:

Virginia Housing
601 S. Belvidere St.
Richmond, VA 23220
Attn: Homeownership Document Control

- The Plus Second Mortgage Deed of Trust must have the following language on the first page in bold and capital letters:

  “THIS DEED OF TRUST SHALL NOT, WITHOUT THE CONSENT OF THE SECURED PARTY HEREUNDER, BE SUBORDINATED UPON THE REFINANCING OF ANY PRIOR MORTGAGE."

- **Plus Second Mortgage Awards Letter:** Plus loans will not be purchased without Awards Letter signed by the borrower.

3 Origination Procedures

3.1 Lock-In Policies and Procedures

Virginia Housing loans may be locked in by Originating Lenders for specific borrowers and properties. The interest rate is locked-in after loan application and after the lender has determined that the borrower meets the eligibility requirements and guidelines for the loan program. No substitutions of borrower, property, or Originating Lender are permitted. A change in the loan program may require the loan to be re-locked at different terms.

A. Rate Lock-In Period

Loans may be locked-in at an interest rate for a period of 30, 45, or 60 days. The loan must close by the lock-in expiration date. Special programs may require different lock periods. Questions regarding special programs should be sent via email to lockdesk@virginiahousing.com.

B. Extension of Rate Lock

The Originating Lender may request extensions to the rate lock period in 15 – day increments, up to a maximum of 60 days. Lock extension requests must be submitted on or before the lock expiration date. The cost of each extension is 0.25% of the loan amount. This cost will be deducted from the net price of the loan. Extensions will not be processed on expired locks. If a full 15-day extension is not needed, a courtesy 5-day lock extension may be granted prior to lock expiration.

C. Expired Rate Lock – Lock Cancellation on Same Property

If a property has an expired rate lock (less than 30 days); pricing for a new rate lock on the same property will be subject to worse case pricing. The lock period remains the same as the original lock.

D. Rate Lock – Lock Cancellation Due to Property Change

A change in property is considered a new transaction and will require a new loan application and rate lock with current market pricing. The original loan must be cancelled prior to locking in a new property.

E. Lock Transfers – Change in Lender

Locks cannot be transferred between lenders. Should a borrower choose to transfer his/her loan to a new lender after the loan has been locked, the original lender must cancel the original lock and provide reason for cancellation. If the reason for lock cancellation was loan denial, the lender must provide the reason for denial to Virginia Housing. The new lender must have the loan reviewed by their underwriting department, determined eligible for approval, and submitted to Virginia Housing for review prior to allowing the new rate lock. The new lock is subject to worse case pricing between the date of the original lock in and current market. If a comparable rate is not available, decisions will be made on a loan by loan basis.

F. **Relocks**

A lock must be expired or cancelled in order to relock. The relock period will mirror the original lock for loans expired less than 30 days. Worse case pricing applies between original day pricing and current market pricing. Locks expired for 30 days or more will be relocked at current market pricing. The lock period can be 30, 45, or 60 days. Special programs may require the relock period to be the same as the original lock period. Questions and lock requests regarding special programs (i.e. SPARC, etc.) should be sent via email to lockdesk@virginiahousing.com.

G. **Reinstatement of Lock**

If a lock is cancelled in error, the lender must request a lock reinstatement by 9am the next business day after the lock was cancelled. Failure to submit the request by the above referenced timeline will require the lender to relock at worse case pricing.

H. **Loan Product Change**

A change in loan product will require the lock to be updated as outlined below. A product or a lock change request must be made through Virginia Housing's Loan Origination System.

- Government to Government – Original lock date pricing and lock period applies for applicable product.
- Conventional to Government and vice versa – Lock update required at current market and lock period.
- Conventional to Conventional No MI and vice versa – Original lock date pricing and lock period applies for applicable product.
- Government to FHA with Plus Second Mortgage – Original lock date pricing and lock period applies for first mortgage but the interest rate will be adjusted by 0.25%. Lender may request Plus Second Mortgage term and period to mirror first mortgage or lock at current market with a lock period of 30, 45, or 60 days.
- Conventional to Conventional with Plus Second Mortgage – Original lock date pricing and lock period applies for first mortgage but the interest rate will be adjusted by 0.125%. Lender may request Plus Second Mortgage term and period to mirror first mortgage or lock at current market with a lock period of 30, 45, or 60 days.
- FHA to Conventional with Plus Second Mortgage / Conventional to FHA with Plus Second Mortgage – A lock update is required at current market pricing and current lock period. Lock period remains the same as the original lock. If the original lock has a DPA Grant, the grant must be cancelled prior to registering / locking the Plus Second Mortgage as a piggyback loan. There is an adjustment to the interest rate of 0.25% for FHA loans and 0.125% for Conventional loans. Lender may request Plus Second Mortgage term and period to mirror first mortgage or lock at current market with a lock period of 30, 45, or 60 days.

  Note: Lenders cannot benefit from better pricing or increased lock period due to multiple product changes.

I. **Rate – Pricing Distribution**

Rates are distributed to lenders Monday – Friday via email. Approval from the lender's secondary department is required to add any recipients to the distribution list.

J. **Lock System Availability**

Loans must be registered and locked in Virginia Housing's Loan Origination System – Mortgage Cadence. Refer to virginiahousing.com for information and guides related to the online system. The Lock Desk will accept new loan locks, Monday through Friday, during the hours of 10:30 a.m. through 6:00 p.m. Eastern Standard Time (EST). The Lock-In system is unavailable on Saturday and Sunday, as well as between the hours of 6:01 p.m. through 10.29 a.m. Eastern Standard Time (EST) Monday through Friday. The Lock-In system is unavailable on all federal holidays with the exception of Columbus Day.

K. **Exceptions**

Exceptions to the Virginia Housing lock policy are made at the discretion of the Virginia Housing Lock Desk upon approval from the Homeownership Managing Director.

L. **Lock Department Hours and Contact Information**

The Virginia Housing Lock Desk hours are 8:30am – 5:00pm Monday – Friday. Questions regarding Virginia Housing's Lock Policy should be sent via email to LockDesk@VirginiaHousing.com.

3.2 Non-Delegated Origination Procedures

Standard Origination Procedures are to be used by Originating Lenders that have not obtained Virginia Housing delegated authority or for delegated lenders submitting loans for programs, which are not eligible for the delegated process. All Virginia Housing specific required documents are available on Virginia Housing's website.

A. **Originating Lender Underwriting Process**

- Originating Lender underwriter must underwrite and approve Virginia Housing loans for the applicable GSE, insurer, or guarantor prior to submission to Virginia Housing.

  Note: Contract underwriters cannot underwrite Virginia Housing loans unless specific written approval obtained from Virginia Housing. See Section 1.6 K Outsourcing Responsibilities and Third Party Originations.

- **Mortgage Insurance Approval**: Loans must be submitted directly to the private mortgage insurer for approval of mortgage insurance and issuance of insurance certificate.
- Originating Lender underwriter must review the loan for compliance with Virginia Housing requirements before submission to Virginia Housing for approval. See individual Program Guidelines and Chapter 2 for Special Eligibility Requirements.
- The underwriter must complete and sign the Loan Submission Cover Letter (Ex. O). This form will also indicate special eligibility requirements.

- **Loan Submission to Virginia Housing**: Refer to Mortgage Cadence User Guide for Virginia Housing's on-line Origination System.
    - Loan must be locked prior to submission.
    - Documents are to be uploaded in accordance with the Virginia Housing Underwriting Submission Checklist, then submit the loan to Virginia Housing.

B. **Virginia Housing Loan Review**

- After Originating Lender's underwriter has approved the loan and submitted it successfully to Virginia Housing for review, the Virginia Housing Underwriter reviews documentation and sends email acceptance notification to lender's underwriter.

  Note: If the loan has an MCC, it is subject to federal recapture. The Notice of Recapture is sent with the loan approval. This document must be sent to loan closing for borrower to execute and return to Virginia Housing.
- If suspended, Virginia Housing Underwriter issues suspense notification to Originating Lender's underwriter. Lender must upload required documentation to receive approval after uploading suspense documents and click to submit the conditions for review. After all suspense items are reviewed and found satisfactory, the Virginia Housing underwriter sends email acceptance notification to the lender's underwriter.
- If loan is denied, notification is emailed to the lender's underwriter.

C. **Loan Closing Process**

- All loan closings are performed under the delegated process, including loans for lenders that are non-delegated. See Section 3.3 Loan Closing Process below for more information.

3.3 Delegated Origination Procedures

Virginia Housing Originating Lenders must receive approval to act in a delegated capacity. Once approved, all loans (unless otherwise noted in program guidelines) may be approved and closed through the delegated process. The Originating Lender will review loans, issue loan approval, approve loans for closing, and fund loans at closing.

A. **Originating Lender Underwriting Process**
Approved Virginia Housing Delegated Underwriters must underwrite and approve Virginia Housing loan files. The loan must be reviewed prior to lock expiration. Rates should be locked on Virginia Housing's Online Lock-In System.

B. Originating Lender underwriter must underwrite and approve Virginia Housing loans for the applicable GSE, insurer, or guarantor prior to submission to Virginia Housing for loan approval.

- Originating Lender underwriter must approve Virginia Housing loans for the appropriate insurer / guarantor FHA / VA / RHS or submit to private mortgage insurer and obtain approval.

  Note: Contract underwriters cannot underwrite Virginia Housing loans unless specific written approval obtained from Virginia Housing. See Section 1.6 K Outsourcing Responsibilities and Third Party Originations.

- **Mortgage Insurance Approval:** Loans must be submitted to the mortgage insurer for private mortgage insurance approval and issuance of mortgage insurance Certificate.
- Originating Lender underwriter is to review loan for compliance with Virginia Housing requirements. See individual Program Guidelines and Chapter 2 for Special Eligibility Requirements.
- The underwriter must complete and sign the Originating Lender's Loan Submission Cover Letter (Ex O). This form will also indicate special eligibility requirements.
- **Delegated Submission**: Refer to Mortgage Cadence User Guide for use of Virginia Housing's Loan Origination System.
  - Loan must be locked prior to delegated submission.
  - After review and determination of compliance with all Virginia Housing and the appropriate GSE, insurer or guarantor requirements, the approved delegated underwriter will access Virginia Housing's on-line Origination System and verify all data for accuracy.
  - The delegated underwriter will complete the Delegated Submission screen in Virginia Housing's Loan Origination System and will then submit for delegation.
  - **Delegated Approval Confirmation**: The delegated underwriter will receive email notification with the Delegated Approval Confirmation and, if applicable, the Notice of Federal Recapture to send to loan closing.

C. **Loan Closing Process**

- Loans are to be closed in accordance with Virginia Housing loan approval, applicable GSE, insurer, or guarantor guidelines in addition to any Virginia Housing specific requirements.
- **Closing Instructions:** Originating Lender must provide the Closing Agent with the Approval, Instructions, and closing documents.
- **Recapture Notice:** If the loan has an MCC, the Originating Lender will send the Recapture Notice, which has been provided by Virginia Housing, to the Closing Agent so it can be given to the borrower at closing to execute and return to Virginia Housing.
- **Servicing Transfer Letter (aka Hello / Goodbye Letter) / First Payment Letter:** The Originating Lender will also provide a Servicing Transfer letter (aka Hello / Goodbye Letter) and First Payment letter to the borrower at closing.
- **Award Letter:** If the loan is originated with a DPA Grant, CCA Grant, or Plus Second Mortgage, the Award Letter must be provided to the borrower at closing to execute and return to Virginia Housing.
- **Compliance Agreement:** The Compliance Agreement (Ex. CA) must be provided to the borrower at closing to execute and return to Virginia Housing.

- **Loan Closing Disbursement:** The Originating Lender will fund the first and, if applicable, the Plus Second Mortgage. Loans must close prior to lock expiration.
- **Closed Loan Package Submission:**
    - The loan file must be submitted in the order identified on the Loan Stacking Form available on Virginia Housing's website.
    - Originating Lender must provide one complete loan package including required underwriting and closing documents within 10 calendar days of loan closing. Loans with an interest credit will be due by either the 15th of the month preceding the first payment date or 10 calendar days after closing, whichever is first. Wiring instructions are to be included in the loan package.
    - After uploading the full and complete file to Virginia Housing's Loan Origination System and clicking to submit the loan to Virginia Housing:
        - The lender must send the original Note and Allonge / Endorsement via overnight mail to:

          Virginia Housing Development Authority
          601 South Belvidere Street
          Richmond, Virginia 23220
          Attention: Homeownership Document Control

        - These same procedures must be performed for the Virginia Housing first mortgage and Virginia Housing second mortgage (if applicable).
- Virginia Housing will perform a full review prior to purchase of loans.
- Virginia Housing will notify the lender of approval for purchase or if the loan(s) has been pended for required corrections.
    - Virginia Housing will provide a suspense letter on each pended loan, and a monthly report listing all loans closed with outstanding documents.
    - If the loan is Purchase Pended, lender must upload required documents and click to submit the conditions to Virginia Housing in the Virginia Housing Loan Origination System.
    - A penalty will be assessed every 10 business days in an amount of 0.125% for loans remaining pended.
- **Loan Funding:**
    - Lenders will receive a Purchase Advice on each loan showing the net funding breakdown.
    - Funds will be wired to the lenders account per wiring instructions and/or Bailee letter provided in each loan in a bulk wire.
    - **Daily Purchasing Program Disbursements by Lender** report will be sent each day reflecting the amount of the bulk wire. The report will reflect individual loans with a total wire amount.
    - The following fees will be used to calculate the net funding amount:

    - Principal Loan Amount
    - Net Price
    - Escrow Balance Transfer
    - DPA Grant
    - CCA Grant
    - Tax Service Fee
    - Interest due
    - Principal Curtailment
    - Pend Penalties, if applicable

- **Obtaining FHA's Mortgage Insurance Certificate (MIC), VA's Loan Guaranty Certificate (LGC), and RHS' Loan Note Guarantee (LNG):**
  - Originating Lender must submit required loan documents to the insurer or guarantor to obtain the MIC, LGC or LNG in a timely manner.
  - MIC, LGC or LNG must be provided to Virginia Housing.
- **Final Documents:**
  - The Originating Lender must submit all final documents (title policy with all endorsements, recorded deed of trust, recorded assignment and mortgage insurance certificate / loan guaranty certificate) to Virginia Housing within 90 days after loan closing.
  - Documents must be submitted using the Virginia Housing Document Transmittal form.
  - The lender must send the original Deed of Trust via overnight mail to:

    Virginia Housing Development Authority
601 South Belvidere Street
Richmond, Virginia 23220
Attention: Homeownership Document Control

  - **Follow-Up Loan Documentation:** Must be uploaded to the Virginia Housing Loan Origination System and click to submit the conditions to Virginia Housing.
- Non-compliance with required procedures or Virginia Housing requirements might result in suspension from participation in the delegated program as well as required purchase of the loan. See Originating Lender Non-compliance and Remedies, Section 1.10, for additional information.

4 Virginia Housing Loan Programs

Detailed information and program guidelines for loan programs noted below are available on Virginia Housing's Website.

First Mortgage Programs	
Virginia Housing Conventional	Virginia Housing offers special financing programs through the Agencies HFA (Housing Finance Agency) initiative. Virginia Housing Conventional and Conventional with No MI programs are available. See Program Guidelines for more information.
FHA	See Program Guidelines for more information.
VA	See Program Guidelines for more information.
Rural Housing	See Program Guidelines for more information.
FHA Streamline Refinance	Available to refinance Virginia Housing FHA loans only. See Program Guidelines for more information.
VA Interest Rate Reduction Refinance (IRRRL)	Available to refinance Virginia Housing VA loans only. See Program Guidelines for more information.
Specialty Programs	
Plus Second Mortgage	Plus includes a second mortgage designed to help qualified borrowers who need down payment and closing cost assistance. See Program Guidelines for more information.
DPA Grant	Virginia Housing offers grants for down payment assistance to eligible borrowers. Special eligibility requirements apply including lower maximum income limits. Funds may be used with specific Virginia Housing first mortgage loans. See Program Guidelines for more information.
CCA Grant	Virginia Housing offers grants for closing cost assistance to eligible borrowers. Special eligibility requirements apply including lower maximum income limits. Funds may be used with specific Virginia Housing first mortgage loans. See Program Guidelines for more information.
Mortgage Credit Certificate	Virginia Housing offers Mortgage Credit Certificates (MCCs) to eligible first-time homebuyers. Information

	about lender participation and MCC requirements and procedures is provided on VirginiaHousing.com. See Program Guidelines for more information.
Sponsoring Partnerships and Revitalizing Communities (SPARC)	Virginia Housing offers special financing initiatives to local communities and non-profits with lower rates. See Program Guidelines for more information.
Other Programs	
REO Condo	Virginia Housing offers special financing for condominium units owned by Virginia Housing through foreclosure that do not meet standard lending requirements. Contact Virginia Housing for more information.
Energy Efficient Mortgages (EEMs)	Virginia Housing will allow the origination of VA guaranteed and FHA insured loans utilizing their respective Energy Efficient Mortgage programs with standard Virginia Housing FHA, and VA loans. The Plus Second Mortgage is not eligible for these EEM programs. Originating Lenders are responsible for meeting all applicable FHA or VA requirements. Note: The costs of the energy efficient improvement are to be included in the Virginia Housing acquisition cost and the total acquisition costs and loan amount may not exceed Virginia Housing's sales price limit. If the energy package items will not be complete by the time of closing, the Originating Lender must ensure all FHA and VA requirements are met and submit to Virginia Housing for consideration prior to loan approval. The Home Energy Package and any other documentation related to the Energy Efficient Mortgage must be included in the submission.
HUD REOs with a Repair Escrow	Virginia Housing will allow the origination of FHA insured loans with a Repair Escrow on HUD REO properties on a case by case basis. The Originating Lender's underwriter may review and render a decision and must acknowledge the exception on a memo to the file sent to Virginia Housing for purchase. Financing repairs through FHA's HUD REO with Repair Escrow is not acceptable when originating an FHA loan with the Plus Second Mortgage.

	Originating Lenders are responsible for meeting all applicable FHA requirements. Note: The costs of repair escrow are to be included in the Virginia Housing acquisition cost and the total acquisition costs and loan amount may not exceed Virginia Housing's sales price limit. Request for approval must be submitted to Virginia Housing in advance of loan approval. Virginia Housing will require a written quote from contractors for the work to be performed. If the appraisal was performed without electric and/or water service, a separate inspection report providing testing of the electrical and plumbing systems will be required. Virginia Housing may deny the request for any post-closing repairs based on the type of repair and potential impact on the mechanical systems or structural soundness of the property.
Assumptions	See Section 8 for more information about Loan Assumptions.

5 Automated Underwriting

Acceptance of Loan Product Advisor, Desktop Underwriter, FHA TOTAL ScoreCard and GUS.

Note: Conventional loan programs requires a Desktop Underwriter (DU) Approve Eligible or Loan Product Advisor (LPA) Accept Eligible approval.

5.1 Programs Eligible for Automated Underwriting

A. 30 Year Fixed Rate (FHA and VA)

B. Rural Housing

C. Conventional Products (DU or LPA only)

5.2 Mortgage Revenue Bond and MCC Requirements

The AUS system approval only applies to the credit qualifying requirements (i.e. credit, ratios, and employment). In addition, the Originating Lender must ensure that all Virginia Housing mortgage revenue bond requirements or MCC Requirements are met. These special requirements are located in Sections 2.1 and 2.2 of the Virginia Housing Origination Guide and are identified on the Originating Lender's Loan Submission Cover Letter (Exhibit O).

5.3 Maximum Debt to Income Ratio

Maximum Debt to Income Ratio is 50.00% with AUS approval.

5.4 Manual Approvals

Manual approvals on AUS referrals will be eligible unless noted in the specific program guidelines. The loan must be underwritten by a DE Underwriter based on their assessment that the loan meets all guidelines along with supporting justification for the loan decision.

6 Recapture Tax

All loans that receive a Mortgage Credit Certificate will be subject to the Recapture Tax. The information provided below is for information purposes only. The borrower should consult a tax advisor or the IRS for more specific information. A Recapture Calculator is available on VirginiaHousing.com.

6.1 Purpose

Congress enacted legislation in 1988, which was subsequently amended in 1990, to recapture some or the entire subsidy (savings realized from the lower interest rate) from first-time homebuyers who receive assistance from financing through tax-exempt bonds. The purpose of recapture is to retrieve the subsidy received from owners who received rapid income increases after they purchased their home, and as a result, do not need the subsidy to remain home owners. Recapture became effective for loans closed after December 31, 1990.

6.2 Recapture Concept

The recapture of subsidy (interest) on a mortgage is triggered when the residence is sold or transferred within nine years of the purchase date. The recapture is actually paid as additional federal tax liability for the tax year in which the home is sold. The amount of recapture that owners might have to pay depends on:

A. The owner’s income during the tax year in which the home is sold.

B. The household size during the tax year in which the home is sold.

C. The year the home is sold (1-9).

D. The amount of net gain realized from the sale of the residence.

Note: The refinancing of a Virginia Housing loan does not trigger recapture.

6.3 Disclosure of Recapture

At loan closing, the purchaser will be provided a Notice of Recapture along with a Federal Income Limits chart. These documents should be maintained with other critical closing documents, as these will be necessary for the owner to calculate any potential recapture tax that may be required upon sale of the property. An example of these documents may be provided to the borrower prior to closing; however, it is important that the documents provided at closing are the ones retained for future tax calculation.

6.4 Explanation of Recapture Tax Calculations

A. **Maximum Recapture Tax:** Once determined that a tax will be due, the tax will be limited to the lesser of:

- 1.25% - 6.25% (determined by year in which property is sold) of the amount of the loan funded by the mortgage revenue bond (see Note below) **or**

- 50% of the gain (net) on the sale of the property (gain minus improvements, commissions, fees, etc.)

  Note: Many Virginia Housing loans are now made from a combination of tax-exempt bonds and taxable bonds. Only the portion of the loan made from a tax-exempt bond would be subject to recapture and to this calculation. This amount will be noted on the Notice of Recapture provided at closing.

6.5 Guidelines for Recapture Requirement

It is suggested that homeowners who have financed properties with mortgage revenue bonds, consult a tax advisor for assistance in Recapture Tax calculations.

Recapture tax will not be owed if:

A. The owner's modified adjusted gross income in the year in which the residence is sold does not exceed the allowable limit (refer to chart) **or**

B. There is no gain on the sale of the property (adjusted for allowable costs)

6.6 Allowable Adjusted Qualifying Income

Refer to the Adjusted Qualifying Income Chart provided to the borrower at closing.

Determine the applicable Maximum Adjusted Qualifying Income on the chart. This is based on the area of the property; the number of people in the household, if the property is in a targeted or non-targeted area, and the year the home was sold. Then determine the owner's Modified Adjusted Gross Income. Modified Adjusted Gross income is the adjusted gross income reflected on the federal income tax for the tax year the property is sold, in addition to any interest received from tax-exempt bonds and minus any the gain included as a result of the sale of the subject property. If the Modified Adjusted Gross income is less than the Maximum Adjusted Qualifying Income from the chart - No further calculations are needed - No Recapture Tax will be due.

6.7 Calculation of Recapture

There are several steps required to calculate the actual recapture amount owed. Once it has been determined that the owner's income is such that a recapture tax is to be paid, several adjustments may be made which may reduce the amount of tax to be paid.

A. **Adjustment to Income:** If the owner's Modified Adjusted Gross Income exceeds that in the federal income chart, an adjustment to the amount of tax owed could be possible. If the Modified Adjusted Gross Income exceeds the allowed federal limit by $5,000.00 or more, then 100% of the required tax will be due. If it exceeds the allowed federal limit by less than $5,000.00, only a percentage of the tax will be due. Subtract the federal Adjusted Gross Income limit from the owners Modified Adjusted Gross Income then divide this figure by 5,000.00. This resulting percentage will be used in the calculation in C below.

B. **Adjustment for Holding Period:** The percentage of tax will be no greater than 6.25% but may be as low as 1.25% of the loan amount. The applicable percentage is based on the year in which the property is sold. The percentage begins at 1.25% if sold in the first year and increases by 20% per year-to-year five when 100% of the tax or 6.35% of the loan amount may be due. The percentage then decreases by 20% per year to the ninth year. The Holding Period percentage can be found on the Federal Income Limits chart attached to the Recapture Requirement Notice provided at closing. The appropriate percentage will be used in the final calculation below.

C. **Final Calculation:** The recapture tax due will be the lesser of:

- 50% of the net gain on the sale of the property or
- The final Recapture Calculation – Mortgage Revenue Bond Loan Amount
- X 6.25%
- X any adjustment for Income (A above)
- X any adjustment for Holding (B above)

A Recapture Tax Calculator is available on Virginia Housing's website.

7 Homeownership Education

7.1 Virginia Housing's Homeownership Education Program

Virginia Housing's Homeownership Education Program is available either online or in a classroom setting. A Virginia Housing homeownership program must be completed prior to loan approval to be eligible for any type of Virginia Housing financing (unless otherwise approved for non-first time homebuyers).

A. Program Content

Virginia Housing's Homeownership Education Program teaches future homeowners about budgeting, credit, qualifying and applying for the right loan, choosing the right home, what happens at a loan closing, and more. Participants are required to complete six hours of class time to receive a certificate of completion.

B. Program Benefits

Courses meet the educational requirements for FHA, Fannie Mae, Freddie Mac, and Virginia Housing special financing programs. This education course does not meet the requirements for a counseling session that may be required for other financing not offered by Virginia Housing; it is homebuyer education.

C. Program Availability

The Homeownership Education courses are offered each month throughout the state, available on-line, and are taught by trained industry professionals including mortgage bankers, Realtors® and other housing experts. A training program has been developed to certify staff of non-profit organizations to provide one-on-one counseling using the Virginia Housing materials. Additional information about Virginia Housing's free Homeownership Education Program and its availability may be obtained by calling 1-888-643-2696 or by visiting VirginiaHousing.com.

8 Loan Assumption

8.1 General Loan Assumption Requirements

A. Assumptions may be permitted on the following Virginia Housing mortgage loans noted below provided that certain requirements are met. For more information, contact Virginia Housing's Servicing Department.

- FHA
- VA
- Conventional (only for certain exempt transactions as outline in Fannie Mae's and/or Freddie Mac's Servicing Guide)

B. **Mortgage Credit Certificate (MCC)**

If the loan to be assumed has an MCC (with a Virginia Housing loan or non-Virginia Housing loan), the MCC cannot be transferred.

D. **Recapture Notice**

Loans funded with tax-exempt bonds may be subject to a federal recapture tax. When one of these loans is assumed, a new nine-year recapture period begins for the new owner. Therefore, a "Recapture Requirement Notice" accompanied by a current table of Federal Income Limits, must be executed by the assumers at closing. Refer to Chapter 6 – Recapture Tax – for more information.

9 Explanation of Virginia Housing Forms, Exhibits, and Documents

Virginia Housing forms, exhibits, and documents are located on Virginia Housing's website. Originating Lenders are responsible for duplicating, purchasing from a forms provider, or accessing on virginiahousing.com all necessary documents used on Virginia Housing loans. The Originating Lender is responsible for the accuracy of all documents and using the most current version.

9.1 Electronic Signatures

Virginia Housing will accept electronic signatures for the contract and all initial origination documents and disclosures executed in compliance with the ESIGN Act and state laws. Loan closing documents must be executed with original signatures.

9.2 Virginia Housing Origination Forms, Exhibits and Documents

In addition to standard industry loan documents and disclosures, Virginia Housing has several documents which must be executed which attest to compliance with specific Virginia Housing program requirements, federal regulations related to tax exempt bond requirements and Mortgage Credit Certificate regulations. The information below addresses these forms and any unique requirements related to the execution or completion of these forms.

A. **Tax Form 4506 or 4506-C**

- The Originating Lender must have borrowers sign a completed Tax Form 4506 / 4506-C, which enables the Originating Lender to obtain tax transcripts if further verification is necessary.

  Note: Tax transcripts are required on all Conventional loan programs. The type of tax transcript required is dependent on the qualifying income. The number of years of tax transcripts required varies based on the number of years' documentation required by Desktop Underwriter (DU) or Loan Product Advisor (LPA). Tax transcripts are required in addition to the fully executed 4506-C.

B. **Programs Disclosure and Borrower Affidavit (Exhibit E)**

This document includes special disclosures and program information unique to Virginia Housing programs, and Mortgage Credit Certificates. The borrower is requested to acknowledge their intent to request a Mortgage Credit Certificate and/or a Virginia Housing Grant (if available) on page one.

- **Borrower Affidavit**

  The Affidavit (pages 3 – 4) attests to the borrower's compliance with federal regulations. It must be signed by all borrower(s). The Originating Lender should assist in completing this document. On Page 4 other household member(s) income (required for Virginia Housing Grant) are required to disclose income. Pages 3 – 4 are not required for Conventional loans without the DPA Grant, Plus Second Mortgage, or an MCC.

  The acquisition costs portion of this form, attest to the actual cost of the residence as a completed dwelling to ensure this value is in compliance with Federal Safe Harbor Sales Price limits. If the final Acquisition Costs figure exceeds Virginia Housing's sales price limit as a result of the estimated cost to complete unfinished area, contact Virginia Housing for approval prior to proceeding.

- **Power of Attorney (POA):** A representative of the borrower may execute the Programs Disclosure and Borrower Affidavit (Exhibit E), as long as at least one borrower signs in person. Documentation demonstrating the validity of the power of attorney is required.

C. **Seller Affidavit - (Exhibit F)**
The Seller Affidavit is the document on which the seller(s) attest to compliance with certain federal requirements related to the property and the terms of the sales transaction. The Seller Affidavit also includes the Acquisition Costs figures noted on the Borrower Affidavit. The Seller Affidavit must be signed by all sellers appearing in the vested clause of Schedule A of the title binder.

- **Power of Attorney (POA):** A representative of the seller may execute the Seller Affidavit (Exhibit F) using a power of attorney. Documentation demonstrating the validity of the power is required.
- **Estates:** In circumstances where the property is being sold by an Estate or Executor, ensure the individual signing on behalf of the Estate is authorized.
    - The signature of only one heir may be acceptable if this same heir signed the sales contract and deed. This individual must have knowledge concerning the terms of the sales contract and familiar with the property.
- **Bank Owned Properties:**
    - A representative of the seller (bank) must execute the Seller Affidavit. If the bank has contracted with a third party management company to sell the property, Virginia Housing will allow the signature of the management company as power of attorney for the bank. The same management company representative must execute the Sales Contract, Deed, and Seller Affidavit.
    - Exceptions for properties sold by FHA, VA, Rural Development, Fannie Mae, and Freddie Mac must be submitted to Virginia Housing for consideration.
- **Borrower Owned Land:**
    - Exceptions for properties when the borrower already owns the land prior to commencement of construction of the residence thereon must be submitted to Virginia Housing for consideration.

D. **Originating Lender's Submissions Cover Letter (Exhibit O)**
Originating Lenders attest to reviewing all loan documents for compliance with Federal requirements including calculation of household income. The Originating Lender is responsible for determining the estimated value of any personal property items cited in the sales contract and costs of completing any unfinished area. These figures are included on this document for calculation of the Acquisition Costs on the Borrower and Seller Affidavits. The underwriter of the Originating Lender must sign this document.

E. **Virginia Housing Closing Documents, Forms and Exhibits**
In addition to standard industry loan documents and disclosures, Virginia Housing has several documents which must be executed that attest to compliance with federal regulations related to tax exempt bond requirements and special Virginia Housing regulations. The information below addresses these forms, and any unique requirements related to the execution or completion of these forms.

- **Originating Lender's Post Closing Cover Letter (Exhibit P):** Must be executed by the lender certifying the loan is in compliance with Virginia Housing requirements.
- **Notice of Servicing Transfer (Hello / Goodbye)**
- **Summary of Recapture Tax Requirements (Exhibit Z):** Applicable to the Mortgage Credit Certificate (MCC) loan program only. The Originating Lender will send the Recapture Notice, which has been provided by Virginia Housing to the Closing Agent. The original should be provided to the borrower who should retain for future filing of taxes if the property is sold within the first nine years of the loan.
- **Award Letter:** If the loan is originated with a DPA Grant, CCA Grant, or a Plus Second Mortgage, Virginia Housing will provide the letter. The Originating Lender will send the letter to the Closing Agent to be provided to the borrower.
- **Compliance Agreement (Exhibit CA):** The Originating Lender will send the agreement to the Closing Agent to be provided to the borrower.

10 Virginia Housing Fair Housing Policy

EQUAL HOUSING OPPORTUNITY

10.1 VIRGINIA HOUSING FAIR HOUSING POLICY

Virginia Housing does business in accordance with federal and state fair housing law.

UNDER THE FEDERAL FAIR HOUSING ACT, IT IS ILLEGAL TO DISCRIMINATE AGAINST ANY PERSON BECAUSE OF RACE, COLOR, RELIGION, SEX, HANDICAP, FAMILIAL STATUS (HAVING ONE OR MORE CHILDREN), OR NATIONAL ORIGIN IN THE FOLLOWING ACTIVITIES:

Sale or rental of housing or residential lots.

Advertising the sale or rental of housing.

Financing of housing (including mortgage loans).

Provision of real estate brokerage services.

Appraisal of housing.

Blockbusting is also illegal.

IF YOU BELIEVE YOU HAVE BEEN DISCRIMINATED AGAINST IN VIOLATION OF THE FEDERAL FAIR HOUSING ACT, YOU SHOULD SEND A COMPLAINT TO THE U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT ("HUD") AT:

1-800-669-9777 (Toll Free)

1-800-927-9275 (TTY)

www.hud.gov

U.S. Department of Housing and

Urban Development

Assistant Secretary for Fair Housing and

Equal Opportunity

Washington, D.C. 20410

UNDER THE FEDERAL EQUAL CREDIT OPPORTUNITY ACT ("ECOA"), IT IS ILLEGAL TO DISCRIMINATE IN ANY CREDIT TRANSACTION, INCLUDING A MORTGAGE LOAN:

On the basis of race, color, national origin, religion, sex, marital status, or age;

Because all or part of borrower's income is from public assistance; or

Because borrower has exercised a right under the Consumer Credit Protection Act.

IF YOU BELIEVE YOU HAVE BEEN DISCRIMINATED AGAINST IN VIOLATION OF ECOA, YOU SHOULD SEND A COMPLAINT TO THE FEDERAL TRADE COMMISSION ("FTC") AT:

Online: www.ftc.gov

Phone: 1-877-FTC-HELP (1-877-382-4357);
TTY: 1-866-653-4261

Mail: Write to:
Federal Trade Commission
Consumer Response Center
600 Pennsylvania Avenue, NW
Washington, DC 20580

UNDER THE VIRGINIA FAIR HOUSING LAW, IT IS ILLEGAL FOR ANY MORTGAGE LENDER TO DISCRIMINATE AGAINST ANY PERSON IN MAKING AVAILABLE SUCH A LOAN, OR IN THE TERMS OR CONDITIONS OF SUCH LOAN, OR IN THE MANNER OF PROVIDING SUCH A LOAN, BECAUSE OF RACE, COLOR, RELIGION, NATIONAL ORIGIN, SEX, ELDERLINESS (DEFINED AS AGE 55 OR OLDER), FAMILIAL STATUS, OR HANDICAP.

IF YOU BELIEVE YOU HAVE BEEN DISCRIMINATED AGAINST IN VIOLATION OF VIRGINIA FAIR HOUSING LAW, YOU SHOULD SEND A COMPLAINT TO THE VIRGINIA FAIR HOUSING OFFICE AT:

Virginia Fair Housing Office
9960 Mayland Drive, Suite 400
Richmond, VA 23233

Phone: (804) 367-8530.
Toll free call (888) 551-3247.
For TDD users, please call the Virginia Relay by dialing 7-1-1
Email: fairhousing@dpor.virginia.gov