

Chapter 5 CONVENTIONAL LOANS

All Conventional loans in addition to being underwritten to current PHFA requirements, must also meet current Federal National Mortgage Association (FNMA) requirements and the Federal Tax Law Eligibility Requirements.

501 Underwriting Ratios

The standard underwriting ratios are 33% for Principal, Interest, Taxes & Insurance (PITI) and 38% for the total debts. These ratios may not be exceeded without acceptable compensating factors. As of November 2001, the Agency approved the use of Fannie Mae's and Freddie Mac's automated underwriting systems Desktop Underwriter (DU) and Loan Prospector (LP), respectively. When utilizing DU/LP for conventional loans, the underwriting ratios for an "Approve" or "Accept" findings cannot exceed 40% for PITI and 50% for total debts. Loans submitted for approval with ratios exceeding 42 for the front ratio and 52 for the back will be considered on a case-by-case basis and will be approved only with sufficient compensating factors. Any loan that receives a "Refer" or "Caution" must be manually underwritten. If you determined that the circumstances were beyond the control of the borrower, you may submit the loan to PHFA with the proper documentation in the file to support your decision. If the loan needs Mortgage Insurance (MI), you must submit the file to them before sending it to us. Remember, we do not allow lender delegated MI underwriting or the use of any limited documentation programs unless the loan was ran through an automated underwriting system and received an "Approve" (DU) or "Accept" (LP) findings. For all other loans, the entire credit portion of the loan file must be reviewed by the MI Company.

501.1 Private Mortgage Ins.

All conventional loans with an LTV above 80% must be covered by private mortgage insurance. The amount of coverage and its cost is determined by the LTV. Please refer to Appendix F & G of this guide for a complete list of acceptable mortgage insurers and their acceptable plans.

501.2 Piggyback Loans

Piggyback structured loans are acceptable under the Keystone Home Loan Program only, as long as they meet the conditions set forth herein. These loan types are not permitted under the Keystone Home Loan PLUS Program. The Agency will purchase the first mortgage only per the normal policies and procedures. The second mortgage may be funded by the participating lender or another mortgage lending institution. Acceptable piggyback structures are those utilizing the combination of 80/10/10 or 80/15/5, where the first mortgage is 80 percent of the lesser of the purchase price or appraised value, the second mortgage is 10 or 15 percent of the same, and the borrower is funding the ten or five percent

down-payment. At least three percent of the downpayment must come from the borrower's own funds; the remaining may come from an acceptable gift or grant. For borrowers with middle credit scores of 660 or higher, the minimum contribution from documented funds is \$1000. The balance needed to cover the 3%, can also come from an acceptable gift or grant.

The second mortgage must be a fully amortizing fixed rate loan for a minimum of 15 years and a maximum of 30 years with no pre-payment penalty and no balloon payment. We will not accept seconds that are amortized for one term but balloon in a shorter term. The interest rate cannot be greater than 3% above the Agency's first mortgage rate. The monthly payment must be included in the housing expense ratio (PITI). Loans under this program must be underwritten using DU, LP or CLUES and receive an Approve/Eligible or Accept rating. If an automated underwriting system is not utilized, all borrowers on the loan must have a middle FICO score of at least 660.

When submitting the credit/pre-compliance package, provide a copy of the commitment letter for the second mortgage to verify that the terms of the piggyback loan meet the above guidelines. Place this documentation in the "verification of funds" section of the loan file as indicated on Form 51, the credit/pre-compliance package checklist. The PHFA Approval Notification will include a condition requesting a copy of the executed Note meeting our guidelines and proof that the payment used to underwrite the loan remained the same. To satisfy this condition; attach a copy of the executed Note to the PHFA Approval Notification, per number 2 of Form 58, the Purchase Package Checklist. The HUD 1 must also reflect that the funds from the second mortgage were received.

502 Co-Signers

In order to qualify for a co-signer, a Borrower's underwriting ratios should not exceed 35%/43%. With the co-signer's income and debts included, the underwriting ratios should not exceed 33%/38%. When submitting the Mortgage Loan package to PHFA, only reference the Borrower's ratio on the transmittal summary. A co-signer is considered as a compensating factor only. Co-signers may live in the property being purchased. If this is the case, their income must be included for income limit purposes and they must also meet the first time homebuyer requirement.

503 Buydowns

Buydowns are not permitted.

504 Seller Contributions

The maximum allowable contributions from interested parties, which depend on the loan-to-value ratio are as follows:

- three percent (3%) of the sales price if the Loan-to-Value ratio is greater than ninety percent (90%).

- six percent (6%) of the sales price if the loan-to-value ratio is ninety percent (90%) or less. For underwriting purposes, the Lender must make a downward adjustment to the property's sales price to reflect the amount of any contributions that exceed our limitations. The maximum loan-to-value ratio must then be calculated on the lesser of the reduced sales price or appraised value. The cost of any contributions that are in the form of personal property (such as furniture, decorator items, automobiles, or other "giveaways") must always be deducted from the property's sales price.

Contributions made by a non-participant to the sales transaction -- such as the Borrower's employer or a family member -- have no limitations.

505 Gifts

A Borrower can use funds obtained as a gift to satisfy part of the cash requirement for closing from an acceptable donor such as a blood relative (specifically a brother, sister, child, parent, grandparent, aunt or uncle), from a participating PHFA Employer (EAH) or an approved housing authority program. When gift funds are received for the purchase of the home, a cash down payment equal to three percent (3%) of the sales price must be from the borrowers own verifiable funds. An exception to this can be made for borrowers with middle credit scores of 660 or higher. In these cases, a minimum of \$1000 is only required from their own documented funds, the balance can come from one of the acceptable gift/grant sources. However, we will waive this requirement and allow the full down payment to come from a gift if the loan-to-value ratio for the Mortgage Loan is eighty percent (80%) or less. In all cases, a properly completed/signed gift letter is to be placed in the underwriting file stating the donors name, relationship, address and phone number. Or all this information can be completed on the asset section of the application.

506 Homebuyer Education

Is required from a PHFA approved Counseling Agency for all borrowers with a middle credit score below 660, regardless of the first mortgage program. If both borrowers have credit scores below 660, they both must attend counseling. For borrowers with one or two scores, the borrowers lowest score is used to determine if counseling will be required. A Certificate of Completion for at least one of the borrowers must be in the Purchase Submission package. PHFA approved Counseling Agencies can be found on our web site at www.phfa.org (use the "Click & Go" box and choose "Counseling Agency Network").

507	95.01 – 97% LTV Loans	These conventional loans must meet PHFA standard credit and compliance underwriting guidelines which include maximum income and purchase price limits unless otherwise stated.
507.1	Eligible Programs	PHFA Keystone Home Loan and Keystone Home Loan PLUS program.
507.2	Eligible Properties	<p>Owner occupied, one or two unit properties, including Condo's, PUD's and Manufactured housing (doublewides and classified as real estate), two unit properties. Full Fannie Mae/Freddie Mac appraisals reports are required.</p> <p style="padding-left: 40px;">Two unit properties in addition to meeting all the Mortgage Insurers credit and property requirements, must meet the following Agency requirements:</p> <ul style="list-style-type: none"> • The property must be at least five (5) years old. • One unit must become the borrowers principal residence within sixty (60) days of closing. • The Estimated Market Rent and Gross Rent Multiplier section on page 2 of the Appraisal must be completed by the appraiser. • Page 10 of the PHFA “Two Unit Information Guide” to be signed and dated by the borrower(s).
507.3	Subordinate Mortgages	Acceptable subordinate mortgages are: the Agency's Keystone Assistance Loan Program, the HOMEstead loan program or a down payment and/or closing cost assistance program from a PHFA pre-approved government or non-profit agency loan or grant.
507.4	Automated Underwriting	<p>At a minimum, the borrower must provide \$1000 from their own funds. Loans using Fannie Mae's Desktop Underwriter (DU), Freddie Mac's Loan Prospector (LP) or CLUES that receive risk classifications of Approve/Eligible or Accept and all borrowers have a middle credit score of 660 or higher, are eligible for 97 percent financing. In addition, the ratios may go as high as 40/50% without PHFA pre-approval. Loans with no automated findings report or risk classifications of Refer, Refer/Eligible, Refer/Ineligible or Caution must meet the requirements below:</p> <ul style="list-style-type: none"> • The middle FICO credit score for all borrowers is at least 660. • The debt to income ratios can not exceed 33/38% without good compensating factors.

- Bankruptcy, Foreclosure or Deed “In-Lieu” must be at least 4 years old.
- Collection account(s) and/or Judgments without satisfactory explanations must be paid off prior to closing.

NOTE: Borrower(s) without credit scores or have a credit score of less than 660 may still be eligible for a PHFA loan under a 95% conventional loan or a government loan.

507.5 Private Mortgage Insurance A minimum of 35% coverage will be required along with a Monthly Premium plan under the Mortgage Insurers Standard Premium Rates. Refer to Appendix F/G of this Seller’s Guide for acceptable rates. (No A- or below rates will be acceptable). Loans receiving anything other than an Approve or Accept rating through an automated underwriting system must be submitted to an acceptable MI company for their approval. Lender Delegated MI underwriting is not acceptable.

508 Mortgage Documents Each Participant is responsible for reviewing all credit and compliance documents to determine that the Borrowers are eligible and qualify for the Mortgage Loan. The Credit/Pre-Compliance must be submitted to the Agency in a timely manner. This is required so that the loan may be closed and delivered to the Agency within the delivery period set for the program in which the loan is to be purchased.

For documents required on conventional loans, see the Credit/Pre-Compliance Submission Transmittal Summary. COPIES (unless noted otherwise) of the items listed, are to be fastened at the top left corner by a BINDER CLIP (not to be placed in a file folder) and delivered to PHFA. The Transmittal Summary is to be completed and placed on top of the documents as the cover sheet for the Credit/Pre-Compliance Submission.

For delivery information, see Appendix G

509 Preliminary Loan Set-Up Sheet For Service-Released Participants, the Preliminary Loan Set-Up Sheet (Form 26) must be received by PHFA within four (4) business days of the closing. This form is to be FAXED to the attention of the Accounting and Loan Servicing Division/Escrow Dept. to the following fax number: (717) 780-3853.