VHDA®

Homeownership Originations Policies

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Table of Contents

1. Introduction

1.1. Purpose of the Document

The purpose of this manual is to outline the various policies used in the origination, underwriting, processing, closing, purchasing and selling of Single Family loans.

1.2. Document Revisions

When	Description
7-12-13	15.1.10 Active Loan Programs - Addition of the Rapid Refi Program
7-12-13	4.0 Interest Rates - Notifications of rate changes from Finance Division
9-12-13	15.1.11 Active Loan Programs – Addition of Strategic Home Improvement Program (SHIP)
11-1-13	5.4 Loan Rate Lock; 5.5 Rate Lock Period: 6.0 Rate Locks-Manual
1-9-14	10.0 QM / Ability to Repay
2-14-14	15.1.2 Active Loan Programs-Addition of Downpayment Assistance Program
8-1-14	25.4 Lender Rebuttal
12-09-14	29.0 Authorized Officer Matrix

2. Fair Lending

VHDA 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

Individuals that believe they have been discriminated against in violation of the Federal Fair Housing Act is advised to submit a complaint to the US Department of Housing and Urban Development (HUD) at:

1-800-669-9777 (Toll Free)

1-800-927-9275 (TTY)

www.hud.gov

3. Approving New Lenders

The Business Partners Product Manager is the point of contact for lenders inquiring about participation in the VHDA program.

3.1. Application Documents

The Application, Origination Agreement and Information Security Agreement are available on VHDA's website: www.vhda.com

- Business Partners
- Lenders
- Becoming a VHDA Lender

3.2. Initial Review

The Business Partner Products Manager screens the application for completeness. The BPPM will contact the lender should additional supporting documents or clarification be required.

The Business Partner Products Manager documents that the lender is in good standing with VHDA through FHA Connection via Neighborhood Watch.

The Lender's Quality Control plan is forwarded to the Single Family Compliance Officer for review. The SF Compliance Officer ensures that the Lender QC plan meets all VHDA and Investor requirements.

3.3. Approval Process

On an as needed basis, the review committee consisting of the Director of Single Family, Business Partners Products Manager, and Loan Programs Manager meets to review applications for participation in the VHDA loan program. Applications are evaluated to ensure the lender meets VHDA minimum standards set forth in the Application and Originations Guide for participation.

Once the lender has been approved, the Business Partners Products Manager generates an Approval Letter. The approval is contingent on the completion of all required training. Copies of the Origination Agreement and the Information Security Agreement are sent to the lender with the Approval Letter.

4. Interest Rates

VHDA's Finance Department regularly reviews market conditions to determine appropriate interest rates for VHDA loan programs. Rate change requests are initiated by the Finance Department and a bond allocation notice is emailed to the Business Partner Product Manager detailing the new rates, funding sources and allocation amounts no later than 10 am. In instances where the Business Partner Products Manager has not received a notice of rate change by 10 am, the interest rates from the previous business day remain in effect.

The Business Partner Products Manager makes appropriate changes in the SF Funding system and activates the new interest rates. VHDA associates and stakeholders may register to receive notifications of rate changes via Ratewatch. A Ratewatch email notifies stakeholders that a change in VHDA's rates has occurred and encourages stakeholders to visit www.vhda.org to view the new rates and pricing by product type.

Whenever interest rates are adjusted, VHDA's voice recorded Rate Line is updated accordingly.

Overnight price protection is offered from Monday evening through Friday morning. The lock-in system is unavailable from Friday evening 9:00 pm until Monday morning 10:00 am. The lock-in system is unavailable on all federal holidays with the exception of Columbus Day.

5. First Come, First Serve

VHDA has adopted a policy of First Come, First Serve when allocating resources for its first-time homebuyer program.

5.1. System Requirements

The First Come, First Serve program is supported by the internet therefore minimal system requirements are necessary. No special software or system installation is required. System requirements include:

- Internet Access
- Access to email
- Internet Explorer 4.0 or greater/Netscape 4.0 or greater

5.2. System Administrators

All lenders must designate a System Administrator. The System Administrator is registered and given access to VHDA's Loan Origination System/Rate Lock System. The System Administrator is responsible for maintaining a current list of individuals authorized to access VHDA's on-line rate lock system. The System Administrator may add, modify or delete individuals from the authorized list.

5.3. System Registration

Administrative contact information is received from all lenders once they are approved to originate VHDA loans. The Business Partner Products Manager enters all appropriate lender contact information into the Loan Origination Systems.

5.4. Loan Rate Lock

Loan interest rates are locked-in by the Originating Lender on behalf of loan applicants for the purchase of a specific property. No substitution of applicant, property or Originating Lender is permitted.

5.4.1. Changes affecting loan rate

- A change in loan program may require the loan to be re-locked and may carry different terms.
- In cases where a rate lock has expired or been cancelled, and no more than 30 days has lapsed, the pricing for a new rate lock on the same property will be the higher of the original rate lock or the prevailing market interest rate.
- Substitution of properties is not permitted. A change in property will require a new loan rate lock at VHDA's prevailing interest rate.

5.5. Rate Lock Period

The loan interest rate is locked-in for a period of 60 days. An extension to the lock period may be granted in 15 day increments for a maximum of 60 days. The lender is required to submit to VHDA a rate lock fee of .25% of the loan amount for each 15 day extension granted.

6. Rate Locks-Manual

Rate locks are received and processed manually for reasons such as a previous rate lock in the system, the inability of a loan officer to access the VHDA on-line system or the rate lock of a loan under a VHDA special program.

6.1. Interest Rate

Manually locked loans are locked-in at the prevailing interest rate.

Special Programs are locked-in at the prevailing interest rate unless VHDA has been notified that the rate lock form had been submitted for Sponsor approval prior to the VHDA rate change. *This exception is granted due to the additional time required for the Sponsor approval.*

6.2. Exceptions

The Business Partner Products manager or Reservation Assistant may grant an exception to the above policy in the instance where the lock-in contact is in the rate lock system at the time of an increase in rates. In this instance, the lock-in contact may honor the lower rate. All other exceptions must be reviewed and approved by the Managing Director of Homeownership, Director of Homeownership Programs or the Assistant Director of Homeownership Programs.

A list of individuals requesting exceptions and all supporting documentation is maintained by the department.

7. Mortgage Revenue Bond

All loans funded by tax exempt bonds must meet certain borrower and property eligibility.

7.1. Borrower eligibility requirements:

A. Borrower Age
Borrowers must be over the age of eighteen (18) years or have been declared emancipated by 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, be deemed to 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 Social Security Number, and is eligible to work in the United States. Lenders are required to certify that applicants meet these guidelines and provide evidence that the FHA requirements are met. This eligibility applies to all VHDA loan programs.

D. **Co-Signers**
Co-signers are not allowed on VHDA loans. All borrowers must occupy the property as their primary residence.

E. **Prior Homeownership Three-year Requirement**
An eligible borrower 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). This requirement applies to any person who will execute the mortgage document or note.
The three-year requirement stated above does not apply for residences being financed in "targeted areas.

F**. Required Documentation - Tax Returns**
To verify that the borrower meets this three-year requirement, the Originating Lender must obtain copies of complete federal income tax returns filed by the borrower for the three years immediately preceding execution of the mortgage documents (loan closing). Loans closing after April 15th of any year will require the borrower to provide the tax returns for the previous tax year, or evidence of filing for extension. Originating Lender may provide the following for the three most recent federal tax returns:

- Complete copies, including all schedules of the returns
- A letter from the Internal Revenue Service stating that the borrower filed form 1040A or 1040EZ for any of the three most recent tax years
- A completed and signed Tele-filing form including a confirmation number
- The Electronic Filing cover page alone is not acceptable. The computer printout pages including all schedules must be included
- Print outs from the IRS or other acceptable service provider
- Any combination of the above for the most recent three years
- IRS Form 4506 or 4506-T must be completed, dated and signed by all borrowers and those taking title to the property

- If the borrower was not required by law to file a federal income tax return for any of those tax years and did not file, the borrower must certify to same on the Affidavit of Borrower indicating which year this occurred. No additional documentation related to taxes will be required for that tax year

G. **Principal Residence/Occupancy Requirement/Use of Property**
Owner Occupancy: Borrower(s) must intend to occupy the financed dwelling as a principal residence within 60 days (90 days for rehabilitation loans, if available) after the closing of the loan. A certification of the owner occupancy is to be made by the borrower(s) on the Affidavit of Borrower.

Principal Residence/Property Use/Business Use Restriction: The borrower may not use the financed property in the following:

- As a recreational or second home
- As investment property
- Use in a trade or business/Restriction

The financed dwelling may not be used in any manner which would (1) permit any portion of the cost of the dwelling to be deducted as a trade or business expense for federal income tax purposes, or (2) if more than 15% of the total living area is to be used primarily in a trade or business. The Originating Lender must review the federal tax returns to determine if the borrower has previously been eligible for the "business in home" deduction, which is indicated on "Schedule C" of the federal tax returns. If the borrower(s) did take the "business in home" deduction previously, they are not eligible for financing unless they provide the following: The borrower must provide a statement that not more than 15% of the total living area will be used primarily in a trade or business. In addition, evidence indicating that the borrower is no longer eligible for the "business in home" deduction is required. Note: The residence being purchased may not have additional living space, which would be typically used for investment or rental purposes.

Use of Land: The borrower must certify on the Affidavit of Borrower the following

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

H. **New Mortgage Requirement/No Refinances**
VHDA 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.

Definition of Mortgages: 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.

I. **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 applicant'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.

J. **Maximum Gross Income (Maximum Household Income)**
VHDA 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 VHDA income limits. These limits are available at
http://www.vhda.com/SF/salesincome.htm

"Gross Income" includes the combined annualized gross income of all persons residing or intending to reside in a dwelling unit from whatever source derived and before taxes or withholdings."

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. Income from all household members (excluding dependents) must be included in "gross income" calculations, even if these individuals will not be on the loan. (Refer also to non-borrowing occupant Section J)

Included in Gross Income: Base salary, overtime, part-time employment, bonuses, dividends, interest, royalties, pensions, Veterans Administration compensation, net rental income, alimony, child support, public assistance, sick pay, social security benefits, unemployment compensation, income from trusts, and income from business activities or investments.

Note 1: Alimony and child support must be included in determining maximum gross income, if such income is specified in a divorce settlement or separation Purchase Agreement, unless the applicant 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.
Note 2: Income received as a one-time lump-sum (such as inheritance, settlement of insurance claim, re-enlistment bonus), which is nonrecurring, does not need to be included in gross annual income.
Note 3: Car allowance(s) must be included in determining maximum gross income.
Note 4: Non-Reimbursed Employee expenses are not to be deducted from "gross income" calculations.
Note 5: All military pay and allowances must be included in determining maximum gross income, excluding hazard duty pay and one-time lump-sum re-enlistment bonuses. However, periodic bonus payments must be included in the calculation.
Note 6: Non-taxable income may be “grossed up” per insurer guidelines for qualifying purposes but need not be “grossed up” for maximum income purposes.

K. **Non-borrowing Occupant**
The income of all occupants must be considered for the purposes of determining whether the VHDA maximum income limits have been exceeded, however, a non- borrowing occupant's income will not be considered for credit qualifying purposes. Income of household members who were identified as dependents on the most recent tax return will be excluded from maximum income, if they are not liable on the loan (such as minors, students, elderly parents).

7.2. Property Eligibility Requirements

In order to qualify as an eligible dwelling for a VHDA 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. Note: 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 applicant in the form of fee simple interest
- Satisfy the other requirements noted in this section.

A. VHDA Sales Price and Loan Limits

VHDA publishes maximum sales price and loan limits. Properties being financed by VHDA cannot exceed these limits. These limits are available on-line. To view VHDA limits to go http://www.vhda.com/SF/salesincome.htm.

B. Acquisition Cost Requirements

Definition of Acquisition cost: 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 VHDA's sales price limits; therefore, for new loans the residence meets this requirement by meeting VHDA sales price limits. In the event that the acquisition costs exceeds VHDA's sales price limit as a result of the estimated cost to complete unfinished area (1b below), the Originating Lender must contact VHDA to determine if the residence is eligible.

Assumptions - Acquisition Costs: To determine if the acquisition cost is at or below federal limits for assumptions, the Originating Lender or, the Servicing Lender must contact VHDA.

Acquisition Cost: The acquisition cost includes the following:

- All amounts paid, either in cash or in kind, by the eligible borrower (or a related party for the benefit of the eligible borrower) to the seller (or a related party or for the benefit of the seller) as consideration for the eligible dwelling. Such amounts include amount paid for items constituting fixtures under state law.
- Personal Property: Refer to April 23, 2001 Announcement regarding personal property transferring with VHDA financed properties. http://www.vhda.com/BusinessPartners/Lenders/UpdatesAnnouncements/Pages/Apr232001.aspx
- The 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. As an example of reasonable completion cost, costs of completing the eligible dwelling so as to permit occupancy under local law would be included. A 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.

- The costs of land on which the eligible dwelling is located and which has been owned by the borrower for a period of no longer than two years prior to the construction of the structure.

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. Such amounts must not exceed the usual and reasonable costs which otherwise would be paid. Where the borrower 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 applicant

Calculation of Acquisition Costs: The Originating Lender will assist in the calculation of the acquisition costs. The figures are to be included on the Affidavit of Borrower and Affidavit of Seller. Information related to the costs of the property and unfinished area should be compared to the information included on the sales contract, HUD 1 settlement statement, and appraisal.

C. Maximum Lot Size

The maximum lot size for VHDA financed properties is 2 acres; However, exceptions may be made to permit lots larger than 2 acres, but in no event in excess of 5 acres.

Exceptions to the 2-acre limit may be granted based on 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 5 acres (subsection i)
- If difficulty is encountered locating a well or septic field, the lot may include the additional acreage needed (subsection ii)
- If local city or county ordinances (not just subdivision restrictions) require more acreage (subsection iii)
- If the lot size is determined by VHDA, to be usual and customary in the area for comparably priced homes (subsection iv)

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: Approval for any lot over 2 acres must be obtained from VHDA prior to closing.

7.3. Targeted Areas

Definition of Targeted Areas: A targeted area is an area, which meets one of the definitions stated 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 state-wide 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). The applicant must submit federal income tax records for the preceding federal tax year only. This will only be used to verify that applicants have not used previous residences in a trade or business (not to verify 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 call their local city/county planning office.

7.4. Recapture Tax

All loans, which are funded from one of VHDA's Tax-exempt Bond Loan Programs, may be subject to the Recapture Tax explained in this section.

Note: The borrower should consult a tax advisor or the IRS for more specific information.

7.4.1. Explanation of Recapture Tax

A. Purpose

Congress enacted legislation in 1988, which was subsequently amended in 1990, to recapture some or all of the 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.

B. 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:

- The owner's income during the tax year in which the home is sold
- The household size during the tax year in which the home is sold
- The year the home is sold (1 - 9)
- The amount of net gain realized from the sale of the residence

Note: The refinancing of the VHDA loan does not trigger recapture

C. 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 applicant prior to closing; however, it is important that the documents provided at closing are the ones retained for future tax calculation.

7.4.2. 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- See F2) 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 VHDA 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.

B. 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:

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

Allowable Adjusted Qualifying Income: Refer to the Adjusted Qualifying Income Chart provided to the applicant 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.

C. 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.

1. **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 3 below.

2. **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.

3. **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 (1 above)
- X any adjustment for Holding (2 above)

Recapture Calculator: Available at http://www.vhda.com/SF/Recapture/recap.asp.

8. Delegated Program

Eligible VHDA Delegated Originating Lenders have the authority to approve or deny loan applications on behalf of VHDA.

The Delegated Lender processes, underwrites, issues the loan commitment/approval and authorizes loan closing. In performing these responsibilities, the Originating Lender ensures that all VHDA requirements and those of the mortgage insurer are met.

From time to time special programs become available or allocations are awarded to VHDA's housing partners. These special programs/allocations are not eligible for processing under the Delegated program unless otherwise approved by VHDA.

8.1. Requirements

Each Originating Lender participating in the Delegated program must execute the Delegated Underwriter Agreement (VHDA Form DU/100). This agreement identifies the special requirements, responsibilities and terms of the program. The agreement must be executed by an authorized officer of the Originating Lender's organization and returned to VHDA prior to approval for participation.

8.1.1. Authorized Staff

The Originating Lender's authorized officer must provide a list of those individuals who will be designated to act on behalf of the Originating Lender. Each designated individual must attend a VHDA training seminar and be an employee of the Originating Lender. Responsibilities of the Originating Lender may not be contracted to a third party without prior approval by VHDA.

8.1.2. Delegated Underwriter Requirements

The approved underwriter must possess VHDA Direct Endorsement Authority and have a minimum 3 years mortgage underwriting experience (unless an exception is granted by VHDA).

8.1.3. Delegated Closing Review

The approved closing staff must have a minimum 2 years mortgage loan closing review experience.

The Originating Lender will warrant that staff qualifications have been met by designating such individuals on Attachment A of the Delegated Underwriting Agreement. Any additions or deletions to the delegated closers must be made in the form of a revised Attachment A or official notification by the Originating Lender.

8.1.4. Insurance Requirements

The Originating Lender must maintain a minimum of $500,000 Errors and Omissions Insurance and $500,000 Fidelity Bond Coverage. The Lender must provide a Certificate of Insurance (with original signature) naming VHDA as the certificate holder, unless already on file with VHDA.

8.1.5. Experience

VHDA must determine that the Lender has an understanding of the VHDA loan programs and regulations prior to acceptance in to the Delegated program. VHDA's Underwriting, Closing and Quality Review departments must deem a minimum of 10 loans within a 6 month period "satisfactory" prior to the Originating Lender obtaining a Delegated status.

8.1.6. Information to Staff

The originating Lender will be responsible for informing all staff of any VHDA procedural changes and/or requirements. The Lender will designate a key contact for receipt of correspondence and will notify VHDA of any changes in the staff contacts-including email and mailing addresses.

8.1.7. Notification of Approval

Once all Originating Lender Delegated criteria are met, the Delegated Underwriter Agreement will be executed by VHDA and forwarded to the Lender.

Upon notification of approval and receipt of the Delegated Underwriter Agreement, the Lender may immediately act as a Delegated Agent. Loans previously reserved or approved may proceed through the Delegated process.

9. Lender Performance

VHDA associates monitor lender performance to ensure the soundness of VHDA's mortgage portfolio.

9.1. Business Development Officer

The Business Development Officer (BDO) serves as the VHDA Originating Lender's primary contact. Once the Lender is approved to participate in the VHDA program, the BDO is responsible for:

- Coordinating Training-specific to Mortgage Revenue Bond Requirements
- Coordinating Training-specific to VHDA processes and procedures
- Maintaining Lender records to include 1) Lender contacts, 2) Names of individuals that have successfully completed required training courses and 3) Pre-Review forms
- Analyzing Pre-Review forms to determine eligibility for the Delegated Lender program
- Analyzing performance of the Delegated Lenders and recommending appropriate action to correct any noted deficiencies

9.2. Underwriting

The Single Family Underwriter is responsible for:

- Underwriting all loans originated by VHDA non-Delegated lenders

  All non-Delegated loans are reviewed prior to loan commitment to ensure compliance with Mortgage Revenue Bond requirements.

  Review includes:
  1. Calculation of Household Income
  2. Maximum Net Worth
  3. Review of the Real Estate Appraisal for property compliance (acreage, unfinished area)
  4. Calculation of Acquisition Cost
  5. Review of signed Federal Tax Returns and all schedules
  6. Review of Affidavits of Borrower and Seller ensuring completion and original signatures
  7. Recapture Tax Notice
- Underwriting all loans originated by VHDA's Direct Originations department

  All Direct Originated loans are reviewed prior to loan commitment to ensure compliance with Mortgage Revenue Bond requirements (see non-Delegated loans above).
- Completing a Pre-Review form for all non-Delegated loans and documenting all findings
- Advising the assigned BDO and Single Family Loan Programs Manager of recurring underwriting deficiencies
- Performing a full review of at least ten percent of all loans originated by VHDA Delegated lenders; review to include verification of compliance with the insurer's guidelines as well as Mortgage Revenue Bond requirements

9.3. Quality Review Analyst

Upon receipt of the closing package, the Quality Review Analyst is responsible for:

- Reviewing loan documents to ensure compliance with MRB requirements

Review includes:
1. Calculation of Household Income
2. Maximum Net Worth
3. Review of the Real Estate Appraisal for property compliance (acreage, unfinished area)
4. Calculation of Acquisition Cost
5. Review of signed Federal Tax Returns and all schedules
6. Review of Affidavits of Borrower and Seller ensuring completion and original signatures
7. Recapture Tax Notice

- Reviewing legal documents (Note, Deed of Trust)
- Documenting any deficiencies noted in the closing file
- Completing the Pre-Review form for non-Delegated loans and documenting all findings
- Communicating with the Originating Lender post-closing staff any corrections needed
- Monitoring receipt of post-closing documents and corrected legal documents
- Directing serious non-compliance issues to the VHDA Underwriter, BDO, Loan Programs Manager and/or Closing and Quality Review Manager

9.4. Business Partner Product Manager

To ensure that all Originating Lenders meet the financial requirements set forth by VHDA, annually the BPPM is responsible for:

- Reviewing audited financial statements and certificates of insurance
- Recertifying compliance for minimum Net Worth
- Ensuring adequate Error and Omissions insurance and Fidelity Bond coverage

9.5. Single Family Loan Programs Manager

The Single Family Loan Programs Manager analyzes lender performance by:

- Reviewing Pre-review forms of non-Delegated Lenders
- Evaluating recommendations of the Business Development Officer regarding training needs and lender deficiencies
- Reviewing findings and recommendations of the Single Family Compliance Officer
- Communicating with the Internal Audit team
- Evaluating lender compare ratios from HUD’s Neighborhood Watch; Lenders with ratios exceeding 150% are further assessed to determine if continued participation in the VHDA program will be permitted
- Communicating with Originating Lender’s management to discuss issues of excessive delinquent collateral or MRB violations

9.6. Single Family Compliance Officer

The Single Family Compliance Officer ensures VHDA Originating Lenders comply with all regulatory requirements by:

- Analyzing audits conducted by the external Quality Control entity
- Conducting internal audits on all loans that are 60 days past due within the first 6 months
- Recommending appropriate training based upon findings
- Preparing notifications to Lenders of Early Payment Defaults

10. Lender Watch

It is critical that VHDA ensure that participating lenders originate quality loans meeting both VHDA and insurer guidelines. In addition, timely receipt of loan documentation is essential to enable the delivery of loans in the secondary market.

10.1. Areas of performance

VHDA currently considers the following in evaluating risk associated with lender performance:

1. Financial Stability
    - Audited financials reflecting significant reduced earnings or net worth
    - Potential change in corporate structure (mergers, acquisitions)
    - Failure to provide timely Financial Statements, Errors and Omissions and Fidelity Bond policies
2. Outstanding Critical Documents
    - Loan Guarantees and Mortgage Insurance Certificates
    - Deeds of Trust and Notes
    - Hazard, Flood or Title Insurance policies
    - Mortgage Revenue Bond compliance documents to include Borrower and Seller Affidavits and violations of maximum income limits
    - Outstanding document penalty fees
3. Overall Origination Performance
    - Adverse rating on FHA Connection / Neighborhood Watch
    - Unsatisfactory compliance with VHDA guidelines and procedures
    - High VHDA delinquencies
    - Unsatisfactory Quality Control findings
    - Inability to meet VHDA Delegated Lender status within a reasonable time frame

10.2. Lender Watch Status

Lenders identified as presenting a significant risk to VHDA, based on an evaluation of lender performance, will be placed on Lender Watch. Appropriate VHDA action is based upon the Lender Watch Tier.

1. Tier One
    - Notification of "Watch" status is provided to Lender's senior management
    - The following corrective action may be required:
        - Receipt of interim financial statements
        - Staff training
        - Demonstrated performance improvement within specified time frame

2. Tier Two

    - Removal of Lender and Loan Officer recognition from VHDAs website – to include “Find a Lender” and “Top Performing Loan Originators”
    - Service Release Premiums will be retained by VHDA until performance compliance is attained

3. Tier Three

    - Suspension from VHDA loan programs until satisfactory resolution of performance issues
    - Failure to respond immediately will result in the permanent termination of Lender approval

11. Ability to Repay/Qualified Mortgage

As a State Housing Finance Agency, VHDA has received exemptions from both the CFPB Ability to Repay/Qualified Mortgage Rule and the FHA Qualified Mortgage Rule. These exemptions were received based on the prudent underwriting practices of HFAs.

VHDA ensures that its borrowers have the capacity to repay their mortgage obligations by encouraging its lending partners to adhere to policies consistent with those required by QM.

11.1. FHA Loans

All FHA originated loan must meet the FHA definition of a safe harbor qualified mortgage including:

- Total points and fees not exceeding 3% (adjustments for loans under $100,000)
- APR not exceeding APOR by more than the combined annual mortgage insurance premium and 1.15 percentage points (non HPML)
- Meeting all FHA guidelines for insurance

In addition, to ensure the borrower's ability to repay, VHDA imposes the following ratio guidelines:

- Maximum debt-to-income ratio – 45% with Approve / Eligible AUS results
- Maximum qualifying ratios for FHA Plus – 41/43 with Approve / Eligible AUS results (higher ratios may apply with appropriate compensating factors)
- Manually underwritten loans are reviewed by VHDA

11.2. Other Loans (Conventional, RD, VA, Fannie)

With the exception of the debt ratio restriction (43%), conventionally insured, RD, VA and Fannie Mae loans must meet the CFPB definition of a safe harbor qualified mortgage. Those restrictions include:

- Total points and fees not exceeding 3% (adjustments for loans under $100,000)
- APR not exceeding APOR by 1.5% (non HPML)
- Maximum debt-to-income ratio – 45% with Approve / Eligible AUS results
- Manually underwritten loans are reviewed by VHDA

12. Automated Underwriting

VHDA accepts the credit approval of Freddie Mac's Loan Prospector (LP), Fannie Mae's (DU), and USDA's Government Underwriting System (GUS) for loans receiving an Approve/Accept/Eligible only. This approval applies to the credit qualifying only (i.e. credit, ratios, employment). Originating Lenders are responsible for insuring that all other VHDA regulatory requirements are met.

Loans receiving a "Refer" or "Refer with Caution" must be manually underwritten and meet all insurer and VHDA guidelines.

12.1. Income Documentation

Alternate documentation as noted by the automated underwriting systems is acceptable with the exception of the Verification of Employment (VOE). The Lender is required to obtain a standard VOE and current pay stub to document the income for maximum income eligibility purposes. In addition, 3 years federal tax returns are required to document that the applicant meets the 1^{st} time home buyer requirement. The Originating Lender must thoroughly review all documentation to ensure compliance with the Mortgage Revenue Bond requirements.

12.2. Property Requirements

Standard VHDA property requirements must be met. The appraisal must be completed by a real estate appraiser licensed in the Commonwealth of Virginia. The appraisal must provide adequate documentation of any unfinished area to ensure that all mortgage revenue bond requirements related to acquisition cost limits are addressed.

12.3. Data Integrity

The Lender is responsible for ensuring the AUS data integrity. Information such as losses from a business, non-reimbursed employee expenses and other expenses which appear on the federal tax returns must be reflected in the Automated Underwriting System. Information received during the underwriting process may require an adjustment to data initially entered into the AUS. Prior to submission for purchase, the Lender must verify that all AUS data input matches documentation in the underwriting file.

12.4. AUS Documentation

The appropriate approval documentation must be included in the loan package. The VHDA Delegated Underwriter must sign the approval notice certifying the validity of the information submitted for the AUS finding. In addition, all Feedback or Findings reports for loans which initially received a "Refer" or "Refer with Caution" must also be included in the loan package.

13. Mortgage Loan Commitment/Approval Notice

A VHDA mortgage loan commitment, or lender approval notice, provides the terms and conditions under which VHDA will provide permanent financing for the purchase of a borrower's primary residence.

13.1. Non-Delegated Lender and Direct Loans

Upon approval of an applicant's loan, the Single Family Underwriter prepares a Mortgage Loan Commitment or Approval Notice. The Mortgage Loan Commitment/Approval Notice and a listing of required closing documents is forwarded to the borrower in care of the Originating Lender.

13.2. Delegated Lender

Lenders participating in the Delegated Lender program generate the Mortgage Loan Commitment or Lender Approval Notice upon loan approval. The borrower is notified of loan approval via a mortgage loan commitment, approval notice or by any other acceptable means of communication. The lender delivers all closing documents to the closing agent.

13.3. Expired Commitment

If a borrower fails to close the loan within the rate lock period, the loan will expire and thereafter shall be of no further force and effect.

13.3.1. Delegated and Non-Delegated Lenders

The Processing area reviews a daily report of expired commitments. Within three days, the Originating Lender is contacted to determine a loan status. The Originating Lender has seven business days to respond. If there is no response from the Lender, the Loan Programs Underwriter or Business Development Officer will issue an Adverse Action letter. The Adverse Action letter will specify the reason for denial as the expiration of loan commitment. The file is maintained in the rejection files.

13.3.2. Direct Originations

The Processing area reviews a daily report of expired commitment. A notice of expiration is mailed to the borrower(s) as well as the field originator. The borrower and field originator has seven business days to respond. If there is no response within seven days, the Loan Closer will give the file to the Loan Programs Underwriter or Business Development Officer to issue Adverse Action. The Loan Programs Underwriter/Business Development Officer will provide the loan file and Adverse Action letter to the Processing area for mailing. Funds not disbursed will be refunded to the borrower by the Loan Processor under separate cover with a breakdown of funds disbursed on their behalf.

14. Adverse Action Letter

In cases where the applicant or the subject property fails to meet VHDA's underwriting criteria, an Adverse Action Letter is generated notifying the applicant of their loan denial.

14.1. Non-Delegated Lenders

Upon determining that the loan is ineligible for VHDA financing, the Single Family Underwriter generates an Adverse Action Letter through the VHDA Loan Origination System. The letter, addressed to the applicant, indicates all reasons for denial. The Adverse Action Letter, which is mailed within 48 hours of the underwriting decision, also provides information to the applicant regarding the process for reconsideration of the loan request.

Should the Adverse Action letter be returned for any reason (e.g. address unknown) the original letter will be placed in the rejected loan file.

14.2. Delegated Lenders

Upon determining that the loan is ineligible for VHDA financing, the Originating Lender's Underwriter generates an Adverse Action Letter. The letter, addressed to the applicant, indicates all reasons for denial. The Adverse Action Letter, which is mailed within 48 hours of the underwriting decision, also provides information to the applicant regarding the process for reconsideration of the loan request.

14.3. Direct Originations

Upon determining that the loan is ineligible for VHDA financing, the Loan Processing Section will notify the field originator of the reviewing underwriter's decision prior to mailing the Adverse Action letter to the applicant. The field originator may elect to explore alternative loan options prior to notifying the applicant of the loan denial.

Should it be determined that no alternative options are available to the applicant an Adverse Action letter is mailed to the applicant. The Processor will request that the Finance Division reimburse the applicant any excess collected funds.

Should the Adverse Action letter be returned for any reason (e.g. address unknown) the original letter will be placed in the rejected loan file.

15. Mortgage Insurance

All mortgage loans where the loan-to-value exceeds 80.0% must be insured or guaranteed by FHA, VA, RD or PMI. Note: loan-to-value is calculated on the lesser of sales price or appraised value.

The mortgage insurance premium will be escrowed for the annual payment of mortgage insurance unless an approved monthly insurance premium plan is obtained.

15.1. Conventional Mortgage Insurance

Conventional Private Mortgage Insurers must carry a minimum rating of AA to be eligible to participate in VHDA programs.

VHDA loans must meet the underwriting standards of the Authority as well as the mortgage insurance provider.

MI Coverage is determined by the loan-to-value as noted below:

Loan to Value	Coverage Required
95.01-97%	35%
90.01-95%	30%
85.01-90%	25%
80.01-85%	12%

15.2. Government Insured (FHA, VA, RD)

VHDA Government Insured loans must meet the underwriting criteria of both VHDA as well as the insuring agency. The Originating Lender is responsible for filing for insurance in a timely manner. Loans that are deemed uninsurable may be subject to repurchase.

16. Homeownership Education

The Homeownership Education Program is designed to provide 1st time home buyers vital information related to the purchasing of a home. This free educational course is mandatory for all loan types (1st time buyers only).

16.1. Curriculum

VHDA staff developed curriculum and materials to educate potential home buyers in the purchase and finance process. Instruction is provided in the following topics:

- Developing a Spending Plan
- Credit Report and Credit Issues
- Selecting a Real Estate Agent
- Working with a Lender
- Home Inspections
- Loan Closing

16.2. Course Schedules

The Homeownership Education courses are offered in a classroom environment. A calendar reflecting courses offered statewide and registration details can be viewed on line at www.vhda.com. The classroom course is facilitated and instructed by professionals who have been qualified through VHDA's Train the Trainer program.

In addition, VHDA provides access to the course from VHDA's website, www.vhda.com. The on-line course is intended to serve those individuals whose schedules will not allow them to attend a classroom course.

Potential home buyers may contact VHDA directly at 1-800-227-8432 ext 8432 for additional information.

17. Loan Programs

VHDA offers a variety of loan programs. These programs typically provide features that increase the affordability of homeownership while addressing the obstacles that face many 1st time buyers.

Borrower eligibility is determined based upon specific program parameters. VHDA continually analyzes loan program performance and makes necessary adjustments to eligibility criteria to ensure the soundness of its portfolio. From time to time select loan programs are suspended due to market conditions, performance of loans or resource availability.

17.1. Active Loan Programs

17.1.1. Conventional 97

17.1.2. Downpayment Assistance Program

17.1.3. FHA

17.1.4. VA

17.1.5. RHS

17.1.6. FHA Plus Program

17.1.7. VHDA FHA Streamline Refinance

17.1.8. VA IRRRL

17.1.9. FNMA HFA Preferred

17.1.10. VHDA REO Condominium

17.1.11. Rapid Refi of IO Loans

17.1.12. Strategic Home Improvement Loan Program

17.2. Suspended Loan Programs

18. Condominiums

The Authority recognizes that condominiums serve as an affordable housing option in many areas of the Commonwealth.

From time to time VHDA may develop or approve special financing programs for condominium developments that do not meet the financing criteria for conventional or government insured loans. These special financing programs are detailed in the Programs section of this guide.

18.1. Conventional Loans

The Originating Lender must provide evidence that the subject condominium development is approved by one of the following: FHLMC or FNMA.

18.1.1. Non-Delegated Lenders

Non-Delegated lenders must provide evidence of condominium approval when the underwriting package is submitted to VHDA.

18.1.2. Delegated Lenders

The authorized delegated underwriter must review all pertinent condominium documents to determine approval status prior to issuance of a mortgage loan commitment.

18.1.3. Direct Originations

The Loan Programs underwriter is responsible for reviewing all pertinent condominium documents to determine approval status prior to issuance of a mortgage loan commitment.

18.2. FHA, VA, RD Loans

The Originating Lender must provide evidence that the condominium is approved by the appropriate insuring agency.

18.2.1. Non-Delegated Lenders

Non-Delegated lenders must provide evidence of condominium approval when the underwriting package is submitted to VHDA.

18.2.2. Delegated Lenders

The authorized delegated underwriter must review all pertinent condominium documents to determine approval status prior to issuance of a mortgage loan commitment.

18.2.3. Direct Originations

The Loan Programs underwriter is responsible for reviewing all pertinent condominium documents to determine approval status prior to issuance of a mortgage loan commitment.

19. Employee Loan Program

The Employee Loan Program allows VHDA associates to take advantage of all VHDA purchase and refinance loans available to the general public. To maintain confidentiality, employee loans are processed, underwritten and closed by SunTrust Mortgage.

19.1. Initial Contact

To obtain a VHDA Employee loan, the associate will:

- Select an approved VHDA Lender to originate the loan
- Contact the Human Resources department for an information packet. The associate will deliver the information package to the Originating Lender. The information package provides instruction to the Lender on how to deliver the employee loan package to VHDA. The submission procedure ensures all employee loan information remains confidential.

19.2. Loan Application and Process

19.2.1. Delegated Lender

The Delegated Lender will originate process, underwrite and close the mortgage loan.

After closing the loan the Originating Lender will:

- Mark the closed loan package “Confidential” and deliver to the package to the Document Control Supervisor
- Document Control Supervisor logs loan into the loan originator system, reviews Note for accuracy, delivers the Note to the Records Supervisory, and delivers the closed package tot the Quality Review Supervisor.
- Quality Review Supervisor conducts a complete quality review of the loan file.

19.2.2. Non-Delegated Lender

The Non-Delegated Lender will originate, process and underwrite the loan. The complete underwriting loan package is submitted to the Loan Programs Manager for review.

- Loan Programs Manager reviews underwriting package and notifies lender of its decision
  - If approved, the Lender issues and commitment
  - If denied, the Lender issues adverse action
- A pre-closing loan package is received and reviewed by the Closing and Quality Review Manager. Upon notification by VHDA, the originating lender is authorized to close.
- The closed loan package is marked “Confidential” and delivered to the Document Control Supervisor.
- Document Control Supervisor logs loan into the loan origination system, reviews Note for accuracy, delivers the Note to the Records Supervisor, and delivers the closed package to the Quality Review Supervisor.
- Quality Review Supervisory conducts a complete quality review of the loan file.

20. Granting Freedom

Granting Freedom provides grant resources that are utilized to make homes accessible for eligible servicemen and women who have sustained injury during service in a combat theatre of operations.

20.1. Eligible Property Types

Eligible properties include single family detached, townhomes, condominiums and apartments. In the instance where the subject property is not owned by the applicant, the landlord/property owner must provide written approval that the proposed modifications are acceptable.

20.2. Grant Amount

Each grant is limited to $4,000.

20.3. Verification of Need

During the initial application review, the applicant must submit documentation a physical therapist, social worker or physician of a VA hospital or rehab center certifying the veteran is in need of the proposed accessibility modifications.

20.4. Initial Application Review

Upon the receipt of the grant application the following is reviewed for accuracy and completeness:

- Name, address and phone number
- Loan Amount
- Tenure of property (owned or rented)
- VA Certification
- Application signed and dated by the veteran. The veteran should note their rank

20.5. Grant Confirmation

Within 10 business days of receipt of the application, VHDA provides:

- A Grant Confirmation noting the applicant's name, property address, phone number, email address (if available), fax number (if available), loan amount
- Confirmation will provide an expiration date of the grant (120 days from the date of confirmation). The applicant is required to execute the confirmation and return to VHDA within the 120 day period for the grant to be valid.
- A W-9 federal tax form (Request for Taxpayer Identification Number and Certification). The instruction letter requests that the W-9 be completed by the contractor or person completing the accessibility modifications
- The total grant amount is noted on the Granting Freedom EXCEL spreadsheet

20.6. Grant Process

Upon receipt of the cost estimate and notification that all modifications have been completed, VHDA:

- Schedules an inspection of the property to ensure property modifications were completed in a workmanlike manner and according to the application request. Acceptable inspectors include individuals knowledgeable in construction practices from the following organizations: VHDA, VFW posts, American Legion posts, Rural Development and/or independent licensed appraisers providing a pro bono service.
  - Inspection report should be dated and included 1) the address of the subject property, 2) modifications completed and 3) inspectors signature, title and contact information
  - Applicant must sign the inspection report acknowledging its accuracy
  - Inspection report should be mailed to the Grant Administrator

Upon receipt of an acceptable inspection report, VHDA:

- Completes a check request for the total amount of the grant award
- Forwards check request and W-9 form to the Finance Division for processing
- Finance Division reimburses the contractor (or payee noted on the check request) within 10 days
- A copy of the check is delivered to the Grant Administrator and maintained in the grant application file

20.7. Reporting Requirements

A monthly report, providing information on grant recipients and uses, is furnished to the Veterans Administration as well as the Military Severely Injured Center. Report contacts are:

- Greg Shelton, Veterans Administration 210 Franklin Road Roanoke, VA 24011; email: greg.shelton@vba.gov
- CDR Dave Julian, Military Severly Injured Center 1525 Wilson Boulevard Suite 225 Arlington, VA 22209; email: david.julian@militaryonesource.com

21. Document Control

The Document Control Center serves as the document custodian for the Closing and Quality Review Department. The Center controls, monitors, and safeguards all loan files, incoming and outgoing legal documents, fee checks, original Notes, Notes packages and Attorney's Closing Packages.

21.1. Processing Incoming Correspondence/Note Packages

The Document Control Center (DCC) receives federal express packages by approximately 11am and regular correspondence throughout the work day. The Document Control Specialists (DCS) receive, date stamp and distribute incoming correspondence, legal documents, closing packages and Note packages to the Closing Specialist or Quality Review Analyst.

The servicing package is extracted to determine all pertinent documentation has been received prior to forwarding to the servicing set-up department.

The DCSs monitor and maintain a steady flow of legal documents, departmental reports and correspondence from Title Companies, Settlement Agencies and other third parties to the Quality Review Analysts for review.

21.2. Unidentified Correspondence/Legal Documents

The Documents Control Specialists alert the Document Control Supervisor of any incoming correspondence or legal documents missing crucial information (e.g. Borrower's Name, VHDA Loan Number). The Supervisor is responsible for researching and resolving the issue or returning the correspondence/legal document requesting further clarification from the sender.

21.3. Closing Packages-Direct Originated and Non-Delegated Loans

All pre-closing loan packages are date stamped by the DCS. The closing package and loan file is delivered to the Loan Disbursement Coordinator for assignment to a Loan Closing Specialist.

21.4. Processing Original Notes

All VHDA Notes are received from the lender via overnight delivery. Packages are monitored and opened by the document control specialists and matched with the borrower's specific loan files. After review for accuracy by QRA staff, the LOS (Loan Origination System) is marked as "Note Complete" and the current date is populated in the Dates task – Note complete field. The Note is placed in the document control area to be secured until delivery to the Records Room the following business day.

Notes are processed daily using the "Daily Notes Received Report" to verify Note input from previous day. The report is checked against the Notes being held in the vault and the Notes and report are hand delivered to records room staff.

21.5. Document Storage

All loan files not yet reviewed are stored in a manner that ensures confidentiality.

21.6. Loan File Audits

The Document Control Center conducts quarterly loan audits for loan files not yet completed and shipped to the Records Room that still appear active in the loan origination system. Any missing loan files are reported to the Document Control Supervisor.

The Expired Commitment Report is utilized to identify all Direct Originated or Non-Delegated loans awaiting an attorney’s closing package for pre-closing review.

22. Closing

The Loan Closing Specialists establishes relationships with VHDA Originating Lenders and Closing Agents to ensure an understanding of VHDA closing requirements for a variety of loan products.

22.1. Preliminary Closing Package

The Loan Closing Specialist reviews the closing agent's preliminary package for completeness and to ensure all documents are executed in accordance with the loan terms reflected on the VHDA Approval Notification or Delegated Approval Confirmation.

22.1.1. Documentation Reviewed

- Final Application (1003)
- Deed of Bargain and Sale
- Mortgage Note(s)
- Deeds of Trust and Attachments (if applicable)
- Title Insurance Binder
- Survey
- Flood Certification
- Termite Inspection
- Hazard Insurance Binder
- HUD 1 Settlement Statement
- Truth in Lending Disclosure
- Conditions :Underwriting, Appraisal, Insurer

The Loan Closing Specialist contacts the Originating Lender to review corrections, to set the closing date or when needing to request additional documentation or clarification.

Once the Originating Lenders provides assurance that all requirements needed for FHA, VA or RD have been met the Closing Specialist authorizes loan closing.

The loan file is retained by the Closing Specialist until all outstanding conditions are received or the attorney has provided evidence that they are forthcoming.

22.2. Escrows

Escrows for the completion of exterior work or landscaping during inclement weather are permitted for Conventional, FHA, VA and RD loans. A decision for the allowance of an escrow is made on a case by case basis. Should an escrow be permitted, an Escrow Agreement must be executed by the borrower, seller and the Escrow Agent (closing attorney or settlement agent). The release of escrow funds is authorized by the Originating Lender.

23. Quality Review Analyst

The Quality Review Analyst performs a quality control function by completing a review on mortgage loan closing documents including MRB documentation. This ensures compliance with all State and Federal laws, issuing agency's requirements, as well as, VHDA requirements.

23.1. Loan File Review

Files are received daily from the Closing Department and Document Control Center. Closed loan documents are received from VHDA Originating Lenders.

23.1.1. Closing Documents

Originating Lender must provide one complete loan package including required underwriting and closing documents within 10 calendar days of loan closing, but in no event later than the 15th day of the month preceding the first payment date. Wiring instructions are to be included in the loan package.

In addition a package including all documentation listed on the Servicing Submission Checklist must be submitted.

23.1.2. Final Closing Documents

The Originating Lender is to submit within 90 days after loan closing all final documents not received in the initial closing package. Documents to include:

- Original Recorded Deed of Trust
- Original Title Insurance Policy
- Original FHA Mortgage Insurance Certificate, VA or RD Loan Guaranty (if applicable)

23.1.3. Loan Document Review and Funding

A correct and conforming Note (and any FHA Plus Note) is required for purchase approval. VHDA will notify the lender of approval for purchase or if the loan(s) has been pended for required corrections. A complete review of the file is performed after funding at which time the lender will be notified of any deficiencies needed to be resolved.

Fees for escrows, the tax service fee and points due VHDA are netted from the loan proceeds. Any premium pricing fee, the service release fee and interest due the lender is paid at the time of purchase. All purchase proceeds are wired to the lender with a notification of funding faxed to the lender.

24. Late Charges for Delinquent Delivery of Documents

A late fee of $1,000 is charged to Originating Lenders for each incomplete loan file that has been closed over 12 months. In instances where a late fee has previously been charged, but documentation to complete a file is not received by the next billing cycle, an additional $1,000 in fees will be charged at six (6) month intervals until the file is deemed complete.

24.1. Identifying loans subject to late fees

The Loan Origination System identifies all loans that are incomplete after 12 months of loan closing. A report is generated, attached to the late fee invoice and mailed to the Originating Lender. The invoice instructs the Originating Lender to submit all Delinquent Document Fees directly to VHDA's Accounting Department.

24.2. Waiver of Delinquent Document Fees

Authorizations for waivers of delinquent document fees is documented in VHDA's Authorized Officer Matrix.

25. Early Payment Default

An Early Payment Default (EPD) is a mortgage loan that is 90+ days delinquent or goes into a default status in its first year. Early Payment Default is one of the strongest indicators of possible mortgage fraud. As a result, VHDA makes every effort to identify EPDs and performs quality control checks to determine if mortgage fraud has occurred.

25.1. Initial Assessment

On a monthly basis, the Single Family Compliance Officer reviews servicing reports that identify loans that are 60 days delinquent within 6 months of loan closing.

The loan file documentation is reviewed in order to identify any underwriting deficiencies that may have contributed to the early payment default.

25.2. Lender Notification

The Single Family Compliance Officer notifies the VHDA Originating Lender of the Early Payment Default. The notification letter requests a copy of the Lender's Quality Control findings. If the loan is FHA insured, all communication with FHA is required.

25.3. Documentation Findings and Recommendations

The Single Family Compliance Officer is responsible for assessing all documentation submitted by the Originating Lender in response to the EPD. The SF Compliance Officer will recommend any appropriate action to the Director of Homeownership Programs and the Loan Programs Manager.

- If no underwriting deficiencies are identified and mortgage fraud has not occurred no further action is required.
- If it is determined that the underwriting decision is not in compliance with either VHDA underwriting guidelines or the guidelines of the insuring agency the Originating Lender may be 1) required to complete additional training; 2) placed in a probationary status/ non-delegated status or 3) suspended from the VHDA program.
- If a quality control review identifies mortgage fraud, the Lender may be required to indemnify VHDA or repurchase the mortgage loan.

25.4. Indemnification and Assessment of Fees

In instances where the Single Family Compliance Officer and Senior Management have determined that the EPD is a direct result of the Originating Lender's underwriting decision, VHDA will require the Originating Lender to execute an Indemnification Agreement. In addition to the Agreement, VHDA will assess a Loan Loss Mitigation fee of $5,000.

In the event that the EPD loan goes to foreclosure, the Originating Lender will be required to reimburse the Authority for all Net Losses associated with the foreclosure.

26. Quality Control

A reliable and effective quality control plan is essential to ensuring compliance with investor requirements. VHDA relies on both internal as well as external quality control audits.

VHDA's internal audit staff is responsible for a random selection of VHDA FHA Streamline refinance closed loans.

A third party QC firm performs loan related services for quality control audits of all other loan types.

26.1. Sampling Methodology

On a monthly basis, the Single Family Compliance Officer provides a VHDA loan purchase report to a 3rd party QC vendor. The QC vendor obtains copies of loan files selected for audit.

Audits are conducted on 10% of all closed loans.

100% of Early Payment Default loans are reviewed.

26.2. Loan Review Process

The QC review includes a review of closed loans.

Loans whose underwriting decision was not based upon the findings of an agency approved automated underwriting system will be evaluated to ensure that all documentation is consistent with information contained on the loan application, that the loan was property underwritten and sound judgment was exercised.

Reviews of loans that were underwritten utilizing an agency approved automated underwriting system will focus on data integrity and consistency to ensure the accuracy of the underwriting decision.

26.2.1. Property Appraisal Review

To ensure that the subject property represents adequate collateral for the mortgage, a desk review of the property appraisal is performed on all loans chosen for a QC review (exception: streamline refinances and FHA REO sales).

A field review is performed on 10% of the loans selected during the sampling process.

26.2.2. Closing Document Review

The QC review ensures that the closing process adequately addressed any lien enforceability issues, completed the underwriting documentation requirements and conformed to VHDA's closing requirements

26.2.3. Regulatory Compliance Review

Federal-Federally required disclosure documents are reviewed for presence, signatures and timeliness.

State-State required disclosure documents are reviewed for presence, signatures and timeliness.

26.2.4. Re-verification Process

A re-verification of data used during the underwriting and closing of the mortgage loan is conducted. Validation of the following is performed:

- Employment and Income
- Credit Report
- Assets
- Occupancy
- Borrower(s) SSN

26.3. Reporting Process

The Quality Control vendor issues reports to members of the senior management and staff on a regular and ad-hoc basis.

- Regular production reviews are issued on a monthly basis.
- Ad-hoc reports are issued once the review is completed

All QC reports are retained for a period of no less than 3 years.

26.4. Lender Rebuttal

Should VHDA's post purchase loan review reveal that the Originating Lender closed a loan that did not meet VHDA underwriting guidelines, VHDA may:

- Require loan to be repurchased
- Require the Originating Lender execute an indemnification

Upon discovery of the underwriting defect(s), senior management communicates with the Originating Lender the options available to cure. The Originating Lender may rebut VHDA's findings within 30 days by providing additional documentation to support the underwriting decision.

- In cases where the additional documentation supports the underwriting decision and the loan adheres to VHDA underwriting guidelines, senior management may issue a waiver. The additional supporting documents are scanned into the loan origination system (LOS) and notes entered into the LOS documenting VHDA's decision.
- In cases where the additional documentation does not support the underwriting decision, a formal request is sent to the lender requiring repurchase or an indemnification.

27. Direct Originations

The Direct Originations department consists of Mobile Mortgage Field Originators who provide mortgage services to areas within the Commonwealth where VHDA Originating Lenders are not actively promoting VHDA programs.

The VHDA Mobile Mortgage Field Originator(s) is responsible for the operation of an assigned mortgage office to assist potential VHDA mortgage customers. The Originator acts as an advisor by answering customer questions as they relate to mortgage lending, processes pre-qualification requests and completes formal loan applications.

27.1. Pre-qualification Process

The pre-qualification process includes the following:

- Identifying potential VHDA borrowers
- Providing information on available loan programs – to include benefits and costs
- Answering customer questions
- Initiating the pre-qualification process and assessing borrower eligibility and readiness

27.2. Application Process

The application process includes the following:

- Facilitating the completion of the mortgage loan application and all applicable documents
- Providing applicable Disclosures within the required time frame
- Explaining the mortgage loan process and cycle
- Clarifying governmental regulations and requirements applicable to the selected loan product
- Providing information on VHDA Free Homeownership Education courses and ensuring borrowers successfully complete the course prior to loan approval

27.2.1. Collection of Fees

At the time of application, the Field Originator collects fees from the borrower(s) for the payment of the credit report, flood certification, appraisal and reservation fee (if applicable). Fees must be received in the form of a personal check, bank check or money order. All fees are submitted with the loan package to the Direct Originations department.

27.2.2. Interest Rate Lock

Field Originators utilize VHDA's on-line interest rate lock procedures.

27.2.3. Submission of Loan Package

Field Originators submit the completed loan package to the Direct Originations department by overnight carrier service. The standard loan package consists of the following documents:

- Sales contract
- Fees collected
- VHDA reservation/lock in confirmation form (if applicable)
- 1003 - Uniform Residential Loan Application
- Form 4506T- Request for Transcript of tax return
- Exhibit E – VHDA Program Disclosure & Affidavit of Borrower
- Exhibit F – VHDA Affidavit of Seller
- Borrower Signature Authorization
- Consent for Disclosure of Personal Information
- Good Faith Estimate and Truth in Lending Disclosures
- RESPA Servicing Disclosure
- Provider List

Additional documents may be required (FHA, VA, RHS)

28. Authorized Officer Matrix

VHDA's Internal Audit Division maintains an Authorized Officer Matrix.

The Matrix provides a list of activities/authorization types and individuals empowered to conduct business, on a transactional level, on behalf of the Authority.

Homeownership-Sched-Auth-Officers.pdf

29. Southwest VA Office

On a case-by-case basis, VHDA's Southwest office will be requested to perform property inspections. These property inspections may be in support of the Rental or Homeownership Divisions.

In some instances, the Southwest office's assistance will be requested when VHDA's Headquarters has been unsuccessful in contacting a borrower. This allows VHDA to more effectively leverage available resources in terms of accomplishing certain servicing operational goals and to protect the Authority from unnecessary liabilities in the event the property is vacant or located in an area of high vandalism. The Southwest office will not perform any collection activity or offer any loss mitigation options to the customer unless otherwise requested by VHDA Headquarters.

30. Lap Top Computers / Electronic Devices

The process for securing computers, cell phones and blackberries has been assigned to the ITS Department.

31. Security

When changes to personnel occur (i.e. termination, promotion, change in job responsibility, reassignment, etc.) in Single Family Originations, the manager/supervisor submits a SCHOLAR ticket for ITS to implement appropriate actions to ensure system security.

The System Administrator verifies every 90 days that system security is accurate.

31.1. New Employee Work Order Template

VHDA's Help Desk is notified, via a SCHOLAR ticket, of new hires. Phone and computer systems are configured based upon the duties and responsibilities of the new associate. Information needed to determine configuration include:

- Name (first, last and middle initial)
- Start Date
- Employment status-Permanent or Temporary
- Name of Supervisor / Manager
- Position (note if associate will be a supervisor or manager)
- Applications needed for work functions
- Department name
- Division name
- Location of work station-office or cubicle
- Default printer
- Outlook configuration including access to calendars and mailboxes
- Phone set-up-including any additional lines needed or extensions; hunt group or acd group; If phone set-up is to mimic another phone-provide extension
- Modem or analog line needed?

31.2. Information needed from Datacenter

- Username
- Password
- GG group
- Local group
- Novell Context

31.3. Information needed from Desktop Services

- PC model
- Printer setup
- Telephone number

- Fax number (if applicable)