ONE Mortgage

Program Guidelines

I. Program Overview

The objective of the program is to provide ONE Mortgage loans to low- and moderate-income first-time homebuyers by lowering the monthly costs of homeownership. The participating lender underwrites the mortgage loan for up to 97% of the purchase price (95% for three family properties). The loan is fully amortizing. A portion of the interest costs for eligible borrowers is paid by public funds. The borrower does not pay mortgage insurance and public funds provide a loan loss reserve for participating lenders. Public entities, including the Commonwealth of Massachusetts, acting through the Department of Housing and Community Development (DHCD) and the Massachusetts Housing Partnership (MHP) contribute to the pool of public funds for the interest subsidy and loan loss reserve payments.

II. Program Mechanics

Potential homeowners will contact participating homebuyer education agencies, communities and lenders directly for information about the ONE Mortgage Program. Many communities and non-profit organizations provide homebuyer education courses, down payment and closing cost assistance and counseling services. After homebuyers have contacted their local community or homebuyer education agency, lenders are able to electronically submit the borrower's information to MHP. Determination of income eligibility and reservation of public subsidy funds will be made by MHP based on information provided by the applicant to the participating lender.

Once a reservation is made—provisionally committing MHP funding to the loan-the household has 60 days to locate a home and complete a mortgage application with a participating lender. At this time, the bank verifies income, assets and credit records. If the household qualifies for the loan, the lender has 30 days to issue a commitment letter. In the event that the household fails to obtain and accept a commitment letter within 90 days from the date of the subsidy reservation, the subsidy reservation expires. Upon written request, reservations may be extended for applications in process at the time of expiration.

The program is open to any lending institution that wishes to participate in the ONE Mortgage Program. MHP requires that the mortgage loan be offered at a rate no greater than 30 basis points below the 30 year fixed rate in Freddie Mac's Weekly Primary Mortgage Market Survey. No points may be charged to the borrower. To initiate participation, the lender must sign the ONE Mortgage Program Agreement. This agreement is between the lender and MHP and it defines respective roles. The most current version of this agreement can be found at: https://www.mhp.net/ONEProgramAgreement.

Participating lenders must use MHP's online processing tool (eS2) to reserve loans and to determine subsidy eligibility.

III. Borrower and Property Eligibility Requirements

First-time Homebuyer Status:
A first-time homebuyer is defined as an individual who has not had an ownership interest in a principal residence in the prior three years. ONE Mortgage borrowers must not have an ownership interest in any other residential dwelling at the time of application with their lender. All household members must be first-time homebuyer(s).

> **<u>Household Member</u>:** The homebuyer, the homebuyer's spouse, fiancé, domestic partner, or any other person age 18 or older who expects to occupy the property.

Some exceptions apply and are detailed below. All household members (age 18 or older) must provide three years of tax returns, or executed Income Tax Affidavit(s) stating that they were not required to file and the reason why they were not required to file, as evidence of first time homebuyer status.

If the borrower does not meet the first-time homebuyer status based on past property ownership, the lender must notify MHP in advance of a reservation approval (see Processing and Closing, Section IX) that the potential homebuyer qualifies for the ONE Mortgage Program based on one of the criteria noted below and must provide MHP with the supporting documentation listed below. MHP will review the supporting documentation and confirm in writing whether the individual qualifies for the ONE Mortgage Program.

<u>Displaced Homemaker</u>: an individual who has owned a home with their partner or resided in a home owned by the partner and is a "displaced homemaker". The term "displaced homemaker" is defined as an adult who has not consistently worked full-time in the labor force for one or more years and, during such years worked primarily without remuneration to care for the home and family.
Required documentation: three years of tax returns showing that substantial income was derived from partner or that the individual's income is within the program guidelines and, if currently working, pay stubs.

<u>Single Parent</u>: an individual who has owned a home with their partner or resided in a home owned by the partner and is a "single parent." The term "single parent" is defined as an individual who is unmarried or legally divorced or separated from a spouse, and has:

- 1 or more minor children for whom the individual has custody or joint custody; or
- is pregnant.

Required documentation: (1) Three years of tax returns with the current tax return indicating single marital status and at least one dependent child; or (2) legal divorce or separation papers and a current tax return indicating exemptions for child or children in custody; or (3) filed separation papers or legal custody agreement that clearly define the custody arrangement and division of assets of the household and indicates joint or full custody by the prospective ONE Mortgage borrower; or (4) letter from doctor indicating pregnancy.

<u>Dwelling Unit Structure</u>: an individual who owned or owns, as a principal residence, a dwelling unit whose structure is:

- Not permanently affixed to a permanent foundation (i.e. mobile home, houseboat), or
- Not in compliance with state, local, building or sanitary codes, and cannot be brought into compliance with such codes for less than the cost of constructing a permanent structure.

Required documentation: (1) executed lease for the space upon which the structure sits or (2) an official state or local inspection report noting non-compliance and contractor estimates indicating cost of necessary repairs.

Compliance/Qualifying Household Income:
The annual income of all adult household members must be within 100% of area median income based on household size and where the property is located.

<u>Household Size</u>: The total number of adults and children who will occupy the property being purchased as their primary residence (or children with a custody arrangement of 50% or greater).

An income table is included on the MHP website at https://www.mhp.net/incomelimits. A household member is defined as the homebuyer, the homebuyer's spouse, fiancé, domestic partner, and any person age 18 or older (and not a full time student) who expects to occupy the property. Household income should be projected in accordance with HUD's Section 8 guidelines https://www.mhp.net/hudincome at the time the initial eS2 application is submitted. For compliance purposes, MHP will assist lenders in evaluating unusual and/or temporary reductions in income on a case by case basis prior to the application process. All income earned by all household members must be reported and verified.

Asset Test:
The total assets from all household members cannot exceed $75,000. Assets will include the total of funds to be used for down payment and reserves and must be reported at the time of initial eS2 application. Applicants with assets greater than $75,000 at the time of MHP application do not qualify for the ONE Mortgage Program.

Assets include:
- savings and checking accounts
- stocks
- bonds
- gifted money, including gifts of equity[1]
- other forms of capital investments
- Roth IRA's
- real property (whole or partial interest)

Excluded assets:
- retirement accounts such as 401(k), 403(b), 457 and IRA accounts
- government approved college savings plan
- municipally funded buy-downs
- community, municipal or employer-funded down payment or closing cost assistance that meets Fannie Mae's definition of a Community Seconds Program

Homebuyer Education Courses:
At least one borrower per household must complete a pre-purchase homebuyer education course with an agency certified by the Massachusetts Homeownership Collaborative. Lenders will need to have the borrower's completion certificate on file before MHP can approve the borrower's ONE Mortgage reservation. A list of approved homebuyer education agencies can be found at www.chapa.org.

Borrowers must also agree to take an approved post-purchase education course within one year of their closing date. A list of pre- and post-purchase education providers can be found on the MHP website at https://www.mhp.net/hbed and https://www.mhp.net/hoed respectively. A current calendar of upcoming education classes can be found at www.chapa.org.

Additionally, for households purchasing two- and three-family properties, at least one borrower per household must complete a pre-purchase multifamily/landlord education course with an agency certified by the Massachusetts Homeownership Collaborative. A current calendar of upcoming education courses can be found at www.chapa.org.

In lieu of a certified multifamily/landlord pre-purchase education course, borrowers may complete a one-on-one multifamily/landlord counseling session with an agency approved by MHP. A list of pre-purchase

[1] If the purchase is not an arm's length transaction, the lender must submit a current market appraisal to MHP prior to reservation approval.

multifamily/landlord counseling providers can be found on the MHP website at https://www.mhp.net/mfc.

Multifamily/landlord education or counseling must be completed prior to closing.

Property Type:
The ONE Mortgage Program can only be used for the purchase of condominiums, single-family, two-family, and three-family properties.

Section 8 for Homeownership Applicants:
Lenders must submit a Housing Authority form and MHP Application Form for all Section 8 applicants, and all applicants must complete pre-purchase Section 8 counseling coordinated by MHP in addition to their required pre-purchase education course.

Primary Residence:
The borrower must use the property as the primary residence for the term of the loan. A ONE Mortgage homeowner's failure to use the property as their primary residence at any time during the term of the loan will constitute a violation of their obligations under the ONE Mortgage Program.

Participating lenders will inform MHP of any changes of address by including the mailing address field in the monthly servicing reports submitted to MHP (see Servicing Guidelines for more information). MHP will follow up with borrowers demonstrating address discrepancies to ensure compliance with this requirement.

IV. Mortgage Loan Structure and Terms

First Mortgage Loan:
The first mortgage is a conventional 30-year, fixed-rate loan originated by the participating lender. The maximum loan to value is no greater than 97% (95% for three family properties).
MHP requires that the loan be offered at a rate no greater than 30 basis points below the 30 year fixed rate in Freddie Mac's Weekly Primary Mortgage Market Survey. No points may be charged to the borrower. Lenders are encouraged to offer discounts, and priority for participation will go to lenders that offer the most competitive rates.

Qualified buyers of single family, condominium and two family homes at or below 80 percent of median income may be eligible for a publicly-funded interest subsidy on their ONE Mortgage loan. Subsidy will reduce the effective interest rate by up to 2 percent based on ratios at closing. Subsidized mortgage payments are level for the first four years and then subsidy is phased out between years five and eight. The present value of the interest subsidy over the life of the loan is cash funded after closing.

Second (Subsidy) Mortgage Loan (if applicable):
Through MHP, public funds will provide the minimum interest subsidy needed by the borrower to maintain a housing expense to income ratio at or near 28% for condominium and single-family properties and at or near 42% for two-family properties over the first four years of the loan.

- Borrowers will qualify for differing amounts of subsidy and may not qualify for any subsidy. For borrowers who receive the subsidy, the phasing out of subsidy over time will result in a gradual increase in the borrower's mortgage payments.
- Borrowers will not receive any subsidy if their income is above 80% of area median income, if their income is high enough to fully cover the monthly costs of the mortgage on a desired house, if their down payment is greater than 20% of the purchase price or if they are buying a three-family property.
- Years 1-4: the initial public subsidy contribution is equivalent to an interest rate buydown of up to 2 percent. Eligibility will be determined as follows:

1. Multiply the borrower’s gross income by 28% for condominium and single-family properties and by 42% two-family properties to determine the target amount to be dedicated to housing expenses.
2. If the borrower’s housing ratio is above 28% for condominiums or single-family properties or 42% for two-family properties, a subsidy paid to the lender will reduce the monthly payments due from the borrower in order to achieve a 28% housing ratio for condominiums and single-family properties (or as near to 28% as is possible within the funding limits per loan noted below and provided the loan is within the maximum debt-to-income ratios allowed by the program) or to achieve a 42% housing ratio (including 75% of rental income) for two-family properties. If the borrower’s housing ratio is already below 28% for condominiums or single-family properties or 42% for two-family properties, they are ineligible for interest subsidy.
3. Public subsidy will pay the difference between the borrower’s monthly contribution to the loan and the full monthly cost of the principal and interest payment (within certain limits as listed below.)

Years 5-8: The public subsidy contribution will be reduced gradually over years 5-8 as the schedule below indicates. The borrower’s payment will increase as the public subsidy decreases.

Year 5: subsidy pays 75% of the calculated amount of subsidy in years 1-4
Year 6: subsidy pays 50% of the amount of subsidy paid in year 5
Year 7: subsidy pays 25% of the amount of subsidy paid in year 6
Year 8: subsidy pays 0%

In no event may the total of the loan loss reserve and public interest subsidy provided by the ONE Mortgage Program exceed $12,000 per borrower.

The borrower may be required to repay MHP any funds received, at zero-interest, upon refinance or property sale.

Down Payment and Reserves:
If the borrower obtains any portion of the down payment funds from another source (i.e. a municipality, community-based non-profit or employer), the gift or grant must be in accordance with Fannie Mae Community Seconds guidelines.

Single-Family Properties and Condominiums:
The total down payment must be 3% of the purchase price. In all circumstances, the borrower must contribute at least 1.5% (or minimum of $1,500 on purchase prices below $100,000) of the purchase price from their own seasoned funds. The borrower’s 1.5% down payment contribution must be available to the borrower from the time of application until the time of closing.

Two-Family Properties:
The total down payment must be 3% of the purchase price. In all circumstances, the borrower must contribute at least 1.5% (or minimum of $1,500 on purchase prices below $100,000) of the purchase price from their own seasoned funds. The borrower’s 1.5% down payment contribution must be available to the borrower from the time of application until the time of closing.

One month of reserves (defined as one month of PITI) is required for borrowers purchasing two-family properties.

Three-Family Properties:
The total down payment must be 5% of the purchase price. In all circumstances, the borrower must contribute at least 3% (or minimum of $3,000 on purchase prices below $100,000) of the purchase price from their own seasoned funds. The borrower’s 3% down payment contribution must be available to the borrower from the time of application until the time of closing.

Two months of reserves (defined as two months of PITI) are required for three-family purchasers.

Loan Loss Reserve:
To mitigate the lender's credit risk MHP holds a loan loss reserve that accumulates for each participating lender in a restricted account and it is pooled to cover all loans that the lender has originated. Contributions to the loss reserve are cash-funded at loan closing. Each lender's first five loans will be funded at five percent of the mortgage amount and each subsequent loan will be funded at one percent of the mortgage amount. MHP will pay originating lenders 80 percent of qualifying loan loss claims on the originating lender's total credit exposure on a defaulted mortgage loan up to maximum allowable recovery. Refer to the ONE Mortgage Program Agreement and Servicing Guidelines for loss recovery details and procedures.

Mortgage Insurance:
No private mortgage insurance may be charged to the borrower. In lieu of private mortgage insurance, MHP will hold a loan loss reserve. This provides a substantial cost savings to the borrower and provides greater flexibility in loan underwriting.

Closing Costs:
Ordinary and reasonable closing costs are negotiated between the borrower and the lender. Lenders are encouraged to offer discounted closing costs for ONE Mortgage borrowers.

V. Underwriting Guidelines

The general underwriting criteria of the ONE Mortgage Program is designed to be consistent with the terms and conditions provided in the Fannie Mae Selling Guide. Except where specifically detailed herein, MHP instructs participating lenders to underwrite and approve mortgage loans in conformance with criteria and guidelines set forth in the Fannie Mae Selling Guide. Please contact MHP for questions regarding the use of these guidelines.

Underwriting Income:
Underwriting income used for ONE Mortgage income qualification purposes must be consistent with Fannie Mae underwriting standards, as described in the Fannie Mae Selling Guide. Underwriting income may vary from compliance income. Please see Section III "Compliance/Qualifying Household Income" for information on calculating compliance income.

Minimum Credit Standards:

Minimum Representative Score:
Borrowers must have a minimum representative credit score of 640 if purchasing a single family property or condominium and 660 if purchasing a two- or three-family property.

Nontraditional Credit:
MHP will allow exceptions to the minimum representative credit score requirement only for those borrowers with insufficient traditional credit history. For borrowers with insufficient traditional credit history, as documented in the credit report by reasons that indicate a lack of credit accounts, accounts not opened long enough, or lack of usage, the lender may supplement the traditional credit file with the development of an acceptable nontraditional credit profile as described below:

- A minimum of three sources of nontraditional credit that have been active for at least 12 months:
- One of the sources must be housing related, including canceled rent checks or electronic bank records documenting timely payments showing the landlord as the payee,
- One of the sources must be a utility company, as documented by canceled checks, money order receipts or electronic bank records showing the utility company as the payee, and
- The remaining source may be any reasonable service or purchase as long as the repayment terms are in writing and the borrower can provide canceled checks, money order receipts or electronic bank records showing the creditor as the payee to document the payments
- No history of delinquency on rental housing payments within the last twelve months
- Only one account, excluding rental payments, may have a 30-day delinquency in the last 12

months,

- No collections or judgments (other than medical collections) filed within the past 24 months. Any/all judgments must be satisfied. Collection accounts (including medical) in excess of $250 per individual account or $1,000 in the aggregate must be paid in full.

For borrowers with a sufficient number of trade lines to obtain a credit score where the score does not meet the minimum scores above, exceptions will be reviewed only if the low score is documented on the credit report as being caused by a lack of credit accounts, accounts not opened long enough or lack of usage. MHP will not review alternative credit profiles or supplements for borrowers with low score(s) due to derogatory credit histories.

Prior Bankruptcy or Foreclosure:
For borrowers with traditional or nontraditional credit that have a prior bankruptcy or foreclosure in their credit history, they must have re-established credit that satisfies the above requirements and satisfies the applicable waiting period (subject to FNMA's Exceptions for Extenuating Circumstances):

- Foreclosure: 7 years
- Pre-foreclosure sale; short sale; deed-in-lieu of foreclosure: 4 years
- Bankruptcy:
  - Chapter 7 or 11: 4 years
  - Chapter 13: 2 years from discharge or 4 years from dismissal
  - Multiple bankruptcy filings: 5 years

Condominiums and Single-Family Properties:

Maximum Debt to Income Ratios:

	Housing-to-Income Ratio	**Total Obligation-to-Income Ratio**	**Compensating Factors Required?**
Tier 1 (Year 1)	33%	38%	No
Tier 2 (Year 1)	36%	43%	Yes - See Below

Tier 1 (Year 1 ratio):
The borrower's housing expense-to-income ratio should not exceed 33% and the maximum total obligations-to-income ratio should not exceed 38%. Any loan with ratios at or below 33%/38% is considered a Tier 1 loan.

Tier 2 (Year 1 ratio):
MHP will review condominium and single family loans with ratios up to 36%/43% with three compensating factors. Examples of satisfactory compensating factors include:

- A minimum representative credit score that exceeds the minimum requirements
- A minimum of two months of reserves (liquid funds available after closing)
- A maximum payment shock of less than or equal to 20% (percentage change between pre-mortgage housing obligation and total PITI) documented by 12-months of rent checks or bank statements
- Substantial employment stability

Year 8/Unsubsidized Qualification:
When the borrower is receiving an interest subsidy, their monthly payments must remain affordable without consideration of the subsidy. A maximum 41 percent unsubsidized housing ratio will be permitted at year 8—when the payment reaches the full note rate—per the payment schedule set at closing.

Additional Condominium Guidance:

Insurance Coverage
An HO-6 Policy, known as "walls-in" coverage, is required when the Master Insurance Policy does not cover walls-in and fixtures. The policy must be presented at closing and paid in full for the first year. The cost of the HO-6 Policy must be included in the calculation of ratios.

Pre-Sale Requirements:

- **Market Rate Projects:** All units in established market-rate condominium projects of five or more units must follow FNMA pre-sale[2] and owner occupancy ratios as well as general project eligibility requirements.
- **Small Projects:** All units in two- to four-unit market-rate projects must meet the following pre-sale[2] requirements: for two-unit properties at least one unit must be presold to a principal resident; for three-unit properties at least one unit must be presold to a principal resident; and for four-unit properties at least two units must be presold to a principal resident.
- **100 Percent Deed Restricted/Affordable Project**: Exceptions to the FNMA pre-sale[2] restriction will be reviewed on a case-by-case basis by MHP.
- **Mixed Market-rate/Deed Restricted Project**: MHP will review exceptions on a case-by-case basis if at least 51% of the market units are pre-sold[2].

Two- and Three-Family Properties:

Two-Family Maximum Ratios:

- **Maximum 45% Housing-to-Income (HTI) Ratio=**

$$\frac{\text{PITI}}{\text{Underwriting Income + 75 Percent of Projected Rental Income}}$$

- **Maximum 50% Debt-to-Income (DTI) Ratio=**

$$\frac{\text{PITI + Other Monthly Debt}}{\text{Underwriting Income + 75 Percent of Projected Rental Income}}$$

Three-Family Ratio Test:

- **Maximum 50% Debt-to-Income (DTI) Ratio=**

$$\frac{\text{PITI + Other Monthly Debt}}{\text{Underwriting Income + 75 Percent of Projected Rental Income}}$$

VI. ONE+

ONE+ uses local funding to enhance MHP's ONE Mortgage Program for income-eligible first-time homebuyers buying in that community (e.g., funds from the City of Boston supporting a "ONE+Boston" loan). ONE+ uses local funding from the Community Preservation Act, municipal affordable housing trust funds or other sources to provide additional interest rate discounts on 30-year fixed-rate mortgage loans originated through the ONE Mortgage Program. The resulting lower interest rates will provide low- and moderate-income first-time homebuyers (below 100% AMI) with more purchasing power, enabling them

[2] Pre-sale is defined as having a fully executed Purchase and Sale Agreement with earnest money deposit given and evidence that all mortgage contingencies have been met.

to purchase market-rate and deed-restricted properties in the participating city or town at higher prices than they could otherwise afford. All of the same underwriting and eligibility criteria used for the existing ONE Mortgage Program will apply to ONE+, and local funders may impose other eligibility restrictions.

VII. Lender Financed Purchase Rehab

Lenders may offer a purchase rehabilitation loan through the ONE Mortgage Program. Maximum loan to value cannot exceed 97% (95% for three-families) of the property's "as-completed" value as evidenced by a current appraisal. The total loan, both the purchase and the rehab portions, must be in compliance with the terms and guidelines of the ONE Mortgage Program. After the closing, the lender must escrow the rehab loan, manage the disbursement of the funds and monitor the property during the construction period. Borrowers may utilize the services of a qualified rehab agent employed or approved by the lender.

The loan amount will be based on both portions of the loan including the purchase price, the cost of rehabilitation, inspection and title update fees, contingency, and rehab agent fees, if any. Loan amounts should be structured in a manner consistent with the following example:

Borrower Costs:		**Borrower Financing with ONE Mortgage:**	
Purchase price =	$60,000	Mortgage principal =	$97,000
Rehab financing =	$35,000	Down payment =	+ $3,000
Fees =	+ $5,000		$100,000
	$100,000		

VIII. Community Buy-downs

MHP accommodates municipal "buy-downs". For example, if a single family home is being sold for $195,000 and an income-eligible ONE Mortgage buyer can only afford $165,000, the community may contribute $30,000 to "buy-down" the purchase price. In this case, MHP would consider the purchase price $165,000, and all mortgage and subsidy amounts would be calculated as described in Section IV. This policy applies only to municipalities. Friends, relatives, or other parties cannot "buy-down" the purchase price for the borrower. The loan should be structured similarly to the following example:

ONE Mortgage Structure:			
Seller Price =	$195,000	Mortgage =	$160,050
Community buy-down =	- $30,000	Down payment =	+ $4,950
Purchase price =	$165,000		$165,000

IX. Section 8 for Homeownership Guidelines

Participants in the Section 8 for Homeownership Program can purchase their homes through the ONE Mortgage Program. Participants must meet all standard program requirements and guidelines. Additionally, buyers must work with a Section 8 provider that has an MHP-approved administration plan throughout the planned term of assistance. The buyer must meet all terms and conditions of the provider's plan.

Property Type

The Section 8 for Homeownership Program can be used for the purchase of condominiums and single-family properties.

Pre-purchase Counseling Requirement

Section 8 for Homeownership buyers are required to complete an in-person, pre-purchase counseling session with an approved HomeSafe counselor prior to MHP application approval. This counseling requirement is in addition to the ONE Mortgage pre-purchase education course requirement.

Underwriting Guidelines

MHP and participating lenders will underwrite and approve loans based on the following underwriting guidelines. The borrower's total net mortgage loan responsibility will be used when calculating qualifying ratios. (The total net mortgage loan responsibility includes: borrower's fully unsubsidized loan payment, taxes, insurance and homeowners' association fees, if applicable.) There are no ratio exceptions on Section 8 for Homeownership loans.

Buyers must qualify using one of two methodologies described below. MHP and the participating lender will calculate both ratios. The borrower must qualify using either the "Option 1: Deduct HAP from PITI Option" or the "Option 2: Add HAP to Income Option" (described in detail below). *Please note - if the borrower only qualifies under Option 1: (Deduct HAP from PITI), the HAP payment must be direct-deposited by the approved Section 8 provider into a custodial account established by the lender and/or mortgage servicer*.

- **Option 1: Deduct HAP from PITI**
  Under this option the borrower's HAP is applied directly to the PITI, and the housing expense-to-income ratio is calculated on the net housing obligation of the borrower.

  Maximum 28% HTI Ratio=

  $$\frac{\text{PITI – HAP}}{\text{Earned Income}}$$

  Maximum 36% DTI Ratio=

  $$\frac{\text{PITI + Other Monthly Debt – HAP}}{\text{Earned Income}}$$

  If underwritten through this option, the HAP payment must be direct-deposited by the approved Section 8 Provider into a dedicated limited access account established by the lender and/or mortgage servicer.

- **Option 2: Add HAP to Income**
  An alternative option is to calculate total income as a combination of (1) the tax-exempt HAP (grossed up by 25%) and (2) the borrower's income from employment. The "Deduct HAP from PITI" approach may not be used with this option.

  Maximum 33% HTI Ratio=

  $$\frac{\text{PITI}}{\text{Earned Income + (HAP x 1.25)}}$$

  Maximum 38% DTI Ratio=

  $$\frac{\text{PITI + Other Monthly Debt}}{\text{Earned Income + (HAP x 1.25)}}$$

In addition to meeting at least one of these underwriting tests, MHP will evaluate the borrower's rate of income growth throughout the life of the loan to ensure continued affordability.

How to Apply for a Section 8 to Homeownership Loan:

1. Lenders must submit an MHP reservation request online through eS2 (even though Section 8 for Homeownership applications are not evaluated in eS2).
2. Once the borrower has found a property and submitted a full mortgage application, lenders will send the following documents to MHP:

   - Housing Authority Form, completed by the MHP-approved Section 8 provider
   - MHP Application Form
   - Section 8 provider's approved administration plan, if applicable

3. MHP will refer the borrower to an approved counseling agency to complete the required, pre-purchase counseling session. MHP must receive an eligibility certification from the counselor

before approving an application.

4. MHP will review the application submitted and provide a manual loan decision to the lender via email.
5. If any borrower information has changed since the initial submission of the MHP Application Form, the lender must notify MHP in writing.

Upon MHP final approval, if the borrower qualifies for subsidy, the lender should forward three signed, original copies of the Subsidy Agreement to MHP for signature. MHP will sign the Subsidy Agreement and forward the documents to the appropriate closing attorney. The lender should submit all other applicable closing documents directly to the closing attorney in advance of closing.

IX. How to Apply for, Process, and Close a ONE Mortgage Loan

Lenders must interface with MHP and its secure online loan processing system, eS2, at each step of a loan application as outlined below. Lenders are also required to oversee the generation and execution of closing documents required by MHP, and to submit these documents to the MHP office after closing.

How to Submit a Prequalification and Reservation Request:

1. Applicants meet with participating lenders to review general lending requirements of the ONE Mortgage Program. The lender should use the prequalification calculator in eS2 to determine affordability.
2. Once the applicant has identified a community and property type, the lender should submit and save a prequalification and reservation request in eS2 to determine program eligibility.

Prequalification: To enter a prequalification, the lender should log in to eS2, select "Enter a New ONE Mortgage Borrower" and submit the applicable loan information into the prequalification screen.

- The submitted prequalification screen displays an estimated interest subsidy schedule, present value and full value of the subsidy funds (if applicable), and loan loss reserve amount allocated to the loan. (The lender should use this opportunity to ensure that the applicant understands how the interest subsidy works, though the amount of subsidy funds allocated is based off of the applicant's PITI and usually changes before the loan closes.)
- Submitted prequalification/reservation requests are saved in eS2 and searchable by borrower name; approved requests are searchable by a unique MHP loan number

Reservation: The lender makes a reservation request when submitting a prequalification in eS2. The reservation sets aside MHP-provided public funds for the interest subsidy and loan loss reserve according to the preliminary figures required according to the applicant's submitted prequalification. Once MHP approves an applicant's final application, the required funds are allocated to the loan.

- Applicants must have completed their required pre-purchase education course and provided a certificate of completion before reservation approvals will be granted.
- MHP-required manual reviews for a reservation approval include:
  - First-time homebuyer exceptions
  - Three-family properties
  - Section 8 for Homeownership applicants
  - Non-arms-length transactions
  - Non-conforming condominium projects
- A reservation does not need to be approved in order to submit and receive an approval on a prequalification; however, lenders will not be able to access the MHP final application without an approved reservation.
- Reservations expire 90 days after the approval date. The lender may request extensions for

expired reservations, but must submit a new prequalification into eS2 for any changes in household size, community of purchase, or property type.

3. If the ratios fall within the tier 1 requirements, the prequalification will be approved automatically. If the tier 1 ratios are exceeded but the program limits are not, eS2 will return an “In Process” message indicating that compensating factors are required to proceed with processing the loan. The lender should then enter all applicable compensating factors in the “PQ Factors” screen (refer to Section V for more detailed information about underwriting exceptions).
   - Any application utilizing non-traditional credit will be manually reviewed for approval by MHP.
   - MHP will review all pending prequalification data within one-business day of submission by the lender and will follow-up with requests for more information or supporting documents as required.
   - Once the prequalification has been approved, the lender may use the “Print” function on the applicant’s prequalification screen.
   - If the program income, liquid assets, or ratio limits are exceeded, the loan will be denied automatically and state the reason for the denial.
   - Lenders will receive automatic emails whenever the prequalification status moves from “In Process” to “Approved” or “Denied.”

How to Submit a Final Application:

1. To submit final underwriting information via eS2, lenders should search for the unique MHP applicant (by borrower name or MHP loan number) and select the “Final Application” tab in eS2. The final application page will be populated by information that is submitted at the prequalification stage. Lenders should verify and update the loan information as needed before submitting.

   Final Application: To enter a final application, the Lender should log in to eS2, navigate to the existing loan application, and submit the applicable loan information into the final application screen.
   - Users should navigate to the existing eS2 application by searching for borrower name or MHP loan number.
   - The applicant must have an approved reservation of funds – an MHP loan number and an approved prequalification – before the lender may submit the final application in eS2. The final application screen is inaccessible until these two requirements are met.
   - The submitted final application screen displays the final interest subsidy schedule, present value and full value of the subsidy funds (if applicable), and loan loss reserve amount allocated to the loan. (The borrower should be made aware of their exact interest subsidy schedule at this time and notified of any changes if the final application is updated prior to closing.)

2. If the ratios fall within the tier 1 requirements, the final application will be approved automatically. If the tier 1 ratios are exceeded but the program limits are not, eS2 will return an “In Process” message indicating that compensating factors are required to proceed with processing the loan. The lender should enter all applicable compensating factors in the “FA Factors” screen (refer to Section V for more detailed information about underwriting exceptions).
   - Any application utilizing non-traditional credit will be manually reviewed for approval by MHP.
   - MHP will review all pending final application data within one-business day of submission by the Lender and will follow-up with requests for more information or supporting documents as required.
   - Once the final application has been approved, the lender may use the “Print” function on the applicant’s prequalification screen.
   - If the program income, liquid assets, or ratio limits are exceeded, the loan will be denied automatically and state the reason for the denial.
   - Lenders will receive automatic emails whenever the final application status moves from “In

Process" to "Approved" or "Denied."

3. Once the final application has been approved, the lender should schedule the loan closing.

How to Close a ONE Mortgage Loan:

1. Once a loan closing has been scheduled, lenders should enter the closing information into eS2 by navigating to the application's "Closing Docs" tab, filling in the blank fields and clicking "Lock Loan."
   - Users should navigate to the existing eS2 application by searching for borrower name or MHP loan number.
   - The "Closing Docs" tab is only accessible once the final application has been approved.
   - No financial information or borrower information can be updated after a loan has been locked. If the applicant or final application screens need to be updated, users must first click "Unlock Loan."

2. Once the loan closing information has been entered and the application locked, the lender should download all required MHP documents and forward them to the closing attorney. (ONE Mortgage closing document templates can also be found online at **www.mhp.net/closingdocs**).

   The following closing documents are required for all MHP borrowers:
   - MHP Disclosure Statement*
   - Lender's First Mortgage**
   - Lender's First Note**
   - HomeSafe Post-Purchase Education Letter
   - Pre-purchase Homebuyer Education Certificate of Completion from an approved agency

   The following closing documents (in addition to the five documents outlined above) are required for those borrowers receiving MHP Interest Subsidy:
   - MHP Interest Subsidy Mortgage
   - MHP Interest Subsidy Note*
   - MHP Interest Subsidy Agreement*
   - Insurance binder naming MHP as the second mortgagee

   *denotes documents which must ultimately be submitted to MHP as fully-executed originals
   **lender may use their own mortgage and note templates provided that the stated terms match those represented in these program guidelines

   The closing attorney is responsible for:
   - Recording the lender's First Mortgage and MHP's Interest Subsidy Mortgage (if applicable) with the Registry of Deeds
   - Directing the Registry of Deeds to return the original MHP Interest Subsidy Mortgage to MHP (if applicable)
   - Delivering copies of all executed documents, including originals required by MHP (as outlined above), to the lender

3. After closing, the lender should submit all closing documents listed above along with a MHP Closing Documents Checklist (also available on the "Closing Docs" tab in eS2) to MHP's offices no later than ninety (90) days after the loan closing date. Once a complete and accurate closing package has been received, MHP will:

- Transfer the total present value subsidy funds to the lender or servicer (if applicable)
- Transfer the appropriate amount of loan loss reserve funding to the lender's available LLR account maintained by MHP (see the ONE Mortgage Program Agreement for more detailed information about the terms of the loan loss reserve)
- Issue confirmation in writing to the lender or servicer that the present value of the interest subsidy has been wired and a deposit has been made to the loan loss reserve account based on the terms of the ONE Mortgage Program Agreement