



# Homeownership Originations Policies

## Table of Contents

<b>VERSION HISTORY</b> .....	5
<b>VERSION POLICY</b> .....	6
<b>INTRODUCTION</b> .....	7
<b>FAIR LENDING</b> .....	7
<b>APPROVING NEW LENDERS</b> .....	8
APPLICATION DOCUMENTS .....	8
INITIAL REVIEW .....	8
APPROVAL PROCESS .....	8
MAINTAINING APPROVAL .....	8
<b>DELEGATED PROGRAM</b> .....	9
REQUIREMENTS .....	9
<b>ORIGINATION RESPONSIBILITIES</b> .....	10
Qualified Mortgage (QM) / Ability to Repay (ATR) / Maximum Points and Fees .....	10
Higher Priced Mortgage Loans (HPML) .....	10
Private Transfer Fee Covenants .....	11
<b>MORTGAGE REVENUE BOND</b> .....	12
BORROWER ELIGIBILITY REQUIREMENTS .....	12
PROPERTY ELIGIBILITY REQUIREMENTS .....	16
CONDOMINIUMS .....	18
DISASTER AREAS .....	19
TARGETED AREAS .....	19
RECAPTURE TAX .....	20
<b>BORROWER CREDIT ELIGIBILITY</b> .....	23
GENERAL CREDIT CRITERIA .....	23
<b>INTEREST RATES</b> .....	24
FIRST COME, FIRST SERVE .....	24
RATE LOCKS – MANUAL .....	26
<b>LOAN PROGRAMS</b> .....	27
ACTIVE LOAN PROGRAMS .....	27
PILOT LOAN PROGRAMS .....	27
DISCONTINUED LOAN PROGRAMS .....	27
<b>AUTOMATED UNDERWRITING</b> .....	28
INCOME DOCUMENTATION .....	28
PROPERTY REQUIREMENTS .....	28
DATA INTEGRITY .....	28
AUTOMATED UNDERWRITING SYSTEM (AUS) DOCUMENTATION .....	28
<b>HOMEOWNERSHIP EDUCATION</b> .....	29

Homeownership Policies  
Table of Contents

---

CURRICULUM .....	29
COURSE SCHEDULES.....	29
<b>MORTGAGE INSURANCE.....</b>	<b>30</b>
CONVENTIONAL MORTGAGE INSURANCE .....	30
GOVERNMENT INSURED (FHA, VA, RD) .....	30
<b>APPRAISAL REVIEW PROCESS.....</b>	<b>31</b>
APPRAISAL ESCALATION OR RECONSIDERATION OF VALUE.....	31
<b>EMPLOYEE LOAN PROGRAM.....</b>	<b>32</b>
INITIAL CONTACT.....	32
LOAN APPLICATION AND PROCESS .....	32
LOAN PURCHASE AND SERVICING SET UP .....	33
LOAN EXCEPTIONS .....	33
<b>MORTGAGE LOAN APPROVAL OR REVIEW NOTICE .....</b>	<b>34</b>
VIRGINIA HOUSING STRATEGIC LENDING .....	34
NON-DELEGATED ORIGINATING LENDER.....	34
DELEGATED ORIGINATING LENDER.....	34
EXPIRED RATE LOCK .....	34
<b>ADVERSE ACTION LETTER.....</b>	<b>35</b>
NON-DELEGATED ORIGINATING LENDERS.....	35
DELEGATED ORIGINATING LENDERS.....	35
VIRGINIA HOUSING STRATEGIC LENDING .....	35
<b>DOCUMENT CONTROL / RECORDS .....</b>	<b>36</b>
PROCESSING INCOMING DOCUMENTS AND NOTES.....	36
DOCUMENT STORAGE.....	36
LOAN FILE AUDITS .....	36
<b>CLOSING.....</b>	<b>36</b>
ORIGINATING LENDER'S RESPONSIBILITY .....	36
ESCROWS .....	36
<b>LENDER PERFORMANCE.....</b>	<b>37</b>
BUSINESS DEVELOPMENT OFFICER.....	37
UNDERWRITING .....	37
QUALITY REVIEW ANALYST .....	37
BUSINESS DEVELOPMENT TRAINING MANAGER .....	38
LOAN PROGRAM UNDERWRITING MANAGER.....	38
<b>LENDER PERFORMANCE MONITORING.....</b>	<b>39</b>
AREAS OF PERFORMANCE.....	39
LENDER PERFORMANCE .....	39
<b>LATE CHARGES AND PEND PENALTIES .....</b>	<b>40</b>

Homeownership Policies  
Table of Contents

---

WAIVER OF DELINQUENT DOCUMENT FEES.....	40
IDENTIFYING LOANS WITH LATE DOCUMENTS.....	40
LATE DELIVERY PENALTIES TIMELINES / FEES .....	40
PEND PENALTIES TIMELINES / FEES .....	40
IMPOSING PENALTIES .....	40
OVERRIDING PENALTIES.....	41
REFUSING TO PURCHASE A LOAN.....	41
<b>EARLY PAYMENT DEFAULT.....</b>	<b>41</b>
INITIAL ASSESSMENT.....	41
LENDER NOTIFICATION .....	41
DOCUMENTATION FINDINGS AND RECOMMENDATIONS.....	41
REPURCHASE, INDEMNIFICATION AND ASSESSMENT OF FEES .....	42
<b>QUALITY REVIEW ANALYST.....</b>	<b>43</b>
LOAN FILE REVIEW .....	43
<b>VIRGINIA HOUSING STRATEGIC LENDING .....</b>	<b>44</b>
PRE-QUALIFICATION PROCESS .....	44
APPLICATION PROCESS .....	44
TILA-RESPA INTEGRATED DISCLOSURES (TRID) / LOAN ESTIMATE (effective 10-3-15) .....	44
RECEIPT OF APPLICATION .....	44
HOMEOWNERSHIP COUNSELING.....	45
COLLECTION OF FEES .....	45
INTEREST RATE LOCK.....	45
VALUATION INDEPENDENCE.....	45
FEE APPRAISERS .....	46
SUBMISSION OF LOAN PACKAGE.....	46
LOAN PROCESSING.....	46
VALUATIONS .....	47
UNDERWRITING .....	47
LOAN CLOSING .....	47
<b>LAPTOP COMPUTERS / ELECTRONIC DEVICES .....</b>	<b>49</b>
<b>SECURITY .....</b>	<b>49</b>
NEW EMPLOYEE WORK ORDER TEMPLATE .....	49
INFORMATION NEEDED FROM DATACENTER.....	49
INFORMATION NEEDED FROM DESKTOP SERVICES .....	49

## VERSION HISTORY

When	Description
12-01-2021	<b>Version 1.0 Published</b> <ul style="list-style-type: none"><li>Added “Universal Residential Loan Application” acronym</li><li>Modified Business Use Restriction</li><li>Adopted 4506-C</li><li>Modified Ability to Repay / Qualified Mortgage / Maximum Points &amp; Fees / HPML</li></ul>
12-01-2022	<b>Versions 1.1 Published</b> <ul style="list-style-type: none"><li>Updated all links within Document 3/2022</li><li>Additional verbiage for Condominiums</li><li>Added verbiage regarding Disaster Areas</li><li>Added new Origination Responsibilities section and Private Transfer Covenants</li><li>Added ITIN under Borrower Eligibility Requirements section</li><li>Added Pilot Loan Programs section</li></ul>
12-01-2023	<b>Version 1.2 Published</b> <ul style="list-style-type: none"><li>Added verbiage for approved MI forms</li><li>Modified Acreage requirements</li><li>Added Bond Programs</li><li>Removed MCC Program</li><li>Updated Lock-In Policies</li><li>Updates supporting Expanded Limits &amp; More including changes to first-time homebuyer requirements</li></ul>
12-01-2024	<b>Version 1.3 Published</b> <ul style="list-style-type: none"><li>Added GSEs/ Insurer / Guarantor language supporting borrower-initiated reconsideration of value (ROV)</li><li>Miscellaneous grammatical updates</li></ul>
12-01-2025	<b>Version 1.4 Published</b> <ul style="list-style-type: none"><li>Removed Conventional No MI</li><li>Added FirstHome Dream</li><li>Update Citizenship / Residency</li><li>Update Rate Locks – Manual</li><li>Update of Homeownership Managers Titles</li><li>Added Community Heroes Grant</li></ul>

## VERSION POLICY

Version history is tracked in the Version History section above. It includes notes regarding the date of the version publication, the changes made, and the page numbers affected by each change.

Substantive changes within this document that reflect either a programmatic or policy change or the addition of a new policy will result in the issuance of a new version. For example, the retirement of a published loan program represents a programmatic change to the criteria outlined in Version 1.0. This or other substantial changes would result in the issuance of Version 2.0, an increase in the primary version number. Future programmatic or policy changes will result in additional revision and the issuance of a new primary versions number.

Non-substantive changes such as minor wording and editing, or clarification of existing programmatic and/or policy that do not affect the interpretation or applicability of the existing programmatic and/or policy will be included in minor version updates denoted by a sequential number increase behind the primary version number. Such changes would result in a version number such as 1.1, 1.2, etc.

## INTRODUCTION

The purpose of this manual is to outline the various policies used in the origination, underwriting, processing, and closing, purchasing and selling of Single-Family loans.

## FAIR LENDING

Virginia Housing does business in accordance with federal and state fair housing law.

Under the Federal Fair Housing Act, it is illegal to discriminate against any person because of race, color, religion, sex, disability, familial status (having one or more children), or national origin in the following activities:

- Sale or rental of housing or residential lots
- Advertising the sale or rental of housing
- Financing of housing (including mortgage loans)
- Provision of real estate brokerage services
- Appraisal of housing
- Blockbusting is also illegal

Individuals that believe they have been discriminated against in violation of the Federal Fair Housing Act are advised to submit a complaint to the US Department of Housing and Urban Development (HUD) at:

1-800-669-9777 (Toll Free)

1-800-927-9275 (TTY)

[www.hud.gov](http://www.hud.gov)

## APPROVING NEW LENDERS

The Business Development Training Manager is the point of contact for lenders inquiring about participation in the Virginia Housing program.

### APPLICATION DOCUMENTS

New originating lenders will find all eligibility criteria, requirements and the application process instructions in the [Origination Guide](#) under Originating Lender Participation. Visit Virginia Housing's website [Become a Virginia Housing Approved Lender](#).

### INITIAL REVIEW

The Business Development Training Manager screens the application for completeness. The assigned Business Development Officer (BDO) will contact the lender should additional supporting documents or clarification be required.

The BDO documents the lender has an acceptable Neighborhood Watch Compare Ratio through the FHA Connection system. The BDO then forwards the lender's Quality Control Plan and Audited Financial Statements to the Single Family Compliance Officer and designated Capital Markets Associate, and the IT Questionnaire to the Information Security team for review to ensure compliance with Virginia Housing and Investor requirements.

### APPROVAL PROCESS

On an as needed basis, the review committee reviews applications for participation in the Virginia Housing loan program.

Once the lender has been approved, the Business Development Training Manager generates an Approval Letter. The approval is contingent on the completion of all required training. Copies of the executed Loan Purchase Agreement, the Information Security Agreement, and the Loan Origination System Addendum are sent to the lender with the Approval Letter as well as uploaded into Comergence® and SharePoint.

### MAINTAINING APPROVAL

After initial approval, Originating Lenders are required to meet specified eligibility criteria requirements such as Insurance and Net Worth, Annual Financial Statement, Information Security, Certificate of Insurance, Quality Control, Minimum Origination Volume, etc. in the [Origination Guide](#) under Maintaining Originating Lender Approval Status.

## DELEGATED PROGRAM

Eligible Virginia Housing Delegated Originating Lenders have the authority to approve or deny loan applications on behalf of Virginia Housing.

The Delegated Lender processes, underwrites, issues the loan approval and authorizes loan closing. In performing these responsibilities, the Originating Lender ensures all Virginia Housing requirements and those of the Government Sponsored Enterprise (GSE), insurer, or guarantor are met.

From time to time, special programs become available, or allocations awarded to Virginia Housing's housing partners. These special programs / allocations are not eligible for processing under the Delegated program unless otherwise approved by Virginia Housing.

### REQUIREMENTS

Each Originating Lender participating in the Delegated program must execute the Loan Purchase Agreement and the Delegated Lender Authorized Individuals Addendum to the Loan Purchase Agreement. This agreement identifies the special requirements, responsibilities and terms of the program. The agreement must be executed by an authorized officer of the Originating Lender's organization and returned to Virginia Housing prior to approval for participation.

#### **Authorized Staff**

The Originating Lender's authorized officer must provide a list of those individuals who will be designated to act on behalf of the Originating Lender. Each designated individual must attend a Virginia Housing training seminar and be an employee of the Originating Lender.

Responsibilities of the Originating Lender may not be contracted to a third party without prior approval by Virginia Housing.

#### **Delegated Underwriter Requirements**

The approved underwriter must possess FHA Direct Endorsement Authority and have a minimum 3-years mortgage underwriting experience unless otherwise approved by Virginia Housing.

#### **Delegated Closing Review**

The approved closing staff should have sufficient experience closing all types of loans. The Originating Lender will warrant that staff qualifications have been met by designating such individuals on the Delegated Lender Authorized Individuals Addendum to the Loan Purchase Agreement. Any additions or deletions to the delegated closers must be made in the form of a revised Addendum or official notification by the Originating Lender.

#### **Information to Staff**

The Originating Lender will be responsible for informing all staff of Virginia Housing procedures and requirements. The Originating Lender will designate key contacts for receipt of correspondence and will notify Virginia Housing of changes in staff contacts – including email and mailing addresses.

#### **Experience**

Virginia Housing must determine the Lender has an understanding of the Virginia Housing loan programs and regulations prior to acceptance into the Delegated program. A minimum of 10 satisfactorily submitted loans; all closed within a six-month period must be reviewed before approval will be granted to participate as a Delegated Originating Lender. The review will be

based on the quality and completeness of the original loan submission for underwriting, the pre-closing and the timeliness of the submission of post-closing documents.

#### **Notification of Approval**

Once all Originating Lender Delegated criteria are met, Virginia Housing will notify the Originating Lender in writing of their approval to participate as a Delegated Originating Lender. The Originating Lender will then be required to execute an addendum to the Loan Purchase Agreement entitled “Delegated Lender Authorized Individuals Form.” This document designates authorized staff to participate in underwriting and closing responsibilities.

Upon receipt of the executed document, the Originating Lender may immediately act as a Delegated Agent. Loans previously reserved or approved may proceed through the Delegated process.

## **ORIGINATION RESPONSIBILITIES**

### **Qualified Mortgage (QM) / Ability to Repay (ATR) / Maximum Points and Fees**

#### **Conventional, Conventional Bond**

ATR covered loans may not have total points and fees exceed 3% of the total loan amount. Housing Financing Agencies such as Virginia Housing are exempt from the ATR rule so the 3% does not apply to Virginia Housing loans; however, Conventional loans are limited to 5% in total points and fees.

#### **FHA, FHA Bond, VA, VA Bond, RHS, RHS Bond**

Housing Finance Agencies are exempt from the government agencies' QM rule.

#### **Plus Second Mortgage**

Housing Finance Agencies are exempt from the ATR rule for second mortgages. Follow first mortgage requirements for the first mortgage.

Note: Virginia Housing exempt loans' APR cannot exceed the APOR (Average Prime Offer Rate) by 6.5% or more calculated in accordance with the regulatory provisions of HEOPA in TILA.

### **Higher Priced Mortgage Loans (HPML)**

**All Virginia Housing loans** – HPML occurs when the APR exceeds the APOR by 1.5% or more for first mortgages and 3.5% for second mortgages. All HPML loans must comply with the flipping requirements of the TILA HPML Appraisal Rule; otherwise meet the definition of CFPB qualified mortgages (safe harbor (QM) or rebuttable presumption (ATR)) so as not to trigger the requirements of the TILA HPML Appraisal Rule.

If HPML, then per the CFPB an additional appraisal is required if the property is resold 90 – 180 days when there is a price increase of:

- More than 10% if acquired in past 90 days.
- More than 20% if acquired in the past 91 – 181 days.

There are some exceptions governed by the CFPB, which would not require an additional appraisal (property from a local, state, federal government, nonprofits, inheritance, employee relocation, service member deployment, some rural and underserved areas, etc.).

## Private Transfer Fee Covenants

**Conventional Loans** – Loans on properties encumbered with private transfer fee covenants are unacceptable under the FHFA’s Private Transfer Fee Regulation (codified at 12 CFR Part 1228). The Originating Lender must fully review all documentation pertaining to this, including, but not limited to, the Deed, Deed of Trust, Declaration of Covenants, Conditions, and Restrictions, and/or Declaration of Condominium.

The Private Transfer Fee Regulation excludes private transfer fees paid to homeowner associations, condominiums, cooperatives, and certain tax-exempt organizations that use private transfer fee proceeds to benefit the property (i.e., such private transfer fees are acceptable). Fees that do not directly benefit the property are subject to the rule and would disqualify mortgages on the property from being sold to Fannie Mae or Freddie Mac or used as collateral for Federal Home Loan Bank advances.

A transfer fee covenant recorded in the Commonwealth on or after July 1, 2011, shall not run with the title to real property and is not binding on, or enforceable at law or in equity against, any subsequent owner, purchaser, or mortgagee of any interest in real property as an equitable servitude or otherwise. Any lien purporting to secure the payment of a transfer fee under a transfer fee covenant recorded in the Commonwealth on or after July 1, 2011, is void and unenforceable. Va. Code 55.1-358. As a result of this statute, transfer fee covenants recorded on or after July 1, 2011 are legally unenforceable and should not disqualify mortgages on the property from being sold to Fannie Mae or Freddie Mac or used as collateral for Federal Home Loan Bank advances.

## MORTGAGE REVENUE BOND

All loans funded by tax-exempt bonds must meet certain borrower and property eligibility.

### BORROWER ELIGIBILITY REQUIREMENTS

#### **Borrower Age**

Borrowers must be eighteen (18) years of age or older, or have been declared emancipated by a court having jurisdiction.

#### **Family / Household**

One person or multiple persons are eligible to be a borrower or borrowers of a single-family loan if such person or all such persons satisfy the criteria and requirements in these rules and regulations. All references in these rules and regulations to an applicant or borrower shall, in the case of multiple applicants or borrowers, refer to each applicant or borrower individually unless the provision containing such reference expressly refers to the applicants or borrowers collectively.

#### **Citizenship / Residency**

Originating Lenders are required to certify and provide the required documentation that mortgages are provided to borrowers that meet the residency requirements of the applicable GSE, insurer, or guarantor provided the borrower occupies the property as a principal residence, has a valid Social Security Number (SSN) or Individual Taxpayer Identification Number (ITIN) if acceptable by the applicable GSE, insurer, or guarantor. This eligibility applies to all Virginia Housing loan programs.

#### **Co-Signers**

Co-signers are not allowed on Virginia Housing loans. All borrowers must occupy the property as their primary residence.

#### **Prior Homeownership Three-year Requirement**

When using a Virginia Housing bond program, eligible borrower(s) may not have had a present ownership interest in their principal residence within the three years preceding the date of execution of the mortgage loan documents (loan closing). The three-year requirement does not apply to residences being financed in a “targeted area.” The three-year requirement also does not apply when using a Virginia Housing non-bond program.

#### **Required Documentation Evidencing First-time Homebuyer**

To verify that the borrower(s) meet the three-year requirement, the Originating Lender must obtain:

- The fully executed Programs Disclosure and Borrower Affidavit (Ex E),
- A completed and fully executed Uniform Residential Loan Application (URLA), and
- The credit report for all borrowers.

If unable to confirm from Exhibit E, the URLA, or the credit report that the borrower(s) are a first-time homebuyer, additional documentation may be required, such as:

- Three years' federal tax returns / tax transcripts
- Rent verification(s)
- Other reports such as a Lender Data Integrity Report (Examples: Drive Report, FraudGuard, Loansafe)

Notes:

- If any of the above items are in the loan file, (even if not required) the Originating Lender must review for homeownership.
- If the borrower(s) owns a dwelling that is not a primary residence, the value of the dwelling will be included in the net worth calculation (See Net Worth Restrictions).

### **Principal Residence / Occupancy Requirement / Use of Property**

**Owner Occupancy:** Borrower(s) must intend to occupy the financed dwelling as a principal residence within 60 days (90 days for rehabilitation loans, if available) after the closing of the loan. A certification of the owner occupancy is to be made by the borrower(s) on the Borrower Affidavit.

**Principal Residence / Property Use / Business Use Restriction:** The subject property may not be used for the following:

- As a recreational or second home
- As an investment property
- The residence being purchased may not have additional living space, which would be typically used for investment or rental purposes
- Use in a trade or business:
  - The financed dwelling may not be used in any manner, which would permit more than 15% of the total living area to be used primarily in trade or business.
  - The borrower(s) must fully execute the [Business Use of Home Certification](#) if the borrower has disclosed that a part of the current residence is being used primarily for a trade or business or if there is any other evidence in the file, such as:
    - The employment business address is the same as the borrower's current residence and/or the borrower has marked yes for mixed-use property on the URLA, or
    - Federal tax returns are provided and show the "business in home" deduction was taken (Typically this shows on Schedule C, line 30).
    - The [Business Use of Home Certification](#) certifies that not more than 15% of the total living area of the subject property will be used primarily in a trade or business. If greater than 15% will be used in the subject dwelling, then the borrower is not eligible.

**Use of Land:** The borrower(s) must certify the following on the Borrower Affidavit:

- No portion of the land financed provides a source of income (other than incidental income)
- The borrower(s) does not intend to farm any portion (other than as a garden for personal use)
- The borrower(s) does not intend to subdivide the property

### **New Mortgage Requirements / No Refinances**

Virginia Housing Loans may be made for purchases only; refinances are not allowed (except as stated below for temporary financing). Loan proceeds may not be used to acquire or replace an existing mortgage (whether or not paid off). Proceeds may be used to pay off temporary financing (i.e., construction or bridge loans), which have an initial (not remaining) term of 24 months or less.

- For the purpose of applying the above requirement, an existing mortgage includes deeds of trust, conditional land sales contracts (generally where regular monthly installments are paid and applied to the sales price), pledges, Purchase Agreements to hold title in escrow, a lease with an option to purchase which is treated as an installment sale for federal income tax purposes and any other form of owner-financing.
- A Virginia Housing loan may be made to finance a residence (including the land) if the borrower(s) previously had a mortgage loan on the land only.
- Virginia Housing provides refinances under specific refinance programs such as FHA Streamline Refinance, VA IRRRL, Fannie Mae and Freddie Mac products.

#### **Maximum Borrower(s) Net Worth**

- Eligible borrower(s) cannot have a net worth exceeding 50% of the sales price of the dwelling being financed.
- The value of life insurance policies, retirement plans, and furniture and household goods shall not be included in determining net worth.
- In addition, the portion of the borrower's liquid assets, which are used to make the down payment and to pay closing costs, up to a maximum of 25% of the sales price, will not be included in the net worth calculation.
- Any income producing assets needed as a source of income to meet the minimum qualifying requirements will not be included in the borrower's net worth to determine if this net worth limitation has been violated.

#### **Maximum Gross Annual Income (Maximum Household Income)**

Virginia Housing publishes maximum "Gross Income" limits, also referred to as household income, which are established to comply with the limits imposed by the U.S. Treasury limits. The "Gross Income" as defined below may not exceed the published Virginia Housing income limits. These limits are available at [VirginiaHousing.com](http://VirginiaHousing.com).

- "Gross income or household income" includes the combined annualized income of all household members from whatever source derived and before taxes or withholdings.

Note: Some programs such as Virginia Housing's non-bond programs may have different requirements that require only all borrower qualifying income to be included in the household income calculation, and Virginia Housing's expanded income limit applies.

- Gross Income is calculated by projecting Gross Income forward for the 12-month period beginning on the date of loan application. Typically, income such as bonuses, overtime, and commissions will be averaged for the most recent 12-month period. If information is unavailable for this period, the Originating Lender may average the past year and year-to-date bonuses, overtime, and commissions. This average multiplied by 12 will be added to the current base salary to determine Gross Income. All such earnings must be included in Gross Income unless the employer documents that such earnings will not be continued.

Note: Income, that may not be eligible for use in credit qualifying, may be required to be included in determining Gross Income for maximum income eligibility purposes.

- **The following are included in Gross Income:**
  - Base salary

- Overtime
- Bonuses
- Commission
- Part-time and seasonal employment
- Dividends
- Interest
- Royalties
- Pensions
- Net rental income
- Alimony and child support

Note: Alimony and child support must be included in determining maximum Gross Income, if such income is specified in a divorce settlement or separation agreement, or is voluntary. See below for when this income may be excluded.

- Veterans Administration compensation
- All military pay and allowances including periodic bonus payments (see below for any military pay that may be excluded)
- Public Assistance
- Sick pay
- Social Security Income / Benefits
- Unemployment compensation
- Car allowance
- Income from trusts
- Income from business activities or investments

Notes:

Non-reimbursed employee expenses (aka unreimbursed employee expenses), or income losses (schedule C or E) are not to be deducted from "Gross Income" calculations.

➤ **The following may be excluded from Gross Income:**

- Income received as a one-time lump sum (such as inheritance, settlement of an insurance claim, military re-enlistment bonus), which is nonrecurring, does not need to be included in gross annual income.
- Military hazard duty pay.
- Alimony or child support does not have to be included if the borrower certifies that the income is not being received and documents that they have made a reasonable effort to collect the amount due including filing with courts or agencies responsible for enforcing payments.
- The "grossed up" portion of non-taxable income per the appropriate GSE, insurer or guarantor guidelines for qualifying purposes is not required to be included in household income.

Note: Income from the above sources must be used in calculating household income or Virginia Housings expanded income limits if it is an acceptable source of income to qualify the borrower as defined by the GSE / insurer / guarantor, even if noted above that it may be excluded.

## PROPERTY ELIGIBILITY REQUIREMENTS

To qualify as an eligible dwelling for a Virginia Housing loan, the residence must:

- Be located in the Commonwealth of Virginia.
- Be a single-family residence, a townhouse, a single unit of a multi-unit (such as a duplex), or a unit of an eligible single unit of a condominium.
- The residence may not have additional living space, which would be typically used for investment purposes, such as living space with a separate kitchen, utilities, and access. Exceptions may be considered based on family needs and borrower intent for use.
- Be owned or to be owned by the applicant in the form of fee simple interest.
- Satisfy the other requirements noted in this section.

### **Virginia Housing Sales Price and Loan Limits**

Virginia Housing publishes maximum sales price and loan limits. They are based on limits established by the U.S. Department of The Treasury, in effect at the time of application.

Properties being financed by Virginia Housing cannot exceed the published limits. The limit is the highest of the gross loan amount of a Virginia Housing first mortgage and second mortgage, if applicable, sales price, or acquisition cost. These limits are available online. To view Virginia Housing limits, go to [VirginiaHousing.com Income and Sales Price / Loan Limits](http://VirginiaHousing.com Income and Sales Price / Loan Limits).

In the event the Virginia Housing mortgage(s) exceeds Virginia Housing's sales price limit, the Originating Lender must contact Virginia Housing for exception consideration to determine if the residence is eligible.

Note: Some programs such as Virginia Housing's non-bond programs may have different requirements that do not have a sales price limit.

### **Acquisition Cost Requirements**

Acquisition Cost is the cost of acquiring the eligible dwelling from the seller as a completed residence. The acquisition costs of a property to be financed may not exceed the sales price limit, if applicable. If the sales price does not exceed the sales price limit, but the acquisition costs exceed Virginia Housing's sales price limit as a result of the estimated cost to complete unfinished area (see below), the Originating Lender must contact Virginia Housing for exception consideration to determine if the residence is eligible.

**Assumptions – Acquisition Costs:** To determine if the acquisition cost is at or below federal limits for assumptions, the Originating Lender or, the Servicing Lender must contact Virginia Housing.

### **Acquisition Cost includes the following:**

- Amounts paid, in either cash or kind, by the eligible borrower to or for the benefit of the seller (or related party) for the land and residence (excluding any personal property that is not a fixture).
- If the home is new construction and personal property items are conveyed (included in the sales price) then the value of those personal property items must be subtracted from the acquisition cost. See below for information about Personal Property (Example Sales Price of \$200,000 with \$5,000 included for washer, dryer and refrigerator the amount entered would be \$195,000).

- Amounts paid, in either cash or kind, by any other person to or for the benefit of the seller (or related party) for the land and residence (excluding any personal property that is not a fixture).
- Amounts paid for fixtures (if not a part of the price of the land and residence included in the bullets above). Example: Sales Price of \$200,000, flooring paid separately to the flooring supplier for \$10,000 and not included in the sales price paid to the seller – include \$10,000 on the line related to fixtures.
- Additional reasonable costs of completing or rehabilitating the residence (whether or not the cost of completing construction or rehabilitation is to be financed with the mortgage loan) if the eligible dwelling is incomplete or is to be rehabilitated. For example, a residence that has unfinished areas (i.e., an area designed or intended to be completed or refurbished and used as living space, such as the lower level or a tri-level, unfinished basement, or the upstairs of a cape cod) shall be deemed incomplete, and the costs of finishing such areas must be included in the acquisition cost. Lenders may obtain the cost to complete unfinished areas from the appraiser or by using \$75 per square foot for basements and above grade areas. Also, the cost for any rehabilitation or improvements, which have been included in the loan for financing (i.e. the cost for energy efficient items) must be included in the Acquisition Costs.
- Cost of land owned by the borrower less than two years prior to commencement of construction of the residence thereon.

**Non-Acquisition Cost:** The acquisition cost does not include the following:

- Usual and reasonable settlement or financing costs. Excluded costs include title insurance, survey fees and other similar costs. Excluded financing costs, credit report fees, legal fees, appraisal expenses, and points that are paid by the borrower(s). Such amounts must not exceed the usual and reasonable costs which otherwise would be paid. Where the borrower(s) pays more than the typical, pro rata share, the excess must be included as part of the Acquisition Costs.
- The value of services performed by the eligible borrower or members of their family in constructing or completing the residence.
- The costs of land owned two years or longer by the borrower.
- Personal property.

**Calculation of Acquisition Costs:** The Originating Lender will assist in the calculation of the acquisition costs. The figures are to be included on the Borrower and Seller Affidavits. Information related to the costs of the property and unfinished area should be compared to the information in the sales contract, Closing Disclosure, and appraisal.

Note: See [Origination Guide](#) for details on Personal Property Restrictions.

#### **Maximum Lot Size**

The maximum lot size is 2 acres. Exceptions may be made to permit lots larger than 2 acres, but no exception will be granted for a lot size in excess of 5 acres when using Virginia Housing's bond programs. Exceptions to the 2-acre limit may be granted based on any one or more of the following:

- If the land is owned free and clear and is not to be financed by the loan, the lot may be as large as 5 acres.
- If locating a well or septic field is difficult, the lot may include the additional acreage needed.
- If local city or county ordinances (not just subdivision restrictions) require more acreage.
- If the lot size is usual and customary in the area for comparably priced homes.

If originated with a Virginia Housing bond program, the acreage is not permitted to exceed the basic livability of the residence. Additionally, the property may not provide, other than incidentally, a source of income to the mortgagor, and the lot cannot be subdivided.

This subsection is intended to allow for consideration of lots over 2 acres in rural areas where smaller parcels are not usual and customary and are not readily available. In determining if the subsection is applicable, the lot sizes of the comparable sites provided by the appraiser must demonstrate that size is usual for similarly priced homes in the area. The appraiser must also indicate that the lot size is typical for homes of similar price and size in the area.

**Acreage Exceptions:** The Originating Lender's underwriter may review and render a decision for all acreage exceptions, not to exceed 5 acres for Virginia Housing's bond programs. They must acknowledge the acreage exception and include justification for the exception on a memo in the file sent to Virginia Housing for purchase (this can be done on the underwriting transmittal). A minimum of two comparable properties should support the acreage.

There is no acreage limitation on Virginia Housing's non-bond programs. Follow the applicable GSE, insurer, or guarantor requirements.

## CONDOMINIUMS

Virginia Housing recognizes that condominiums serve an affordable housing option in many areas of the Commonwealth. Virginia Housing typically follows industry guidelines regarding the financing of condominium units. Virginia Housing does not approve condominium projects. Condominium guidelines and requirements vary based on the Virginia Housing product and the status of the condominium project.

In addition to the condominium project guidelines stated below, the appraisal must clearly establish market acceptance for the project through comparable sales within the subject market and the project. Virginia Housing reserves the right to limit the total number of units financed in any project or phase to no more than 25% of the units.

From time-to-time Virginia Housing may develop or approve special financing programs for condominium developments that do not meet the financing criteria for conventional or government insured loans. These special financing programs are detailed in the [Loan Programs](#) section of this guide.

**Virginia Housing Conventional Financing:** The condominium must meet the project eligibility guidelines for the applicable GSE and private mortgage insurance company guidelines. The Originating Lender's underwriter must indicate the warranty classification on the Loan Transmittal or by separate statement and include all GSE documentation in accordance with the approval type.

## Non-Delegated Lenders

Non-Delegated lenders must provide evidence of condominium approval when the underwriting package is submitted to Virginia Housing.

**Delegated Lenders**

The authorized delegated underwriter must review all pertinent condominium documents to determine approval status prior to issuance of a mortgage loan approval.

**Virginia Housing Strategic Lending**

Virginia Housing Strategic Lending is in rural parts of Virginia where there are no condominiums. In the event Strategic Lending does originate a condominium, the underwriter is responsible for reviewing all pertinent condominium documents to determine approval status prior to issuance of a mortgage loan commitment.

**Virginia Housing FHA, VA, Rural Housing Financing**

The condominium must be approved in accordance with the applicable insurer or guarantor guidelines and include all documentation in accordance with the approval type.

**Non-Delegated Lenders**

Non-Delegated lenders must provide evidence of condominium approval when the underwriting package is submitted to Virginia Housing.

**Delegated Lenders**

The authorized delegated underwriter must review all pertinent condominium documents to determine approval status prior to issuance of mortgage loan approval.

**Virginia Housing Strategic Lending**

Virginia Housing Strategic Lending is in rural parts of Virginia where there are no condominiums. In the event Strategic Lending does originate a condominium, the underwriter is responsible for reviewing all pertinent condominium documents to determine approval status prior to issuance of a mortgage loan commitment.

**DISASTER AREAS**

Due diligence must be exercised regarding loan closings in areas impacted by FEMA declared disaster area. In addition to applying requirements set forth by the GSEs, insurers, and guarantors, verification must be obtained that the proper homeowners and, if applicable, flood insurance is in place.

**TARGETED AREAS**

A targeted area is an area which meets one of the definitions stated below:

- **Qualified Census Tract** – A census tract in the Commonwealth of Virginia in which 70% or more of the families have an income of 80% or less of the statewide median family income based on the most recent “safe harbor” statistics published by the U.S. Treasury.
- **Chronic Economic Distress** – An area designated as such by the Commonwealth of Virginia and approved by the Secretaries of Housing and Urban Development and the Treasury under criteria specified in the tax code.
- **Eligibility / Waiver of Three-year Prior Homeownership Requirements:** Mortgage loans for dwellings located in targeted areas must comply in all respects with the requirements of the regulations and those stated in this guide, with the exception of the three-year requirements (prior homeownership).
- **Documenting Targeted Areas:** Originating Lenders must indicate on the Originating Lender’s Loan Submission Cover Letter (Exhibit O) the target area status (targeted area yes or no).

- **Locating Targeted Areas:** Should an Originating Lender need assistance determining targeted areas, they can visit [Areas of Economic Opportunity](#) on Virginia Housing's Website or call their local city / county planning office.
- **Federal Targeted Area Limits:** Some, but not all properties located in a Targeted Area have higher income and sales price limits. The higher targeted income limits may not apply to loans originated with a Virginia Housing Grant. Refer to the [Federal Targeted Income limits](#) Virginia Housing's website and the applicable Loan Program Guidelines and Procedures for details.

Note: Targeted area limits do not apply to Virginia Housing's non-bond programs because there is not a sales price limit.

## RECAPTURE TAX

All Virginia Housing bond loans financed using tax-exempt bond funds, or any loan that received a Mortgage Credit Certificate (MCC) from Virginia Housing before the MCC program was suspended may be subject to the Recapture Tax. The information provided below is for informational purposes only. The borrower should consult a tax advisor or the IRS for more specific information. A Recapture Calculator is available on [VirginiaHousing.com](#).

### Explanation of Recapture Tax

**Purpose** – Congress enacted legislation in 1988, which was subsequently amended in 1990, to recapture some or the entire subsidy (savings realized from the lower interest rate) from first-time homebuyers who receive assistance from financing through tax-exempt bonds. The purpose of recapture is to retrieve the subsidy received from owners who received rapid income increases after they purchased their home. As a result, they do not need the subsidy to remain homeowners. Recapture became effective for loans closed after December 31, 1990.

**Recapture Concept** – The recapture of subsidy (interest) on a mortgage is triggered when the residence is sold or transferred within nine years of the purchase date. The recapture is paid as additional federal tax liability for the tax year in which the home is sold. The amount of recapture that owners might have to pay depends on:

- A. The owner's income during the tax year in which the home is sold.
- B. The household size during the tax year in which the home is sold.
- C. The year the home is sold (1 – 9).
- D. The net gain realized from the sale of the residence.

Note: The refinancing of the Virginia Housing loan does not trigger recapture.

**Disclosure of Recapture** – At loan closing, the purchaser will be provided a Notice of Recapture along with a Federal Income Limits chart. These documents should be maintained with other critical closing documents, as these will be necessary for the owner to calculate any potential recapture tax that may be required upon the sale of the property. An example of these documents may be provided to the applicant prior to closing; however, it is important that the documents provided at closing are the ones retained by the borrower for future tax calculation.

### Explanation of Recapture Tax Calculations

**Maximum Recapture Tax** – Once it is determined that a tax will be due, the tax will be limited to the lesser of:

- 1.25% - 6.25% (determined by the year in which property is sold) of the amount of the loan funded by the mortgage revenue bond (see Note below) or
- 50% of the gain (net) on the sale of the property (gain minus improvements, commissions, fees, etc.)

**Guidelines for Recapture Requirement** – It is suggested that homeowners who have financed properties with mortgage revenue bonds, consult a tax advisor for assistance in Recapture Tax calculations.

Recapture tax will not be owed if:

- A. The owner's modified adjusted Gross Income in the year in which the residence is sold does not exceed the allowable limit (refer to chart) or
- B. There is no gain on the sale of the property (adjusted for allowable costs)

**Allowable Adjusted Qualifying Income:** Refer to the Adjusted Qualifying Income Chart provided to the applicant at closing.

Determine the applicable Maximum Adjusted Qualifying Income on the chart. This is based on the area of the property; the number of people in the household, whether the property is in a targeted or non-targeted area, and the year the home was sold. Then, determine the owner's Modified Adjusted Gross Income. Modified Adjusted Gross Income is the adjusted Gross Income reflected on the federal income tax for the tax year the property is sold, in addition to any interest received from tax-exempt bonds and minus any of the gain included as a result of the sale of the subject property. If the Modified Adjusted Gross Income is less than the Maximum Adjusted Qualifying Income from the chart, no further calculations are needed, and no Recapture Tax will be due.

**Calculations of Recapture** – There are several steps required to calculate the recapture amount owed. Once it has been determined that the owner's income is such that a recapture tax is to be paid, several adjustments may be made that may reduce the amount of tax to be paid.

**A. Adjustment to Income:** If the owner's Modified Adjusted Gross Income exceeds that in the federal income chart, an adjustment to the amount of tax owed could be possible. If the Modified Adjusted Gross Income exceeds the allowed federal limit by \$5,000.00 or more, 100% of the required tax will be due. If it exceeds the allowed federal limit by less than \$5,000.00, only a percentage of the tax will be due. Subtract the federal Adjusted Gross Income limit from the owners Modified Adjusted Gross Income limit from the owners Modified Adjusted Gross Income, then divide this figure by 5,000.00. This resulting percentage will be used in the calculation in C below.

**B. Adjustment for Holding Period:** The percentage of tax will be no greater than 6.25% but may be as low as 1.25% of the loan amount. The applicable percentage is based on the year the property is sold. The percentage begins at 1.25% if sold in the first year and increases to 20% per year-to-year five when 100% of the tax of 6.35% of the loan amount may be due. The percentage then decreased by 20% per year to the ninth year. The Holding Period percentage can be found on the Federal Income Limits chart attached to the Recapture Requirement Notice provided at closing. The appropriate percentage will be used in the final calculation below.

**C. Final Calculation:** The recapture tax due will be the lesser of:

- 50% of the net gain on the sale of the property or
- The final Recapture Calculation – Mortgage Revenue Bond Loan Amount
- X 6.25%
- X any adjustment for Income in (A above)
- X any adjustment for Holding in (B above)

A [Recapture Calculator](#) is available at [VirginiaHousing.com](http://VirginiaHousing.com).

## BORROWER CREDIT ELIGIBILITY

### GENERAL CREDIT CRITERIA

To qualify for Virginia Housing financing, the borrower(s) must demonstrate the willingness and ability to repay the mortgage debt and adequately maintain the financed property. All borrowers must meet the requirements and guidelines of the applicable GSE, insurer, or guarantor. In addition, the borrower(s) must satisfy the requirements stated below. Originating Lenders must contact Virginia Housing directly to discuss any exceptions to these requirements.

**Stable Employment** – Borrower(s) must document the receipt of stable income indicating that the borrower will receive future income sufficient to enable the timely repayment of the mortgage loan as well as other existing obligations and living expenses.

**Credit History** – Borrower(s) must possess a credit history that reflects the ability to successfully meet financial obligations and a willingness to repay obligations in accordance with established credit repayment terms. A minimum credit score of 620 is required unless otherwise noted in specific program requirements.

## INTEREST RATES

Virginia Housing's Capital Markets Division regularly reviews market conditions to determine appropriate interest rates for Virginia Housing loan programs. Rates are published daily by the Capital Markets Division and entered into Virginia Housing's Loan Origination System (LOS). A daily rate sheet is also created and forwarded to the Virginia Housing Lock Desk staff.

### FIRST COME, FIRST SERVE

Virginia Housing has adopted a policy of First Come, First Serve when allocating resources for its first-time homebuyer program.

#### System Requirements

Rates are distributed to Originating Lenders Monday through Friday via email. Approval from the Originating Lender's secondary department is required to add any recipients to the distribution list.

#### System Administrators

All Originating Lenders must designate a System Administrator. The System Administrator is registered and given access to Virginia Housing's Loan Origination System (LOS) / Rate Lock System. The System Administrator maintains a current list of individuals authorized to access Virginia Housing's LOS. The System Administrator may add, modify, or delete individuals from the authorized list.

#### System Registration

Administrative contact information is received from all Originating Lenders once they are approved to originate Virginia Housing loans. The Business Solutions staff enters all appropriate lender contact information into the Loan Origination Systems.

#### Loan Rate Lock

Loan interest rates are locked-in by the Originating Lender on behalf of the borrower(s) for the purchase of a specific property. No substitution of borrower(s), property or Originating Lender is permitted.

#### Changes Affecting Loan Rate

A change in loan program may require the loan to be re-locked at different terms.

In cases where a rate lock has expired or been cancelled (less than 30 days); pricing for a new rate lock on the same property will be subject to worse case pricing. The lock period remains the same as the original lock.

A change in property is considered a new transaction and will require a new loan application and rate lock at current market pricing. The original loan must be canceled prior to locking in a new property.

##### A. Rate Lock Periods

Loans may be locked in at an interest rate for a period of 30, 45, or 60 days. The loan must close by the lock-in expiration date. Special programs may require different lock periods. Questions regarding special programs should be sent via email to [LockDeck@VirginiaHousing.com](mailto:LockDeck@VirginiaHousing.com).

##### B. Extension of Rate Lock

The Originating Lender may request extensions to the rate lock period in 15-day increments, up to a maximum of 60 days. Lock extension requests must be submitted on or before the lock expiration date. The cost of each extension is .25% of the loan amount. The cost will be deducted from the net price of the loan. Extensions will not be processed on expired locks. If a full 15-day extension is not needed, a courtesy 5-day lock extension may be granted prior to lock expiration.

**C. Change of Loan Program**

- A change in loan product will require the lock to be updated using the original lock date pricing and lock period. A product or a lock change request must be made through Virginia Housing's Loan Origination System.
- If a Plus Second Mortgage is added when the program allows, the interest rate for the first and second mortgages will be adjusted by adding 0.125% if the first mortgage is a conventional program, or adjusted by adding 0.25% if it is a government program. The lock period for the second mortgage is the same as the first mortgage. If the loan has a DPA Grant reserved, the grant must be cancelled prior to registering / locking the Plus Second Mortgage as a piggyback loan.

Note: Lenders cannot benefit from better pricing or an increased lock period due to multiple product changes.

**D. Relocks**

A lock must be expired or cancelled in order to relock. The relock period will mirror the original lock for loans that expired less than 30 days prior to the relock. Worse case pricing applies between the pricing for the original lock and current market pricing. Locks that have been expired for 30 days or more will be relocked at current market pricing. The lock period can be 30, 45, or 60 days. Special programs may require the relock period to be the same as the original lock period. Questions and lock requests regarding special programs (i.e., Sponsoring Partnerships And Revitalizing Communities (SPARC), etc.) should be sent via email to [LockDesk@VirginiaHousing.com](mailto:LockDesk@VirginiaHousing.com).

**E. Reinstatement of Lock**

If a lock is cancelled in error, the lender must request a lock reinstatement by 9 a.m. the next business day after the lock was cancelled. Failure to submit the request by the above referenced timeline will require the lender to relock at worse case pricing.

**F. Changes to Lock Term, Pricing and Product (For Internal Use Only)**

Changes to pricing, lock term, and product can be made without penalty if a request is submitted to the lock desk by 9 a.m. on the next business day after the original lock date.

**G. Lock System Availability**

Loans must be registered and locked in Virginia Housing's Loan Origination System. Refer to [VirginiaHousing.com](http://VirginiaHousing.com) for information and guides related to the online system. The Lock Desk will accept new loan locks, Monday through Friday, from 10:30 a.m. through 6:00 p.m. Eastern Standard Time (EST). The Lock-In system is unavailable on Saturday and Sunday, as well as between the hours of 6:01 p.m. through 10:29 a.m. Eastern Standard Time (EST) Monday through Friday. The Lock-In system is unavailable on all federal holidays with the exception of Columbus' Day.

**H. Exceptions (OG Section 3.1.K)**

Exceptions to Virginia Housing's lock policy are made at the discretion of the Virginia Housing Lock Desk upon approval from the Managing Director of Homeownership.

#### RATE LOCKS – MANUAL

Virginia Housing occasionally offers programs with special pricing / interest rates, such as the SPARC and FirstHome Dream programs. Originating Lenders register loans in Virginia Housing's Loan Origination System (LOS). The Lock form is completed and uploaded into the LOS by the lender. Upon the lender selecting "Requests Lock" in the LOS, an email is generated notifying Virginia Housing's Lock Desk of the request.

## LOAN PROGRAMS

Virginia Housing offers various loan programs. These programs typically provide features that increase the affordability of homeownership while addressing the obstacles that face many first-time homebuyers.

Borrower eligibility is determined based on specific program parameters. Virginia Housing continually analyzes loan program performance and makes necessary adjustments to eligibility criteria to ensure the soundness of its portfolio. From time to time select loan programs are suspended due to market conditions, loan performance, or resource availability.

### ACTIVE LOAN PROGRAMS

[Conventional Bond](#)

[Conventional](#)

[FHA Bond](#)

[FHA](#)

[VA Bond](#)

[VA](#)

[Rural Housing Bond](#)

[Rural Housing](#)

[FHA Streamline Refinance](#)

[VA Interest Rate Reduction Refinance \(IRRRL\)](#)

[Plus Second Mortgage](#)

[Down Payment Assistance \(DPA\) Grant](#)

[Closing Cost Assistance \(CCA\) Grant](#)

[Community Heroes Grant](#)

[Sponsoring Partnerships and Revitalizing Communities \(SPARC\)](#)

[FirstHome Dream](#)

### PILOT LOAN PROGRAMS

On occasion Virginia Housing creates pilot loan programs to meet specific market and/or first-time homebuyer needs. Depending on the specific pilot loan program(s), the availability of the program(s) may be limited to Strategic Lending or specific lenders within the Correspondent Lending channel. An internal list of pilot programs are maintained on an internal SharePoint site.

### DISCONTINUED LOAN PROGRAMS

Virginia Housing continually analyzes loan program performance and makes necessary adjustments to eligibility criteria to ensure the soundness of its portfolio. From time to time, select loan programs are discontinued due to market conditions, loan performance, or resource availability. All Discontinued loan programs are located on Virginia Housing's ShareDrive.

## AUTOMATED UNDERWRITING

Virginia Housing accepts the credit approval of the following Automated Underwriting Systems (AUS): Loan Product Advisor (LPA), Desktop Underwriter (DU), FHA TOTAL ScoreCard, Government Underwriting System (GUS). See the applicable Program Guidelines to determine if the automated underwriting system (AUS) approval is required. Automated Underwriting Systems (AUS) approval applies to the credit qualifying only (i.e., credit, ratios, employment). Originating Lenders are responsible for meeting all other Virginia Housing regulatory requirements.

Loans receiving a “Refer” or “Refer with Caution” must be manually underwritten and meet all insurer / guarantor and Virginia Housing guidelines.

### INCOME DOCUMENTATION

Alternate documentation, as noted by the automated underwriting systems, is acceptable in accordance with the automated underwriting findings. Virginia Housing may require additional documentation to calculate maximum income for eligibility purposes.

### PROPERTY REQUIREMENTS

Standard Virginia Housing property requirements must be met. A real estate appraiser licensed in the Commonwealth of Virginia must complete the appraisal. The appraisal must provide adequate documentation of any unfinished area to address all mortgage revenue bond requirements related to acquisition cost limits.

### DATA INTEGRITY

The Originating Lender is responsible for ensuring the integrity of Automated Underwriting System (AUS) data. Information such as losses from a business, non-reimbursed employee expenses and other expenses that appear on the federal tax returns, must be reflected in the AUS in accordance with the GSE, insurer or guarantor requirements. Information received during the underwriting process may require an adjustment to data initially entered into the AUS. Prior to submission for purchase, the Originating Lender must verify that all AUS data input matches documentation in the underwriting file.

### AUTOMATED UNDERWRITING SYSTEM (AUS) DOCUMENTATION

The appropriate approval documentation must be included in the loan package. The Virginia Housing Delegated Underwriter must execute the required documents certifying the validity of the information submitted for the AUS finding following the GSE, insurer or guarantor guidelines.

## HOMEOWNERSHIP EDUCATION

The Homeownership Education Program is designed to provide first-time homebuyers with vital information about purchasing a home. This free educational course is mandatory for all loan types (unless otherwise approved for non-first-time buyers). Certification of completion is valid for two years.

### CURRICULUM

Virginia Housing staff developed a curriculum and materials to educate potential homebuyers in purchasing and financing a home. Instruction is provided on the following topics:

- Developing a Spending Plan
- Credit Report and Credit Issues
- Selecting a Real Estate Agent
- Working with a Lender
- Home Inspections
- Loan Closing

### COURSE SCHEDULES

The Homeownership Education courses are offered each month throughout the state, available online, and are taught by trained industry professionals including mortgage bankers, real estate agents and other housing experts. A training program has been developed to certify staff of non-profit organizations to provide one-on-one counseling using the Virginia Housing materials. Additional information about Virginia Housing's free Homeownership Education Program and its availability may be obtained by calling 1-888-643-2696 or by visiting [VirginiaHousing.com](http://VirginiaHousing.com).

In addition, Virginia Housing provides access to the course from Virginia Housing's website, [VirginiaHousing.com](http://VirginiaHousing.com). The on-line course is intended to serve those individuals whose schedules will not allow them to attend a classroom course.

## MORTGAGE INSURANCE

All mortgage loans with a loan-to-value exceeding 80.0% must be insured or guaranteed by FHA, VA, RD, or Private Mortgage Insurance (PMI). The mortgage insurance premium will be escrowed for the annual payment of mortgage insurance unless an approved monthly insurance premium plan is obtained.

Note: Loan-to-value is calculated using the lesser of the sales price or appraised value. Conventional loans meeting the Affordable LTV requirements may use the appraised value to determine loan-to-value rather than using the lesser sales price.

Note: Virginia Housing may have special loan programs that do not require mortgage insurance.

### CONVENTIONAL MORTGAGE INSURANCE

Conventional Private Mortgage Insurers must carry a minimum rating of AA to be eligible to participate in Virginia Housing programs (unless otherwise approved by Virginia Housing) and must be a GSE approved Mortgage Insurance (MI) company. Virginia Housing loans must meet the underwriting standards of Virginia Housing, the insuring agency and the Mortgage Insurance (MI) provider. Only the applicable GSE (Fannie Mae or Freddie Mac) approved mortgage insurance forms and related endorsements are used. A list of Fannie Mae-approved MI forms is available on Fannie Mae's website: [Fannie Mae Approved Mortgage Insurance Forms](#). A list of Freddie Mac-approved MI forms is available on Freddie Mac's website: [Freddie Mac Exhibit 10](#).

MI Coverage noted below is required. Lower Charter MI coverages should be used whenever allowable based on agreement with applicable GSE (Fannie Mae and Freddie Mac), or when using the conventional bond loan program.

Loan to Value	Charter MI Coverage	Standard MI Coverage
95.01-97%	18%	35%
90.01-95%	16%	30%
85.01-90%	12%	25%
80.01-85%	6%	12%
≤ 80.00%	0%	0%

### GOVERNMENT INSURED (FHA, VA, RD)

Virginia Housing Government Insured loans must meet the underwriting criteria of both Virginia Housing and the insuring agency. The Originating Lender is responsible for filing insurance in a timely manner. Loans that are deemed uninsurable may be subject to repurchase.

## APPRAISAL REVIEW PROCESS

Review of the appraisal is an integral part of the loan underwriting process to ensure adequate security for the loan being approved. Appraisal reviews are performed by experienced underwriters or associate underwriters with a second review until it is no longer needed. The appraisal review function is independent of loan production activity and staff.

The appraisal review function includes the following:

- A detailed review for completeness, accuracy, logic, and consistency to support the appraiser's opinion of market value.
- Review to determine whether the property serves as adequate collateral for loan (value and condition).
- Review in accordance with applicable industry, regulatory, GSE, insurer, or guarantor guidelines.
- Review for specific mortgage revenue bond requirements, if applicable.
- Identified issues are addressed directly with appraiser (retail channel) or with the Originating Lender's underwriter.
- Verify appraisal is performed "as is" or subject to repairs.
- Condition for appropriate repairs to be completed with inspection after completion.
- Condition for additional inspections, if required.
- Require clarification or additional supporting information, if necessary.
- Utilize other available tools to validate appraisal data:
  - UCDP SSR (required for Conventional loans)
  - VeroSCORE (required for VA loans)
  - Collateral Underwriter
  - Realtor.com
  - Trulia.com
  - Google
  - Zillow.com
  - LoanSafe (if provided by lender)
  - Other supporting property reports and data provided by lender

## APPRAISAL ESCALATION OR RECONSIDERATION OF VALUE

Virginia Housing adheres to all GSE / insurer / guarantor borrower-initiated reconsideration of value (ROV) requirements. All concerns identified through a borrower initiated ROV and/or in the initial underwriting review require escalation of the appraisal review to the Underwriting Manager. If necessary, the appraisal is further escalated to the Director or Assistant Director of Loan Programs.

- Additional documentation and validation may be required (including additional comparables, commentary supporting adjustments or condition).
- Additional inspections may be required.
- Communication with applicable GSE, insurer or guarantor.
- If deficiency is not satisfactorily addressed a second appraisal may be required.

## EMPLOYEE LOAN PROGRAM

Virginia Housing allows associates to take advantage of all Virginia Housing purchase and refinance loans available to the general public. To maintain confidentiality, the following steps below apply. The employee is responsible for making their Originating Lender aware of special procedures noted below.

### INITIAL CONTACT

To obtain a Virginia Housing Employee loan, the associate will:

- Select an approved Virginia Housing Lender to originate the loan.
- The Associate should inform the Originating Lender they are a Virginia Housing employee.
- In order to maintain confidentiality, we recommend Virginia Housing employees work with an approved Virginia Housing Delegated Lender. Virginia Housing will rely on the lender to follow program guidelines and make the loan decision in accordance with all program and agency requirements.

### LOAN APPLICATION AND PROCESS

#### Delegated Lender

- The Delegated Lender will register and lock the loan in Virginia Housing's Loan Origination System (LOS). The "Employee Loan" box must be checked to ensure confidentiality.
- The Delegated Lender will underwrite the loan and request a Delegated Confirmation within Virginia Housing's LOS.
- The Delegated Lender will coordinate closing and funding of the loan.

After closing the loan, the Originating Lender will:

- Upload the loan package in Virginia Housing's LOS.
- Provide the original executed Note via overnight service.
- Document Control Supervisor will accept loan in the LOS and secure the Note until the loan is reviewed and purchased.
- Document Control Supervisor will notify the Quality Review Supervisor of receipt of the loan.
- A Quality Review Supervisor completes review of the loan file.
- A Homeownership Manager will review the file for approval if requested.

#### Non-Delegated Lender

If a Delegated Lender is not used, the Non-Delegated Lender will register and lock the loan in Virginia Housing's Loan Origination System (LOS) and check the Employee Loan box. The Originating Lender will originate, process and underwrite the loan. The complete underwriting loan package is submitted to the Loan Programs Underwriting Manager or Loan Programs Underwriting Lead via upload into the LOS for review.

- Loan Programs Underwriting Manager or Loan Programs Underwriting Lead reviews the underwriting package and notifies the lender of its decision.
  - If approved, the lender issues a commitment; or
  - If denied, the lender issues an adverse action.
- Non-Delegated Lender closes and funds the loan.

After closing the loan, the Originating Lender will:

- Upload the closed loan package into Virginia Housing's LOS.
- Provide the original executed Note via overnight service.
- Document Control Supervisor will accept the loan in the LOS and secure the Note until the loan is reviewed and purchased.
- Document Control Supervisor will notify the Quality Review Supervisor of receipt of the loan.
- A Quality Review Supervisor conducts a complete review of the loan file.
- A Homeownership Manager will review the file for approval if requested.

## LOAN PURCHASE AND SERVICING SET UP

After the loan is approved for purchase:

- A Quality Review Supervisor will fund the loan and wire funds to the Originating Lender.
- Loan will be moved to New Loan Set Up area.
- The Homeownership Loan Delivery Manager will enter loan set up data into the LOS.
- The file will board ICE's MSP overnight for servicing area.
- The file will be put into Post Closing status until all recorded documents and other required final documents are received and reviewed by the Post Closing Quality Review Supervisor.
- Once the loan is complete and all required docs have been received, the file and documents will be delivered to the Records Room Supervisor for record retention.

## LOAN EXCEPTIONS

Virginia Housing is unable to grant any exceptions to loan programs or GSE / insurer / guarantor guidelines, including but not limited to:

- Loan rate, pricing, or extension fees.
- Income or Sales Price Limitations.
- Ratios or loan-to-value guidelines.
- Property requirements.

Any variance from these guidelines must be under the directive of Virginia Housing's Chief Executive Officer.

Note: Virginia Housing cannot ensure confidentiality of personal data if the Originating Lender does not follow the process noted above. In addition, personal information in loan files for Virginia Housing employees that are not borrowers on the loan cannot be protected. Examples would be asset documentation for gifts provided to family members.

## MORTGAGE LOAN APPROVAL OR REVIEW NOTICE

A Virginia Housing loan approval, or lender approval notice, provides the terms and conditions under which Virginia Housing will provide permanent financing for the purchase of a borrower's primary residence.

### VIRGINIA HOUSING STRATEGIC LENDING

Upon approval of a borrower's loan, the Loan Programs Underwriter generates a Mortgage Loan Approval Notice through the loan origination system (LOS). The Mortgage Loan Approval Notice is forwarded to the borrower(s).

### NON-DELEGATED ORIGINATING LENDER

Upon approval of a borrower's loan, the Loan Programs Underwriter generates a Mortgage Loan Review Notification through the loan origination system (LOS). The Mortgage Loan Review Notification is forwarded to the Originating Lender. The borrower is notified of loan approval by the lender. The lender delivers all closing documents to the closing agent.

### DELEGATED ORIGINATING LENDER

Lenders participating in the Delegated Lender program generate the Lender Delegated Confirmation Notice upon loan approval. The borrower is notified of loan approval by the Delegated Originating Lender. The lender delivers all closing documents to the closing agent.

### EXPIRED RATE LOCK

If a lender fails to close the loan within the rate lock period, the loan will expire and thereafter have no further force and effect.

#### **Originating Lenders**

An expired lock report is reviewed to identify locks that have been expired for 31 days or more. Based on the current loan status the Lock Desk staff or Loan Programs Underwriter will contact the Originating Lender or if in reserved status will cancel loan.

#### **Virginia Housing Strategic Lending**

The Strategic Lending department monitors lock expirations daily. The borrower and Loan Originator are notified of anticipated lock expirations. If there is no response, the Loan Closer will give the file to the Loan Programs Underwriter to issue an Adverse Action. Funds not disbursed will be refunded to the borrower by the Loan Processor under separate cover with a breakdown of funds disbursed on their behalf.

## ADVERSE ACTION LETTER

In cases where the applicant or the subject property fails to meet Virginia Housing underwriting criteria, a notification is provided to the Originating Lender for Non-Delegated or Delegated loans. Adverse Action is generated notifying the applicant of their loan denial for Strategic Lending.

### NON-DELEGATED ORIGINATING LENDERS

Upon determining that the loan is ineligible for Virginia Housing financing, the Loan Programs Underwriter suspends the loan and notifies the Originating Lender. The Originating Lender is responsible for Adverse Action notification to the borrower.

### DELEGATED ORIGINATING LENDERS

If determined that the loan is ineligible for Virginia Housing financing, the Originating Lender is responsible for Adverse Action notification to the borrower.

### VIRGINIA HOUSING STRATEGIC LENDING

Upon determining that the loan is ineligible for Virginia Housing financing, the Loan Processor will notify the Loan Originator of the reviewing Loan Programs Underwriter's decision prior to mailing the Adverse Action letter to the borrower(s). The Loan Originator may elect to explore alternative loan options prior to notifying the borrower(s) of the loan denial.

Should it be determined that no alternative options are available to the borrower(s) an Adverse Action letter is mailed to the borrower(s). The Processor will request that the Accounting Department reimburse the borrower(s) any excess collected funds.

Should the Adverse Action letter be returned for any reason (e.g., address unknown), the original letter will be placed in the rejected loan file.

## DOCUMENT CONTROL / RECORDS

The Document Control / Records Department serves as the document custodian for Homeownership Originations Division. The department controls, monitors, and safeguards all loan files, income and outgoing legal documents, original Notes and electronic closing packages.

### PROCESSING INCOMING DOCUMENTS AND NOTES

The Document Control / Records department receives courier packages and regular correspondence throughout the workday. The Document Control Specialists (DCS) receives, dates, stamps, and uploads documents to Virginia Housing's Loan Origination System (LOS) and safeguards original Notes in the vault. Other original documents are delivered to the Post-Closing Final Document area. All loan packages are uploaded to Virginia Housing's LOS by the Originating Lender and are indexed by the vendor.

### DOCUMENT STORAGE

All original documents not yet reviewed are stored in a manner that ensure confidentiality.

### LOAN FILE AUDITS

The Document Control Center conducts quarterly loan audits for loan files not yet completed and shipped to the Records Room that still appear active in Virginia Housing's Loan Origination System (LOS). Any missing loan files are reported to the Document Control Supervisor.

## CLOSING

### ORIGINATING LENDER'S RESPONSIBILITY

The Virginia Housing Originating Lender is responsible for coordinating the loan closing, providing closing instructions and disclosures to the closing agent. The Originating Lender provides loan proceeds to the closing agent.

### ESCROWS

Escrows for the completion of exterior work or landscaping during inclement weather are permitted for Conventional, FHA, VA, and RD loans. A decision for the allowance of an escrow is made on a case-by-case basis. Should an escrow be permitted, an Escrow Agreement must be executed by the borrower, seller, and Escrow Agent (closing attorney or settlement agent). The release of escrow funds is authorized by the Originating Lender.

## LENDER PERFORMANCE

Virginia Housing associates monitor Originating Lenders' performance to ensure the soundness of Virginia Housing's mortgage portfolio.

### BUSINESS DEVELOPMENT OFFICER

The Business Development Officer (BDO) serves as the Virginia Housing Originating Lenders primary contact. Once the lender has been approved to participate in the Virginia Housing program, the BDO is responsible for:

- Coordinating training specific to Virginia Housing loan programs.
- Coordinating training specific to Virginia Housing processes and procedures.
- Maintaining Originating Lender records related to lender contacts.
- Analyzing the performance of the Delegated Originating Lenders and recommending appropriate action to correct any noted deficiencies.

### UNDERWRITING

The Loan Programs Underwriter is responsible for:

- Reviewing all loans originated by Virginia Housing Non-Delegated Originating Lenders.

All Non-Delegated loans are reviewed prior to loan approval to ensure compliance with Mortgage Revenue Bond requirements.

Review includes:

- Calculation of Household Income
- Maximum Net Worth
- Review of the Real Estate Appraisal for property compliance (acreage, unfinished area)
- Calculation of Acquisition Cost
- Review of application and credit report to determine first-time homebuyer (review of additional documentation, if provided, such as federal tax returns, rent verification(s), and/or lender data integrity / fraud report may also assist in determining if first-time homebuyer)
- Review of Borrower and Seller Affidavits ensuring completion and signatures
- Recapture Tax Notice
- Underwriting all loans originated by Virginia Housing's Strategic Lending department.
- All Strategic Lending loans are reviewed prior to loan approval to ensure compliance with Virginia Housing requirements (see Non-Delegated loans above).
- Advising the assigned BDO and Loan Program Underwriting Manager of recurring underwriting deficiencies.
- Performing a full review of loans with high risk factors originated by Virginia Housing Delegated Originating Lenders before loan purchase.
- Assisting internal staff in Homeownership by performing second-tier reviews on various items that have caused concern or where clarity is needed. These second-tier reviews include, but are not limited to household income, credit concerns, property concerns, etc.

### QUALITY REVIEW ANALYST

Upon receipt of the closing package, the Quality Review Analyst is responsible for:

- Reviewing loan documents to ensure compliance with Virginia Housing, if applicable and investor requirements.

Review may include:

- Calculation of Household Income
- Maximum Net Worth
- Review of the Real Estate Appraisal for property compliance (acreage, unfinished area)
- Calculation of Acquisition Cost
- Review of signed Federal Tax Returns and all schedules, if applicable
- Review of Borrower and Seller Affidavits ensuring completion and original signatures
- Recapture Tax Notice
- Reviewing legal documents (Note, Deed of Trust).
- Documenting any deficiencies noted in the closing file.
- Communicating with the Originating Lender post-closing staff on any corrections needed.
- Monitoring receipt of post-closing documents and corrected legal documents.
- Directing serious non-compliance issues to the Virginia Housing Loan Program Underwriter, Business Development Officer (BDO), Loan Program Underwriting Manager and/or Loan Closer and Quality Review Manager.

### BUSINESS DEVELOPMENT TRAINING MANAGER

To ensure that all Originating Lenders meet the financial requirements set forth by Virginia Housing, annually the Business Development Training Manager is responsible for:

- Obtaining audited financial statements and certificates of insurance.
- Ensuring adequate Errors and Omissions Insurance and Fidelity Bond coverage.
- Evaluating Originating Lender FHA Compare Ratio from HUD's Neighborhood Watch.
  - Lenders with a Compare Ratio exceeding 120% are further assessed to determine if continued participation in Virginia Housing program will be permitted.

### LOAN PROGRAM UNDERWRITING MANAGER

The Underwriting Manager analyzes lender performance by:

- Evaluating recommendations of the Business Development Officer regarding training needs and Originating Lender deficiencies.
- Reviewing findings and recommendations of the Single Family Compliance Officer.
- Communicating with the Internal Audit team.
- Communicating with Originating Lender's management to discuss underwriting deficiency issues.

## LENDER PERFORMANCE MONITORING

It is critical that Virginia Housing ensures participating Originating Lenders originate quality loans meeting Virginia Housing, GSE, insurer and guarantor guidelines. In addition, timely receipt of loan documentation is essential to enabling the delivery of loans in the secondary market.

### AREAS OF PERFORMANCE

Virginia Housing currently considers the following in evaluating the risk associated with the Originating Lenders performance:

1. **Financial Stability**
  - Audited financials reflecting significantly reduced earnings or net worth
  - Potential change in corporate structure (mergers, acquisitions)
  - Failure to provide timely Financial statements, Errors and Omissions and Fidelity Bond Policies
2. **Outstanding Critical Documents**
  - Loan Guarantees and Mortgage Insurance Certificates
  - Deeds of Trust and Notes
  - Hazard, Flood and Title Insurance Policies
  - Compliance documents to include Borrower and Seller Affidavits and violations of maximum income limits
  - Outstanding document penalty fees
3. **Overall Origination Performance**
  - Adverse rating on FHA Connection / Neighborhood Watch
  - Unsatisfactory compliance with Virginia Housing guidelines and procedures
  - High Virginia Housing delinquencies
  - Unsatisfactory Quality Control findings
  - Inability to meet Virginia Housing Delegated Lender status within a reasonable time frame

### LENDER PERFORMANCE

If an Originating Lender's performance is identified as presenting a significant risk to Virginia Housing, Virginia Housing reserves the right to impose any of the following restrictions:

- Placed on probationary status,
- Suspension of locking privileges,
- Removal of delegated approval authority,
- Retention of lender compensation, and/or
- Termination of approved lender status.

## LATE CHARGES AND PEND PENALTIES

A late fee may be charged to Originating Lenders for each incomplete loan file that has been closed for more than 6 months. Virginia Housing may also impose penalties when loans are delivered more than 10 days past the closing date, and if unable to purchase a loan due to outstanding documentation, when documentation is not received within 10 days of the initial pend notice. Additional penalties will be assessed every 10 days thereafter.

### WAIVER OF DELINQUENT DOCUMENT FEES

Authorizations for waivers of delinquent document fees require the approval of the Director of Homeownership Lending, Assistant Director of Homeownership Loan Delivery, or Managing Director of Homeownership.

### IDENTIFYING LOANS WITH LATE DOCUMENTS

Operational reports used to determine if a pend penalty is to be imposed include:

- Pend Penalty Review
- Add Impose Pend Penalty
- Update Loans Ready for Disbursements

### LATE DELIVERY PENALTIES TIMELINES / FEES

- Loan delivered more than 10 days past the closing date will be subject to a late delivery penalty of 0.125%. Penalties will be assessed each 10-calendar day period up to a maximum of 1.0%. This amount will be deducted from the Originating Lender's net price at the time of purchase.

### PEND PENALTIES TIMELINES / FEES

- Upon initial file review where essential documentation is missing, Virginia Housing's Quality Review Analysts will issue a pend notice requesting the Originating Lender to submit all outstanding documentation.
- After the initial 5 business days, a follow up reminder pend notice will be sent allowing for an additional grace period of 5 business days.
- If documentation is not received within 10-business day of the initial pend notice (5 days plus grace period of 5 days), Virginia Housing will impose a penalty of .125%. This penalty will reduce the original quoted loan price by .125%.
- An additional .125% price reduction will be imposed every 10-business day thereafter up to a maximum of 1.0%. This amount will be deducted from the Originating Lender's net price at time of purchase.
- In the event that a loan is pended for 30 days or more, Virginia Housing may notify the Originating Lender of its decision not to purchase the subject loan.

### IMPOSING PENALTIES

The imposing of a penalty requires the review of Loan Origination System and documentation / reports by the Quality Review Supervisor and Lock Desk Associate to initiate.

The Homeownership Loan Delivery Manager is responsible for reviewing the Pend Penalty Review report, verifying the All Pend Documents Received Date in the Loan Origination System (LOS) and correcting if necessary. The Homeownership Loan Delivery Manager reviews documentation and either: 1) imposes the penalty, or 2) waives the pend penalty.

If a penalty is imposed, the Lock Desk Associate upon review of the Impose Pend Penalty Report, reprices the loan providing a reason for the pend penalty and notifies the Originating Lender by issuing a Pend Penalty Notice to the Originating Lender's lock contact.

### OVERRIDING PENALTIES

Overriding or adjusting the amount of a penalty requires the approval of an Assistant Director of Homeownership Loan Delivery, Director of Homeownership Lending, or Managing Director of Homeownership. The individual approving the waiver must enter information into the Loan Origination System (LOS) documenting their waiver and creating an audit log of the waiver activity.

### REFUSING TO PURCHASE A LOAN

In cases where 30 days have elapsed from the first pend notification and/or the loan contains credit concerns and/or title/closing concerns, the Loan Delivery Manager, Assistant Director of Homeownership Loan Delivery , Director of Homeownership Lending, or Managing Director of Homeownership is authorized to decline loan purchase. The individual declining a loan purchase must enter information into the Loan Origination System (LOS), documenting their decision and creating an audit log of the decision.

## EARLY PAYMENT DEFAULT

An Early Payment Default (EPD) is a mortgage loan that is 60 + days delinquent or goes into a default status. Refer to the Origination Guide, GSE/insurer/guarantor for specific requirements. Early Payment Default is one of the strongest indicators of possible mortgage fraud. As a result, Virginia Housing makes every effort to identify EPDs and performs quality control checks to determine if mortgage fraud has occurred.

### INITIAL ASSESSMENT

On a monthly basis, the Single Family Compliance Officer reviews servicing reports that identify loans that are 60 days delinquent within 6 payments of loan closing.

The loan file documentation is reviewed in order to identify any underwriting deficiencies that may have contributed to early payment default.

### LENDER NOTIFICATION

When the Virginia Housing Originating Lender is notified of the Early Payment Default, the notification requests a copy of the Lender's Quality Control findings.

### DOCUMENTATION FINDINGS AND RECOMMENDATIONS

The Single Family Compliance Officer is responsible for assessing all documentation submitted by the Originating Lender in response to the EPD. The Single Family Compliance Officer will recommend any appropriate action to the Director of Homeownership and the Assistant Director of Homeownership Loan Programs.

- If no underwriting deficiencies are identified and mortgage fraud has not occurred, no further action is required.
- If it is determined the underwriting decision is not in compliance with either Virginia Housing underwriting guidelines or the guidelines of the insuring agency, the Originating Lender may be 1) required to complete additional training; 2) placed in a probationary status / non-delegated status, or 3) suspended from the Virginia Housing program, and in all the above cases may be subject to repurchase of the loan.
- If a quality control review identifies mortgage fraud, the Originating Lender may be required to indemnify Virginia Housing or repurchase the mortgage loan.

### REPURCHASE, INDEMNIFICATION AND ASSESSMENT OF FEES

In instances where the Single Family Compliance Officer and Homeownership Management have determined that the EPD is a direct result of the Originating Lenders underwriting decision, Virginia Housing may require the lender to repurchase the loan. In lieu of loan repurchase, at Virginia Housing's discretion, the Originating Lender may be required to execute an Indemnification Agreement. In addition to the Indemnification Agreement, Virginia Housing may assess a Loan Loss Mitigation Fee.

In the event that the EPD loan goes into foreclosure, the Originating Lender may be required to reimburse Virginia Housing for all Net Losses associated with the foreclosure.

## QUALITY REVIEW ANALYST

The Quality Review Analyst performs a quality control function by completing a review of mortgage loan closing documents. This ensures compliance with all State and Federal laws, issuing agency's requirements, as well as Virginia Housing requirements.

### LOAN FILE REVIEW

#### **Closing Documents**

The Originating Lender must provide one complete loan package including required underwriting and closing documents within 10 business days of loan closing. Loans with an interest credit will be due by either the 15<sup>th</sup> of the month preceding the first payment or 10 calendar days after closing, whichever is first. Wiring instructions are to be included in the loan package.

#### **Final Closing Documents**

The Originating Lender is to submit all final documents not received in the initial closing package within 90 days after loan closing. Virginia Housing is not responsible for tracking lender RESPA cure/refunds.

Documents to include:

- Original Recorded Deed of Trust with applicable Riders
- Original Final Title Insurance Policy
- Original FHA Mortgage Insurance Certificate, VA or RD Loan Guaranty (if applicable)

#### **Loan Document Review and Funding**

A complete review of the loan file is performed prior to the purchase of a loan from a Virginia Housing Originating Lender. A correct and conforming Note is required for purchase approval. Virginia Housing will notify the lender of approval for purchase, if the loan(s) has been pended, or if any deficiencies and corrections are required prior to purchase.

The following fees will be used to calculate the net funding amount:

- Unpaid Principal Balance (UPB) of loan
- Net price (including any adjustment for late delivery)
- Escrow balance
- Virginia Housing Grant
- Tax Service Fee
- Interest due
- Principal curtailment
- Pend penalties
- Late Delivery penalties

All purchase proceeds are wired to the Originating Lender or designee, and a notification of funding will be emailed to the Originating Lender.

## VIRGINIA HOUSING STRATEGIC LENDING

The Virginia Housing Strategic Lending department consists of Loan Originators who provide mortgage services to areas within the Commonwealth where Virginia Housing Originating Lenders are not actively promoting Virginia Housing programs.

The Virginia Housing Loan Originator(s) is responsible for the operation of an assigned mortgage office to assist potential Virginia Housing mortgage customers. The Loan Originator acts as an advisor by answering customer questions as they relate to mortgage lending, processing pre-qualification requests, and completing formal loan applications. A Loan Originator is also assigned to the Southwest Virginia Housing Center.

### PRE-QUALIFICATION PROCESS

The pre-qualification process includes the following:

- Identifying potential Virginia Housing borrowers.
- Providing information on available loan programs, including benefits and costs.
- Answering customer questions.
- Initiating the pre-qualification process and assessing borrower eligibility and readiness.

### APPLICATION PROCESS

The application process includes the following:

- Facilitating the completion of the mortgage loan application and all applicable documents.
- Providing applicable Disclosures within the required time frame to include:
  - Loan Estimates
  - ECOA
  - ECOA Valuations
  - List of 10-HUD approved housing counseling agencies
  - Your Home Loan Toolkit
- Explaining the mortgage loan process and cycle.
- Clarifying governmental regulations and requirements applicable to the selected loan product.
- Providing information on Virginia Housing Free Homeownership Education courses and ensuring borrowers successfully complete the course prior to loan approval.

### TILA-RESPA INTEGRATED DISCLOSURES (TRID) / LOAN ESTIMATE (effective 10-3-15)

Upon receipt of an application, the Loan Originator is required to deliver the Loan Estimate (LE) to the borrower(s) within three business days.

In addition, once a borrower locks or extends an interest rate, a revised Loan Estimate (LE) is provided to the borrower(s) within three business days.

In instances where the transaction is for new construction, a revised Loan Estimate (LE) is provided to the borrower(s) prior to 60 days of the consummation, provided a statement to this effect is included in the Loan Estimate (LE).

### RECEIPT OF APPLICATION

In compliance with the CFPB, an application is received once Virginia Housing is in receipt of the following information:

- Borrower's Name
- Borrower's Income
- Borrower's Social Security Number to obtain a credit report

- Property Address
- Estimated Value of Property
- Mortgage Amount Sought

## HOMEOWNERSHIP COUNSELING

In accordance with Reg X 1024.2 (a)(I)(ii), at the time of loan application, the Strategic Lending Department provides a list of 10 HUD-approved housing counseling agencies in the borrower's location.

The Counseling List contains the Agency's name, phone number, street address, city, state, zip, website URL, email address, counseling services provided and languages.

**The following language is included with the list of Counseling Agencies:**

The counseling agencies on this list are approved by the U.S. Department of Housing and Urban Development (HUD), and they can offer independent advice about whether a particular set of mortgage loan terms is a good fit based on your objectives and circumstances, often at little or no costs to you. This list shows you several approved agencies in your area. You can find other approved counseling agencies at the Consumer Financial Protection Bureau's (CFPB) website: [consumerfinance.gov/mortgagehelp](http://consumerfinance.gov/mortgagehelp) or by calling 1-855-411-CFPB (2372). You can also access a list of nationwide HUD-approved counseling intermediaries at [HUD.GOV](http://HUD.GOV).

## COLLECTION OF FEES

At the time of application, the Loan Originator collects a fee from the borrower(s) for the payment of the appraisal. This fee must be received in the form of a personal check, bank check, or money order. The fee is made payable to Virginia Housing.

## INTEREST RATE LOCK

Loan Originator(s) utilize Virginia Housing's on-line interest rate lock procedures.

## VALUATION INDEPENDENCE

The valuation of a subject property is based solely on the independent judgment of the real estate appraiser. Individuals involved in the origination of mortgage loans, including the management of such individuals are prohibited from attempting to influence the value assigned to the subject property.

**Prohibited Actions Include:**

- Seeking to influence an individual, who prepares a valuation, to report a minimum or maximum value.
- Withholding or threatening to withhold timely payment for a valuation.
- Implying that current or future valuation business is dependent on a subject property valuation.
- Excluding an individual or business entity from future valuation business because a valuation for a principal dwelling does not meet or exceed a predetermined threshold.
- Conditioning compensation paid to an individual that prepares a valuation on consummation of the subject transaction.

**Permitted Actions Include:**

- Asking a person who prepares a valuation to consider additional, appropriate property information, including information about comparable properties, to make or support a valuation.

- Requesting a person who prepares a valuation to provide further detail, substantiation, or explanation for their conclusion about value.
- Asking that errors be corrected.
- Obtaining multiple valuations in order to select the most reliable valuation.
- Withholding compensation due to breach of contract or substandard performance of services.
- Taking action permitted by federal or state statute, regulation, or agency guidance.

## FEE APPRAISERS

### **Eligibility**

All fee appraisers must maintain a current state license in accordance with the minimum criteria issued by the Appraisal Qualifications Board of the Appraisal Foundation, or complete continuing education courses on effective appraisal methods and related topics.

### **Annual Certification**

On an annual basis, eligible appraisers provide Strategic Lending a copy of their state license, E&O Insurance.

### **Selection**

Appraisers are selected based upon their geographic location and on a rotating basis. The Loan Processor is responsible for ordering the subject property valuation.

VA loans require appraisals / appraisers' assignment through the VA Information Portal.

## SUBMISSION OF LOAN PACKAGE

Loan Originators upload the completed loan package in Virginia Housing's Loan Origination System (LOS).

The standard loan package consists of the following documents:

- Sales Contract
- Fees collected
- Virginia Housing Lock Confirmation form (if applicable)
- 1003 – Universal Residential Loan Application
- Form 4506-C – Request for Tax Transcript(s)
- Exhibit E – Programs Disclosure and Borrower Affidavit
- Exhibit F – Seller Affidavit
- Borrower Signature Authorization
- Consent for Disclosure of Personal Information
- Loan Estimate and Truth-in-Lending Disclosures / Loan Disclosures
- RESPA Servicing Disclosure
- Provider List
- Additional documents applicable to FHA, VA, RHS / USDA - RD

## LOAN PROCESSING

Strategic Lending loans are processed in house. The Loan Processor gathers information to determine a borrower's eligibility and willingness to repay the proposed mortgage debt.

Information / Documentation obtained includes:

- Credit Report
- Liabilities

- Income
- Assets
- Valuation of Subject Property
- In addition, depending on the loan type (e.g., Conventional, FHA, VA, RHS) the Loan Processor may document the borrower is eligible to benefit from a federally insured loan by accessing the federal data base and verifying the related parties are not disbarred and/or have outstanding federal debt.

## VALUATIONS

Within three business days of loan application, the borrower(s) is notified in writing of their right to receive a copy of the real estate appraisal. A copy of the appraisal is mailed and/or emailed to the borrower upon receipt and review for accuracy by Virginia Housing.

## UNDERWRITING

Loans are underwritten in-house by qualified and experienced, Loan Underwriters. Automated Underwriting System (AUS) may be utilized. The AUS findings provide the Loan Underwriter with a credit risk evaluation, which they may rely on when making an underwriting decision. In cases with an unfavorable AUS finding, the Loan Underwriter may elect to manually underwrite the individual loan to ensure the borrower(s) and property meet all programmatic and GSE / insurer / guarantor requirements.

Upon loan approval, the Loan Underwriter issues an approval and/or Mortgage Loan Approval identifying any conditions that must be satisfied prior to loan closing.

In instances where the Loan Underwriter is unable, to approve a loan application – due to borrower or property ineligibility – an adverse action letter is generated and mailed to the borrower(s).

## LOAN CLOSING

The Virginia Housing Loan Closing Specialist ensures all loans are closed in accordance with Virginia Housing guidelines, as well as GSE / insurer / guarantor requirements.

Upon notification of loan approval, the Loan Closing Specialist prepares closing instruction and the closing package for delivery to the attorney / settlement agent.

### **Re-verification of Employment**

Prior to closing, a re-verification of employment must be obtained. A re-verification of employment is completed within ten days prior to the date of the Note. Re-verification of employment may be written or verbal. In most instances, the Loan Processor assumes the responsibility of verbally re-verifying employment.

### **Credit Documents**

The Loan Closing Specialist verifies all credit documents are “current” prior to clearing the loan to close. The age of credit documents should be no more than 120 days at the time of loan closing (180 days for new construction).

### **Post-Closing and Final Documents**

The Loan Closing Specialist is responsible for:

- Receiving by courier the final closing package from the settlement agent, which includes the original Note.
- Forwarding original Note and legal documents to Document Control Specialist.
- Notifying New Loan Setup area.

- MERS Registration.
- Insurance submission (FHA / VA / RHS) and payment of premiums.
- Obtaining final documents.

## LAPTOP COMPUTERS / ELECTRONIC DEVICES

The process for securing computers and cell phones has been assigned to the ITS Department.

## SECURITY

When changes to personnel occur (e.g. termination, promotion, change in job responsibility, reassignment, etc.) in Homeownership Originations, the Manager / Supervisor submits a ServiceHub ticket for ITS to implement appropriate actions to ensure system security.

The System Administrator verifies every 90 days the system security is accurate.

## NEW EMPLOYEE WORK ORDER TEMPLATE

Virginia Housing's Help Desk is notified, via a ServiceHub ticket, of new hires. Phone and computer systems are configured based upon the duties and responsibilities of the new associate.

Information needed to determine configuration include:

- Name (first, last and middle initial)
- Start Date
- Employment status – Permanent or Temporary
- Position (note if associate will be a supervisor or manager)
- Applications needed for work functions
- Department name
- Division name
- Location of workstation – office or cubicle
- Default printer
- Outlook configuration including access to calendars and mailboxes
- Phone set-up – including any additional lines needed or extensions; hunt group or Automatic Call Distribution (ACD) group; if phone set-up is to mimic another phone-provide extension
- Modem or analog line needed

## INFORMATION NEEDED FROM DATACENTER

- User Name
- Password
- GG Group
- Local Group
- Novell Context

## INFORMATION NEEDED FROM DESKTOP SERVICES

- PC Model
- Printer Setup
- Telephone Number
- Fax Number (if applicable)