

PROCEDURES MANUAL



SMART The logo for Smart Home, featuring a stylized house icon in green and blue.



MISSISSIPPI HOME CORPORATION

MISSISSIPPI HOME CORPORATION
SMART6 PROGRAM
PROCEDURES MANUAL

REVISED 2/21/2023

TABLE OF CONTENTS

INTRODUCTION	1	
SECTION I—DEFINITIONS	2	
SECTION II—MORTGAGOR ELIGIBILITY EVALUATION		
A. Income Restrictions	4	
B. Occupancy	4	
C. Residence Used as Vacation, Seasonal, Rental, Recreational or Second Home	4	
D. Legal Separation	4	
E. Homebuyer Education	4	
F. Credit Score Requirement	4	
G. Total Debt-to-Income Ratio	4	
H. AUS Findings	4	
I. Federal Tax Return Transcripts	4	
SECTION III—LOAN ELIGIBILITY EVALUATION		
A. Permitted Encumbrances	5	
B. Types of Loans	5	
C. Amount of Mortgage Loan	5	
D. New Mortgage Requirements	5	
SECTION IV—PROPERTY ELIGIBILITY EVALUATION		
A. Eligible Loan Area	5	
B. Qualifying Residences	5	
SECTION V—RESERVATION SECTION		
A. Reservation Procedures	5	
B. Reservation of Funds/Rate Commitment Form	6	
C. Reservation Document Delivery	6	
D. Reservation Expiration Date	6	
E. Cancellation of Reservation	6	
F. Transfer of Reservation	7	
SECTION VI—LOAN PROCESSING AND UNDERWRITING PROCEDURES		7
SECTION VII—INCOME GUIDELINES FOR SALARIED AND SELF-EMPLOYED MORTGAGORS		
A. Salaried Mortgages	7	
B. Self-Employed Mortgages	9	
C. Non-Borrowing Spouses, Partners, All Other Occupants 18 Years or Older	10	
D. Currently Separated or Separating Spouses	10	
E. Co-Signer/Non-Occupant Guarantors	11	
SECTION VIII—ISSUANCE OF THE CONDITIONAL COMMITMENT		11
SECTION IX—CLOSED LOAN PROCEDURES		
A. Conditional Commitment	11	
B. Verifications of Income	11	
C. Settlement Statement Fees	11	
SECTION X—PURCHASES AND TRANSFER OF SERVICING RIGHTS		
A. Review of the Mortgage Loan	12	
B. Second Mortgage Final Docs	12	

SECTION XI—MODIFICATIONS	12
SECTION XII—ASSUMPTIONS	13
SECTION XIII—SECOND MORTGAGE PROCEDURES	
A. Reservations	13
B. Eligibility	13
C. Second Mortgage Documents	13
D. Term and Repayment	13
E. Commitment Period	13
F. Reimbursement.....	13
G. Fees in Origination	13
H. Purchase and Servicing	13
I. Assumptions.....	13
SECTION XVI – SMART6 FORM LIST	14

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 Smart6 Program ("S6") and 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 Smart6 program, the lender determines if the mortgagor, loan, and property are within guidelines as stated in Sections II, III, and IV of the Smart6 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 Smart6 Procedures Manual. If using MCC with the Smart6 program, the lender must reserve the MCC separately and follow all MCC guidelines, including paying the non-refundable \$300 MCC Reservation fee. All Reservation and Compliance package Smart6 & MCC documents would be uploaded to the Smart6 program loan. Only the MCC Closing package documents would be uploaded to the MCC loan record.

The lender processes and underwrites the loan as outlined in Sections VI, VII, VIII and XIII of the Smart6 Procedures Manual and following the MCC Manual, if applicable. The lender uploads to MHC the Reservation and Conditional Commitment package documents before closing as stated in Section VI of the Smart6 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 1st mortgage purchase loan package as stated in Section IX of the Smart6 Procedures Manual and upon receipt and approval of the closed loan package by the Servicer, the Servicer will fund the 1st mortgage loan as stated in Section X of the Smart6 Procedures Manual. All 2nd mortgage documents are sent to MHC.

The purpose of this manual is to provide pertinent information and to enhance any current guidelines established by MHC for the Smart6 Program. Applicable Program Guidelines and the MRB Mortgage Origination Agreement supersede this Manual. Please utilize the appropriate applicable documents. MHC reserves the right to update or revise the Smart6 Procedures Manual at any time.

SECTION I—DEFINITIONS

Agreement: The Smart6 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. If using the MCC program with Smart6, the \$300 Non-Refundable Reservation fee is required and receipt to be uploaded to the Smart6 loan record.

Conventional Mortgage: A Mortgage Loan other than an FHA-Insured Mortgage, a VA Guaranty, a Rural Development Guaranteed Mortgage Loan, a Fannie Mae HFA Preferred loan or a Freddie Mac HFA Advantage loan.

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

Days: All references to days shall be calendar days except the loan review period for a Conditional Commitment approval. That is set at business days.

Eligible Mortgagor: A person intending to purchase a principal residence to be financed with a Smart6 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.

Fannie Mae: The Federal National Mortgage Association or any successor thereto.

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, also known as Leasehold property.

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 first mortgage 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 Smart6 Program and any revisions, amendments, and modifications thereof.

Rate Commitment: An interest rate guaranteed to the borrower for 45-days for a new/existing residence or 120-days on proposed construction loan 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 45-days for a new/existing residence or 120-days on proposed construction loan from the loan 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 & servicer requirements.

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

Servicer: Currently either Lender correspondents approved by Standard Mortgage Corporation or Trustmark National Bank.

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 Smart6 Procedures Manual.

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 \$110,000. 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. Income is calculated from January 1 to December 31 of the current tax year.
- 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 Smart6 guidelines as established in Sections II, III, & IV of this manual.
- E. *Homebuyer Education.* At least one occupying borrower must complete an approved homeownership education course prior to loan being approved by MHC for 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 or any on-line private mortgage insurance provider courses.
- F. *Credit Score Requirement.* The Originating lender must follow the Servicer guidelines.
- G. *Total Debt-to-Income Ratio (TDTI).* The Originating lender must follow the Servicer guidelines and meet the set agency guidelines.

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 (HFA Advantage only) 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. *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 Smart6. 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, Fannie Mae 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, Fannie Mae or Freddie Mac. **203(k) loans are permitted but the Originator must follow any Servicer overlay if approved.**
- 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 set by the loan type agency.
- 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 Smart6 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. **Duplexes' are not allowed.**
 4. Units of a "condominium" or units within a "planned unit development" as such terms are defined in the Fannie Mae or Freddie Mac guides.
 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.
 - (e) Must meet any Servicer overlays.

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 on a first-come, first-served, fair and equal basis irrespective of race, color, religion, national origin, age, or sex. After reserving the loan with MHC, then reserve/lock the loan with the Servicer.

Prior to making a reservation request, the Lender must have a mortgage loan application from a potential Eligible Mortgagor and an executed Sales Contract. 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. No formal notice of rejection of a Smart6 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 and servicers.

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 Smart6 Program based on preliminary information obtained on annual household income from Jan 1 – Dec 31 of current year (refer to the Smart6 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 Guaranteed, Fannie Mae, and Freddie Mac as appropriate including Smart6 guidelines.
4. Lender reserves the loan through MHC's online reservation system for the program.
5. Lender submits nonrefundable reservation fee payment, if applicable, through MHC's merchant bank account system and prints receipt for upload. If using MCC with Smart6, the \$300 fee is applicable.

Each Lender Administrator is to assign usernames 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 icon. 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. Upon input of the information, the online system will automatically issue a reservation confirmation with the Reservation number and the expiration date of the reservation. Upload the Reservation Confirmation to the loan.

Reservation requests may be eligible for funding on a first-come, first-served basis under any future Smart6 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 (e-signature is allowed on this form) and upload a copy of the form to include as a part of the Smart6 Reservation package.

NOTE: The Lender is responsible for making the reservation in a timely manner while the rate is still available. The Smart6 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 Smart6 Transmittal Checklist (Step 1) within 10-calendar 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 45-calendar days on existing/new residences (less than 1-year old) or 120-calendar days on proposed construction.
1. A 30- calendar day extension may be requested on MHC's website under "Lender Resources" link. **Any** 30- calendar day extension requires that an extension fee at a cost of \$50 be paid on MHC's website found under the "Lender Resources" link.
 2. See the "Pay Program Fee" link  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, also upload a copy of the extension fee receipt. Reservations that are expired may not re-lock for a better rate. A reservation to the borrower must be expired for 60 calendar days from the date of cancellation to receive a better rate.
- E. *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 loan record online and selecting "Cancel Application or Commitment". If MHC determines that a mortgage loan application was taken by a Lender after the date the Lender submitted its request for Reservation, the reservation of funds will not be honored.

Lenders who repeatedly make Smart6 reservations but fail to follow through with the loan process may be suspended from the program at MHC's discretion.

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

SECTION VI—LOAN PROCESSING & UNDERWRITING PROCEDURES

Conditional Commitment Package. The Lender performs the customary verifications for loan underwriting as required by the Smart6 Mortgage Origination Agreement. The Originator or Processor completes the remainder of the mortgage application process and uploads MHC the Conditional Commitment Package documents to MHC 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.

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 January 1 to December 31 calculated 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). Written or Verbal Verifications of Employment (VOE) must be dated 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 must be dated within 30 days of submission and 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 or for self-employed borrowers.
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 those sorts of income can be taken out of the income calculation.
 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 Smart6 purposes is to be considered for one year or more. The bonus is not to be included in the annual family income if the employee has not been employed for 15 months.

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 household member has 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 along with the 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 and uploaded to the loan record. VA benefits should be verified with a benefits letter from the Veterans Affairs Office and uploaded to the loan record.
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 Smart6 program, MCC guidelines take precedence over Smart6 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 Mortgagors

1. *Annual Family Income.* The procedure to calculate annual family income for self-employed mortgagors requires the following:
 - (a) Depreciation and depletion are to be added back to the adjusted gross income (AGI) on all self-employed mortgagors.
 - (b) Two years' current signed individual federal income tax returns with all applicable schedules.
 - (c) Year-to-date Profit & Loss with wet signature (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. After April 15 each year, the most "current year" federal income tax returns are required. Extensions are not acceptable.

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. If submitting a 1040, a wet signature is required.

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 agency 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 but do not sign Smart6 program forms except for the security documents.

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. When MHC approved, the user that reserved the loan will receive an email noting the status change.

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 with 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 the 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 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 excluding discount points Right there 11. Lender can charge up to a 1.5% 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, pre-paid closing costs collected at closing, or other allowable costs of financing the Residence. No more than 1.5% can be charged to borrower for Origination and no discount points can be charged to the Buyer or Seller.

SECTION X—LOAN PURCHASES AND TRANSFER OF SERVICING RIGHTS

- A. *Review of the Mortgage Loan.* The first mortgage loan package is to be delivered to the Servicer for review and purchase. All second mortgage documents are to be delivered to MHC for review and issuance of the MRB Purchase Certification.
1. Lenders must check the closed loan package to confirm all items listed on the Servicers Checklist are included in the package. Any questions concerning the first mortgage loan delivery are to be directed to the Servicer.
- B. *Second Mortgage Final Documentation.* The lender is to submit the final second mortgage loan documentation consisting of the following original documents to MHC 30 days of closing.

MHC Purchase Certification (PC) Package consists of the following documents:

- Copy and Original Recorded Second Mortgage Deed of Trust (Copy to be uploaded, original to be mailed to MHC)
- Original Second Mortgage Note (To be mailed to MHC)
- Copy of 1st and 2nd Closing Disclosures and Sellers CD (To be uploaded)
- Lender Wiring Instructions (To be uploaded)

The Purchase Certification (PC) package in its entirety must be submitted to MHC on or prior to the earlier of 30- calendar days of the loan closing. Upon receipt of the copy of the recorded second mortgage, original note, CDs and wiring instructions, MHC will update the loan status to a Purchase Certification (PC) status and will begin the reimbursement of the \$6,000 to the Lender within two business days after the status change. The original recorded second mortgage must be mailed when received from the county recorder. **Mail Original 2nd Note and recorded DOT to MHC's Single-Family Dept at 735 Riverside Drive, Jackson, MS 39202.** Once the PC is issued, the lender must then print and deliver the PC with the first mortgage loan to the MRB Servicer for purchase.

If the audit reflects that the Second Mortgage funds were improperly disbursed, or other PC documents are found to be incorrect or incomplete, the Lender will receive an email notifying document conditions exist and can be found on the loan online. The Lender will be required to have the issue resolved prior to MHC issuing a PC and reimbursement of the \$6,000 assistance.

No loan may be transferred to the Servicer or pooled unless a PC has been issued, or without prior approval from MHC. If the loan is sold without a Purchase Certification without MHC prior approval, the Originating Lender may be required to repurchase such loan from the Servicer.

There could be a penalty charged to the lender of \$50.00 every thirty calendar days for late delivery of the Purchase Certification Package documents, at the Corporation's sole discretion. **If conditions exist and have not been satisfied, the Purchase Certification will not be issued, and the loan will not be eligible for purchase and pooling by the Loan Servicer. If MHC cannot issue the Purchase Certification and the Servicer does not securitize the loan due to this reason, the lender may risk suspension from the MRB program indefinitely.**

Note: The Corporation may, at its sole discretion, waive or modify any or all the foregoing requirements.

SECTION XI—MODIFICATIONS

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

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 all income documents & most recent federal tax return to MHC for review and re-approval. The annual family income may not exceed the income limitation. The spouse will also have to meet all Smart6 requirements as established in Section II, III and IV of this manual.

SECTION XII—ASSUMPTIONS

First mortgage assumption loans require the same qualifying process as the current Smart6 Program Guidelines (refer to Section II, III and IV of the Smart6 manual). Income guidelines are the most current income guidelines provided by MHC. Investor guidelines must be followed.

The SMART6 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 incomes that meet the program guidelines. Smart6 2nd mortgage is used in conjunction with the Smart6 Program only as a second mortgage.

- A. *Reservations.* The second mortgage amount (\$6,000) is automatically made as a part of the first mortgage reservation for the Smart6 mortgage. There is no other loan reserved unless using MCC with the Smart6 program.
- B. *Eligibility.* All homebuyers must meet the qualifications stated on the Smart6 Mortgage Application. The maximum income is \$110,000 and reflected on the Smart6 2nd Mortgage Application.
- C. *Second Mortgage Documentation.*

The Smart6 2nd Note, and Deed of Trust are to be printed and prepared using the documents found on the registration system under Print Documents. The second mortgage is funded by the lender at closing and providing the second mortgage documents to be executed at closing. The lender is to submit the original second mortgage note and original recorded second Deed of Trust to MHC, Attn: Single-Family, 735 Riverside Dr., Jackson, MS 39202.

- D. *Term and Repayment.* A second Deed of Trust will be recorded against the property being purchased. The 2nd mortgage is a Due-On-Sale, refinance, assumption, or payoff of the 1st mortgage loan. The 2nd mortgage will bear a 0% interest rate. Repayment will be required upon sale of the property, refinance of the first mortgage, assumption of the first mortgage, non-occupied and/or payoff of the first mortgage to MHCs Accounting Division. Contact Pamela.Whitley@mshc.com or Evelyn.Hoggatt@mshc.com for payoff information.
- E. *Commitment Periods.* The Commitment periods of this program will run concurrent with the Smart6 Program as defined in the Program Guidelines.
- F. *Issuance of Reimbursement of Second Mortgage Funds.* MHC will reimburse the lender the \$6,000 upon receipt of a correct, complete Purchase Certification Package (follow Smart6 Checklist). Upon issuance of the PC, the lender is to package the first mortgage loan and deliver to the Servicer of record. Contact the Servicer for instructions for purchase. All Smart6 First and Second mortgages must be table-funded by the Lender.
- G. *Fees in Origination.* A lender may not charge any additional fees in conjunction with this second mortgage program except for recording costs of the second mortgage loan, a 2nd mortgage application fee if the lender so chooses to charge and if the borrower pays for homebuyer education, the fee charged can be placed on the 2nd Closing Disclosure. All other fees should be placed on the first mortgage Closing Disclosure.
- H. *Purchase and Servicing.* Lenders will sell the first mortgage loan which it originates, according to the Servicer guidelines. Service Release premiums are negotiated between the Lender and Servicer.
- I. *Assumptions.* The Smart6 2nd mortgage loan is not assumable.

SECTION XIV –SMART6 FORMS – Printed from MHCs Online Registration System

1. Reservation Confirmation– *Due within 10-calendar days of Reservation*
2. Reservation of Funds/Rate Commitment (Form 1) – *Due within 10-calendar days of Reservation*
3. Smart6 Transmittal Checklist (Form 2)
4. Smart6 2nd Mortgage Application (Form 3)
5. Smart6 Income Calculation Worksheet (Form 4)
6. Notice to Borrower – Second Mortgage (Form 5)
7. Occupancy Statement (Form 7)
8. Income Tax Statement (Form 8), if applicable
9. Full-Time Student Statement (Form 9), if applicable
10. Employment/Income Statement (Form 10), if applicable
11. Co-Signer/Non-Occupant Statement (Form 11), if applicable (Co-Signer not allowed for Freddie Mac HFA Advantage Program)
12. Child Support Statement (Form 12), if applicable
13. Non-Borrower Statement (Form 14), if applicable
14. MHC Letter of Explanation, if applicable (Form 18)
15. Attorney Information Form (Form 21)
16. Notification of Change (Form 26)
17. Second Mortgage Note
18. Second Mortgage Deed of Trust

Note: If using MCC with the Smart6, follow the MCC checklist for required documentation. Reservation and Compliance package MCC documents are to be uploaded to the Smart6 loan record. MCC Closing package documents are to be uploaded to the MCC loan record.

E-Signatures are allowed when the E-Signature Authorization Form is provided as Exception or Miscellaneous documentation. MHC requires wet signatures on 1040, P&L, MHC LOE, 2nd Mtg. Note and DOT.