

## *HOMEOWNERSHIP PROGRAMS*

# *SELLER'S GUIDE*



---

The Pennsylvania Housing Finance Agency (PHFA) was created by the General Assembly in 1972, to provide affordable housing for older adults, families and individuals of modest means and persons with disabilities. For ten years, this mission was carried out solely through rental housing programs. In 1982, the first Homeownership Program was created, through which PHFA provides capital for single-family, home purchase loans. The Homeowners' Emergency Mortgage Assistance Program (HEMAP) was created by Act 91 in 1983 as a foreclosure prevention program. Rental housing, homeownership, and foreclosure prevention remain as PHFA's core components.

Housing industry professionals are a key component of PHFA's homeownership programs. This group of experts includes housing counselors, real estate agents, builders, lenders, brokers, appraisers, title agents, housing authorities, and nonprofit organizations. PHFA's home loan products can help these professionals stretch their customers' dollars further and/or lower their monthly mortgage payment. Together, PHFA and its housing partners ensure that eligible buyers can afford to become and remain homeowners, and that they aren't overwhelmed by the process.

---

# PHFA Homeownership Programs Seller's Guide

## TABLE OF CONTENTS

<b>TABLE OF CONTENTS</b> .....	<b>2</b>
<b>CHAPTER 1 - PARTICIPANT RELATIONSHIP</b> .....	<b>8</b>
A. DEFINITION OF "PARTICIPANT" .....	8
1. <i>Participating Lender</i> .....	8
2. <i>Third Party Originator (TPO)</i> .....	9
B. MASTER ORIGATION AND SALE AGREEMENT .....	9
C. PARTICIPANT COMPENSATION AND ALLOWABLE FEES .....	9
1. <i>Origination Compensation</i> .....	9
2. <i>Servicing Release Premium</i> .....	10
3. <i>Allowable Fees</i> .....	10
D. PARTICIPANT'S BASIC DUTIES AND RESPONSIBILITIES .....	11
E. PARTICIPANT TRAINING.....	12
F. PARTICIPANT EVALUATION .....	12
1. <i>Lender Score Card</i> .....	12
a. Pre-Closing Eligibility .....	12
b. Loan Setup & Purchase.....	12
c. Post Purchase .....	12
d. Pre-Closing Performance Premium.....	13
G. CONTACT WITH PARTICIPANT .....	13
<b>CHAPTER 2 – LOCK POLICY AND PIPELINE MANAGEMENT</b> .....	<b>14</b>
A. LOCK POLICY .....	14
1. <i>New Lock Submission</i> .....	14
2. <i>Rate Publication and Lock Options</i> .....	14
3. <i>Revisions to an Active Lock</i> .....	15
a. Extension Policy .....	15
b. Relocks .....	15
c. Changes.....	15
d. Lock Cancellation.....	16
B. PIPELINE MANAGEMENT .....	16
1. <i>Training for Pipeline Plus</i> .....	17
a. Log In Screen .....	17
b. Forgot Password Link.....	17
c. Request an Account Link .....	17
d. Home Screen.....	17
e. My Account .....	17
f. User Accounts Admin .....	18
g. My Administrators.....	18
2. <i>Incomplete Locks</i> .....	18
3. <i>Loan Extensions</i> .....	19
a. Loans Available for Extensions .....	19
b. Loans with Extensions .....	19
4. <i>Loan Setup</i> .....	19
5. <i>Pipeline Loans (Loan Status)</i> .....	19
6. <i>Loan Details</i> .....	20
7. <i>Reports &amp; Notices</i> .....	20
<b>CHAPTER 3 - FIRST MORTGAGE PRODUCTS</b> .....	<b>22</b>
A. PHFA-SPECIFIC GUIDELINES APPLICABLE TO ALL PRODUCTS .....	22
1. <i>Credit Score Requirement</i> .....	22
2. <i>Total Debt to Income Maximum</i> .....	22
3. <i>Minimum Borrower Contribution</i> .....	22
4. <i>Homebuyer Education</i> .....	23
5. <i>Automated Underwriting Systems</i> .....	23

6. <i>Loan Terms</i> .....	24
7. <i>Loan Use</i> .....	24
8. <i>Mortgage Insurance</i> .....	24
a. <i>Conventional Loans</i> .....	25
b. <i>FHA Insured Loans</i> .....	25
i. <i>FHA 203(k) loans</i> .....	25
c. <i>RD Guaranteed Loans</i> .....	26
d. <i>VA Guaranteed Loans</i> .....	26
9. <i>Co-Signers</i> .....	26
10. <i>Non-Liable Co-Occupants</i> .....	27
11. <i>Subordinate loans</i> .....	27
a. <i>Combination Loans</i> .....	27
12. <i>Electronic Signatures</i> .....	28
<b>B. HFA PREFERRED™ PROGRAM</b> .....	28
1. <i>Overview</i> .....	28
2. <i>Eligibility Requirements</i> .....	28
a. <i>Loan Purpose and Terms</i> .....	28
b. <i>Borrower Eligibility</i> .....	30
i. <i>First Time Home Buyer</i> .....	30
ii. <i>Minimum Borrower Contribution</i> .....	30
iii. <i>Homebuyer Education</i> .....	30
iv. <i>Income Limit</i> .....	31
v. <i>Qualifying income</i> .....	31
3. <i>Property Eligibility</i> .....	31
4. <i>Lender Instructions and Procedures</i> .....	32
a. <i>Lender Compensation</i> .....	32
b. <i>Locking of Funds</i> .....	32
c. <i>Underwriting Procedures</i> .....	33
d. <i>DU Requirements</i> .....	33
e. <i>Manual Underwriting</i> .....	33
f. <i>Appraisal Submission/UCDP<sup>SM</sup></i> .....	33
g. <i>Private Mortgage Insurance</i> .....	34
h. <i>Closing Procedures</i> .....	34
i. <i>Submitting the Purchase Package</i> .....	34
5. <i>HomeStyle® Renovation Program</i> .....	36
<b>C. KEYSTONE GOVERNMENT LOAN PROGRAM</b> .....	39
1. <i>Eligibility Requirements</i> .....	39
a. <i>Borrower Eligibility</i> .....	39
b. <i>Property Eligibility</i> .....	40
2. <i>Lender Instructions and Procedures</i> .....	40
a. <i>Lender Compensation</i> .....	40
b. <i>Locking of Funds</i> .....	40
c. <i>Underwriting and Closing Procedures</i> .....	40
<b>D. KEYSTONE HOME LOAN PROGRAM (KHL)</b> .....	41
1. <i>Eligibility Requirements</i> .....	41
a. <i>First-time Homebuyer</i> .....	41
b. <i>Income Limit</i> .....	42
c. <i>Purchase Price Limit</i> .....	44
d. <i>Recapture Tax</i> .....	45
2. <i>No Refinances</i> .....	46
3. <i>Loan Assumptions</i> .....	46
<b>E. PURCHASE &amp; IMPROVEMENT PROGRAM</b> .....	47
1. <i>Mortgage Terms</i> .....	48
2. <i>Eligibility Requirements</i> .....	48
a. <i>Eligible Buyers</i> .....	48
b. <i>Eligible Properties</i> .....	48
c. <i>Eligible Repairs &amp; Improvements</i> .....	48
3. <i>Borrower Instructions</i> .....	49
4. <i>Lender Instructions and Procedures</i> .....	49
a. <i>Application/Origination</i> .....	49
b. <i>Underwriting/Processing</i> .....	49
c. <i>Closing the Loan and Selling it to PHFA</i> .....	50
d. <i>Escrow Administration</i> .....	50

e. Funds Disbursement.....	50
F. FHA/VA STREAMLINE REFINANCE PROGRAM .....	51
1. Overview.....	51
2. FHA Guidelines.....	51
3. VA Interest Rate Reduction Refinancing Loan (IRRRL) Guidelines .....	51
5. Subordinate Loans.....	52
6. Additional PHFA Requirements .....	52
7. Lender Instructions and Procedures .....	53
a. Lender Compensation .....	53
b. Locking of Funds.....	53
c. Underwriting Procedures .....	53
d. Closing Procedures .....	55
e. Submitting the Purchase Package .....	55
<b>CHAPTER 4 - ASSISTANCE PROGRAMS .....</b>	<b>55</b>
A. KEYSTONE ADVANTAGE ASSISTANCE LOAN PROGRAM .....	55
1. General Program Description.....	55
2. Loan Terms and Usage.....	55
3. Eligibility Requirements .....	56
a. Liquid Asset Limitation .....	56
b. Homebuyer Education.....	56
4. Lender Instructions and Procedures .....	56
a. Locking of Funds .....	56
b. Underwriting Procedures .....	56
c. Closing Procedures .....	57
d. Post-Closing.....	57
B. MORTGAGE CREDIT CERTIFICATE PROGRAM .....	59
1. Overview.....	59
2. Mortgage Requirements .....	60
3. Eligibility Requirements .....	60
a. First-time Homebuyer .....	60
b. Income Limit .....	61
c. Purchase Price Limit .....	61
4. Recapture Tax .....	61
5. Lender Instructions and Procedures .....	62
a. Locking Process.....	62
b. Underwriting and Processing.....	62
c. Closing .....	63
d. Additional Lender Responsibilities under the MCC Program.....	63
6. Reissuance of Mortgage Credit Certificates.....	63
C. HOMESTEAD .....	64
1. Availability of Funds .....	64
2. Eligible Lending Areas.....	64
3. Borrower Eligibility .....	65
a. Homebuyer Education.....	65
b. First-time Homebuyer.....	65
c. Income Limit.....	65
d. Program Affiliation.....	65
4. Loan Features & Guidelines .....	66
5. Property Guidelines .....	66
a. Lead-based Paint .....	66
b. Acquisition Cost .....	67
c. Existing Homes.....	67
d. Newly Constructed Homes .....	67
e. Tenant-Occupied.....	67
6. Calculation of Assistance .....	68
7. Funding Procedures.....	68
8. Loan Documents.....	69
D. ACCESS DOWNPAYMENT & CLOSING COST ASSISTANCE.....	69
E. EMPLOYER ASSISTED HOUSING (EAH) .....	69
1. Benefits to the Employee .....	70
2. Benefits to the Employer.....	70

3. Lender Instructions and Procedures .....	70
F. ADDITIONAL ASSISTANCE PROGRAMS .....	71
a. Affordable Housing Assistance Programs .....	71
b. Section 8 Homeownership Vouchers .....	71
<b>CHAPTER 5 – SPECIAL PROGRAMS FOR PERSONS WITH DISABILITIES.....</b>	<b>72</b>
A. ACCESS HOME MODIFICATION PROGRAM .....	72
1. Program Description .....	72
2. Eligibility Requirements .....	72
a. Eligible Applicants .....	72
b. Eligible Loans .....	73
c. Eligible Home Modifications .....	73
3. Lender Instructions and Procedures .....	73
a. Locking of Funds .....	73
b. Underwriting .....	73
c. Closing and Post-Closing/Final Docs .....	74
d. Escrow Administration .....	75
i. Lender-Held Escrow .....	75
ii. PHFA-Held Escrow .....	76
B. ACCESS DOWNPAYMENT & CLOSING COST ASSISTANCE .....	76
1. Eligible Applicants .....	76
2. Mortgage Amounts .....	77
3. Lender Instructions and Procedures .....	77
a. Locking/Approval .....	77
b. Closing .....	77
c. Post-Closing .....	78
<b>CHAPTER 6 – PRE CLOSING RESULTS .....</b>	<b>79</b>
A. ELIGIBLE RESULT .....	79
B. INELIGIBLE RESULT .....	79
C. DENIAL RESULT .....	79
<b>CHAPTER 7 – PHFA DELEGATED UNDERWRITING AUTHORITY .....</b>	<b>81</b>
<b>CHAPTER 8 - PROPERTY GUIDELINES.....</b>	<b>82</b>
A. APPLICABILITY .....	82
B. GENERAL PROPERTY STANDARDS .....	82
C. PHFA OVERLAYS .....	82
1. Appraisal Report .....	82
2. Appraiser Standards .....	83
3. Acreage .....	83
4. Address .....	84
5. Certifications .....	84
a. Wood-Destroying Insects .....	84
6. Condominiums .....	84
7. Escrows for Incomplete Weather-Related items .....	85
8. Investment Properties .....	85
9. Knob and Tube Wiring .....	85
10. Lease Purchase .....	86
11. Lot Equity .....	86
12. Manufactured Housing .....	86
13. Mineral Rights .....	88
14. Multiple Lots .....	88
15. New Construction .....	89
16. Private Roads .....	90
17. Private Sewage Disposal/Septic Systems .....	90
18. Private Water Supply/Wells .....	90
19. Two-Unit Dwellings .....	91
20. Unheated Living Spaces .....	91
21. Vacant Property .....	91

<b>CHAPTER 9 – LOAN CLOSING .....</b>	<b>92</b>
A. GENERAL INFORMATION .....	92
B. FEES .....	93
C. NO CASH BACK .....	93
D. UNIFORM CLOSING DATASET (UCD) .....	93
E. TITLE INSURANCE .....	93
F. MORTGAGE INSTRUMENT(S) AND ASSIGNMENT .....	93
1. <i>Mortgage Instrument</i> .....	94
2. <i>Mortgage Assignment</i> .....	94
3. <i>Subordinate Mortgage(s)</i> .....	94
4. <i>Certified Copies</i> .....	94
G. NOTE .....	94
1. <i>First Payment Date</i> .....	94
2. <i>Endorsement</i> .....	95
3. <i>Accuracy</i> .....	95
4. <i>Subordinate Loans</i> .....	95
H. CONSISTENCY OF BORROWER NAMES .....	95
I. CO-SIGNERS .....	95
J. NON-LIABLE CO-OCCUPANTS .....	96
K. POWER OF ATTORNEY .....	96
L. PHFA BORROWER FORMS .....	96
M. HOMEOWNER’S INSURANCE POLICY .....	96
N. MORTGAGE INSURANCE PREMIUMS .....	97
O. TAXES .....	97
1. <i>Tax and Insurance Escrow</i> .....	98
P. TRANSFER OF SERVICING .....	98
<b>CHAPTER 10 - SELLING THE LOAN TO PHFA.....</b>	<b>100</b>
A. PERFORMANCE STANDARDS .....	100
B. PRELIMINARY LOAN SET-UP .....	100
C. SUBMITTING THE PURCHASE PACKAGE .....	100
1. <i>Purchase Submission Deadline</i> .....	100
2. <i>Delivery</i> .....	101
3. <i>Purchase Submission Checklist</i> .....	101
a. <i>Execution of Legal Documents</i> .....	101
4. <i>Mortgage Modification Agreements</i> .....	101
5. <i>203K Escrow</i> .....	101
D. SERVICING PROCEDURES AND DOCUMENTS .....	101
1. <i>Tax Certification</i> .....	102
a. <i>Insurance Policies</i> .....	102
b. <i>Condominium Insurance and/or Mine Subsidence Insurance</i> .....	102
c. <i>Copy of MI Certificate</i> .....	103
d. <i>Reporting to IRS</i> .....	103
E. LOAN LEVEL NOTICES .....	103
1. <i>Post Purchase Escrow Conditions</i> .....	103
2. <i>Ineligible Purchase Submission</i> .....	103
3. <i>Post-Purchase Conditions</i> .....	103
F. SUMMARY REPORTS .....	104
1. <i>Expiration of Lock Report</i> .....	104
2. <i>Deficient Loan Tracking Report</i> .....	104
<b>CHAPTER 11 – FINAL DOCUMENT SUBMISSIONS .....</b>	<b>105</b>
A. PERFORMANCE STANDARDS .....	105
B. DELIVERY DEADLINE .....	105
1. <i>Delivery</i> .....	105
C. FINAL DOCUMENT FILE .....	106
1. <i>Mortgage</i> .....	106
2. <i>Recorded Subordinate Mortgage</i> .....	106
3. <i>Assignment</i> .....	106

4. <i>Mortgage Insurance/Guarantee Certificate</i> .....	106
5. <i>Mortgage Modification</i> .....	106
D. FINAL DOCUMENT CONDITIONS LETTER .....	106
E. SUMMARY REPORTS .....	107
1. <i>Deficient Loan Tracking Report</i> .....	107
2. <i>Loans Cleared for SRP Report</i> .....	107
<b>CHAPTER 12 – INSURANCE REQUIREMENTS .....</b>	<b>108</b>
A. MORTGAGE INSURANCE.....	108
B. FLOOD INSURANCE.....	108
1. <i>PUD Homeowner’s Associations</i> .....	110
2. <i>Condominiums</i> .....	110
a. <i>Building Coverage</i> .....	110
b. <i>Contents Coverage</i> .....	111
c. <i>Unit Coverage</i> .....	111
3. <i>Preferred Risk Policy</i> .....	111
4. <i>Flood Determination</i> .....	111
a. <i>Manual Rechecks for Properties Located Partially in SFHA</i> .....	111
b. <i>Manual Re-checks to Rule Out Discrepancies</i> .....	111
i. <i>Assistance from NFDA</i> .....	112
ii. <i>Assistance from FEMA</i> .....	112
C. HOMEOWNER’S INSURANCE .....	113
1. <i>Term</i> .....	113
2. <i>Fire and Extended Coverage</i> .....	113
3. <i>Other Hazards</i> .....	113
D. TITLE INSURANCE .....	114
1. <i>Schedule A</i> .....	115
2. <i>Schedule B</i> .....	116
3. <i>Endorsements</i> .....	117
<b>CHAPTER 13 - PROGRAMS FOR HOMEOWNERS.....</b>	<b>118</b>
A. HOMEOWNERS’ EMERGENCY MORTGAGE ASSISTANCE PROGRAM (HEMAP).....	118
B. PENNVEST .....	119
1. <i>Benefits to You</i> .....	119
2. <i>Your Continuing Responsibility</i> .....	120
3. <i>Eligibility</i> .....	120
4. <i>How to Apply</i> .....	120

## **CHAPTER 1 - PARTICIPANT RELATIONSHIP**

### ***A. DEFINITION OF “PARTICIPANT”***

The Pennsylvania Housing Finance Agency (“PHFA” or “Agency”) offers home loans with attractive interest rates and fees to eligible homebuyers. These home loans are originated, processed, and closed by a network of approved [participating lending institutions](#). The loans and servicing rights are then purchased by the Agency following settlement. PHFA loans may also be originated by approved third party originators (generally, mortgage brokers) who obtain sponsorship from a participating lender. A “Participant” is a lending institution which has been approved to participate in any of the Agency’s Homeownership Programs.

#### ***1. Participating Lender***

To be eligible as a participating lender, the company must be one of the following:

- A properly licensed and legally organized bank or savings and loan whose deposits are insured by the Federal Deposit Insurance Corporation (FDIC), or a credit union with deposits insured by the National Credit Union Administration (NCUA)
- A currently licensed Pennsylvania First Mortgage Banker

Lenders who wish to sell federally insured or guaranteed loans to PHFA must meet the following applicable standards:

- For FHA insured loans, the lender must be approved by HUD as a Title II Supervised or Non-Supervised Mortgagee and must have Direct Endorsement (DE) underwriting authority.
- For RD guaranteed loans, the lender must be approved by the United States Department of Agriculture (USDA) for underwriting and servicing Guaranteed Rural Housing loans in accordance with Section 1980.309 of FMHA Instruction 1980-D.
- For VA guaranteed loans, the lender must have Automatic Authority (aka Authority to Close Loans on an Automatic Basis) from the United States Veterans’ Administration (VA); this can be a Supervised Lender or a Non-Supervised Lender with Automatic Authority. The lender must also have Lender Appraisal Processing Program (LAPP) approval.

Lenders may apply to become a PHFA Participating Lender at any time. Further information, as well as the required documentation and agreements, is contained in the [application](#).

Upon approval of the application, the final step is to complete PHFA’s training program, which is conducted in person by PHFA staff at your site. For out of state organizations, PHFA may request reimbursement for travel expenses incurred as part of the training.



## **2. Third Party Originator (TPO)**

To become approved as a third party originator (broker) of PHFA loans, the company must be both:

A currently licensed Pennsylvania First Mortgage Broker or Loan Correspondent; and a current member in good standing of the [Pennsylvania Association of Mortgage Brokers](#).

If the company meets the criteria above, take the following steps to become an approved originator/broker:

1. Request and receive sponsorship from a current PHFA [participating lender](#).
2. Complete the [application](#) and submit it to PHFA, Homeownership Programs, 211 North Front Street, P.O. Box 8029, Harrisburg, Pennsylvania 17105-8029.
3. Execute the PHFA agreement, which is also executed by the lender. The agreement is supplied to the lender by PHFA upon confirmation of the sponsorship.
4. Complete an in-person PHFA training program. [Follow this link](#) to see if there are any sessions scheduled for your area. You may also call the Homeownership Programs Department at 717.780.3871 to inquire about upcoming training opportunities.

### **B. MASTER ORIGATION AND SALE AGREEMENT**

The [Master Origination and Sale Agreement](#) (MOSA or the Agreement) sets forth the requirements for maintaining status as an approved participant. The agreement also provides the terms and conditions of sales of mortgage loans to the Agency and incorporates, by reference, the terms of this Seller's Guide. Participating lenders perform origination and selling functions as an independent contractor and principal, not as an agent or representative of PHFA. From time to time, PHFA may request participating lenders to execute a revised and updated version of the MOSA as a condition of recertification and continued participating in the Agency's Homeownership Programs. Once executed by a participating lender and accepted by PHFA, the terms of any revised or updated MOSA shall supersede and control over any version of the MOSA previously executed by the participating lender.

### **C. PARTICIPANT COMPENSATION AND ALLOWABLE FEES**

#### **1. Origination Compensation**

The lender locks into the interest rate as well as the price that PHFA will pay for the loan. This price includes the origination and the servicing release premium (SRP). The maximum a lender may retain from the loan price is 103 percent of the loan amount. Additional compensation above 103 must be provided to the borrower in the form of a credit towards their closing costs and shown as such on the Loan Estimate and Closing Disclosure. This credit may not be used to fund any portion of the borrower's down payment. Borrowers may pay up to two bona fide discount points directly to the lender in exchange for a lower rate. Bona fide discount points shall meet the definition and requirements as set forth by the CFPB in Reg Z 1026.32 and 1026.43.

For HomeStyle® Renovation and FHA 203(k) loans, the prices shown on the rate sheet shall be reduced by 100 basis points.

If the borrower is receiving an Access Modification Loan, PHFA shall pay the lender an extra \$250.

## **2. Servicing Release Premium**

All loans are sold with servicing released to PHFA.

The lender locks into the interest rate as well as the price that PHFA will pay for the loan. This price includes the origination and the servicing release premium (SRP). The maximum a lender may retain from the loan price is 103 percent of the loan amount. Additional compensation above 103 must be provided to the borrower in the form of a credit towards their closing costs or utilized towards a refundable Single Lender Paid Mortgage Insurance Premium. Borrowers may pay up to two discount points directly to the lender in exchange for a lower rate.

The loan price includes the SRP, and .625% will be withheld at the time of purchase and paid when the file is cleared per the following schedule.

Regardless of when the loan was locked, the second portion of the SRP/loan price will be paid when all post-purchase conditions\* are cleared according to the schedule below.

- 0.625% if cleared within 30 days
- 0.50% if cleared within 60 days
- 0.375% if cleared within 90 days
- 0.25% if cleared within 120 days
- 0.125% if cleared within 150 days
- 0% if not cleared within 150 days

\* Post-purchase conditions include all items on the purchase and final document letters and all recorded documents. Conditions for escrow-related items do not reduce the 2<sup>nd</sup> SRP payment.

Please allow up to seven (7) business days for PHFA to review and clear the conditions. The calculation of the final SRP payment is based on the date we received the document(s) that cleared the file, not the date we reviewed them. The additional SRP will be made in weekly batches (calculated from the clear date) and sent via ACH. A Final SRP Payment Advice is posted on the Pipeline Plus under the Reports & Notices section.

## **3. Allowable Fees**

Participants may collect a \$1,000 Administrative Fee, on all loans with the exception of the FHA and VA Streamline Refinance programs where the Administrative Fee is \$600, to cover overhead expenses such as document preparation, underwriting and processing on loans locked on or after January 3, 2017. They may also collect reasonable and customary charges incurred such as for the credit report, appraisal, title search, recording fees, etc. No other overhead, financing or origination fees may be charged to the borrower or seller. Except for the cost to record the Mortgage and a reasonable Notary fee, no additional fees may be charged on a PHFA subordinate assistance loan since it is done in conjunction with the PHFA first mortgage in order to help the borrower qualify for the loan.

A \$93.00 tax service fee payable to CoreLogic must be charged on loans with application dates on or after July 1, 2016. It can be paid by the borrower or lender and must be reflected accurately on the Loan Estimate and Closing Disclosure. PHFA deducts this amount from the purchase proceeds and remits the funds to CoreLogic.

Compensation and fees may be changed or eliminated at the discretion of the Agency.

***D. PARTICIPANT'S BASIC DUTIES AND RESPONSIBILITIES***

Participants are responsible for:

- selling at least 12 loans to PHFA per calendar year to ensure familiarity with the programs and procedures
- ensuring compliance with all applicable state and federal laws and regulations
- ensuring compliance with the requirements set forth in this Seller's Guide and the Agreement
- having adequate staff both in terms of numbers and experience/knowledge, and facilities to originate and sell quality mortgage loans on a timely basis
- ensuring that staff is knowledgeable in all aspects of origination, processing, underwriting, closing and selling mortgage loans as it relates to their respective job duties
- having fully documented written procedures and quality control measures in place
- protecting PHFA against fraud, misrepresentation or negligence by any parties involved in the origination process
- communicating with each borrower all the requirements of the applicable home loan program(s), the status of the mortgage loan application and answering questions pertaining to PHFA's programs
- completing PHFA's annual [recertification](#) process within 120 days of the start of each new year.

The lender must send PHFA written notice of any major organizational changes contemplated, including:

- mergers, acquisitions, consolidations or reorganizations
- changes in ownership of over five percent (5%) by whatever means
- change in corporate name
- change in a savings and loan association's charter from Federal to State or vice versa
- change to a banking association
- change in the Participant's financial position (Copies of notifications to FNMA are acceptable.)

The lender must advise PHFA, in writing, of any changes to their primary business contact information including main mailing address, phone/fax numbers, email addresses and ACH account information within five (5) business days of the event.

## ***E. PARTICIPANT TRAINING***

All pertinent staff of new participating lenders must complete a PHFA training course which covers everything from PHFA loan origination to selling the loan. PHFA also offers a number of ongoing resources to lenders and other real estate professionals including regional, on-site, and [Web-based training](#) opportunities; e-mail and phone support; and, program brochures. The Web site is also a key resource for participating lenders by providing current interest rates, program guidelines, forms, updates, and other pertinent information. Additionally, PHFA is happy to provide participating lenders with PowerPoint presentations for marketing and internal training purposes.

## ***F. PARTICIPANT EVALUATION***

Participants must demonstrate a proven ability to originate mortgage loans for sale in the secondary market while maintaining quality control and management systems to evaluate and monitor the quality of loan production in order to comply with PHFA procedures. They must also maintain adequate staffing to originate and sell loans in a timely manner.

### ***1. Lender Score Card***

PHFA has implemented a Lender Score Card in order to assist in monitoring the quality of loans being submitted. The report is posted to the Reports & Notices section of PHFA Pipeline Plus each month and rates lenders on compliance, purchase and post purchase items over a six (6) month period. The goal is to achieve and maintain a score of 80 percent or higher in each area with no "Past Due" (p/d) or "Final" notices referenced in the comment section. An average six-month score under 70 percent in any category signifies a need for training and is mandatory for any lender with an average score under 60 percent in any category over the same timeframe. Training is available, upon request, to any lender regardless of score.

#### ***a. Pre-Closing Eligibility***

The First Time Approval measures the percent of loans submitted for compliance that were approved on the initial review by PHFA staff. This section applies to all lenders.

#### ***b. Loan Setup & Purchase***

The "% On Time Loan Setup" column provides the percentage of loans that were set up via PHFA Pipeline Plus within seven (7) calendar days from closing. The "% On Time Purchases" column measures performance in delivering complete loan packages to PHFA on time. The purchase submission packages are to be submitted to the Agency and purchased, prior to the lock expiration date. The "Pull Through %" column details a lender's locked loan pull-through, observed by lock expiration date, showing loans that were purchased as a percentage of total locked loans.

#### ***c. Post Purchase***

The Post Purchase figures represent the percentage of loans purchased over the past 12 months compared to the number of loans with outstanding exceptions. We also monitor to see that the FHA loans are insured within 60 days after closing. If any loans fall into this category, the number of loans will appear in the "# FHA Loans NOT Endorsed" column. The "# Past Due Notices" column references any loans that may have an outstanding past due notice.

#### *d. Pre-Closing Performance Premium*

At the close of each quarter, lenders with at least twelve loans purchased by PHFA in the previous twelve months may qualify for a Pre-Closing Performance premium during the next quarter, provided the combined average of the average quarterly Pre-Closing Eligibility percentage and the average quarterly Pull Through percentage is greater than or equal to 70%.

If the combined average of the Pre-Closing Eligibility and Pull Through Percentages is at least 70% in the most recently closed quarter, then any loan purchased in the following quarter which was approved on its initial pre-closing review may qualify for an incentive of up to \$75 in accordance with the table below:

<b>Combined Average Percentage</b>	<b>Pre-Closing Performance Premium</b>
100 – 90%	\$75
89 – 80%	\$50
79 – 70%	\$35

Any premium earned will be reflected on the Purchase Advice for any qualifying loan. The Pre-Closing Performance premium is separate from and in addition to the compensation for loans provided through a service release premium payment.

Please note: loans entered for purchase in PHFA's system at the end of a quarter will have the Pre-Closing Performance premium calculated based on the quarter in which the loan is entered into the system for purchase, not the date of the Purchase Advice or ACH payment.

#### **G. CONTACT WITH PARTICIPANT**

Each participant shall choose one staff person to serve as the primary contact for all matters related to their business relationship with PHFA. A secondary main contact may also be chosen if desired. The main contact is responsible to serve as the main liaison between the lending institution and PHFA. Each new lender will identify this person on the Lender Information Sheet, which is provided by PHFA when the lender is initially approved to participate in PHFA's Homeownership Programs. The lender may also identify key contacts for the various departments within their organization—sales/originations, processing/underwriting, closing and escrow. The lender will also choose an Administrator for the PHFA Pipeline PLUS, the online secure lender portal used to lock in loans and track them through the pipeline. See [Chapter 2](#) for details.

## **CHAPTER 2 – LOCK POLICY AND PIPELINE MANAGEMENT**

### **A. LOCK POLICY**

#### **1. New Lock Submission**

Lenders can lock each loan with PHFA once it is determined that the borrower is eligible for the respective program and the property address has been determined. All loans must be locked prior to submitting to PHFA for approval. The lock confirmation will be valid for the term of the lock-in and counted in consecutive calendar days, including weekends and holidays.

The lock-in will establish the rate, price, lock period, and terms of the loan, subject to the terms and conditions of the Master Origination and Sale Agreement and Seller's Guide. Please note that the price shown on the rate sheet and in Pipeline Plus does not include any applicable pricing adjustments such as for FICO or the 203(k) program.

Having executed a best effort rate lock, the lender commits to using its best effort to deliver the loan regardless of market conditions.

All new locks must be made through the PHFA secure lender website, *PHFA Pipeline Plus*.

#### **2. Rate Publication and Lock Options**

Rates and prices will be available each business day on the Pipeline Plus at approximately 10:00 AM. New locks will be accepted once daily rates are established, and up until midnight each day. New locks will not be accepted over the weekend or on holidays. The PHFA holiday schedule is also posted on the PHFA Pipeline Plus website.

Rates are subject to change at any time, at the discretion of the Agency. Once rates are published each day, and in the event of an intraday rate change, an email notification will be distributed to all participating lender staff that have a Pipeline Plus user account.

Lock-in terms may vary by product. See PHFA's daily rate sheets for available options.

A complete loan package eligible for purchase by the Agency must be received by the lock expiration date. A daily late fee of two basis points will begin to accrue on files that cannot be purchased within seven calendar days from the expiration date. Please note the Agency requires four business days to process loans for funding. Loans that cannot be purchased by PHFA within 30 days of the rate expiration date will be subject to a worse case re-price. For additional delivery information, refer to [Chapter 10](#) of the Seller's Guide.

### 3. Revisions to an Active Lock

#### a. Extension Policy

A request to extend the lock period of an active lock, which has not yet closed, must be received by PHFA on or before the lock expiration date. Extension fees are as follows and are subject to change at any time:

<b>Calendar Days</b>	<b>Cost (% of loan amount)</b>
3	No cost (limited to once per loan)
7	0.125
15	0.250
30	0.375

A maximum of 33 days worth of extensions are allowable. Extension requests must be submitted via PHFA Pipeline Plus. The lock will be extended upon request and the appropriate fee will be deducted from the loan purchase funds. A fee will only be charged if the loan is closed and purchased. See [Loan Extensions](#) under Pipeline Management in this chapter for more information.

#### b. Relocks

For all relock requests, email [secondary@phfa.org](mailto:secondary@phfa.org). The Secondary Unit will advise whether a new lock must be submitted as well as the terms that will apply. Relock requests made up to 59 days after lock expiration will be subject to a worse-case relock and a relock fee of 37.5 bps. If lenders have a lock that was previously canceled prior to the expiration date and needs to relock the same loan before the initial lock would have expired, the loan will be subject to a worse-case relock and a relock fee. Relock requests made 60 days or more after the lock expiration will be subject to current market rates. A worse-case relock under the same program while the lock is currently active is not permitted.

Lenders have one business day from the time of the initial request to submit all required information. Requests that remain incomplete after the initial request will be subject to worse case from the initial lock, the initial change request, and when necessary information was received.

#### c. Changes

For all change requests, the lender should complete the Lock Desk Change Request Form ([Form 6](#)) and submitted it to [secondary@phfa.org](mailto:secondary@phfa.org) to be processed. Lenders have one business day from the time of the initial request to submit all required information. Requests that remain incomplete after the initial request will be subject to worse case from the initial lock, the initial change request, and when necessary information was received.

In the event of a change of products or loan types (e.g., Keystone Home Loan to Keystone Government Loan), the original lock will be revised subject to worse case pricing based on the original lock date, and the current lock expiration period will continue to be active. However, if the borrower is switching from one of those programs to the Keystone Home Loan program, the borrower will receive the KHL rate that was in effect at the time of the initial lock or the current KHL rate, whichever is higher. In all scenarios, the lock expiration date will be based on the initial lock date.

In the event of a change within a program (e.g., Keystone Government to Keystone Government Advantage), the rate quote will be based on the day of the original lock, and the current lock expiration period will continue to be active.

In the event the borrower changes lenders before their original lock would have expired, the loan will be subject to a worse-case relock and a relock fee of 37.5 bps (even if the original lock was canceled by the first lender).

The Agency's rate guarantee is made on the basis of a loan application and specific property. If a change of property occurs, the lender must submit a cancellation request prior to submitting a new lock registration. The subsequent application would be treated as a new loan for application and rate lock purposes. Therefore, it would be subject to current market rates and applicable new lock periods.

#### *d. Lock Cancellation*

Lenders are required to deliver a cancellation notice to the Agency as soon as it is determined that the borrower will not qualify for the program or has withdrawn their application for consideration. The lender should notify the Agency of cancellation immediately after making such determination or having knowledge of such circumstances by requesting the lock cancellation online via the PHFA Pipeline Plus system. In order to take advantage of this feature, administrators for each participating lender must add the "Loan Cancellation Requests" menu option for each user that will be submitting cancellations.

On loans not yet closed, the Agency will automatically cancel the lock on the day immediately following the expiration date if an extension request has not been submitted by the lender. Lenders should use extreme caution when monitoring their rate expiration pipeline, as a closed loan with an expired lock will incur fees and ultimately may not be purchasable. Keep in mind this also applies to files that have been submitted to PHFA for purchase but are ineligible for purchase. Furthermore, it is important that the loan setup be completed via PHFA Pipeline Plus *prior* to the lock expiration date. At the point when the lock has expired the link to submit the purchase package or complete the loan setup will no longer display in the system. If you are unable to complete the loan setup due to an expired lock, contact [Secondary@phfa.org](mailto:Secondary@phfa.org) to reactivate the lock. The loan setup must be completed immediately to avoid further cancellations. See [Chapter 10](#) for more information.

## **B. PIPELINE MANAGEMENT**

The PHFA Pipeline Plus, located at [lenders.phfa.org](http://lenders.phfa.org), is used to lock in loans with PHFA and then monitor them from the time of lock through the post-closing process. The lender chooses an employee to serve as the administrator of the online system. If desired, additional administrators can be created. The administrator can then set up various staff members or approved third-party originators with their own account for the various different options that Pipeline Plus has to offer. Lenders are encouraged to review their list of online users and to update it at least annually, or immediately in the case of a new hire or a terminated employee.



## **1. Training for Pipeline Plus**

Upon being approved as a participating lender, PHFA will contact the lender to schedule training for Pipeline Plus. Since most of the communications between PHFA and the lender are done through this website, training is required prior to submitting your first lock. If you have been previously trained on the old website but would like to be trained on the new Pipeline Plus, please contact the Agency at 717.780.3871.

Once an account is created by the administrator, the user can log into PHFA Pipeline Plus.

### *a. Log In Screen*

The log in for PHFA Pipeline Plus is the user's e-mail address and the password that was established by the administrator.

### *b. Forgot Password Link*

If you have forgotten your password for Pipeline Plus, click the Forgot Password link on the log in page. You will be prompted to enter the e-mail address for your account and the security phrase shown. An e-mail will be sent to you with a temporary password. You will be prompted to change your password when you log in.

If your account has been suspended, you must contact your administrator or the Agency at 717.780.3871.

### *c. Request an Account Link*

If you do not currently have an account for Pipeline Plus, you can request one by clicking the Request an Account link. You will be required to select the name of your lending institution and enter some basic information. An e-mail will then be sent to your lender's administrator(s) requesting them to create your account.

### *d. Home Screen*

The Home Screen is the first screen you will come to upon logging in to PHFA Pipeline Plus. It will include informative messages as well as the Lock Desk hours. Clicking the PHFA logo, while on any screen in Pipeline Plus, will return you to the Home Screen. The drop down box in the upper right corner of the screen is how you will navigate to the options you were assigned. The question mark button, or help button, will provide you with Frequently Asked Questions for the section of Pipeline Plus that you are currently on.

### *e. My Account*

This section is where you can change your password and modify your contact information. It will show what options you have been assigned as well as which reports and notices you have elected to receive. Administrators can use the option to modify their own account as well.

Users can also manage their email subscription choices by selecting or deselecting the following available options:

- PHFA News-Newsletters
- Program Updates-Program changes, Quarterly Updates
- Rates-Daily pricing information
- Training Opportunities-Webinar and/or In-Class announcements

#### *f. User Accounts Admin*

This is where administrators will create and maintain all of the user accounts for the lending institution. Accounts can be edited or deleted. Deleted accounts can be restored; however all of the previously assigned options will be removed upon restoration of the account and will need to be reassigned accordingly.

This is also the area where administrators will establish who should view which reports and/or loan-level notices. See [Reports & Notices](#) for more information.

NOTE: The set-up of general accounts used and checked by multiple users is not permitted. Every user must be set up with their own unique e-mail address. For security purposes, no one should be logging in using another user's profile.

#### *g. My Administrators*

The My Administrators option will automatically be given to every user. This page identifies the administrator(s) for your organization. Administrators have the ability to add, modify and delete user accounts, as well as reactivate suspended accounts. They also now have the ability to assign individual reports to each user. This was previously a function that had to be done by the Agency.

## **2. Incomplete Locks**

There may be instances, while locking in funds via the Internet, where the lender is unable to complete the input of the lock. As long as the first screen has been completed, the information will be saved under the "Incomplete Locks" button for 30 days. Incomplete locks may only be completed by the user who started it.

In the Incomplete Locks section, lenders can view which loans are incomplete and will be given an option to restart, resume or delete the lock.

Please be sure to check the incomplete locks periodically, as the interest rate is not locked in until the lock is fully completed.

### **3. Loan Extensions**

Rate lock extension requests are submitted online via Pipeline Plus. The fee is netted from the loan purchase funds. The option also displays a cumulative history of extensions. The administrator for each lending institution provides authority to staff who need access to the “Loan Extension” menu option.

See [Extension Policy](#) for more information.

#### **a. Loans Available for Extensions**

This section displays all active loans that have not yet been set up as closed in PHFA’s system. After selecting a loan to extend, the requested number of days must be chosen. The requested fee will populate and show the revised expiration date based on the selected number of days. There is also a comment section for any special notes that you may want to make. The request will be submitted to PHFA for processing when the “Save” button is clicked.

#### **b. Loans with Extensions**

This section displays all of the loans that have been extended along with the total number of extensions on each loan. The “History” button displays a summary of the extension along with the total number of days the loan has been extended and the total fee that will be netted from the loan purchase funds. There are three statuses: Submitted (not yet processed by PHFA), Eligible and Denied. The “Details” button provides the details of each extension request, including any requestor/approval comments.

### **4. Loan Setup**

The “Loan Setup” button is how lenders electronically submit the information after closing so that the loan may be set up on PHFA’s servicing system.

See [PRELIMINARY LOAN SET-UP](#) in [CHAPTER 10](#).

### **5. Pipeline Loans (Loan Status)**

The “Pipeline Loans” button allows lender employees the ability to follow their PHFA loans without having the ability to lock the loan. This screen gives a view-only snapshot of the current status of any PHFA loan for that lender and should be given to any employee needing to check the loan status.

We strongly encourage lenders to use Pipeline Plus to look up loan status. The system is available 24/7 and enables lenders to track the progress of their loans *at any stage* of the pipeline.

The categories for Pipeline Loans are as follows: *Not Yet Locked, Locked Only, Received Not Reviewed by PHFA, Ineligible, Eligible Not Closed or Purchased, Eligible and Closed not Purchased, Purchased with Outstanding Conditions, Waiting for Recorded Documents, Cleared for 2<sup>nd</sup> SRP Payment, Sold to PHFA and All Conditions Cleared, and Cancelled/Denied.*

## **6. Loan Details**

Lenders can select any loan under one of the categories to get the details of that particular loan. If the status of a particular loan is not known, a Social Security search option is available. Hyperlinks to loan-level reports are also available in the detail section. Users must have the proper authority to view the reports.

## **7. Reports & Notices**

The Reports and Notices option must be given to anyone that should receive summary reports and/or loan-level notices. Once the option is given, the administrator can then give the user access to any of the reports listed on the screen.

When retrieving a report, the user would select the Reports and Notices option. They will then have to select the type of report they are looking for from the drop down list provided. The user will only see a list of reports that they have been assigned to receive. A 12-month history for all instances of that report will be available to view as a PDF document.

NOTE: The reports and notices available through Pipeline Plus are a snapshot of the loan taken at the time the notice was generated. For the most up to date information on any loan, refer to the Pipeline Loans section.

The reports currently available are listed below:

- Lock Confirmation

- Amended Lock Confirmation
- Cancellation of Lock(s) Report
- Expiration of Lock(s) Report
- Pre-Closing Package Review Results-Eligible
- Pre-Closing Package Review Results -Ineligible
- Pre-Closing Package Review Results-Denied
- Pre-Closing Package Review Report – Comments
- Pre-Closing Package Review Report - Evaluation
- Notification of Loan Purchase (Purchase Advice)
- Ineligible Purchase Package Review Results
- Post Purchase – Escrow Conditions
- Final Document Conditions
- Deficient Loan Tracking Report
- Final SRP Payment Advice
- Pull Through Report
- Lender Score Card
- MCC (Mortgage Credit Certificate – Annual Report)
- Subordinate Payment Advice

## **CHAPTER 3 - FIRST MORTGAGE PRODUCTS**

### **A. PHFA-SPECIFIC GUIDELINES APPLICABLE TO ALL PRODUCTS**

Loans must comply with the respective program-specific eligibility criteria set forth in Chapters 3, [4](#) and [5](#), as well as all applicable federal guidelines depending on the loan type and program (FHA, VA, RD, Fannie).

In situations where the borrower had a prior PHFA loan (including the HEMAP program) on which they defaulted, PHFA may request additional documentation and/or deny their current application for another loan, even though the borrower may otherwise meet the program guidelines. Lenders are encouraged to submit such cases for a [preliminary determination](#) so it can be addressed early in the process.

See [Chapter 8](#) and [Appendix I](#) for PHFA property standards.

#### **1. Credit Score Requirement**

All borrowers on the file must have a middle credit score of at least 620, regardless of the AUS finding. Where a borrower has two scores, the lowest one is used. If there are three scores, but two are identical, the identical score would be used. For example, if the scores are 648, 648, and 619, the score used for qualifying purposes would be 648. Borrowers on government insured/guaranteed loans with no credit score may still be eligible with sufficient documentation of nontraditional credit per the applicable insurer/guarantor guidelines, as long as their total DTI does not exceed 43 percent.

#### **2. Total Debt to Income Maximum**

The total debt to income ratio (AKA back end ratio) may not exceed 45 percent for the Keystone Home Loan- government loan types and the Keystone Government (K-Gov) programs. The total debt to income ratio may not exceed 50 percent for the HFA Preferred™ and the Keystone Home Loan- Conventional programs.

#### **3. Minimum Borrower Contribution**

Borrowers obtaining an FHA-insured loan or a conventional loan with an LTV greater than 80 percent must contribute the lesser of \$1,000 or 1 percent of the loan amount, from their own verified funds. Gifts and assistance programs may *not* be counted toward the minimum contribution requirement regardless of the loan type/program. This is not applicable to refinance programs.

#### **4. Homebuyer Education**

All borrowers with a middle credit score below 680 (regardless of the first mortgage program) must attend an in-person [Homebuyer Education](#) workshop or counseling session with a [PHFA approved counseling agency](#) prior to closing. PHFA pays the counseling agency for this service; there is no charge to the borrower except for the credit report. If both borrowers have credit scores below 680, they both must attend counseling. The HFA Preferred product has different counseling requirements—see [Chapter 3](#) for details.

A Certificate of Completion for the borrowers should be included in the Pre-Closing package to PHFA. If it is missing, it will appear as a purchase condition. The certificate must list a completion date of no longer than one year from the date of application.

Under the HFA Preferred product, the lender should complete and the borrowers should sign the Pre-Closing Counseling Referral ([Form 63](#)) and take it with them when they complete the counseling. The HFA Preferred program also require at least one borrower to complete a homebuyer education program, although it may be completed online if in person counseling is not required due to the credit score; see the section in this chapter on those programs for further details.

Borrowers obtaining the Keystone Advantage Assistance Loan paired with any PHFA first mortgage loan must complete homebuyer education. The Keystone Advantage Assistance Loan also requires all borrowers with a middle credit score below 680 to attend an in-person homebuyer workshop or counseling session with a [PHFA approved counseling agency](#) prior to closing.

Any borrower with a credit score of 680 or higher may still participate in PHFA's homebuyer education program free of charge. This is highly recommended for any first time buyer, regardless of their credit score.

#### **5. Automated Underwriting Systems**

The Agency allows the use of, but does not require unless otherwise noted by a specific mortgage program in this chapter, the following automated underwriting systems: Fannie Mae's Desktop Underwriter (DU); Freddie Mac's Loan Prospector (LP); and Rural Development's Guaranteed Underwriting System (GUS). The lender is responsible for entering complete and accurate information into the system and for submitting the correct findings report to the Agency in the pre-closing package.

If the Findings Report generates a result of "Approve/Eligible" or "Accept" AND the ratios do not exceed 40/45 for FHA, VA and RD loan types, PHFA will accept the findings as they relate to the credit underwriting review of the file and the lender need not perform a manual review of the credit (although the lender is responsible for ensuring the data is verified, accurate, and meets the requirements that apply as a result of the loan type and program; i.e. FHA, VA, RD, Fannie).

The lender is responsible to ensure that the Purchase Submission package contains the documentation needed to satisfy the findings report.

However, please note that the following documentation is still required regardless of the finding:

- Complete income verification and documentation;
- A standard, full interior and exterior appraisal (1004);
- Compliance with any applicable program-specific guidelines and documentation as outlined in this chapter, as well as Chapters [4](#) and [5](#);
- Compliance with any applicable federal guidelines depending on the loan type (FHA, VA, RD);

If the Finding is a Refer or Caution (or similar risk classification), the lender must perform a manual underwriting review of the file, and the loan must meet the applicable underwriting guidelines per the loan type (i.e., FHA, VA, RD).

If a manual review is required or is chosen by the lender, the loan must meet the applicable program guidelines depending on the program and insurance/guaranty.

## **6. Loan Terms**

Each mortgage loan must be for a term of thirty (30) years, at the fixed interest rate specified on the Pre-Closing Package Review Results-Eligible Notification with level monthly payment provisions. The thirty-year term is both a minimum and maximum term. The loans may be prepaid in whole or in part at any time without penalty.

## **7. Loan Use**

All borrowers must occupy the mortgaged property as a principal residence within 60 days after closing the mortgage loan. The borrower is not permitted to rent any portion of the property subsequent to closing, except that the borrower may rent the property back to the previous owner for up to, but no more than, 60 days following closing (with the exception of two units where the borrower resides in one unit and rents the other one).

The property must be maintained as the principal residence of the borrower during the outstanding term of the mortgage loan (unless the loan is assumed by a PHFA approved mortgagor).

PHFA will not purchase loans for residences which are primarily intended to be used as an investment property, as a recreational home or in a trade or business. Any use of a residence in trade or business which qualifies under Section 280A of the Internal Revenue Code of 1986 for a deduction allowable for certain expenses incurred in connection with the business use of a home shall not disqualify a residence from meeting the Principal Residence Requirement unless more than 15 percent of the total area of the residence is reasonably expected to be used.

No part of the proceeds of the mortgage loan can be used to finance anything other than the residence. Any land appurtenant to the residence which is not necessary to maintain the basic livability of the residence, or items of personal property such as appliances (with the exception of the stove, refrigerator, and any built-in appliances), furniture and the like which under Pennsylvania law are not fixtures, may not be financed with the proceeds of the mortgage loan.

## **8. Mortgage Insurance**



Loans with an LTV above 80 percent must carry mortgage insurance.

*a. Conventional Loans*

Conventional loans are eligible for sale to PHFA under the Keystone Home Loan Program (maximum 97 percent LTV), as well as the HFA Preferred™ loan program.

*b. FHA Insured Loans*

FHA insured loans are eligible for sale to PHFA under the Keystone Home Loan Program and Keystone Government Loan Program. Loans must adhere to all applicable FHA underwriting guidelines (see [www.fha.gov](http://www.fha.gov)), as well as applicable PHFA-specific guidelines contained in this chapter.

The lender must be approved by HUD as a Title II Supervised or Non-Supervised Mortgagee and must have Direct Endorsement (DE) underwriting authority.

Non-occupant co-borrowers are not permitted on FHA insured loans under PHFA's Keystone Home Loan or HOMEstead programs. They are permitted with certain conditions under the [Keystone Government Program](#).

The Agency will purchase both one and two unit properties (duplexes) under the FHA 203(b) loan program. The Agency will also allow 223(e) and 203(k) loans. These loans must be reviewed and approved by the lender's Direct Endorsement Underwriter as eligible loans for FHA Insurance.

*i. FHA 203(k) loans*

In addition to meeting all FHA guidelines for 203K loans, the following PHFA requirements also apply:

- Owner occupied properties only (no investor loans).
- Properties must be at least 20 years old.
- The total acquisition cost of the property equals the purchase price of the home plus all improvement costs. The total acquisition cost cannot exceed PHFA's Purchase Price Limit if applicable to the mortgage program.
- Improvements must be completed within 180 days of closing. Borrowers must occupy the home within 60 days of the completion of the improvement.
- The Agency will purchase the loan prior to the improvement being completed, as long as the home is habitable.
- PHFA will hold the escrow funds, but the lender is responsible for ensuring all work is completed per FHA guidelines and must request draws from PHFA when applicable using the correct form. See Chapter 10 for further information on funding procedures related to the 203(k) escrow account.
- Unused escrow funds are not to be returned to the borrowers, but are to be applied to the principal loan balance. (Note; should this occur, PHFA will not permit modification of the monthly principal and interest payment.)

### c. RD Guaranteed Loans

Rural Development (RD) guaranteed loans are eligible for sale to PHFA under the Keystone Home Loan Program and Keystone Government Loan Program. RD guaranteed loans must also comply with all applicable RD underwriting guidelines (see <http://www.rd.usda.gov/pa>), as well as applicable PHFA-specific guidelines contained in this chapter.

For RD guaranteed loans, the lender must be approved by the United States Department of Agriculture (USDA) for underwriting and servicing Guaranteed Rural Housing loans in accordance with Section 1980.309 of FMHA Instruction 1980-D.

### d. VA Guaranteed Loans

VA guaranteed loans are eligible for sale to PHFA under the Keystone Home Loan Program and Keystone Government Loan Program. Loans must also comply with all applicable VA underwriting guidelines (see [www.va.gov](http://www.va.gov)), as well as applicable PHFA-specific guidelines contained in this chapter.

The lender must have Automatic Authority (aka Authority to Close Loans on an Automatic Basis) from the United States Veterans' Administration (VA); this can be a Supervised Lender or a Non-Supervised Lender with Automatic Authority. The lender must also have Lender Appraisal Processing Program (LAPP) approval.

## 9. Co-Signers

Co-signers may be used as a compensating factor to offset high underwriting ratios provided that the conditions below are met. A co-signer may not be used to compensate for a borrower's derogatory credit. In addition to the below parameters, the applicable insurer/guarantor guidelines must be followed.

- The co-signer must be a relative (specifically brother, sister, child, parent, grandparent, aunt or uncle, cousin, or legal guardian) OR the borrower's spouse/significant other who will also reside in the home;
- The co-signer is acting in the capacity solely for the purpose of providing additional security for the mortgage loan;
- The co-signer has no other financial interest in the residence;
- The co-signer will execute the mortgage note and the Co-Signer's Certification ([Form 21](#)). *The co-signer is NOT to execute the deed or mortgage.*
- If the co-signer will live in the property being purchased, her/his income and assets must be included for any applicable program-specific income limit and they must also meet the first-time homebuyer requirement, if applicable to the program.
- On Conventional loans, the borrower's underwriting ratios cannot exceed 35/43 percent. With the co-signers income and debts included, the underwriting ratios should not exceed 33/38 percent.
- On FHA loans, in order to qualify for a co-signer, a borrower's underwriting ratios should fall close to the 31/43 percent FHA ratios without the co-signer's income and debts included. The acceptability of a co-signer is determined by subtracting the total of all of the co-signer's monthly debt payments and monthly housing expenses from the co-signer's gross monthly

income to arrive at a residual income which should be sufficient to permit the co-signer to make the monthly mortgage payments in the event of a temporary or prolonged adversity.

- Co-Signers are not permitted on VA and RD loans.
- A co-signer is considered as a compensating factor only.

## **10. Non-Liable Co-Occupants**

If the borrower's spouse or other adult occupant will be listed on the deed, he or she must also be listed on the mortgage, the assignment, the title policy, but **not** on the Note. The co-occupant's income would need to be included for any applicable program-specific income limit but may not be used as qualifying income. Also, a credit report need not be run for the co-occupant. Please be sure to provide a processor's certification in the underwriting package with the name and social security number of the non-liable co-occupant. It must also be listed on [Form 58](#) which is submitted with purchase package.

## **11. Subordinate loans**

See [ADDITIONAL ASSISTANCE PROGRAMS](#) in [CHAPTER 4](#) and 'Combination Loans' in this chapter.

### **a. Combination Loans**

Combination structured loans are acceptable under the Keystone Home Loan Program only, as long as they meet the conditions set forth herein. The Agency will purchase the first mortgage only per the normal policies and procedures. The second mortgage may be funded by the participating lender or another mortgage lending institution. Acceptable combination structures are those utilizing the combination of 80/10/10 or 80/15/5, where the first mortgage is 80 percent of the purchase price or appraised value, whichever is less, the second mortgage is 10 or 15 percent of the same, and the borrower is funding the ten or five percent downpayment.

The second mortgage must be a fully amortizing fixed rate loan for a minimum of 10 years and a maximum of 30 years with no pre-payment penalty and no balloon payment. We will not accept seconds that are amortized for one term but balloon in a shorter term. The interest rate cannot be greater than three percent (3%) above the Agency's first mortgage rate. The monthly payment must be included in the housing expense ratio (PITI). Loans under this program must be underwritten using an approved automated underwriting system and receive an Approve/Eligible or Accept rating. If an automated underwriting system is not utilized, all borrowers on the loan must have a middle FICO score of at least 660.

When submitting the Pre-Closing Package, provide a copy of the commitment letter for the second mortgage to verify that the terms of the combination loan meet the above guidelines. Place this documentation in the "verification of funds" section of the loan file as indicated on [Form 51](#), the Pre-Closing Package Checklist. The PHFA Pre-Closing Package Review Results-Eligible Notification will include a condition requesting a copy of the executed Note meeting our guidelines and proof that the payment used to underwrite the loan remained the same. To satisfy this condition; attach a copy of the executed Note to the PHFA Pre-Closing Package Review Results- Eligible Notification, per number two of [Form 58](#), the Purchase Submission Checklist. The CLOSING DISCLOSURE must also reflect that the funds from the second mortgage were received.

## **12. Electronic Signatures**

Electronic signatures are permitted on all documents for conventional loans per Fannie Mae guidelines. For government insured/guaranteed loans, electronic signatures are permitted on all documents as per the applicable agency guidelines (FHA, VA or RHS) EXCEPT for the Note and Mortgage because Ginnie Mae does not allow electronic signatures on those documents.

### **B. HFA PREFERRED™ PROGRAM**

#### **1. Overview**

The HFA Preferred™ program is a conventional loan product offered by the Pennsylvania Housing Finance Agency. This program provide funding for eligible homebuyers to purchase or refinance a home up to 97 percent (97%) of the purchase price or appraised value, whichever is less, with a maximum combined loan to value (CLTV) of 105 percent (105%). The product offer a fully amortized HomeReady® with a 30 year fixed rate term. Loans must meet HomeReady® program guidelines as specified in the most current version of the Fannie Mae Selling Guide at [www.fanniemae.com](http://www.fanniemae.com), except as stated otherwise in this chapter of the PHFA Sellers' Guide.

Under the HFA Preferred, loans with LTV ratios above 80 percent (80%) require Private Mortgage Insurance from a Fannie Mae approved Mortgage Insurer. Loans with LTV ratios at or below 80 percent (80%) are eligible for the HFA Preferred program.

The HFA Preferred™ program is also available to eligible borrowers in conjunction with the Keystone Advantage Assistance Loan and Mortgage Credit Certificate programs (see [Chapter 4](#)) and/or the Access Modification program with or without the Access Downpayment and Closing Cost Assistance program (see [Chapter 5](#)). When the Access Modification program is utilized, the amount of the modifications should be entered in DU on line e (Estimated Prepaid Items) and then the same amount would be listed on line j (Subordinate Financing). PHFA-funded assistance is not permissible if PHFA is also the property seller.

In addition to the Agency's programs, borrowers may also utilize Fannie Mae approved Community Seconds®. The first mortgage plus any additional subordinate assistance loans must not exceed the 105 percent (105%) CLTV limit.

#### **2. Eligibility Requirements**

##### **a. Loan Purpose and Terms**

The loan may be used for a new loan on a property the borrower is seeking to purchase as a primary residence.

The loan amount may not exceed the current Fannie Mae standard loan limits. High cost areas do not apply.

All borrowers must be purchasing the home as a primary residence (or refinancing a loan on their primary residence).

## LTV/CLTV

- Borrowers may finance up to 97 percent (95 percent for manufactured homes and loans manually underwritten) of the purchase price or appraised value, whichever is less. The maximum CLTV is 105 percent with an eligible Community Seconds<sup>®</sup> assistance loan as evidenced by the completion of the Fannie Mae [Community Seconds checklist](#) that must be submitted in the file (along with PHFA's [Affordable Housing Assistance Program checklist](#))..
- Loans with LTV ratios at or *below* 80 percent (80%) are eligible for the HFA Preferred program.

Limited cash out refinancing is available under the following terms:

- Cash back is limited to no more than \$2,000 or two percent (2%) of the balance of the new loan, whichever is less.
- Homebuyer education is not required on refinance transactions.
- Only the first mortgage and any subordinate liens used to purchase the property may be paid off and included in the new mortgage, if there is sufficient equity to do so.
- Any subordinate financing not paid off may only be re-subordinated if it meets the Community Seconds criteria and factored into the comprehensive risk assessment based on the CLTV, HCLTV, and DTI ratios. If it does not meet the Community Seconds criteria, the borrower is not eligible for a refinance under this program.
- For loans currently serviced by PHFA:

- The amount needed to pay off the borrower's existing PHFA loan will be reduced by the balance in the borrower's existing escrow account. The payoff statement used must come directly from PHFA staff, as the one available to the borrower on the web will not show the reduction. The calculation of the new loan amount would still be done normally per the applicable program guidelines.

The lender will perform the standard escrow analysis to ensure sufficient funds are collected to pay for any taxes and insurance due within the next 12 months, and will also provide the initial escrow account disclosure statement.

- If the borrower's existing loan is serviced by PHFA and includes a second PHFA closing cost assistance loan, the second loan may be re-subordinated upon request, as long as the CLTV does not exceed 105 percent (105%) of the home's current value. The subordinate financing must be entered into DU and factored into the DTI ratios if there is a monthly payment. After the loan is approved by PHFA, forward the subordination agreement to [escrow@phfa.org](mailto:escrow@phfa.org). Please allow five to seven business days for PHFA to complete the subordination agreement and send it to the requestor. The subordination request should include the following:

1. Name of the borrower(s);
2. Property Address;
3. Name and address of the staff person at the participating lender who should receive the completed subordination agreement back from PHFA. (Please note: a certified true copy of the subordination agreement that was sent by the lender for recording must be submitted to PHFA in the purchase package – see [Form 58](#).)

- If the borrower has an existing second loan with PHFA that was *not* used in the acquisition of the property (e.g., R&R, HEMAP), they are not eligible for a refinance under this program.
- Borrowers seeking closing cost assistance from PHFA must be obtaining maximum financing, depending on their credit score as detailed below (i.e., they must take the maximum amount of cash out and use it towards closing costs and may then apply for PHFA assistance if still needed). The maximum amount of the assistance is \$6,000 or four percent (4%) of the loan amount (versus sales price for purchase transactions), whichever is less.

## *b. Borrower Eligibility*

### i. First Time Home Buyer

There is *no* first time homebuyer requirement under these programs. The borrower may have an ownership interest in another residential dwelling at the time of loan closing.

### ii. Minimum Borrower Contribution

- Borrowers must contribute the lesser of \$1000 or 1% from their own funds.
- The balance of the downpayment may come from an eligible Community Second, a gift, grant or unsecured loan from a relative, domestic partner, fiancé/fiancée, or from a church, a public agency, a municipality or a nonprofit other than a credit union.

### iii. Homebuyer Education

- All borrowers with middle credit scores *below* 680 must complete an in person homebuyer education class or counseling session prior to closing, provided by one of [PHFA's approved counseling organizations](#). Online courses will not be accepted for these borrowers.
- For loans where *all* borrowers have a middle credit score of 680 or higher, a homebuyer education class or counseling session must still be completed prior to closing; however, it need be completed by only one borrower. The education or counseling session must be provided by one of PHFA's approved counseling organizations or a PHFA-approved mortgage insurance provider. Telephonic and online courses are also acceptable for borrowers with a FICO of 680 or higher; acceptable online courses are those provided by an approved PMI company, Framework® or [PHFA](#). In all cases, a copy of the counseling certificate(s) must be included in the purchase package to PHFA.
- Homebuyer education is not required on refinance transactions.
- Buyers who complete pre-purchase counseling prior to executing the agreement of sale may be eligible to receive a \$300 credit that may be used towards closing costs if they obtain an HFA Preferred™ program mortgage loan. Eligible borrowers must complete in person pre-purchase counseling with a HUD approved counseling organization. Please refer to the PHFA network of [Approved Housing Counseling Agencies](#). Our list has been updated to reflect both PHFA and HUD approved agencies.

- For the \$300 pre-purchase credit, the Fannie Mae [Form 1017](#) must be completed by the counseling agency at the completion of counseling. The \$300 credit will be funded by the lender and reimbursed at loan purchase. A copy of Form 1017 and the completion certificate must be included in the pre-closing package submission. If the completion certificate is provided and counseling occurred prior to the borrower executing the agreement of sale, PHFA will condition for the form to be submitted in the purchase package. The \$300 credit should be listed in the “Details of Transaction” on the mortgage application.

#### iv. Income Limit

The income limit for this program is referenced in [Appendix B](#). The total qualifying income can not exceed 80% of the area median income for the area in which the property is located.

#### v. Qualifying income

(a). The following additional sources of qualifying income may not be utilized even if permitted under HomeReady guidelines:

- Non-borrower household Income
- Boarder income
- Rental income from accessory units

(b). Non-occupying Co-borrowers

Income from non-occupying co-borrowers is permitted under the following conditions:

- For loans that receive an Approve Eligible finding, the maximum LTV is 95% and the ratios **with** the non-occupying co-borrower(s) cannot exceed 40/45. The occupying borrower’s ratios **alone** cannot exceed 45/50.
- For manually underwritten loans, the maximum LTV is 90%, and the borrower’s own DTI cannot exceed 43%. The maximum DTI **with** the non-occupying co-borrower(s) cannot exceed 36% if any of the credit scores are between 680 and 699 and 45% if all credit scores are above 700.
- All income considered for qualifying is also considered in the income limit. Therefore, the income of the non-occupying co-borrower(s) must be considered when determining eligibility under the income limit.
- Occupant borrowers and non-occupying co-borrower(s) may have any ownership interest in other real estate at the time of closing.
- The non-occupying co-borrower(s) must provide a statement that he/she understands he/she is equally responsible with the primary borrower for the monthly mortgage payments and that failure to make payments as scheduled will negatively impact the credit history of both parties.
- Non-occupying co-borrowers are not permitted on loans where the borrower is requesting a MCC.

### 3. Property Eligibility

The following property types are *not* eligible under these programs: co-ops and two or more unit

properties. PUD's are acceptable per Fannie Mae's guidelines.

In addition to all applicable Fannie Mae standards, properties must meet PHFA's guidelines as described in [Appendix I](#) of the Sellers' Guide (e.g., Wood Destroying Insect Certifications, Well Certifications, etc). In the event of conflicting information, the stricter requirement shall prevail.

For condominiums, the project eligibility must meet Fannie Mae guidelines and must be warranted by the lender. PHFA will not review and/or approve their acceptance.

The condo review type must be one of the following and documented on the 1008:

1. (CPM) Expedited review or lender full review – New (project type code R)
2. (CPM) Expedited review or lender full review - Established (project type code S) with a maximum LTV and CLTV of 90% or more
3. Fannie Mae Review- Projects receiving final project approval (PERS) (code T)
4. Limited review – Established (project type code Q) with a maximum LTV and CLTV of 90% or less

For loans under the CPM Expedited review process, a copy of the lender's unexpired CPM certification must be included in the pre-closing package.

For loans reviewed by the lender under a full review process, a signed warranty statement showing the borrower's name, property address, project name, project classification, effective and expiration date must be included in the pre-closing package.

For loans under the PERS review process, a current copy of the Fannie Mae approved list from their website that shows the name of the project and the expiration date must be included in the pre-closing package. An updated copy of the approved list is required with the purchase submission to PHFA to verify the project approval has not expired.

PHFA does not require copies of all the information and documentation obtained in the evaluation and approval process of the condo project; however, the lender shall forward such documentation upon request from PHFA and must therefore retain copies of the pertinent information.

Manufactured housing that meets PHFA and Fannie Mae guidelines may be eligible for financing up to 95% LTV and 105%CLTV. Manufactured homes must be underwritten through DU; manual underwriting is not eligible.

See Chapter 8 for property requirements.

#### **4. Lender Instructions and Procedures**

##### *a. Lender Compensation*

See [Chapter 1](#).

##### *b. Locking of Funds*

Lenders may lock a loan under the program by using the [PHFA Pipeline PLUS](#). See [Chapter 2](#) for details.



### *c. Underwriting Procedures*

Both programs are underwritten, closed and funded according to PHFA's standard procedures as outlined in the Sellers' Guide and the [Master Origination and Sale Agreement](#). Any exceptions to standard procedures for this program are noted in this section.

The following PHFA-specific documents are **not** required:

- Mortgagor's/Seller's Affidavit ([Form 3](#))
- Recapture Tax Notice ([Form 4](#))

If the borrower is receiving a subordinate assistance loan from a source other than PHFA, a completed Fannie Mae [Community Seconds checklist](#) and PHFA's [Affordable Housing Assistance Program checklist](#) must both be completed and submitted with the underwriting file to PHFA.

### *d. DU Requirements*

When utilizing DU, on the "Additional Data" screen, select "HFA Preferred".

Files must receive a DU recommendation of Approve/Eligible. Each DU findings report must reflect a valid case file ID number that was assigned to the investor. (If you are interested in utilizing Desktop Underwriter through PHFA's portal, please contact us.)

Qualifying ratios, reserves and credit scores are determined by DU.

Lenders are required to comply with *all* the DU findings/requirements without exception. PHFA is not able to make concessions or exceptions to the findings.

### *e. Manual Underwriting*

Manually underwritten loans are limited to a maximum LTV of 95 percent. All borrowers must have a minimum credit score of 680. The maximum back/total debt to income ratio (DTI) for borrowers with a qualifying credit score between 680 and 699 is 36 percent. For borrowers with a credit score of 700 or higher, the maximum back/total DTI is 45 percent. Borrowers with no credit scores or "thin" files are *not* acceptable. No DU findings report is required for manually underwritten loans. PHFA is not able to make concessions or exceptions to these requirements.

### *f. Appraisal Submission/UCDP<sup>SM</sup>*

Appraisals must be submitted directly by the participating lender to Fannie Mae through the Universal Collateral Data Portal<sup>SM</sup> (UCDP<sup>SM</sup>). A copy of the Appraisal is still required to be sent to PHFA in the Pre-Closing package per standard PHFA procedure. Along with the Appraisal, a copy of the Fannie Mae 'successful' UCDP Submission Summary Report showing the Document File ID number must be included in the pre-closing package.

Lenders who are not Fannie approved will need to register as a non-approved FannieMae seller/servicer here: <https://www.fanniemae.com/singlefamily/uniform-collateral-data-portal>.

### *g. Private Mortgage Insurance*

All loans under the HFA Preferred program with an LTV above 80 percent require private mortgage insurance. The following insurers may be utilized:

- Arch Mortgage Insurance Company
- Essent Guaranty Inc.
- Genworth Mortgage Insurance Corp. (GE),
- Mortgage Guaranty Insurance Company (MGIC)
- National Mortgage Insurance Corporation
- Radian Guaranty, Inc.

Coverage is required as follows unless the DU findings report indicates otherwise:

- 18% for LTVs > 95% and <= 97%
- 16% for LTVs > 90% and <= 95%
- 12% for LTVs > 85% and <= 90%
- 6% for LTVs > 80% and <= 85%

Eligible plans include:

- Monthly
- Zero Up Front Monthly
- Borrower Single Premium
- Borrower Split Premium
- Lender Single Premium

Under the Single and the Split borrower paid plans, the borrower may finance the up-front premium or a portion of it in the first mortgage, or finance all or a portion of it in the subordinate “Advantage” loan. Lender Paid Split and Monthly plans are not permitted.

Check with your MI representative for any specific payment remittance guidance, overlays, and/or restrictions pertaining to this product. The lender is responsible for underwriting the file to the more restrictive of the two guidelines; i.e., Fannie/PHFA’s or the MI company’s criteria.

### *h. Closing Procedures*

See [Form 53](#) and Chapter 9 for closing instructions.

The Original instant title policy or Short Form Residential Policy must still be included with the purchase package.

An Administration Fee no greater than \$1,000 may be charged to cover the lender’s overhead expenses on loans locked on or after January 3, 2017. No additional overhead fees such as doc prep, underwriting, etc., may be charged. The normal and customary fees for expense items may be charged; e.g., credit report, appraisal, etc.

### *i. Submitting the Purchase Package*

Use [Form 58](#) for submitting the Purchase Package.

All items listed on the DU findings must also be included within the purchase package. If items are missing or unsatisfactory, an exception notice will be issued. Please note unresolved exceptions will render the file ineligible for purchase until the satisfactory documentation has been submitted.

## **5. HomeStyle® Renovation Program**

The Fannie Mae HomeStyle® Renovation mortgage is for eligible borrowers to include financing for home improvements in a purchase or re-finance transaction of an existing home. This program is limited to the HFA Preferred™ product.

### *a. Mortgage Terms*

The interest rate is based on current Agency rates for the HFA Preferred™ program, fixed with a 30 year term. Check the most current Rate Sheet for pricing.

The maximum mortgage amount cannot exceed 97 percent (97%) of the lesser of the purchase price or the appraised value, with a maximum combined loan to value (CLTV) of 105 percent (105%). Manufactured homes are limited to 95 percent (95%) and the maximum CLTV remains 105 percent (105%). Loans must meet HomeReady® program guidelines as specified in the most current version of the Fannie Mae Selling Guide at [www.fanniemae.com](http://www.fanniemae.com), except as stated otherwise in this chapter of the PHFA Sellers' Guide.

### *b. Eligibility Requirements*

#### *i. Eligible Buyers*

The HomeStyle Renovation loan must meet the current underwriting and eligibility guidelines for the HFA Preferred™ program.

#### *ii. Eligible Properties*

The properties may be an existing owner occupied single family dwelling (attached or detached), including Fannie Mae eligible condominium units, PUDs and manufactured homes.

#### *iii. Eligible Repairs & Improvements*

The HomeStyle Renovation provides eligible borrowers to make renovations, repairs, or improvements totaling up to 75 percent (75%) of the lesser of either: 1) the as completed appraised value of the property; or 2) purchase cost plus rehab expenses.

The total funds for renovation on eligible manufactured homes are limited to the lesser of 50 percent (50%) of the "as completed" appraised value, or \$50,000.

The home improvement portion of the loan proceeds may only be used for necessary repairs, alterations or improvements to substantially protect or improve the basic livability, energy efficiency, or safety of the acquired property. Eligible repairs, alterations and/or improvements must be permanently affixed to the property, and include such items as: roof repair/replacement, installation or improvement of heating and/or air conditioning systems, renovation to kitchen and/or bath areas, repairs/improvements to plumbing and/or electric systems, and the improvement of living space. Not eligible: Luxury amenities such as: swimming pools, tennis courts, hot tubs/Jacuzzis, saunas or other recreational or entertainment facilities.

All renovation work must be performed by a licensed contractor who is registered with the state, and qualified to complete the work. If licensure is applicable, contractor must be licensed. Borrowers must

choose their own contractor to perform the needed renovation “Do it Yourself” work is not permitted. All borrowers must be given the FNMA 1204-HomeStyle Renovation Consumer Tips Form.

All renovation work must be completed within 180 days (6 months) of closing. The borrowers must occupy the property within 60 days (2 months) of closing.

*c. Borrower Instructions*

- i. Determine what repairs are required and necessary
- ii. Provide the lender with all estimates, specifications, firm contracts, etc. from qualified, licensed and Pennsylvania-registered contractors. Lenders may utilize the standard Fannie Mae Contractor Profile Report (FNMA form 1202) or a similar report to help with this determination.
- iii. Fund any cost overruns, unforeseen expenses, work not approved by the Lender and/or PHFA, and the cost of any work that exceeds the “as approved” appraised value. Lenders will collect these funds from borrowers at the loan closing.
- iv. Borrowers may NOT act as their own contractors unless that is their trade or profession and they hold all required licenses, registrations, and insurance coverage (in which case, program funds are limited to materials only, not labor).

*d. Lender Instructions and Procedures*

*i. Application/Origination*

The locking process remains the same for the HomeStyle Renovation loans as it does for loans in the other programs.

The lender is required to collect the current prescribed fees designated for the specific program, plus any inspection fees (not to exceed the normal and customary amount, maximum of (2) two inspections) for the work and any normal closing costs.

*ii. Underwriting/Processing*

Analyze the construction contracts, estimates, etc. submitted by the borrower to determine the credibility and legitimacy of the proposals for the required repairs/improvements.

To determine the maximum mortgage amount, the Fannie Mae HomeStyle Maximum Mortgage Worksheet (FNMA form 1035) is to be completed and included in the pre-closing package. If the repairs would inhibit the borrower from moving into the property right after closing, and they have not exceed the allowable maximum of the “as completed” appraised value for the repairs, the borrowers could include up to a maximum of six months of PITI payments in the escrow. The payment reserves must be reflected on the maximum mortgage worksheet FNMA Form 1035.

Provide all repair/improvement information submitted by the borrower to the appraiser to determine the “as completed” value of the property.

Provide a copy of the contract(s) with any specifications, estimates, drawings, etc. including a Lien Waiver (FNMA Form 3739 or one equivalent); a completed/signed copy of a Renovation Loan Agreement (FNMA Form 3731); the HomeStyle Renovation Consumer Tips Form (FNMA Form 1204) and the Contractor Profile Report in the Pre-Closing Package to PHFA using [Form 51](#). Please indicate on the top of Form 51 that it is a “HomeStyle Renovation Loan”.

### *iii. Closing the Loan and Selling it to PHFA*

The lender will close the loan and PHFA will hold the renovation escrow. The Agency will purchase the loan prior to the renovation/repairs being completed; however, all work must be completed no later than 6 months from the closing date. All funds disbursed must be used for home purchase and repair purposes. Unused funds will be applied to the principal loan balance. If the borrower defaults under the terms of the mortgage loan before the work is completed, and that default continues for at least 120 days, the lender may be required to repurchase the loan.

### *iv. Escrow Administration*

PHFA will hold the escrow funds, administer the draws, and close the escrow account. All HomeStyle loans sold to PHFA will have the escrow portion of the funds withheld by PHFA at the time of purchase. PHFA will release funds to the lender upon receipt of the draw request [Form 49](#) and a completed W-9 form for the appraiser and contractors completing the work. To request a draw, the lender must submit the required documents via email to [sfpurchasing@phfa.org](mailto:sfpurchasing@phfa.org) or by mail to PHFA to the attention of the Homeownership Purchase Department. Funds will be transmitted to the lender via ACH to the same account set up to receive purchase proceeds.

### *v. Escrowed Mortgage Payments*

An escrow for mortgage payments may be included as part of the renovation escrow and included on the HomeStyle Renovation Maximum Mortgage Worksheet if the subject property is unable to be occupied during the repairs. The maximum amount that may be escrowed is six payments. The lender must submit [Form 71](#) – Authorization Request for Escrowed Mortgage Payments to [sfpurchasing@phfa.org](mailto:sfpurchasing@phfa.org) for each monthly payment to be applied.

### *vi. Funds Disbursement*

Unless otherwise agreed to in writing by PHFA, there is a maximum of two draws, and there are two options available for the draw schedule:

- 50/50. Under this option, a draw is released when half of the work has been completed and then the final draw is made upon full completion. Two inspection fees may be provided to the appraiser for the interim and final inspections (normal and customary amount to be charged for inspections).

**OR**

- 25/75. At the borrower's request prior to the work starting, an initial draw of up to 25 percent of the escrow funds may be disbursed at or after closing to pay the contractor for materials, based on invoices for materials purchased or vendor quotes for materials to be purchased. The contractor must provide an invoice of the materials that were purchased or an estimate of the materials to be purchased. The second draw is then disbursed when the job is fully completed. Only one inspection fee may be provided to the appraiser for the final inspection. PHFA will ACH the funds to the lender and the lender will remit the draws payable to the borrower and the contractor or payable to the contractor but sent to the borrower, to be given to the contractor. The funds will be given to the lender to payout upon a satisfactory inspection

by the appraiser and execution of [Form 49](#) by the borrower (s), the contractor, and the appraiser for each draw.

*vii. Closeout Documentation*

Following completion of the renovation repairs, the lender must obtain the following:

- A certification of completion stating that renovation was completed in accordance with the submitted plans and specifications. The certification must be documented on the Appraisal Update and/or Completion Report (Form 1004D) with all applicable signatures.
- Provide endorsement to update the title policy as of the date the renovations were completed ensuring the absence of any mechanics' liens. It is the lender's responsibility to ensure that the title to the property is clear of all liens and encumbrances.
- The lender must follow the Fannie Mae HomeStyle guidelines and procedures to administer and complete the closeout paperwork. All closeout documentation must be submitted to PHFA before the final payment is remitted & the account is closed.

### **C. KEYSTONE GOVERNMENT LOAN PROGRAM**

The Keystone Government Loan Program provides first mortgage financing on loans insured by FHA or guaranteed by RD or VA. Loans are underwritten using the guidelines of the respective federal agency providing the insurance/guaranty. PHFA does not impose any additional guidelines except as noted in this section.

#### **1. Eligibility Requirements**

##### *a. Borrower Eligibility*

Borrower eligibility is determined by the respective federal agency guidelines. There are no PHFA-specific income or purchase price limits by county. However, the maximum loan amount is \$484,350. Additionally, there is no first-time homebuyer requirement.

Borrowers with a middle or low credit score below 680 must complete a homebuyer education class prior to closing, provided by one of PHFA's approved counseling organizations.

Borrowers may be eligible for downpayment and/or closing cost assistance through the Keystone Advantage Assistance Loan program (see [Chapter 4](#)).

Non-occupying co-borrowers are permitted on FHA-insured Keystone Government Loans under the following conditions:

- For loans that receive an Approve or Accept finding, the ratios **with** the non-occupying co-borrower cannot exceed 40/45. The occupying borrower's ratios **alone** cannot exceed 45/50.
- For manually underwritten loans, the occupying borrower's ratios alone cannot exceed 31/43.
- The non-occupying borrower must provide a statement that he/she understands he/she is equally responsible with the primary borrower for the monthly mortgage payments and that failure to make payments as scheduled will negatively impact the credit history of both parties.

- Non-occupying co-borrowers are not permitted on loans where the borrower is requesting a MCC.

### *b. Property Eligibility*

Properties must meet the respective guidelines for the type of financing being obtained.

In addition, properties must meet PHFA's guidelines as described in Chapter 8 and [Appendix I](#) of this Sellers' Guide (e.g., Wood Destroying Insect Certifications, Well Certifications, etc).

Owner occupied, one or two units.

## **2. Lender Instructions and Procedures**

### *a. Lender Compensation*

See [Chapter 1](#).

### *b. Locking of Funds*

Lenders may lock in a loan under the Keystone Government Loan program by using the [PHFA Pipeline PLUS](#). See [Chapter 2](#) for details.

### *c. Underwriting and Closing Procedures*

Keystone Government loans are underwritten, closed and funded according to PHFA's standard procedures as outlined in the Sellers' Guide and the [Master Origination and Sale Agreement](#). Loans must also comply with the guidelines of the respective federal government agency depending on the loan type (FHA, RD or VA). Any exceptions to standard procedures for this program are noted in this section. Use [Form 51](#) for the underwriting package submission and [Form 58](#) for submission of the file for purchase.

See [Form 53](#) and Chapter 9 for closing instructions.

The following PHFA-specific documents are **not** required:

- Mortgagor's/Seller's Affidavit ([Form 3](#))
- Recapture Tax Notice ([Form 4](#))

The Original instant title policy or Short Form Residential Policy must still be included with the purchase package.

An Administration Fee no greater than \$1,000 may be charged to cover the lender's overhead expenses on loans locked on or after January 3, 2017. No additional overhead fees such as doc prep, underwriting, etc., may be charged. The normal and customary fees for expense items may be charged; e.g., credit report, appraisal, etc.



## **D. KEYSTONE HOME LOAN PROGRAM (KHL)**

Home purchase loans are available to qualifying homebuyers throughout the Commonwealth under PHFA's Keystone Home Loan Program. Both new and existing homes are eligible for Agency financing. Because the Agency may use tax-exempt Mortgage Revenue Bonds (MRB's) to fund loans under the Keystone Home Loan program, the loans must comply with certain requirements as set forth by the IRS and as described in this chapter.

Keystone Home Loans provides first mortgage financing on loans insured by the Pennsylvania Insurance Fund (PHIF), FHA or guaranteed by VA or RD. KHL Conventional provides funding up to 97 percent (97%) of the purchase price or appraised value, whichever is less. This program would follow the underwriting guidelines of the HFA Preferred™ program as outlined earlier except as stated otherwise in this specific section.

### **1. Eligibility Requirements**

All borrowers applying for a Keystone Home Loan must intend to occupy the property as their primary residence within 60 days of closing and must complete a Mortgagor's Affidavit ([Form 3](#)), to acknowledge that they understand the program requirements and to attest that they meet them. The lender is also required to sign this form to indicate it was explained to the borrower. At the time of loan closing, the borrower must sign and date the Mortgagor's Reaffirmation at Loan Closing page of the Mortgagor's Affidavit to indicate they still meet the program requirements. The Seller must complete the Affidavit of Seller at closing (also part of Form 3) to verify compliance with the program requirements.

The primary eligibility requirements for the Keystone Home Loan Program are listed below.

#### **a. First-time Homebuyer**

The borrower and all other adults who intend to live in the home within 12 months from closing must be first-time homebuyers. This is defined as someone who has not had an ownership interest in (not listed on the deed of) their principal residence during the previous three years.

The first-time buyer requirement does not apply if the borrower is purchasing in a targeted county or area. Target counties are indicated by a "T" in the listing of Purchase Price and Income Limits ([Appendix A](#)). Please note that some non-target counties have targeted neighborhoods within them as listed in the appendix. To determine the census tract of a specific property, visit [www.ffiec.gov](http://www.ffiec.gov) and click on Geocoding/Mapping System.

Veterans (and their spouses, if applicable) do not need to meet the first-time homebuyer requirement in non-target areas under the Keystone Home Loan Program. A veteran, for this purpose, is defined as someone who served in active duty of the Armed Forces or Reserves and who was discharged or released under conditions other than dishonorable. Veterans using this exception must sign Addendum D of the Mortgagor's Affidavit ([Form 3](#)) and provide a copy of their discharge papers.

Examples of "ownership interests" are:

- A fee simple interest
- A joint tenancy, tenancy in common or tenancy by the entirety

- The interest of a tenant-shareholder in a cooperative
- A life estate
- The interest of a purchaser under a land contract or installment sales agreement with a TERM which exceeds 24 months under which the purchaser takes possession even though legal title is not transferred until some later time
- An interest held in trust for the borrower (whether or not created by the borrower) that would constitute as present ownership interest held directly by the borrower
- An ownership interest in a mobile home or other factory-made housing which was permanently affixed to land owned by the borrower

Examples of interests which do **not** constitute “ownership interests” are:

- Ownership of a mobile/manufactured home on a rented lot
- A remainder interest
- A lease with or without an option to purchase
- A mere expectancy to inherit an interest in a principal residence
- The interest that a purchaser of a residence acquires upon the execution of a standard purchase contract, without a right of possession
- An ownership interest in other than a principal residence during the previous three (3) years

The Agency reserves the right to investigate or require further substantiation of the borrower’s ownership status.

#### *b. Income Limit*

The gross annual income, (projected over the next 12 months) for all adults that intend to occupy the home within one year from loan closing, must not exceed the Keystone Home Loan Program income limit (as specified in [Appendix A](#)). All sources of income must be included, except for income received by persons under age 18 and income received by dependents enrolled in a full-time undergraduate program of at least 12 credits per semester.

The total Annual Household Income is to be completed at the time of application. If this income increases after the date of application or the loan does not close within four (4) months of application, the income must be re-certified. A new page two of the Mortgagor’s Affidavit ([Form 3](#)) must be completed with the new income information and initialed by the borrower.

If the new Annual Household Income exceeds the Income Limit for the area in which the residence is being purchased, the borrower is not eligible for the program.

For construction/permanent loans, income eligibility must be determined at the time of the construction loan closing. For permanent loans (where there is a second closing), which are paying off construction loans, income eligibility must be determined at the time the permanent loan closes to pay off the construction loan.

Care must be exercised when determining household size, especially when there is a change between the time of application and closing (for example, if it is determined that another adult will reside in the property within 12 months from closing). Any changes to family size and household income must be noted on the "Mortgagor's Affidavit Reaffirmation at Loan Closing". The loan cannot close as a PHFA loan if the borrower is no longer eligible for the program.

The following sources of income **must** be included but are not limited to:

- Gross income, before any payroll deductions, of wages (including part-time income), salaries, overtime, commissions, fees, tips and bonuses
- Net income from operation of a business or profession
- Income from trusts and investments
- Interest, dividends, royalties, net rentals and other net income from real or personal property
- Periodic payments from social security, annuities, insurance policies, retirement funds, pensions, VA compensation, disability or death benefits and other similar types of periodic payments
- Payments in lieu of earnings, such as unemployment and disability compensation, sick pay, worker's compensation and severance pay
- Public assistance income, where payments include amounts specifically designated for shelter and utilities
- Periodic and determinable allowances, such as alimony and child support, and regular contributions or gifts from persons not residing in the dwelling
- All regular and special pay and allowances of members of the Armed Forces (whether or not living in the dwelling) who are the head of the family or spouse
- Any employer-related benefit such as a company car (for which a \$200 per month amount is assigned), car allowance, etc.
- Any un-reimbursed employee expenses not paid by his/her employer as evidenced by the borrower's Federal Income Tax returns. An average monthly amount of un-reimbursed expenses is to be calculated from the two most current years' Federal Income Tax returns and deducted from the borrower's gross monthly income

The following can be excluded:

- Casual, sporadic or irregular gifts
- Amounts which are specifically for reimbursement of medical expenses
- Lump sum additions to family assets, such as inheritances, insurance payments (including payments under health and accident insurance and worker's compensation), capital gains and settlement for personal or property losses
- Amounts of educational scholarships paid directly to the student or the educational institution, and amounts paid by the government to a veteran for use in meeting the costs of tuition, fees, books and equipment, but in any such case only to the extent used for such purposes
- Special pay to a serviceman head of family who is away from home and exposed to hostile fire

- Relocation payments under Title II of the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970
- Foster child care payments (unless it is included in income used for qualifying)
- Payments received pursuant to participation in ACTION volunteer Programs
- Income from the employment of children (including foster children) under the age of 18 years

### *c. Purchase Price Limit*

The purchase price of the prospective home cannot exceed the Keystone Home Loan Program purchase price limit (See [Appendix A](#)). This includes all costs for a complete home and is also known as the total acquisition cost. For two-unit properties, the purchase price may exceed the applicable published limit by ten percent.

Use the following instructions when calculating the total acquisition cost for new construction to ensure it meets the applicable PHFA limit:

- The appraised value of land owned outright for more than two years does not need to be included.
- Include the cost of all items for a completed home, such as painting, decks, patios, walks, driveways and final grading and seeding. The lender must be thorough when reviewing construction contracts for new homes to be sure that all costs to complete the home are included in the purchase price and comply with the applicable PHFA limit. Any changes made to the property during the progress of construction could make the mortgage loan ineligible for the program if the cost of these changes added to the original purchase price calculation puts the total cost over the Maximum Purchase Price for the area in which the home is being built. This includes items that the borrower may pay for outside of the mortgage transaction. Also, any improvements made to the property, other than maintenance, completed within one year of the date of purchase must be considered part of the Purchase Price for Maximum Purchase Price purposes. For example, if the plans include a deck which will be completed after closing, it must be included in the purchase price calculation, even if it is to be paid separately by the borrower.

Use the following instructions for Arms Length Transactions (buyer and seller not related) for new and existing homes to ensure compliance with the purchase price limit:

- For loan transactions that are arm's length the market value of the property may not exceed 110 percent of the Maximum Purchase Price for the area in which it is located.
- If a loan transaction involves a lot purchased within the last two years through an "Arm's Length Transaction", the actual purchase price of the land is to be used in calculating the Total Acquisition Cost.

Use the following instructions for Non-Arms Length Transactions (buyer and seller are related) for new and existing homes to ensure compliance with the purchase price limit:

- The greater of the value determined by the cost approach (from appraisal) **or** the market value (from appraisal) minus the appraised value of any land owned more than two years and not the Purchase Price (from the Agreement of Sale/Construction Contract) is to be used to determine if the loan is in compliance with the maximum applicable purchase price.
- Although the greater of the value determined by the cost approach or the market value (collectively called “appraised value”) of the subject property is used for determining compliance with the maximum purchase price, whichever is less of the appraised value or the purchased price listed in the Agreement of Sale is to be used in the calculation of the Loan-to-Value ratio.
- If a loan transaction involves a lot purchased within the last two years through a non-arm’s length transaction, the “Estimated Site Value” from the “Cost Approach” section on the reverse side of the appraisal and **NOT** the purchase price of the land is to be used in the calculation of the Total Acquisition Cost (refer to Page 2 of [Form 3](#)). As a result, the total of the “Estimated Site Value” plus the total construction costs is used to determine compliance within the Maximum Purchase Price. However, the loan-to-value ratio is calculated by using whichever is less of the “Estimated Site Value” OR the Purchase Price of the lot combined with the total construction costs.

#### *d. Recapture Tax*

A Federal Tax known as “Recapture” became effective for all loans closed after January 1, 1991. As enacted, a Borrower may be subject to this tax if the home is sold or disposed of within nine years of the purchase. The tax would be payable with the Borrower’s Federal Income Tax Return for the year in which the home was disposed off. The maximum tax is 6.25 percent of the mortgage amount or 50 percent of the gain on the sale, whichever is less. There are other factors which affect the amount of tax which may be due, including family size and income at the time of the disposition of the property. **The Notice to Mortgagor of Potential Recapture Tax ([Form 4](#)) must be completed by the participant and then executed by the borrowers prior to or at the loan closing.** The only exception is a construction loan, in which case the recapture tax form is to be prepared by the lender and signed by the borrowers when it converts to the PHFA permanent loan. The recapture tax figures applicable at the conversion date are to be used. The completed form is to be included in the Purchase Submission. **PHFA will reimburse any borrower who ever has to pay a Recapture Tax in connection with the sale of their home.** This applies to all borrowers who make application for a PHFA loan on or after January 1, 2004.

#### *e. Pennsylvania Housing Insurance Fund (PHIF)*

Conventional financing under the Keystone Home Loan program with an LTV above 80 percent require mortgage insurance. The Pennsylvania Housing Insurance Fund (PHIF) is the only acceptable insurer for the KHL Conventional program at this time. A credit score of 660 or higher is required for PHIF coverage.

A manual review is not acceptable for KHL Conventional loans.

Pricing and coverage is required as follows:

<b>LTV/%Coverage</b>	<b>660-679</b>	<b>680-699</b>	<b>700-719</b>	<b>720-739</b>	<b>740-759</b>	<b>760+</b>
95.01% – 97.0% 35%	1.54	1.21	0.99	0.87	0.70	0.58
90.01% – 95.0% 30%	<b>660-679</b> 1.28	<b>680-699</b> 0.96	<b>700-719</b> 0.78	<b>720-739</b> 0.66	<b>740-759</b> 0.53	<b>760+</b> 0.38
85.01% - 90.0% 25%	<b>660-679</b> 0.90	<b>680-699</b> 0.65	<b>700-719</b> 0.55	<b>720-739</b> 0.46	<b>740-759</b> 0.38	<b>760+</b> 0.28
80.01% - 85.0% 20%	<b>660-679</b> 0.38	<b>680-699</b> 0.28	<b>700-719</b> 0.25	<b>720-739</b> 0.23	<b>740-759</b> 0.20	<b>760+</b> 0.20

The plan is a zero upfront monthly premium plan. The rate for years 2 through 10 is the same as the first- year rate. For years 11 through term the premium rate is reduced to 0.20%.

To request PHIF coverage, use [Form 51- Pre-Closing Package Checklist](#) and mark the PHIF box at the top of the document when submitting your Pre-Closing package for review. If the loan is eligible for coverage, a mortgage insurance certificate will be generated and placed on the Pipeline Plus system when the Pre-Closing submission is approved.

See Appendix G for additional PHIF guidelines.

## **2. No Refinances**

The loan must be a new loan on the property for the borrower. Thus, if the borrower has paid off a previous permanent loan on the property or is seeking to refinance an existing permanent loan, the borrower is not eligible.

## **3. Loan Assumptions**

Assumptions are permitted only with the approval of the Agency, acting in its sole discretion, and then, only if all requirements of the applicable sections of the Internal Revenue Code of 1986, as amended, including the Income Limitation, Principal Residence Requirement, and Three-Year Non-Homeowner Requirement and the Purchase Price Limitations are met with respect to the assumption. It also provides for an acceleration of the mortgage loan if the mortgagor sells, rents or otherwise transfers any interest in the property without prior approval of the Agency or fails to occupy the premises as a principal residence.

The lender must make the borrower aware that when he or she seeks to sell his or her home, if he or she offers a loan assumption, the household assuming the loan must:

- Occupy the residence as their principal residence
- Qualify under the “first-time” homeowner or “three (3) year” requirements (except in target areas)
- Purchase the residence at a price that does not exceed the PHFA Maximum Purchase Price in effect for an existing property at the time of assumption

- Have a current annual household income that does not exceed the Income Limit established by PHFA in effect at the time of assumption.
- The amount assumed may not exceed the payoff amount.

When the assumption occurs, the residence is considered to be an existing property for PHFA purposes, regardless of the fact that the home was considered new when the loan closed. The lender must also inform the borrower that if they allow someone to assume their mortgage, both the borrower and the assuming borrower may be subject to the [Federal Recapture Tax](#), if the sale occurs within nine (9) years following the original closing date.

- a. *Program Assumptions.* When completing the Loan Estimate and Closing Disclosures, please keep in mind that not all PHFA loan products are eligible for assumption. For more information, please see the chart below:

<b>Program</b>	<b>Assumable</b>
HFAPreferred™ & HFA Preferred Risk Sharing™	No
Keystone Government Loans (K-Gov) FHA & VA Loans	Yes
Keystone Government Loans (K-Gov) RD Loan	No
Keystone Home Loans (KHL) Conventional, FHA & VA Loans	Yes
Keystone Home Loans (KHL) RD loan	No
Keystone Advantage Assistance Loan	Yes
Renovate & Repair (R&R)	No
Pennvest	No
Homeowners Energy Efficiency Loan Program (HEELP)	No
Refinance to an Affordable Loan (REAL)	No
Homeowner's Equity Recovery Opportunity (HERO)	No

Loans assumable under the Keystone Home Loan (KHL) program must meet the mortgage revenue bond guidelines. KHL Conventional loans must also be approved by the Private Mortgage Insurance Company if insurance is in place.

The Keystone Advantage Assistance Loan can only be assumed when the first mortgage program is assumable.

If the mortgage has an Mortgage Credit Certificate (MCC), only the loan gets assumed, not the MCC.

### ***E. PURCHASE & IMPROVEMENT PROGRAM***

PHFA's Purchase & Improvement Program is designed for homebuyers to purchase and improve a home within the same mortgage transaction. This program is limited to the Conventional Keystone Home Loan program (97% LTV maximum).

## **1. Mortgage Terms**

The interest rate is based on the current Agency rates for the Purchase & Improvement Program, fixed with a 30 year term. It is generally about 25 to 50 bps higher than the respective rate for the Keystone Home Loan. Check the most current Rate Sheet for pricing.

The program is available with KHL conventional financing only. The maximum mortgage amount cannot exceed 97 percent of the total acquisition cost or the “as completed” appraised value, whichever is less. The total acquisition cost is defined as the total cost to purchase the property plus the costs of the repairs and/or improvements.

The “total acquisition cost” cannot exceed the Maximum Purchase Price limit for the applicable county under the applicable program. (Keystone Home Loan).

## **2. Eligibility Requirements**

### *a. Eligible Buyers*

All Purchase & Improvement loans must meet the current underwriting and eligibility guidelines for the Keystone Home Loan Program.

### *b. Eligible Properties*

The property may be an existing owner occupied single family dwelling (attached or detached), including condominium units. If the property is a two-unit residence, the borrower must intend to live in one of the units.

### *c. Eligible Repairs & Improvements*

The home improvement portion of the loan is limited to no more than \$15,000. If home inspection fees and construction inspection fees are incurred and are to be financed they should be included in the home improvement portion of the mortgage. They are not to be considered as closing costs. The home improvement portion of the loan proceeds may only be used for necessary repairs, alterations or improvements to substantially protect or improve the basic livability, energy efficiency, or safety of the acquired property. Eligible repairs, alterations and/or improvements include such items as: roof repair/replacement, installation or improvement of heating and/or air conditioning systems, renovation to kitchen and/or bath areas, repairs/improvements to plumbing and/or electric systems, and the improvement of living space. Energy conservation and solar energy improvements are also eligible. **Not eligible:** Luxury amenities such as: swimming pools, tennis courts, hot tubs/Jacuzzis, saunas or other recreational or entertainment facilities. Total rehabs are not eligible under this program.

All repairs, alterations, or improvements must be completed by a contractor who is registered with the state, and qualified to do the work. If licensure is applicable, contractor must be licensed. The contract for the work must conform to section 1 of PHFA [Form 50](#).

The purchase price of the home being financed plus the cost of the improvements to the home must be equal to or less than the “as improved” appraised value. Improvement costs which exceed the appraised value shall be the sole responsibility of the borrower.



All repairs, alterations or improvements must be completed within 90 days (3 months) of closing. The borrowers must occupy the property within 60 days (2 months) of closing to comply with federal tax law eligibility requirements.

### **3. Borrower Instructions**

- Determine what repairs are required and ensure that they are completed within 90 days of closing.
- Execute the Purchase & Improvement/Access Home Modification Program Acknowledgment ([Form 48](#)) at time of application.
- Provide the lender with all estimates, specifications, firm contracts, etc. from qualified, licensed and Pennsylvania-registered contractors.
- Fund any cost overruns, unforeseen expenses, work not approved by the Lender and/or PHFA, and the cost of any work that exceeds the “as approved” appraised value. Lenders will collect these funds from borrowers at the Loan Closing.
- Execute [Form 49](#) to ensure timely payments to contractors.
- Borrowers may NOT act as their own contractors unless that is their trade or profession and they hold all required licenses, registrations, and insurance coverage (in which case, program funds are limited to materials only, not labor).

### **4. Lender Instructions and Procedures**

#### *a. Application/Origination*

The locking procedure remains the same for the Purchase & Improvement loans as it does for loans in the other programs. This program is limited to the Conventional Keystone Home Loan program.

The lender is required to collect the current prescribed fees designated for the specific program, plus any inspection fees (not to exceed the normal and customary amount, maximum of (2) two inspections) for the work and any normal closing costs.

Provide the borrower with [Form 48](#) and [Form 50](#) at the time of application and make sure they understand the information on the forms.

#### *b. Underwriting/Processing*

Analyze the construction contracts, estimates, etc. submitted by the borrower to determine the credibility and legitimacy of the proposals for the required repairs/improvements, and also that all necessary information is included in the contract per [Form 48](#) and [Form 50](#).

If the amount of the repairs exceeds the maximum amount of \$15,000 the lender will be responsible to insure that any additional funds secured by the borrower are obtained in a manner that will not affect the priority of the PHFA lien or jeopardize the borrower’s ability to repay the mortgage.

Provide all repair/improvement information submitted by the borrower to the appraiser to determine the “as completed” value of the property.

Provide a copy of the contract(s) with any specifications, estimates, drawings, etc including Form 48 in the Pre-Closing Package to PHFA using [Form 51](#). Please indicate on the top of Form 51 that it is a “Purchase & Improvement Loan”.

*c. Closing the Loan and Selling it to PHFA*

The lender will close the loan and indicate on the escrow agreement ([Form 65](#)) who will hold the repair escrow (the lender or PHFA). If PHFA is to hold the escrow funds, include a check for the total escrow amount with the Purchase Submission Package. The Agency will purchase the loan prior to the repairs being completed. If the cost of the work to be done exceeds the Improvement portion of the borrowers’ Purchase & Improvement Loan, the borrowers must provide the additional funds needed to the Lender at Loan Closing. The Lender must escrow these funds with the Improvement escrow if they are holding the Escrow or remit them to PHFA if the Agency will hold the escrow. Lenders should remit borrower funds with the Purchase Submission Package, and indicate on [Form 58](#) or via a separate cover letter the amount of borrower funds sent.

All funds disbursed must be used for home purchase and repair/improvement purposes. Unused funds will be applied to the principal loan balance.

*d. Escrow Administration*

There are two options available for choosing an Escrow Administrator.

1. The Lender may choose to serve as the Escrow Administrator, which includes holding the escrow funds, administering the draws, ordering inspections and obtaining the completion certificate using PHFA [Form 49](#) and closing the escrow account.

**OR**

2. The Lender may choose to have PHFA hold the escrow funds, administer the draws, order the inspections and obtain the completion certificate and close the escrow account. If this option is chosen, PHFA will still purchase the loan at the full Note amount. The lender will then submit a check to PHFA with the purchase submission package for the amount of the improvements minus any funds advanced at closing. If funds were advanced at closing, and PHFA will hold escrow, lender must submit Form 49 in Purchase Submission Package with Initial Payment column completed.

*e. Funds Disbursement*

Unless otherwise agreed to in writing by PHFA, there is a maximum of two draws, and there are two options available for the draw schedule:

1. **50/50.** Under this option, a draw is released when half of the work has been completed and then the final draw is made upon full completion. This is the preferred method. Two inspection fees may be provided to the appraiser for the interim and final inspections (normal and customary amount to be charged for inspections).

**OR**

2. **25/75.** At the borrower's request prior to the work starting, an initial draw of up to 25 percent of the escrow funds may be disbursed at or after closing to pay the contractor for materials, based on invoices for materials purchased or vendor quotes for materials to be purchased. The contractor must provide an invoice of the materials that were purchased or an estimate of the materials to be purchased. The second draw is then disbursed when the job is fully completed. Only one inspection fee may be provided to the appraiser for the final inspection.

Draws should be made payable to the borrower and the contractor or made payable to the contractor but sent to the borrower, to be given to the contractor. The draws can be released upon a satisfactory inspection by the appraiser and execution of Form 49 by the borrower (s), the contractor, and the appraiser for each draw. A completed Form 49 signed by the appraiser must be submitted to the Escrow Administrator upon final completion of all repairs/improvements; in addition to a completed W-9 form for the appraiser and contractors completing the work.

## ***F. FHA/VA STREAMLINE REFINANCE PROGRAM***

### **1. Overview**

The Streamline Refinance loan products allow eligible homeowners to refinance their existing FHA or VA loan to a new FHA or VA loan to reduce their current monthly mortgage payment.

### **2. FHA Guidelines**

The new FHA loan can include the outstanding principal balance (from the payoff statement) plus odd day's interest, minus the applicable refund of the UFMIP plus the new UFMIP, up to a maximum amount of 97.75% of the original appraised value. One month of annual MI for the current payment due on the existing loan may also be included. An itemized calculation of the new loan amount should be written or typed on the payoff statement from the current servicing lender and included with the pre-closing package submitted to PHFA.

Lenders must follow FHA's guidelines in effect at the time of loan application for the streamline refinance per the HUD Handbook [4000.1](#) (II A, Chapter 8, Section D). Also, see Appendix 1.0 'Mortgage Insurance Premiums', as the premiums differ depending on when the original loan was endorsed.

### **3. VA Interest Rate Reduction Refinancing Loan (IRRRL) Guidelines**

The new loan can only include the existing VA loan balance, allowable fees and charges, up to two discount points, and the VA funding fee.

Lenders must follow VA's streamline refinance guidelines in effect at the time of loan application per VA Pamphlet 26-7, Revised -- Chapter 6, Section 1 and sections of chapters 5, 7 and 8 as they pertain to the VA IRRRL's requirements.

### **5. Ginnie Mae Guidelines**

Streamline refinance borrowers must have made at least six consecutive monthly payments on the loan being refinanced, beginning with the payment made on the first payment due date. The first

payment due date of the refinance loan may occur no earlier than 210 days after the first payment due date of the initial loan being refinanced. This requirement applies to non-credit qualifying and credit qualifying refinances.

## **5. Subordinate Loans**

Both programs require that any and all subordinate loans must be re-subordinated or paid off by the borrower; they cannot be paid off with the new loan.

## **6. Additional PHFA Requirements**

While the lender must follow the FHA or VA guidelines, lenders must also comply with the following criteria for the loan to be eligible for sale to PHFA.

The non-credit qualifying option without an appraisal is acceptable, as long as a verbal VOE is completed.

Owner-occupied, one or two unit, principal residences only. Both the existing loan and the new loan must meet this requirement.

Loan terms are 30 year fixed rate only. Therefore, VA loans with an original term of 15 years are not eligible.

Maximum loan amount is \$484,350.

Real estate taxes and insurance (mortgage, homeowners & flood) must be escrowed regardless of the LTV.

The loan being refinanced must be current at the time of closing.

For loans currently serviced by PHFA:

- The amount needed to pay off the borrower's existing PHFA loan will be reduced by the balance in the borrower's existing escrow account. The payoff statement used must come directly from PHFA staff, as the one available to the borrower on the web will not show the reduction. The calculation of the new loan amount would still be done normally per the applicable program guidelines. Cash back to the borrower in excess of the amount allowed by FHA or VA would need to be applied to the principal amount of the new loan. If the payoff statement shows an 'escrow advance', that would need to be paid with the borrower's own funds. The lender will perform the standard escrow analysis to ensure sufficient funds are collected to pay for any taxes and insurance due within the next 12 months, and will also provide the initial escrow account disclosure statement.
- A copy of the homeowner's insurance declaration page is required.
- If there is an existing PHFA subordinate loan, it will be re-subordinated only if the new loan will be funded by PHFA. (PHFA will not re-subordinate a second loan if the PHFA first loan is refinancing with another investor.)

After the loan is approved by PHFA, forward the request for the subordination agreement to [mortgagerevisions@phfa.org](mailto:mortgagerevisions@phfa.org). Please allow five to seven business days for PHFA to complete

the subordination agreement and send it to the requestor. The subordination request should include the following:

1. Name of the borrower(s);
2. Property Address;
3. Name and address of the staff person at the participating lender who should receive the completed subordination agreement back from PHFA. (Please note: a certified true copy of the subordination agreement must be submitted to PHFA in the purchase package – see [Form 58](#).)

Non-occupying co-borrowers cannot be added to the new loan. They are permitted only when they were on the original FHA loan.

If a co-borrower is being removed, the loan must be underwritten and documented using FHA's 'Credit Qualifying Streamline Refinance guidelines without an Appraisal'.

See 'Lender Instructions and Procedures' for documentation requirements.

## **7. Lender Instructions and Procedures**

### *a. Lender Compensation*

See 'Participant Compensation' in [Chapter 1](#).

**The allowable Lender Administration Fee is \$600 on these programs.** No additional fees may be charged except for the reasonable and customary third party fees and closing costs.

### *b. Locking of Funds*

Lenders may lock a loan under the program by using the [PHFA Pipeline PLUS](#). See [Chapter 2](#) for details. A premium priced option is available as noted above under 'Lender Compensation'.

### *c. Underwriting Procedures*

Except for loans categorized as High Priced Mortgage Loans, PHFA will accept the following documents for a complete package. (FHA/VA Streamline Refinances that are HPMLs must be fully underwritten and documented per the HPML/TILA requirements.)

1. For FHA loans, an abbreviated application with applicable FHA addenda, (abbreviated application has all sections completed except for IV, V, VI and VIII (k)). However, fully completed applications will also be accepted. For VA loans, a fully completed application is required.
2. FHA Loan Underwriting and Transmittal Summary (FHA)
3. Signed statement by the veteran acknowledging the effect of the refinancing loan on the veteran's loan payments and interest rate (see VA chapter 6, Section 1, item Q for specific details of statement) (VA)
4. VA Form 26-8923, IRRRL Worksheet (VA)

5. VA Form 26-8937, Verification of VA Benefits (if applicable) (VA)
6. A copy of the borrower's current mortgage statement along with a credit supplement report showing the payment history for the most recent 12 months.
7. A verbal verification of employment indicating the borrower(s) are currently employed.
8. In lieu of an appraisal, a copy of the "Refinance Authorization Results" screen from FHA Connection which shows the original endorsement date and the appraised value, as well as the Refinance Authorization number assigned by FHA. The property value will be based upon the value when home was originally purchased. (FHA)
9. For VA loans, provide a copy of the VA IRRRL case assignment screen print showing the new VA loan number along with the original loan amount. (VA)
10. A copy of the current Deed.
11. A copy of a lien search or the marked up title commitment on the subject property. Any other loans/liens against the property must be paid off, satisfied, or re-subordinated. PHFA will condition for proof of this to be included in the purchase package when applicable. Subordinate loans cannot be included in or paid off by the new loan.
12. HUD Limited Denial of Participation (LDP) List and General Services Administration (GSA) List of Parties Excluded from Federal Procurement or Non-Procurement Programs must also be documented.
13. Verification of Assets for instances where the borrower needs additional funds to cover closing costs.
14. Loan Estimate and Closing Disclosure.
15. Life of Loan flood determination.

For borrowers utilizing the FHA Streamline Refinancing option in order to remove one or more of the current borrowers from the loan, FHA Streamline Credit Qualifying Refinancing guidelines will apply. VA guidelines for these situations are very specific, for eligibility requirements, review VA Pamphlet 26-7 Revised, chapter 1, section k.

For Credit Qualifying FHA Streamline Refinances, the lender must verify the existing borrower's income, credit and debt-to-income ratios. Therefore, additional items will need to be provided in the loan file:

1. Credit report.
2. Income verification.
3. A full Loan Application (1003) with all sections completed.

In addition, these loans are to be underwritten using PHFA's overlays (see 'PHFA Requirements' above), closed and funded according to PHFA's standard procedures as outlined in the Sellers' Guide and the [Master Origination and Sale Agreement](#). Any exceptions to standard procedures for this program are noted in this section.

The following PHFA-specific documents are **not** required:

- Mortgagor's/Seller's Affidavit ([Form 3](#))
- Recapture Tax Notice ([Form 4](#))

#### *d. Closing Procedures*

See [Form 53](#) and Chapter 9 for closing instructions.

An original instant Title Policy or Short Form Residential Title Policy for the new loan must be included with the purchase package.

**An Administration Fee no greater than \$600 may be charged** to cover the lender's overhead expenses on loans. No additional overhead fees such as doc prep, underwriting, etc., may be charged. Normal and customary charges for required third party fees may be charged.

See 'Additional PHFA Requirements' section above for information on how to handle the escrow account for borrowers whose existing loan is serviced by PHFA.

#### *e. Submitting the Purchase Package*

Use [Form 58](#) for submitting the Purchase Package.

If there is a subordinate loan, a true certified copy of the subordination agreement as sent for recording will be required at the time of purchase (or proof of payoff). This is referenced on page 3 of Form 58, item # 9.

## **CHAPTER 4 - ASSISTANCE PROGRAMS**

### ***A. KEYSTONE ADVANTAGE ASSISTANCE LOAN PROGRAM***

#### ***1. General Program Description***

The Advantage assistance loan is available to buyers with a middle FICO of at least 660 who are eligible for a PHFA first mortgage under either the Keystone Home Loan or Keystone Government Loan programs, as well as the HFA Preferred mortgage program (see Chapter 3 for first mortgage program details). Through Advantage, qualified homebuyers are able to borrow a portion of the funds needed to cover their downpayment requirement (other than their minimum required contribution) and/or closing costs associated with the purchase of their home.

#### ***2. Loan Terms and Usage***

The maximum amount of assistance to eligible homebuyers will be based upon the lesser of the purchase price or appraised value. Advantage assistance cannot exceed four percent or \$6,000, whichever is less. The minimum loan amount is \$500. Funds must be used to help cover the borrower's minimum downpayment requirement and/or closing costs (reasonable and customary costs that are typically paid by the buyer). Buyers purchasing a new home (never previously occupied) are eligible for up to \$6,000.

The Advantage loan is interest free but the principal is amortized over a term of 10 years. There is no prepayment penalty for paying off the Advantage loan early.

Borrowers must be utilizing maximum PHFA financing. Any Advantage funds exceeding the borrower's downpayment requirement must be used to cover closing costs. Advantage funds may not

be used to fund down money in excess of the applicable minimum required depending on the loan type. Additionally, they may not be used to finance the VA or RD guaranty fees or the FHA Upfront Mortgage Insurance Premium since those items may be financed by the first mortgage. PHFA guidelines as detailed in this Sellers' Guide, as well as all applicable FHA, VA, or RD guidelines apply, including loan to value and downpayment requirements.

The Advantage program may not be combined with any other PHFA assistance programs, with the exception of the Access Modification Loan Program.

### **3. Eligibility Requirements**

Buyers must meet the requirements of the applicable PHFA first mortgage program, as well as the criteria below. Being a first time homebuyer is only required if it is applicable to the first mortgage program.

#### *a. Liquid Asset Limitation*

The borrower's liquid assets may not be greater than \$50,000 after deducting the funds needed to close on the loan. This includes cash and funds in checking and savings accounts, stocks, bonds, certificates of deposit and similar liquid accounts. Funds from retirement accounts, such as 401(k)'s, IRAs, and pension funds, will only be considered if they can be withdrawn without a penalty due to the borrower meeting the age requirement and/or being retired.

#### *b. Homebuyer Education*

All borrowers with middle credit scores *below* 680 must complete an in person homebuyer education class or counseling session prior to closing, provided by one of [PHFA's approved counseling organizations](#). Online courses will not be accepted for these borrowers.

For loans where *all* borrowers have a middle credit score of 680 or higher, a homebuyer education class or counseling session must still be completed prior to closing; however, it need be completed by only one borrower. The education or counseling session must be provided by one of PHFA's approved counseling organizations or a PHFA-approved mortgage insurance provider. Telephonic and online courses are also acceptable for borrowers with a FICO of 680 or higher; acceptable online courses are those provided by an approved PMI company, Framework® or [PHFA](#). In all cases, a copy of the counseling certificate(s) must be included in the purchase package to PHFA.

### **4. Lender Instructions and Procedures**

#### *a. Locking of Funds*

The Advantage loan is locked simultaneously with the first mortgage by choosing the appropriate loan product based on the loan type, lock period, and specific PHFA program.

#### *b. Underwriting Procedures*

For underwriting purposes, the lender must include the Advantage loan payment in the borrower's housing to income (front end) ratio. The payment is calculated using the full amount of the Advantage



loan at 0% interest with a ten year term. The findings report from a PHFA approved Automated Underwriting System (AUS) must include the Advantage loan payment in the PITI.

The Advantage loan amount being requested must be indicated in the “Details of Transaction” section of the mortgage application. The PHFA Pre-Closing Package Review Results will indicate whether the Advantage loan was approved and if so, for how much.

### *c. Closing Procedures*

The first mortgage closes in the lender’s name, but the subordinate Advantage loan closes in PHFA’s name. Lenders are responsible for completing the Loan Estimate and Closing Disclosure for the subordinate Advantage loan using industry-standard and compliant forms. The Advantage loan is assumable under certain conditions. The late fee would be the same as for the first mortgage.

Except for the cost to record the Mortgage and a reasonable notary fee, no additional fees may be charged on a PHFA subordinate assistance loan since it is done in conjunction with the PHFA first mortgage in order to help the borrower qualify for the loan.

The Advantage loan must be recorded in second lien position. This will be verified post closing by PHFA.

The lender also prepares the Subordinate Mortgage and Note but uses PHFA’s forms for those documents ([Form 54 ADV](#) and [Form 55 ADV](#), respectively). The amount must be the actual assistance being disbursed at closing and listed on the CLOSING DISCLOSURE, rounded to the nearest dollar. The Subordinate Mortgage Instrument shall be recorded directly behind the first mortgage instrument as a second lien. No assignment of the subordinate mortgage is required since it closes in PHFA’s name.

At closing, the lender is to disburse only the actual amount of assistance needed, rounded off to the nearest dollar, up to the amount initially approved by PHFA. Cash back to the borrower is limited to \$100 in excess of reimbursement of POC items.

### *d. Post-Closing*

When the Agency purchases the first mortgage, it will also reimburse the lender for the actual amount of funds used by the borrower under the Advantage loan as listed on the CLOSING DISCLOSURE.

The lender is to forward to the Agency the following executed subordinate mortgage documents in the purchase package:

- Loan Estimate and Closing Disclosure
- Subordinate Mortgage Note ([Form 54 ADV](#))
- Certified copy of the Subordinate Mortgage ([Form 55 ADV](#)) with evidence it was sent for recording.
- A copy of any other subordinate Mortgage(s) with evidence it was sent for recording (for any other downpayment/closing cost/rehab funds received for which a mortgage is recorded). Please note that the Advantage loan must be recorded in second lien position.

The Closing Disclosure submitted with the SRP portion of the file (Page 4, [Form 58](#)) will be used to verify the amount of funds that were used by the borrower. The lender is to forward the original recorded mortgage document (Form 55 ADV) to the Agency within sixty days from the date of purchase. The lender is also responsible to forward a copy of the recorded mortgage that was used for any other downpayment/closing cost/rehab programs, if applicable. This will confirm that the PHFA Advantage Mortgage was recorded in second lien position. The mortgages are to be attached to a properly completed Form 30 and submitted to the Agency at the address referenced on the form.

## **B. MORTGAGE CREDIT CERTIFICATE PROGRAM**

### **1. Overview**

The Mortgage Credit Certificate ("MCC") Program is authorized under federal tax law as an alternative to the mortgage revenue bond program. Rather than finance bonds which provide funding for qualified mortgage loans to homebuyers under the Keystone Home Loan Program, the MCC program provides a limited tax credit to individual homeowners to offset against ordinary income. An MCC permits the qualified homeowner to claim a tax credit that reduces on a dollar for dollar basis their federal income tax liability, if any.

An MCC is an annual credit for the life of the original mortgage as long as it remains the homeowner's principal residence. It only expires if the homeowner sells or no longer utilizes the home as a principal residence.

The homeowner can claim a credit equal to the credit rate of 20 to 50 percent multiplied by the interest they paid on their first mortgage during the respective tax year, not to exceed \$2,000 in any given year. The credit rate percentage will be tiered based on the loan amount as follows:

Loan Amount	Credit Rate
Up to \$100,000	50%
\$100,001 - \$150,000	40%
\$150,001 - \$200,000	30%
\$200,001 and greater	20%

The \$2,000 limit does not apply to the credit rate of 20%. In other words, the borrower can claim up to 50 percent of the mortgage interest they pay each year, not to exceed \$2,000. The remaining mortgage interest paid may be claimed as a deduction per IRS guidelines.

#### **Example:**

\$125,000 (mortgage amount)  
x 4 percent (mortgage interest rate)  
x 40 percent (MCC percentage)  
= \$2,000 (eligible credit amount)

The borrower would be able to claim \$2,000 against his/her federal tax liability, and \$3,000 as a mortgage interest deduction.

The credit cannot exceed the amount of the federal tax owed after all other credits and deductions have been taken and can never exceed \$2,000 in any given year. To claim the credit, the homeowner completes and submits [IRS Form 8396](#) along with their federal tax returns. The homeowner must also continue to occupy the home as their principal residence in order to keep claiming the credit.

The [MCC calculator](#) from our website could help to determine the potential savings of a loan paired with an MCC.

## **2. Mortgage Requirements**

An MCC can be used in conjunction with a first mortgage under PHFA's Keystone Government (K-Gov) or HFA Preferred™ Program. Eligible borrowers may also qualify for an Advantage Assistance Loan in addition to the MCC. Due to the source of funds, **an MCC cannot be used in conjunction with a first mortgage under the Keystone Home Loan (KHL).**

The loan must be a new loan on the property for the borrower. Thus, if the borrower has paid off a previous permanent loan on the property or is seeking to refinance an existing permanent loan, the borrower is not eligible. The first mortgage will carry a 30 year fixed rate term with no prepayment penalty.

The standard underwriting guidelines of the mortgage product will apply. Therefore, if the borrower is applying under the K-Gov program, the guidelines of the entity insuring the loan will apply. The same applies if the loan is originated under one of the HFA programs, in which case the loan must meet Fannie Mae's HomeReady® program guidelines. Guidelines for both programs are located in Chapter 3 of the PHFA [Seller's Guide](#).

## **3. Eligibility Requirements**

The primary eligibility requirements for the MCC program are duplicative of the Keystone Home Loan program. As a result, **eligible borrowers must not only meet the requirements for the first mortgage program, but must also meet the requirements associated with Mortgage Revenue Bond Program (i.e., Keystone Home Loan) since the funding for the MCC Program comes from the same source.** These requirements are specified below.

### *a. First-time Homebuyer*

The borrower and all other adults who intend to live in the home within 12 months from closing must be first-time homebuyers. This is defined as someone who has not had an ownership interest in (not listed on the deed of) their principal residence during the previous three years.

The first-time buyer requirement does not apply if the borrower is purchasing in a targeted county or area. Target counties are indicated by a "T" in the listing of Purchase Price and Income Limits ([Appendix A](#)). Please note that some non-target counties have targeted neighborhoods within them as listed in the appendix. To determine the census tract of a specific property, visit [www.ffiec.gov](http://www.ffiec.gov) and click on Geocoding/Mapping System.

Veterans (and their spouses, if applicable) do not need to meet the first-time homebuyer requirement in non-target areas under the MCC Program. A veteran, for this purpose, is defined as someone who served in active duty of the Armed Forces or Reserves and who was discharged or released under conditions other than dishonorable. Veterans using this exception must sign Addendum D of the Mortgagor's Affidavit (Form 3) and provide a copy of their discharge papers.

The Agency reserves the right to investigate or require further substantiation of the borrower's ownership status.

### *b. Income Limit*

The gross annual income, (projected over the next 12 months) for all adults that intend to occupy the home within one year from loan closing, must not exceed the income limit (as specified in [Appendix A](#)). All sources of income must be included, except for income received by persons under age 18 and income received by dependants enrolled in a full-time undergraduate program of at least 12 credits per semester.

The total Annual Household Income is to be completed at the time of application. If this income increases after the date of application or the loan does not close within four months of application, the income must be re-certified. A new page two of the Mortgagor's Affidavit ([Form 3](#)) must be completed with the new income information and initialed by the borrower.

If the new Annual Household Income exceeds the Income Limit for the area in which the residence is being purchased, the borrower is no longer eligible for the MCC.

For construction/permanent loans, income eligibility must be determined at the time of the construction loan closing. For permanent loans (where there is a second closing), which are paying off construction loans, income eligibility must be determined at the time the permanent loan closes to pay off the construction loan.

Care must be exercised when determining household size, especially when there is a change between the time of application and closing (for example, if it is determined that another adult will reside in the property within 12 months from closing). Any changes to family size and household income must be noted on the "Mortgagor's Affidavit Reaffirmation at Loan Closing". The loan cannot close with the expectation that an MCC will be issued if the borrower is no longer eligible for the program at the time of closing.

### *c. Purchase Price Limit*

The purchase price of the prospective home cannot exceed the same limits referenced for the Keystone Home Loan Program (See [Appendix A](#)). This includes all costs for a complete home and is also known as the total acquisition cost. For two-unit properties, the purchase price may exceed the applicable published limit by ten percent.

All borrowers applying for an MCC must complete a Mortgagor's Affidavit (Form 3), to acknowledge that they understand the program requirements and to attest that they meet them.

The lender is also required to sign this form to indicate it was explained to the borrower. At the time of closing, the borrower must sign the Mortgagor's Reaffirmation at Loan Closing (part of Form 3) to indicate they still meet the program requirements. The Seller must complete the Affidavit of Seller at or before closing (also part of Form 3) to verify compliance with the program requirements.

## **4. Recapture Tax**

As with the Keystone Home Loan program, the Federal Recapture Tax guidelines apply to the MCC program. Therefore, "**The Notice to Mortgagor of Potential Recapture Tax**" (Form 4) must be completed by the participant and then executed by the borrowers prior to or at the loan closing. The completed form is to be included in the Purchase Submission. **PHFA will reimburse any borrower who ever has to pay a Recapture Tax in connection with the sale of their home.**

## **5. Lender Instructions and Procedures**

### *a. Locking Process*

The PHFA participating lender completes the normal underwriting process and review for the first mortgage for which the applicant is applying and must also ensure the borrower meets the criteria for the MCC program as specified above. The lender indicates the loan is being originated under the MCC program at the time the loan is locked in with PHFA by selecting 'Yes' to the question 'Is the borrower applying for a Mortgage Credit Certificate from PHFA?' in the Mortgage Programs section under the New Loan Lock. The MCC rate will appear in the Pipeline Loan Details section after the loan has been locked.

### *b. Underwriting and Processing*

In addition to the standard required documents, the lender must also provide the following:

- A fully completed and signed PHFA Mortgagor's Affidavit Form 3;
- THREE years of transcripts from the IRS for all adult occupants (if not available at the time the pre-closing package is sent to PHFA, provide the 4506T that was signed at the time of application and provide the transcripts with the purchase file);
- A copy of PHFA's MCC Fact sheet and IRS [Form 8396](#) is to be provided to the borrower at the time of application, or as soon as it is determined that the borrower is applying for an MCC. These documents will help the borrower understand how the MCC works.

The MCC may not be used to increase qualifying income, even if permitted by the respective insurer/guarantor (i.e., Fannie, FHA, VA or RD).

Once the loan has been processed, underwritten and approved by the participating lender, the lender submits the file (using Form 51 as the cover sheet and checklist) to PHFA for a pre-closing review prior to closing. PHFA will review the submission for completeness and determine whether all the necessary affidavits are properly completed and executed. If the submission is complete and acceptable, a Pre-Closing Package Review Results-Eligible Notification will be issued for the first mortgage, any PHFA assistance funds approved, as well as the percentage amount of the MCC.

### *c. Closing*

The lender will close the loan per standard PHFA policies and procedures. The following PHFA-specific forms are required:

- Recapture Tax Notice Form 4
- Mortgagor's Affidavit Reaffirmation at Closing (Form 3)
- Seller's Affidavit (Form 3)

PHFA will mail the physical MCC to the borrower when the purchase file is received from the lender.

### *d. Additional Lender Responsibilities under the MCC Program*

The Participating Lender must file an annual report with the IRS using [IRS Form 8329](#) by January 31 for the prior calendar year during which it made any loans with associated MCC's. PHFA is not permitted to file the report on behalf of the lender, but it will provide the lender with the necessary data in early January for the prior year's MCC activity, if any. PHFA will provide reminder letters to all applicable lenders in mid-December.

## **6. Reissuance of Mortgage Credit Certificates**

If a homeowner chooses to refinance, the MCC may be able to be reissued with the approval of PHFA for a fee of \$100. The following qualifications must be met:

- The reissued MCC must replace the existing MCC in its entirety.
- The MCC must be reissued to the same homeowner and for the same property which continues to serve as the homeowner's principle residence.
- The MCC credit rate will remain the same and the certified indebtedness on the reissued MCC cannot exceed the outstanding principal balance of the existing loan at the time of refinance.
- A reissued MCC cannot have a larger credit amount than what would have been allowed under the existing MCC. This is determined by the homeowner each year they file for the credit. (See instructions on [IRS Form 8396](#).)
- The MCC holder has up to one year to notify the Agency of their refinance and request a reissuance.
- Required documents needed are a copy of the Note and HUD1 Settlement Statement/Closing Disclosure for the new loan.
- The new loan must have a fixed interest rate.
- An MCC will only be reissued one time.

## **C. HOMESTEAD**

The HOMEstead Program provides subordinate mortgage financing up to \$10,000 for qualified first-time homebuyers. The financing is made available in combination with a first mortgage funded by PHFA. The second mortgage is also provided by PHFA but uses funds from the HOME Investment Partnership Program (HOME) and the American Dream Downpayment Initiative (ADDI), both of which are administered by the U.S. Department of Housing and Urban Development (HUD). The program is intended to assist first-time homebuyers with their downpayment and closing costs. The amount of funds approved will depend upon the need of the borrower. It may be used to lower the front end ratio to 30 percent. The minimum loan amount is \$1,000.

The HOMEstead mortgage is a non-interest bearing loan with no monthly payment. HOMEstead loans are forgiven on an annual basis over five years at a rate of 20 percent per year. The first mortgage can be an FHA insured, VA or RD Guaranteed or a Conventional loan which is originated in accordance with the Homeownership Program guidelines, including the Master Origination and Sale Agreement and this guide. These loans are sold “service released” to the Agency.

Lenders are responsible to determine that borrowers comply with both the PHFA first mortgage program guidelines as detailed in this guide as well as the HOME Program guidelines within this section.

The HOMEstead Program is not available for use with a Keystone Government Loan, or the HFA Preferred loan program.

### **1. Availability of Funds**

Locking of funds for the HOMEstead Program is on a first-come, first-serve basis done in conjunction with the lock of funds for the Agency’s Homeownership Program. The process will follow the current procedure now in effect. When the loan is locked via PHFA Pipeline Plus, a box will appear on the Subordinate Mortgages page for you to enter the assistance amount.

### **2. Eligible Lending Areas**

Due to the HOME regulations, some areas of the state are not eligible for HOMEstead funds administered by the Agency. These areas are known by HUD as Participating Jurisdictions (PJ’s) and they have received their own allocation of funds, therefore, excluding them from the funds allocated to the Agency. See [Appendices 1 or 2](#) for a listing of eligible areas.

The borrower may also be eligible for a first mortgage through the Agency and a second HOME funded mortgage through their participating locality, depending on the guidelines in that specific locality. Borrowers should contact the [Department of Community and Economic Development](#) regarding availability of funds in their area.



### **3. Borrower Eligibility**

Borrowers must meet the eligibility requirements listed below.

#### *a. Homebuyer Education*

All borrowers applying under the HOMEstead program are required to complete an in person homebuyer education program at a PHFA/HUD approved agency regardless of their credit score.

#### *b. First-time Homebuyer*

Borrowers must be a first-time homebuyer (i.e. has not at anytime during the three years preceding the date of loan closing had an ownership interest in a principal residence). In addition, a borrower eligible for Assistance may not have an interest in any other real estate or an interest in a business other than the business which is his or her primary source of income. This requirement applies to all persons living in the property. Borrowers acquiring a home in a Target Area (See [Appendix A](#) for a list of “targeted” areas) are not required to be first-time homebuyers if one of the follow is true:

- The borrower is a single parent which is defined as an individual who is unmarried or legally separated from a spouse; and has one or more minor children for whom the individual has custody or joint custody; or is pregnant.
- The borrower owns or has owned a principal residence during the three-year period before loan closing but the residence was not permanently affixed to real property or was not in compliance with state, local, or Model Building Codes and cannot be brought into compliance with such codes, or other applicable codes, for less than the cost of constructing a permanent structure.

#### *c. Income Limit*

Borrowers must not have income which exceeds the program income limits for the geographic area in which the single family residence being acquired in located. (See [Appendix 1](#)) PLEASE NOTE: The income limits are based on 80 percent of the Area Median Income (AMI) and differ from those of the PHFA Keystone Program limits; however, calculation of income for qualification is computed in the same manner as the income requirements for the PHFA first mortgage products. Please note that an unborn child cannot be included in the family size to determine the number of family members for income limit purposes.

#### *d. Program Affiliation*

No person who is an employee, agent, consultant, officer, or an elected or appointed official of the Pennsylvania Department of Community and Economic Development, [formerly the Department of Community Affairs] or the Pennsylvania Housing Finance Agency, who has participated in or is participating in any functions or responsibilities related to the HOMEstead Program or has held or has access to inside information regarding the HOMEstead Program, is not eligible to receive a HOMEstead Program loan.

#### **4. Loan Features & Guidelines**

- The amount of the HOMEstead mortgage is limited to no less than \$1,000 and no more than \$10,000. Loans are forgiven on an annual basis over five years at a rate of 20 percent per year. (Please note that PHFA does not require the assistance to be entered as a subordinate loan for automated underwriting purposes. Instead, it can be listed as an asset.)
- The loan must finance the purchase of a single family owner-occupied (1 unit) residence. Loan proceeds cannot finance any of the following: the acquisition of personal property; land not adjoining to the residence; land adjoining the residence but not necessary to maintain the basic livability of the residence and which provides, other than incidentally, a source of income to the borrowers; settlement and financing costs which are in excess of that considered usual and reasonable.
- The loan cannot refinance an existing loan or acquire or replace existing mortgages of the borrowers for the property, except for some types of temporary financing.
- The closing date of the loan cannot precede the Pre-Closing Eligible Date on the Pre-Closing Package Review Results- Eligible Letter.
- The amount of the first mortgage with Conventional financing cannot exceed 97 percent of the appraised value or the purchase price of the property, whichever is less.

#### **5. Property Guidelines**

The subject property must meet the guidelines listed below:

##### *a. Lead-based Paint*

Existing properties must have been built after 1978, due to HUD's lead-based paint regulations which require that homes built prior to 1978 must be inspected for any chipping, peeling, flaking, loose, scaling or cracking paint. If any of these paint conditions exist, the home must be tested for lead-based paint. The borrower and seller would negotiate on who pays for the test. Then, depending on the results, there could be additional costs involved. Therefore, PHFA has elected to limit its HOMEstead program to those homes that are not affected by the regulations.

The Agency may still provide assistance under the HOMEstead Program for homes that were built before 1978 if one of the following is true:

- The borrower is purchasing the home from a local housing or redevelopment authority or a non-profit organization which has recently remodeled the home and would be able to certify in writing that it contains no lead-based paint.
- Based upon an inspection (appraisal) of the property, it was found to be clear of any chipping, peeling, flaking, loose, scaling or cracking paints both on the interior and exterior.

### *b. Acquisition Cost*

The Acquisition Cost of the residence must not exceed the applicable Program Acquisition Cost Limits. (See [Appendix 2](#)) The Acquisition Cost is calculated in the same manner as in the PHFA first mortgage programs. The estimated appraised value at acquisition, or after any needed repairs to meet the property standards as required by the Property Inspection Checklist ([Appendix 5](#)), also cannot exceed these limits. All properties must be single units. Two-Unit properties are not acceptable under the HOMEstead program.

### *c. Existing Homes*

**For existing homes only**, an FHA appraisal must be obtained. Any adverse property conditions noted by the appraiser must be documented. In addition, a Property Inspection Checklist ([Appendix 5](#)) must be completed and signed by the appraiser and submitted along with the appraisal in the Pre-Closing Package. The appraiser must be paid an additional Property Inspection Fee not to exceed \$150. This fee is paid for by the borrower but can be included in the HOMEstead assistance amount. All existing homes must be appraised by an FHA appraiser and reviewed by a Direct Endorsement underwriter. FHA lenders must have their Direct Endorsement (DE) underwriter complete and sign the Conditional Commitment – even on a conventional loan. Lenders who are not approved as a non-supervised FHA lender doing a HOMEstead loan conventionally, must still obtain an FHA appraisal since the HOME guidelines require that the property meet FHA minimum property standards. No matter what type of financing is being obtained, a DE Underwriter at the Agency will determine what repairs will need to be completed prior to loan closing for the conventional lenders. Properties insured by RD or VA must also meet their prospective property requirements in addition to the FHA minimum property standards. VA loans can only be done by VA approved lenders. The final disposition of the conditions needing correction must be documented on the Compliance Inspection Report Form HUD-92051 ([Appendix 8](#)). A copy of the final Compliance Inspection Report must be submitted with the purchase package.

### *d. Newly Constructed Homes*

**For newly constructed homes**, a Conventional appraisal may be obtained (unless the loan is FHA insured, VA or RD guaranteed). All properties must meet the Pennsylvania Uniform Construction Code and any applicable local building codes. A construction completion certification and a use and occupancy certification is required on all newly constructed homes.

### *e. Tenant-Occupied*

Unless the borrower is the tenant, no property that was tenant-occupied at the time the Agreement of Sale was signed can participate in the program. This is due to the Federal Uniform Relocation Act that applies to HOME funding. The seller of the home must certify that the home is not tenant-occupied. The Notice to Seller ([Appendix 7](#)) is to be executed during the application process and a copy is to be submitted in the Pre-Closing Package to the Agency.

## **6. Calculation of Assistance**

The amount of assistance is based on the borrower's need. For all loans with loan-to-values greater than 80% (except RD and VA), the borrower is required to contribute the lesser of \$1000 or 1% of the loan amount from their own verifiable funds. The HOMEstead loan may be used for the remaining downpayment required and/or balance of closing costs and any additional downpayment necessary to make the purchase affordable to the homebuyer.

HOMEstead funds may be used to lower the front-end ratio to 30 percent and to help cover closing costs. Assistance cannot be used to offset a high back-end ratio. Please note, all other funds must be utilized to their fullest extent before applying HOMEstead funds. This includes cash and gifts, grants, seller assistance, land equity, liquid assets in excess of \$5,000, etc.

In order to calculate the amount of assistance needed, a Needs Assessment Form ([Appendix 3](#)) must be completed. The borrower may retain up to \$5,000 of their own funds after closing. Assets include those of all adults intending to occupy the property.

## **7. Funding Procedures**

The HOMEstead Needs Assessment Form ([Appendix 3](#)) is to be completed by the lender and included in the Pre-Closing Package.

After the loan is approved by PHFA funds will be sent via ACH to the lender. The PHFA Pre-Closing Package Review Results- Eligible Notification will specify the amount of HOMEstead Assistance that has been approved.

At closing, the lender is to disburse funds only for the actual amount of assistance needed, up to the amount initially approved and issued by PHFA. Cash back to the borrower is limited to \$100 in excess of reimbursement for POC items. Any additional funds must be reimbursed to PHFA, and the HOMEstead loan must be reduced accordingly.

After Closing, the lender is to forward to the Agency the following items with the Purchase Submission:

- A copy of the HUD-1 Settlement Sheet verifying the actual amount of HOMEstead Assistance disbursed at closing;
- A refund check payable to PHFA for any unused HOMEstead loan funds, rounded off to the nearest dollar, (if the amount exceeds \$100).

## **8. Loan Documents**

In addition to the HOMEstead Appendices mentioned in these guidelines, the following documentation is required.

- Original and final disclosures as required by TILA and/or RESPA.
- A Subordinate Mortgage Note ([Form 54a](#)) and a Subordinate Mortgage Instrument ([Form 55](#)) payable to PHFA shall be executed for each HOMEstead loan for the amount of actual assistance, rounded up to the nearest dollar. The interest rate in the documentation shall be at zero percent.
- The Subordinate Mortgage Instrument shall be recorded as a second mortgage lien. No assignment of the second mortgage is required, as it is closed in the name of PHFA.
- The original recorded Subordinate Mortgage Instrument should be submitted in the Final Document file. If PHFA does not receive this recorded document within 60 days from settlement, a request for the document will be sent to your office.
- The homeowner's insurance should list, "Pennsylvania Housing Finance Agency, its Successor and/or Assigns", as first **AND** second mortgagee. Also, the insurance coverage must be in an amount sufficient to cover both loans.
- Schedule B of the Title Policy should list Pennsylvania Housing Finance Agency as second mortgagee.

*\*Use the HOMEstead Checklist ([Appendix 10](#)) as a reference when submitting loans for Pre-Closing Review.*

### **D. ACCESS DOWNPAYMENT & CLOSING COST ASSISTANCE**

See [ACCESS DOWNPAYMENT & CLOSING COST ASSISTANCE](#) in [CHAPTER 5](#).

### **E. EMPLOYER ASSISTED HOUSING (EAH)**

PHFA offers an Employer Assisted Housing (EAH) Initiative to help address the issues regarding the lack of affordable housing for low to moderate-income workers. Throughout the country and certainly throughout Pennsylvania, homeownership is beyond the reach of core community employees which include medical personnel, school employees, police and fire personnel, county workers, laborers, service industry staff, etc. Many are forced to find housing outside of the communities they serve. This increases commute time, decreases family time, and detracts from the employee's connection to the community they serve.

[Participating Employers](#) who offer a monetary home purchase benefit partner with PHFA to stretch their employee's home buying dollars even further. Although the employer's benefits do not have to be contingent on a PHFA mortgage, if the employee does obtain a PHFA mortgage, through a [participating lender](#), the borrower may also receive additional downpayment/closing cost assistance at no cost to the employer. An Employer Assisted Housing program benefits everyone; the employer, the employee, and the local community.

## **1. Benefits to the Employee**

The benefits to the employee going through an EAH program are:

- Increased downpayment and/or closing cost assistance of up to \$8,000 with no percent cap through the Keystone Advantage Assistance Loan, based on need.

## **2. Benefits to the Employer**

The benefits to the employer for sponsoring an EAH program are:

- Reduced turnover costs
- Greater retention
- Attractive recruiting feature
- Controlled expense (can set a pre-determined budgeted amount)
- Community revitalization
- Eases tardiness and sick leave use
- Strengthens loyalty and morale
- Good public relations

Combining the employer's benefit with a PHFA mortgage will save the employee thousands of dollars over the life of the mortgage loan. All PHFA loans offer the following advantages to eligible borrowers:

- Competitive rates and fees
- Free homebuyer counseling
- Downpayment and closing cost assistance
- 30 year, fixed-rate terms
- PHFA services for the life of the loan
- Mortgages for new or existing homes
- Conventional, FHA, VA, and RD loan types available, depending on the participating lender
- Assumable to qualified borrowers (if permitted under first mortgage program)
- Refinance loan programs available.

## **3. Lender Instructions and Procedures**

The EAH program is an enhancement to the existing mortgage programs. When reserving the loan via the PHFA Pipeline PLUS, be sure to select the Employer from the dropdown menu on the Mortgage Programs screen.

The Pre-Closing package will need to contain written notification from the employer detailing the benefit the employee will receive (amount, repayment terms, etc.).

For additional information on the Employer Assisted Housing Initiative, please call 717.780.3871.

## ***F. ADDITIONAL ASSISTANCE PROGRAMS***

### ***a. Affordable Housing Assistance Programs***

PHFA financing can often be combined with assistance programs offered by various local government and nonprofit organizations. Affordable Housing Assistance Programs include but are not limited to the following:

- Grants that do not create liens as well as subordinate financing that creates a lien against the property regardless of whether the funds bear interest, require a monthly repayment, are forgiven over time, or are due upon sale or transfer;
- Shared appreciation agreements or resale restrictions such as those that require future sales to income eligible borrowers or restrict the sales price of future transfers;
- Community Land Trusts.

The Participating Lender is responsible to ensure that the program documents including the Mortgage, Note, Deed, or any other pertinent agreements and documents comply with all applicable insurer and investor guidelines. The Affordable Housing Assistance Program Checklist [Form 5](#) must be provided to PHFA with the pre-closing package to document the Lender reviewed the program.

In calculating how much PHFA assistance is needed, funds from other programs must be applied first. If there is still a gap, the borrower may apply for PHFA assistance, but it cannot be used as additional down money.

Any PHFA-funded assistance must be in second lien position unless otherwise approved by PHFA in writing. To ensure this requirement is met, a copy of any other subordinate Mortgage(s) with evidence it was sent for recording (for any other downpayment/closing cost/rehab funds received for which a mortgage is recorded) is required in the purchase package submission to PHFA.

### ***b. Section 8 Homeownership Vouchers***

For qualifying purposes [Section 8 Homeownership Vouchers](#) may be added to the borrower's income or used as a direct reduction to the PITI payment, per the applicable investor/insurer guidelines.

A Borrower's Authorization Form ([Form 66](#)) must be signed by all borrowers using a Section 8 Homeownership Voucher in conjunction with a PHFA loan, in addition to a notification from the Housing Authority specifying how the voucher is paid (to the borrower or directly to the servicer).

## **CHAPTER 5 – SPECIAL PROGRAMS FOR PERSONS WITH DISABILITIES**

### ***A. ACCESS HOME MODIFICATION PROGRAM***

The Access Home Modification Program is a home modification program administered by the Pennsylvania Housing Finance Agency (PHFA). The program provides financial assistance to persons with disabilities or who have a disabled family member living with them to purchase a home and make it accessible according to their needs.

#### ***1. Program Description***

The PHFA Access Home Modification Program provides subordinate mortgage financing for persons with disabilities who qualify for one of the Agency's home purchase programs. The mortgage financing is available in conjunction with the Agency's conventional, Rural Development or FHA insured home purchase first mortgage programs.

The amount of the Access Home Modification loan is limited to no less than \$1,000 and no more than \$10,000.

The Access Home Modification mortgage is a non-interest bearing loan with no monthly payment. Repayment of this debt is required upon the sale, transfer (except by inheritance or between spouses) or non-owner occupancy of the property. Repayment is not required upon payoff of the first mortgage as long as the borrower continues to occupy the home. Upon refinance of the first mortgage, the borrower may include the payoff of the assistance funds in the new mortgage or the Agency may once again subordinate the original assistance mortgage depending on the terms of the transaction.

The Access Home Modification loan program can be used in conjunction with any of the Agency's Down Payment and Closing Cost Assistance programs (and generally with any local assistance programs funded by the municipality or a non-profit organization). When doing so, the borrower(s) must meet all guidelines of that program including income and purchase price limits, property, counseling, etc.

#### ***2. Eligibility Requirements***

##### ***a. Eligible Applicants***

- Persons applying for a PHFA home purchase loan who also meet the eligibility and underwriting standards for the respective first mortgage program.
- Persons with a permanent disability or persons who have a family member (s) living with them who have a permanent disability.
- Applicant (s) must be in the process of purchasing a new or existing home that needs access modifications.



### *b. Eligible Loans*

- Loan proceeds will only be available to make necessary modifications, improvements, or repairs to single family homes financed with one of PHFA's home purchase programs. The home adaptations must be specifically designed for the individual needs of the person with the disability. Agency staff will review the plans and specifications for the work to be conducted at the time of the pre-closing submission. However, the Agency will not certify or be responsible for the work completed.
- The maximum loan amount is \$10,000. The minimum loan amount is \$1,000.
- The Access Home Modification loan will be secured by a second mortgage (PHFA Down Payment and/or Closing Cost Assistance should be filed in second lien position). Repayment of the Access Home Modification loan is due upon sale, transfer or non-owner occupancy of property.
- Loan proceeds may not be used to reimburse Borrower (s) for materials they have purchased or work they have completed prior to the date of application.

### *c. Eligible Home Modifications*

The home modifications should be designed to meet the individual needs of the person with the permanent physical disability who resides in the home. They must be completed within 90 days of closing and may include such things as:

- Bathroom modifications
- Installation of grab bars and handrails
- Kitchen modifications such as: lowering cupboards, countertops, appliances, light switches and electrical outlets
- Lifting devices: Elevator, Chair lift, Stair glide
- Main level bathroom addition
- Ramp and/or sidewalk addition or repair
- Widening doorways and/or hallways
- Assistive Technology

## **3. Lender Instructions and Procedures**

### *a. Locking of Funds*

The participating lender must lock the modification funds at the same time they lock the funds for the first mortgage.

### *b. Underwriting*

Lenders must provide borrowers with PHFA [Forms 48](#) and [50](#). Lenders should make borrowers aware that the first item in Form 50 provides the standards that construction contracts for Access Home Modification work must meet, and the balance of the form provides guidance to borrowers to help them have a successful construction experience.

Lenders must complete [Form 62](#) to indicate whether the lender or PHFA will hold the escrow. And, if PHFA is holding the escrow whether or not the lender is requesting that a portion of the escrow be sent to them to provide an Initial Payment\* to the contractor at the Loan Closing. Form 62 should be sent to PHFA in the pre-closing package.

\* This initial payment may not exceed 25 percent of the total Access Home Modification Loan amount. Borrowers must approve this payment in writing. Lenders should request that borrowers complete the first column of PHFA Form 49 and execute it to indicate their approval. Form 49 should be sent to PHFA in the Purchase/Submission package in addition to a completed W-9 form for the appraiser and contractors completing the work.

If the Contractor makes the lender aware that he or she will require an Initial Payment after the Pre-Closing package has been submitted, Lenders should provide the Initial Payment and request reimbursement from PHFA after Loan Closing using Form 49, submitted in the Purchase Submission File

The Lender must ensure that the appraiser receives a copy of the construction contract to include plans, and specifications, etc. so that he/she can inspect the home once the work is complete. However, the home is to be appraised “As is” and is not to be based on the modification changes. The lender’s normal and customary inspection fee can be charged for the final inspection.

In addition to the customary documents, specified on [Form 51](#), the Lender Underwriting Submission Checklist, the pre-closing package that includes an Access Home Modification Loan must also include Forms 48, 62, and a copy of the contract and any applicable specifications, drawings, etc. The contract must meet the requirements described in section 1 of PHFA Form 50. The contract will be reviewed by the PHFA Technical Services Division to ensure that proposals are reasonable. However, this review will not certify any of the work, its quality or the suitability of approved modifications for the borrower or family member needing them. Lenders should encourage borrowers to obtain design assistance from professionals who specialize in accessibility modifications and Assistive Technology. These resources are described further in PHFA Form 50, Borrower guidance for PHFA Home Improvement Loans.

Upon receipt of PHFA loan approval, the participating lender shall issue a written loan commitment to the borrower (s) identifying all loans for which they have been approved.

NOTE: If any changes are needed to the work contract, whether requested by PHFA or by the borrower or contractor, they must be approved by PHFA prior to loan closing.

### *c. Closing and Post-Closing/Final Docs*

Disbursed funds cannot exceed the total loan amount approved. If the modifications to be completed cost more than the borrowers’ Access Home Modification Loan amount, then borrower funds must be collected at closing and held in escrow. Government modification funds that are paid directly from the governmental or nonprofit entity to the contractor do not have to be escrowed. However, if these funds are paid to the borrower to pay the contractor then they must be collected at closing and escrowed. Should there be an increase in costs during the modification period; the borrower(s) must fund the amount of the increase.

The lender must complete and have the borrower execute at closing a Subordinate Mortgage and Note (Forms 54 and 55) for the Access Modification Loan in an amount equal to the total funding approved for the access modifications. The loan is to be closed in PHFA's name and recorded in second lien position, unless the borrower is receiving any closing cost/downpayment assistance provided by the Agency. An additional Subordinate Mortgage and Note (Forms 54 and 55) must be executed if PHFA is also providing any closing cost/downpayment assistance. The interest rate in the documents shall be zero percent (0%) interest with the proceeds of the Access Home Modification loan due and payable upon sale, transfer or non-owner occupancy of the property in accordance with the provisions of the note. No assignment of the second/third mortgage is required, due to the fact that the mortgage is to Pennsylvania Housing Finance Agency. There may not be more than one PHFA lien superior to the Access Home Modification Loan.

[Form 58](#) describes the normal and customary documents required in the Purchase Submission package to PHFA. Lenders must include an Escrow Agreement ([PHFA Form 65](#)) regardless of whether the Lender or PHFA will hold the borrower's escrow. In addition, Lenders must submit an executed Form 49 if PHFA will be holding the escrow and the lender needs to be reimbursed for an Initial Payment they have made to the contractor at the loan closing.

If PHFA will be holding the escrow and administering all draws, Form 49 will be submitted directly to PHFA by the borrowers. Borrowers may call PHFA 717.780.3871 or email us at [SFPurchasing@phfa.org](mailto:SFPurchasing@phfa.org) to request a copy of this form. Lenders may also provide it from the Agency website.

If the Lender will be holding the escrow and administering all payments to the contractor, the lender must execute and send a Form 49 to PHFA to indicate that the job is complete.

#### *d. Escrow Administration*

Lenders must complete Form 62 to indicate whether the lender or PHFA will hold the escrow. And, if PHFA is holding the escrow, whether or not the lender is requesting that a portion of the escrow be sent to them to provide an Initial Payment\* to the contractor at the Loan Closing. Form 62 should be sent to PHFA in the pre-closing package.

\* This initial payment may not exceed 25 percent (25%) of the total Access Home Modification Loan amount. Borrowers must approve this payment in writing. Lenders should request that borrowers complete the first column of PHFA Form 49 and execute it to indicate their approval.

#### *i. Lender-Held Escrow*

##### **Steps to follow when the lender is holding the escrow funds:**

1. After a mortgage loan has been approved and an Pre-Closing Package Review Results- Eligible Notification has been issued, PHFA will forward funds via ACH in the amount approved for the Access Modification funds if the lender intends to hold the escrow. The Closing Date of the loan cannot precede the Pre-Closing Eligible Date.
2. The check will be sent to the lender within seven (7) days of the loan approval.

3. Lenders should administer the escrow with a minimum number of draw payments. Each draw, including any Initial Payments to contractors provided at the Loan Closing and the final payment at construction completion must be approved in writing by the borrower. PHFA [Form 49](#) may be used by the lender for these purposes.
4. Upon completion of the work the Agency requires an inspection to certify that the work has been completed as proposed in the contract submitted in the underwriting package. Form 49 also contains space for the Inspector's signature. The Form 49 indicating that work is completed and accepted by the borrower must be sent to PHFA in the Final Documents Package.

## ii. PHFA-Held Escrow

### Steps to follow when PHFA is holding the escrow funds:

1. If the lender informs PHFA through [Form 62](#) that the Agency will be holding the escrow funds, PHFA will retain these funds, not send them to the lender. PHFA will provide Form 49 to borrowers to request payments to their contractor (limited to two). PHFA will also schedule the initial and final inspections.
2. If the lender's Form 62, enclosed in the pre-closing package, indicates that the borrower has approved an Initial Payment to the Contractor at Loan Closing PHFA will forward funds via ACH to the lender for distribution at closing. Lenders must ensure that borrower approval is documented in writing on Form 49 to be enclosed in the Purchase Submission file.

If the lender determines after submission of the pre-closing file that an Initial Payment is approved by the borrower, Lenders should provide the Initial Payment and request reimbursement from PHFA after Loan Closing using Form 49, submitted in the Purchase Submission File. Again, borrowers must indicate their approval of the Initial Payment by completing column 1 of Form 49 and executing the form.

In either situation, this initial payment may not exceed 25 percent of the total Access Home Modification Loan amount.

## ***B. ACCESS DOWNPAYMENT & CLOSING COST ASSISTANCE***

The Access Downpayment and Closing Cost Assistance Program provides mortgage loans to assist persons with disabilities or who have a permanently disabled family member living in the household who are purchasing homes and need downpayment and closing cost assistance. This program provides a deferred payment loan, with no interest. The loan becomes due and payable upon sale, transfer, or non-owner occupancy of the property. It may not be combined with other PHFA downpayment and closing costs assistance programs.

### ***1. Eligible Applicants***

- Applicants must also need and be obtaining a PHFA [Access Home Modification Loan](#).
- The household income of the applicants obtaining an Access Downpayment and Closing Cost Assistance loan cannot exceed 80 percent of Statewide Family Median Income as determined by the Federal Department of Housing and Urban Development (\$64,500 for 2020).

- Household liquid assets after closing cannot exceed \$5,000.
- Applicants must be disabled homebuyers who are persons with a disability, or have a disabled family member living in the household with a permanent disability, who are purchasing a new or existing home.
- Applicants who are purchasing a home in an area that is not eligible for HOMEstead may apply for this loan in conjunction with a first mortgage under the Agency's Keystone Home Loan Program without the Keystone Advantage Assistance Loan. Applicants must meet all of the Agency's underwriting guidelines for the program they are applying for.
- The amount of assistance is based on the borrower's need. For all loans with loan-to-values greater than 80% (except RD and VA), the borrower is required to contribute the lesser of \$1000 or 1% of the loan amount from their own verifiable funds.
- The Access Assistance Loan may be used for the remaining downpayment required and/or balance of closing costs and any additional downpayment necessary to make the purchase affordable to the homebuyer. Access Assistance funds may be used to lower the front-end ratio to 30 percent and to help cover closing costs. Assistance cannot be used to offset a high back-end ratio. Please note, all other funds must be utilized to their fullest extent before applying Access funds. This includes cash and gifts, grants, seller assistance, land equity, liquid assets in excess of \$5,000, etc.

## **2. Mortgage Amounts**

- Not less than \$1,000 and no more than \$15,000. Funds will be available on a first come, first serve basis.
- This is a non-interest-bearing loan with no monthly payment. The loan becomes due and payable upon sale, transfer or non-owner occupancy of the property.

## **3. Lender Instructions and Procedures**

### *a. Locking/Approval*

The participating lender is to lock the Access Downpayment and Closing Cost Assistance funds at the same time they lock the funds for the first mortgage and the Access Modification Loan.

The lender shall also submit the Needs Assessment Form ([Form 61](#)) in the Pre-Closing Package Review ([Form 51](#)).

### *b. Closing*

After a mortgage loan has been approved and an Pre-Closing- Eligible Notification has been issued, PHFA forward funds via ACH to the lender in the amount required to complete the transaction. The funds will be sent to the lender within seven (7) days of loan approval.

A Subordinate Mortgage Note ([Form 54](#)) and Subordinate Mortgage Instrument ([Form 55](#)) payable to PHFA shall be executed for the amount of the actual assistance, rounded off to the nearest dollar.

The original and final disclosures as required by TILA and/or RESPA must be provided.

The Subordinate Mortgage Instrument shall be recorded directly behind the first mortgage instrument as a second lien. No assignment of the subordinate mortgage is required.

At closing, the lender is to disburse only the actual amount of assistance needed, rounded off to the nearest dollar, up to the amount initially eligible by PHFA. Cash back to the borrower is limited to \$100 in excess of reimbursement for POC items. Any additional funds must be reimbursed to PHFA, and the Access Assistance Loan will be reduced accordingly.

*c. Post-Closing*

The purchase package should contain a check (if applicable) for any unused Access Downpayment and Closing Cost Assistance or Home Modification funds. It needs to be clear in the file as to which funds are being returned so that they can be applied to the correct principal balance.

The lender is to forward to the Agency the following subordinate mortgage documents in the purchase package:

- Original TILA/RESPA disclosures.
- Subordinate Mortgage Note ([Form 54](#)).
- Certified copy of the Subordinate Mortgage ([Form 55](#)) with evidence it was sent for recording.
- The Closing Disclosure showing the actual amount of closing cost assistance used by the borrower.

The lender is to forward the original recorded mortgage document ([Form 55](#)) to the Agency within sixty days from the date of purchase. The mortgage is to be attached to a properly completed [Form 30](#) and submitted to the Agency at the address referenced on the form.

## **CHAPTER 6 – PRE CLOSING RESULTS**

Please see Chapters [3](#), [4](#) and [5](#) for program-specific eligibility criteria and underwriting guidelines, and Chapter 8 for PHFA-specific property guidelines.

It is the lender's responsibility to underwrite the file and then submit the pre-closing package to PHFA prior to closing (See [Form 51](#) for required documents and submission instructions). Please note that all loans must first be locked in with PHFA—See [Chapter 2](#) for details.

The Agency will then issue a notice with the results of its review as follows:

### **A. ELIGIBLE RESULT**

A pre-closing package review results-eligible is issued if the loan is eligible for sale to PHFA. The notice will contain purchase conditions; any documentation obtained to clear these conditions should be included with the purchase package along with the items requested on [Form 58](#). PHFA will only review individual items if the lender is unsure whether the documentation would be acceptable to PHFA in order to purchase the loan.

### **B. INELIGIBLE RESULT**

If PHFA can not complete its review due to missing documentation or incomplete information, it will issue a pre-closing package review results-ineligible specifying the additional information or documentation that is required. PHFA will continue its review once all required information is submitted.

### **C. DENIAL RESULT**

If PHFA cannot issue an eligible result, it will issue a *denied result* to indicate that the loan is not eligible for sale to PHFA. The denied result may be based on underwriting criteria and/or program compliance issues.

Although PHFA will generally complete its review within two to three business days, please allow for up to five business days for this process.

The Agency monitors and evaluates the quality of the underwriting submissions. A score card is posted on the PHFA [Pipeline Plus](#) advising lenders of their performance on a monthly basis. The score card also indicates the various levels of performance. When a lender has a score of 60 percent or lower, training is mandatory. The percent is based on the number of files that are eligible upon initial review by PHFA without the need to clarify or request additional information.

PHFA does not issue preapproval or prequalification letters. Lenders may choose to do so if they wish but are encouraged to indicate that it is contingent upon PHFA's approval. For unique or borderline cases on a particular issue, a lender may seek PHFA's preapproval of the item in question by submitting a request for a preliminary determination using [Form 1](#). This process can be used for questionable compliance issues (income limit, purchase price limit, etc.) or a general underwriting issue (credit, ratios, income, property, etc.). Please note, however, that for general underwriting issues on loans with less than 20 percent down, the lender's underwriter must first make a determination based on the loan type (FHA, RD, VA) or the private mortgage insurance company's/or PHIF guidelines in the case of a conventional loan.



## **CHAPTER 7 – PHFA DELEGATED UNDERWRITING AUTHORITY**

The PHFA Delegated Underwriting system was retired on August 1, 2015.

## **CHAPTER 8 - PROPERTY GUIDELINES**

### ***A. APPLICABILITY***

At a minimum, properties must meet PHFA's guidelines as contained in this chapter. Properties must also comply with any and all guidelines of the applicable insurer/guarantor such as FHA, VA, RD, a PHFA-approved PMI company, and/or Fannie Mae. If there is a conflict between the PHFA and the respective insurer/investor, the stricter guideline shall apply.

### ***B. GENERAL PROPERTY STANDARDS***

The Agency's property standards emphasize the present adequacy and long-term livability and marketability of the mortgaged property. The property should be structurally sound and functionally adequate to meet the present and foreseeable housing needs of the borrower. While home inspections and warranties are not required, PHFA strongly encourages them.

Eligible properties must be modest in size, style and design and in compliance with all applicable minimum building and housing codes.

To ensure satisfactory long-term security, the subject property should be compatible with the surrounding structures in terms of those factors which affect marketability, such as function, design and quality of construction.

### ***C. PHFA OVERLAYS***

#### ***1. Appraisal Report***

Also see [\*Appendix I. Appraisal Review Sheet.\*](#)

All Pre-Closing (underwriting package) submissions to PHFA must be accompanied by a copy of the "Uniform Residential Appraisal Report" (URAR, FNMA Form 1004 or 1004(C) for manufactured homes) and the "Statement of Limiting Conditions and Appraiser's Certification" (FNMA Form 1004B). The Agency has developed an Appraisal Review Sheet ([Appendix I](#)) describing its various property requirements.

The date of the appraisal cannot exceed 120 days from the date the Note is signed for FHA and RD loans and four months for Conventional loans. A recertification is required after 120 days or four months respectively. For new construction, the respective timeframes are 180 days for FHA, 120 days for RD and 4 months. The extent of the re-evaluation is determined by the type of loan (Conventional, FHA, VA or RD).

All appraisals must show the census tract, if applicable, in which the subject property is located.

FHA appraisals must be accompanied by a "Conditional Commitment/Direct Endorsement Statement of Appraised Value" (HUD 92800.5B).

VA appraisals must be accompanied by a "Certificate of Reasonable Value" (VA 26-1843) or the Lender's Notice of Value.

All existing property appraisals must be accompanied by clear photographs of the interior, front and rear view of the subject property, and the street scene including the subject property. Photographs of the comparables used must also be provided. (Excluding VA loans and HUD Property Disposition Program Set-Aside Loans if photos are not available.)

## **2. Appraiser Standards**

The lender must be able to furnish, upon request from the Agency, evidence that any appraiser they are doing business with has adequate experience and expertise or has been approved by FHA or VA. This generally means that the appraiser:

- Is a real estate appraiser licensed and in good standing with the Commonwealth of Pennsylvania as a General Appraiser or Residential Appraiser and not previously disqualified by the Agency,
- Has successfully completed a national recognized basic appraisal course and has at least two years full-time real estate appraisal experience,
- Has demonstrated a high level of integrity, professional ethics and technical ability,
- Is approved by FHA or VA (for Conventional loans, the FHA or VA status is not required if the above criteria are met).

Lenders must have a policy whereby appraiser credentials are routinely verified. License status and disciplinary actions are available online through the PA Department of State here:

- <http://www.licensepa.pa.gov/>
- <https://www.mylicense.state.pa.us/L2KSupportSite/Licenseesearch>

## **3. Acreage**

Properties cannot exceed four acres unless one or more of the following conditions are present:

- current zoning requires properties in excess of four acres
- subdivision of the larger lot is not feasible due to topography
- properties in the immediate area have equivalent acreage

Additional exceptions will be considered upon request. The appraiser should indicate the reason for the additional acreage. For example, stating that this acreage is common to the area and provide a copy of the county tax map confirming this. Properties in excess of 10 acres are not eligible. In the event the appraisal states 10+/- acres, documentation must be provided to determine that the property does not even minimally exceed the 10 acre limit.

If an exception is granted for a reason other than one of the reasons listed above, the appraiser is to assign a value to both the four acres of land appurtenant to the house and the entire tract. These values are to be placed on the "Estimated Site Value" line under the "Cost Approach" section on the appraisal and are to clearly state what each value represents. Next, the appraiser is to state that only the assigned value of the four acres was considered in the estimate of the market value for the property. To determine the purchase price eligibility of the property, the difference between the value assigned to the four acres and the entire tract are to be added to the purchase price the borrower paid for the house and four acres.

#### **4. Address**

The town/city name must be included in the property address. In some areas, it is common practice to include the township name as part of the property address. This is acceptable, but on the legal documents, it must be listed in parentheses behind the zip. It cannot be listed in lieu of the town/city name (except in those few cases where the township name is actually the official name of the town/city).

#### **5. Certifications**

Certifications are required if the appraisal is subject to them or if there are any comments made that would affect the safety, structural integrity, mechanical systems or the habitability of the improvements. Deficiencies should be corrected prior to closing. Certifications must be provided from a qualified contractor on letterhead or using a standard industry form.

##### *a. Wood-Destroying Insects*

The lender is to provide a copy of a clear wood-destroying insect certification dated within four months of closing in the Purchase Submission for all existing homes. If evidence of infestation and/or damage was observed, the certification must be signed by the borrower and an inspection graph must be provided. If the infestation is active, or prior infestation is referenced and treatment is recommended, proper control measures must have been taken. If structural damage resulted from the infestation, the lender must also provide proof that the damage was satisfactorily repaired or a report from a qualified inspector stating the damage does not affect the structural integrity of the home.

Wood-destroying insect certifications are not required on new homes completed less than one year ago or condominium units constructed of concrete and steel.

#### **6. Condominiums**

For HFA Preferred™ program, see 'Property Eligibility' in [Chapter 3](#).

For KHL Conventional loans with LTVs of 80 percent (80%) or less, the Agency only requires proof of the development's insurance. Conventional loans with LTV ratios above 80 percent (80%) would follow the 'Property Eligibility' guidelines of the HFA Preferred™ program.

For FHA, VA or RD loans, PHFA will require evidence that the condominium or PUD project is approved by the particular agency that will be the insurer/guarantor.

The Agency reserves the right to reject any mortgage loan on a condominium unit if it is determined, by their discretion, that the project, it's developer, it's owner's association, condominium documents, or any combination of these constitutes an excessive underwriting risk.

## **7. Escrows for Incomplete Weather-Related items**

Except for under the Purchase & Improvement Program (see [Chapter 3](#)) and the FHA 203(k) program, incomplete items at the time of closing may not include any item that affects the livability or safety of the home. Any item of this type must be completed prior to having final settlement. The Agency will consider escrows for items that are not weather-related only on a case by case basis.

If there are items that are incomplete due to weather related issues, please complete [Form 65](#) (or a similar form if the lender or closing agent will be holding the escrow funds). The items that appear on this form should be estimates for items such as the cost of a deck, patio, walks, steps, repairs, painting, final grading and seeding, etc. In Section 2 of Form 65, please be sure to indicate the expected completion date. If the work has not been completed by the deadline, contact PHFA to request an extension. If the lender is holding the funds, the lender is also responsible to follow through until the work is completed. In an effort to assist in this area, PHFA sends a letter to the borrower to advise them about the outstanding work that needs to be completed and the expected completion date.

As referenced on Form 65, the amount escrowed is one and one half times the cost of the items that are to be completed. The inspection fee is the only item that states the actual cost.

A copy of the escrow agreement must be included in the purchase package. If the escrow agreement indicates that PHFA is holding the funds, please be sure to include the funds in the purchase package. When the lender holds the funds they are responsible to send the Completion Certificate to the Purchasing Department.

An escrow agreement is NOT required if:

- The LTV ratio is 80 percent or below and the cost to complete the items is three percent (3%) or less of the total acquisition cost or the appraised value, whichever is less.

**OR**

- The LTV ratio is above 80 percent and the cost to complete the items is one percent (1%) or less of the total acquisition cost or the appraised value, whichever is less.

## **8. Investment Properties**

Investment properties are not permitted under any of PHFA's Homeownership Programs. The property must be occupied as a principal residence of the borrower.

## **9. Knob and Tube Wiring**

All visible knob and tube wiring must be replaced, and a qualified electrician must provide a statement that the system is in satisfactory condition. Also, the borrower(s) must sign a statement acknowledging that they understand: (1) they cannot insulate interior wall cavities or floor/ceiling joist spaces that contain knob and tube wiring as it could lead to fire; (2) knob and tube wiring is not grounded but grounding can be accomplished by replacing existing older receptacles connected to knob and tube wiring with GFI receptacles, or protecting the circuit with a GFI breaker.

## **10. Lease Purchase**

Only the portion of the lease/rent payment in excess of the fair market rent as listed on the appraisal can be applied to the down payment. For loans under the Keystone Home Loan or Mortgage Credit Certificate programs, the term of the lease cannot exceed twenty-four months.

## **11. Lot Equity**

For loans under the Keystone Home Loan or Mortgage Credit Certificate programs the following criteria applies: If the lot was owned for less than two years, the lower of the purchase price or appraised value of the land is to be used to determine value. The value of land owned for more than two years or purchased from a relative will be based on the current appraised value.

## **12. Manufactured Housing**

PHFA will consider loans for properties which include a manufactured or factory-built home providing that it has been built under the Federal Manufactured Home Construction and Safety Standards that were established June 15, 1976. For details and guidance from the Pennsylvania Department of Community and Economic Development (DCED), please see <http://newpa.com/housing-and-development/manufactured-housing/>. The PHFA Manufactured Home Title Retirement Information Sheet ([Appendix M](#)) may also be a good reference for every manufactured home transaction.

The purchase package must contain evidence that the title was retired for loans on properties with manufactured homes (new and existing) by providing a completed and endorsed [PennDOT form MV-16](#). If the home was purchased new from a dealer and in the dealer's possession for less than 6 months, the original certificate of origin is required as proof it was never titled. In all cases, the VIN number should be referenced in the deed and the legal description of the mortgage. Loans should not be scheduled for closing until the proper documentation is obtained, as problems sometimes arise, especially with older homes. If the title was never retired, it must be located to determine the owner as of the date it was titled and if there is a lien on it. In some cases the original title and/or owner cannot be located. Additional steps are then required to retire it. This may require research through Penn DOT, and in some situations may even require a court order.

The PHFA Manufactured Home Rider ([Form 60](#)) must be completed and recorded with the Mortgage.

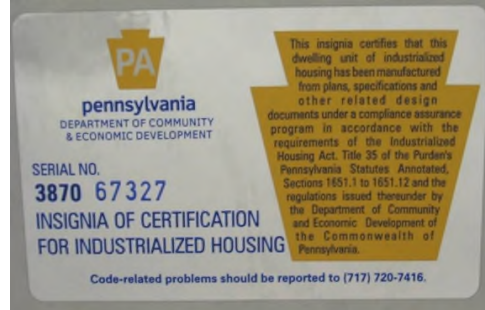
For all loan types, the lender is to follow the respective insurer/guarantor's guidelines for manufactured housing (FHA, VA, RD, Fannie Mae and/or the PMI company as applicable).

PHFA's guidelines for conventional loans are as follows:

- Home must be defined, deeded and taxed as fee simple real estate.
- The purchase of the land and the home must represent a single real estate transaction under applicable state law.
- The financing must be evidenced by a mortgage recorded in the land records. A combination of a chattel and real estate mortgage is not acceptable.
- Wheels, axles, and hitches must be removed when the home is placed on its permanent site.

- New manufactured homes must be permanently affixed to a foundation and in conformance with the [Pennsylvania Manufactured Housing Improvement Act 158 of 2004](#).
- Existing manufactured homes must be permanently affixed to one of the foundation requirements set forth below. See <http://newpa.com/housing-and-development/manufactured-housing/> 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 may be considered if they meet the minimum standards as described in [Appendix S](#) 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 code, then it must meet the requirement listed above for new manufactured homes.
- Each home must have sufficient square footage and room sizes to be acceptable to typical purchasers in the market area. Except for single-section manufactured units (permitted only on FHA loans), the Agency does not have minimum requirements for width, size or roof pitch.
- If the property is a single-section manufactured home that will be insured by FHA because it meets all the FHA property requirements as well as the above bullet points, the Agency will consider it.
- The mortgage amount cannot include the financing of furniture, mortgage life insurance, property damage insurance, or any other form of insurance. However, the financing of kitchen and laundry appliances may be included in the mortgage.
- The appraiser must address both the marketability and comparability of manufactured homes. The materials and construction of the improvements must be acceptable in the subject market area. The appraiser should also comment on the sufficiency of the living areas of the home, interior room size, storage, adequacy of roof pitch and overhangs and the compatibility of the exterior finish. In addition, the appraiser must address the marketability and value of manufactured homes in the subject market area in comparison to the marketability of site-built housing in the area.
- The appraiser should use as comparable sales, similar manufactured homes, comparing multi-sectional homes with other multi-sectional homes. If comparable sales of similar homes are not available, the appraiser may use site-built housing as comparables as long as it is explained why it is being done. When there is a preference for site-built housing in the subject market area, the appraiser must adjust the site-built comparables to reflect the market’s reaction to manufactured homes.

- Industrialized modular housing must meet all applicable building codes and have a Department of Community and Economic Development (DCED) insignia (shown below, not to size), in addition to the criteria above.



For Manufactured homes under the Fannie Mae HFA Preferred™ program, the Participating Lender is responsible for ensuring that any and all additional requirements have been met per the Fannie Mae Selling Guide in effect at the time the loan was originated. These requirements include but may not be limited to the following items:

- Evidence of the HUD Data Plate/Compliance certification and HUD Certification label is required with the appraisal and must be in the pre-closing package.
- Manufactured homes with an addition and/or structural modification such as a deck (if attached to the home) must be inspected by a *licensed professional engineer* who can certify that the addition or structural changes were completed in accordance with the HUD Manufactured Home Construction Safety Standards. This satisfactory inspection must be included in the Pre-Closing package.
- Manufactured homes located in leasehold estates are not eligible.
- Single-width manufactured homes are not eligible.
- Manufactured homes in a condo or PUD project are not eligible.
- On Frame modular construction manufactured homes are not eligible.

### **13. Mineral Rights**

If the property is subject to existing mineral, oil, gas or timber leases, or the seller is choosing to retain those rights after the sale, and it does not adversely affect the property, it is acceptable. However, the borrower must provide a written statement indicating he/she is aware the mineral rights (i.e., future income streams and use of the property for obtaining the respective resources) are being retained by the seller or another party. Additionally, the title policy must contain the 1030 '*PA restriction, encroachments and mineral endorsement*'.

### **14. Multiple Lots**

Land appurtenant to a residence shall be considered as part of the residence only if such land reasonably maintains the basic livability of the residence and does not provide a source of income to the mortgagor. If the property consists of more than one lot, it must be contiguous and on the same deed, and removing the lot(s) from the deed would either have a negative impact on the home's marketability and/or would not be allowed by the municipality.



## 15. New Construction

PHFA funds are not available for interim construction financing but can be used for the permanent end loan. If the lender provides the interim financing, they may charge their standard reasonable and customary rates and fees during the construction period.

For construction/permanent loan transactions (one closing), the Addendum to Note/Construction Loan ([Form 19](#)) may be used for changing the construction loan rate to the permanent loan rate which will take effect when the loan converts to permanent financing upon construction completion. This form must accompany the original Note at the time of loan purchase. The first payment date on the Note can be one of the following: 1) the first day of the second month following loan conversion or 2) if it converts within the first 5 calendar days of the month it could be the first of the month following the conversion. (This applies to “short term interest” or “interest credit” options.)

The conversion date is the date the loan converts to the permanent terms at the time the home is complete and ready to be occupied (the occupancy certificate must have been obtained). If the first payment date and maturity date changed from what was listed on the Note and Mortgage (due to a delay in the construction, or when construction is completed ahead of schedule), a Mortgage Modification Agreement (Form 40) may be needed to amend these dates. See [Chapter 10](#) for further details.

Loan set up on construction/permanent loans should be completed at the time of conversion to permanent financing, not after the initial closing prior to the start of construction. See Chapter 10 for details.

For construction/permanent loans under the Keystone Home Loan and Mortgage Credit Certificate programs, the Mortgagor’s Reaffirmation at Loan Closing ([Form 3](#)) must be completed at the time the loan converts to permanent financing.

If there will be two closings, the PHFA end loan must be replacing a temporary construction loan with a maturity date of less than two years.

PHFA financing cannot serve to refinance a permanent loan under the Keystone Home Loan or Mortgage Credit Certificate programs.

PHFA understands the risk involved in construction lending and encourages lenders to follow stringent lending procedures for construction loans. This includes, but is not limited to the following:

- not permitting a borrower who is not a general contractor by profession to act as his/her own general contractor;
- filing stipulations against liens;
- obtaining construction contracts for completed homes;
- executing the required documents;
- collecting fees;
- charging construction rates;
- working with reputable and properly licensed builders;
- the use of bonding inspections.

When reviewing mortgage loans for homes to be constructed, the lender must ensure that the construction contract or contracts include all items for a complete home. It is the lender's responsibility to review plans and specifications to be sure all items for a complete home are included. Additional items, such as painting, carpeting, decks, patios, walks, driveways, and final grading and seeding and the cost of materials (and labor, if applicable) must be included and supported by estimates or invoices.

PHFA will accept FHA required warranties on new construction and will require a clear final inspection for an RD or Conventional mortgage loan.

When submitting mortgage loans for new construction the plans and specifications must be included in the Pre-Closing (Underwriting Package) Submission if the borrower has contracted with a builder to erect a home on his/her own lot. However, if the borrower is purchasing a home as a "package deal" (land and home sold together) from a builder/developer, plans and specifications are not required.

NOTE: A guide to help calculate the maximum mortgage amount permitted under the Keystone Home Loan and Mortgage Credit Certificate programs for properties where the land has been or will be purchased separately is detailed in [Appendix L](#).

### **16. Private Roads**

If the property is on a community-owned or privately-owned and maintained street, provide a copy of the recorded private road maintenance agreement. The agreement must be included in the Purchase Submission.

### **17. Private Sewage Disposal/Septic Systems**

The appraiser must clearly identify the exact type and location of the private sewer system servicing the property. "On site" is not acceptable. Shared septic systems are not permitted. If public sewer is available, the subject property must be connected.

Systems other than septic may be acceptable under the Keystone Home Loan program for conventional loans; consult PHFA for guidance.

### **18. Private Water Supply/Wells**

The appraiser must clearly identify the exact type and location of the private water system servicing the property. "Onsite" is not acceptable. If public water is available, the subject property must be connected.

Private water systems other than wells may be acceptable under the Keystone Home Loan program for conventional loans; consult PHFA for guidance.

The well must be located on the exterior of the property. There must be at least 100 feet between the well and the septic drain field/absorption bed. If there is less than 100 feet on an existing property, it may be acceptable if the municipal code official provides a statement that it is acceptable due to being grandfathered and will be acceptable to the agency insuring the loan.

Potability Test – The well water must be tested and a recent report no older than 4 months must be provided at loan closing from a certified EPA/DEP laboratory stating that the water is potable and/or that the water is safe for drinking or household use. A report indicating “0” coliform would meet this requirement. If there are local standards that require further testing, the Lender is responsible to see that all local standards and requirements are met.

Flow Test – Required only on new wells. The well driller’s certification no older than 4 months is to be included as an additional document in the Purchase Submission. A certification is to be prepared by the well driller stating the flow of the well in gallons per minute and that this flow approximates at least the minimum acceptable flow in the general area of the residence.

### **19. Two-Unit Dwellings**

This property type is not permitted under the HFA Preferred™ program.

For financing under the other programs, two-unit properties, in addition to meeting all applicable federal agency (FHA or VA only; two unit financing not available with RD loans) or mortgage insurance company guidelines, must meet the following PHFA requirements:

- One unit must become the borrower’s principal residence within 60 days of closing.
- If rental income is being used for qualification purposes and there is no current signed lease agreement, the Estimated Market Rent and Gross Rent Multiplier section on Page 2 of the Appraisal must be completed by the appraiser.
- The borrower must sign and date the last page of the PHFA “Two-Unit Information Guide” ([Appendix C](#)).
- The following additional guidelines apply to two unit properties being financed under the Keystone Home Loan and Mortgage Credit Certificate programs:
  - The property must be at least five years old.
  - Rental income from the second unit need not be included for income limit purposes even if it is used for qualification purposes.
  - The purchase price may exceed the applicable published purchase price limit by 10 percent, not to exceed \$484,350.

### **20. Unheated Living Spaces**

All living areas must have a heat source. The minimum requirement is the installation of floor/wall registers. Space heaters must be vented and properly operating.

### **21. Vacant Property**

For all loans, the appraiser must indicate that all mechanical systems are on and operational or clear plumbing, electrical and heating certificates must be provided.

## **CHAPTER 9 – LOAN CLOSING**

### ***A. GENERAL INFORMATION***

Lenders should follow the instructions in this chapter for closing loans that will be sold to PHFA. This chapter outlines information regarding the completion of the various required documents, as well as procedure to be followed.

A summary of PHFA's Closing Instructions are available on [Form 53](#). Lenders are encouraged to provide the Closing Agent with a copy of that form.

It is also advisable for the lender's closing staff and the closing agent to review [Form 58](#), the Purchase Submission Checklist, as this contains the documents that are required in order for PHFA to purchase the loan. More details about selling the loan to PHFA are contained in [Chapter 10](#).

The lender should not close the loan without written approval from PHFA, which is provided upon a satisfactory review of the pre-closing package. The Pre-Closing Package Review Results- Eligible Notification must be in the purchase package. This form is retrieved from PHFA Pipeline Plus in the "Reports & Notices" section. The conditions noted on the PHFA approval should generally be obtained prior to or at closing, but are not required to be provided to PHFA until the purchase package is submitted. Conditions may be cleared by PHFA prior to purchase upon request. These requests should be reserved for the more unique issues.

The first mortgage is funded by the lender and closed in its name and then sold to PHFA by the expiration of the rate lock period. Extensions to the rate lock, on loans not yet closed, are available using the "Loan Extensions" option within Pipeline Plus. See 'Lock Policy' in [Chapter 2](#) for details on extensions as well as late fees for files not delivered on time.

The Keystone Advantage Assistance Loan, if applicable, is funded at closing by the lender but closes in PHFA's name. PHFA then includes the assistance amount with the loan purchase proceeds. Subordinate loans for the following PHFA assistance programs are funded by PHFA prior to closing and close in PHFA's name: HOMEstead, Access Home Modification and Access Assistance Loan programs. More details follow in this chapter regarding subordinate loans, as well as in [Chapter 4](#).

It is the lender's responsibility to make sure that all pertinent closing, shipping and final document personnel have been trained to process PHFA loans, as well as the closing agent, to ensure all closing and post closing activities and submissions conform to Agency guidelines. If additional training is needed please contact the Homeownership Programs Division at 717.780.3871. Also, the list of currently scheduled webinars is available at [www.phfa.org](http://www.phfa.org).

## **B. FEES**

An Administration Fee no greater than \$1,000 may be charged, for purchase loans, to cover the lender's overhead expenses. The Administration Fee for the FHA/VA Streamline program is \$600. No additional overhead fees, such as doc prep, underwriting, etc., may be charged. The normal and customary fees for expense items may be charged: credit report, appraisal, etc. Except for the cost to record the Mortgage and a reasonable notary fee, no additional fees may be charged on a PHFA subordinate assistance loan since it is done in conjunction with the PHFA first mortgage in order to help the borrower qualify for the loan.

A \$93.00 tax service fee payable to CoreLogic must be charged on loans. It can be paid by the borrower or lender and must be reflected accurately on the Loan Estimate and Closing Disclosure. PHFA deducts this amount from the purchase proceeds and remits the funds to CoreLogic.

PHFA carefully reviews each Closing Disclosure, and the lender will be required to refund to the borrower any prohibited or excessive fees that were charged.

## **C. NO CASH BACK**

Cash back to the borrower at closing is limited to \$100 in excess of reimbursement for POC items. Any additional funds must be reimbursed to the lender, and any PHFA subordinate closing cost/downpayment assistance loan must be reduced accordingly (or the first mortgage when there is no PHFA second).

## **D. UNIFORM CLOSING DATASET (UCD)**

For all Conventional loans the Uniform Closing Dataset (UCD) must be submitted directly by the participating lender to Fannie Mae through the UCD collection solution platform. A copy of the final successful UCD submission is required to be sent to PHFA in the Purchase Submission package per standard PHFA procedure. The UCD copy and Casefile ID number must match.

## **E. TITLE INSURANCE**

See [Chapter 12](#), Insurance Requirements for full details on PHFA's requirements. Please note that the Short Form Residential Policy is preferred. Also, the actual original policy, or an acceptable copy as stated in Chapter 12 if the original is lost, is needed for loan purchase by PHFA. PHFA will not purchase the loan with the Commitment Binder or copy of the title policy, unless it has the additional required items which allow us to accept the copy.

## **F. MORTGAGE INSTRUMENT(S) AND ASSIGNMENT**

The town/city name must be included in the property address. In some areas, it is common practice to include the township name as part of the property address. This is acceptable, but on the legal documents, it must be listed in parentheses behind the zip. It cannot be listed in lieu of the town/city name (except in those few cases where the township name is actually the official name of the town/city).

## **1. Mortgage Instrument**

The applicable standard mortgage instrument is to be utilized for the first mortgage. The legal description must be included, as well as any applicable riders (Condo, PUD, etc.). If the mortgage document indicates a rider is attached, the document must be present even if it is not a PHFA required document.

## **2. Mortgage Assignment**

The first mortgage closes in the lender's name and then is immediately assigned to PHFA using [Form 20](#). Lenders that use Mortgage documents referencing MERS may use [Form 20MERS](#). The Assignment cannot be dated prior to the mortgage; it should have the same date as the mortgage. If the assignment is not recorded simultaneously with the mortgage, please be sure to fully complete the information required when it is recorded in this manner.

## **3. Subordinate Mortgage(s)**

The following documents are used for the subordinate mortgage when PHFA is providing assistance:

- Keystone Advantage Assistance Loan: [Form 55ADV](#)
- HOMEstead Loan, Access Home Modification Loan and Access Downpayment and Closing Cost Assistance Loan: [Form 55](#)

The PHFA mortgage assignment is not required for PHFA subordinate loans because they close in PHFA's name.

The PHFA subordinate mortgage must be recorded in second lien position. Therefore, in addition to the PHFA subordinate loan documentation requirements, the lender must also provide copies of any additional subordinate mortgages utilized in the transaction (with recording information included).

## **4. Certified Copies**

Copies of the first mortgage, assignment and subordinate mortgage(s) if applicable, including any subordinate mortgage(s) for other local/county PHFA-approved assistance programs, that were signed at loan closing must be certified as true and correct copies of the originals that were sent for recording. The certification must be signed.

## **G. NOTE**

### **1. First Payment Date**

The First Payment Date on the Note can be one of the following:

- The first day of the second month following loan closing, funding or construction conversion.
- If the loan closes within the first five calendar days of the month, it could be the first of the month following loan closing. (This applies to "short term interest" or "interest credit" options.)

## **2. Endorsement**

All First Mortgage Notes submitted for purchase must have the following legible endorsement: “Pay without recourse to the Pennsylvania Housing Finance Agency”. The endorsement must be signed by an authorized officer of the lender. The lender’s name should appear above the signature of the officer. The officer’s name and title are to appear with the signature. Use PHFA [Form 29](#) to update the list of authorized officers/signers.

If applicable, provide a legible endorsement from a PHFA-authorized affiliated entity to the participating lender submitting the loan for purchase. “Pay without recourse to (name of PHFA participating lender submitting loan package)”. It must also be signed by an authorized officer of the affiliated entity.

## **3. Accuracy**

Please double check the following items for accuracy on the Note:

- The loan amount and P & I payment;
- The Interest Rate is that which was locked with PHFA and listed on the PHFA Pre-Closing Package Review Results-Eligible Notification;
- The Maturity Date is one month preceding the 1st payment date plus 30 years;
- Late Charges: (15 days after due date) Four percent (4%) FHA, VA and RHS Guaranteed; Five percent (5%) Conventional.

## **4. Subordinate Loans**

The following document is used for the subordinate note for the PHFA Keystone Advantage Assistance Loan: [Form 54ADV](#)

The following document is used for the subordinate note when PHFA is providing assistance:

- Access Home Modification Loan and Access Downpayment and Closing Cost Assistance Loan: [Form 54](#)
- HOMEstead Loan: [Form 54a](#)

## **H. CONSISTENCY OF BORROWER NAMES**

In cases where there is a borrower and a co-borrower the mortgagors’ names must be the same on the Title Policy, Deed, Mortgage, Note, Assignment of Mortgage, FHA mortgage insurance certification, VA loan guaranty certificate and RD loan note guaranty. An original, notarized name affidavit for each person signing the Mortgage and Note must accompany the Note when delivered to PHFA for purchase. The name affidavit used must address any inconsistencies.

## **I. CO-SIGNERS**

The co-signer must execute the mortgage note and the Co-Signer’s Certification ([Form 21](#)). *The co-signer is NOT to execute the deed or mortgage.*

## **J. NON-LIABLE CO-OCCUPANTS**

A non-liable co-owner may take title to the property. Their name must be on the Deed, mortgage, assignment and title policy. They do not sign the note. Please be sure to provide a processor's certification in the pre-closing package with the name, date of birth and social security number of the non-liable co-owners. It must also be listed on [Form 58](#) which is submitted with purchase package.

Please note that the non-liable co-occupant's (and any adult occupant who will reside in the home within 12 months from closing regardless of whether they will be an owner) income must have been disclosed to PHFA during the underwriting process IF the program has a PHFA income limit (Keystone Home Loan, HOMEstead and HFA Preferred).

## **K. POWER OF ATTORNEY**

PHFA will allow a Power of Attorney for the borrower only in rare circumstances such as when the borrower is hospitalized or on active military duty overseas. Lenders should seek PHFA approval prior to closing. A Power of Attorney for the Seller is acceptable. In either case, the proper documentation must be obtained and provided to PHFA in the purchase package.

## **L. PHFA BORROWER FORMS**

During closing, the following forms must be executed and notarized, if applicable as noted below.

- Recapture Tax Form ([Form 4](#)) (*Keystone Home Loan program*)
- Re-Affirmation of Mortgagor's Affidavit (Page 4 of [Form 3](#)) (*Keystone Home Loan program*)
- Borrowers to sign respective name affidavits, (required for all loan programs)
- Automatic Withdrawal Form ([Form 67](#)) (optional).

## **M. HOMEOWNER'S INSURANCE POLICY**

The homeowner's insurance policy must be pre-paid for a full 12 months. The Homeowner's, Flood and/or Mine Subsidence (if applicable) must carry the following Mortgagee clause:

Pennsylvania Housing Finance Agency, It's Successors and/or Assigns  
P.O. Box 15057, Harrisburg, PA 17105-5057

If the clause is missing or incorrect, please request an addendum to make the necessary corrections. See [Chapter 12](#), Insurance Requirements, for more details related to Homeowner's and other required insurance.



## ***N. MORTGAGE INSURANCE PREMIUMS***

When processing the Mortgage Insurance premiums, please follow the procedures listed below. There are five types of remittances. See [Chapter 12](#), Insurance Requirements, for more details related to Mortgage Insurance.

- Monthly
- Zero Up-Front Monthly
- Borrower Single Premium
- Borrower Split Premium
- Lender Single Premium

For government insured/guaranteed loans the following applies:

- FHA MIP Premium: Please remit the upfront premiums to FHA, but do not remit monthly premiums. PHFA will remit the monthly premiums to FHA.
- USDA (RD) Guarantee and Annual Fees: Lender forwards the upfront guarantee fee to RD. PHFA will remit the annual fee to RD.
- VA Funding Fee: Lender forwards the funding fee to VA.

## ***O. TAXES***

A \$93.00 tax service fee payable to CoreLogic must be charged on loans. It can be paid by the borrower or lender and must be reflected accurately on the Loan Estimate and Closing Disclosure. PHFA deducts this amount from the purchase proceeds and remits the funds to CoreLogic.

All taxes that are due and payable must be paid at loan closing. Also, extra funds should be collected to account for any interim assessments.

A Tax Certification is required to verify taxes were paid for School, County and City/Township or Borough as applicable. [PHFA Form 27](#) may be used in place of an actual tax certification form, but it must be fully completed with all taxing authorities, tax amounts and discount dates listed and also signed by the lender. Taxes must be verified and receipts or certifications of the last items paid should be attached to the form.

If the lender has its own form that includes this information, it may be used and attached to PHFA Form 27, as long as all information requested by the PHFA form is provided. For example, if the tax collector phone number is missing from the lender's form, list it on Form 27.

Please use the last month of the discount period for the disbursement due date on all real estate taxes. The disbursement month must remain consistent from year to year or it will affect the aggregate analysis. This information should be available at settlement to comply with RESPA Aggregate Analysis procedures.

Please advise the borrowers that if they receive tax bills from their tax collector, they should forward them to the Agency for payment in sufficient time to take advantage of the discount. The Agency will not be responsible for penalties due to the late submission of bills. These should be sent to PHFA, Accounting & Loan Servicing Division/Escrow Department, 211 North Front Street, P.O. Box 15057, Harrisburg, PA 17105-5057.

## **1. Tax and Insurance Escrow**

The Initial Escrow Account Disclosure statement must be completed accurately to be sure sufficient funds are collected at closing and netted from the lender's purchase proceeds. If a real estate tax is due to be paid from the borrower's escrow account shortly after the loan closes, please include the real estate tax amount and the correct month the bill is due.

When calculating the initial deposit to escrow, a cushion of one or two months is acceptable.

Do not include interest collected at closing, as these funds belong to you, the lender.

If the loan is on a newly constructed home, estimate the monthly escrow amount for taxes based on an "as completed" property, which would include land and improvements.

If the property is part of a tax abatement program, the escrow amount used for closing and shown on the Closing Disclosure should be based on the actual amount due under the abatement program for the upcoming year.

If the loan is a refinance and PHFA was the original mortgagee, we will roll over the escrow monies into the new mortgage account. For further details refer to [Chapter 3](#), HFA Refinances or FHA/VA Streamline Refinance Programs.

### **P. TRANSFER OF SERVICING**

All loans are sold servicing-released to PHFA; the lender may not perform any interim servicing. All PHFA first mortgage loans must have a copy of the Hello/Goodbye Letter ([Form 28](#)). The information on this form must be completed and the mortgagor(s) must receive a copy of this letter as required under RESPA. The Loan Setup must be submitted online within seven calendar days of closing, and requires certification that Form 28 was given to the mortgagor(s).

The lender and/or closing agent should instruct the borrower to send their first mortgage payment to the Pennsylvania Housing Finance Agency (whether or not the loan is purchased by the time the first payment is due). Do not provide the borrower with a lender coupon book or temporary payment coupon instructing them to send their mortgage payment to the lender. To assure that the first payment is sent to the Agency, the Hello/Goodbye letter ([Form 28](#)) includes a temporary coupon instructing the borrower to make their first payment to the Agency. A temporary payment coupon is also available for the Keystone Advantage Assistance Loan, if applicable.

The lender and/or closing agent should inform the borrower that they may access their account online at [www.phfa.org](http://www.phfa.org) after they receive their first monthly billing. They can also make payments to PHFA through this account. PHFA does not charge any additional fees for this service.

Please note that PHFA's monthly billing statement will show an amount rounded up to the nearest dollar, with the extra cents going towards escrow. The payment shown on the Hello/Goodbye letter may reflect this but does not have to.

Borrowers may call the PHFA Customer Service Toll Free number of 800.346.3597 if they have any questions regarding their mortgage loan.

Mortgage payments are due on the first day of the month. Late charges will be due if the payment is not posted to their account by the close of business on the sixteenth day. Any overnight express mail should be sent to Accounting & Loan Servicing, Pennsylvania Housing Finance Agency, 211 North Front Street, Harrisburg, PA 17101.

## **CHAPTER 10 - SELLING THE LOAN TO PHFA**

### **A. PERFORMANCE STANDARDS**

It is the lender's responsibility to ensure the closing, shipping and final document personnel have been trained to process PHFA loans, as well as the closing agent, to ensure all Closing and Post Closing Activities conform to Agency guidelines. If additional training is needed please contact the Homeownership Programs Division at 717.780.3871. In addition, a list of currently scheduled webinars is available at [www.phfa.org](http://www.phfa.org).

See [PARTICIPANT EVALUATION](#) in [CHAPTER 1](#).

If at any time during the life of a mortgage loan a quality control review reveals the lender has failed to follow procedures or clear an outstanding issue or any material defect or inaccuracy cannot be rectified to the satisfaction of the Agency or the Trustee, the lender may be required to repurchase the mortgage loan from the Agency as outlined in the [Master Origination and Sales Agreement](#).

### **B. PRELIMINARY LOAN SET-UP**

The Lender is responsible for completing the preliminary loan set-up information online **within seven (7) calendar days from the date of closing** or after construction completion on new homes (when the loan converts to the permanent terms and the regular principal and interest payments are to begin).

If the Loan Setup has not been completed prior to the Agency receiving the purchase package, the loan will be ineligible for purchase. Also, if the setup has not been completed prior to the lock expiration date, the loan will be automatically cancelled. Contact [Secondary@phfa.org](mailto:Secondary@phfa.org) to reactivate the lock so the loan setup can be completed.

### **C. SUBMITTING THE PURCHASE PACKAGE**

#### **1. Purchase Submission Deadline**

To avoid late delivery fees, the lender should deliver a *complete* Purchase Submission Package on or before the lock expiration date. Any applicable late fees will appear as a deduction on the purchase advice. The late fee is two basis points of the loan amount multiplied by the number of days past due. Additionally, loans that cannot be purchased by PHFA within 30 days of the rate expiration date will be subject to a worse case re-price.

The Expiration of Locks report lists the loans that will soon expire. The report is available via PHFA Pipeline PLUS, and is updated each Monday evening. A report will not appear if all loans are purchased prior to the rate lock expiration date and there are no additional loans with locks about to expire.

## **2. Delivery**

Delivery of loan files is done using the VirPack electronic document submission system, which may be accessed on the PHFA Pipeline Plus secure lender portal.

## **3. Purchase Submission Checklist**

To complete a purchase submission package use [Form 58](#) as a guide to assemble and check off the items that are being submitted. The information on this form will aid in submitting a complete purchase package. It indicates when the original documents are required and what items are needed for the different types of programs offered by PHFA.

### *a. Execution of Legal Documents*

PHFA retains on file a list of authorized officers who are able to sign the legal documents on behalf of each participating lender. Use [Form 29](#) to update the list when necessary.

## **4. Mortgage Modification Agreements**

If there is an error or omission to the recorded Mortgage please contact PHFA for guidance for the best solution to correct the recorded Mortgage. The methods of correction determined by PHFA will be to: 1) correct & re-record the Mortgage or 2) complete the Modification Agreement to correct the error. PHFA post closing staff will consider the program type and investor requirements when determining which method is required. If the requirement is to use a Mortgage Modification Agreement, please be sure to use [Form 40](#).

## **5. 203K Escrow**

All 203(k) loans sold to PHFA will have the escrow portion of the funds withheld by PHFA at the time of purchase. PHFA will release funds to the lender upon receipt of the FHA draw request form 9746-A. To request a draw, the lender must submit the completed form via email to [sfpurchasing@phfa.org](mailto:sfpurchasing@phfa.org) or by mail to PHFA to the attention of the Homeownership Purchase Department. Funds will be transmitted to the lender via ACH to the same account set up to receive purchase proceeds. It is the lender's responsibility to follow the FHA guidelines and procedures to administer and complete the closeout. All of the FHA closeout documentation must be submitted to PHFA before the account is closed.

## **D. SERVICING PROCEDURES AND DOCUMENTS**

All loans are sold servicing-released to PHFA; the lender may not perform any interim servicing. The lender is to sell the loan servicing-released to PHFA immediately following closing, but no later than the expiration of the delivery period. The last page of the Purchase Submission Checklist ([Form 58](#)) contains the documents that are required for the servicing transfer to PHFA. Follow the instructions on Form 58. Some additional details are contained below for the items which are generally completed by the lender after closing.

## **1. Tax Certification**

A Tax Certification is required to verify taxes were paid for School, County and City/Township or Borough as applicable. [PHFA Form 27](#) may be used in place of an actual tax certification form, but it must be fully completed with all taxing authorities, tax amounts and discount dates listed and also signed by the lender. Taxes must be verified and receipts or certifications of the last items paid should be attached to the form.

If the lender has its own form that includes this information, it may be used and attached to PHFA Form 27, as long as all information requested by the PHFA form is provided. For example, if the tax collector phone number is missing from the lender's form, list it on Form 27.

Please use the last month of the discount period for the disbursement due date on all real estate taxes. The disbursement month must remain consistent from year to year or it will affect the aggregate analysis. This information should be available at settlement to comply with RESPA Aggregate Analysis procedures.

If the property is part of a tax abatement program, the escrow amount used for closing and shown on the Closing Disclosure should be based on the actual amount due under the abatement program for the upcoming year.

### *a. Insurance Policies*

Forward the insurance declaration pages for Homeowners and/or Flood Insurance with a copy of the check or receipt for one full year's premium. The application for a flood policy must be signed and dated by the borrower and the agent. If this payment is included on the settlement statement and was paid at closing, it is not necessary to send copies of the check or receipt. If it is shown as a POC, then a payment receipt for the first year's premium is required.

The first mortgagee clause on all insurance policies is to read Pennsylvania Housing Finance Agency its Successors and/or Assigns, P.O. Box 15057, Harrisburg, PA 17105-5057. For HOMEstead Assistance loans, PHFA must also be listed as second mortgagee. Dwelling coverage on homeowner's policy shall be sufficient to cover both loan amounts.

All insurance policies must show PHFA as the servicer. If this does not appear on the declaration page, a post purchase exception letter will be issued for proof it has been corrected.

See [Chapter 12](#), Insurance Requirements, for more information about the various types of insurance required.

### *b. Condominium Insurance and/or Mine Subsidence Insurance*

For condominiums it is the lender's responsibility to obtain proof of insurance from the homeowner and the Condo Association to establish that there is a sufficient amount of Replacement Value insurance to completely rebuild the unit in the event of a total loss. Provide the HO6 policy of the homeowner's policy and a Certificate(s) of Insurance from the Condominium Association for Hazard Insurance including flood and/or mine subsidence, if applicable.

### *c. Copy of MI Certificate*

Please be sure to include a copy of the MI certificate and a copy of the check that was sent to the MI Company for payment of the first premium in the servicing package. Please notify the MI Company that this loan has been sold to the Pennsylvania Housing Finance Agency. If PHIF coverage was used, a copy of the MI certificate is not required. The Agency Master Policy Numbers on the change form are as follows: Essent 38-0003-0000, MGIC 37-278-3-0673, Radian 11524-000, G.E. B222223LJS, Arch MPN13776-0001-0, National MI 00265-0001, FHA 4258110013, UG 237-8888-156 and RD 231733024.

### *d. Reporting to IRS*

The lender is required by Federal Law to report to the IRS points paid on all mortgages and interest collected at closing in accordance with IRS regulations. This is your responsibility as the originating lender.

## **E. LOAN LEVEL NOTICES**

When items are missing from the purchase package there are three types of notices that are issued and available online via the PHFA Pipeline PLUS.

### **1. Post Purchase Escrow Conditions**

This notice is applicable when the loan is purchased, but with conditions, primarily for escrow-related work. When it states a deadline date, the item must be received by the date specified on the notification. If the lender cannot deliver the item to the Agency by the expiration date, they must submit an explanation why and request approval for a designated extended expiration date. The Agency grants extensions on missing items on a case by case basis.

### **2. Ineligible Purchase Submission**

A loan will be rendered **ineligible** for purchase when any one or more of the items critical for purchase are incomplete, inaccurate or missing from the purchase submission. These items are listed on [Form 58](#). The loan will be purchased as soon as the missing items are received by PHFA. Late fees will accrue if the lock expires prior to being purchased.

### **3. Post-Purchase Conditions**

The Post Purchase Conditions report applies when the loan has been funded and follow up documentation is needed. Post-Purchase deficiency exceptions or conditions should be received and cleared by the Agency within 30 days from the exception date on the notification.

## **F. SUMMARY REPORTS**

### **1. Expiration of Lock Report**

The Expiration of Locks report is updated weekly and is available via PHFA Pipeline Plus. It lists the loans that will expire within two weeks and is updated each Monday evening. A report will not appear if all loans are purchased prior to the rate lock expiration date and there are no additional loans with locks about to expire.

### **2. Deficient Loan Tracking Report**

This summary report is updated daily and available online using the PHFA Pipeline PLUS. It inventories the outstanding Purchase and Final document exceptions. F is for Final Document; PP is for Post Purchase; PC is for Purchase Escrow and PI is for Ineligible for Purchase. All items appearing on the report would have previously been requested through a loan level Purchase or Final Document Notice. (See [Chapter 11](#) for details on final doc notices.) The items must be submitted to the appropriate Purchasing or Final Document department staff as indicated on the report. Email addresses for the units are as follows: [sfpurchasing@phfa.org](mailto:sfpurchasing@phfa.org) or [sfinaldocs@phfa.org](mailto:sfinaldocs@phfa.org).

The Deficient Loan Tracking Report is an extremely effective tool in identifying recurrent issues and problem areas which should be corrected.

Outstanding items will appear on the report until they are cleared.



## **CHAPTER 11 – FINAL DOCUMENT SUBMISSIONS**

### **A. PERFORMANCE STANDARDS**

See [PARTICIPANT EVALUATION](#) in [CHAPTER 1](#).

### **B. DELIVERY DEADLINE**

The final recorded documents (mortgage and assignment, subordinate mortgage(s) if applicable, and a mortgage modification if applicable) and the original title policy if NOT previously submitted are to be received by the Agency **within sixty (60) calendar days from the purchase date** of the loan.

Timely delivery of these items has a direct impact on the second portion of the SRP payment. There are exceptions from time to time when PHFA will allow additional time to submit recorded documents; for example, if the recorder of deeds requires additional time for recording them. Requests for extensions should be submitted to the Final Docs Department via fax to 717.780.3872 or email to [SFFinalDocs@phfa.org](mailto:SFFinalDocs@phfa.org). When the request has been approved, the lender will receive a notice advising of the new submission deadline.

If the recorded final documents are available at the time the purchase package is submitted, they should be included as indicated on [Form 58](#), the Purchase Submission Checklist.

Unless submitting the docs with the purchase package, it is recommended that recorded final documents or items to correct a final document deficiency error should be attached to a copy of the Final Document Conditions letter, the Deficient Loan Tracking Report or the Final Document Submission Cover Letter ([Form 30](#)).

#### **1. Delivery**

It is recommended that recorded final documents or items to correct a final document deficiency error be attached to a copy of the Final Document Conditions letter, the Deficient Loan Tracking Report or the Final Document Submission Cover Letter ([Form 30](#)) and mailed as follows. These items should not be submitted via VirPack.

Send **OVERNIGHT** mail to the following address:

Homeownership Programs/Final Documents Dept.  
PENNSYLVANIA HOUSING FINANCE AGENCY  
211 North Front Street  
Harrisburg, PA 17101

Send **REGULAR** mail to the following address:

Homeownership Programs/Final Document Dept.  
PENNSYLVANIA HOUSING FINANCE AGENCY  
P.O. Box 8029  
Harrisburg, PA 17105-8029

## ***C. FINAL DOCUMENT FILE***

The final documents consist of the items listed below.

### ***1. Mortgage***

The recorded mortgage must be sent to PHFA in the final submission package.

### ***2. Recorded Subordinate Mortgage***

If PHFA provided additional financing on the mortgage transaction, the recorded subordinate mortgage(s) must be included in the final submission package.

If any other (non-PHFA) assistance program was utilized in the transaction for which a lien was secured, a copy of that recorded mortgage is also required, along with any deed covenants if applicable.

### ***3. Assignment***

If the documents are not recorded at the same time, the recorded assignment must reference the mortgage book and page numbers or instrument number within the body of the assignment. PHFA [Form 20](#), or an alternate form which has been approved by PHFA, should be used when the assignment is recorded simultaneously with the mortgage.

### ***4. Mortgage Insurance/Guarantee Certificate***

An original or legible copy of the VA Loan Guarantee Certification (LGC) or the FHA Mortgage Insurance Certification (MIC), whichever applies, must be provided. Only an original of the RD Loan Note Guarantee (LNG) will be accepted.

### ***5. Mortgage Modification***

A recorded mortgage modification should be submitted when applicable. See [Chapter 10](#) for more information on mortgage modifications.

## ***D. FINAL DOCUMENT CONDITIONS LETTER***

This loan level report advises the lender of missing items or deficiencies discovered upon review of the recorded Mortgage and Assignment, Title Policy/Endorsements, copy of the Deed and the Government Insuring Certificates. Final Document deficiencies should be received by PHFA prior to the deadline stated on the Final Document Conditions letter.

It is recommended that recorded final documents or items to correct a final document deficiency error should be attached to a copy of the Final Document Conditions letter, the Deficient Loan Tracking Report or the Final Document Submission Cover Letter ([Form 30](#)).

## **E. SUMMARY REPORTS**

### **1. Deficient Loan Tracking Report**

This summary report is updated daily and is available online via the PHFA Pipeline PLUS. It inventories the outstanding Purchase and Final document exceptions. F is for Final Document; PP is for Post Purchase; PC is for Post Purchase Escrow and PI is for Ineligible for Purchase. All items appearing on the report would have previously been requested through a loan level Purchase or Final Document Conditions letter. (See [Chapter 10](#) for details on purchase notices.)

The Deficient Loan Tracking Report is an extremely effective tool in identifying recurrent issues and problem areas which should be corrected.

Outstanding items will appear on the report until they are cleared.

### **2. Loans Cleared for SRP Report**

This report shows loans that have entered the queue for the second payment of the SRP, which is paid every Monday (or the next business day if the first Monday is a holiday). See [Chapter 1](#) for details on lender compensation.

## **CHAPTER 12 – INSURANCE REQUIREMENTS**

All property insurance policies (flood, homeowner's, condo, mine subsidence, etc.) must be pre-paid for a full 12 months and must list the following Mortgagee clause upon delivery of the purchase file to PHFA:

Pennsylvania Housing Finance Agency, Its Successors and/or Assigns  
P.O. Box 15057, Harrisburg, PA 17105-5057

For acceptable payment documentation, see Chapter 10, section D2.

### ***A. MORTGAGE INSURANCE***

See [Private Mortgage Insurance](#) under HFA Preferred in [Chapter 3](#).

### ***B. 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. For more information on amendments to the NFIP in the Biggert-Waters Flood Insurance Reform Act of 2012, refer to the [Interagency Questions and Answers Regarding Flood Insurance](#) and the Interagency Statement on the Impact of Biggert-Waters Act ([FIL-14-2013](#)).

**Please refer to the guidelines listed below for special instructions for PHFA loans.**

Life-of-Loan (LOL) flood determinations are required on every PHFA loan. The LOL certificate should list the insured as: Pennsylvania Housing Finance Agency, its Successors and Assigns, P.O. Box 15057, Harrisburg, PA 17105-5057. A copy of the "Notice of Transfer of Servicing" form that was sent to the issuing company must be included in the purchase package.

The completed application for flood insurance is required and must be included with the LOL cert in the pre-closing package.

Flood determinations should be ordered as soon as possible in the loan process. The borrowers are required to be notified in writing if their home is located within a Special Flood Hazard Area (SFHA) within a reasonable period of time. In the case of multiple applicants on a single loan, the lender and borrowers may designate the borrower to whom the notice will be provided. If any portion of the building (including decks, detached garages, and outbuildings securing the loan) is located in the SFHA the flood insurance must at least cover, but need not be limited to, the lowest of: (a) The outstanding principal balance of the loan; (b) The maximum insurance available under the (NFIP); or 100 percent of the replacement cost of the dwelling. Please note that if a detached building (a stand-alone 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 and is valued at \$5,000 or higher according to the appraisal.

Certain private policies are acceptable for Conventional, RD and VA loans only. The policy must contain the compliance aid statement within the policy or an endorsement to the policy: **"This policy**

**meets the definition of private flood insurance contained in 42 U.S.C. 4012a(b)(7) and the corresponding regulation.”** If the policy does not have this statement present, the private policy will not be acceptable. **NFIP policies are still required for FHA loans.**

See the ‘Flood Determination’ section below for special instructions on properties partially within a SFHA and also for cases where there is a possible conflict in the determination.

PHFA will consider on a case by case basis properties located in areas designated as Zone D and/or ‘unmapped’ on the Life of Loan Flood Determination. If the property is located in an area that participates in the National Flood Insurance Program, PHFA may require that flood insurance be obtained. If the property is located in an area that does *not* participate in the NFIP, the loan may be deemed ineligible for funding by PHFA. Lenders may submit such scenarios for a [preliminary determination](#) so that this determination can be made early in the process.

PHFA strongly encourages all borrowers to purchase replacement cost coverage and content coverage to protect their interests.

To determine the *minimum* deductible, refer to the ‘Rating’ section of FEMA’s frequently updated Flood Insurance Manual, available at <https://www.fema.gov/flood-insurance-manual>.

The *maximum* deductible permitted by PHFA is \$5,000, unless the mortgage insurer/guarantor (such as FHA) requires a lower amount, but the borrower must still qualify at the lowest deductible permitted.

**For calculating the debt to the income ratios, the lender must use the following procedure:**

*(\* The amount used to underwrite the loan is to be used on the loan application, 1008 or government equivalent and when using an automated underwriting system.)*

- A. Is the borrower’s total DTI 45% or less using an assumed full risk premium equal to 10% of the loan amount? If no, continue to step B. If yes, use the Standard Flood Insurance Policy premium listed on the flood insurance application to underwrite the loan.\*
- B. Is the property rated as a post-FIRM property that was built in compliance? (If unsure, ask the insurance agent.) If no, then continue to step C. If yes, then use the Standard Flood Insurance Policy premium (at the lowest permitted deductible) listed on the flood insurance application to underwrite the loan.\*

EXCEPTION to step B: If it is a ‘Preferred Risk’ policy because the property was newly mapped into a SFHA and therefore qualifies for the ‘Preferred Risk Policy Eligibility Extension’, the agent must also provide a quote for a standard policy (without the reference to ‘Preferred Risk’ on the application). The premium for the standard policy (at the lowest permitted deductible) must be used to determine if the total DTI is at or below 45%; if so, the PRP rate may be used to underwrite the loan.\*

- C. Obtain an Elevation Certificate to determine the property's elevation difference from the base flood elevation ("BFE"). If the elevation difference is zero or positive, then use the Standard Flood Insurance Policy premium listed on the flood insurance application to underwrite the loan.\* If the elevation difference is negative, use the table below to estimate an assumed full risk premium for the purpose of determining an applicant's DTI. If when using this table the applicant's total DTI is less than 45%, then use the Standard Flood Insurance Policy premium (at the lowest permitted deductible) listed on the flood insurance application to underwrite the loan.\* If the total DTI exceeds 45%, PHFA will not purchase the loan.

<b>Elevation Difference</b>	<b>Rate (% of loan amt)</b>
- 1 BFE	4.5%
- 2 BFE	5.5%
- 3 BFE	6.5%
- 4 BFE	7.5%
- 5 BFE	9%
Greater than - 5 BFE	10%

**A loan which is guaranteed government must also meet requirements.**

**or insured by the Federal the applicable entity's**

### **1. PUD Homeowner's Associations**

A PUD Homeowner's Association should cover any common elements, buildings, and any other common property located within an SFHA with a policy at least equal to the lower of 100 percent of the insurable value of the facilities or the maximum coverage available under the NFIP. The deductible may not exceed the lower of \$5,000.00 or one percent (1%) of the policy's face amount. Funds to cover this deductible amount should be included in the owners' association operating reserve account.

### **2. Condominiums**

The current "maximum" amount for building coverage that may be purchased on a high-rise or low-rise Condominium Building under the Residential Condominium Building Association Policy (RCBAP) is 100 percent of the Replacement Cost Value (RCV) of the building, including the supporting foundation or the total number of units in the condominium building multiplied by \$250,000, whichever is less. The RCBAP must cover all common elements and common property, as well as each of the individual units in the building. The amount of required coverage is outlined below.

#### **a. Building Coverage**

Building coverage should equal 100 percent of the insurable value of the common elements and property, including machinery and equipment that are part of the building.

### *b. Contents Coverage*

The contents coverage should equal 100 percent of the insurable value of all contents (including machinery and equipment that are not part of the building) that are owned in common by the association members.

### *c. Unit Coverage*

The coverage for each unit should be the lower of \$250,000 or the amount of the unit's replacement cost.

If the total required coverage exceeds the maximum coverage available for condominium projects under the applicable NFIP, PHFA will accept coverage equal to the maximum amount that is available. The deductible may not exceed the lower of \$5,000 or one percent (1%) of the policy's face amount. The RCBAP does not protect the individual unit owner from loss to personal property owned exclusively by the unit owner. Therefore, it may be in the borrower's best interest to acquire supplemental building coverage to the RCBAP by purchasing a unit policy under a Dwelling Policy form that is written in excess of the association policy.

A copy of the RCBAP must be provided for all condominium loans, along with a copy of the Borrower's (Unit) Owner's Declaration page (if applicable). If a condominium association declines to carry any flood insurance coverage, then each unit owner must purchase an individual policy.

## **3. Preferred Risk Policy**

A preferred risk policy is a residential policy, based on preferred rates for qualified structures in moderate-to-low risk areas (zones B, C and X). Do not close a loan with a Preferred Risk Policy if the home is or may be located within a SFHA.

## **4. Flood Determination**

### *a. Manual Rechecks for Properties Located Partially in SFHA*

If the Life of Loan Flood Certification indicates that any portion of the property or structures are in a Special Flood Hazard Area—even if it indicates all structures are located outside of the zone—PHFA requires a manual recheck to be performed by the same company. If it is unclear that a manual recheck was performed, the file will be suspended until the lender provides evidence a manual recheck was performed. If the recheck indicates that any portion of the structures is within the SFHA, standard flood insurance will be required. We are implementing this system because some LOL certs indicate the structures are outside the SFHA when in fact they are not. When in doubt as to the results of the LOL, please contact PHFA.

### *b. Manual Re-checks to Rule Out Discrepancies*

If the determination is unclear or in conflict with another determination (or the appraisal), please follow the procedure below. If the conflict cannot be resolved by loan closing, a Standard Flood Insurance Policy (SFIP) should be obtained. This will help to ensure the borrowers still wish to purchase the home and can still afford it if flood insurance is ultimately required. Please note that it is likely that the

underwriting ratios will need to be re-calculated, to be sure that the borrowers are still eligible for the loan.

Inform each vendor of the conflicting determinations and request that they each do a manual recheck and physically map out the property. They should be willing to work with each other to reach consensus on the property's flood zone status.

It helps to confirm the property address and the parcel identification number with the local tax assessment office personnel (or tax assessment website), etc. before ordering a manual re-check. Please inform the flood vendor if there are detached structures being used as collateral for the loan; if there are, they will need to be covered by the policy.

#### i. Assistance from NFDA

The National Flood Determination Association (NFDA) is a non-profit organization of flood determination vendors and companies. It can assist with facilitating discussion between members regarding a specific determination issue. However, it is possible that even after the documentation is submitted to the NFDA, the two flood vendors will still not agree on the determination. Also, not all determination companies are members of the NFDA.

#### ii. Assistance from FEMA

**Letter of Determination Review (LODR).** If the issue is still unresolved after contacting NFDA, the lender and borrowers can jointly request that FEMA review the determinations made for the lender. The LODR process costs \$80 (as of January 2007) and does not consider the elevation of the structure or property above the flood level. Rather, it considers only the location of the structure relative to the special flood hazard area boundary shown on the Flood Insurance Rate Map (FIRM). Therefore, a LODR from FEMA will not effectuate any changes to the FIRM. All LODR requests are completed and FEMA provides a written response to the joint requesters within 45 days of the date FEMA received the complete request. There are three possible outcomes of FEMA's review:

- Upheld: The review of the data agrees with the determination by the lender.
- Unchanged: The review cannot dispute the lender's determination because the data was insufficient to reach a conclusion.
- Overturned: The review of the data indicates the structure is not located in the mapped SFHA.

Visit <http://www.fema.gov/how-request-flood-hazard-determination-review-fema> for more details.

**Letter of Map Amendment (LOMA) or Letter of Map Revision based on Fill (LOMR-F).** This option may be used as an alternative to the LODR process or in cases where the LODR upholds the original determination. The LOMA/LOMR-F process can take elevation data into account and can amend or revise the FIRM to reflect any errors on it or address any changes to the topography of the land which may result in a modified SFHA. There is no charge for a LOMA (based on natural ground elevations) application. There is a fee for a LOMR-F (based on fill) application.

For a LOMA to be issued removing the structure from the SFHA, the lowest adjacent grade (the lowest ground touching the structure) must be at or above the one percent (1%) annual chance flood elevation. The requester of a LOMA is responsible for providing all the information needed for



FEMA's review of the request, including elevation information certified by a licensed land surveyor or professional engineer.

Visit <https://www.fema.gov/how-request-flood-hazard-determination-review-fema> for more details.

FEMA maps may be viewed online at <https://msc.fema.gov/portal/search> or call 1.800.FEMA.MAP.

For more information about flood insurance, visit <https://www.fema.gov/national-flood-insurance-program> or <https://www.floodsmart.gov>.

### **C. HOMEOWNER'S INSURANCE**

The lender must ensure that the property securing each Mortgage Loan is covered by hazard insurance that, at a minimum, meets the requirements listed below.

#### **1. Term**

Policies must be for a period of at least one (1) year. Insurance must be in effect on the date of Closing. For Conventional, FHA and VA loans the maximum allowed deductible is one percent (1%) of the face amount of the policy or not to exceed \$3,000. If the mortgage is secured by a PUD unit that is covered under a blanket policy for the project, the maximum allowable deductible is one percent (1%) of the replacement cost not to exceed \$3,000 for the unit rather than on the face amount of the policy. For RD loans the maximum allowed deductible should not exceed the greater of either \$1,000 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.

#### **2. 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 lower of:

- The outstanding principal balance of the mortgage loan at the time it is delivered to PHFA for purchase

**OR**

- The maximum insurable value of the improvements, determined by subtracting the land value on the Uniform Residential Appraisal Report (URAR) from the final reconciliation of value as calculated on the report.

#### **3. Other Hazards**

If the lender is aware that a mortgaged property is exposed to any appreciable hazard against which standard fire and extended coverage does not afford protection, the lender must advise the Agency of the nature of the hazard immediately and the additional insurance coverage, if any, which should be obtained or which the lender has obtained due to the mortgagor's failure to obtain adequate insurance. The Agency may require the lender to obtain additional coverage, in accordance with the terms of the mortgage documents, as the Agency determines necessary.

#### ***D. TITLE INSURANCE***

The **Original Instant Mortgagee Residential Short Form** policy in an amount equal to the principal amount of the mortgage indebtedness is required at the time of purchase. The title insurer must be licensed to conduct business in the Commonwealth of Pennsylvania. For a list of the Title Companies authorized to do business in PA refer to [Appendix U](#).

The policy must insure that the mortgage loan is a valid first lien on the mortgaged property.

The instant long form policy is also acceptable with the endorsements referenced in this section.

A counter-signed policy is required on all PHFA loans.

The **original title policy** or one of the following alternatives must be submitted in the **purchase submission package** (Please note, we do not allow any variations to the alternatives listed below):

- An emailed copy of the title policy is acceptable ONLY with a copy of the **email from the title agent to the lender**. The email and the title policy must be included in the final document portion of the purchase package.
- A certified copy or computer generated title policy is acceptable as long as it includes a **signed certification by the title agent**. It must be clear that the title agent certified it by including the company's name.

Please Note: We will not purchase loans with Title Commitments, Pro Forma Policies or copies of title policies without the above mentioned criteria added to the policy.

PHFA strongly encourages the use of the Instant Residential Short Form Title Policy because there is no need to require separate 100, 300 and 8.1 Endorsements. This type of policy consists of one page with information on both sides of the document. Schedule A is on side one and Schedule B is on side two. Schedule A must indicate that the environmental endorsement is included. The 100 and 300 endorsements are included without being referenced. The affirmative coverage for the 100 and 300 endorsement appears on Schedule B. **The Agency encourages the use of these title policies on all loans submitted to PHFA.**

When the traditional long form is used (current version per the American Land Title Association), the following endorsements must be included with the policy:

- 100 (If there are no restrictions, and an Endorsement 100 is not being issued, this information must be stated on a signed letter to PHFA from the title agent regarding the missing Endorsement 100.)
- 300 except when a Condo or a PUD
- 8.1 or 900 Environmental
- 1030 Mineral Rights Endorsement (Endorsement 100 is not needed when the Endorsement 1030 is purchased.)
- Condo or PUD Endorsement

Schedule A- The title insurance policy number must be present.

Schedule A – The date of the policy should be the date of settlement and include the following: “or the date of the recording, whichever is later.”

Schedule A – The name insured should be the name of the lender. For example, “ABC Mortgage”, followed by “it’s successors and/or assigns”.

There is no need to list the assignment of the mortgage on Schedule A, but if the information is present it must be correct.

PHFA does not require an endorsement to reflect the recording data, but if the information is provided it must be correct.

The borrower’s name should be the same on the Deed, Mortgage, Note, Assignment and Title Policy.

It is the lender’s responsibility to review the Instant Short Form Residential Title Insurance Policy or the Title Policy with all schedules and endorsements before the loan is submitted for purchase to ensure that the Policy is free from errors or omissions. If you discover an error or omission, and are unable to correct the deficiency prior to submitting the Policy to the Agency in the Purchase Submission, the Policy must be accompanied by our written request to your closing agent for correction. A copy of the request for correction to the Title Company will indicate to PHFA that you have recognized the error or omission and that you have ordered an endorsement. Title Policies with errors and omissions may only be submitted on an occasional basis, not as your normal business practice. **When Instant Residential Short Form Title Policies are used instead of the traditional long form, there is minimal information in the Short Form, which reduces the margin of error.**

## **1. Schedule A**

Schedule A must be checked for the following:

1. Date of Policy: It must be dated as of closing with the phrase added: “or the date of constructive notice, whichever date is later” **or** the policy must be dated the same date the mortgage was recorded. When the revised jacket is not utilized, the constructive notice phrase eliminates potential problems in the date.
2. Amount of Loan Policy or amount of insurance: Must be at least the amount of our Mortgage.
3. Name Insured: First choice – Participating Lender’s name, its successors and assigns. Second choice – “Pennsylvania Housing Finance Agency, its successors and assigns”.
4. Mortgagor’s Name: Name(s) the title is vested in.
5. Mortgage: Must refer specifically to our mortgage document including the names of the mortgagors, mortgage amount, mortgagee (your lending institution), and date of the mortgage.
6. Assignment: If listed, it must be to Pennsylvania Housing Finance Agency.

7. Property description: If the Title Policy refers to the property as any of the following, it is acceptable as long as it agrees with the Mortgage:
- 123 Main Street, Anyplace, PA ZZZZZ;
  - R.D. or R.R. 3, Box 123 Your Town, PA ZZZZZ;
  - The legal description is attached as a schedule or exhibit to the Title Policy and the description in the Title Policy matches the legal description in the Deed and Mortgage.
  - The same as described in a mortgage from John Doe & Mary, H/W to any lender dated MM/DD/YY and recorded MM/DD/YY in Wonderland County in book\_\_111\_\_, page \_\_111\_\_". (*Blanks must be completed.*)
  - The same as described in a Deed from John Smith and Alice, H/W to John Doe and Mary, H/W dated MM/DD/YY and recorded MM/DD/YY in Wonderland County in Deed Book \_\_111\_\_, Page \_\_111\_\_".

## **2. Schedule B**

If the long form Instant Title Policy is issued or if an Addendum is added to the Instant Short Form Title Policy the exceptions that appear on Schedule B or the Addendum must be reviewed by your staff to determine if they need to be removed. The use of the Instant Mortgagee Residential Short Form Title Policy minimizes the amount of time spent on reviewing Schedule B and the addendum page if it is added. The standard items on Schedule B in the Instant Mortgagee Residential Short Form are standard exceptions with affirmative assurance on each item.

Standard acceptable exceptions:

- Taxes and assessments not yet due and payable;
- Utility easements which provide utility service to the residence and/or the development in which it is located (beware of large easements for pipelines and high tension wires and the like that may overly restrict the use to the property);
- Other matters that are subsequent or subordinate to our mortgage. These types of items should appear on a Schedule B II form.
- Water and sewer rents due and payable *after* settlement. This is determined by the language in the exception referencing the paid to date.

Standard **unacceptable** exceptions. These exceptions must be removed by a signed endorsement;

- Encroachments (depending upon the extent of the violation and how it may affect marketability);
- Lack of access to property;

- Taxes and assessments for prior years (i.e. which would have been due and payable). **NOTE:** A policy may show taxes for the current year where a portion is not yet payable. The title company may add “not yet due and payable” with an endorsement and the unacceptable exception becomes acceptable.
- Water and sewer charges that were not paid, or may not have been paid, prior to the date of settlement. Rents due prior to the settlement with the “not yet due and payable” phrase **must be removed** by an endorsement. This includes the exceptions that usually appear in Title Policies on Philadelphia properties;
- Rights or claims of parties in possession not shown in the public records.
- Mechanics liens;
- A recorded lease or agreement on mining, coal, oil – the title company must add, “the company will insure against future surface mining” to make this exception acceptable.
- Defects, liens, encumbrances, adverse claims or other matters, if any, created, first appearing in public records or attaching subsequent to the effective date hereof **but prior to the date the proposed insurance acquires for value of record the estate or interest or mortgage thereon covered by this commitment.** *(If the portion in bold is removed, the item would become acceptable.)*
- If the title policy references an agreement to remove minerals from the property, a 1030 *PA restriction, encroachments and mineral endorsement* is required.

From time to time Schedule B in an Instant Title Policy will be overloaded with exceptions that seem to relate to the project or development and not the unit being mortgaged. These exceptions should be removed, or we should be “insured against loss by reason thereof” in an endorsement. Please note: You will not encounter this situation with a Instant Mortgagee Short Form Residential Title Policy.

### **3. Endorsements**

Every Instant Title Policy must include the 100, 300 and environmental (8.1) endorsements. The Agency accepts the Residential endorsement in lieu of issuing separate endorsements. If the 100 endorsement does not apply, an original “letter in lieu of” is required and must be signed by the title agent.

All original endorsements sent to PHFA **must be** countersigned when there is a space for the title agent’s signature.

An 801 endorsement or the equivalent is required on PUD units and an 800 endorsement or the equivalent is required on condominium units. When the property is a PUD or CONDO we do not require the endorsement 300. This is the only exception where the 300 is not required.

The 1030 *PA restriction, encroachments and mineral endorsement* must also be issued when there are mineral rights on the property.

## **CHAPTER 13 - PROGRAMS FOR HOMEOWNERS**

Note: these programs are not included in the Master Origination and Sale Agreement ([MOSA](#)), but they are included in this guide for informational purposes.

### ***A. HOMEOWNERS' EMERGENCY MORTGAGE ASSISTANCE PROGRAM (HEMAP)***

Thousands of Pennsylvania families faced with the possible loss of their homes through foreclosure have received help from the Homeowners' Emergency Mortgage Assistance Program (HEMAP). This unique program, created by Act 91 of 1983, is the only one of its kind in the nation. HEMAP is a cost effective means to prevent homelessness among Pennsylvanians. By giving assurance of steady mortgage payments, it allows homeowners to seek alternate employment, job training, and/or education when they need it most. The program is funded by State appropriations and repayment of existing HEMAP loans.

HEMAP is a loan program designed to protect Pennsylvanians who, through no fault of their own, are financially unable to make their mortgage payments and are in danger of losing their homes to foreclosure. HEMAP funds loaned to prevent foreclosure are not a grant. These funds are a loan and must be repaid. Please note that FHA Title II (purchase) mortgages are not eligible under this program.

When approved for HEMAP assistance, a loan is created (secured by a mortgage on the property being threatened by foreclosure) to bring the delinquent payments current. Two types of assistance are available to the homeowner depending on their income and financial situation: continuing mortgage assistance loans and non-continuing mortgage assistance loans.

If a homeowner qualifies for a non-continuing mortgage assistance loan, their mortgage is brought current to a specified date and the homeowner is responsible for making all subsequent monthly mortgage payments to their lender along with a monthly payment to HEMAP. The homeowner may also be required to make a cash contribution toward the mortgage delinquency at the time the HEMAP loan closes.

If a homeowner qualifies for a continuing mortgage assistance loan, their mortgage is brought current to a specified date and then HEMAP subsidizes their monthly mortgage payment to their lender.

All HEMAP loans, continuing or non-continuing, are limited to a maximum of 24 months from the date of the mortgage delinquency, or to a maximum of \$60,000.00, whichever comes first.

HEMAP loan recipients are required to pay up to 40 percent of their net monthly income, as determined by HEMAP, towards their total housing expense. The minimum monthly payment/contribution to HEMAP, set by law, is \$25.00 per month per mortgage assisted.

Total housing expense is the sum of the mortgagor's monthly mortgage payments, including escrows, utility costs, hazard insurance expenses, real property taxes and, in the case of cooperatives and condominiums, the monthly amount the unit is assessed for the maintenance of common elements.

If the homeowner qualifies for a continuing mortgage assistance loan, the homeowner sends their designated monthly payment/contribution amount to HEMAP. HEMAP combines the amount sent by the homeowner with HEMAP funds and forwards the full monthly mortgage payment directly to the lender on the homeowner's behalf. Homeowner's contributions are set at 40 percent of the household net monthly income (NMI) less the utility expense and homeowners insurance costs, if it is not escrowed.

The interest rate on mortgage assistance loans is nine percent when household income requires repayment based on the 40 percent calculation. If income does not require repayment based on the 40 percent calculation, interest will not be charged and will be adjusted back and forth to nine percent as necessary. There is a mandatory minimum payment of \$25.00 per month per mortgage assisted.

Interested homeowners can select the [Frequently Asked Questions](#) link to receive more information about the HEMAP application process; or choose the [Search for a Participating Counseling Agency by County link](#) to find an approved agency near you.

## ***B. PENNVEST***

The Pennsylvania Infrastructure Investment Authority (PENNVEST) has teamed with the Pennsylvania Housing Finance Agency (PHFA) and the Pennsylvania Department of Environmental Protection (DEP) to offer the PENNVEST Homeowner Septic Program. This assistance is available to eligible homeowners who do not have access to a public sewage system and need to repair or replace their individual on-lot sewage disposal system.

All assistance to homeowners under the PENNVEST Homeowner Septic Program is in the form of loans at an interest rate of 1.75 percent. Loans will be secured by a mortgage on the borrower's home. The maximum term of a loan is 20 years. These loans are not assumable and must be repaid in full when the home is sold or transferred. Loan origination fees will be charged in connection with a loan.

### ***1. Benefits to You***

- Pay an attractive rate for this vital home improvement
- No prepayment penalty if the loan is paid off early
- Eliminate worries about your septic system when you sell your home
- Improve the environmental health of your property
- Avoid or respond to citations from your municipality

## **2. Your Continuing Responsibility**

A basic requirement of the program is that you keep your upgraded or new on-lot system in good repair, have it pumped out regularly, and ensure that it does not malfunction, fail to adequately treat wastewater, or cause a public health hazard. A Sewage Enforcement Officer will help you comply with these requirements. Simple common sense and reasonable regular upkeep should be sufficient to avoid any problems. A pumping schedule and reporting requirements will be included in your loan agreement.

## **3. Eligibility**

Loans offered under the PENNVEST Homeowner Septic Program are available to all homeowners of the Commonwealth, with limited exceptions, as noted below. Information on eligibility requirements is also available by contacting a [PENNVEST Participating Lender](#) or your local Sewage Enforcement Officer.

Family income may not exceed \$82,418. This is determined using the Adjusted Gross Income from the most current federal income tax returns.

- **Credit Worthiness:** financial ability to repay the loan.
- **Loan Amount Maximum:** \$25,000.
- **Project Type:** rehabilitation, improvement, repair, or replacement of an existing system located on a single family, owner occupied property which is the primary residence of the owner.
- **Project Location:** all areas are eligible unless a community wastewater collection and treatment system is either in place or will be constructed in the next five years.
- **Project Costs:** construction fees and costs, permit fees, loan origination fees, and legal fees.
- **Documentation:** all applicable permits, verification from your local municipality that a community wastewater disposal system neither exists nor is planned in the next five years, income, and other credit information.

## **4. How to Apply**

- Your first step should be to contact a [PENNVEST Participating Lender](#) to see if you qualify for a loan. An application fee of \$65 will be collected, but it is a reimbursable fee if your loan is closed and disbursed.
- If approval is given, you should then contact your municipal officials (city, township, or borough office) and have them sign a standard form certifying that your proposed project is not in an area which is currently served by public sewers and will not be served by public sewers within five years. Once this is completed, contact the sewage enforcement officer (SEO) serving your municipality to determine if a repair or replacement of your on-lot system is permissible under all applicable Pennsylvania regulations.



- If a repair or replacement is permitted, the system must then be designed, and the designing SEO or professional engineer (PE) must certify that the system proposed is the most cost-effective system available for your property. Your municipality's SEO then reviews the design and, if acceptable, issues a permit for the system. Where conditions are not suitable for a standard or alternative subsurface disposal system, small flow treatment systems with a discharge may also be eligible. In these cases a PE must design the system and it must be permitted by DEP.
- Your next step is to obtain bids from contractors who could do the work you are considering. Where possible, a minimum of three responsible bids is recommended. Have each contractor provide you with a written copy of the bid.
- Once these steps are completed, take the permit application, permit, bids, and the certifications from both the designer and municipal officials to the participating local lending institution you contacted in the first step to complete your application for funding. That institution may request additional information and documentation.