PHFA

PENNSYLVANIA HOUSING FINANCE AGENCY

Keystone Renovate & Repair Loan

Program Guidelines

211 N. Front Street, Harrisburg, PA 17101 ■ 1.800.822.1174 ■ www.phfa.org

TABLE OF CONTENTS

INTRODUCTION

Purpose of the Program Guidelines

The Keystone Renovate & Repair Loan Program Guidelines, including forms and appendices is a supplement to the Invitation to Participate and the Participation Agreement executed by the Pennsylvania Housing Finance Agency (PHFA or the Agency) and the Local Program Administrator (LPA). These guidelines provide technical assistance to the LPA by providing 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 the LPA, the lender, or the Pennsylvania Housing Finance Agency (PHFA). 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.

Intent of the Keystone Renovate & Repair Program

The purpose of the Keystone Renovate & Repair Loan Program (R&R loan or program) is to fill a gap in the home repair lending market and to help prevent homeowners from becoming victims of predatory lending practices. Many Pennsylvania homeowners are not eligible for assistance programs designed to help homeowners repair their homes. They therefore turn to the conventional loan market for financing, which is generally provided in the form of a home equity loan. These types of loans often have variable rates; require considerable equity in the home; may provide more financing than the applicant needs; and provide little or no guidance regarding what repairs should be made, how to select a contractor, what to include in a contract, how to determine if the work was done satisfactorily, how long the work should take, etc.

This program is designed to help households with incomes up to 150 percent of the greater of the statewide or area median income (as established by the federal Department of Housing and Urban Development or HUD) rehabilitate and/or improve their homes. Not only does the R&R loan provide an attractive interest rate, but it also provides the homeowner with help regarding the repairs and/or improvements to be done. In this regard, the program provides much more than a loan—it provides peace of mind in knowing that the right home repairs are done and were completed in a timely manner with quality workmanship. The program is intended to finance renovations to improve the basic livability of the home, as well as repairs to items affecting health, safety, energy efficiency, accessibility, and code violations. Luxury and purely cosmetic items such as hot tubs, pools, gazebos, etc. are not permissible under the program.

Wherever a singular pronoun is used, it is assumed to also apply to the plural.

CHAPTER 1

PROGRAM ADMINISTRATION AND APPLICATION TO PARTICIPATE AS PROGRAM PROVIDER

R&R loans are provided to eligible homeowners by PHFA-approved Local Program Administrators (LPA). Eligible Local Program Administrators include but are not limited to the following:

- County Housing Authorities (HA)
- Housing Redevelopment Authorities (HRA)
- Community Action Agencies (CAA)
- Community Development Corporations (CDC)
- Housing Development Corporations (HDC)
- Municipalities
- Lenders
- Other non-profit organizations with related housing experience

LPAs are approved by PHFA to participate in the program through an open application process. The Invitation to Participate, which includes the application, is available to all interested eligible parties on PHFA's Web site www.phfa.org. The application may also be obtained by contacting the Agency at 717.780.3871 or 1.800.822.1174, or in writing to PHFA, Homeownership Programs Division, 211 North Front Street, P.O. Box 8029, Harrisburg, PA 17105-8029.

The R&R program consists of various phases and steps as outlined in chapter 5 of these guidelines. Generally, the steps are: pre-screening; loan application and underwriting; work scope and procurement of bids; loan closing; work monitoring and completion; and close-out and submission of the complete Final Package to PHFA. The LPA may apply as a comprehensive provider for all processes, or it may utilize partners for one or more of the areas: this is specified in the initial application to PHFA. For example, a borough applying for approval as an LPA may wish to use a lender to perform the loan application, underwriting, and closing components. Another example would be a lender who wishes to apply as an LPA, but will use a housing authority to perform various phases of the program. Any and all partners who will perform one or more of the program requirements must be identified in the LPA's application to participate.

Contractual Obligations

Upon being selected for participation in the Keystone Renovate & Repair Loan Program, the LPA will execute a Participation Agreement with PHFA. The Participation Agreement is not assignable or transferable without PHFA's prior written approval, and it will remain in effect until such time that the LPA or PHFA expresses in writing their wish to discontinue participation in the program, or until all funds are expended, additional funds are not available, and program reports are completed.

Program Fees

PHFA will pay LPAs several Fees to compensate them for originating R&R loans and will also reimburse them for specified underwriting costs if the borrower's income are at or below the 50% limits referenced on the Income Limits Form. Borrowers with incomes above these limits but under the "regular" limits are to bear these underwriting costs.

- <u>LPA Fee Revenue</u> (includes the Administrative Fee, Document Preparation Fee, Participation Fee, and Home Inspection Fees)
  - $1,300 for approved closed loans.
  - $1,000 for approved loans that do not close. The LPA must have completed underwriting and a home evaluation (as evidenced by the provision to PHFA and the borrower of a completed Home Evaluation form and the timely, formal cancellation of the loan with PHFA).
  - $500 for loans that are initially underwritten and approved but subsequently cancelled prior to the completion of the Home Evaluation form, including provision to borrower and PHFA
  - $200 for denied loans if underwriting has progressed beyond review of credit.
  - $50 for denied loans, if the denial is based upon review of the applicant's credit reports.
- <u>LPA Cost Reimbursement</u> (includes: Title/Lien Search; Appraisal or PHFA-approved Valuation Determination; Flood Determination; Recording Fee; Assignment Fee (if applicable)
  - PHFA will reimburse for the actual charges for these items when borrower income is at or below the 50% limits on the Income Limits form. Borrowers with incomes above these limits must pay these charges. The charges should be shown on the HUD 1 Settlement Statement, whether "paid outside closing" or not.
  - It should be noted that the borrower always pays for the credit report.

- <u>Timing of Fee Payments & Reimbursements</u>

  PHFA will pay the following amounts when the LPA reserves the loan as Approved or Denied:

- Disbursement 1: For Approved loans, PHFA will receive the A5 Reservation Form with supporting documentation and confirm receipt of the reservation by sending the A7 Reservation Confirmation. The 1st $500 portion of the LPA Administrative fee will be sent within five days of the issuance of this Reservation Confirmation for approved loans.

  For Denied loans, PHFA will pay $50 for loans reserved as denied based on a review of borrower credit, and $200 for loans reserved as denied based on underwriting that has progressed beyond review of credit. PHFA will reimburse the LPA only for necessary underwriting charges incurred up to the point of loan denial.

- Disbursement 2: The first one-third of Loan Proceeds will be provided after PHFA receives and accepts as complete the borrower file, documented and ordered as requested in form A22 Loan Documentation Checklist. LPAs must also submit A13 Request for Loan funding and required supporting documentation.

- Disbursement 3: All Administrative fees due to the Lender, including the Document Prep fee, the Participation fee, the LPA Inspection Fees, as well as reimbursement for underwriting costs, and the final two-thirds of the Loan Proceeds will be sent when construction is complete and PHFA has received and accepted the After Photos, and the Construction Completion form.

- <u>PHFA's disbursement tracking system cannot accommodate subsequent disbursements so staff will not approve loan modification requests, additional administrative payments or underwriting cost reimbursement requests after the third disbursement is made. LPAs are responsible for ensuring that their third disbursement request is correct. Any missing, incomplete or unacceptable documentation may delay these fund transfers to the LPAs.</u>

- In the case of an approved loan that will close in conjunction with a home purchase, PHFA will pay the LPA the Participation Fee, the Document Preparation Fee, and the Inspection Fees. The loan origination costs will be borne by the borrower as standard and necessary expenses incurred for the home purchase loan.

Appropriate documentation must be attached to all Reservations, Pre-Closing Approval Requests, Cancellations and Loan Funding Requests. The required documentation is explained in chapter 5 of these Guidelines. All requests for payment must be made within 6 months of the borrowers' application for a loan.

CHAPTER 2

LOAN FEATURES AND GUIDELINES

Eligible Loan Uses

The proceeds of the R&R loan 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 with the exception of emergency financing as specified below. Eligible improvements include those to:

1. Improve the basic livability or energy efficiency of the property. These improvements must be permanent general improvements which shall include additions, alterations, renovations, or repairs upon or in connection with existing structures which materially preserve or improve the basic livability, safety, utility, and/or accessibility of the property.
2. Comply with applicable state, county, or municipal health, safety, building, fire prevention, and housing maintenance codes or other public standards applicable to housing. Also eligible is the connection to public water and/or sewer facilities, and the repair, improvement or installation of code-compliant septic or well systems. [1] However, bringing the entire home up to code is not a requirement of the program.
3. Remediate or remove lead-based paint (not required but is a permissible use). All work must be done in compliance with the Environmental Protection Agency's lead hazard regulations (i.e., "the lead renovation rule"), which includes the use of hazard containment efforts, information provision through an EPA-generated pamphlet "Renovate Right", and by December 31, 2010 contractor ability to document lead hazard certification.
4. Repair items of an emergency nature. The rehabilitation must be necessitated by extraordinary circumstances relating to damage to the property beyond the control of the applicant such as failure of the plumbing, heating, electrical system, or defects in the roof or foundation system or the presence of conditions in or on the property that have been determined to cause an elevated blood lead level of a resident. These situations supersede normal processing procedures. In these cases, the borrower may be reimbursed for work already begun or completed if the applicable repairs were made within 30 days of the pre-application with the LPA. The borrower must provide an invoice, proof of any and all payments made, as well as all related estimates and contracts for the work. (See Chapter Five for further details on the process involved for emergency repairs.)

[1] Borrowers needing to repair or replace individual on-lot sewage disposal systems should investigate the PENNVEST loan, offered through PHFA. It has a lower interest rate than the R & R.

Ineligible Loan Uses

Ineligible improvements include, but are not limited to:

1. Luxury or purely cosmetic items or those used primarily for recreation or entertainment such as gazebos, hot tubs, pools, new fireplaces, landscaping, additional garages beyond two bays, underground sprinkler systems, etc. Any questionable items must be pre-approved using the form provided by PHFA.
2. Improvements which are not a permanent fixture to the property such as appliances and furniture, although large appliances specific to a kitchen or laundry room remodel may be financed. These are limited during a kitchen remodel to the refrigerator, stove (ok to finance a built-in microwave but not freestanding), and dishwasher, and in a laundry room remodel or relocation, the washer and dryer.
3. Repairs to or construction of outbuildings, sheds, utility buildings, barns, shops, silos, greenhouses, etc.
4. Improvements to the portion of the buildings or real estate owned by the association in a cooperative, Planned Unit Development or condominium community.
5. Improvements to a recreational home or a home which is not used by the borrower as a permanent, principal residence.
6. Conversion of a recreational home to a year-round permanent residence.
7. Costs associated with a project that will not be completed, e.g. the shelling-in of a room addition or the roughing-in of plumbing.
8. Improvements that began before the credit application approval, except for emergency repairs as specifically referenced in these guidelines.
9. New construction or expansion of an area used or to be used in a trade or business.
10. Improvements to a home located on a parcel of land larger than ten (10) acres.
11. Playground equipment.
12. Labor costs paid to any applicant or resident. (Borrowers qualified and licensed, if applicable, as a contractor or in a skilled trade profession may perform work for which they are qualified, but they may only receive financing for the cost of materials.)
13. The refinancing of existing loans.
14. Payment of current or past due property taxes.

General Loan Guidelines

In order to be eligible for funding by PHFA, a loan must be originated in accordance with the following requirements.

1. Loans must be originated according to the terms of the Invitation to Participate, the Participation Agreement, and the guidelines as specified in this manual.
2. Loans shall be fully amortized over 10, 15 or 20 years.

3. Maximum loan amount is $35,000. The minimum loan amount is $2,500.
4. Current interest rates are published on PHFA's Web site www.phfa.org. The rate will be locked in by the LPA at the time of loan reservation as identified in Chapter 5 of these guidelines.
5. The mortgage for the R&R loan is recorded as a lien against the property. It must be recorded in first, second, or third lien position (unless a written exception is provided by the Agency).
6. All owners must sign the Mortgage.
7. The R&R loan cannot be used in conjunction with a recorded HECM.
8. Each Note must be executed by the homeowner(s) responsible for the debt.
9. The Note shall bear the simple annual interest rate as indicated on the Pre-Closing Approval/Cancellation form.
10. Interest shall accrue from the first payment due date.
11. The first payment on the loan shall generally be the first day of the second month following closing. Subsequent payments shall be required monthly.
12. In accordance with the provisions of the Note, loans must be paid in full upon the sale or transfer of any borrower's interest in the property.
13. Loans may not be assumed by third parties.
14. There are no penalties in the event of an early payoff.
15. All borrowers will be charged a Satisfaction Recording fee, when they pay off their R & R loan. Fees vary across the State.
16. The Mortgage and Note are to be executed on the forms provided by PHFA.
17. Requests for exceptions to these guidelines must be submitted in writing using Form A17 provided by PHFA *along with any relevant supporting documentation* to renovateandrepair@phfa.org or by fax to 717-780-3872. 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.

Loan Origination Costs:

The following costs and fees are all considered Loan Origination Costs.

- Credit Reports with Credit Scores
- Title/Lien Search
- Appraisal or PHFA-approved Valuation Determination
- Flood Determination
- Recording Cost

- Program Participation Fee
- Document Preparation Fee
- Inspection Fees
- Assignment Fee

Borrowers will always pay for their own credit reports which must include credit scores. [When they pay off their loan, borrowers will also pay the Satisfaction Recording fee.]

On behalf of borrowers whose Household Adjusted Gross Income is at or below 50% of the R&R Income Limit in their county, PHFA will pay for their Title/Lien Search, Flood Determination, Appraisal/Valuation Determination, and Recording Costs (Mortgage and Assignment (if applicable) recording charges) . Relevant income limits are provided on the R&R Income Limit Form. These costs are to be listed separately on the right side of Form A13, Request for Loan Funding.

All other borrowers will be required to pay their own Title/Lien Search, Appraisal/Valuation Determination, Flood Determination, and Mortgage and Assignment (if applicable) Recording Costs. These costs and fees may be paid in cash, with a certified check or money order **OR** may be financed in the R&R loan. If borrowers are paying these fees out of pocket, it is to be done at the loan closing. [LPAs should not accept personal checks]. If they are not prepared to pay these fees out of pocket, they **<u>must</u>** finance them in the loan. If this is the case, these costs are simply lumped into the R&R loan amount. When they are paid out of pocket, a reference of this is to be reflected on the HUD 1 by placing (POC) on the same line next to the costs. In either of these two situations, they are never to be listed separately on Form A13.

When the R & R is done in conjunction with a home purchase, the Title/Lien Search, Appraisal/Valuation Determination, Flood Determination, and Recording Cost(s) will be borne by the borrower.

PHFA will pay the Program Participation, Document Preparation, and Inspection on behalf of all borrowers.

The amounts listed below are approximations of origination costs, as of September 2006, and may vary by location and by lender.

- Title/Lien Search : $50
- Appraisal or PHFA-approved Valuation Determination: $100 to $375
- Flood Determination: $25

- Recording Fee: Varies across the state.
- Program Participation Fee: $100
- Document Preparation Fee: $50
- Inspection Fees (two @ $75 each): $150
- Assignment Fee: Varies across state.

These Costs that are to be paid by PHFA will be paid in an amount equal to the actual charges as itemized on the HUD1 Settlement Statement. In the case of loans that are Denied (after the borrowers' credit has been determined to be acceptable) or are Cancelled (after being reserved as Approved), PHFA will reimburse those costs to originate the loan that were necessary up to the point of denial/cancellation. These costs must be presented to PHFA on the Reservation of Funds form for Denials or the Pre-Closing Approval/Cancellation form for Cancellations with attached invoices documenting specific costs. To receive the second $500 portion of the Administrative Fee for a Cancelled Loan, LPAs must also provide the Home Evaluation Report, indicating that the home evaluation was completed and provided to the borrower.

In the case of an R&R loan done in conjunction with a home purchase, PHFA will pay the Program Participation Fee, the Document Preparation Fee, and the Inspection Fees. The loan origination costs will be borne by the borrower as standard and necessary expenses incurred for the home purchase loan.

CHAPTER 3

BORROWER ELIGIBILITY AND QUALIFICATION GUIDELINES

To receive an R&R loan, the borrower must meet the following eligibility and qualification guidelines. Documentation to verify compliance with each item is also specified below.

Ownership and Principal Residence

The borrower must be an owner OR must be in the process of purchasing the home according to the standards specified below. They must reside in the home as their principal residence OR, in the case of a homebuyer, must plan to reside in the home as their principal residence. Lenders are to gather the following documents as applicable to verify ownership and residency.

For applicants who currently own and reside in the home:

- A copy of the recorded deed or leasehold agreement (must have a term which exceeds the term of the R&R loan by at least five years).
- A copy of a valid driver's license or the previous year's Federal Income Tax return verifying that the borrower's permanent address is the property being renovated and/or repaired.

For applicants who are purchasing the home to be renovated/repaired:

- A copy of the executed Agreement of Sale with a specified closing date, as well as a copy of a loan commitment approval letter for the financing of the home purchase. (A copy of the HUD 1 settlement sheet along with a certified true and correct copy of the deed, mortgage and Note for the first mortgage is to be submitted to PHFA in the Final Package.)
- Local Program Administrators should review the loan application section II and section VIII "l" to ensure that the borrower indicates that they intend to make the home they are purchasing their primary residence.
- If the potential borrower currently owns a home that will not be sold prior to closing on the home to be renovated/repaired, then the Local Program Administrator must have the PHFA Affidavit signed indicating that the borrower will move into the home as their primary residence within 90 days of completion of the R&R work.

  <u>All owners on the deed to the home are required to sign the Renovate & Repair Mortgage.</u>

Credit

All borrowers must meet the following credit guidelines.

- The middle FICO score must be at least 620 (use the lowest score when only two scores are obtained).
- No more than one 30-day late payment on any mortgage loans in the previous 12 months.
- No non-medical collection accounts may be present on credit reports, unless the borrower can document satisfactory repayment for at least the previous 12 months.
- Must be current on property taxes, meaning that all property taxes levied in the prior calendar year were paid in full by December 31st of that year. Acceptable documentation includes a copy of the Mortgage Statement showing that the taxes are escrowed OR a copy of the stamped tax statement from the taxing authority verifying that they have been paid.
- Bankruptcies and foreclosures need to be fully discharged or closed for at least 2 years and satisfactory credit reestablished.

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 if needed). If one borrower's credit score is acceptable and another's is not, PHFA must pre-approve the loan.

Written requests for exceptions may be emailed to renovateandrepair@phfa.org or faxed to 717.780.3872 using the form provided by PHFA along with supporting documentation

Income Limit (Adjusted Gross Income)

- The adjusted gross income of all adult household members must not exceed 150 percent of the greater of the current statewide or area median income (AMI) as established by the federal Department of Housing and Urban Development (HUD) for the county in which the home is located, and as published and provided by PHFA. An adult household member is any person over the age of 18 who resides in the home as a principal residence and is not a full-time undergraduate student (as documented by providing transcripts or other documentation from a college or university showing the student is enrolled for at least 12 credit-hours per semester).
- Compliance with the income limit is documented by providing a copy of the federal income tax returns for the previous year for all adult occupants of the home. This includes any adult occupants who reside in the home as a principal residence—even those who are not owners and/or are not applying for an R&R loan. The combined Adjusted Gross Income of all adult occupants must not exceed the applicable income limit.
- There is no minimum income level, except that the borrower must have sufficient income to afford the loan as referenced under the section below on qualifying income.
- For situations where the borrower is using R&R funds to accommodate the needs and/or living space of an adult family member with a disability who does or will reside in the home as a permanent and principal residence upon completion of the work, only the income of the adult family member with the disability is utilized for determining compliance with the income limit. The disability must be documented

by providing a copy of the Social Security Disability Income statement or a letter from a health care provider.

Qualifying Income
(Gross Monthly Income Projected from Application forward Twelve Months)

Gross monthly income is to be used to determine eligibility for loan repayment. The calculation of gross monthly income includes the current income received by all applicants before taxes and withholding. Only income that is expected to continue for at least one year from loan closing is to be utilized.

The following documentation must be provided to determine gross monthly income:

- For employment income the following documentation must be provided for each job for each applicant that is responsible for the repayment of the R&R loan: a current pay stub, processor's certification and W2 from the previous year OR a properly completed, signed Verification of Employment OR a Verification of Employment verified through a work number.
- Child support income must be received regularly in consistent amounts and verified through domestic relations if being used to support the R&R loan.
- Social Security statement with or without a disability award letter. Bank statements showing automatic deposit of the funds is also sufficient for documenting social security income.
- Pension and/or retirement income award letter or bank statements showing automatic deposit of the funds.
- For commission based borrowers, average the current year's total income earned to date and the prior year's earnings from the W2. If there are no taxes taken out of the paycheck, obtain 2 years tax returns and average the Adjusted Gross Income. If the employee has both commission and salary, the percentage of salary that is commission should be determinable from the paystubs. If not follow up with the employer to avoid over or under-estimating borrower income.
- For self-employed borrowers, PHFA or LPA must receive two years of the applicant's federal tax returns including the Schedule C "Profit or Loss from Business Statement." From Schedule C the applicant's income is determined by calculating a two year average of line 31 (Net Profit or Loss) plus line 13 – Depreciation.
- Other documentation may be used as applicable for additional income sources.
- Please contact PHFA if you are working with an applicant who has a representative payee or someone with a power of attorney making decisions about their income for them.
- The amount of a Housing Choice Voucher (aka "Section 8" voucher) may be used as qualifying income, as long as the borrower can document that the voucher is provided to them in order to pay a portion of their mortgage. [Because Public Housing Authorities have several options for how they disburse these funds on behalf of the homeowner, including issuing checks directly to the homeowner or

instead to the mortgagee, the Participant must take extra care to document voucher disbursement if the homeowner has a voucher.

The following calculations must be utilized to determine gross monthly income:

- Upon receipt of employment income documentation, gross monthly income is determined by multiplying the required number of hours worked each week by the hourly rate. If the hours vary weekly (with or without overtime), the average gross monthly income is to be used. This is calculated by adding the total income from the previous year W2's (before withholdings) to the current year-to-date income and dividing by the applicable number of months.
- For borrowers who receive non-taxable income, the amount of non-taxable income may be grossed up by 25 percent for qualification purposes.
- For persons who are self-employed, calculate a two year average of line 31 (Net Profit or Loss) plus line 13- Depreciation.
- To calculate overtime/bonus average the total income earned year to date and the prior year's earnings from the W2. (Do not include overtime if sporadic.)

Total Monthly Debt to Income

The total monthly debt to income ratio cannot exceed 45 percent of the gross monthly income figure. The total monthly debt ratio is calculated by dividing total monthly debt by total gross monthly income. Total monthly debt is defined as all personal obligations assumed which shall include, but are not limited to; the monthly payment for the R&R loan; any and all mortgage payments (including escrows for taxes and insurance); court-ordered child support, revolving charge accounts; and all installment loans with more than ten installments remaining. For those who are self-employed, business and farm debts shall not be considered as personal debts and therefore would not be considered in the total monthly debt ratio. Student loan debt must be included in the debt to income ratio calculation. Either actual payment (given by the loan servicer) or 2% of the total debt owed must be used for monthly payment calculation. Written requests to accept a total debt to income ratio higher than 45 percent may be emailed to renovateandrepair@phfa.org or faxed using the form provided by PHFA along with supporting documentation to 717.780.3872 The Agency may also require a co-signer for such exceptions.

Required Disclosures: Good Faith Estimate (GFE) and Truth in Lending (TIL)

The Good Faith Estimate provides potential borrowers with an estimate of their settlement charges and loan terms. An initial version is to be issued within three days of receiving a completed application (at approval for maximum financing) and a second form reissued, as per applicable law, when the LPA knows the actual loan amount (at Pre-Closing, must be 7 days prior to Closing). Sample GFEs and TILs are provided during the Initial Operations Training for borrowers for whom PHFA will pay part of their originations costs and also for those borrowers who will pay their own.

Required Borrower Information: Home Value and Housing Counseling List

LPAs are required by the federal Consumer Financial Protection Bureau (CFPB) to provide applicants with the home value used to determine their Combined Loan to Value ratio. Transmittal of this information must be provided without charge to the borrower. It is to be provided as soon as the value is determined and not later than three days prior to closing. PHFA's Form A24 Borrower Guidance indicates that the value will be provided. This form must be included with the applicant's credit determination or within three days of receipt of a completed application. Form A12 Borrower Statement of Understanding is where the value and calculation method is actually delivered. This document is delivered at least three days prior to closing.

The CFPB also requires that applicants receive a list of at least ten HUD-certified housing counseling agencies, and their contact information. This list can be generated by LPAs from the following link: www.consumerfinance.gov/find-a-housing-counselor The list should be provided at credit determination.

CHAPTER 4

PROPERTY GUIDELINES

The proceeds of each R&R loan shall be used to renovate and/or repair only those existing residential properties that meet the following criteria:

1. Located in the state of Pennsylvania.
2. Owner-occupied by the applicant as a principal and permanent residence.
3. Used as a primary residence and not a business, investment or vacation/recreational home.
4. Property must be zoned "Residential" and property size is limited to ten acres.
5. Condominium, Cooperatives and PUDs (Planned Unit Developments) are eligible, but only that portion of the real estate owned by the applicant is eligible to be repaired/improved. Common areas owned by the association are not eligible.
6. Completed property. Loan funds may not be used to renovate homes which are in the process of being constructed.
7. Properties located in a 100 year flood zone are required to document proof of flood insurance. If any portion of the building or a part of the building is located in the SFHA, where federal flood insurance is available; the flood insurance must be at least, but is not limited to the lowest of: (a) The outstanding principal balance of all loans secured by the property; (b) The maximum insurance available under the National Flood Insurance Program (NFIP); or 100 percent of the replacement cost of the dwelling. Please note that if the detached building (a stand-alone a garage or outbuilding) is located in a SFHA, (and the principal structure is not) flood insurance will be required for the detached structure, if it serves as a part of the security for the mortgage. The deductible may not exceed the greater of $1,000 or one (1%) of the face amount of the policy. This can be documented by providing a copy of the declarations page for the policy.
8. Proof of Homeowners Insurance in an amount equal to the lesser of the total amount of loans secured against the property or the replacement value of the home must be documented. This can be documented by providing a copy of the declarations page for the policy.
9. A loan secured with an R&R mortgage shall not be made in an amount which, when combined with all other existing debts secured by the subject property, would exceed a 120 percent combined loan to value ratio (CLTV). The CLTV is determined by adding the amount of all debts secured by the property (including the R&R loan) and dividing by the value of the home's current value as determined by a full appraisal that has been completed within the previous twelve months or an alternative valuation method approved by PHFA which include: an evaluation in lieu of appraisal; a drive-by (external) appraisal, or a tax assessment if completed within the previous three years and already used in other LPA programs. Automated valuation methods are not acceptable. (The home's as-completed

appraised value may be utilized only in cases where a full, current appraisal is obtained. This allows borrowers to incorporate the added value of any repairs/improvements being made with the R&R funds into the CLTV calculation and may increase the amount they can borrow.) PHFA will approve in writing the valuation method(s) to be used by each LPA.

10. Two-unit properties are eligible, where the applicant resides in one of the units as a principal residence but owns both units.

11. Manufactured or factory–built houses are eligible for R&R loan funds if all of the following conditions are met.

    - Home must be defined, deeded and taxed as fee simple real estate.
    - The manufactured or factory-made house is located on property owned by the applicants or being purchased by the applicants under a single real estate transaction under applicable law.
    - The wheels, axles and trailer hitches have been removed and the home has been placed on a permanent foundation.
        - Existing manufactured homes must be permanently affixed to one of the foundation requirements set forth below. See http://www.newpa.com/housing-and-development/manufactured-housing/#.WFwDO2bruUk for additional state guidance.
            - A foundation that has footings located below the frost line. If piers are used, they must be placed where the unit manufacturer recommends. If state law requires anchors, they must be provided. The foundation system must meet local codes and have been designed by an engineer to meet soil conditions of the site and assume the characteristics of site-built housing
            - A "Floating Slab" foundation foundation may be considered if they meet the minimum standards as described in Appendix S (of the PHFA Seller's Guide) and there are no local or state codes that are more stringent. Specifications for the foundations must be provided to the lender by the contractor. It is the lender's responsibility to make sure they meet the appropriate specifications.
            - If the local code mandates that existing manufactured homes must be reinstalled in conformance with the state codes, then it must meet the requirement listed below for new manufactured homes.
            - [Additional Guidance: Whenever mobile home foundations are being newly installed or replaced, the home must be permanently affixed to a foundation and in conformance with the requirements of Appendix E, "Manufactured Housing Used as Dwellings" of the International Residential Code (edition as currently adopted by the Commonwealth of Pennsylvania).

12. The residence must be in a condition that can be made habitable and sanitary upon the completion of appropriate repairs with funding available from the R&R loan and any other available home improvement funding sources. In the event that this is not possible, the LPA may decline the prospective loan applicant and make a referral to the appropriate social service or other applicable agency.

13. New manufactured homes must be permanently affixed to a foundation and in conformance with the Pennsylvania Manufactured Housing Improvement Act 158 of 2004.

CHAPTER 5

PROGRAM PROCESS

The following is an outline of the workflow for the Keystone Renovate & Repair Loan Program.

1. **Pre-Application Screening.** The LPA shall prescreen interested applicants using the form provided by PHFA. It will then review the pre-application and determine if the information provided meets the general requirements of the program. If not, stop. This procedure remains the same for potential borrowers requesting consideration for loans for Emergency Repairs.

2. **Loan Application and Underwriting.** The LPA or lender should first have the applicant complete a loan application using a standard industry application form (Fannie Mae form 1003 or Freddie Mac form 1008 or other forms approved by PHFA). The signature on this form permits collection of borrowers' credit and other information.

   The next step is to review the applicant's current credit information to determine if the credit history meets the program guidelines as established in chapter three. If the credit does not meet program guidelines, and an exception seems unwarranted, the process should go no further. The credit reports are to be paid for by the borrower.

   If it is determined that the applicant's credit is acceptable, the lender shall then obtain the documentation listed on the Lender Underwriting Checklist provided by PHFA to verify the applicant and property are eligible for an R&R loan as specified in chapters 2 and 3 of this guide. This includes the following:

      1. Income documentation for the income limit calculation and loan qualifying purposes; Please contact PHFA if you are working with an applicant who has a representative payee or someone with a power of attorney making decisions about their income for them. Special documentation may be necessary in these circumstances.

      2. Documentation establishing residency and ownership;

      3. Proof of sufficient homeowner's insurance and, if applicable, flood insurance;

      4. A current owner property report, also known as a Title/Lien Search, which includes deed and mortgage information, judgments, suits, liens and assessment and tax data;

      5. A mortgage statement indicating loan payment amount, and, separately, the payment amounts for the escrowed taxes and insurance. If taxes and insurance are not escrowed by a first mortgage lender, a Tax Certification from the local

Tax Authority or copies of stamped "paid" bills for the prior year. All property taxes levied in the prior calendar year must be paid in full by December 31st of that year. A certification of value for the property in the form of an appraisal or alternative method that PHFA has approved for use by the LPA;

6. Flood determination.

The documents above should be obtained in the order listed, and the borrowers' eligibility must be confirmed at each step. If at any point in the underwriting, the borrowers are determined to be ineligible, stop processing. If clearly compensating factors can be documented in writing, consider requesting a written exception from these Guidelines by completing and submitting Form A17 along with the pertinent documentation to PHFA. Do not continue processing until the exception is granted. PHFA will only reimburse Lenders for necessary underwriting costs.

Upon obtaining the above documentation, the lender will determine if the applicant can be approved for an R&R loan. If so, it will determine the maximum amount of loan the homeowner can afford up to a maximum loan of $35,000 (minimum is $2,500) and a term of 10, 15 or 20 years, using the interest rate at which the loan was reserved.

The lender is responsible for providing the borrower with the applicable loan disclosures (Good Faith Estimate and Truth in Lending) and the home valuation and housing counseling list as required by law at the time of approval.

The Lenders' procedures for underwriting borrowers seeking an R& R loan to complete emergency repairs that are currently underway or were completed within 30 days of their application to the LPA are as stated above. PHFA assumes that lenders will be sympathetic to the stress experienced by these "emergency applicants" and will underwrite them in a timely manner and will seek approval from PHFA for exceptions to R & R Guidelines when this assistance would be beneficial to the potential borrower.

Upon loan approval, the lender will provide an approval notification stating the terms of the loan to the homeowner and the LPA. It will also mail a package to the LPA containing all documents obtained from the applicant in the order of the PHFA Lender Underwriting Checklist.

If the loan application is denied, the lender will provide a written notice to the homeowner and the LPA, stating the reason(s) for rejection. The LPA will then provide PHFA a copy of the denial letter with the Loan Reservation form. See step 3, below.

Timeframes of Critical Loan Documents

Document	Timeframe
First GFE	no more than 3 days after **Approval**
First TIL	no more than 3 days after **Approval**

Housing Counseling List	**no more than 3 days after Approval**
Appraisal/Valuation to be provided to borrower as soon as	available (and at least 3 days prior to closing). May not be older than 1 year from **Approval for submission to PHFA**
Title/Lien Search	not older than 30 days before **Approval and** not older than 90 days from closing
Credit Report and 1003	not older than 90 days from **closing**
Second GFE	no less than 7 days prior to **Closing**
Second TIL	no less than 7 days prior to **Closing**
HUD 1 Settlement Statement	at closing
File Submission, including Original Note	no more than 10 days after **Closing**
Recorded Documents (i.e., Mortgage)	no more than 60 days after **Closing**

Note: "Approval" is when the LPA has underwritten the application and determined the maximum amount an applicant can borrow based on our Guidelines and any exceptions PHFA has approved in writing. It is prior to the home evaluation.

3. **Loan Reservation and Rate Lock.** The LPA then reserves an R & R loan with PHFA at the maximum loan amount the borrower can afford and thereby locks in the interest rate for the loan for 60 days. The reservation for the R&R loan is completed by emailing (preferred) or faxing the Loan Reservation form to renovateandrepair@phfa.org or 717.780.3872. The property search (i.e., Title/Lien Search) and the Flood Certification must be sent to PHFA with the Request. Remember that a Tax Certification or copies of stamped "paid" tax statements proving payment of local taxes will also be necessary if the taxes are not escrowed by a first mortgage lender.

   Within 5 business days of receipt of the reservation request, PHFA will send a Confirmation of Loan Reservation back to the LPA, along with the first $500 of the $1,000 Administration Fee. Requests to extend the interest rate may be emailed to renovateandrepair@phfa.org or faxed to 717.780.3872 using the form provided by PHFA.

   In the case of a denied loan, the reservation form is still used but mark the appropriate section at the end of the form and PHFA will issue a $50 Administration Fee to the LPA. If underwriting has progressed beyond review of the credit report, PHFA will pay the participation and document preparation fees that sum to $150 (for a total administrative payment of $200). In these situations, necessary underwriting charges incurred up to the point of loan denial will also be paid by PHFA.

When LPAs work with borrowers completing emergency repairs initiated no more than 30 days prior to their application to the LPA, or borrowers who are currently facing emergency repairs, the LPAs should make every attempt to compress the timeframes from Loan Reservation to Loan Closing/Funding. Some suggested methods for rushing assistance to these homeowners are

- Prioritizing the scheduling and processing of their home evaluations, loan closings, and job start dates.
- Having a contractor referral list with sufficient capacity and expertise to handle emergency and routine jobs.
- Having in place intra- and inter-agency procedures for combining funding from multiple programs and eliminating delays caused by multiple waiting lists.

PHFA will continue to review its procedures and funding to determine if there is additional guidance that can be incorporated into R & R Guidelines to assist in emergency circumstances.

The emergency rehabilitation must be necessitated by extraordinary circumstances relating to damage to the property beyond the control of the applicant such as failure of the plumbing, heating, or electrical systems, defects in the roof or foundation; or the presence of conditions in or on the property that have been determined to cause an elevated blood lead level of a resident.

In these cases, the borrower may be reimbursed for work already begun or completed if the applicable repairs were made within 30 days of the pre-application with the LPA. The borrower must provide an invoice, proof of any and all payments made, as well as all related estimates and contracts for the work

4. **Home Evaluation and Work Write-Up.** Upon receipt of the loan approval, the LPA will perform an initial inspection of the home with the homeowner and complete the Home Evaluation Form provided by PHFA. The lead-based paint pamphlet and Form A24 ("Borrower Guidance") are also provided to the homeowner at this time. Evaluators should stress to homeowners that using the information in these materials may safeguard their home environment for their safety and financial well-being. Inspectors should have the capacity to estimate the cost of the work so they can evaluate the feasibility of the renovation/repair and the reasonableness of the bids from the contractors. A Final Work Write-Up is then completed based upon the homeowner's decision as to what repairs they want completed (in addition to anything that must be done due to safety issues). The homeowner will sign the final work write-up and the program disclaimer.

5. **Procurement of Bid(s) and Contract(s).** The LPA will assist the homeowner in obtaining estimates and contracts for the required/desired work. The homeowner is responsible for contacting the contractor(s) and obtaining the bid(s) for the work to be completed. The LPA can assist the homeowner by providing a list of contractors, including lead paint supervisors or contractors that use workers trained in lead hazard reduction if needed. (This would only be required if the homeowner was requesting lead-based paint remediation or removal). The

homeowner will have the authority to make the final decision regarding the contractor. The LPA may offer assistance to help the homeowner make this decision.

Copies of all bids received must be provided by the homeowner to the LPA and maintained by the LPA in a file for each applicant. If more than one bid is obtained, acceptance of the low bid is not required, but justification for not choosing the low bid should be included in the LPA's file. There is no minimum number of bids required. All bids must be signed and dated by the contractor, and must be directly related to the Final Work Write-Up. For Lead-Based Paint remediation or removal, the contractor must be a certified lead supervisor or a worker trained in lead-safe work practices. This information must also be kept in the LPA's file.

Contractor Requirements & Contingency in Bids

Contractors must provide certificates of general liability insurance, and, if applicable, workers' compensation insurance; evidence of PA Home Improvement Consumer Protection Act registration; and federal Environmental Protection Agency (EPA) lead safe work practices certification if they will be working in a pre-1978 home, 1 year written warranty on workmanship and materials; a verifiable physical address and phone number; and write their bid in a way that clearly corresponds to the final scope of work and applicable PA and federal laws.

Attorney General (AG) -approved "self-insured" contractors may be used by borrowers using PHFA home improvement loans. Amish Aid (AA), a form of "self-insurance" is acceptable to the Attorney General's office after the contractor and program administrator have provided significant information about the AA coverage. Amish Aid self-insurance will be clearly identified on the contractor's record in the AG's registered contractor database.

Self-insured contractors must include a statement in every home improvement contract that they are self-insured, and provide the name, address, and telephone number of the organization providing the self-insurance.

Whenever the type of work to be done with R&R funding cannot be bid with a guaranteed price, the bid must contain a "not-to exceed" contingency. The contractor can earn this additional payment(s) by demonstrating with invoices and/or receipts that the construction has exceeded the scope of work in the initial bid and become work covered by the contingency funding

If PHFA pays a contractor directly, the contractor must furnish the a W-9 to the agency prior to monies being disbursed.

Any deviations from the original contract, be it materials or monetary deviations, must be documented by a written and signed change order. A copy of the signed change order must be given to the LPA by the homeowner(s) for the file.

Any borrower may perform non-skilled labor such as painting or reseeding a disturbed lawn. Borrowers qualified and licensed, if applicable, as a contractor or in a skilled trade profession may perform work for which they are qualified. In either case, a borrower may only receive financing for the cost of materials.

If the total of all bids exceed the maximum amount of loan for which the borrower was approved, the homeowner must decide which work will not be completed, or how to fund the additional work. Any additional loan funds obtained from another source must be approved by the lender to ensure the borrower's total debt to income ratio is still acceptable (see section titled "Total Monthly Debt to Income"). At the time of loan closing, the LPA is to collect from the homeowner the amount equal to the difference between the amount of the R&R loan and the amount of the bid(s) and deposit it into the escrow account prior to the work commencing.

6. **Pre-Closing and Loan Closing and Funding (and Administrative Payment if Loan Fails to Close After Reservation).**

A. If the LPA or Lender will be closing the R&R loan in PHFA's name:
At least seven (7) days prior to closing the LPA must provide a revised Good Faith Estimate and Truth in Lending statement reflecting the final loan amount, interest rate, and term. Five (5) days before closing the LPA submits to PHFA Form A19, the Pre-Closing Approval/Cancellation Form. At least three days prior to closing borrowers must be provided with their home value. PHFA will fax the response acknowledging receipt and indicating any corrections needed. PHFA approval must be received prior to loan closing. It is a good idea to provide the revised Truth in Lending statement at this time because it must be available to the borrower three days prior to loan closing. Next, the LPA submits to PHFA a signed copy of the Note, the borrower file as specified in Form A22 Loan Documentation Checklist and the Request for Loan Funding by emailing or faxing the form provided by PHFA to renovateandrepair@phfa.org or 717.780.3872 on the day the loan closes. Assuming that the LPA has not informed PHFA that the borrower has exercised their right of rescission, PHFA will transmit the first one-third of the contract(s) amount from the Loan Proceeds upon receipt of the complete and acceptable loan file.

This initial payment must be disbursed to contractors before the final two-thirds of the contract(s) amounts will be disbursed.

Loan Proceeds must be held in escrow by the LPA or Lender, if applicable, in a specific partnership, in an account separate from administrative funds for this or any other program. The escrow holder is responsible for tracking the borrowers' loan funds in an electronic system, with sufficient back-up procedures and materials so that each borrower is assured that all contractors will be paid their due in a reasonable timeframe; a report of all payments made from the account and the reasons therefore and any pending disbursements can be produced in a timely fashion for the borrower or PHFA when requested by either party; and that any audits that may be deemed necessary by PHFA can be completed. Any interest earned on escrowed funds must be used to increase the success of the R & R program and PHFA reserves the right to specify what these uses may be.

Loan Closing must include the following tasks performed by the LPA or lender:

- The appropriate closing documents are reviewed with the borrower, and then completed and executed as indicated.
  - These include:
    - Good Faith Estimate
    - Truth in Lending,
    - HUD1 Settlement Statement,
    - Three-Day Right of Rescission Notice,
    - Escrow Notice,
    - A12, the Borrower Statement of Understanding,
    - The Note, Mortgage and Assignment should 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 Mortgage, Note and Assignment. For example: Allison Jones NKA Allison Smith (borrower should sign both ways).
      - If the LPA fails to use the "NKA clause" described above, a Mortgage Modification Agreement (Form A-15) 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 and Assignment; 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.
        - A Name Affidavit is required when the borrower does not sign the document exactly as their name appears on the form. For example: the name is listed as Mary J. Smith and the borrower signs as "Mary Smith."
- The HUD-1 Settlement Statement is provided at closing. A sample is in included in the Initial Operations Training packet.
- The Mortgage is then sent to the appropriate county office for recording no earlier than three business days after loan closing.

Administrative Payment if Loan Fails to Close After Reservation: If the LPA later determines that the loan will not proceed from reservation to closing, the LPA must cancel the loan (mark the appropriate section of the Pre-Closing Approval/Cancellation form) and attach the completed Home Evaluation report (if completed and provided to the homeowner). If the Home Evaluation report is not attached PHFA will assume that loan processing stopped prior to completion of this step and will not pay the second $500 portion of the Administrative Fee. In these situations, necessary underwriting charges incurred up to the point of loan cancellation will also be paid by PHFA.

B. If the R&R loan will be closed in the lender's name

PHFA expects that lenders will take charge of the closing process when loans are closed in their name. This means that all closing procedures above must be followed by the lender, and the following <u>additional</u> steps must be completed:

1. The mortgage must be assigned to Pennsylvania Housing Finance Agency "PHFA" and this assignment recorded in the local recorder's office.
2. The Note must be endorsed to Pennsylvania Housing Finance Agency "PHFA" by an authorized officer of the lender.
3. The "Hello/Goodbye" Letter must be provided.
4. When borrowers are at or below 50% of the R&R income limits for their respective county, PHFA will reimburse the lender for actual costs incurred to originate the loan as evidenced on the HUD1 Settlement Statement. The costs for reimbursement include reasonable & customary charges for:

    a. Title/Lien Search
    b. Appraisal or PHFA-approved Valuation Determination
    c. Flood Determination
    d. Recording Fee
    e. Assignment Fee

    If the borrower is above 50% income limit they are responsible to pay for items a-e above. They may finance them in the loan amount or pay them out of pocket.

Administrative Payment if Loan Fails to Close After Reservation: If the LPA later determines that the loan will not proceed from reservation to closing, the LPA must cancel the loan (mark the appropriate section of the Pre-Closing Approval/Cancellation form) and attach the completed Home Evaluation report (if completed and provided to the homeowner). If the Home Evaluation report is not attached PHFA will assume that loan processing stopped prior to completion of this step and will not pay the second $500 portion of the Administrative Fee. In these situations, necessary underwriting charges incurred up to the point of loan cancellation will also be paid by PHFA.

C. When an R&R loan is closed simultaneously with a home purchase loan

Follow the appropriate procedure in **A** or **B** above, depending on whether the loan will be closed in PHFA's name or not. There are two variations from these standards:

- PHFA will pay the LPA the Program Participation Fee, the Document Preparation Fee, and the Inspection Fees.
- All loan origination costs will be borne by the borrower, instead of PHFA, as standard and necessary expenses incurred for the home purchase loan.

File Close-Out (Submission of the Final Package) The LPA submits the Loan Documentation Package to PHFA using the checklist form A22 along with Form A13 Request for Funding and its supporting documentation, to request the first one-third of the contract(s) amounts from the Loan Proceeds.

- A certified true and correct copy of the Mortgage (and the Assignment if the loan closed in the lender's name.)
- Original fully executed Note. This must be endorsed to PHFA if the loan is closed in the lender's name.
- Hello/Goodbye Letter, if the loan is closed in the lender's name.
- Copy of the escrow agreement.
- Copy of signed partial payment form for all interim payments made to the contractor(s).
- Copy of the HUD 1 Settlement Sheet
- Copy of the work write-up and final signed by all parties.
- Copy of contract signed by the homeowner(s) and contractors.
- Copy of written and signed change orders, if applicable. Must be signed by the homeowner(s) and contractor(s).
- Copy of signed Borrower Statement of Understanding – Program Disclaimer.
- Copy of signed Rescission Notice
- Documentation provided by the lender upon loan approval (as listed on the PHFA Lender Underwriting Checklist.
- If closing both a home purchase loan and an R & R loan, submit a <u>copy</u> of the HUD 1 Settlement Sheet, mortgage, Note and deed for the home purchase loan along with all originals and copies of documents required for the R & R loan.

[Continue to follow the standard close-out or "post purchase" procedures for both loans. For example, if the loan is a PHFA first mortgage, the original mortgages and Notes for the home purchase loans still go to the PHFA Homeownership – Post Purchase department.]

This Final Package is due to PHFA no later than 10 business days from the loan closing. The recorded documents are due to PHFA within 60 days. Please respond as soon as possible to PHFA requests to supply documents missing from the submitted loan files. Try to send missing information in as few mailings as possible so that your "held" files can be cleared quickly.

8. **Final Inspection and Disbursement.** The LPA makes a final inspection to confirm that the work was completed as per the contract. The borrower should also indicate in writing that he/she approves the final disbursement of funds on Form A10b Construction Completion. The LPA then issues the final payment of funds*.

* The final payment should not be made to the contractor until all necessary inspections by municipalities/code inspectors/ utility companies are completed and the LPA is provided with documentation indicating a successful ("passed") inspection.

Note: Interim inspections and draws may be completed at the discretion of the LPA, but are not required by the program. Work is to be completed within 90 days of the loan funding. Extensions may be requested by emailing or faxing the form provided by PHFA to renovateandrepair@phfa.org or 717.780.3872.

Final Payment to LPA: All Administrative fees due to the Lender, as well as reimbursement for underwriting costs, and LPA Inspection Fees will be sent when construction is complete and PHFA has received and accepted the After Photos, and the Construction Completion form. The final two-thirds of Loan Proceeds will be provided simultaneously with the final Administrative payment.

PHFA's disbursement tracking system cannot accommodate subsequent disbursements so staff will not approve loan modification requests, additional administrative payments or underwriting cost reimbursement requests after the third disbursement is made. LPAs are responsible for ensuring that their third disbursement request is correct. Any missing, incomplete or unacceptable documentation may delay these fund transfers to the LPAs.

- When borrowers are at or below 50% of the R&R income limits for their respective county, PHFA will reimburse the lender for actual costs incurred to originate the loan as evidenced on the HUD1 Settlement Statement. The costs for reimbursement include reasonable & customary charges for:
  a. Title/Lien Search
  b. Appraisal or PHFA-approved Valuation Determination
  c. Flood Determination
  d. Recording Fee

If the borrower is above 50% of the income limit they are responsible to pay items a-d, above. They may finance them in the loan amount or pay them out of pocket.

CHAPTER 6

MULTI-UNIT TO SINGLE FAMILY CONVERSION INITIATIVE

The Conversion Initiative allows homebuyers, homeowners or landlords to finance the cost of converting a multi-unit property consisting of any number of units back to a single-family residence, for which it was originally intended. Properties can be those that were initially built as a single family residence, but were converted into apartments or offices. It could also include mixed-use properties where the level(s) above a storefront are being converted back to a single-family home.

The Conversion initiative is run in conjunction with the PHFA Keystone Renovate and Repair Loan Program (R&R Program).

The Conversion program requirements are the same as those for the R&R program as outlined in the preceding chapters of this guide, with the following exceptions:

- The Conversion loan may be used alone or in combination with an R&R loan for home improvements and/or repairs. (Landlords may not utilize an R&R loan without a Conversion loan.)
- The Conversion loan must be in first, second, third lien position, unless an R & R loan is in 3rd position. In that circumstance the Conversion loan would be positioned behind the R & R and could be in fourth position.
- The R&R loan plus all other loans against the property can not exceed more than 120 percent of the home's value. When a conversion loan is added, the combined loan to value ratio (CLTV) can not exceed 140 percent. If the Conversion loan is used without an R&R loan, the CLTV limit remains at 120.
- The maximum amount that will be loaned for the conversion costs is $10,000.00 per rental unit not to exceed $25,000.00 per structure.
- The total debt to income ratio is 55 percent when a Conversion loan is combined with an R&R loan.
- An applicant landlord's household income may not exceed the limit for the R&R program, regardless of whether the family does or will reside in the residence to be converted.