PENNSYLVANIA HOUSING FINANCE AGENCY

PENNVEST Homeowner Sewage Program

Program Guidelines

Version 5/19/2025

211 N. Front Street, Harrisburg, PA 17101 ■ 1.855.827.3466 ■ www.phfa.org

septic@phfa.org

Contents

INTRODUCTION

The Pennsylvania Infrastructure Investment Authority ("PENNVEST") has teamed with the Pennsylvania Housing Finance Agency ("PHFA" or the "Agency") to offer the PENNVEST Homeowner Sewage Program.

Purpose of the Program Guidelines

These PENNVEST Homeowner Sewage Program Guidelines, including all appendices and forms, supplement the Memorandum of Understanding Agreement, Participant Application and Participation Agreement executed by PHFA and the Lending Institution participating in the program (the "Participant"). These Guidelines provide essential information about the program requirements and process. Nothing in this manual shall be construed in such a manner as to conflict with, alter, or amend any federal or state law or regulation applicable to PENNVEST, PHFA or the Participant. These guidelines may not be altered or added to without prior written approval from the Agency and are subject to change or termination at the Agency's discretion upon written notice to Participant.

Requests for Exceptions

Requests for exceptions or clarifications to these guidelines must be submitted in writing using the form provided by PHFA ***along with any relevant supporting documentation*** to septic@phfa.org. Clearly identify the question as pertaining to the Title I PENNVEST program. If the exception request pertains to credit issues, the complete credit report must be provided in addition to any other relevant supporting documentation. If it is an income issue, provide pertinent income documentation.

Purpose of the PENNVEST Homeowner Sewage Program

The purpose of the PENNVEST Homeowner Sewage Program ('the "Program") is to provide access to credit for homeowners facing on-lot septic system repairs or replacements, existing sewer lateral connection repairs or replacements OR first-time connections to public wastewater collection and treatment systems.

On-lot septic system work performed with loan proceeds must be approved by the local Sewage Enforcement Officer as an acceptable solution to the borrower’s on-lot system failure. All sewer lateral work must be done in accordance with the Pennsylvania Domestic Wastewater Facilities Manual, found at https://www.dep.pa.gov/Business/Water/CleanWater/WastewaterMgmt/Act537/Pages/PublicandPrivateSewerSystems.aspx

The Agency reserves the right to deny a loan application if the home cannot be made safe, sanitary, and habitable with the PENNVEST Homeowner Sewage Program proceeds.

CHAPTER 1

PROGRAM ADMINISTRATION AND PARTICIPANT COMPENSATION

Participant Lenders –FHA Title I and Role

Program loans are provided to eligible homeowners by Participants approved by PHFA as Sponsored Third-party Originators under the United States Department of Housing and Urban Development ("HUD") Federal Housing Administration ("FHA") Title I Property Improvement Loan Insurance Program ("Title I").

Participants are approved by PHFA to participate in the Program through an open application process. The application is available to all interested, eligible parties on PHFA's website at www.phfa.org. The application is also available by contacting the Agency at 717.780.3871 or 1.855.827.3466, or by writing to: PHFA, Homeownership Programs Division, 211 North Front Street, P.O. Box 8029, Harrisburg, PA 17105-8029. As part of the approval process, Participants must document they are not subject to sanctions or administrative actions disqualifying them for participation in the origination of FHA-insured loans. Participants must be familiar with the FHA Title I regulations and guidelines.

The current FHA Title I Handbook (4000.1) is found on the internet here

Participants' responsibilities under the Program include:

1) Marketing the Program to potential borrowers during the course of regular business operations (i.e., mentioning it during relevant customer interactions and displaying brochures in branch office information kiosks and at homeowner/homebuyer events).
2) Completing loan applications, providing initial disclosures to borrowers, providing underwriting-ready loan packages to PHFA.
3) Communicating PHFA's credit determinations to borrowers.
4) Closing loans, providing all final borrower disclosures and recording mortgages in PHFA's name.

Contractual Obligations

Upon approval of its application to participate in the Program, the Participant will execute a Participation Agreement with PHFA. The Participation Agreement is not assignable or transferable without PHFA's prior written approval, and it remains effective until the Participant or PHFA provides written notice of an intention to discontinue participation in the Program upon the completion of all loan originations in process and/or the depletion of Program funds.

Participant Compensation

Participant Compensation is $2,000 per closed loan in a Participant's standard operating territory. PHFA will transmit this to Participants once the Agency receives the complete loan (Origination and Closing) file.

Borrowers contribute 5% of the closed Homeowner Sewage Program amount toward Participant Compensation, which they may finance, and the PENNVEST Authority supplies the balance of the $2,000 to PHFA for distribution to the Participant.

PHFA compensates state-wide lenders an additional $1,000 (total $3,000) for providing this program beyond their standard operating footprint. The PENNVEST Authority covers this cost.

For example, if the borrowers' loan is $2,500, their share of the Participant compensation will be $125 and PENNVEST will provide $1,875. If the borrowers' loan is $25,000, their share of the Participant compensation will be $1,250 and PENNVEST will provide $750. (All examples are for "within a Participant's footprint. Add $1,000 for statewide Participants closing a loan outside of their regular business footprint.)

PHFA will permit borrowers to finance or pay out of pocket usual and customary third-party fees, in an amount equal to the actual charges incurred. The participant compensation and third-party costs are to be itemized on the Loan Estimate and the Closing Disclosures. No Closing Agent charges may be financed, per Title I regulations, and no Notary fees may be financed per PHFA Guidance.

Participants may charge the borrower for a reasonable upfront charges, such as an initial credit report, initial title/lien search, tax certification, and flood determination after receiving written confirmation of receipt of the Loan Estimate and a written PV-35 Intent to Proceed with the loan from the borrower. These charges will be considered earned by the Participant, <u>if charged during the course of developing the Origination file,</u> even if the loan doesn't close. If the loan closes, borrowers electing to finance these third-party charges must receive a credit at the loan consummation.

These upfront charges must be provided in a certified check made out to PHFA and remitted to the Agency with the Origination File. If the loan has been denied on PHFA's behalf by the Participant, the Origination File must include the denial letter that was sent to the borrower. We will issue compensation to the Participant once the Agency receives the complete loan file. (Origination or Origination and Closing files, if the loan is approved).

Borrowers who choose not to finance the participant compensation and third-party fees must pay them by certified check made out to PHFA, with "PENNVEST origination fees" and their PHFA loan number in the memo line. Participants remit this check to PHFA along with the Closing File.

<u>Sample Third-party Fees Which Borrowers May Finance:</u>

- Credit Reports with Credit Scores
- Title/lien searches
- Life of Loan Flood Determination
- Written Employment and Income Verifications
- Recording Cost

Third-party Fees Which Borrowers May Not Finance:

- Closing Agent fees

  Notary fees

CHAPTER 2
LOAN TERMS AND GUIDELINES

Loan Uses

The proceeds of Program loans are to be used only to finance eligible improvements, as specified below. Such improvements shall not have commenced prior to the date of the credit application. And may not begin until after loan closing.

Eligible:

3. Loan proceeds may be used to pay for the design or redesign of a waste disposal system, construction fees and costs, and permit fees to:

    a. Rehabilitate, improve, repair, or replace an existing on-lot system located on a one- or two-unit (see definition of a "duplex" in chapter 4 Property Guidelines), owner occupied property that is the primary residence of the owner. All areas of Pennsylvania are eligible, unless a public wastewater collection and treatment system is accessible from the property or is planned to be constructed within five years.

    b. Connect to a public wastewater collection and treatment system for the first time OR repair or replace an existing lateral to public sewer. First-time connections include both connecting to newly installed public wastewater collection and treatment systems, and making first-time connections to existing municipal systems after a grace period or "grandfather clause" delaying mandatory connection expires.

    c. Relocate the home's drinking water well, if the relocation is required by Pennsylvania law due to the location of an on-lot septic system to be repaired or replaced with loan funds. All charges for work to be performed to relocate the well, including surveying; drilling; permits in addition to those secured for the on-lot septic system, installation of new pipes and pumps, removal of old pipes and pumps, and testing of the new pump's water quality are permitted. Shocking and irradiating treatments to pass potability tests are permitted at the time of the new well's installation.

Ineligible:

1. Connecting a newly constructed "stick-built" home or a manufactured home brought on-site to any sewage management system. This prohibition applies even if there was previously a sewage management system and/or a home on the property.

2. Interior plumbing.

    a. Examples include but are not limited to repair or replacement of a home's interior plumbing lines, repair or replacement of toilets or toilet seals; or other home repairs or improvements whether or not related to an on-lot septic or sewer system failure.

    b. Disconnect discharge lines from laundry tubs, basement and garage floor drains or other interior fixtures from the sewer or septic system, whether or not this action is mandated by the borrower's municipality.

3. Maintenance costs associated with new or repaired on-lot septic systems, lateral connections to public sewer systems or wells installed or repaired with Program loan proceeds.

Demolition and Restoration of Property and Amenities:

Due to the low interest, public funding that PENNVEST and PHFA make available to homeowners through this loan program, payment for demolition and restoration of property and amenities will be limited to the immediate area which must be disturbed for the installation of the new on-lot septic or repaired, replaced or first-time lateral connection to public sewer.

The standard applied will be restoration to functional use, not necessarily aesthetic conformity with the adjacent property improvement(s). In addition, the reconstruction of adjacent areas may not exceed 25% of the overall construction cost, minus permits, and construction fees.

Examples of Acceptable Items:

- Retaining walls and driveways will be repaired with basic (not decorative) materials only where they must be disturbed due to construction. If repair is not possible due to age or wear of the retaining wall or driveway, and replacement must occur, a minimal "allowance" for the disturbed area's repair may be included in the contract to be funded with the Homeowner Sewage Program. PHFA will issue this amount to the homeowner. Contractors must provide homeowners with a separate contract to finish the wall or driveway. This separate contract may not receive any Homeowner Sewage Program funds.

- A "finished" interior floor with carpet, tile, wood, laminate, paint, etc., will be repaired with a basic cement surface only at the area which must be disturbed for the eligible sewer or septic work. This repair is typically only in basements.

Examples of Unacceptable Items:

- No finish or decorative "flooring" will be paid for out of loan proceeds. Examples of finish "flooring" include but are not limited to vinyl flooring, tile, wood, carpet, bricks, pavers, decking boards, and stamped concrete.

- Decks and porches that must be "mostly or completely" taken down will not be rebuilt. If the deck or porch is part of the sole egress from the home, PHFA staff may permit a limited "walkway" to be built with borrowed funds. The deck or porch will not be entirely restored.

PHFA staff will make the final determination, in consultation with PENNVEST Authority executive leadership, about any specific borrowers' demolition and restoration (or related) situation.

Contractor Responsibilities:

Contractors are to provide estimates that clearly indicate the work area that is necessary for construction and separately bid on more complete demolition and restoration in separate contracts. Contractors that the Agency determines are abusing this requirement may not be permitted to receive Homeowner Sewage Program funding.

Loan Terms

- **Lien Position Requirements:** The maximum loan amount is now $25,000 regardless of lien position.

   a. A PENNVEST Loan may be in second lien position IF it is not behind a reverse mortgage or a partial claim.

   b. A PENNVEST Loan may be in third lien position IF it is not behind a reverse mortgage, partial claim, home equity loan or home equity line of credit, AND IF both liens ahead of the PENNVEST Loan were recorded simultaneously to purchase the home.

   c. Participants should ask if an applicant has the financial capacity to pay off an unacceptable second lien and provide guidance on how to pay off and document satisfaction of this loan. The satisfaction must occur prior to the recording of the PENNVEST Homeowner Sewage Program so that it may be recorded in second lien position.

- Participants must document the satisfaction of junior liens with a lender-generated pay off statement, and borrower bank statements showing the withdrawal of the payment amount from their funds. PHFA will not issue the Construction Approval Notice without this documentation.
- Borrowers must have at least a 50% ownership interest in the property to be mortgaged and occupy it as their principal residence. The mortgaged property may be a one- or two-unit ("duplex") property. See definition of a "duplex" in chapter 4 Property Guidelines).
- Loans shall carry a fixed interest rate set by the Agency. Currently, the fixed interest rate for Program loans is 1.75 percent. The interest rate is published on PHFA's Website, www.phfa.org, and the Agency will communicate any changes to the interest rate to Participants with reasonable notice.
- The maximum term is 20 years (or 15 years for a manufactured home). Loans must be fully amortized over 10, 15 or 20 years.
- The maximum loan amount is $25,000, including manufactured homes. FHA Title I Guidance requires two-unit ("duplex,") properties' maximum loan to be $24,000. See definition of a "duplex" in chapter 4 Property Guidelines),)
- The minimum loan amount is $2,500.
- There are no prepayment penalties.

- PHFA will pay the Participant Compensation and reimburse for reasonable third-party closing charges as specified in Chapter 5.
- Loans cannot be used in conjunction with a recorded "reverse" mortgage, such as a Home Equity Conversion Mortgage (HECM) or other private equity conversion loans.

CHAPTER 3

BORROWER ELIGIBILITY AND QUALIFICATION GUIDELINES

Participants are to originate a loan file for each application received, in the sequence specified in Chapter 5, gathering the documentation, and making the analyses specified in these Guidelines and FHA program requirements. If the application does not meet these program criteria, the Participant is to deny the application without submitting it to PHFA for review. Participants must provide denied borrowers with a written denial letter providing all reasons for the rejection of the application. The Participant must forward such letter and all parts of the application file documenting the reason for the denial to PHFA, within 5 calendar days.

Completed origination files which appear to meet program requirements should be forwarded by the Participant to the Agency. Participants are to verify and document the borrower's eligibility for Title I insurance coverage as well qualification to receive a loan under these Program Guidelines. The Agency will make the credit determination based on its review of the borrower's file.

Participants are to use FHA Title I underwriting and eligibility specifications along with PHFA's overlays, listed below. Where Title I is silent, Participants are to use FHA Title II underwriting and eligibility criteria.

Identity, POA Authority

The Participant must confirm the borrower's identity per the requirements of the PATRIOT Act and complete PV-34 CIP Verification to show which documentation was used for each of the required identification items. The borrower's file shall include a copy of the borrower's government-issued photo identity card.

PHFA must pre-approve any loan that will be executed by someone exercising POA authority. Participants must provide a copy of a photo identity card for any individual using their Power of Attorney authority to execute loan documents on behalf of a borrower.

Primary Residence

The home to receive the on-lot septic or sewer repair or replacement or the first-time connection to public sewer must be the owner's principal residence in which the owner has at least a 50% ownership interest. The home may be a one- or two-unit (i.e., "duplex," see definition of a "duplex" in chapter 4 Property Guidelines) property.

PHFA requires the FNMA 1003 Credit Application to include the past 24 months of the applicants' primary residential addresses. If the credit report or any documents provided by the applicant show a confirmed address not on the credit application, applicants must provide an explanation of this address. Participants will see a condition for this item on Credit Pre-Approvals.

CAIVRS and LDP/GSA Checks

Participants are to examine all borrowers and lending staff for delinquency on previously obtained federal loans or debarment from FHA insured loans by reviewing the Limited Denials of

Participation (LDP) and Government Services Administration (GSA) lists. A borrower is not eligible for an FHA mortgage if he is presently delinquent on any type of Federal debt, unless the delinquent debt is paid in full or otherwise brought current under a repayment plan approved by the Federal agency that is the holder of the debt. Any finding on the LDP/GSA lists other than “No results” will require denial of the loan application.
If the Participant is an FHA lender able to check CAIVRS they should also perform this verification on borrowers and lending staff and enclose the results in the Origination file. If not, PHFA staff will perform this examination.

Application

Use of the FNMA 1003 application and 92900-TI forms are required for applications taken on and after Monday May 19th.

Lenders will find the link to these forms here: [Uniform Residential Loan Application (Form 1003) | Fannie Mae] and [92900-TI] These links will be on our website by Friday May 16th, hopefully earlier.

Instructions for completing the forms are as follows. **Please be aware that this is what allows the Loan Estimate to calculate correctly at least for ENCOMPASS, as set up by American Bank. If your system processes differently please work with your LOS support to determine how to get accurate calculations on your documents such as the Loan Estimates and Closing Disclosures.

For lenders working without an LOS, please enter the data manually as instructed below.

1003:

1. Reminder if Borrower Information Section 1a Citizenship is checked “Non-Permanent Resident Alien” the application must be denied on those grounds.
2. Section 2c must start with the sewage, municipal and related job estimate(s). As always, you will typically use $25,000 or what the borrower can afford or requests. OR if you are provided actual vendor and municipal estimates, the amounts on the contractor estimates and municipal tap in letters. PHFA will review these documents for non-financeable items and provide allowable construction job costs as we do now at Construction Approval.
    a. 2c data entry is italicized below:
        i. Account Type- *Other Liability*; Company Name: *Smith Plumbing LLC (for example)*; Account Number: *leave blank*; Unpaid balance: *$ amount*; “To be paid off at or before closing” *must be checked*; and Monthly Payment *left blank*.
    b. Section 4 Loan Purpose is to be marked *Other* and then specify *On-lot repair or replacement* or *Sewer Connection*.

3. In the Lender/Loan Information Section of the 1003:
    a. L1 Transaction Detail – select or type *Renovation*
    b. L3 Mortgage Type Applied for: mark *FHA*
    c. *L4 Enter Job Costs in E Credit Cards and Other Debts Paid Off: This will be the total of the sewage items from 2c.* [By the way, we tested the heck out of “B Improvements, Renovations, and

Repairs". It is a non-flow-through field in Encompass and made the LE a mess. For example, it had PHFA owing borrowers tens of thousands of dollars. Again for consistency's sake, if you are manually entering data please use this same section.]

RE the 92900-TI: Leave Case Number blank – PHFA will pull it and add it to the form.

1. The Salesperson and Dealer sections are to be left blank. [We do not have these parties in our transactions and do not want contractors becoming part of our lending process. It might sway their estimates upward.]

Credit

- Participants should review credit according to FHA Title I or in its "silence" Title II guidance. In general, this requires an analysis of the borrower's credit history, liabilities, and debts to determine creditworthiness. Credit information must be obtained for all persons on the loan application using a Merged, Tri-Merged, Multi-Merged or Residential Mortgage Credit Report (and supplemental information, as needed).
- There is no minimum credit score. The Total Debt to Income Ratio may not exceed 45 percent unless the Participant has verified sufficient compensating factors. These factors are Significant additional income not reflected in effective income; Potential for increased future earnings in specific circumstances such as passing a medical doctor or certified public accountant exam; Secondary wage earner potential (only if unemployed due to borrower's relocation); Residual income, and Documented energy efficient homes. Then the maximum DTI ratio is 47%.
- Co- signers are not permitted.
- Non-Permanent Resident Aliens may not receive loans as of 5/19/2025.
- Letters of explanation must be provided if there are three or more late payments on mortgages in the last 24 months and for credit inquiries found on the credit report. Also, Collection Accounts, as described in the next section, have letters of explanation requirements.
- If the total of all work to be completed exceeds the borrowers' loan amount, the homeowner must pay for the additional work. If the additional funds will be obtained from a source other than the borrower, the source and terms must be approved by the Agency to ensure the borrower's total debt to income ratio is still acceptable. The Participant must document these funds with bank statements, and, if appropriate "gift letters." At Closing the Participant collects these funds via a certified check made out to PHFA, with "PENNVEST origination fees" and their PHFA loan number in the memo line. The Participant transmits them to the Agency. The funds will be held in escrow and disbursed by PHFA.
- Participants must gather written explanations of credit inquiries from borrowers.

<u>Collection Accounts (See Disputed Derogatory Credit Accounts below)</u>

All Collection accounts must be explained in a written statement from the borrowers. Derogatory Credit Summaries from the Credit Report may be used in lieu of an actual letter as long as timeframes of the financial issue, and actions taken to resolve it are clearly addressed.

Borrowers should include any documentation they have to clarify their explanation, such as repayment agreements, letters indicating disputed charges, evidence of fraud, etc. The Participant should review and provide clarifications and comments, including whether or not they consider the borrower's explanation satisfactory, to PHFA. The Agency will review these collections on a case-by-case basis.

- Collection accounts that total less than $2,000 to one or multiple creditors may be ignored in the DTI calculation.
- Collections accounts that equal or exceed $2,000 to one or multiple creditors must be documented as having **one of three** resolutions at closing:
    - Evidence from the creditor(s) that they are paid in full prior to Construction Approval.
    - A copy of the on-going payment arrangement with the creditors. At least 3 payments must have been made (without prepayments or shortened timeframes).
    - Or if a payment arrangement is not available, borrowers must qualify with 5% of the outstanding balance of all collections accounts being included in the DTI.

Court-ordered Judgments

Court-ordered judgments must be resolved* or paid off prior to closing.

> *Resolved means the borrower has entered into a valid agreement with the creditor and has made timely payments for a least three months of scheduled payments, and the judgment will not supersede the FHA-insured loan. No prepayments or shorter timeframes are permitted.

All government judgments must be paid off.

Charge Offs (See Disputed Derogatory Credit Accounts below)

Charge offs do not need to be included in the DTI.

"Officially" Disputed Derogatory Credit Accounts

Disputed Derogatory Credit Accounts are defined as disputed collections, or disputed charge offs, or disputed accounts with late payments.

If the credit account(s) are officially disputed by the borrower, and show late payments in the last 24 months on the credit report, and the balance e is equal to or exceeds $1,000 to one or more creditors, then payment amount shown on the credit report or 5% of the balance must be included in the DTI. Exceptions to this policy are the debts are medical or caused by identity theft, credit card theft or unauthorized use. Discuss documentation requirements with PHFA is this situation arises.

Bankruptcies – Chapter 7 and 13

Chapter 7: Borrowers may apply 12 months after bankruptcy discharge if the bankruptcy can be documented to be due to extenuating circumstances beyond the borrower's control. And the Participant can also document their ability to manage their financial affairs responsibly. Extenuating circumstances include serious illness or death of a wage earner and severe & sudden medical expenses in the family, among other circumstances. Divorce and inability to sell the property due to a job transfer or relocation are not considered extenuating circumstances.

Otherwise, the two-year post Chapter 7 Bankruptcy requirement, along with reestablished credit, remains effective.

Chapter 13: Borrowers may apply after 12 months in the payout period if the Participant can document that all payments due were made on-time, and the bankruptcy court permits the borrower to take on this new debt. And the issues causing the bankruptcy filing are unlikely to recur.

Federal Income Taxes

Borrowers must sign the 4506-C Request for Transcript of Tax Return and Participants must order the most recent 2 years of tax transcripts.

Borrowers with their federal income taxes in pre-existing repayment programs may apply for PENNVEST Homeowners Sewage Loans. Homeowners found to have delinquent federal income taxes need to enter an approved plan and make 3 months of payments before re-application. No prepayments or shorter timeframes in the repayment plan will be permitted.

Real Estate Taxes

Real Estate Taxes must be paid in full for all years preceding the year that the borrower applies for the PENNVEST Homeowner Sewage Program and documentation of these payments must be collected by the Participant. If a borrower has not yet made tax payments for the current year's taxes (i.e., the year that they make application for the loan), they must explain in writing why their tax payments are late (or "slow") and indicate whether they expect to be able to fully pay the current year's taxes before the end of the year. Participants must deny borrowers who indicate that they will be unable to pay their taxes.

Income Limit and Calculation of Income

As of January 20, 2016, there is no household income limit. PHFA will re-review this income policy periodically and will notify Participants of any change.

<u>Qualifying income</u> for calculation of the debt-to-income ratio is to be calculated as is customary for FHA Title II lending for self-employed borrowers, commission and bonuses, overtime, etc.

Income Documentation

Participants must provide a copy of the signed 4506-C and the tax transcripts for the most recent two years for all borrowers in the Origination File.

Documentation for the prior two years of income must include

- Most recent paystub that includes year-to-date earnings, current period earnings, and pay broken down into the types offered by the employer: base, vacation, sick, overtime, commission, bonus, etc.
- Two most recent W-2 forms.
- A verbal verification of employment from the current employer. A form similar to Freddie Mac Form 90 is expected.
    - IF a Participant is unable to obtain a verbal verification of employment, a written VOE, similar to FNMA form 1005, must be obtained.
- New applications taken on or after May 2, 2022, do not need to contain a pre-closing verbal verification of employment.

There is no minimum income level, except that the borrower must have sufficient income to afford the loan. Benefit income received from Social Security the untaxed portion of retirement income, and disability income) may be grossed up by the borrowers' applicable tax rate, not to exceed 15%.

Short-term Disability (STD) income policy was revised on August 15, 2024, to immediately permit applicants on STD to receive the loan if qualified. Participant must document that an applicant on short-term disability at time of application or during the review of their loan application:

- Intends to return to work with a signed statement from the applicant containing the intended return to work date;
- Has the right to return to work with a statement received <u>by the Participant</u> <u>directly from the employer</u> that states the return-to-work income and hours;
- Qualifies for the loan when their income is considered as follows:
    - If the applicant will return to work after the first loan payment is due, use their STD income OR use their STD income plus sufficient documentable liquid reserves such that these reserves divided by the number of months until return to work provides sufficient income to get the applicant to 45% or less Debt to Income.

      No compensating factors will be considered to permit a 47% DTI.
- If the applicant will return to work prior to or on the date the first payment is due, use the employer's income and hours.

Unfortunately, if the employer is unwilling to provide a return-to-work statement with hours and income information, the loan must be canceled until the applicant has returned to work.

The Total Debt to Income Ratio may not exceed 45 percent unless the Participant has verified sufficient compensating factors and received PHFA's approval. Then 47% is the maximum DTI.

Interview for Discrepancies

Participants are to provide PHFA with Letters of Explanation, Processor's Certifications, and other documentation to explain discrepancies between the Credit Report, the Borrower Application, and other origination file materials.

Municipal Certification (Technical Certification)

Borrowers seeking a Loan to replace or repair an on-lot septic system must provide a written verification from their local municipality that a public wastewater disposal system neither exists nor is planned to be constructed in the next five years. The Agency provides the PV8-Municipal Technical Certification form to be used for this purpose**. If borrowers face challenges getting this document signed because their municipality does not require design work or permits, the Participant must reach out to the municipality for an email sent directly to them indicating that no design work or permit was required. Submit this to PHFA with the PV-8 Tech Cert form.**

Borrowers' Responsibilities regarding Loan Repayment, Work Disputes and Delays

Borrowers select vendors and contractors to perform work at their homes, and contracts between the borrower, and these vendors and contractors contain the only warranties for work being performed. PHFA, PENNVEST, and Participants are not parties to these contracts and do not warranty the work that is performed with borrowed funds. Borrowers are responsible for repayment of their loan regardless of their satisfaction with the work performed.

Borrowers are responsible for repayment of their loan even if the construction schedule extends past the first payment due date. Work delays due to weather, contractor availability or other reasons do not extend the repayment period or delay the first payment due date. For this reason, borrowers should carefully consider not closing loans when weather delays or contractor availability may require them to pay on their loan prior to completion of their sewage management system.

Borrowers are responsible for paying "out of pocket" any cost overruns that exceed the amount of their PENNVEST loan.

CHAPTER 4

PROPERTY AND HOME GUIDELINES

The proceeds of each Loan shall be used to repair or replace sewer lateral connections or individual on-lot septic systems or to make first-time connections to public sewage management systems at existing residential properties. Participants are to verify and document Title I property eligibility. PHFA's overlays and specifications include:

General Requirements

1. The property and home must be located in the Commonwealth of Pennsylvania.
2. Any property zoning type is permissible as long as it allows permanent, primary residential use.
3. The property must be 10 acres or less UNLESS lot sizes in the surrounding community typically exceed that size, in the judgment of PHFA staff. Farms that are owner-occupied as a primary, principal residence will be considered.
4. The home must be a one- or two-unit, “duplex”, owner-occupied by the applicant as their permanent principal residence. A duplex is defined as two residences being located within one building when the residences are side -by-side or top-and-bottom of each other. The two homes must have separate sewage management systems unless the local government permits a shared system and the property is unlikely to be subdivided. Separation of a shared system may occur in conjunction with repairs, replacement or first-time connection or as an independent activity.
5. Condominiums may be eligible with the prior written approval of PHFA.
6. Individual homes in Planned Unit Developments ("PUDs") are eligible with written documentation clearly indicating the on-lot septic system or existing or new lateral connection to the public sewage management system (not "community system") is the responsibility of the homeowner.
7. The home must be an existing home, meaning completely constructed or installed per manufacturer’s instructions. The home must have an existing certificate of occupancy or otherwise be permitted to be used as a principal owner-occupied residence in accordance with requirements of the municipal authority where the home is located.
    1. *Temporary revocation of the right to occupy the home, due to the discovery of a public sewer connection or on-lot system failure, does not disqualify the home since this type of repair/replacement is the purpose of the program.*
8. The property and home must be in a condition that can be made habitable and sanitary upon the completion of appropriate repairs with funding available from the Loan and other available home improvement funding sources. In the event that this is not possible, the Participant may deny the borrower in PHFA’s name and refer them to an appropriate social or human services agency or PHFA for further referrals

9. Homeowners must agree to maintain their upgraded or new on-lot system in good repair, have it pumped out regularly, and to monitor its functioning to ensure the adequate treatment of wastewater. A pumping schedule and reporting requirements are included in the Homeowner Septic mortgage and the Pennsylvania Department of Environmental Protection does monitor homeowner maintenance.
10. Homes securing reverse mortgages are not eligible.

Insurance Requirements

Hazard Insurance, aka Homeowners' Insurance. Participants must ensure that the property securing each Loan is covered by sufficient hazard insurance and that the Agency is named as a mortgagee, Pennsylvania Housing Finance Agency, its Successors and Assigns, *as our interest may appear*, P.O. Box 15057, Harrisburg, PA 17105-5057. The hazard insurance policy must meet the standards described below:

- Loss payees with liens in a higher lien position than PHFA must be accurately named on the insurance declaration page. Participants must correct this information if found to be inaccurate.
- Policies must be for a period of at least one (1) year.
- Insurance must be in effect on the date of closing.
- The maximum allowable deductible is the greater of $3,000 or one percent (1%) of the face amount of the policy.
- The insurance company providing coverage must have an A.M. Best Company Rating of B+ or better.
- Fire and Extended Coverage. Policies must afford protection against loss or damage from fire and other hazards covered by the standard extended coverage endorsement. It must be in an amount equal to or greater than the outstanding principal balance of the purchase money and the Homeowner Sewage Program at the time the Sewage Loan is approved by PHFA. If the Sewage Loan is in first lien position, the Fire and Extended coverage must be in an amount at least equal to this loan alone.
- Other Hazards. If the Participant is aware that a mortgaged property is exposed to any appreciable hazard against which standard fire and extended coverage does not afford protection, the Participant must advise the Agency of the nature of the hazard immediately and the agency may require additional insurance coverage which must be in place prior to closing. Proof of acceptable hazard insurance must be provided in the Closing Package.

Flood Zone Requirements and Flood Insurance:

Participating lenders must comply with the provisions of The National Flood Insurance Program (NFIP) as required by the Flood Disaster Protection Act of 1973, as amended. Private flood policies are not permitted.

Life-of-loan flood determinations are required on every PHFA loan. The Life-of-loan certificate should list the insured as: "Pennsylvania Housing Finance Agency, its Successors and Assigns, P.O. Box 15057, Harrisburg, PA 17105-5057, as our interest may appear." Participants must ensure that PHFA will get any future updates to the flood maps by providing Agency contact information to the flood search vendor.

If Participants' vendors for flood determinations permit the processor to list PHFA as the recipient of all future determinations, list PHFA. If the vendor requires the lender ordering the flood determination to receive it, a "Flood Notice of Mortgage Transfer" listing PHFA must be provided to the vendor. A copy of the transfer notice must be provided to PHFA in the closing package. The flood determination listing PHFA as the lender must be provided to PHFA as a post-closing item, unless it is received in time to be included with the closing package. ("vendors" include CoreLogic, etc.)

Flood determinations should be ordered as soon as possible in the loan process. PHFA WILL NOT APPROVE LOANS IF THE HOME IS LOCATED IN AN A OR V FLOOD ZONE REGARDLESS OF THE HOMEOWNER HAVING FLOOD INSURANCE. The borrowers are required to be notified in writing if their property is located within a Special Flood Hazard Area ("SFHA"). PENNVEST Homeowner Sewage Programs may be provided to borrowers whose land or septic system is in flood zone A or V only if they have or obtain NFIP flood insurance AND no part of the home is in an A or V flood zone.

Sewer laterals may be in zones A or V only if the homeowner has or gets acceptable flood insurance prior to loan closing and no part of the home is in an A or V flood zone. Detached garages, decks, outbuildings in the A or V Flood Zone do not preclude receipt of the Homeowner Sewage Program.

Flood insurance, if required, must be maintained for the life of the loan, in amounts that, at a minimum, provide coverage for the lesser of: (a) The outstanding principal balance of the liens which precede the Homeowner Sewage Program and the Homeowner Sewage Program; (b) The maximum insurance available under the NFIP or 100% of the replacement cost of the dwelling. The maximum deductible permitted is $5,000 unless a lienholder preceding PHFA permits a higher deductible.

Failure to maintain flood insurance for the term of the PENNVEST Homeowner Sewage Program will cause PHFA to force place it upon homeowners, at their expense. The Agency will not escrow funds for payment of the flood insurance.

To determine the minimum deductible, and for other questions concerning the NFIP, refer to the Federal Emergency Management Agency's frequently updated Flood Insurance Manual, available at https://www.fema.gov/flood-insurance-manual .

Manufactured Homes

Manufactured homes are eligible for a Loan up to $25,000 and maximum term of 15 years (not 20 years) if the following conditions are met. Participants must document each condition.

- The home must have been built under the Federal Manufactured Home Construction and Safety Standards that were established June 15, 1976. (Documentation: picture of tag or IBTS letter if tag removed. This documentation also provides the VIN number.).
- The home is permanently attached to its foundation with wheels, axels and hitch removed. Applicable manufacturer's requirements and state and local codes must be met. Borrowers may

see https://dced.pa.gov/housing-and-development/manufactured-housing/ for additional state guidance. (Documentation: A Certificate of Compliance or similar document issued by a state certified installer OR Certificate of Occupancy or similar document from a local code official.)

- The home is defined, deeded, and taxed as fee simple real estate, and the VIN number must be added to the legal description of the property in the PENNVEST mortgage. (Documentation: Deed and legal description of property, Title/lien search, Tax Certification or mortgage statement)
- The home's title has been retired or it was never titled per PennDOT's records. Participants document this by receiving from the borrower a copy of the retired title or the Certificate of Origin. Otherwise, document that the title was retired by providing a letter from PennDOT indicating that the title is retired or there never was a title. To request this letter from PennDOT the borrower must submit to PennDOT the PennDOT MV-16 form.
    - If it is discovered that the title was not retired and it is in a previous owners' name, steps will need to be taken through PennDOT to determine the owner's name of record. After that is identified then the owner of record or the heir to the estate will need to complete an MV16 to have the title retired.
- PV Loans should not be scheduled for closing until the proper documentation of the retired title is obtained, as problems sometimes arise, especially with older homes. This may require research through Penn DOT and in some situations may even require a court order to retire the title. As of 2/22/2017 the PENNVEST Manufactured Home Rider was discontinued.

CHAPTER 5

PROGRAM PROCESS AND TIMEFRAMES

Flow of Work in Program

The following is the outline of the workflow for the PENNVEST Homeowner Sewage Program.

1. **Participant - Preliminary Eligibility Screening –** The Participant should first determine whether the borrower appears to meet the basic eligibility requirements for the Program, including principal residence requirement and whether the borrower seeks eligible repairs, etc.

2. **Participant - Loan Application –** If the borrower appears to be eligible for the Program, the borrower should complete a PENNVEST Homeowner Loan Application Package, as described below, which will allow the Participant to obtain the necessary information and documentation to create an origination file.

   All participating lenders must inform potential applicants in their Application Package cover letter that homeowners should apply for the PENNVEST Homeowner Sewage Program when:

   i. They have their Mandate to Connect Letter (for sewer connections) **OR**
   ii. A permit (for regionally-permitted system types such as "small stream discharge systems" that get Department of Environmental Protection permits) **OR**
   iii. Have confirmation from a municipal official that their proposed system is permit-eligible (for locally-permitted septic system types approved by a Sewage Enforcement Officer.)

   a. Participant also submits a CAIVRS check at this time to verify that the borrower and lending staff are not disqualified from receiving/originating a federally insured loan. PHFA will perform this step for non-FHA lenders when making a credit determination. Participants must complete the LDP/GSA check at application.

   b. The Program application package consists of:

      i. FNMA 1003,
      ii. 92900-TI,
      iii. PV11-Homeowner's Process,
      iv. PV10- Borrower Guidance,
      v. PV09- Notice of HUD Insured Loan,

vi. IRS W-9,

vii. IRS 4506-C,

viii. If appropriate for the borrowers' loan use (i.e. new or repaired on-lot septic): the PV08-Technical Certification form,

ix. If appropriate for the borrower's ownership situation, i.e., a non-liable co-owner: a Processor's Certification of non-liable co-owner name, Social Security Number, and birthdate.

PHFA will generally not accept application packages that do not show evidence that the Participant and the borrower strove to complete the application "all at once." We expect to see dates that are very close to one another on all docs in an origination file. Typically, less than 3 weeks range.

3. **Participant - Disclosures –** Within three business days of receipt of a completed application the Participant must provide the legally required disclosures, including the Loan Estimate, Housing Counseling List. Counseling agencies are listed at the following Consumer Financial Protection Bureau link: http://www.consumerfinance.gov/find-a-housing-counselor/

PHFA provides forms and legal documents (mortgage, note, etc.) specific to the Homeowner Sewage Program. Lenders preferring to use their Loan Origination System-generated forms may do so as long as their documents are similar to PHFA's. This is especially important for the Loan Estimate and Closing Disclosure. PHFA must be notified of, and have an opportunity to review, Participants' electronic or LOS-generated forms prior to use. Borrowers must provide written indication on PV-35 Intent to Proceed that they intend to move forward with the loan application, in addition to indicating receipt of the initial Loan Estimate and the Borrowers' Guidance.

Change of Circumstances Letters must be issued to borrowers for TRID-permissible changes that impact applicant's loans. These letters must also be uploaded to PHFA's Virpack system upon issuance and included in the next package submission, i.e., the Origination or Closing package.

4. **Participant - Loan Origination File and Participant Review –**The Participant then develops and reviews the origination file for conformance with federal and Program requirements to determine whether to submit the file to the Agency for a credit determination.

a) **Review of FNMA 1003 and 92900-TI –**
1003:

4. Reminder if Borrower Information Section 1a Citizenship is checked "Non-Permanent Resident Alien" the application must be denied on those grounds.

5. Section 2c must start with the sewage, municipal and related job estimate(s). As always, you will typically use $25,000 or what the borrower can afford or requests. OR if you are provided actual vendor and municipal estimates, the amounts on the contractor estimates and municipal tap in letters. PHFA will review these documents for non-financeable items and provide allowable construction job costs as we do now at Construction Approval.

    a. 2c data entry is italicized below:

i. Account Type- *Other Liability*; Company Name: *Smith Plumbing LLC (for example)*; Account Number: *leave blank*; Unpaid balance: *$ amount*; "To be paid off at or before closing" *must be checked*; and Monthly Payment *left blank*.

b. Section 4 Loan Purpose is to be marked *Other* and then specify *On-lot repair or replacement* or *Sewer Connection*.

6. In the Lender/Loan Information Section of the 1003:

a. L1 Transaction Detail – select or type *Renovation*

b. L3 Mortgage Type Applied for: mark *FHA*

c. *L4 Enter Job Costs in E Credit Cards and Other Debts Paid Off: This will be the total of the sewage items from 2c.* [By the way, we tested the heck out of "B Improvements, Renovations, and Repairs". It is a non-flow-through field in Encompass and made the LE a mess. For example, it had PHFA owing borrowers tens of thousands of dollars. Again for consistency's sake, if you are manually entering data please use this same section.]

RE the 92900-TI: Leave Case Number blank – PHFA will pull it and add it to the form.

2. The Salesperson and Dealer sections are to be left blank. [We do not have these parties in our transactions and do not want contractors becoming part of our lending process. It might sway their estimates upward.]

If the application does not meet the Program requirements, the Participant is to deny the application in writing on PHFA's behalf, providing all reasons for the denial of the application and all ECOA required notices. The Participant must then forward denial notice, and all parts of the application file which document the reason for the denial, to PHFA within 5 calendar days via secure email.

If the Participant believes that the borrower can be approved for a Loan, the Participant should determine the maximum amount of loan the homeowner can afford, based on Program guidelines, up to a maximum loan of $25,000. The minimum loan amount is $2,500 regardless of home type. The maximum term is 20 years (or 15 years for a manufactured home). The Participant then forwards the origination file and the maximum loan recommendation to PHFA for its credit determination via PHFA's Pipeline Plus/Virpack system.

b) **Subordinations:** If a homeowner intends to secure approval for subordination from a second lienholder, the Participant must assist the homeowner in obtaining a subordination agreement, ensuring that it is recorded, and that PHFA receives a copy of it. PHFA must receive a copy of the subordination agreement executed by the second lienholder before the agency will issue Construction Approval. And, the True & Correct copy of the subordination agreement sent for recording must be enclosed in the Closing Package. The recorded agreement must be sent to PHFA by the Participant when it is received.

5. **Agency - PHFA Credit Determination and Participant Transmittal of the Determination –** PHFA's credit determination will include a review of the origination file and the loan amount recommendation. Upon making the credit determination, PHFA will notify the Participant, which will transmit PHFA's credit determination to the borrower. The Participant's approval notice will state the terms of the Loan to the homeowner, including rate, APR, term, estimated payment (calculated as the principal and interest repayment), and that all loan repayments will be made to PHFA as the lender and servicer. The statement that "Applicants may NOT allow work to start at their home prior to loan closing." Or something functionally equivalent must be on the statement as well as information explaining to borrowers that loan repayment may begin prior to contracted work being started or completed. PHFA's notice will come to the lender by secure email. Participants must upload their notice to the borrower to PHFA prior to construction approval/approval to close.

6. **Participant - Credit Pre-Approvals Issued to Applicants -** PHFA requires participants to send applicants pre-approval notices to applicants that convey in writing what "conditions" homeowners need to meet to move their loans toward closing. Starting August 15, these pre-approvals must also contain the following information:

    a. Applicants may NOT allow work to start at their home prior to loan closing.
    b. Loan repayment, as listed on the Note, may begin before contracted work is started and/or completed. The repayment period commences the first day of the second month after loan closing.

    PHFA Credit Pre-Approvals issued August 15 and after will condition for: "Provide to PHFA a copy of the participant-issued credit pre-approval sent to applicant. Upload to Virpack when issued to applicant, must be prior to Construction Approval/Approval to Close."

7. Agency – Commitment Period – PHFA will make a 120-day commitment to fund this loan in the maximum loan amount the borrower can afford at the time of credit determination. Participants may request credit extensions for delays caused by weather or other circumstances that are beyond the borrower's control. Participants are responsible for keeping track of the need for extensions, "Soft Pull" Credit Reports, and new Title/Lien searches.

8. **Borrower - Design, Permit, and Installation Estimates –** The homeowner is responsible for selecting and working with a system designer (which may, in some situations, be the municipal sewage enforcement officer), their local municipality (including the sewage enforcement officer) and system installers to develop a complete cost estimate for the on-lot septic or sewer lateral repair/replacement or first-time connection work to be completed.

    The homeowner is required, in most cases, to get more than one estimate for installation charges, and should provide all estimates received to PHFA for retention in the homeowners' file. All bids will be reviewed for adherence to the Home Improvement Consumer Protection Act (HICPA). PHFA will provide homeowners with a summary of what appears to PHFA staff to be missing consumer protections specified by the Act. Homeowners may either accept the estimate as is, request that it be changed to reflect the review, or find a different contractor. All estimates must meet the specifications of the system design that has been approved by the municipal sewage enforcement officer or, for public sewer connections, meets the PA Domestic Wastewater Facilities Manual. Homeowners and contractors must sign and date estimates that they intend to make binding.

The Agency will work with borrowers to gather documentation of items in this section, will perform the necessary LDP/GSA check on contractors and vendors, and may cancel loans due to homeowners' failure to make sustained progress toward a contract. PHFA will notify Participants of such cancellations.

9. **Agency/Borrower - System Designer and Installer Requirements** - The Agency will work with borrowers, designers, and installers to gather documentation of items in this section.

   We recommend that homeowners get from their designers and installers certificates of general liability insurance and, if applicable, workers' compensation insurance; evidence of PA Home Improvement Consumer Protection Act (HICPA) registration; a 1 year written warranty on workmanship and materials; a verifiable physical address and phone number; and bids that clearly correspond to the plan approved by the municipal sewage enforcement officer and comply with applicable federal and state laws. PHFA's review of the homeowners' preferred estimate highlights for homeowners what we consider to be missing consumer protections. We do not provide legal guidance, however, and recommend that borrowers who are concerned about aspects of a contractor's estimate engage their own attorney.

   Amish contractors, and others that participate in "Self-Insurance" programs, may work with borrowers as long as they are registered as "self- insured" with the Pennsylvania Attorney General, and follow all AG-specified requirements including providing the Notice of Self Insurance with all proposals, contracts and other communications.

   Agency staff will examine contractors for debarment from federal programs using the LDP/GSA lists. Any finding other than "No results" will require the borrower to select a different contractor or vendor if they want to receive a PENNVEST loan.

10. **Participant - Pre-Closing Activities** The Agency will inform the Participant via email when a borrower's loan closing may be scheduled. A loan is ready for closing when the Agency has received from the borrower the SEO- or municipally approved on-lot septic or sewer lateral specifications; copies of the signed and dated installation contract and municipal permits; and any other documentation the Agency may require as part of its due diligence in securing the Homeowner Sewage Program.

    Participants are to close loans within 14 calendar days of PHFA's notice to close the loan and must perform the following activities as part of their pre-closing due diligence:

    a) Document acceptable hazard insurance and have PHFA listed as a loss payee. See Hazard Insurance requirements in these Guidelines.

    b) Review the FNMA 1003 Application. It may not be older than 120 calendar days from the credit approval date.

    c) Determine if a second Title/lien search and "Soft Pull" Credit Report are necessary to ensure that these documents are not older than 120 days from the closing date that this loan still meets lien position and credit guidelines.

i. Example: if an application is dated 7/15/2016 and the initial credit report an title/lien search have an order date of 8/1/2016 and the closing is scheduled for 9/15/2016, these documents are 45 days old and are acceptable. Do Not Order New Credit and Title/Lien.

ii. Example: if an application is dated 7/15/2016 and the initial credit report and title/lien search have an order date of 8/1/201 and the closing is scheduled for 11/30/2016, these documents are 122 days old and are NOT acceptable. Order New Credit and Title/Lien.

iii. The timeanddate.com website https://www.timeanddate.com/date/dateadd.html may be used to help you determine when these documents expire.

d) Gather the borrowers' most recent, pre-closing paystub(s) to show that they are still employed and that there is still adequate income to meet the 45% debt-to-income ratio requirement. If the employment status is anything other than active, Participants should reach out to PHFA to reaffirm approval to close the loan.

e) Develop the Closing Disclosure with the actual loan costs and job construction charges. Transmit this draft disclosure to PHFA for final approval via PHFA's Pipeline/Virpack system.

f) Ensure that all "Conditions" on the file that must be complete prior to loan closing are met and documentation is in the file.

11. **Participant - Closing Activities -** The Loan Closing must include the following tasks, performed by the Participant or a third-party closing agent. Participants may charge borrowers a fee for the services of a third-party closing agent, but the charge may not be financed in the loan. The fee must be appropriately disclosed.

Participants (or the closing agent) will review closing documents with the borrower, and then ensure that the closing documents are executed as indicated. These documents include the Mortgage, Note, Escrow Agreement, Right of Rescission Notice, Name Affidavit and the Closing Disclosure.
Mortgage and Note:

The Mortgage and Note are to be executed on the forms provided by PHFA.

Lien Position Requirements:

a. The maximum loan amount is now $25,000 regardless of lien position. A PENNVEST Loan may be in second lien position IF it is not behind a reverse mortgage or a partial claim.

b. A PENNVEST Loan may be in third lien position IF it is not behind a reverse mortgage, partial claim, home equity loan or home equity line of credit, AND IF both liens ahead of the PENNVEST Loan were recorded simultaneously to purchase the home.

c. Participants should ask if an applicant has the financial capacity to pay off an unacceptable second lien and provide guidance on how to pay off and document satisfaction of this loan. The satisfaction must occur prior to the recording of the

PENNVEST Homeowner Sewage Program so that it may be recorded in second lien position.

All owners must sign the Mortgage.

The Note must be executed by the homeowner(s) responsible for the debt and shall bear the simple fixed annual interest rate as indicated on PHFA's notification to the Participant of the credit determination for the borrower.

The first payment on the loan will be the first day of the second month following closing, regardless of whether or not the new on-lot septic system or sewage management connection is complete. Interest shall accrue from the first payment due date. Subsequent payments shall be required monthly.

The Note and Mortgage shall list the name as it appears on the Deed. If there is a change in the name from how it appears on the deed, add the "now known as" ("NKA") clause to the Note and Mortgage. For example: Allison Jones NKA Allison Smith (borrower should sign both ways). If the Participant fails to use the "NKA clause" described above, a Mortgage Modification Agreement may be required.

- If a name change is due to a marriage, a copy of the Marriage Certificate should be provided.
- If a name change is due to a divorce, a copy of the Divorce Certificate should be provided.
- If a previous owner appearing on the Deed is deceased, their name would not be listed on the Mortgage; however, the Legal Description should include an updated clause to reflect that the owner (list name) is deceased as of (list date). Provide a copy of the Death Certificate.

Escrow Agreements

Escrow Agreements must be signed by the borrowers.

Notarized Name Affidavits.

A notarized Name Affidavit must be completed for each borrower. Name variations found in the loan documentation must be included, especially any differences between the application, tax transcript and deed. Any name changes stemming from marriage, divorce, and signing errors at closing must also be covered in the Name Affidavit, and appropriate documentation enclosed in the closing package. The Borrower must sign the Name Affidavit, Note and Mortgage consistently as their name appears on the document.

- **Participant Collection of Participant Compensation and Third-Party Charges:** The Participant must ensure that the participant compensation and third-party fees are either paid by certified check made out to PHFA or are financed in the Loan, as permitted. All charges must be appropriately disclosed. These funds should be forwarded to PHFA with the Closing File submission.

- **Participant Collection of Additional Funds to Complete the Job**: If the total of all work to be completed exceeds the borrowers' loan amount, the borrower must pay for the additional work. If the additional funds will be obtained from a source other than the borrower, the source and terms must be approved by the Agency to ensure the borrower's total debt to income ratio is still acceptable (see section titled "Total Monthly Debt to Income" for Participant documentation requirements).

At the time of loan closing, the Participant is to collect from the borrower any additional funds required to cover the difference between the amount of the Loan and the amount of the total job, in the form of a Cashier's check made out to PHFA. These funds should be forwarded to PHFA with the Closing file submission.

12. **Participant - Post Closing Activities and Closing File Submission –** Due to the three-day Right of Rescission, the Participant must send the Mortgage to the appropriate county office for recording no earlier than three business days after loan closing.

    The Participant has five (5) calendar days after the rescission period expires to upload the Closing file in the order prescribed on PV-12 Closed Loan Submission Checklist. Participants should upload a copy of the recorded mortgage if it is available; otherwise upload a copy of the True and Correct mortgage sent to the Recorder's Office (stamped as such) and then return the recorded mortgage to PHFA within 60 days of recording.

    Participants must also upload copies of any subordination agreements required for the PENNVEST Loan's lien position within the same timeframes.

    Only the executed Note must be overnight or two-day priority mailed to PHFA. As of October 2024, all other items will be accepted electronically.

    Wiring or "ACHing" Borrower Funds is preferred. If Borrower Funds are in a certified check, the check is to be mailed with the Note to:

    Pennsylvania Housing Finance Agency
    Homeownership div, PENNVEST Program
    PO Box 8029
    Harrisburg, Pennsylvania 17105-8029

    The street address for overnight mail is

    Pennsylvania Housing Finance Agency
    Homeownership div, PENNVEST Program
    211 North Front Street
    Harrisburg PA 17101

    The recorded mortgage, once received, should be uploaded via Virpack to PHFA

13. **Participant - Retention of PENNVEST Loan File -** With respect to each PENNVEST Loan Purchased, Participant shall retain a complete copy of the PENNVEST Loan file, containing the Mortgage Documents specified by the Agency, for at least three (3) years after the date the PENNVEST Loan is Purchased, or such longer period as may be required by Law or regulation. The Agency shall have the right to request copies of PENNVEST Loan files, or to audit such files at the offices of the Participant.

14. **Agency - Registering the Loan for Title I Insurance –** The Agency will register the loan for Title I Insurance.

15. **Agency - Participant - Compensation Process -**PHFA will send Participant compensation and permitted third-party closing charges upon Agency acceptance of the completed loan file, i.e., the Origination and Closing Files, in order of the program checklists, and all documents required to clear PHFA conditions.

16. **Agency - Job Payment Process.** **<u>PHFA will manage job payments through Agency staff, as follows</u>:**

    Once the loan is closed and PHFA has received a certified true and correct copy of the executed mortgage sent for recording in the Closing File, PHFA will pay for municipal permits and connection fees and completed segments of work as approved by the borrower. The entire on-lot septic system or sewer lateral connection does not have to be completed for these draw payments to be made. PHFA may, at its discretion, make a partial payment on a completed segment of work in order to retain a majority of the loan principal to ensure full system completion.

    To process any subsequent payment requests, the Agency requires borrowers' written approval for the payment on the Agency's form, and an acceptable invoice provided by system designers, municipalities, and installers. All private sector vendors seeking payment must furnish a W-9 Form to the agency prior to monies being disbursed. PHFA will report all payments made to the Internal Revenue Service at the end of each calendar year.

    Final payment to installers will not be made until the Agency receives acceptable proof of the sewage management system's completion and municipal inspection, as well as a final invoice from the contractor. Examples of acceptable documentation of the municipal inspection includes written, signed

    - Permits;
    - Certificates of Occupancy:
    - Letters or Forms from a local health department, municipal official or consulting engineer responsible for evaluating the sewage management system (public sewer or on-lot).

    If borrowers must pay for permits to test their on-lot septic systems or lateral connections to a public sewer or other charges before their Loan can be closed, they will have to pay these costs out of pocket and seek reimbursement by the Agency from their loan proceeds. The Agency will reimburse borrowers once the Loan is closed and the borrowers provide acceptable, written documentation of paid charges associated with their approved job.

    Borrowers are not permitted to perform work on their own on-lot septic or sewer lateral repair or replacement, or first-time connection, without prior, written approval of PHFA. No payments for labor costs for work done by borrowers (or their family or friends) will be made, even if PHFA approves a borrower to perform work on their own sewage management system.