

PROCEDURES MANUAL

Smart Solution



MISSISSIPPI HOME CORPORATION

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SMART SOLUTION PROGRAM
PROCEDURES MANUAL

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INTRODUCTION

The Mississippi Home Corporation (the "Corporation" or "MHC") was created in 1989 to serve as the State's Housing Finance Agency. MHC was charged with raising funds from private investors to finance the acquisition, construction and rehabilitation of residential housing for persons of low to moderate income within the State. MHC currently administers the Mortgage Revenue Bond Program ("MRB"), the Mortgage Credit Certificate Program ("MCC"), the Smart Solution Program ("SS"), the 2nd Mortgage Down Payment Assistance Program used with the SS Program, the Housing Assistance for Teachers ("HAT") program on behalf of the Mississippi Department of Education and the Housing Tax Credit Program ("HTC") for developers, as well as several specialty housing programs within the State of Mississippi.

With regard to the Smart Solution program, the lender determines if the mortgagor, loan, and property are within guidelines as stated in Sections II, III, and IV of the Smart Solution Procedures Manual based upon information obtained. The lender must explain the Program and its requirements to the buyer.

The lender reserves funds and uploads to MHC the Reservation package as outlined in Section V of the Smart Solutions Procedures Manual.

The lender processes and underwrites the loan as outlined in Sections VI, VII, VIII and XIII of the Smart Solution Procedures Manual. The lender sends to MHC the Request for Conditional Commitment package before closing as stated in Section VI of the Smart Solution Procedures Manual. Upon approval of the loan the lender will receive from MHC a Conditional Commitment approval as stated in Section VIII. The lender may then close the loan with the conditions listed on the Conditional Commitment. The lender must have the loan approved by MHC and close the loan before the reservation of funds expires.

After the loan closing, the lender sends to the Servicer the closed loan package as stated in Section IX of the Smart Solution Procedures Manual and upon receipt and approval of the closed loan package by the Servicer, the Servicer will fund the mortgage loan as stated in Section X of the Smart Solution Procedures Manual.

The purpose of this manual is to provide pertinent information and to enhance any current guidelines established by MHC for the Smart Solution Program. Applicable Program Guidelines and the Smart Solution Mortgage Origination Agreement supersede this Manual. Please utilize the appropriate applicable documents. MHC reserves the right to update or revise the Smart Solution Procedures Manual at any time.

For additional information regarding the Servicer, go to www.servsol.com/lenders/lender-resources.

Agreement: The Smart Solution Mortgage Origination Agreement between the Lender, MHC, and the Servicer and all amendments or supplements where appropriate, the Invitation, the Notice of Acceptance, and all forms or reports prescribed by MHC.

Appraised Value: An appraiser's opinion of value based on regulations and guidelines established by the mortgage industry.

Co-Signer: A person who will not occupy the property being purchased and who will be secondarily liable for the Mortgage Loan.

Reservation Fee: A percentage amount of the related Mortgage Loan, to potentially be paid to MHC through a Lender at the time of Reservation of Funds. Currently waived at this time and at the sole discretion of MHC, the Reservation Fee can be reinstated at any time.

Conventional Mortgage: A Mortgage Loan other than an FHA-Insured Mortgage Loan or a Mortgage Loan with a VA Guaranty or a Rural Development Guaranteed Mortgage Loan.

Corporation: Mississippi Home Corporation, the State's Housing Finance Agency.

Days: All references to days shall be calendar days.

Eligible Mortgagor: A person intending to purchase a principal residence to be financed with a Smart Solution loan, who can meet all qualifications as established.

Eligible Loan Area: The entire geographical area of the State of Mississippi.

Equal Credit Opportunity Act (ECOA): A federal law that prohibits lenders from denying mortgages on the basis of the borrower's race, color, religion, national origin, age, sex, marital status, or receipt of income from public assistance programs.

Family Income: The meaning given to such term in Section II of this Manual.

Freddie Mac: The Federal Home Loan Mortgage Corporation or any successor thereto.

Fee Simple: The greatest possible interest a person can have in real estate, including the right to dispose of the property or pass it on to one's heirs.

FHA: The Federal Housing Administration of the Department of Housing and Urban Development of the United States of America, or any successor thereto.

Ginnie Mae: The Government National Mortgage Association, an entirely-owned corporate instrumentality of the United States of America within the Department of Housing and Urban Development, whose powers are prescribed generally by Title III of the National Housing Act of 1932, as amended.

Ground Rent: The earnings of improved property allocated to the ground itself after allowance is made for earnings of the improvements. Also, the payment for the use of land in accordance with the terms of a ground lease.

Guarantor: A promise by one party to pay debt or perform an obligation contracted by another in the event that the original obligor fails to perform as contracted.

Interest Held In Trust: Property held in trust until fulfillment of certain conditions are met.

Joint Tenancy: Joint ownership by two or more person, giving each tenant equal interest and rights in the property, including the right of survivorship.

Lease: A written document containing the conditions under which the possession and use of real and/or personal property are given by the owner to another for a stated period and for a dated consideration.

Lenders: Lending institutions that execute an Agreement with MHC to participate in the Program.

Life Estate: A freehold estate giving a beneficiary all property rights, except the right to sell. The estate is terminated upon the death of the beneficiary.

Mortgage/Deed of Trust: The instrument securing a mortgage loan which creates a lien on a Residence subject only to Permitted Encumbrances.

Mortgage/Deed of Trust Documents: The documents specified for delivery to the Servicer.

Mortgage Loan: Any loan evidenced by a Mortgage Note which is secured by the related Mortgage for financing the purchase of a Residence.

Mortgage Note: The promissory note evidencing the obligation to repay a Mortgage Loan, payable to the order of a lender, executed by a mortgagor to evidence obligation to repay the Mortgage Loan.

Mortgagor: The purchaser of a single-family residence who borrows funds to obtain a Residence.

New Construction: Single-Family residences less than one year old and never occupied.

Originators: The people/entity originating the loan for the Lender.

Permitted Encumbrances: The title encumbrances on a Residence permitted under the Program Guidelines.

Primary Wage Earner: The occupying, note-signing borrower who receives the most monthly income.

Principal Residence: Housing which the Eligible Mortgagor intends to occupy as a primary residence and which is not to be used in a trade or business, or as an investment property.

Profit and Loss: A statement by a business reflecting a financial gain or loss for a given period.

Program Guidelines: Guidelines established by MHC to administer the Smart Solution Program and any revisions, amendments, and modifications thereof.

Rate Commitment: An interest rate guaranteed to the borrower for 30 days from the loan reservation date.

RD (Rural Development): A U.S. agency formerly known as Farmers Home Administration.

RD Guarantee: A guarantee of a mortgage loan by RD under the provisions of Subchapter III, Chapter 8A, Title 42, U.S. Code Annotated.

Remainder Interest: The property remainder of an estate after the termination of a prior estate; can have either a vested or contingent interest.

Reservation Expiration Date: A period of 30 days from the reservation date.

Reservation of Funds: Reserved funds equal to the mortgage loan amount for an Eligible Mortgagor.

Residence: A single-family owner-occupied dwelling unit located within the Eligible Loan Area, including detached and attached units, condominiums, planned unit developments and manufactured homes which have a minimum of 400 square feet of living space and a minimum width of 102 inches and which is of a kind customarily used at a fixed location, and meeting applicable lender requirements.

Restrictive Reservation Authority: MHC may place a Lender on Restrictive Reservation Authority if the Lender has excessive reservation cancellations, borrower fallout, and late deliveries or takes other actions that hinder the effective performance of the program.

Servicer: ServiSolutions, a division of the Alabama Housing Finance Authority

ServiSolutions Funding and Delivery Department: ServiSolutions
7460 Halcyon Pointe Drive, Suite 200
Montgomery, Alabama 36117

State: The State of Mississippi.

Survivorship: The legal right of the survivor or persons having joint interest in property to take the interest of the person who is deceased.

Take-Out Loan: Any Mortgage Loan made for the purpose of paying a construction period loan, bridge loan or similar temporary initial financing which qualifies as such pursuant to Section II, of the Smart Solution Procedures Manual.

Transfer Date: A date to be designated in accordance with the Origination Period as defined in the Program Guidelines of any series. The Transfer Date is established by MHC.

Worst-case pricing: The higher of either the original lock rate or the currently offered rate at the time of the request or at the time of the funding, if no request is made. Alternatively, if the rate cannot be changed, the lower of either the original lock price or current market price as determined by MHC at the time of the request or at the time of the funding, if no request is made.

SECTION II—MORTGAGOR ELIGIBILITY EVALUATION

- A. *Income Restrictions.* MHC has adopted a single income restriction for the program. The annual family income of the household may not exceed \$95,000. Annual family income will be calculated to include the income of anyone over 18 years of age, unless they are a full-time student, who will reside in the home. Income eligibility criteria is subject to change in the future by MHC. If using any Freddie Mac loan product the credit qualifying borrowers income cannot exceed the 80% AMI limits set by FHFA so in this case the \$95,000 income limit does not apply.
- B. *Occupancy.* Mortgagor must occupy the residence as their Principal Residence within 60 days after the closing and thereafter as their principal and permanent residence.
- C. *Residence Used as Vacation, Seasonal, Rental, Recreational or Second Home.* The Mortgagor cannot purchase the residence for use as a rental, recreational, seasonal, vacation or second residence.
- D. *Legal Separation.* Legal separation agreements are not acceptable documentation in the determination of a household's eligibility. Lenders must treat separated occupants as married and the separated spouse must meet all Smart Solution guidelines as established in Sections II, III, & IV of this manual.
- E. *Homebuyer Education.* All occupying homebuyers must complete an MHC approved homeownership education course prior to loan closing. The Originator must submit the certificate of completion with the compliance file. Certificates of completion must be dated within one year of loan reservation to MHC. Acceptable forms of counseling include face-to-face, Frameworks, on-line private mortgage insurance provider courses or Freddie Mac's online Credit Smart homebuyer education course.
- F. *Credit Score Requirement.* The borrower(s) must have a middle credit score of at least 640 for FHA, VA or RD and Freddie Mac Conventional loans to be eligible for the program. In the case the borrower(s) has only two scores, the lower of the two scores must be used. In the case the borrower(s) has only one score or does not have a credit score, the borrower(s) would not be eligible for the program.
- G. *Total Debt-to-Income Ratio (TDI).* The TDI ratio may not exceed 45 percent for the Smart Solution program. When using the Freddie Mac "HFA Advantage" conventional product, the lender must adhere to current private mortgage insurer and Freddie Mac TDI requirements. TDI ratio should be based on the lender's qualifying total income and total debts. To verify TDI, the following documentation must be submitted with the compliance package:
 - LPA Findings or DU/FHA Total Scorecard Findings (FHA, VA)
 - LPA Findings only (Freddie Mac conventional)
 - GUS Findings (RD)

AND

 - HUD Form 92900-LT (FHA Loan Underwriting and Transmittal Summary) for FHA loans

- Freddie Mac 1077 for Conventional and RD loans
- VA Loan Analysis (VA 26-6393)

Once the closed file is received, the Servicer's Funding and Delivery Department will ensure the final TDTI meets program guidelines by reviewing the final Automated Underwriting Findings and the final Loan Underwriting and Transmittal Summary. Loans not meeting program requirements will not be purchased.

- H. *AUS Findings*. **MHC will not accept manual underwriting for FHA/Conventional/RD and VA loan approvals.** We accept LPA or FHA Total Scorecard Findings resulting in Approve/Eligible or Accept/Accept that is consistent with FHA, VA or RD guidelines, and LPA findings resulting in Approve/Eligible consistent with conventional guidelines. LPA for Freddie Mac or DU/FHA Total Scorecard submissions for FHA loans resulting in a Refer decision will be ineligible for delivery to the Servicer. LPA/DU submissions resulting in a Refer decision will be ineligible for delivery to the Servicer. We accept GUS Findings resulting in RD approvals.
- I. *Tax Liens*. Any borrower or spouse who will hold title with unpaid, unsatisfied, and/or unreleased federal or state tax liens is not permitted under the Smart Solution Program. We will not accept repayment plans on files with an established lien. All liens must be satisfied prior to approval and evidence to support the release included in the loan file.
- J. *Federal Tax Return Transcripts*. The lender must be able to provide the most recent year's IRS tax transcripts for each occupying borrower and non-borrower(s), 18 years of age and older. Self-employed borrowers are required to provide the most recent two years' transcripts and a year-to-date profit and loss statement. Any late filers or IRS responses of "no record of tax return being filed" where returns were applicable will have to be satisfactorily resolved before the loan will be eligible for Smart Solution. Extensions will not be accepted by MHC.

SECTION III—LOAN ELIGIBILITY EVALUATION

- A. *Permitted Encumbrances*. All Mortgage Loans must be secured by a first lien on the fee simple title or leasehold estate to the Residence. Permitted Encumbrances are those liens, covenants, conditions and restrictions, rights of way, easements and other matters of public record as of the date of the recording of the related Mortgage. These encumbrances must be permitted under Freddie Mac and Ginnie Mae, as applicable.
- B. *Types of Loans*. In order to qualify under the program, each mortgage loan must be insured by FHA, VA, RD or Freddie Mac. **203(k) loans are NOT eligible for inclusion in the Smart Solution program.**
- C. *Amount of Mortgage Loan*. The maximum amount of any Mortgage Loan may not exceed the applicable product maximum mortgage amount and the applicable debt to income ratio requirements of Freddie Mac, Ginnie Mae and ServiSolutions ("Master Servicer") guidelines as of the closing date of the Mortgage Loan.
- D. *New Mortgage Requirements*. No refinancing of any outstanding indebtedness shall be permitted except with regard to take-out loans. A take-out loan may be made to permit an Eligible Mortgagor to finance a residence which qualifies as a newly constructed residence under the Program Guidelines.

If warranted by the circumstances, an Eligible Mortgagor shall be considered as both a Mortgagor and a seller with respect to take-out loans. A newly constructed residence is considered a residence which has not previously been occupied, and is less than one year old.

SECTION IV—PROPERTY ELIGIBILITY EVALUATION

- A. *Eligible Loan Area*. The Eligible Loan Area shall be the entire geographic boundaries of the State of Mississippi.
- B. *Qualifying Residences*. Subject to certain limitations described below, all Residences financed by the Smart Solution Program must meet the following:
1. The Residences must be permanently affixed, and considered "Real Property";
 2. Detached single-family houses, consisting of no more than one dwelling unit;
 3. Attached single-family houses, townhouses, consisting of no more than four units attached and duplexes, if only purchasing one of the 2 units and it must be specified in the Sales Contract as such.

4. Units of a "condominium" or units within a "planned unit development" as such terms are defined in the Freddie Mac guide.
5. Manufactured homes using FHA financing must meet the following requirements:
 - (a) The manufactured home must be attached to the land.
 - (b) The manufactured home must be classified and taxed as real estate.
 - (c) In accordance with the jurisdictional requirements, the manufactured home title has to be surrendered/cancelled (copy of cancellation must be provided at the time of loan purchase by MHC).
 - (d) Insured under Section 203(b) of the National Housing Act of 1934, as amended.

All product guidelines concerning the eligibility of manufactured housing for RD and VA and for FHA as referenced above.

C. *MHC Requirements for Repair Escrows.* MHC must issue prior approval for any repair escrow. The Lender must furnish MHC with a copy of the escrow agreement and copies of work bid estimates, along with the request for approval. In order to qualify for a repair escrow, the following terms must be met and included in the escrow agreement:

1. Repair escrow funds must be held and disbursed by either the originating lender or the closing agent.
2. Repair escrow funds must be equal to 150% of the repair estimate amount.
3. Repairs must be completed within 10 days of closing.
4. No structural repairs are permitted.
5. A copy of the final inspection must be forwarded to MHC within 5 days of completion.
6. The maximum repair cost amount is \$10,000 with a \$15,000 repair escrow.
7. Lender may charge an inspection fee not to exceed 2% of the repair cost.

SECTION V—RESERVATION SECTION

A. *Reservation Procedure.* Subject to the funding restrictions and applicable reservations, applications for mortgage loans will be accepted from all designated lending offices of the Lender. Reservations will be made on MHC's Online Reservation Site at www.mshomecorp.com & Select "For Lenders" link on a first-come, first-served, fair and equal basis irrespective of race, color, religion, national origin, age, or sex.

Prior to making a reservation request, the Lender must have underwritten, through delegated underwriting, a mortgage loan application from a potential Eligible Mortgagor. The mortgagor furnishes the Lender an earnest money sales agreement or construction contract entered into by the seller/builder of a Residence and the Eligible Mortgagor. The Program processing is designed to complement the Lender's regular credit and underwriting procedures. No formal notice of rejection of a Smart Solution loan is required of MHC under the Equal Credit Opportunity Act since MHC does not make credit approval decisions. MHC recognizes the procedural variations among participating lenders.

The following steps are for the reservation and loan processing process:

1. The Eligible Mortgagor applies for mortgage financing from a participating Lender.
2. The Lender determines if the loan applicant is eligible for the Smart Solution Program based on preliminary information obtained on annual income (refer to the SS Income Calculation Worksheet).
3. All mortgage loans must be originated in compliance with and must conform to the provisions of all applicable rules, regulations and limitations of FHA, VA, RD, Ginnie Mae, and Freddie Mac as appropriate.
4. Lender processes loan application and receives delegated examiner approval, if a MHC approved Delegated Examiner.
5. Lender reserves the loan through MHC's online reservation system for the program.

6. Lender submits nonrefundable reservation fee payment, if applicable, through MHC's merchant bank account system and prints receipt.

Each Lender is to assign user names and passwords to designated employees responsible for making requests for Reservations of Funds. All reservations must be made through MHC's online reservation system found at www.mshomecorp.com (see Lender Login). Fax requests for reservations will be accepted only if the web site is unavailable for more than 24 hours. In that event, fax reservations will be accepted temporarily until the site resumes operation. Fax requests from a Lender, other than as noted herein, will not be honored by MHC.

MHC, at its sole discretion, may continue to accept reservation requests in the manner specified even though the available funds may be fully reserved. These reservation requests may be eligible for funding on a first-come, first-served basis under any future Smart Solution programs.

- B. *Reservation of Funds/Rate Commitment Form.* Beginning on a date designated by MHC, the participating Lender may request Reservations of Funds online at www.mshomecorp.com. The Lender completes the Reservation of Funds/Rate Commitment Form and has the borrower(s) to sign the form. Upon input of the information from the Reservation of Funds/Rate Commitment Form, the online system will automatically issue a commitment number and the expiration date of the reservation. The Lender should place this information on the Reservation of Funds/Rate Commitment Form for future reference and print a copy of the reservation acceptance to include with the Smart Solution package.

NOTE: The Lender is responsible for making the reservation in a timely manner while the rate is still available. The Smart Solution rate is subject to change **daily** with market activity. MHC cannot honor a lender's disclosure to a borrower without an actual loan reservation confirmation issued from MHC's online Reservation system and a reservation fee receipt, if applicable.

- C. *Reservation Document Delivery.* Upon receipt of the Reservation Confirmation, the Lender must furnish MHC with the Reservation Package as stated on the Smart Solution Transmittal Checklist (Step 1) within 3-business days of receipt of a reservation number. Failure to deliver the requested documentation to MHC within the time specified may result in cancellation of the Reservation of Funds and Rate Commitment. Documentation should be uploaded to MHC's online Reservation site. Faxed documentation is not acceptable.
- D. *Reservation Expiration and Reservation Extensions.* The reservation of funds is locked for 30-calendar days.
 1. A one-time 15- calendar day extension may be requested at no cost at this time by uploading the Notification of Change form. Place a checkmark next to the 15-day request and insert the new Closing Date. If the Lender finds that the 15-day extension is not sufficient time to close the loan, the lender may then **add an additional 15 calendar days** by uploading another Notification of Change form and placing the checkmark next to the **30-calendar day** extension option. **NOTE: This is only an additional 15 days on top of the initial 15-calendar days classifying it as the first 30-calendar day extension.**
 2. **Any** 30- calendar day extension requires that an extension fee at a cost of 0.250% of the total loan amount be paid on MHC's website found under the "Lenders/Realtors" link – See the "Pay Program Fee" link Pay Program Fee within 3-business days of the extension request or the reservation will expire, and the extension opportunity will be lost. The loan will not be extended the 30-calendar days until the fee has been submitted and the Extension Fee Receipt is uploaded to the loan online. When uploading the Notification of Change form, using the Notification of Change Index sheet, also upload a copy of the extension fee receipt using the SS Res. Extension Fee Receipt Index sheet.
 3. Only a maximum of two 30-calendar day extensions is allowed. This includes the first 15-calendar days within the first 30-calendar day extension period at no fee.
- E. *Lock Policy.* The purpose of this policy is to enhance MHC's Smart Solution program by offering specific rules and guidelines in areas that were previously handled on a case-by-case basis.
 1. Re-locks:
 - (a) Re-locks are available at worst-case pricing for expired or canceled reservations or reservations that have been extended the maximum amount of time allowed (60-calendar days).
 - (b) Re-locked loans must pay an additional reservation fee, if applicable.
 - (c) Reservations that are not expired may not re-lock for a better rate.

- (d) A reservation to the borrower must be expired for 60 calendar days from the date of cancellation to receive a better rate.
- (e) Lenders must upload a Notification of Change form indicating that a borrower's reservation will be transferred to another lender and indicate the Lenders company name and location if the borrower wishes to keep their reservation.

2. Expired reservations:

- (a) Loans not closed prior to the reservation expiration date will be charged an appropriate extension fee.
- (b) Prior approval of MHC is required to close the loan.

3. Late Delivery:

- (a) Loans that are not delivered in fundable format within 10 calendar days of the reservation expiration will not be paid per-diem interest from the 10th day until the funding date.
- (b) Loans that are not delivered in fundable format within 60 calendar days from the reservation date will have a late delivery penalty of .25% of the UPB netted out of the loan funding proceeds.
- (c) Loans that are delivered in a fundable format more than 100 days from the date of the reservation will be purchased on a best-efforts basis at worst-case pricing and will be charged the late-delivery penalty of .25% for having missed the initial 60- day delivery deadline.

- F. *Cancellation of Reservation.* If it is determined that the proposed mortgagor does not qualify for the program, the reservation must be canceled first by uploading a Notification of Change form and then going back to the first mortgage & second mortgage loan records online and selecting "Cancel Commitment". If MHC determines that a mortgage loan application was taken by a Lender after the date the Lender submitted its request for Reservation of Funds, the reservation will be canceled. Any reservation fee previously paid, if applicable, is non-refundable and Lender may be subject to Restrictive Reservation Authority by MHC.

Lenders who repeatedly make Smart Solution reservations but fail to follow through with the loan process may be suspended from the program.

- G. *Transfer of Reservation.* MHC will allow a transfer of any Reservation of Funds from one approved lender to another, with MHC approval.

SECTION VI—LOAN PROCESSING & UNDERWRITING PROCEDURES

Request for Conditional Commitment Package. The Lender performs the customary verifications for loan underwriting as required by the Smart Solution Mortgage Origination Agreement. The Originator completes the remainder of the mortgage application process and sends to MHC the Request for Conditional Commitment Package as stated on the Transmittal Checklist (Step 2). Upon receipt of the required documentation, the package is placed in a first-come, first served order and processed within 3-business days beginning the next business day.

Delegated Examiners only: The Lender completes the remainder of the mortgage application process and sends to the Delegated Examiner the Request for Conditional Commitment Package as stated on the Delegated Examiner's Transmittal Checklist (Step 2). Upon receipt of the required documentation, the Delegated Examiner will review the package and make a compliance determination. If approved, the Delegated Examiner will execute the Delegated Examiner Conditional Commitment and provide to the Lender who will upload the complete Delegated Examiner Conditional Commitment Package following the Delegated Examiner Transmittal Checklist to the loan record online.

The following criteria will help ensure accuracy and consistency in files when reviewed:

1. *Reservation Fee.* The non-refundable reservation fee, if applicable, is to be checked to ensure the amount reserved is covered. The reservation fee should be paid within 3-business days, if applicable, of loan reservation and should agree with the amount shown on the Reservation of Funds/Rate Commitment Form. If the amounts do not agree, a request in writing for a decrease or increase is needed. (Amounts that increase will require additional funds to cover the reservation fee, if applicable, and are subject to the availability of funds.) See Section X, Modifications, for more information.

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2. *Request for Conditional Commitment.* The Transmittal Checklist must be completed thoroughly. MHC will check the income reflected on the Income Calculation Worksheet to ensure compliance with applicable limits. Information provided on the worksheet should agree with the Reservation of Funds/Rate Commitment Form, Initial loan application (1003) and the sales contract (name, property status, etc.).

Delegated Conditional Commitment (Delegated Examiners only). The Delegated Examiner's Transmittal Checklist must be completed thoroughly. The Delegated Examiner will check the income to ensure compliance with applicable limits. Information provided should agree with the Reservation 1st & 2nd Mortgage Confirmations, Lenders initial loan application (1003), Appraisal and the sales contract (name, property status, etc.).

3. *Initial Loan Application (1003).* The initial loan application (1003) should be completed, signed, and dated by the mortgagors and lender. All information should agree with all applicable areas of the Reservation of Funds/Rate Commitment Form, 1st and 2nd mortgage Reservation Confirmations and sales contract as follows:

- (a) Names of the mortgagors.
- (b) Property information section.
- (c) Number of dependents.
- (d) Marital status.
- (e) Residency history.
- (f) Employment (income purposes).
- (g) Other income section (to ensure all income has been included following the SS Income Calculation Worksheet).
- (h) Schedule of real estate owned section, to establish whether the borrowers have rental property, owns a lot or presently owns a home and any additional income may be received from these sources is counted into the household income limit for the program.
- (i) Assets section to ensure all funds which are not a part of closing are included in the annual family income, i.e., interest and dividends earnings.
- (j) Declaration section reflects the mortgagor's intent to occupy the property as their primary principal residence.
- (k) The Manner in which title is to be held.

4. *Fully Executed Sales Contract.* Any changes or addendums to the sales contract must be reviewed by MHC prior to closing. Changes in the sales price will require an amended sales contract. All changes are to be initiated by all parties involved.

All areas of the sales contract are to be completed and properly executed by the mortgagor and seller where applicable. The following areas should be consistent with all applicable areas of the Reservation of Funds/Rate Commitment Form and handwritten application.

- (a) Names of the mortgagors
- (b) Sales Price
- (c) Property address
- (d) Loan Type: FHA, Freddie Mac Conventional, VA or Rural Development
- (e) Real estate agency's name and address
- (f) Number of days for the seller to surrender possession is 60 days or less after loan closing
- (g) Signatures of the sellers and buyers with dates

Note: Sales price cannot exceed the appraised value.

SECTION VII—INCOME GUIDELINES FOR SALARIED & SELF-EMPLOYED MORTGAGORS (See Program income Calc Worksheet)

A. Salaried Mortgagors

1. *Gross Monthly Income.* Gross monthly income includes: gross monthly pay, any additional income from overtime, part-time employment, bonuses, dividends, interest, royalties, pensions, Veterans Administration (VA) compensation, net rental income, etc.; and other income (such as alimony, child support, public assistance, which includes Stimulus funds, sick pay, social security benefits, unemployment compensation, income received from trusts, and income received from business activities and investments, etc.). Overtime pay and bonuses are to be projected in an amount consistent with the earnings history of each household member. The income to be considered in determining the gross monthly income is the income of any person who is expected to occupy the residence being financed.

Persons over 18 years of age who are not employed and do not intend to seek employment within the next 12 months will be required to sign a statement. Please refer to Form named Employment Statement. In the event persons over the age of 18 years of age are a full-time student and have income, MHC does not count their income into the household income and will be required to sign a statement and provide a current school transcript. Please refer to Form named Full-Time Student Statement.

2. *Verifications of Employment.* When checking verifications of employment, all areas of the verification should be completed and executed by the employer. Make sure all income has been derived (i.e., raises, bonuses, commissions, car allowance, etc.). Verify that pay stubs and verifications are consistent with one another. If they differ, an explanation must be provided on the Remarks section of the VOE (emailed explanations will not be excepted). Previous year earnings (overtime, etc.) should be consistent with current year earnings. If not, it may be necessary to use only year-to-date figures depending upon the increases the mortgagor has received (overtime, raise, etc.). Verifications of Employment (VOE) must be within 30-days at the time of submission.

When reviewing verifications, watch for certain types of employment, i.e., ministers, nurses, etc., which have unusual income. For example, a minister's income usually consists of a base income, utilities allowance, housing allowance, insurance allowance and car allowance. A nurse's income usually consists of a base income, overtime, and shift differentials for night and weekend pay, which in most cases differ. Be very cautious when calculating income for these types of employment to ensure all income has been included in the calculations.

If an Employer letter is used in lieu of the original verification form, it must be on company letterhead, contain all items covered in the original verification and executed by an authorized officer of the employer.

3. *Pay stubs.* Pay stubs dated within 30 days of submission are required on all loans and income must be consistent with the Verification of Employment (VOE) and W-2 form for current two years, if using ALT DOC.
4. *Income History.* If the prospective mortgagor has additional earned income and has a history of such earnings, then the income is to be included in the gross monthly income. If the income is earned only within the current year with no prior history, and will not continue after closing then a statement from the employer stating the earned income, (i.e., overtime, etc.) will not continue is required.
5. *Alternative Documentation.* MHC allows documentation for the verification of employment with the following requirements:
 - (a) Pay stubs dated with 30 days of submission which reflect the mortgagor's name, Social Security number, hourly rate of pay, number of hours worked per pay period, and year-to-date earnings.
 - (b) Copy of the past two-years' W-2 forms or 1099 which includes the mortgagor's name, Social Security number, company name, and total compensation, or a standard Verification of Employment (VOE) completed and signed by the employer within 30-days of submission.
 - (c) Telephone certification.
6. *Averaging Income.* Income is averaged for overtime, commissions, and any other income (except base earnings) over a period of no less than 15 months, but no more than 27 months. However, if income over base earnings is not consistent with past years' earnings or the income history is less than 15 months, MHC will determine the period for income calculations.
7. *Overtime Earnings.* Income earned from overtime will be included if the borrower has a history of such income or the income was earned during the current year. The verification of employment (VOE) form from the employer must explain how much overtime is expected if any, and at what rate of pay.
8. *Bonus.* The gross amount of recurring bonuses is to be included in the income calculations if:
 - (a) The bonus is part of a collective bargaining agreement and must be paid; or
 - (b) The bonus is included in the computation of income by the employer; or
 - (c) There is a history of bonuses.

If there is a history of bonuses but the applicant does not know if a bonus is planned, nor does the employer divulge its plans for a bonus or the projected amount, an average of past years' bonuses will be calculated as income. A bonus history for Smart Solution purposes is to be considered for one year or more. The bonus is not to be included in the annual family income if there

is no history of a bonus and the bonus is totally discretionary by the employer and wages of the applicant are the basic source of income. The file must be documented with a statement from the employer.

9. *Rental Properties or Contract Income.* Rental income and contract income are determined by subtracting the monthly mortgage payment from the gross rental income. Depreciation should be added back to net rental income where applicable. Contract income (income derived from the mortgagor selling property with owner financing) is to be used in calculating annual family income. The use of standard underwriting criteria to document this income is acceptable (i.e. copies of leases & mortgage verifications).
10. *Child Support/Alimony.* Child support and alimony must be included in the annual family income and a copy of the final divorce decree is required. If the mortgagors have not received child support or alimony for the past 24 months and to their knowledge, none is forthcoming, a statement from the mortgagors is required (see Child Support Statement).
11. *Education Grants.* The portion of the income from grants that is used for living expenses is to be added to the annual family income if this income will continue for the next 12 months.
12. *Employee Benefits Program.* Some companies offer an employee benefits program designed to let employees create their own insurance package. The monthly amount is usually shown separately on the pay stub, yet included in year-to-date earnings. The pay stub usually shows the monthly amount actually spent on this plan. A letter from the employer is needed to verify the actual cost of this plan year-to-date, in order to determine if the employees received funds over the actual cost. In this case the additional unused portion would be included in the annual family income.

If the mortgagor receives monthly income for the employee benefit program and elects not to purchase benefits offered by the program, then the full amount will be added to the annual family income.
13. *Permanent Seasonal, Seasonal & Temporary Income.* Include all permanent seasonal, seasonal and temporary earnings when calculating annual family income.
14. *Social Security/VA Benefits.* Social Security income should be verified with an Awards letter obtained from the Social Security office. VA benefits should be verified with a benefits letter from the Veterans Affairs Office.
15. *Lump Sum Payments.* Lump sum payments, including but not limited to, inheritance, reenlistment bonuses, and disbursements from insurance policies do not have to be included in the annual family income. However, interest income on investments must be included and calculated at the current passbook rates over a 12-month period. If the income is received in any other form other than lump sum (i.e. monthly or annual), then it must be treated as permanent income and added to the annual family income.
16. *Capital Gains/Loss.* Both taxable and non-taxable portions of capital gains are to be included as income if a history of this income exists. If the two-year average results from the tax returns is a gain, then it must be added to annual family income (losses cannot be used to reduce annual family income).
17. *Pension and Stock Withdrawals.* Withdrawals of principal funds from pension or stock sources are not considered income. However, annuity or interest payments under a pension or stock investment program are considered income. Verification of benefits will be required, i.e., federal tax returns, statement of benefits, etc.
18. *Interest, Dividend and Royalty Income.* Interest, dividend and royalty earnings are considered income. Current interest and dividend earnings are calculated at current passbook rates over a 12-month period. Income calculations for royalties are calculated by net earnings and interest. Earnings from IRAs and 401Ks are not included. Documentation will be required to verify these sources of income, i.e., federal tax returns, statement of benefits and contract agreements for royalty income.
19. *Exclusion from Gross Monthly Income.* Gross monthly income shall not include casual, sporadic or irregular gifts; amounts that are specifically for or in reimbursement of medical expenses; inheritances; insurance payments (including payments under health and accident insurance and workmen's compensation, other than payments in lieu of earnings); settlement for personal or property losses; amounts of education 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 either case only to the extent used for such purpose; special pay to active military personnel exposed to hostile fire; and foster child care payments.

NOTE: If using MCC with the Smart Solution program, MCC guidelines take precedence over Smart Solution guidelines as it relates to household income limits, Acquisition Cost limits and First-time homebuyer IRC requirements. Refer to the MCC manual for compliance guidelines.

B. Self-Employed Mortgages

1. *Annual Family Income.* The procedure to calculate annual family income for self-employed mortgages requires the following:
 - (a) Depreciation and depletion are to be added back to the adjusted gross income (AGI) on all self-employed mortgages.
 - (b) Two years' current signed individual federal income tax returns with all applicable schedules.
 - (c) Year-to-date Profit & Loss (if applicable).
 - (d) U.S. Partnership Returns and U.S. Corporate federal income tax returns with all schedules and W-2 form (where applicable), with individual federal income tax returns (form 1040).

Income must be averaged over a period of no less than 15 months, but no more than 27 months. Self-employed mortgages may need two years of federal income tax returns with a current Profit and Loss. After April 15 each year, the most "current year" federal income tax returns are required.

2. *Sole Proprietorship.* Sole Proprietorship is a business owned by one person. IRS form 1040—Schedule C or Schedule C-EZ is required. Sole Proprietorship income is detailed on Form 1040 (Schedule C) of U.S. income tax returns. This form will list all income, depreciation, and depletion which are added back to the AGI.
3. *General Partnership.* A General Partnership is a business owned by two or more partners. Each partner is personally liable for all debts of the business. Each partner is responsible for all other partners. The following documents are required:
 - (a) IRS form 1065—Schedule K-1 & Schedule E, Part II.
 - (b) U.S. Partnership Returns with all applicable schedules.

General Partnerships require income to be calculated on form 1065 of U.S. Partnership Returns, to determine the share of net income distributable to each partner. This is reported on Schedule K-1 of form 1065 and on the individual's Schedule E, Part II; this amount is included in the AGI on form 1040. Note: The total depreciation and depletion will be determined by the number of the partners, and should be divided to determine what percentage or total dollar amount is to be added back for each partner.

4. *Limited Partnerships.* Limited Partnerships are usually formed for investing money. Limited partners often take a loss on their investment, which reduces their taxable income. Liability is limited to the amount invested. The following documents are required:
 - (a) IRS form 1065—Schedule K-1 & Schedule E, Part II.
 - (b) U.S. Partnership Returns with all applicable schedules.

Limited Partnerships require income to be taken from Schedule K-1 (form 1065), and the individual's Schedule E, Part II; this amount is included in the AGI on form 1040.

5. *S-Corporation.* Usually a small start-up business requiring the following documentation:
 - (a) IRS forms 1120/1120S—Schedule K-1, Schedule E, II.
 - (b) Verification of W-2 earnings.

S Corporation's income is detailed on form 1120S (US federal income tax return for an S Corporation). Schedule K-1 will list borrower's percentage of ownership and ordinary income, depreciation and depletion from the S Corporation (this information is transferred to Schedule E, Section II of the individual tax returns). This income must be proportionately added back as determined by the percentage of ownership to the ordinary income since depreciation and depletion are actually non-cash expenses. The primary source of income for an owner comes from W-2 wages, which must be included in earnings in addition to corporate earnings.

6. *Corporation.* A Corporation requires a state charter and is a separate legal entity from its owners (stockholders). The Corporation's profits (retained earnings) are put back into the business or are distributed to stockholders in the form of dividends.

7. Stockholders are not responsible for the debts of the Corporation. The following documentation is required to determine eligibility:

- (a) U.S. Corporation Income Tax Returns, form 1120 & Schedule L, (if applicable).
- (b) W-2 form

Corporations require income to be taken from the IRS form 1120, and Schedule L will show the current year corporate balance sheet. Income to the officers and stockholders is reported by W-2 forms and reflected on their individual form 1040.

Dividend earnings are reported on 1099 forms and reflected on their individual returns.

C. Non-Borrowing Spouses, Partners, All Other Occupants 18 Years or Older

MHC programs require the income to be documented for the total household. Total household income is defined as the individuals 18 years of age or older, unless a full-time student, who intend to occupy the property within the next 12 calendar months, even if they are not a party to the loan.

Documentation required for submission in Step 2:

1. Signed Non-Borrower Statement.
2. Either full income verification or alt doc income verification as required for all salaried or self-employed borrowers, or a signed Employment/Income Statement, if the occupant does not have ANY source of income.
3. Documentation of Social Security benefits, pensions, annuities, if applicable.
4. Most recent year's IRS tax return transcripts.

D. Currently Separated or Separating Spouses

All separated spouses' income documentation must also be submitted to MHC to review for compliance (See Step 2 of Checklist). This is regardless of whether the separated spouse is a party to the loan, or even intends to not occupy the property. The State of Mississippi, for MHC purposes, does not recognize "separated." The parties are considered either married or divorced.

Documentation required for submission in Step 2 for Separated Spouses:

1. Signed Non-Borrower Statement.
2. Full income documentation or alt doc documentation.
3. Legal Separation Agreement (depending upon state law), including any Property Settlement & Child Support Agreement.
4. Most recent year's IRS tax return transcripts.

E. Co-Signer/Non-Occupant Guarantors

Co-Signer/Non-Occupants and Guarantors are allowed depending on loan product type, provided that the following conditions are met:

1. The Co-Signer/Non-Occupant or Guarantor is acting in such a capacity solely for the purposes of providing additional security for the mortgage loan and will not take title to the property.
2. The Co-Signer/Non-Occupant or Guarantor will not occupy the residence as his primary/permanent residence.
3. The Co-Signer/Non-Occupant or Guarantor is a relative of the mortgagor.
4. The Co-Signer/Non-Occupant or Guarantor is permitted by applicable Ginnie Mae and Freddie Mac products, excluding the **HFA Advantage program**, guidelines.

5. The Co-Signer/Non-Occupant or Guarantor will be required to sign a statement certifying to the above conditions (see Appendix 6, Co-Signer/Non-Occupant Statement). Tax returns and income verifications are not applicable. These Co-Signer/Non-Occupants or Guarantors will be treated as non-occupant Co-Signers for qualifying purposes.

Please note: For all parties signing the Employment/Income Statement, MHC withholds the right to require documentation from the IRS supporting the signed statement.

SECTION VIII—ISSUANCE OF THE CONDITIONAL COMMITMENT

Please note: Lenders are responsible for monitoring the status of their loans on MHC's Online Reservation site, which includes checking for the posting of conditional commitments as shown below.

Delegated Examiners only: The Delegated Examiner must review the compliance package prior to issuing the Delegated Conditional Commitment. Once the package has been reviewed and approved, the Delegated Examiner is required to execute and issue the Delegated Conditional Commitment and return to the Lender to be uploaded with the remaining required documentation (see Delegated Examiner Transmittal Checklist) Failure to comply with this process may result in removal of the Originator's Delegated Examiner Authorization by the Corporation. Originating branches may view loan conditions on MHC's Online Reservation site.

SECTION IX—CLOSED LOAN PROCEDURES

- A. *Conditional Commitment.* Upon issuance of the Conditional Commitment as posted on the Loan Status screen, the Lender may close the loan in accordance to the conditions stated on the Conditional Commitment. The loan must close before the reservation expiration date stated on the Conditional Commitment. The mortgagor, address, interest rates, loan amounts, and term of loans must agree with all closing documents. Changes to any of these items are to be approved by MHC before closing. Failure to do so could result in rejection/cancellation of the loans.

Delegated Examiners only: Upon issuance of the Delegated Conditional Commitment as posted on the Loan Status screen, the Lender may close the loan in accordance to the conditions stated on the Delegated Conditional Commitment. The loan is to close before the reservation expiration date stated on the Delegated Conditional Commitment. The mortgagor, address, interest rate, loan amount, and term of loan must agree with all closing documents. Changes of these items are to be approved by MHC before closing. Failure to do so could result in rejection of the loan.

- B. *Verifications of Income.* All verifications should be less than 4 months (120 days) old at the time of closing or current information will be required. Income documents more than 120 days old upon submission of the closed loan package could result in rejection of the loan.
- C. *Settlement Statement Fees.* In connection with each mortgage loan, a Lender may charge and collect from an Eligible Mortgagor or seller at closing, reasonable and customary charges. Lender can charge up to a 1% origination fee (not mandatory). Other charges may not exceed the usual and reasonable "settlement and financing cost" that are customary as follows:
 1. "Settlement Costs" include title and transfer costs, title insurance, survey fees and other similar costs; and
 2. "Financing Costs" include credit report fees, legal fees, appraisal expenses, points which are paid by the borrowers, or other costs of financing the Residence.

SECTION X—LOAN PURCHASES AND TRANSFER OF SERVICING RIGHTS

- A. *Review of the Mortgage Loan.* The closed mortgage loan package is to be received by ServiSolutions within 10 days of loan closing.
 1. Lenders must check the closed loan package to confirm all items listed on the Funding Checklist are included in the package Loans will not be funded if any of the items on the checklist are missing or incorrect.
 2. All loans purchased by ServiSolutions will require mandatory registration with MERS. No assignments will be accepted for first or second mortgages. Lenders must transfer all applicable rights in MERS to ServiSolutions immediately after purchase.

Upon completion of the closed loan file compliance review, the mortgage loan(s) will be funded if the file is complete and is in compliance with all requirements. Closed loan packages will not be funded until all required fundable documentation has been received and all compliance issues cleared.

- B. *Penalties Withheld From Funding.* Lenders have 10 days from closing to deliver the complete closed loan package to ServiSolutions. A loan is considered to be in a fundable condition when a complete closed loan package is delivered without errors or missing documents. Also, loans with delinquent payments will not be purchased. The Lender will have 40 days from the date of closing to clear the loan exception with no penalty by ServiSolutions. If the loan is not cleared until 41 days from the date of closing, the lender will be charged a late delivery fee of 50 basis points (0.50%) of the principal purchased by ServiSolutions. If the loan is not purchased by ServiSolutions 60 days from the date of Reservation, MHC will charge a Late Delivery fee of 25 basis points (0.25%). This section does not override any applicable lock expiration period. Extension fees may be required by Mississippi Home Corporation if the loan is not funded by the applicable expiration date. The amounts of all fees and penalties are subject to change.
- C. *Funding of the Mortgage Loan.* ServiSolutions will issue an ACH or wire on single and multiple funding's each Wednesday and Friday for each lender. A breakdown of the multiple lenders funding's will be included with the ACH or wire. Any discrepancies should be directed to the ServiSolutions Funding and Delivery Department. Only one set of ACH/wiring instructions will be accepted from each lender. Lenders are allowed one change to the wiring instructions per calendar year. Subsequent changes to ACH/wiring instructions will result in a \$500 fee per transaction.

Lenders are responsible for servicing the loan until purchased by ServiSolutions, to include the payment of all required escrow disbursements for each loan during the period from closing to purchase.

In general, fundable closed mortgage loan packages received by the close of the business day on Monday of each week will be funded on Friday and those received by the close of business on Thursday will be funded on Wednesday of the next week once approved by Mississippi Home Corporation.

The funding amount for both first and second mortgages will consist of:

1. Scheduled unpaid principal balance.
2. Servicing Release Premium per the Program Guidelines. (first mortgages only)
3. Interest from the closing date through the purchase date or interest from the last paid installment date to purchase date at the loan's per diem rate.

Amounts to be deducted from funding of both first and second mortgages will consist of:

1. Penalties or fees assessed in Section X B or C.
2. Flood notification transfer fee of \$10 and is subject to change by the Servicer*.
3. Prepaid interest (Loans purchased by the 10th of the month prior to the first payment due date only).
4. Prepaid escrow (unless after first payment) or current amortized escrow balance on the loan less and disbursements.
5. Tax service fee of \$76.00 and is subject to change by servicer*.
6. eDocs Administration Fee of \$40, if applicable and is subject to change by the Servicer*. Any questions should be directed to ServiSolutions Funding and Delivery Department.
7. Wire fee of \$20 per transaction, if applicable, and is subject to change by the Servicer*. Any questions should be directed to ServiSolutions Funding and Delivery Department.

* See ServiSolutions website for more details - www.allregs.com/tpl/public/al_hfa_allregs_tpl.aspx

- D. *Final Documentation.* The lender is to submit the final mortgage loan documentation consisting of the following original documents to ServiSolutions within 120 days of closing and is subject to change by ServiSolutions. (See ServiSolutions website www.servsol.com/lenders/lender-resources then selecting *allregs link* then selecting *Housing Finance Agency Programs – Mississippi – ServiSolutions Documents for MSHC* - Final Document Transmittal):
- Original Recorded First Mortgage
 - Original Recorded 2nd Mortgage, if applicable
 - Original Final Title Policy
 - MIC/Guaranty:
 - USDA Loan Guaranty Certificate (lender must request guarantee within 30 days of closing)
 - VA Loan Note Guaranty
 - FHA Endorsement must be able to be verified via FHA Connection within 120 days of closing
 - PMI Certificate of Coverage
 - Original Recorded Intervening Assignment/MERS Assignment
- E. *Transfer of Loan Servicing Rights and Benefits.* The originating lender retains the loan servicing rights and benefits until ServiSolutions purchases the loan. The originating lender will perform all servicing duties until that time. Servicing and benefits rights transfers to ServiSolutions at the time of loan purchase. Lender will be sent a reminder along with the purchase payment advice to send out with their goodbye letter to the borrower and ServiSolutions will send the borrower(s) a Notice of Sale, Assignment or Transfer and two temporary payment coupons at the time of loan purchase. The first payment due to ServiSolutions will be determined based upon when the Notice of Sale, Assignment or Transfer is sent. If the loan is purchased (purchase date) on or before the 10th of the month, the first payment due to ServiSolutions will be the next scheduled monthly payment due date. After the 10th, the effective date will roll to the following scheduled monthly payment due date. The lender must transfer the loan to ServiSolutions through the MERS system immediately after purchase.

Examples

- A loan that closed on 06/02/16 is received in our office 06/8/16 and is being funded on 06/10/16. This loan will be purchased by ServiSolutions at the original note amount with no late delivery penalty unless the purchase date is not over 60+ days from the date of reservation. If the loan is purchased over 60+ days from the date of reservation, a late delivery fee of 25 basis points (0.25%) of the principal balance and the fees would be netted out at funding.
 - A loan that closed on 06/24/16 is not received in our office until 7/28/16 and is ready to be funded on 08/11/16. The initial payment on this loan is due on 08/01/16. Since this loan is being purchased after the 10th of the month, the loan will be purchased effective with the payment scheduled for 10/01/16. ServiSolutions would charge their late delivery fee. The lender would be charged a late delivery fee of 50 basis points (0.50%) of the principal purchased and as noted above, if the loan is 60+ days from the reservation date, MHC will also charge a late delivery fee of 25 basis points (0.25%) of the principal balance and the fees would be netted out at funding.
- F. *Lender Annual Recertification Requirements.* ServiSolutions requires all participating Lenders to be recertified on an annual basis. A notice will be sent via email from MHC to all lenders corporate contacts upon the receipt of the recertification requirements from ServiSolutions.

SECTION XI—MODIFICATIONS

It is the Lender's responsibility to notify MHC of any modifications, expiration dates, penalties and extensions as addressed in Section VI.

1. *Mortgage Decrease.* Mortgage amount decreases will require approval by MHC.
2. *Mortgage Increase.* Mortgage amount increases will require approval by MHC and will be subject to the availability of funds.
3. *Property Address.* Property address changes require approval of MHC.
4. *Marriage.* If the mortgagor marries prior to loan closing, the spouse's income will be included in the total annual family income. The lender must obtain this information prior to closing and submit these documents to MHC. The annual family income may not exceed the income limitation. The spouse will also have to meet all Smart Solution requirements as established in Section II, III and IV of this manual.

SECTION XII—ASSUMPTIONS

Assumption loans require the same qualifying process as the current Smart Solution Program Guidelines (refer to Section II, III and IV of the Smart Solution manual). Income guidelines are the most current income guidelines provided by MHC. Investor guidelines must be followed.

The SMART SOLUTION 2nd mortgage is not assumable.

SECTION XIII—SECOND MORTGAGE PROCEDURES

The purpose of this program is to provide down payment and entry cost assistance to homebuyers with low to moderate incomes and minimal liquid assets. Smart Solution 2nd mortgage is used in conjunction with the Smart Solution Program only as a second mortgage. Only borrowers with a minimum credit score of at least 640 for FHA/VA/RD/Freddie Mac conventional will be eligible for the Smart Solution 2nd mortgage.

- A. *Reservations.* Reservations for the Smart Solution 2nd mortgage will be made through the MHC's online Reservation web site *after* the 1st mortgage loan is reserved at www.mshomecorp.com - Lender Login or under Lender Resources link by selecting the "Reserve Second" link. All loan data will copy over from the 1st mortgage excluding the Loan amount. Lender must enter the 2nd mortgage loan amount (4.5% of the Loan Amount, dropping cents). No rounding up or down of the 2nd mortgage loan amount is allowed.) then going to the last screen and clicking on "Submit" to receive the 2nd mortgage Reservation Confirmation and is in addition to the first mortgage reservation.
- B. *Eligibility.* All homebuyers must meet the qualifications stated on the Smart Solution 2nd Mortgage Application. The maximum income is stated on the Smart Solution 2nd Mortgage Application and is calculated as stated in Section II of this Smart Solution Procedures Manual.
- C. *Types of Loans.* This program will be available in conjunction with homes financed under the FHA 203(b), VA, RD mortgage product and the Smart Solution conventional loan program. This program cannot be used in conjunction with any other down payment assistance program or grant program without prior approval from MHC. All product guidelines must be met.
- D. *Calculation of Assistance Amount.* The maximum 2nd mortgage available to a homebuyer is 4.5% of the Loan Amount.
- E. *Required Documentation.* The Lender must provide:
 1. The executed, completed Smart Solution 2nd Mortgage Application;
 2. A copy of the primary wage earner's credit report (occupying borrower);
 3. A copy of the HUD 92900-LT worksheet, VA Loan Summary or Freddie Mac 1077, reflecting the Smart Solution 2nd mortgage as secondary financing.

The Smart Solution 2nd Note and Deed of Trust are to be prepared and funded by the lender then have executed at closing. The lender is to submit the original note endorsed to MHC to the Servicer. The original second Deed of Trust should also be forwarded to the Servicer upon recording. **Note: The late charge on the 2nd mortgage note should be 4%.**

- F. *Term and Repayment.* A second Deed of Trust will be recorded against the property being purchased. The term of the 2nd mortgage will run for 10 years. The 2nd mortgage will bear interest at the first mortgage note rate. The 2nd mortgage will amortize in 120 equal monthly payments of principal and interest. Repayment will be required upon sale of the property, refinance of the first mortgage, and/or payoff of the first mortgage, as well as the assumption of the first mortgage.
- G. *Commitment Periods.* The Commitment periods of this program will run concurrent with the Smart Solution Program as defined in the Program Guidelines.
- H. *Issuance of Funds.* The Servicer will purchase the Smart Solution 2nd mortgage with the purchase of the Smart Solution First mortgage. All Smart Solution First and Second mortgages must be table-funded by the Lender.
- I. *Fees in Origination.* A lender may not charge any additional fees in conjunction with this program. The recording costs of the second mortgage loan are to be borne by the borrower or seller.

- J. *Purchase and Servicing.* Lenders will sell the second mortgage loans which it originates, according to program guidelines, to the Servicer. The price to be paid by the Servicer will be the amount equal to 100% of the principal amount of the second mortgage, plus per diem interest in accordance with Section IX, Loan Delivery.
- K. *Assumptions.* The Smart Solution 2nd mortgage loan is not assumable.

SECTION XIV—DELEGATED EXAMINER OPTION

Delegated Examiners have the opportunity to accelerate the Smart Solution loan approval process by performing the compliance review functions in-house. MHC would only review loan files at the time of purchase. To qualify:

1. Lenders are required to be an Approved Participating Lender for a minimum of one (1) year.
2. MHC can, at its own discretion, rescind the privilege of Delegated Examiners for any reason (late delivery of closed files, QC issues, or any other issues regarding lender performance).
3. Lenders must be in good standing with the Servicer's Funding and Delivery Department and MHC's Quality Control Department.
4. Lenders must be approved for the program as a Lender. Lenders may utilize mortgage originators or brokers to achieve market penetration and volume with the understanding that any such usage is the Lender's responsibility to include all responsibility contained herein and in the executed Smart Solution Agreement. MHC does not approve or execute Smart Solution Agreements with Originators or Brokers.
5. Lenders are required to submit a minimum of ten quality files within a 12-month period.
6. Each person nominated by the Lender as a Delegated Examiner is required to meet the ten quality file minimum.
7. Test files with major compliance conditions will not be considered in the ten quality file count. (Major conditions include but are not limited to income issues, contract issues, etc.).
8. Income calculations on test files may not exceed the income calculations of MHC examiners by more than \$500.
9. All test files must close within reservation expiration dates.

Required Documentation for MHC approved Delegated Examiner Underwriting. The Lender must provide:

1. Delegated Examiner's Program Checklist (Form 19)
2. Executed Delegated Conditional Commitment (Form 20)
3. SS Reservation Confirmation(s), 1st Mortgage AND 2nd Mortgage
4. Copy of Executed Lenders Loan Application (1003)
5. Attorney Information Form (Form 21)
6. Copy of Complete Executed Sales Contract
7. Copy of Home Buyer Education Certificate
8. Copy of Appraisal

Otherwise, if the Lender is not a MHC Approved Delegated Examiner, follow the Smart Solution Transmittal Checklist (Form 2) for documents to be uploaded for MHC review for approval.

NOTE: If MHC finds that Delegated Examiner approved loans are not following the Smart Solution guidelines, the Delegated Examiner Authority will be terminated.

SECTION XV – SMART SOLUTION PLUS (*Temporarily Suspended at this time*)

The purpose of this option that became effective February 24, 2015 is to provide down payment and entry cost assistance to homebuyers with low to moderate incomes and minimal liquid assets as a gift with no repayment. Smart Solution Plus is used in conjunction with the Smart Solution

Program. It is a non-repayable 4% gift (calculated on the full loan amount) from Mississippi Home Corporation.

- A. Reservations. Reservations for the Smart Solution Plus must be made through MHC's online reservation web site, www.mshomecorp.com and is found on MHC's home page "Lender Login" or found under the "Lenders/Realtors" link then Lender Resources link..
- B. Eligibility. All homeowners must meet the minimum requirements for the Smart Solution program.
- C. Type of Loans. This program will be available in conjunction with homes financed under the FHA 203(b), VA, RD and Freddie Mac loan products. This program cannot be used in conjunction with any other down payment assistance or grant programs without approval from MHC. All product guidelines must be met.
- D. Calculation of Assistance Amount. The maximum gift assistance available to a homebuyer is up to 4% of the total loan amount.
- E. Cash Advance. Mississippi Home Corporation will be providing a cash advance as a gift to fund all or part of the down payment, closing costs, or financial reserves subject to the minimum borrower contribution requirements. The executed Smart Solution Plus Gift Letter must be included in your file.
- F. LPA/DU Submission. Submit as a gift from Mississippi Home Corporation. Our TIN #64-0644578 must be included on your transmittal and in your submission. Mississippi Home Corporation is an Instrumentality of Government.
- G. Issuance of Funds. Mississippi Home Corporation will wire the gift assistance to the closing attorney's account.

Note: All forms will be generated online. MHC reserves the right to make revisions as it deems necessary to provide for a successful program.

SECTION XVI –SMART SOLUTION FORMS –

1. Reservation Confirmation(s), 1st AND 2nd Mortgage – *Due within 3-business days of Reservation*
2. Reservation of Funds/Rate Commitment (Form 1) – *Due within 3-business days of Reservation*
3. Smart Solution Transmittal Checklist (Form 2)
4. Smart Solution 2nd Mortgage Application (Form 3)
5. Smart Solution Income Calculation Worksheet (Form 4)
6. Occupancy Statement (Form 7)
7. Income Tax Statement (Form 8), if applicable
8. Full-Time Student Statement (Form 9), if applicable
9. Employment/Income Statement (Form 10), if applicable
10. Co-Signer/Non-Occupant Statement (Form 11), if applicable (Co-Signer not allowed for Freddie Mac HFA Advantage Program)
11. Child Support Statement (Form 12), if applicable
12. Non-Borrower Statement (Form 14), if applicable
13. Delegated Examiner Nomination (Form 15)
14. Delegated Examiner Test Case Submission (Form 16)
15. Delegated Examiner Test File Completion Certification (Form 17)
16. MHC Letter of Explanation (Form 18)
17. Delegated Examiners Transmittal Checklist (Form 19)
18. Delegated Conditional Commitment (Form 20)
19. Attorney Information Form (Form 21)
20. Transfer of Allocation Form (Form 22)
21. Quality Control Certification and Authorization (ServiSolutions Form)
22. Notification of Change (Form 26)