NACA QUALIFICATION CRITERIA

The NACA Mortgage is our answer to the huge sub-prime and predatory lending industry. NACA has conclusively shown that when working people get the benefit of a prime rate loan, they can resolve their financial problems, make their mortgage payments and become prime borrowers. NACA's track-record of helping homebuyers with credit problems become homeowners debunks the myth that high rates and fees are necessary to compensate for their "credit risk."

NACA's mission is to make homeownership available on the best terms for Members who would otherwise be prevented from obtaining an affordable mortgage. NACA is open to everyone regardless of their income or where they want to live as long as they adhere to our eligibility requirements, policies, and procedures. The real estate and mortgage industries are filled with bad actors who contribute to the destabilization of our communities and the exploitation of working people. As an alternative to these predatory practices, we will work with you for as long as it takes to purchase a home, and we will support you for as long as you have your NACA Mortgage.

The NACA Qualification, which is required for a NACA Mortgage, is an extensive analysis of your finances to determine whether you are ready for homeownership and what monthly mortgage payment you can comfortably afford. Depending on your situation, this process can take one session, several months, or longer. NACA will work with you for as long as it takes to become NACA Qualified. Every person in your household that intends to be on the mortgage must participate in this process and must complete the NACA Qualification process. The requirements for the NACA program apply to each person on the mortgage and many requirements also apply to household members even the ones who do not intend to be on the mortgage.

The NACA Mortgage features are described below. Everyone that obtains a NACA Mortgage gets these terms.

- **No Downpayment** – NACA mortgage offers a 100% financing of the value of the property
- **No Closing Costs**
- **No Points**
- **No Fees**
- **Below Market, 30-year, Fixed Rate** – the interest rate is less than the market rate for a conventional "A" credit loan
- **Credit Score Not Considered** (NACA Qualification based on Member's individual circumstances)
- **No Predatory Terms** (i.e no pre-payment penalty or balloon payments)
- **Eligible Properties** - one-, two-, three- or four-family owner-occupied principal residences, including units in condos, coops, or combined residential/commercial buildings. Properties may be existing homes, new construction or homes in need of renovation. Eligibility for a condo requires 50% owner-occupancy or a financially strong condo association.

- **Renovations/Repairs** – Funds for renovations are provided as part of the mortgage with NACA providing assistance throughout the renovation process.

To access the NACA Mortgage you first must become NACA Qualified. NACA's qualification criteria are designed to take into account your individual circumstances, to determine whether you are ready for homeownership and what mortgage payment amount you can afford over many years. These criteria are designed to provide long-term, affordable homeownership with the financial flexibility to comfortably satisfy your living expenses and address unforeseen financial difficulties. The process is intended to be comprehensive so that all Members can be NACA Qualified to obtain the incredible terms of the NACA Mortgage. NACA commits to every Member that, if he or she follows the NACA process, he or she will most likely achieve NACA Qualification and be ready to purchase a home in less than one year, or, if he or she has experienced serious financial issues, will be ready for NACA Qualification in no less than a 24-month timeframe.

You must work with the Mortgage Consultant to meet the qualification criteria to be NACA Qualified. Your Mortgage Consultant will work with you to obtain the necessary documents and information, and to address any roadblocks to purchasing a home. It is important that you bring the documents identified in "Items Required for NACA Qualification" (inside of the back cover) to your first counseling session. Once NACA Qualified, you will be ready to begin your housing search and purchase a home and, if you so desire, apply through a lender providing the NACA Mortgage ("Participating Lender"). It is very important that you do as much work as possible prior to your counseling session(s), to help move quickly through the process.

Once NACA Qualified, you will remain NACA Qualified as long as your financial circumstances do not change. If you do not submit a mortgage application within three months of becoming NACA Qualified, you will need to re-certify your NACA Qualification by working with your Mortgage Consultant to update your information and documents.

The NACA Mortgage, while providing very good terms, requires a significant commitment from you to adhere to NACA's policies and procedures. Participating lenders with the NACA Mortgage have been attracted to the program by NACA's comprehensive and innovative system for qualifying Members who have been excluded from traditional and affordable credit. The computerized nature of the NACA system also allows members, if they so wish, to move through the NACA Qualification process with little assistance from the Mortgage Consultant. The details described below provide you with the information and requirements to obtain a NACA Mortgage. While NACA and your Mortgage Consultant are here to assist you through the home buying process and for as long as you have your NACA Mortgage, we strongly encourage you to take personal initiative. After each counseling session you will be provided with an Action Plan which includes the remaining documents or items you need to complete to become NACA Qualified. It is very important that you complete the items as accurately and quickly as possible.

We have provided you with the general NACA Qualification guidelines below. While NACA reserves the right to require additional documentation or information, or to waive requirements at our discretion, these guidelines will provide you with the general criteria that our loan originators and underwriters use to qualify Members for NACA's extraordinary mortgage product. In fact, you can utilize the criteria and information that follows to prepare for and, in essence, underwrite your own NACA Qualification.

ELIGIBILITY

NACA's eligibility requirements reflect our mission of promoting neighborhood stabilization and economic justice for low- and moderate-income people and low-to-moderate-income communities. We believe that the most stable and vibrant communities are the most diverse in terms of income and demographic make-up. NACA focuses on people who have not been able to purchase a home. These principles are incorporated into the eligibility requirements below.

1. **No Member of the household can have an ownership interest in any other property**
   The NACA Mortgage is not limited to first-time homebuyers. You may access the NACA Mortgage as long as you do not have an ownership interest in another property at the time of purchase. "Property" is defined as real estate where a certificate of occupancy was issued (not land, or a time share).

2. **Occupy the home for as long as you have the NACA Mortgage**
   NACA believes that owner-occupants stabilize neighborhoods. Therefore, NACA requires that you live in your home for as long as you have your NACA Mortgage. Being an owner-occupant involves you in all aspects of the community because you own a piece of the community, not just real estate. For example, owner-occupants of multi-family homes are more likely to choose stable tenants that will strengthen the community and maintain the property, even if they the owners could have found higher paying tenants. By contrast, absentee landlords often want only to maximize the rents collected and have little involvement with the community. NACA is very serious about Members adhering to the occupancy requirement. Therefore, NACA takes out a lien on the property – in addition to other enforcement mechanisms – to ensure that homeowners live in their home.

   The lien taken out by NACA allows NACA to enforce its owner occupancy requirement. If you violate this requirement by not living in the home while you still have a NACA Mortgage, NACA will have the right to demand payment of $25,000 and foreclose on your property. If at some point you decide to sell or refinance the home, you will need to contact NACA to obtain a release of the lien, which, if the Membership payments have been made, NACA will provide without any charge to you, and the occupancy requirement with NACA will no longer apply. If you want a second mortgage this requires that NACA subordinate its lien to the second mortgage, which NACA may or may not agree to do, in its sole discretion; therefore, your ability to obtain a second mortgage may be limited.

   These serious actions and remedies are in place to prevent the abuse of the NACA Mortgage. Lenders providing the NACA Mortgage also require owner-occupancy and may have their own enforcement mechanisms. However, these requirements will not prevent you from selling your house for a profit, refinancing your house, or purchasing other property while continuing to live in the house purchased with a NACA Mortgage.

3. **Maximum Purchase Price:**
   You cannot purchase a property for a value greater than the maximum purchase price for your geographic area. This is a limiting factor that is crucial to NACA's mission and cannot be changed under any circumstances such as the buyer or seller providing funds in addition to the mortgage to compensate for a purchase price that exceeds the maximum. NACA determines eligibility by area, which include both urban and rural communities. Purchase price limits allow NACA to focus its program on stabilizing low- to moderate-income communities and assisting low- to moderate-income people. Nevertheless, we do not believe in poor areas for poor people, or exclusively wealthy areas, and for that reason there are no income limits for the homebuyers, with maximum purchase prices that allow low and moderate income Members to purchase homes they can afford and others to purchase reasonably priced homes. Go to our website at **www.naca.com** and select "Eligibility" to obtain the purchase price limits for your area. NACA reserves the right to change the eligibility requirements at any time and to make exceptions in NACA's sole discretion.

4. **Member Eligibility:**
   Becoming eligible for NACA's program requires your commitment to abide by NACA's terms of membership, participation, and eligibility. This requirement is not burdensome, but is necessary to ensure the success of NACA's mission and your homeownership experience.

   This commitment is ongoing and your eligibility will be evaluated throughout the home buying process, including during the initial counseling session, when applying for NACA Credit Access and through mortgage approval. The major NACA Qualification requirements are itemized below and apply to everyone who will be on your mortgage. NACA may revise these criteria and the required documents at its sole discretion.

   - You are a NACA Member in good standing.
   - You adhere to NACA's policies and procedures.
   - You provide NACA with complete and truthful information.
   - You provide all of the documents and information NACA requires.
   - You read, understand, sign and adhere to NACA's Membership Agreement which includes participation in support of NACA's mission.
   - You pay your Membership Dues.
   - You read, understand, sign and adhere to NACA's Authorizations, Disclosures, Releases & Privacy Statement.
   - You acknowledge that purchasing a home is a complex process, that NACA does not warrant or guarantee any outcome, and that NACA will not indemnify you against any losses you may incur as a result of purchasing, financing, or renovating your home.
   - You adhere to the NACA Participation Pledge. A good indication of future participation is that you have already volunteered or participated in NACA activities.
   - You register to vote, to the extent legally permissible. Your issues as a long-term homeowner in your community are much more likely to be addressed as a registered voter.

- No person in your household will own another property at the time of your closing.
- No person in the household has purchased a home through NACA in the last three years.
- You have committed to live in the property purchased through NACA for as long as you have a NACA Mortgage.
- You are not under a purchase & sale contract with a closing date, as it may not afford the required time to be counseled to prepare for that particular purchase.
- You have not paid any fees for NACA services or accepted referrals to real estate agents or other vendors from a NACA employee that have not been approved by NACA, despite the fact that you have the right to choose any vendor you wish.
- You have notified NACA if you paid a fee to be referred to or participate in NACA's program.
- You have not worked with a real estate broker/agent or purchased a property from a seller or developer that NACA has determined does not represent the community fairly or work effectively with NACA.

PAYMENT HISTORY

NACA makes a determination on whether you are ready to be a homeowner by a detailed analysis of your debt payment, whether you made on-time payments or not and factors and explanations for this payment history. NACA does not consider your credit score number to reach this decision. This type of analysis differs greatly from most lenders which solely utilize your credit score to determine whether you qualify for a mortgage and on what terms. Credit scores are not reflective of your readiness and commitment to homeownership and do not take into account the particular circumstances of any late payment, such as its accuracy or that the late payments that may have occurred for reasons beyond your reasonable control. Thus, because most lenders rely on credit scores to determine the borrower's future ability to pay, many people who are eligible for an affordable mortgage only have access to either a predatory or sub-prime loan (high interest, expensive costs and/or unaffordable terms), or no loan at all.

NACA's basic principle is that prior to the NACA Qualification you will be prepared for homeownership if you have demonstrated a **minimum of 12 months of on-time payments** for all obligations that require payments which are within your reasonable control. This should not be difficult, since you should be preparing for homeownership prior to coming to NACA by keeping your payments current. Additionally, you must maintain on-time payments on all of your accounts now, during the counseling period and through mortgage closing. If you are self-employed or had a recent Chapter 7 bankruptcy, foreclosure, short sale, defaulted mortgage, etc., you must demonstrate on time payments for the most recent 24 months.

You should write an explanation of the circumstances of each payment problem for all debts, whether existing or paid off. Where there is an explanation why a bill was not paid on time due to a situation that was beyond your control, your Mortgage Consultant will evaluate these cases individually. You must provide accurate explanation even if the reason given is that you were neglectful and there is not a good excuse for failing to make the payment.

For example:

- Late or non-payment of a medical bill when the option was either not obtaining necessary care or incurring an unaffordable bill will likely be accepted as a reasonable explanation and should not prevent you from becoming a homeowner.
- Statements indicating only that you “will correct a payment problem” or “will pay a bill” are not acceptable.
- Charge-offs and collection accounts with a balance require a letter to explain why the debt went unpaid.

NACA does not consider a lack of payment history shown on your credit report to be a problem. Your Mortgage Consultant will request evidence of timely payment of other bills such as car insurance, utilities, telephone, etc.

You should not be penalized if the payment information is not correct. Studies have shown that more than up to 40% of the information contained on a credit report may be incorrect. You should identify any errors to your Mortgage Consultant and take steps to submit a dispute letter to the credit reporting agency. The credit-reporting agencies must correct errors, but it takes time for this to happen. You will need proof that the item was resolved, either through an updated credit report, receipt, cancelled checks, letter directly from the creditor or other documentation. .

You can work with your Mortgage Consultant for as long as it takes to demonstrate your readiness for homeownership. Your Mortgage Consultant will review your payments to creditors and evaluate your history of being responsible for credit payments as a reflection of your readiness and ability to take on your largest debt – your future mortgage payment. Since your Mortgage Consultant will need to make a judgment on your payment history and have this determination approved by a NACA Underwriter, it is very important that you provide explanations of any late payments, previous foreclosure or bankruptcies. If they were a result of circumstances that you could not control, you can be payment history qualified in a timely manner. Your Mortgage Consultant will focus on your last 12 months of payments and, if appropriate, your last 24 months. Depending on the circumstances, additional counseling and time may be necessary for you to establish an acceptable payment history. If you have no late payments in the most recent 12 months, in most circumstances you should become payment history qualified without a waiting period.

To review the payment history of your debts, NACA will retrieve a credit report for you and for all members of your household over the age of 21 (a photo ID is needed for identification purposes before the report is retrieved). Your Mortgage Consultant will closely review the payment histories of the people intending to be on the mortgage. This review will include both the debts you currently owe and those you paid-off, including utilities and other accounts that do not show on your credit report and debts that you may have been unaware of – such as medical bills that you thought were covered by insurance or a credit card payments owed by your spouse, child or someone you co-signed for. Specifically, the Mortgage Consultant will review the on-time and delinquent payment history on the following items:

1. Installment Debt – Debt with fixed monthly payments, such as auto loans, student loans, child support and other loans;

2. Revolving Debt – Debt with variable balances, and thus variable monthly payments, such as credit cards;
3. Collections and Charge-offs – Debts that a creditor has categorized as non-payment after six months of delinquency;
4. Liens and Judgments – Debts a creditor has recorded with the courts.
5. Foreclosures – Major housing debt that was not paid.
6. Bankruptcies - Debts not paid or payment arrangements made.

The sections that follow offer instructions on how to demonstrate your readiness. In particular circumstances, the on time payment requirements and other requirements may be different than identified below. The definition of "on time" payment is a payment that incurs no late fee or negative repercussion for not being paid as agreed.

A. <u>Late Payments Out Of Member's Reasonable Control</u>

Files considered for NACA Qualification even where late payments are present in the most recent 12 months, are ones where the Member documented that the late payment was out of his or her control. Some examples are:

1. Unaffordable medical bills – since ability to pay is not and should not be a consideration in obtaining needed medical care, late medical bills are more a reflection of our dysfunctional medical system than of your readiness for homeownership.
2. Divorce – this is a very difficult situation that may rely on the cooperation of someone who is unwilling to cooperate.
3. Co-signed accounts – accounts that you used your credit to get a loan for someone else and the purchase and obligation is truly that of the other person.
4. Timing Issue – you made the payment but it was not received due to delivery or other administrative issues.
5. Other – other instances where the payment obligation may not have actually belonged to you or other late payments not in your reasonable control.

How to document

- You explain the situation to your Mortgage Consultant, who will determine if the late payment is truly out of your control.
- You write a detailed letter of explanation, documenting the situation in your own words.
- You provide supporting documentation verifying the late payment was out of your control (medical records, divorce documents, etc.).

B. <u>Rent Payments (i.e. current housing payment)</u>

Rental payments are the most important indicator of your ability to make on-time payments and the likelihood of making your future mortgage payment. One basic principle of the NACA program is that, if you can afford your rent and make the payments on time, you can afford to pay that amount for a mortgage.

On-time rental payments must be documented for the most recent 12 months. Your Mortgage Consultant will need documentation verifying that you pay your rent on time. It is crucial that your rental payment history can be documented. It is best that you pay your rent by check or, if the landlord does not accept personal checks, you must pay rent by a cashier's check or money order, which can be tracked. The withdrawal for rent should be identified in your bank statements. If you do not have a bank account, you need to establish one in order to become NACA Qualified. Your current landlord can verify payments by completing a NACA Rental Verification Form (obtained from NACA), or you can provide NACA with twelve months of cancelled checks or other documentation. Note that twelve months of canceled checks must be provided if you are related to your landlord or your goal is to purchase the house you live in. You must also be prepared to provide an explanation, in writing, for any discrepancies between your self-reported residential history and the residential information on your credit report.

NACA recognizes that there are situations where you may not be obligated to pay rent because of a legitimate dispute with the landlord. If this is the case, you will have to explain how the rent payments were used and provide documentation of the dispute and the steps you have taken to resolve it. Although there may be situations that will cause early termination of the lease, NACA will not give legal advice in regard to settling any lease dispute and you should not request or accept any such advice. You should contact local Legal Aid agencies, attorneys or others for advice and assistance.

C. Requirements for Additional On-Time Payments & Other Requirements

The situations stated below will require that you provide additional evidence of on-time payments or satisfy other criteria to demonstrate that you are ready for homeownership.

1. Self Employed Members:
   - Must demonstrate at least 24 months of on-time payments; This higher standard provides an indication that you have established and can maintain sufficient income.
   - Must demonstrate a minimum of 3 lines of credit, such as trade lines or household utilities and other obligations (refer to Alternative Credit Requirements below).

2. Members Who Have Experienced Foreclosure, Short Sales or Deed-in-lieu-of-foreclosure:
   - Must demonstrate at least 24 months of on time payments for all open accounts since the foreclosure sale date, short sale or deed-in-lieu.
   - Must demonstrate a minimum of 3 lines of credit, such as trade lines or household utilities and other obligations (refer to Alternative Credit Requirements below).
   - May be subject to an additional investment requirement, such as interest-rate buy-down (explained below) or principal reduction, to demonstrate your commitment to maintaining your mortgage payment.

3. Members Who Have Experienced Bankruptcy (both Chapter 7 & 13 unless otherwise specified):
   - If you filed Chapter 7, you are not eligible for NACA Qualification until 24 months have passed since the bankruptcy discharge or dismissal and you can demonstrate on time payments for all accounts during this period. (A bankruptcy

dismissal will also trigger other requirements in the debt section that must be addressed).

- If you filed Chapter 13, you are eligible for NACA Qualification after discharge without a waiting period if you have addressed all other NACA Qualification requirements.
- If discharge or dismissal occurred less than 7 years ago, you must provide a copy of the discharge letter (dismissal letter if dismissed), and a copy of the bankruptcy papers including schedules.
- You must provide a letter of explanation regarding the reason for the bankruptcy and what you are doing to avoid bankruptcy in the future.
- Must demonstrate a minimum of 3 lines of credit covering a minimum of twelve months of payments outside of bankruptcy payments, such as trade lines or household utilities and other obligations (refer to Alternative Credit Requirements below).

4. Members Who Have Experienced Mortgage Delinquencies:
   You must demonstrate on-time payments for the last 24 months.

5. Members With Co-signed Accounts:
   We must see on-time payments over the past 12 months as if it is your account. If the person you assisted is not making the payments on time, it will affect your payment history.

6. Members With No Credit History:
   Must demonstrate on-time rent payments and up to three lines of alternative credit to determine your readiness for homeownership.

7. Members With A History Of Using Credit:
   Need three open trade lines on the credit report or if you do not have this with at least a 12 month history, you need to provide alternative credit, described below, such as trade lines or household utilities and other obligations.

8. Members Who Have Experienced Overdraft or Bounced Checks:
   Must demonstrate the lack of any bounced checks or overdraft fees during the most recent 3 months reflected on your bank statements: balance transfer/overdraft protection you set up will not be held against you unless there is a charge for a transfer/overdraft.

D. <u>Alternative Credit Requirements</u>

The following are alternative forms of credit that you can use to demonstrate that you pay your obligations on-time for at least the most recent 12 months. They are listed in decreasing order of importance (i.e. items in Step 1 are to be considered first unless unavailable, in which case items in Step 2 can be considered, and so on):

Step 1: Household Utilities (electric, gas, heating oil, water, phone, cable, internet, etc.);

Step 2: Payments required to national or chain business (auto insurance, rent-a-center, national chain daycare, buy-here-pay-here auto, etc.);

Step 3: Mom and pop shops (local daycare, dry cleaning accounts etc.);

Step 4: Closed accounts that cover 12 months within the most recent 24 months. Look to previous rent first, then utilities, then national accounts, then mom and pop shops.

DEBTS

Debts are your current obligations and the additional ones you may become obligated in the future to pay. We review your current debts, charge-offs and collections and determine your total debts and monthly payments. For debt evaluation, it does not matter if you made or did not make on-time payments, only what your on-going debts are (the timeliness of payments is addressed under Payment History). If debts are incorrectly stated as unpaid or the balance or payment is incorrect, you will need to provide documentation so the Mortgage Consultant can make the appropriate adjustments.

Debts may include charge-offs and collections that occurred a number of years ago. It is very common that previous debts are purchased by collection agencies that use very aggressive collection tactics. They purchase these old debts at much less than their outstanding balance, but are often able to renew these debts and put a lien on your new home. Your Mortgage Consultant can advise you on each debt issue and whether you need to pay-off or do a payment arrangement for an unpaid bill, charge-off or collection. You may consider negotiating a lower payoff since creditors often will accept 40% or less of the total amount due. You do not want old debts to come back and add additional burden to you as a homeowner. Generally, any charge- offs or collections that happened within the past 24 months have to be paid to a zero balance prior to NACA Qualification.

Other accounts or debts such as new car loans, student loans, tax liens or child support may not appear on your credit report and must be disclosed to your Mortgage Consultant and factored into your mortgage payment affordability. Also, recent credit inquiries will need to be explained to determine if you are in the process of incurring additional debt. It is very important that you bring all financial obligations to the attention of the Mortgage Consultant, as they will appear later when the lender processes the mortgage application. This information is necessary in order to determine what you can afford and to prepare a successful mortgage application. Misleading NACA staff is considered grounds for terminating your participation in the NACA program.

The purpose of the debt analysis determines the Member's future debt obligations. There are three types of debts that need to be addressed. 1) Charge-offs and Collections - debts the Member stopped paying; 2) Active Debts – debts that the Member is currently paying or is in a deferment or forbearance and 3) Liens and Judgments – debts that the creditor recorded with the courts.

To verify that you have not obtained other debt, you must explain in writing all credit report Inquiries for the most recent 120 days and clearly state if any new credit was obtained or applied for. If a new credit line was obtained and is not showing on the credit report, you must provide a copy of the most recent monthly statement.

A. Charge-Offs & Collections

All charge-offs and collections that occurred within the most recent 2 years have to be paid in full, by documented settlement for less than the original balance, or be incorporated into an approved payment plan prior to NACA Qualification. You and your Mortgage Consultant must make a determination if charge-offs and collections older than 2 years with a remaining balance are debts likely to be reinstated. State law will need to be considered when making this determination. All charge-offs or collections with balances at the time of NACA Qualification or NACA Credit Access must have a letter of explanation that explains why the debt went unpaid in order to determine whether it may impact your future financial situation.

B. Active Debts

Active debts are accounts such as car payments, credit cards, student loans, personal loans, child support etc. You must provide your Mortgage Consultant with the following:

- Most recent monthly statement for each active debt. For example, if you have an open Visa account, the most recent monthly statement is required. This is important to determine if you are using credit to maintain your current standard of living or financing your savings.
- All active debt must be affordable when the mortgage payment is considered and included in the income to debt ratios, even those that do not report on the credit report, such as an auto loan in someone else's name.
- Active debt in a temporary period of forbearance or deferment must also be included in the income-to-debt ratios and factored into your affordability analysis, as the debt will inevitably go into repayment status during the mortgage term.
- Student Loans – Your Mortgage Consultant will work with you to determine your monthly student loan payment which includes but is not limited to the following. If the credit report shows a monthly payment, it can be used without further documentation for ratios. If you disagree with the credit bureau payment, you must provide proof of actual payment. If the credit report does not show a payment (typically when deferred or in forbearance) then the servicer for the loans must produce a statement with the loan account numbers or exact totals and state what payment plan you are eligible for.

C. Liens & Judgments

Liens and judgments must be paid in full or incorporated into a successful payment plan that has been in existence for at least 12 months. Liens judgments may include defaulted child support, back taxes and student loans. Even in cases where you have legitimate grievances, you may need to make payment arrangements in order to avoid future actions by the creditor. Some states will not close a loan when liens or judgments are not paid in full.

INCOME

The Member must have a reliable and steady source of income before committing to long-term mortgage payments. Income evaluation is based on documented stable income which may include employment income, self-employment income, fixed income and other documented income. While your current rent and savings pattern largely determine how much you can spend on a mortgage, you also need a reliable source of income before committing to long-term mortgage payments. You will have to document this income and demonstrate that it will continue in the future.

Your employment history should demonstrate that your income will continue. Sources of income include salary, wages, overtime, bonuses, social security benefits, pensions, annuities, commissions, alimony, child support, etc. You will need to have worked for at least two years; however one year is acceptable if you can show that you have spent the prior year advancing your career or improving your skills. Having worked at the same job is not required because many low-and-moderate income workers change jobs due to the nature of their work or their attempts to improve their situations. It is important that there not be any recent employment gaps of 30 days or more. The most recent two years' tax returns must be provided by all Members. The employment section of the credit report must match the employment information and documentation you provided and any mismatch must be explained in writing.

A. Employed

If you are employed by a company you will need to provide the documents stated below.

- Employment history for at least the most recent two years;
- Verification of employment from your employer(s) from the past 12 months, including documentation that any overtime you are relying on is consistent and likely to continue;
- W-2's, 1099, tax return (plus IRS transcripts for self-employed and special programs) for the most recent two years;
- Most recent 30-days of pay stubs showing year-to-date income, which must demonstrate bonuses or commissions if you plan to rely on such income;
- If you are a contract employee, you must provide a pay ledger or most recent 30-day pay stub with year-to-date totals, as well as the Schedule C that was included in your past two years of tax returns;
- If you have less than 24 months of employment history you could be qualified with compensating factors such as your status as a full-time student or previous long-term employment, however a 12 month history of employment is required as the minimum in these cases.

B. Self-Employed

Many new businesses fail, so a longer history is required to demonstrate the stability of your income. If you are self-employed, you will likely need to demonstrate two years of consistent income, as provided below. Self-Employment income is documented using the cash flow method: the most recent 12 months of bank statements showing business deposits minus business expenses, resulting in the adjusted gross available for the household. You will also need to complete a 12-month cash flow worksheet showing your business income and expenses. Cash flow with supporting bank statements need to be updated every month until you close on your home. You must also provide tax return transcripts for the most recent two years.

C. Other Income

You can include other income and benefits such as child support, alimony, social security, retirement, housing allowance, Section 8 voucher, etc. This must be documented that it has been paid, with receipt of payments, and is likely to continue. Documentation includes award letters and court orders. You Mortgage Consultant will work with you to identify additional proof and documentation.

AFFORDABILITY

NACA does not want you to have a mortgage payment and debts that severely limit your ability to afford other activities. Determining your Maximum Mortgage Payment (i.e. PITI) will ensure that you have a mortgage payment that can be maintained over the long term with sufficient funds for other reasonable liabilities and living expenses. To determine what you can afford, NACA utilizes both income ratios and Payment Shock. Focusing on Payment Shock, which is the amount of money the future mortgage will exceed the Member's current housing payments, helps a Member demonstrate that he or she can afford the mortgage payment over the long-term and have a comfortable standard of living.

A. Maximum Mortgage Payment for Member

Determining the Maximum Mortgage Payment based on a percentage your gross income protects you if your circumstances change including financial difficulties. Thus while you may not be able to pay other liabilities or expenses, you would be able to make your mortgage payment.

Total Debts to Your Gross Income:
Your total monthly debts consisting of your mortgage payment plus liability payments (i.e. car loans, credit cards, student loans, etc.) cannot exceed 40% of your gross income (exceptions up to 43% are considered with strong compensating factors such as paying a higher rent). This leaves you with 60% of your gross income and significantly less spending money after reductions for taxes and other deductions.

Total Mortgage Payment to Your Gross Income:
NACA also believes that a mortgage payment (principal, interest, taxes, insurance and HOA) ("Mortgage Payment") of greater than 31% of your gross monthly income is likely to be burdensome (this excludes other debts). A larger housing payment may not leave room for necessities and a reasonable lifestyle (exceptions up to 33% are considered with strong compensating factors demonstrating a history of affordability such as minimal other debts or a significant interest rate buy-down).

You may be qualified for less than 31% of your gross income (or even less than your current rent) if it appears you are financing an unaffordable lifestyle. Living beyond your means is reflected by increased credit card and personal loan debt and/or draining of funds (negative savings pattern). In addition, the Maximum Mortgage Payment you qualify for may be below your current rental payment where your current rent payment may be high, uncomfortable and unaffordable, even if they have no late payments.

B. Multi-Family Purchase

The Maximum Mortgage Payment is impacted by a Member purchasing a Multi-Family home. While this allows the Member to qualify for a higher mortgage amount, owning a multi-family home is similar to running a small business with the corresponding difficulties. Thus the Member needs an understanding of the rights and responsibilities of both landlords and tenants. The Member must also have at least two months of his/her Mortgage Payment (i.e. PITI) as additional reserves to address tenant vacancies, repairs and other issues.

We require a certificate verifying that you have been through a recognized landlord training course prior to being qualified. You also must have minimum household operating expenses for repairs, tenant vacancies and other issues related to being a landlord. This landlord fund is currently at $400 per month, regardless of the number of rental units, a number which NACA may adjust.

You should work with your Mortgage Consultant to determine your Maximum Mortgage Payment for a multi-family home. The calculation below provides the general underwriting requirements to ensure that you as a landlord have sufficient financial resources.

Net Income Test for Multi-Family Affordability:

Net Monthly income
Plus: 75 % of rent
Less: Liabilities
Less: Household Expense budget
Less: Surplus ($400 and more depending on number of units and area)
Equals: Maximum Available for Mortgage Payment (i.e. PITI)

Example: In this example the Member takes home (net income) $4,000 per month. They want to buy a three family house. They will rent two units with market rent of $900 each unit. The Member has liabilities consisting of an auto loan, student loans and credit cards with monthly payments totaling $800. The household expenses (utilities, medical, transportation, food, clothes, childcare, pocket money etc.) total $2,000 per month.

Income:	
Take home monthly income	$4,000
Plus: Rental Income:	$1,350
(75% of two rents of $900)	
Expenses:	
Less: Monthly Liabilities:	$ 800
Less: Monthly Expenses:	$2,000

Less: Surplus: $ 400
(unplanned & unbudgeted expenses)

Equals: Qualification Amount: $2,150
(maximum qualified mortgage payment)

C. Payment Shock

To determine whether your Mortgage Payment is affordable, you need to compare it to your rent and also evaluate your budget. If you want a Mortgage Payment that is greater than your current rent, you need to establish the ability to make the increased payment ("Payment Shock"). The Payment Shock is money that you would pay the lender and these funds would not be available for other expenses or purchases.

The major reason that people are foreclosed on is because their Mortgage Payment is more than they were paying for rent and they cannot afford the increased payments. NACA uses rent as the base-line to determine your affordable mortgage payment because it should reflect the balance you have already reached between housing and other needs. If your current rent is unaffordable or a financial strain, NACA will use as a baseline a reduced rent that you can afford over the long-term.

You are required to document your on-time payment for your current rent plus a monthly savings equal to or greater than the difference of your rent and your desired higher Mortgage Payment. For example, if the current rent is $700 a month and you want a Mortgage Payment of $1,200 to afford a higher priced home, you would need to save an extra $500 in your finances. This must be saved every month for a minimum of three to six months prior to NACA Qualification and maintain that Payment Shock savings through closing. It would be like your landlord increasing your rent by $500 per month in addition to requiring you to pay for all repairs and maintenance. If you are currently not paying rent, you need to demonstrate the total mortgage payment (100% Payment Shock) over a six month period prior to NACA Qualification and through closing.

<u>Your Payment Shock Calculation:</u>
Mortgage Payment (Future PITI): $ ________

- Less: Rent: $ ________
- Equals: Required Monthly Savings: $ ________

The above monthly savings must be saved every month until you close since the monthly savings will be part of your mortgage payment for the next 30 years or until you sell.

It is very important that you determine whether you are comfortable with allocating this amount to your mortgage for a very long time without having a detrimental impact on the lifestyle you desire. The savings pattern must be shown over a period of time and include all of the accounts where you maintain funds, not just your savings account. It is important that your savings pattern shows an increase in your overall funds, not the movement of funds from a checking account to a savings account. Remember that you should not rely on future raises or higher income.

If you are increasing your funds, this will be reflected in your checking and savings accounts, stocks, and other assets without increases in your credit card balances or loans. Increases in your account(s), with a corresponding increase in credit card balances, indicates that your savings were borrowed or you have poor money management.

You should also make adjustments for one-time deposits and one-time expenses. Since the Payment Shock savings need to reflect a regular pattern of savings documenting the affordability of a higher mortgage payment, it must be adjusted for any lump sum activity as described below. These are non-regular withdrawals and deposits on bank statements that are one-time activities and are not reflective of your regular pattern of savings. These would be tracked and noted on your bank statements.

1. Non-Regular Withdrawals – Your Payment Shock savings pattern may be increased by eliminating non-regular withdrawals which inaccurately reduce your savings pattern. Such one-time withdrawals include debts that are being paid in full in order to reduce monthly liabilities. Documentation to verify the withdrawal (i.e. auto repair receipt, airplane ticket purchase, etc.) will be required if the bank statement does not document who the payment was made to.
2. Non-Regular Deposits – Your Payment Shock savings pattern may need to be reduced by one-time deposits which inaccurately increase your regular savings pattern. An example of such one-time deposits is a tax refund, 401K withdrawal or gifts.

It simply makes sense for you to find out if you are comfortable with a housing payment over a period of three to six months before you obligate you and your family to make that payment. You may find that with some spending adjustments, you have more available monthly savings than expected and are able to purchase more house than anticipated, or you may discover the opposite, that it is not worth the sacrifices to take on the higher monthly housing payment. The point is to find out how it feels to make the higher payment before you commit to it long-term. If you cannot save your Payment Shock, then you will need to reduce the monthly mortgage payment by either reducing the purchase price of the property or the monthly mortgage payment or by buying-down the interest rate.

If Payment Shock savings is less than the amount agreed to or stopped, it may cause a significant delay in approval or denial for NACA Credit Access, preventing the purchasing of a property for the qualified mortgage amount. NACA will work with you for as long as it takes, whether months or years, for you to be able to purchase a home with a mortgage payment that you can afford over the long-term.

D. Bank Statement Review

You must provide your Mortgage Consultant with the past 90 days of bank statements. This is important to help you identify whether you are living beyond your means or to identify inconsistencies. This will verify budget items with actual expenses shown on the bank statements. It will also identify if you are living on one-time payment(s) (i.e. windfall) such as profits from the sale of previous home, a loan, an insurance settlement, lump sum retirement, etc. This may allow you to pay more than you can afford for rent using your regular income. The review could also verify that you do not have liabilities in someone else's name and to verify which household utilities are being paid, further demonstrating readiness for homeownership. Providing at least three months of banks statements is the staple for affordability counseling. More months may be required to obtain a better understanding on any of the above items.

INTEREST RATE BUY-DOWN

To obtain the desired price with a mortgage payment that is affordable in relation to your budget, it may be necessary to reduce the interest rate through an interest rate buy-down ("NACA Buy-Down"). The NACA Buy-Down is a tremendous opportunity to achieve your desired price by reducing your monthly mortgage payment. The interest rate can be permanently reduced to virtually zero percent. Buy-downs provided with other mortgages limit the amount the interest rate can be reduced and offer less of an interest rate reduction than the NACA Buy-Down. The NACA Buy-Down is only available with a NACA Mortgage and is only available at the bank application stage, when you are locking your interest rate, and cannot be applied once you have closed on your loan.

You can dramatically reduce your mortgage payments by using a lump sum amount to buy down the interest rate. For each one percent (1%) of the mortgage (loan) amount – or "point – you pay up-front, the interest rate is reduced by one-quarter of one percent (.25%) for the life of the mortgage. This is no limit to your contribution to NACA Buy-Down or for grant contributions. Seller contribution for the NACA Buy-Down is limited to 10% of the property's contracted sales price. The NACA Buy-Down cannot be financed with an increased purchase price. A seller contribution greater than six percent may initiate a risk review by the participating lender to verify that the NACA Buy-Down was not financed as part of a higher sales price.

The impact of the NACA Buy-Down is extraordinary. For long-term homeowners, the NACA Buy-down saves you more money than using the same amount of upfront funds for a downpayment. Since the NACA Buy-Down permanently reduces your mortgage payment, the longer you have your mortgage through NACA the more beneficial. Thus if you are not planning to keep your home for over five years and you can afford the mortgage payment, the NACA Buy-Down may not be the most beneficial for you.

A comparison (below) between using the same amount of funds for the NACA Buy-Down and a principal reduction, the monthly mortgage payment would be reduced by three times a much with the NACA Buy-Down. Members utilizing the NACA Buy-Down must document funds to be applied to the Buy-Down, as stated below for Minimum Required Funds.

Example:
This example shows if you use $10,000 for the NACA Buy-down compared to using the same amount for a downpayment (i.e. principal reduction) provides an $82 monthly savings or $30,000 savings over the thirty year term.

	Buy-down	Downpayment
Purchase Price: $100,000		
Downpayment:	0	$10,000
Loan Amount:	$100,000	$90,000
Closing Costs:	0	0

Fees:	0	0
Current Interest Rate:	3.5%	3.5%
Buydown Rate ($10,000 or ten points): (1% permanently reduces by .25%)	1.0%	na
Mortgage Payment (i.e. Principal & Interest)	$322	$404

This unique option in the NACA Mortgage will decrease your mortgage payment much more than using the same amount as a downpayment. This is a huge benefit for long-term homeowners that you should utilize if you have the funds or can obtain them from the seller, city grants and government programs, employers, unions, or other programs. If you have available funds, they can most effectively be used for the Buy-Down.

The below chart shows the effectiveness of the NACA Buy-Down for various mortgage amounts:

- **One Buy-Down Point will cost 1% of the Mortgage Amount**
- **One Buy-Down Point will permanently reduce the Interest Rate .25% (one-quarter of one-percent)**

The Current Rate: 3.5%. This example uses the formula above using the current rate. The impact and cost would be the same at a different current rate.

Mortgage Amount	**1 Point**	**2 Points**	**3 Points**	**4 Points**	**5 Points**	**6 Points**	**7 Points**	**8 Points**	**9 Points**	**10 Points**
	BUY DOWN RATES									
	3.25%	**3.0%**	**2.75%**	**2.5%**	**2.25%**	**2.0%**	**1.75%**	**1.50%**	**1.25%**	**1.0%**
$100,000	$1,000	$2,000	$3,000	$4,000	$5,000	$6,000	$7,000	$8,000	$9,000	$10,000
$150,000	1,500	3,000	4,500	6,000	7,500	9,000	10,500	12,000	13,500	15,000
$200,000	2,000	4,000	6,000	8,000	10,000	12,000	14,000	16,000	18,000	20,000
$250,000	2,500	5,000	7,500	10,000	12,500	15,000	17,500	20,000	22,500	25,000
$300,000	3,000	6,000	9,000	12,000	15,000	18,000	21,000	24,000	27,000	30,000
$350,000	3,500	7,000	10,500	14,000	17,500	21,000	24,500	28,000	31,500	35,000
$400,000	4,000	8,000	12,000	16,000	20,000	24,000	28,000	32,000	36,000	40,000

Grants can be obtained for the interest rate Buy-Down. Most of these grants are funded by the Federal Government and sometimes enhanced by state and local municipalities. Cities and municipalities administer and provide these grants. These funds—which can be over $20,000 for each buyer—are used for downpayment and closing costs, but can also be used for buying down the NACA interest rate. The most effective use of these funds is to access the NACA Mortgage and to buy down the interest rate from NACA's already below-market rate. Thus, you could permanently reduce the interest rate to an extremely low rate, even less than 1% percent. This would dramatically increase your Desired Price or further lower your mortgage payments. It will have far greater impact than the current uses of these funds.

To access these funds for the Buy-Down, you need to contact your city and town officials to get them to work with the NACA Mortgage. NACA can assist you and others in having the government work to further enhance the NACA Mortgage.

MINIMUM REQUIRED FUNDS

While the participating lenders pay all the closing costs and fees, Members must have the Minimum Required Funds ("MRF") at closing. Different mortgages require MRF for downpayment, closings costs, etc. While the MRF varies between areas and by property types, for NACA it only includes property acquisition, prepaids, and any Payment Shock.

The property acquisition costs consist of earnest money and inspection fees. Earnest money is often required by the seller as a deposit to hold the property until inspections can be completed and the loan application is approved. Upon closing, the earnest money will be applied toward the required pre-paids. Inspection fees, such as property and termite inspections, are paid up front so the overall property condition can be determined and evaluated.

Pre-paids are funds paid at closing for costs by the homeowner. These costs include the first year's homeowner's insurance premium, mortgage interest from the day you close until the end of the month, property taxes and homeowner's insurance escrows. The lender requires these to be paid up-front and your future mortgage payments will include the monthly fees for the property taxes and homeowners insurance going forward, so that they will be in effect with no lapses. The lender keeps your fees in an escrow account and pays them for you. Since these fees change over time, you receive a credit if the lender collects too much, or you may be charged additional amounts if there are insufficient funds.

NACA requires one or two months reserves depending on the Payment Shock (One month mortgage if Payment Shock is less than $300 and two months if greater than $300). These reserves build over time as you save your Payment Shock. The purpose of reserves is to ensure you have some funds in the bank after you close. While the reserves can be used for any purposes, it is important that you have funds to move into your new house and to buy necessary household goods such as additional furniture, curtains, to pay deposits to start the utilities in your new house, to fill your oil tank before winter and other items. It is perhaps most important to have reserve funds to protect yourself from unexpected expenses or temporary loss of income.

Reserves can later assist you with your mortgage payments and allow you to keep your home if you suffer a setback or other unexpected expenses. Most experts agree that your available funds should total at least three months, and preferably six months, of mortgage payments. You should save more if you purchase a multi-family home. Saving money requires a financial plan that contains specific, measurable and achievable goals. The work you did on the Budget Form will be helpful in meeting your savings goal. Your savings helps with some of the following situations that you may encounter:

- Major home repairs
- Loss of tenant/rent
- Family crisis

- Federal or state tax (that was not deducted from paycheck)
- Major medical expenses
- Loss of employment
- Separation or divorce
- Disability
- Increase in property taxes or insurance costs

Funds for the MFR should be in any of the following type of accounts; checking, savings, CDs or money market accounts. You need to explain the source of funds that are non-payroll or irregular deposits. The MRF can include gifts or one-time deposits but they cannot be from a borrowed source or provided as part of the purchase transaction. You may need to provide documentation that the funds were not borrowed. Documentation of MRF requires the most recent 30 days of bank statements. For MRF, neither lump sum withdrawals nor deposits need to be explained unless there is a pattern (indicating a liability or obligation) or a non-payroll related deposit that is part of the MRF. If you have cash that is not in an account or have access to other forms of cash such as savings clubs, you will need to document that you have the funds and can access them. It is strongly recommended that you put any cash in your bank accounts at the start of the process so it can be used later. You must have documented evidence of available Minimum Required Funds ("MRF") on your current bank statement(s) to pay for a deposit to the seller (i.e. earnest money deposit), home inspection, one year homeowners insurance plus escrow, pre-paid interest, and pre-paid taxes at closing.

Documentation of other assets is important in strengthening your file and for use for the MRF and/or NACA Buy-Downs. These funds must be deposited into your bank account before NACA Qualification and remain there through bank application and closing.

- 401K Assets (or Other Assets)
  A copy of the 401K withdrawal and repayment terms are required.
- Gift Funds
  An official gift funds form is to be completed and a letter from the gift giver stating the relationship to you, the gift givers contact name, phone number, address, that it is not to be repaid, and the property address of the home being purchased.
- Tax Refund Monies

NACA requires a minimum amount of funds to purchase a home with the NACA Mortgage. Homebuyers should not be prevented from owning a home due to not having a significant amount of savings. Despite the trend to increase the downpayment requirements, NACA will continue to maintain the NACA Mortgage with no downpayment and no closing costs. We have commitments of $13 Billion in the NACA Mortgage through 2021.

HOW MUCH MONEY WILL YOU NEED TO BUY A HOME?

	Traditional Mortgage (Assumes 5% down)	NACA Mortgage (No downpayment)
I. Pre-Mortgage Application		
Offer (earnest money deposit)[1]	$1,000	$1,000
Home inspection	$275	$275
Your attorney	$0	$0
P&S deposit ($100,000 price)[2]	$2,000	$0
Credit report[3]	$45	$0
II. Mortgage Application		
Application fee	$250	$0
III. Costs at Closing		
Appraisal	$350	$0
Balance of downpayment ($100,000 price)	$3,000	$0
Origination Fee	$2,000	$0
Document prep fee	$200	$0
Title insurance	$225	$0
Private mortgage insurance for first year	$800	$0
Lender's attorney	$600	$0
Homeowner's insurance premium for the first year	$600	$600
Other fees	$350	$0
IV. Pre-paids (Escrows)		
Private mortgage insurance (two months)	$250	$0
Homeowner's insurance (two months)	$100	$100
Real estate taxes (two to twelve months)	$208	$208
Pre-paid mortgage interest (closing 15th)	$247	$247
Membership Due	$0	$50
Interest rate buy down (optional)		
TOTAL COSTS (Minimum Required Funds)	**$11,500**	**$2,480**

The above analysis is based on a $100,000 purchase price for a single family home. Estimated costs may differ significantly for different markets and the costs generally increase in proportion to the increased sales price. The total funds will vary depending on whether you purchase a single or multi-family home, the area's property taxes and homeowner's insurance, and the day of the month you close. If you need to buy down the interest rate to qualify for your Desired Price or to reduce your mortgage payment, then the buy-down funds need to be included as part of your MRF.

[1] The earnest and purchase deposit are applied to the pre-paids. The amount significantly increases for multi-family homes

[2] Some sellers require a portion of the downpayment on execution of the Purchase and Sales contract.

[3] Your payment for the credit reports, which is at a discounted rate, is refunded by the lender at closing.