Tennessee Housing Development Agency

Leading Tennessee Home

Originating Agents Guide

SEPTEMBER 2004

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SECTION 1: THDA

1.1 THE GUIDE

This Originating Agents Guide amends and replaces the Originating Agents Guide dated September 2004 (the "Prior Guide") and, together with all subsequent revisions, modifications or updates (the "Guide") provided by the Tennessee Housing Development Agency ("THDA"), contains information about THDA loan programs and specific requirements for qualifying applicants, submitting, closing and delivering loans for THDA. The Prior Guide shall apply to all THDA approved loans closed prior to September 15, 2004, and this Guide shall apply to all THDA approved loans closed on or after September 15, 2004.

THDA may revise, modify or update this Guide from time to time and will notify Originating Agents of such changes. THDA may provide notice of changes by posting such changes to it web site at www.thda.org.

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1.2 HOURS OF OPERATION AND HOLIDAY SCHEDULE

The Single Family Programs Division hours of operation are 7:30 a.m. until 4:30 p.m. Central Time, Monday through Friday. The Single Family Programs Division will be closed on official State holidays which are as follows:

New Year's Day
Martin Luther King Day
Presidents' Day
Good Friday
Memorial Day
Independence Day
Labor Day
Columbus Day*
Veteran's Day
Thanksgiving Day
Christmas Day**

* This holiday may be exchanged for a holiday on the Friday after Thanksgiving.

**Other holidays around Christmas may be announced later.

1.3 SINGLE FAMILY PROGRAMS DIVISION STAFF DIRECTORY

The Single Family Programs Division of THDA has day-to-day operational control of the origination and closing of THDA mortgage loans. All correspondence should be directed to:

Single Family Programs Division
Tennessee Housing Development Agency
404 James Robertson Parkway, Suite 1200
Nashville, Tennessee 37243-0900

Any interested person may receive a packet of general information concerning THDA loan programs by leaving their name and address on the Single Family Programs Division Message line (see below) or on the THDA toll-free (TN) message line: 1-800-228-8432.

The Single Family Programs Division General Information telephone number is not equipped with voice mail and is answered on business days from 7:30 a.m. until 4:30 p.m., Central Time. All other telephone numbers are equipped with voice mail, which may be accessed 24 hours per day, 7 days per week. A caller who reaches a voice mailbox may press "0" on a touchtone telephone to reach an attendant during business hours.

General Information 615-815-2100
Toll-Free Voice Mail..... 1-800-228-8432
Fax (24 hours a day, 7 days a week) 615-564-2881

Staff	Telephone	Email Address
Lindsay Hall, Sr. Director of Single Family Programs	615-815-2080	lhall@thda.org
Nancy Herndon, Assistant to Senior Director	615-815-2123	jlemke@thda.org
Bill ClenDening, Assistant Director Single Family Programs	615-815-2099	bclendening@thda.org
Marvene Carey, Assistant Director Single Family Programs	615-815-2079	mcarey@thda.org
Rhonda Ronnow, Underwriting Manager	615-815-2111	rronnow@thda.org
Sharon Pommer, Servicing Manager	615-815-2078	spommer@thda.org
Vicki George, Homebuyer Education Coordinator	615-815-2085	vgeorge@thda.org
Jayna Johnson, Homebuyer Education Specialist	615-815-2019	jjohnson@thda.org
Debbie Reeves, Dir. Comm. Outreach & Business Development	615-815-2152	dreeves@thda.org
Steven Lamb, Single Family Programs Administrator	615-815-2083	slamb@thda.org
Cynthia Peraza, Program Development Coordinator	615-815-2112	cperaza@thda.org
Sharon Campbell, Underwriter	615-815-2088	scampbell@thda.org
Pam Norris, Underwriter	615-815-2087	pnorris@thda.org
Tammy Walker, Underwriter	615-815-2091	twalker@thda.org
Lynne Walls, Underwriter	615-815-2089	lwalls@thda.org
Bonnie Fowler, Closing Coordinator	615-815-2081	bfowler@thda.org
Chuck Pickering, Closing Coordinator	615-815-2086	cpickering@thda.org
Cheri Baber, Closer	615-815-2092	cbaber@thda.org
Rhonda Ellis, Mortgage Loan Specialist	615-815-2103	rellis@thda.org
Caroline Rhodes, Mortgage Servicing Specialist	615-815-2098	crhodes@thda.org
Ginny Boles, Mortgage Loan Specialist	615-815-2097	gboles@thda.org
Debbie Couch, Mortgage Loan Specialist	615-815-2096	dcouch@thda.org
Ruby Baxter, Administrative Assistant	615-815-2205	rbaxter@thda.org

1.4. CURRENT THDA LOAN PROGRAMS

A. Great Rate/Great Advantage/Great Start (for loan applications dated prior to 10/1/2013.)

These programs are designed for low and moderate income borrowers. The **Great Rate** program offers a below market interest rate loan secured by a first mortgage. The **Great Advantage** and **Great Start** programs offer a loan at a slightly higher interest rate, secured by a first mortgage, but offer assistance with down payment and closing costs. Each loan program is described below.

HOMEOWERSHIP CHOICES

	Great Rate	**Great Advantage**	**Great Start**
Maximum Household Income	Varies by county	Varies by county	Varies by county
Maximum Acquisition Cost (Including all incidentals)	Varies by county	Varies by county	Varies by county
Interest Rate	**3.60% fixed rate* *4.50% effective 10/7/13**	**3.90% fixed rate** **4.80% effective 10/7/13**	**4.20% fixed rate*** ***5.10% effective 10/7/13**
Loan Term	30 years	30 years	30 years
Loan Types	FHA, VA, USDA/RD, Conventional	FHA, VA, USDA/RD	FHA, VA, USDA/RD
Mortgage Insurance or Guarantee	As required by loan type	As required by loan type	As required by loan type
Buydowns	Not allowed	Not allowed	Not allowed
Assumable	Subject to qualifying	Subject to qualifying	Subject to qualifying
Pre-Payment Penalty	No penalty	No penalty	No penalty
Subject to Recapture	Yes	Yes	Yes
Required Reserve	As required by loan type	As required by loan type	As required by loan type
Minimum Investment	As required by loan type	As required by loan type	As required by loan type
Closing Costs	May come from borrower, Seller, a gift, or as required by loan type	2% of loan amount available to borrower(s) as assistance with down payment and closing costs. The entire 2% assistance grant must be used.	4% of loan amount available to borrower(s) as assistance with down payment and closing costs. The entire 4% assistance grant must be used.
Down Payment	As required by loan type		
Homebuyer Education	Not required	Required	Required
Origination Fee	Up to 2% maximum	Up to 2% maximum	Up to 2% maximum
Discount Point	Maximum ¼%	Maximum ¼%	Maximum ¼%

A. Great Choices (for loan applications dated 10/1/2013 and after)

These programs are designed for low and moderate income borrowers. The **Great Choice** offers a low market rate loan secured by a first mortgage with the option of a second mortgage at 0% interest rate to provide down payment and closing cost assistance if needed. **Great Choice Plus** will offer down payment and closing cost assistance to first-time homebuyers with a second mortgage loan at no interest. Payments of principal will commence for a term of 10 years in conjunction with the **Great Choice** first mortgage.

Mortgage Program	GREAT CHOICE	GREAT CHOICE PLUS
Maximum Household Income	Varies by county	Varies by county
Maximum Acquisition Cost (Including all incidentals)	Varies by county	Varies by county
Interest Rate	**4.6%**	**0%**
Loan Term	30 year/fixed rate	10 year
Loan Types	FHA, VA, USDA/RD insured/guaranteed loans and Conventional (to 78% LTV)	THDA Great Choice first mortgage
Mortgage Insurance Or Guarantee	As required by loan type	As required by loan type
Buydowns	Not allowed	Not allowed
Assumable	Subject to qualifying	Not Assumable
Pre-Payment Penalty	No penalty	No penalty
Subject to Recapture	Yes	Yes
Required Reserve	As required by loan type	Not applicable
Minimum Investment	As required by loan type	Not applicable
Closing Costs	May come from Borrower, Seller, a gift, or as required by loan type	4% of purchase price available to borrower(s) as assistance with down payment and closing costs
Down Payment	As required by loan type	Not applicable
Homebuyer Education	Not required	Required
Origination Fee	Up to 2% maximum	Not applicable
Discount Point	Maximum ¼%	Not applicable

C. THDA Veterans Homeownership for the Brave Loan Program

This program offers a below market interest rate to qualified members of the United States military, National Guard, Veterans and some spouses. A 50 basis point rate reduction will apply to the following THDA loan programs: Great Rate, Great Advantage and Great Start, based on the current rate at time of loan submission.

	THDA Veterans Homeownership for the Brave Program
Maximum Loan Amount	Not to exceed current THDA acquisition limits
Purchase product only	Refinance and second liens ineligible
Maximum LTV	Subject to FHA, VA, and USDA/RD Guidelines. Conventional Loans 78% LTV or less.
Underwriting guidelines	FHA, VA, USDA, and Conventional underwriting guidelines through D.U. apply except as modified by THDA product guidelines. Manual Underwriting acceptable with no credit score available.
Eligible Borrowers	• All Veterans • Active Duty Military (including those in their first tour of duty) • Retired Military • Active Duty Reservists or Reservists who have served 180 days or more active duty • If discharged or released was done so under conditions other than dishonorable • Spouse of Veteran or Surviving Spouse of Veteran
Income	Borrower's income must not exceed THDA current income limits per county. Income will be calculated based on THDA current income guidelines. Borrower must provide a DD-214 or most recent enlistment papers along with the most recent LES for active duty military
First Time Homebuyer Rule	First Time Homebuyer Rule applies except: • To "veterans" as defined in 38 U.S.C. Section 101, so long as the veteran did not previously receive a bond finance mortgage under this exception and, generally, includes anyone (a) who has served in the military and has been released under conditions other than dishonorable or (b) who has re-enlisted, but could have been discharged or released under conditions other than dishonorable. • To the purchase of property by an eligible borrower as defined above within a federally targeted county or a federally targeted census tract (see THDA website for targeted areas).
Minimum FICO requirement	620
Maximum Debt to Income ratio	45%
Manual Underwriting	Income will be calculated based on current THDA guidelines. Borrower(s) with no credit scores may be manually underwritten using non-traditional credit guidelines in accordance with FHA, VA, and USDA/RD requirements to include those loans with an FHA Scorecard with a decision response of Refer/Eligible if the decision clearly states "No Score". If there are other risk factors stated other than "No Score", THDA will not accept the loan application.
Eligible Property	1 unit single family residence, townhouse or condo
Occupancy	Borrower/Co-borrower must occupy the property as their primary residence.
Downpayment	Required downpayment is based on FHA, VA or USDA program guidelines. The required downpayment for Conventional loans is 22%.
Homebuyer Education	8 hour Pre-purchase Homebuyer Education by a THDA approved Certified Counseling Agency required
Escrows	Escrow waivers are not permitted. Escrow for taxes and insurance is required

SECTION 2: ORIGINATING AGENTS

2.1 ORIGINATING AGENT WORKING AGREEMENT

The written agreement between an Originating Agent and THDA, which must be executed before any loan applications will be accepted by THDA for processing (the "Working Agreement") must contain the basic contractual agreements between the Originating Agent and THDA. The Working Agreement sets forth general terms under which the Originating Agent is authorized to act on behalf of THDA. The Working Agreement also incorporates the contents of this Guide, prior guides, and other written instructions that may be issued by THDA to provide instruction and direction in the daily operation of THDA's programs.

2.2 CORRESPONDENT RELATIONSHIPS

Each Originating Agent is responsible for the documents submitted to THDA in loan application files, closed loan packages or otherwise. Applications that are originated by a third party and/or brokered applications, are eligible to be submitted to THDA upon written approval of THDA.

Applications originated by one Originating Agent that are transferred to another Originating Agent for submission to THDA must be re-verified in the receiving Originating Agent's name prior to submission to THDA.

The Originating Agent who originated, processed, closed, insured and delivered a particular loan to THDA must directly assign the Deed of Trust securing the loan to THDA. Insurance or guaranty certificates may not contain the name of any entity other than the Originating Agent or THDA as the beneficiary of the insurance or guaranty.

In THDA's sole discretion, THDA may permit a HUD-approved underwriting relationship between an Originating Agent and another lender solely for the purpose of FHA Direct Endorsement underwriting if an Originating Agent does not have an FHA Direct Endorsement Underwriter on staff. To request THDA's approval prior to the submission of any loan application to THDA, submit a copy of the appropriate HUD approval of the underwriting relationship. The Originating Agent is responsible for originating, processing, closing, submitting for insurance or guaranty, delivering the loan to THDA and providing all necessary follow-up documentation.

Each of these policies may be waived or exceptions may be granted on a case-by-case basis, in THDA's sole discretion. Requests for any waiver or exception under this Section 2.2 must be submitted in writing to THDA prior to submission of any loan application or applications to which the waiver or exception applies. In the event THDA denies a request for a waiver or an exception under this Section 2.2, THDA will not accept any loan application or applications for processing to which the waiver or exception applies.

2.3 FEES ORIGINATING AGENT MAY EARN

Originating Agents may earn the following fees in connection with THDA loans:

1. Origination Fee – Up to 2% of the Base Loan Amount. Either Applicant or seller may pay this fee.

2. Discount Points – ¼% of the actual or total loan amount. Either Applicant or seller may pay this fee; however, no additional origination fees or discount points can be charged or collected from any party.

3. Application Fee – Up to $600. Either Applicant or Seller may pay this fee.

4. Service Release Fee - The amount depends on the agreement between Originating Agent and an approved THDA Servicer in connection with the sale of servicing. This agreement must be in writing, fully executed, and approved by THDA before a Commitment can be issued by THDA. Servicing can only be sold directly to an approved THDA Servicer.

5. Interest - For loans closed by the Purchase Method, an Originating Agent may retain per diem interest at the note rate for the number of days Originating Agent holds the loan prior to purchase by THDA.

6. Additional fees not paid directly or indirectly by a Borrower, as indicated in Sections 7 and 8.

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SECTION 3: QUALIFYING AN APPLICANT TO PARTICIPATE IN THDA LOAN PROGRAMS

3.1 OVERVIEW

Before undertaking the typical underwriting process for a proposed THDA loan, first determine whether the Applicant is eligible to participate in the desired THDA loan program. See Section 1.7 for a description of currently available THDA loan programs. If the Applicant does not meet the basic program requirements described in this Section, do not submit the application file to THDA. If the Applicant does not meet the basic program requirements described in this Section, THDA cannot approve the application.

THDA program eligibility requires the following determinations:

1. Determine whether the Property is within the application Acquisition Cost Limit. SEE SECTION 3.2.

2. Determine whether the Applicant's Household Income is within the applicable Income Limits. SEE SECTION 3.3 for information about defining and calculating Household Income.

3. Determine whether the Applicant meets the Residence Requirement. SEE SECTION 3.4.

4. Determine whether the Applicant meets the Three Year Requirement. SEE SECTIONS 3.5 and 3.7.

5. Determine whether Applicant meets the New Mortgage Requirement. SEE SECTION 3.6.

IF ALL OF THESE REQUIREMENTS ARE NOT MET, DO NOT SUBMIT THE APPLICATION FILE TO THDA.

3.2 ACQUISITION COST LIMITS

A. Defining Acquisition Cost

Property to be financed with a THDA loan cannot be purchased for an amount that exceeds the applicable Acquisition Cost Limit. Generally, the Acquisition Cost is the total cost of acquiring the Property as a completed residential unit.

Usually, the Acquisition Cost is the price specified in the contract between the seller and Applicant for the Property, so long as there are no other agreements (written or verbal) for payment of any additional amounts in connection with the purchase or construction of the Property. If there are agreements of any kind in addition to the purchase contract, then the Acquisition Cost also includes all other amounts paid in cash or in kind by the Applicant or on behalf of the Applicant in connection with the Property.

B. Acquisition Cost Inclusions

Include the following items in determining Acquisition Cost:

1. The price indicated in an executed sales contract for a proposed, new or existing house and lot that will be conveyed to the Applicant when the THDA loan is closed ("house" includes a manufactured home on a permanent foundation);

2. The price or total cost to construct a house on a lot owned by the Applicant;

3. The amount paid by the Applicant for an unimproved lot less than two years before the date of loan application upon which a residence will be (or has recently been) built;

4. The cost of necessary repairs to the residence that are not included in the sales contract;

5. The cost for fixtures that are not included in the sales contract;

6. The cost of all materials and labor needed to complete or renovate the residence that are not included in the sales contract;

7. Any other cash or inkind contributions paid by or on behalf of the Applicant to or for the seller;

8. Any other cash or in kind contributions paid by or on behalf of the seller to or for Applicant;

9. The portion of settlement and financing costs that exceed usual and reasonable amounts.

C. Acquisition Cost Exclusions

Do not include the following items in determining Acquisition Cost:

1. The amount paid by the Applicant for an unimproved lot more than two years before the date of application upon which the subject residence will be (or has recently been) built;

2. The cost for personal Property that is not included in the contract for sale;

3. The imputed cost (sweat equity) of Applicant's labor and/or the labor of the Applicant's immediate family members;

4. Loan points paid by the seller;

5. Usual and reasonable settlement and financing costs.

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D. Current Acquisition Cost Limits By MSA*/County

Counties		Acquisition Cost Limits	Household Income Limits 1-2 Persons	3 + Persons
Anderson	*	$240,000	$67,728	$77,887
Bedford		$240,000	$56,520	$65,940
Benton		$240,000	$55,200	$64,400
Bledsoe	T	$275,000	$65,640	$76,580
Blount		$240,000	$67,728	$77,887
Bradley	*	$240,000	$62.400	$72,800
Campbell	T	$275,000	$65,640	$76,580
Cannon	T	$275,000	$80,520	$93,940
Carroll	T	$275,000	$65,640	$76,580
Carter		$240,000	$61,440	$71,680
Cheatham		$275,000	$80,520	$93,940
Chester	T	$275,000	$65,640	$76,580
Claiborne	T	$275,000	$65,640	$76,580
Clay	T	$275,000	$65,640	$76,580
Cocke	T	$275,000	$65,640	$76,580
Coffee	*	$240,000	$62,040	$72,380
Crockett	T	$275,000	$65,640	$76,580
Cumberland		$240,000	$55,320	$64,540
Davidson	*	$275,000	$80,520	$93,940
Decatur		$240,000	$55,200	$64,400
DeKalb	T	$275,000	$65,640	$76,580
Dickson		$275,000	$80,520	$93,940
Dyer	T	$275,000	$65,640	$76,580
Fayette	T	$275,000	$70,920	$82,740
Fentress	T	$275,000	$65,640	$76,580
Franklin	T	$275,000	$65,640	$76,580
Gibson	T	$275,000	$65,640	$76,580
Giles	T	$275,000	$65,640	$76,580
Grainger	T	$275,000	$65,640	$76,580
Greene	T	$275,000	$65,640	$76,580
Grundy	T	$275,000	$65,640	$76,580
Hamblen	*	$240,000	$59,280	$69,160
Hamilton	*	$240,000	$68,608	$78,899
Hancock	T	$275,000	$65,640	$76,580
Hardeman	T	$275,000	$65,640	$76,580
Hardin	T	$275,000	$65,640	$76,580
Hawkins	T	$275,000	$65,640	$76,580
Haywood	T	$275,000	$65,640	$76,580
Henderson	T	$275,000	$65,640	$76,580
Henry		$240,000	$56,040	$65,380
Hickman	T	$275,000	$65,640	$76,580
Houston	T	$275,000	$65,640	$76,580
Humphreys		$240,000	$63,000	$73,500
Jackson	T	$275,000	$65,640	$76,580
Jefferson	T	$275,000	$65,640	$76,580
Johnson	T	$275,000	$65,640	$76,580
Knox	*	$240,000	$67,728	$77,887
Lake	T	$275,000	$65,640	$76,580
Lauderdale	T	$240,000	$65,640	$76,580
Lawrence	T	$240,000	$65,640	$76,580

Counties		Acquisition Cost Limits	Household Income Limits 1-2 Persons	3 + Persons
Lewis		$240,000	$55,200	$64,400
Lincoln	T	$275,000	$66,240	$77,280
Loudon	T	$275,000	$74,640	$87,080
McMinn		$240,000	$58,800	$68,600
McNairy	T	$275,000	$65,640	$76,580
Macon	T	$275,000	$65,640	$76,580
Madison	T	$275,000	$65,640	$76,580
Marion	T	$275,000	$69,360	$80,920
Marshall		$240,000	$62,280	$72,660
Maury	T	$275,000	$71,280	$83,160
Meigs	T	$275,000	$65,640	$76,580
Monroe	T	$275,000	$65,640	$76,580
Montgomery		$240,000	$65,040	$75,880
Moore		$240,000	$68,688	$78,991
Morgan	T	$275,000	$65,640	$76,580
Obion	T	$275,000	$65,640	$76,580
Overton	T	$275,000	$65,640	$76,580
Perry		$240,000	$55,200	$64,400
Pickett	T	$275,000	$65,640	$76,580
Polk	T	$275,000	$65,640	$76,580
Putnam		$240,000	$57,600	$67,200
Rhea	T	$275,000	$65,640	$76,580
Roane		$240,000	$65,040	$75,880
Robertson		$275,000	$80,520	$93,940
Rutherford		$275,000	$80,520	$93,940
Scott	T	$275,000	$65,640	$76,580
Sequatchie	T	$275,000	$69,360	$80,920
Sevier		$240,000	$63,000	$73,500
Shelby		$240,000	$68,348	$78,600
Smith		$275,000	$68,160	$79,520
Stewart	T	$275,000	$65,640	$76,580
Sullivan		$240,000	$60,240	$70,280
Sumner		$275,000	$80,520	$93,940
Tipton	T	$275,000	$70,920	$82,740
Trousdale	T	$275,000	$80,520	$93,940
Unicoi	T	$275,000	$65,640	$76,580
Union	T	$275,000	$74,640	$87,080
Van Buren	T	$275,000	$65,640	$76,580
Warren		$240,000	$55,200	$64,400
Washington	*	$240,000	$61,440	$71,680
Wayne	T	$275,000	$65,640	$76,580
Weakley		$240,000	$57,240	$66,780
White	T	$275,000	$65,640	$76,580
Williamson		$275,000	$80,520	$93,940
Wilson		$275,000	$80,520	$93,940

T Denotes a targeted county. The first–time homebuyer requirement is waived.

* Denotes that some census tracts in the county are targeted, and in these census tracts, the first–time homebuyer requirement is waived.

3.3 HOUSEHOLD INCOME LIMITS

A. Defining Household

1. Household Includes

A household, for purposes of determining eligibility for THDA loan programs, includes all persons 18 years of age or older and all minors who will live in the Property to be acquired with the THDA loan and any spouse who is absent or separated, regardless of whether they intend to occupy the Property.

2. Accuracy of Household Composition

Although not a critical issue in other sources of financing, the accuracy of household composition must be determined for purposes of establishing total Household Income. If the Originating Agent becomes aware, at or prior to closing, that the household composition may differ from the composition first proposed, documentation must be corrected and submitted to THDA. Examples include the contemplated marriage of an Applicant, or the existence of a fiancé, relative or friend who intends to occupy the Property.

If the Originating Agent becomes aware that a relative, a friend or fiancé intends to occupy the Property, obtain supporting evidence of income for each such person.

3. Separated Applicant

A separated Applicant must be treated as married, and the Applicant, together with the Applicant's separated spouse, must meet all THDA program requirements. A separation agreement is not sufficient to waive this requirement. The Applicant and the Applicant's separated spouse must sign the Deed of Trust (as a minimum) at loan closing, so that the marital rights of the separated spouse in the Property are encumbered by the Deed of Trust. A separated spouse who will not occupy or take title to the Property must furnish, at a minimum, a current pay stub with verification of hire date and their previous year's Federal Income Tax Return, so that an accurate determination of Household Income can be made. Depending on the length of separation, up to three years' federal income tax returns could be required.

4. Expected Childbirth

Do not include an unborn child for purposes of determining the number of persons in the household.

B. Defining Household Income

The Applicant cannot have, at the time of application or at closing, a Household Income greater than the applicable Household Income Limit. Generally, Household Income includes all income of all occupants of the Property, and all heads-of-household or spouses who do not live in the Property, except as noted in "Exclusions From Household Income" below.

Household Income is the total annual gross income, earned and unearned, from all sources, before taxes or other deductions, received by the Applicant, all other persons 18 years of age and older who will live in the Property, separated or absent spouses, and all unearned income of all members of a household, including minors.

Determining Household Income, as described in this Section 3.3, is essential for determining eligibility for THDA loan programs. This determination of Household Income is an initial step that is separate and different from subsequent credit underwriting for compliance with FHA, VA, USDA/RD or PMI regulations.

C. Household Income Inclusions

Calculate Household Income for all members of the household and include all full-time, part-time or temporary:

1. Wages, whether salary or hourly;

2. Overtime earnings, fees, tips and other compensation for personal services;

3. Bonuses, commissions, vacation pay, shift differential and holiday pay;

4. Social Security payments;

5. Interest, dividends and other net income of any kind from real or personal Property; (any withdrawal of cash or assets from an investment will be included as income, except to the extent the withdrawal is reimbursement of cash or assets invested by a household member); also, the greater of actual earnings or imputed earnings from liquid assets in excess of $5,000.00.

6. Periodic, determinable allowances such as alimony, child support and other recurring payments or gifts from persons who will not reside in the Property;

7. Periodic payments from annuities, insurance policies, pensions, retirement funds, royalties, sick pay, trust income, disability, death benefits or other type of periodic payments, including lump sum payments for the delayed start of a periodic payment (except Social Security and SSI);

8. Armed Forces pay, including regular pay, special pay and allowances (excluding special pay for exposure to hostile fire). Armed forces pay for a head-of-household or spouse is always included, whether they are living in the household or not;

9. Payments in lieu of earnings, such as unemployment and disability compensation, worker's compensation and severance pay (except lump sum payments as noted in “Exclusions From Household Income”);

10. Welfare assistance;

11. Relocation payments made pursuant to Title II of the Uniform Relocation Assistance and Real Property Acquisition Act of 1970;

12. Benefit and other non-earned income, including amounts paid directly to or on behalf of minors and full-time students;

13. Any other source of income, except as noted in “Exclusions From Household Income”.

14. Annual net income from rental (net rental income is calculated at 75% of gross rent).

15. Total annual net income from operating a business or profession, including expenditures for business expansion or capital indebtedness, and withdrawal of cash or assets except to the extent the withdrawal is for reimbursement of cash or assets invested in the operation by a household member; an allowance for deduction of straight line depreciation of assets used in the operation is allowed.

D. Household Income Exclusions

When calculating Household Income do not include:

1. Earned income from employment of children and foster children under age 18; however, benefits and other non-earned income paid directly to or on behalf of minors and full-time students is counted as Household Income;

2. Payments received for care of foster children or foster adults;

3. Adoption assistance payments;

4. Amounts that are specifically for, or in reimbursement of, the cost of medical expenses for a household member;

5. Income of a live-in aide;

6. Student financial assistance (educational grants, scholarships, educational entitlements, work-study programs and financial aid packages) paid directly to the student or to the educational institution;

7. Earned income of full-time students 18 years old or older who can be claimed as a dependent by a household member; (earned income of a head-of-household or spouse who is a full-time student must be included in Household Income);

8. Armed Forces special pay for exposure to hostile fire;

9. Earned Income Tax Credits;

10. Amounts received that are incident to a training program funded by HUD, including compensation that is a component of a state or local employment training program with clearly defined goals and objectives, the duration of which is for a limited period, determined in advance;

11. Amounts received by a disabled person that are disregarded for a limited time for purposes of Supplemental Security Income (SSI) eligibility and benefits because they are set aside for use under a Plan to Attain Self-Sufficiency (PASS);

12. Amounts received by a participant in a publicly assisted program which are specifically for or in reimbursement of out-of-pocket expenses (such as special equipment, special clothing, transportation, child care, etc.) and which are made solely to allow participation in a specific program, such as the Community Work Experience Program, or the Employment Search Program; this exemption also includes volunteer fire-fighters;

13. Temporary, sporadic or nonrecurring income, including gifts;

14. The value of Food Stamps;

15. Lump sum additions to assets, such as inheritance, insurance payments (including health and accident insurance and worker's compensation payments), capital gains, settlement for personal or Property loss, and deferred periodic payments received in a lump sum from Supplemental Security Income (SSI) and Social Security benefits;

16. Repatriation payments made by foreign governments pursuant to claims filed under the laws of that government by persons who were persecuted during the Nazi era (initial determination or reexamination must have been made on or after April 13, 1993).

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3.4 RESIDENCE REQUIREMENT

The Applicant(s) must occupy the Property as their permanent, principal residence within 60 days after the THDA loan is closed. The Applicant(s) must use the Property as their permanent, principal residence for the life of the THDA loan.

3.5 THREE YEAR REQUIREMENT

Applicant(s) who have had an ownership interest in their principal residence within the three years (a full 36 calendar months) prior to the date of application are not eligible for a THDA loan. When an applicant is married, both spouses must meet the three year, first-time homebuyer requirement. The three year requirement does not apply if the Property to be acquired with the THDA loan is located within a Targeted Area (See Section 3.7) or under certain circumstances if the applicant is a veteran (See Section 3.5.c).

A. Permitted Ownership Interests

An Applicant may have the following ownership interests in their principal residence within the last three years and be eligible for a THDA loan:

1. An ordinary lease, with or without an option to buy;
2. The interest of a buyer under a standard residential purchase contract;
3. A mere expectancy to inherit property at a later date;
4. A remainder interest;
5. A manufactured home without ownership of the land on which it is located;
6. A manufactured home and land on which it was located, if the manufactured home was not titled and assessed as real property;
7. Any of the prohibited ownership interests if the property is in a Targeted Area;
8. Any other interest that is not a prohibited interest, as determined by THDA.

An Applicant may also have the following ownership interests within the last three years and be eligible for a THDA loan:

1. An ownership interest in a vacation home or rental property;
2. A financial interest in a residence in which the Applicant has not resided at any time within the last three years;

B. Prohibited Ownership Interests

See Section 3.7 to determine whether the Property is in a Targeted Area. If the Property is in a Targeted Area, this requirement does not apply.

Applicants who have had any of the following ownership interests in their principal residence within the three years (a full 36 calendar months) before the date of the THDA loan application are not eligible for a THDA loan to acquire Property located within a non-Targeted Area:

1. A fee simple interest;
2. A joint tenancy;
3. A tenancy in common;

4. A tenancy by the entirety;
5. The interest of a tenant-shareholder in a cooperative;
6. A life estate;
7. A land contract;
8. Ownership of a manufactured home and the land on which it was located, if the manufactured home was titled and assessed as real property;
9. An interest in an Applicant's principal residence created by the existence of an inheritance, whether title is vested in the Applicant or not;
10. Any of the above interests held in a trust (whether or not created by the Applicant) that would constitute an ownership interest if held directly by the Applicant.
11. Interest arising because, within the last three years, the Applicant's name was included on a deed to a residence which the Applicant occupied as their principal residence.
12. Interest arising because, within the last three years, the Applicant was married to a person who had one of the prohibited ownership interests in a residence which Applicant occupied as their principal residence.
13. Any other interest that constitutes an ownership interest, as determined by THDA.

C. Veteran Exemption

Veterans and their spouses do not have to meet the three year requirement (i.e. be a first-time homebuyer) under certain circumstances to be eligible for THDA's mortgage programs. "Veterans" as defined in 38 U.S.C. Section 101, so long as the Veteran did not previously receive a bond finance mortgage under this exception and, generally, includes anyone (a) who has served in the military and has been released under conditions other than dishonorable or (b) who has re-enlisted, but could have been discharged or released under conditions other than dishonorable.

3.6 NEW MORTGAGE REQUIREMENT

A THDA loan cannot be used to refinance an existing loan. A THDA loan may replace a temporary construction or bridge loan if acceptable documentation is provided to THDA that such a loan has a non-renewable term of twenty-four (24) months or less. Document with a copy of the construction or bridge loan note and recorded Deed of Trust. A THDA loan cannot close with a three-day Right of Rescission. All THDA loans must be amortized for a term of 30 years.

3.7 TARGETED AREAS

A Targeted Area is a qualified census tract or an area of chronic economic distress as designated by the IRS. A Targeted Area may be an entire county or may be a particular census tract within a county. The Targeted Area designation is important for two reasons:

1. The Three Year Requirement (see Section 3.5) does not apply in Targeted Areas; and
2. THDA is required to use or set aside a portion of the proceeds from each bond issue for loans in Targeted Areas.

Documentation in each application file submitted to THDA must correctly identify whether the Property is or is not located within a Targeted Area. The Appraisal must identify the relevant census tract. If a discrepancy occurs in the census tract information reported on the appraisal versus the census tract shown on the Flood Hazard Determination, the lender must clarify and provide correct census tract information to THDA.

A. Census Tracts

The US Census Bureau divides the United States into many small geographic areas, and identifies each with a unique series of numerals separated by decimals. These numbers indicate the Property's state, county, tract, and sub-tract. An example of a complete Census Bureau identification number and an explanation of its elements follows:

Example: 47.157.0078.10

"47" - the US Census Bureau identification number for Tennessee. THDA does not require this number to be indicated on the appraisal report.

"157" - the US Census Bureau identification number for Shelby County. THDA does not require the Census Bureau county code number to be entered on the appraisal report.

"0078" - the US Census Bureau identification number for one of the census tracts within Shelby County. The correct census tract number <u>must</u> be indicated on the Appraisal for Property located in those counties.

"10" - the US Census Bureau sub-tract number within tract 0078.

B. Current Targeted Areas

1. Counties

Bledsoe	Crockett	Grainger	Henderson	Lawrence	Meigs	Scott	Wayne
Campbell	DeKalb	Greene	Hickman	Lincoln	Monroe	Sequatchie	White
Cannon	Dyer	Grundy	Houston	Loudon	Morgan	Stewart	
Carroll	Fayette	Hancock	Jackson	Macon	Obion	Tipton	
Chester	Fentress	Hardeman	Jefferson	Madison	Overton	Trousdale	
Claiborne	Franklin	Hardin	Johnson	Marion	Pickett	Unicoi	
Clay	Gibson	Hawkins	Lake	Maury	Polk	Union	
Cocke	Giles	Haywood	Lauderdale	McNairy	Rhea	Van Buren	

2. Census Tracts

County	**Census Tracts**				
Anderson	020700				
Bradley	010400	010700			
Coffee	970900				
Davidson	011800	012400	012500	013600	013900
	014000	014200	014300	014400	014800
	016200				
Hamblen	100300				
Hamilton	000300	001200	001500	001600	001900
	002000				
Knox	000200	000400	000600	000700	001200
	001300	001400	002400	002800	
Montgomery	100400	000900			
Shelby	000200	000300	000400	000500	000800
	000900	001800	001900	002000	002100
	002200	002300	002400	002800	003700
	003800	004000	004100	004400	004500
	004600	004700	004800	004900	005000
	005100	005400	005700	005800	005900
	006000	006700	007810	008110	008400
	010300	010420	022022		
Washington	060700	060900			

SECTION 4: OTHER THDA PROGRAM REQUIREMENTS

4.1 ELIGIBLE APPLICANTS

An Eligible Applicant must meet ALL of the following criteria:

1. Possess and demonstrate the legal capacity to incur the THDA debt (not be judged incompetent, and be age 18 or older or have minority removed by judicial process);

2. Meet credit underwriting standards of the relevant insuring program as evidenced by the approval of a Direct Endorsement underwriter or the insurer program accepted underwriting software, i.e. Loan Prospector, Desktop Underwriter;

3. Be, or become, within 60 days after the THDA loan closing, a resident of the State of Tennessee and intend to occupy the Property as their principal residence;

4. Have gross assets of such amounts as to be considered a person of low or moderate income, as THDA may determine from the documentation contained in the application file (See Section 5.2); and

5. Agree to occupy the Property as their principal residence and agree not to rent the Property during the term of the THDA loan, as sworn to in the Application Affidavit and as precluded by the THDA Rider.

4.2 PROPERTY ELIGIBILITY

A. Eligible Property

Eligible Property must meet ALL of the following requirements:

1. Be one of the following:

   (a) A detached or semi-detached house;

   (b) A row-house, townhouse, condominium or be part of a planned unit development. For a Property located in a condominium development, including developments less than 100% complete, the condominium development must have approval by either FHA, VA, USDA/RD, FHLMC or FNMA;

   (c) A one-, two-, three- or four-family residence, one unit of which must be occupied by Applicant as his/her principal residence;

   (d) Any of the above types of residences, existing, new or proposed:

      (1) built on site, or

      (2) a modular home permanently attached to a foundation (in compliance with HUD guidelines, or

      (3) a HUD approved double-wide manufactured home permanently attached to a foundation (in compliance with HUD Manual 4930.3, "Permanent Foundations Guide for Manufactured Housing"), with wheels, axles, towing tongue and running lights removed. If any portion of a

residence includes a manufactured home, the residence is classified as a manufactured home for THDA's purposes. A structural engineer's report is required stating that the home is permanently attached to a foundation in compliance with HUD guidelines.

2. Any property consisting of more than one unit as described above, or that contains a separate living unit detached from the Borrower's principal residence, will not be eligible for THDA funding.

3. Not to be used in a trade or business or as an investment property, vacation home or seasonal home. Occasionally individuals claim a business deduction on their Federal Income Tax Returns. In most cases this is a small portion of the home used as an office and the tax return must show the percentage of square footage used for the business deduction. As long as the square footage used for a business deduction is 15% or less, it is acceptable to THDA. Obviously, the home cannot be used as a day care center, beauty salon or other similar businesses.

4. Be in good condition, meet state and local codes, comply with local zoning in its present use.

5. Be in complete compliance with any and all loan program insurer guidelines for minimum property standards and loan insurance. Any closed loan subsequently found ineligible for insurance for a property related issue, as determined by the relevant insurer, is ineligible for THDA funding and immediately subject to repurchase by the Originating Agent, without exception.

6. In order for a HUD owned property to be considered an eligible property for THDA funding, it must be listed for sale as:

   "Insurable", meaning that FHA's MPR has been met at the time of the appraisal, and no repairs are required regardless of program type (FHA, VA, USDA/RD, or Conventional):

   or

   "Insurable With Conditions" and all conditions have been satisfied to fully meet FHA's MPR or HUD is providing escrow funds to cover the costs of required repairs regardless of program type (FHA, VA, USDA/RD, or Conventional).

   The HUD Appraisal MUST include the estimated cost of any required repairs and must state that the utilities were on. THDA will allow HUD escrow for repairs to be included in the loan amount. THDA will also allow borrower funded escrow for required repairs. The appraiser must specify the cost of any and all required repairs. An actual bid from a licensed contractor stating the total cost of the required repairs may be required by THDA. The Originating Agent must be responsible to insure that adequate funds are available to complete the required repairs and at a minimum, one and one-half (1½) times the cost of the repairs must be held in escrow. The required repairs MUST be completed within 60 days of the date of loan closing and a clear, final inspection by the appraiser or Originating Agent is required. An escrow agreement signed by the Originating Agent and the borrower must be provided to THDA. THDA reserves the right to reject any request for escrows.

   HUD owned properties are now eligible under the Great Start Mortgage Program.

B. Appraisals

The Originating Agent is responsible for selecting appraisers and reviewing the quality of their work. THDA does not maintain a list of approved appraisers; however, THDA reserves the right to refuse appraisals from specific appraisers or appraisal firms. THDA also reserves the right to require a new appraisal prepared by a different appraiser or to require additional information, including additional comparable sales.

In September 2005, FHA issued ML 2005-34 announcing the adoption of Fannie Mae's revised appraisal forms. Also in December of 2005, FHA issued ML 2005-48 pertaining to required repairs and inspections for existing properties. THDA has approved and adopted these same guidelines and policy changes as it relates to FHA loans.

As an element of THDA's quality control process, appraisal desk reviews and field reviews may be ordered by THDA. Reviews indicating that the original appraisal contained unrealistic valuation methods or conclusions, or reviews that reveal patterns of inappropriate valuations, may result in the suspension of the appraiser from THDA's programs, or other appropriate action.

All application files submitted for THDA underwriting must include a Uniform Residential Appraisal Report (URAR), completed by an appraiser who is licensed by the State of Tennessee, and who has no financial interest in the transaction.

The Appraisal must indicate an appraised value acceptable to THDA. An application may be rejected by THDA if:

1. The appraised value of the Property exceeds the applicable Acquisition Cost Limit by more than 20%; or

2. The Appraisal indicates a land value in excess of 35% of the total appraised value of the Property, unless otherwise approved by THDA in its sole discretion; or

3. The Appraisal indicates the property values for the neighborhood in which the Property is located are declining and the Applicant is seeking a THDA mortgage loan for maximum financing.

C. Acceptable Amount of Land

Property purchased using a THDA loan program can include land up to two acres, or be one subdivision lot up to two acres in size, as shown on a recorded subdivision plat, without express THDA approval. More than one recorded subdivision lot will be acceptable if the property is located in an older subdivision containing narrow "shotgun" lots.

THDA may, on a case-by-case basis and in THDA's sole discretion, consider a property that includes more than one lot or exceeds two acres in size, if necessary for the habitability of the property. For example, some city or county zoning requires that the property contain more than two acres, the topography of the land may be extremely rough, additional land may be required for a septic system, etc. Requests for consideration of a property that exceeds two acres in size must be well documented by the appraiser. The appraiser must also state that the property is not income producing property.

4.3 ELIGIBLE LOAN TYPES AND TERMS

A. Types Of Loans

Each THDA loan must be one of the following:

1. Insured or guaranteed by one of the following:

    a. the Department of Veterans Affairs (VA), as evidenced by a Loan Guaranty Certificate (LGC); or

    b. the Federal Housing Administration (FHA), as evidenced by a Mortgage Insurance Certificate (MIC);or

    c. the United States Department of Agriculture, Rural Development, as evidenced by USDA/RD Form 1980-17.

2. Conventional loans must have a loan-to-value ratio of 78% or less based on the loan amount divided by the lesser of appraisal or contract sales price. A second mortgage for 22% is no longer permitted. In the case of a self-built new construction, the ratio is based on the lesser of appraised value or actual total cost.

B. Maximum Loan-To-Value Ratios

As permitted by FHA, VA, USDA/RD, or 78% LTV for conventional loans, subject to any restrictions contained in this Guide.

C. Maximum Loan Amount

1. Conventional Loans

    a. All Conventional loans must be underwritten using FNMA and FHLMC guidelines, no expanded approvals allowed. Automated Underwriting Systems, FNMA's (DU) or FHLMC's (LP) must be used for the underwriting decision.

    b. Loans at 78% or less LTV may be manually underwritten if the borrower/s have no credit score. However, if FNMA or FHLMC's Automated Underwriting System (DU or LP) is used, no expanded approvals are acceptable for THDA loans.

2. FHA, VA or USDA/RD Loans

The Base Loan Amount cannot exceed the appraised value, and cannot exceed THDA's Acquisition Cost limit for the county in which the Property is located. The Total Loan Amount may exceed the maximum Acquisition Cost limit by no more than the amount of financed MIP, funding fee or guaranty fee.

3. FHA 203(h) Mortgage Insurance for Disaster Victims

THDA will accept applications under FHA's Section 203(h) Mortgage Insurance for Disaster victims, provided they were a **TENANT** who lost the use of their **RENTAL** primary residence due to total or major destruction located within a Presidentially declared disaster area. THDA will offer the Great Rate and Great Advantage mortgage programs.

- Program is in effect for one year from when the President declares the disaster.
- 100% financing for disaster victims whose homes/residences have been either destroyed or damaged to the point that reconstruction is required in a Presidentially declared disaster area.
- The victim/borrower does not have to purchase in the declared disaster areas.
- Find the listed Presidentially declared disaster areas at:
  www.fema.gov/news/eventcounties.fema
- The victim/borrower has to provide proof of permanent residence in the disaster area and proof of destruction of residence with the following recommended documents:
  - Proof of permanent residence: valid driver's license, voter registration card, or utility bills;
  - Proof of destruction of residence: an insurance report, an inspection report by and independent fee inspector or government agency (FEMA), or conclusive photographic evidence showing the destruction or damage.

The following properties are eligible: one unit detached homes, approved condominium projects, or spot loan condominiums.
(Two, three, and four unit properties are not eligible to be purchased in this program)

Closing costs and prepaids can be paid by the buyer, seller, lender, or through THDA down payment/closing costs assistance.

Standard FHA and THDA underwriting guidelines apply for qualification.

4. Loans with a borrower(s) credit score below 620 MAY NOT be manually underwritten regardless of loan type. Borrower(s) with no credit scores may be manually underwritten using non-traditional credit guidelines in accordance with FHA, VA or Rural Development requirements.

5. All loan submissions with a borrower(s) credit score (middle score or lowest score if only two scores) below 620 are not eligible for THDA funding. Manually underwritten loans are not acceptable regardless of the circumstances with the exception of borrower(s) with no credit scores. These loans may continue to be manually underwritten using non-traditional credit guidelines in accordance with FHA guidelines. The back end ratio (PITI) MAY NOT exceed 45%. These guidelines apply regardless of whether the borrower(s) received an Approve/Eligible or Accept through one of the Automated Underwriting Systems.

6. Other Considerations

a. A Gift of Equity MAY be considered by THDA on a case-by-case basis on an existing home or new construction under certain circumstances. The terms of the Gift of Equity must be stated in the sales contract and MUST be from an immediate family member. Immediate family member is defined as parents, siblings and grandparents. If the home is proposed or under construction, the maximum loan cannot exceed the borrower's actual cost of construction plus the borrower's actual cost of the lot, both of which must be verified. THDA reserves the right to ask for or require additional documentation on any loan with a Gift of Equity.

b. For transactions involving estate sales wherein the Applicant is an heir, the maximum loan amount must be calculated after deducting the Applicant/heir's anticipated share of the sale proceeds.

D. Security

All THDA loans must be secured by a first lien on the Property. In addition, THDA may offer special programs from time to time that allow THDA second mortgages in conjunction with THDA first mortgages.

E. Loan Payment Terms

THDA first mortgage loans must be fully amortized, with level payments, and must be for a term of 30 years in **all** cases. Under no circumstance may the loan term exceed the economic life of the Property provided in the appraisal report.

F. Prepayment Penalty

Prepayment penalties are not permitted on THDA loans.

G. Late Charge

Late charges, if any, must be reflected in the D/T Note and must be in compliance with program insurer's guidelines.

H. Points, Discount Points and Origination Fees

Only the authorized Origination Fee and Discount Points may be charged.

I. Assumptions

THDA first mortgage loans are assumable only if the person assuming the THDA loan meets all THDA program requirements applicable to new THDA loans, and the assumption application is approved by THDA. Assumption applications are processed by THDA or the THDA Servicer of the loan to be assumed.

4.4 FEDERAL RECAPTURE

All THDA loans closed after December 31, 1990, are subject to the federal recapture tax. The recapture tax is designed to recapture a portion of the subsidy associated with the below market interest rate on THDA loans. Recapture tax liability must be determined at the time the Property is sold, if the sale occurs within the first nine years of the THDA loan. The recapture tax for the original Borrower does not apply if the sale occurs more than nine years after the date the THDA loan closed. Refinancing a THDA loan does not trigger recapture tax liability, however, if the Property is sold after the date of refinancing but before the ninth anniversary of the THDA loan closing, recapture tax liability must be determined at the time of sale. THDA Originating Agents notify the Applicant about recapture tax at the time a THDA loan application is made by securing their signature on the Notice To Applicants Federal Recapture Requirements.

Whether the recapture tax results in an actual payment to the federal government depends on a number of factors, including changes in family income, gain on the sale of the Property, the number of years the THDA loan is outstanding, and the original THDA loan amount. The exact amount to be paid, if any, cannot be determined until the Property is sold.

A THDA loan, originally closed after December 31, 1990, that is assumed within nine years from the date of the original THDA loan closing is subject to the recapture tax for an additional nine year period beginning on the date of the assumption. The recapture tax does not apply to the sale of an assumed THDA loan if the purchaser who assumed the THDA loan sells more than nine years after the date the THDA loan is assumed.

For further information regarding the federal recapture tax, advise Applicants or Borrowers to contact their tax professional. Written information is available by ordering IRS Form 8828 "Recapture of Federal Mortgage Subsidy" and its accompanying instructions from any IRS office. A toll free IRS telephone number for ordering IRS forms is 1-800-829-3676.

SECTION 5: PROCESSING AND CREDIT UNDERWRITING REQUIREMENTS

5.1 OVERVIEW

A. Disclosures

Originating Agents make all disclosures required by Federal or State law or regulation using forms supplied by Originating Agent. These include, without limitation, signed and dated copies of good faith estimates, Reg. Z, Tennessee Residential Property Condition Disclosure and transfer of servicing disclosures on the forms utilized by the Originating Agent in the normal course of their business. All disclosures must comply with applicable law or regulation.

B. Underwriting Guidelines, Debt Ratios, Credit Scores, Compensating Factors

Eligible applicants must meet credit underwriting standards of the relevant insuring program, as evidenced by the approval of a Direct Endorsement underwriter or the insurer, program accepted, underwriting software, i.e. Loan Prospector, Desktop Underwriter. LP or DU acceptance must also be signed by the Originating Agent underwriter or processor verifying the accuracy of information or data required to receive approval.

All loan submissions with a borrower(s) credit score (middle score or lowest score if only two scores) below 620 will not be eligible for THDA funding. Manually underwritten loans are not acceptable regardless of the circumstances with the exception of borrower(s) with no credit scores. THDA will accept loans with a decision response of Refer/Eligible if the decision clearly states "No Score". If there are other risk factors stated other than "No Score", THDA will not accept the loan application.

These loans may continue to be manually underwritten using non-traditional credit guidelines in accordance with FHA guidelines. The back end ratio (PITI) MAY NOT exceed 45%. These guidelines apply regardless of whether the borrower(s) received an Approve/Eligible or Accept through one of the Automated Underwriting Systems.

All THDA loan application packages will be required to include a copy of the completed Mortgage Credit Analysis worksheet or Loan Analysis signed by an authorized program endorsed underwriter of the Originating Agent, or correspondent underwriting agent. (See Section 6.2. K)

Any closed loan subsequently determined to be ineligible for program insurance due to non-compliance with that program's credit underwriting guidelines will be ineligible for THDA funding and subject to repurchase without exception.

THDA Originating Agents are strongly encouraged to consult materials published by FHA, VA, USDA/RD, and PMI companies for their specific requirements before submitting the THDA loan application for funding.

C. Homebuyer Education

Great Advantage and Great Start Program borrowers are required to obtain pre-purchase education and counseling provided by a certified THDA counselor at one of the approved agencies listed on THDA's website at www.thda.org. This course is an eight hour face to face training session which usually combines a 6-7 hour group class with an hour of individual one-on-one counseling.

- The primary focus of the pre-purchase counseling includes the following: Budgeting and Credit, Shopping for a Home, Getting a Mortgage Loan, Keeping Your Home and Managing Your Finances.
- THDA counselors will use the NeighborWorks America "Realizing the American Dream" curriculum and are required to adhere to the National Industry Standards for Homeownership Education and Counseling.

D. Exception to Face to Face Homebuyer Education Counseling

THDA allows the use of the eHomeAmerica online product to accommodate borrowers that have unique logistical or physical challenges – or, who have demonstrated through their use of credit that they already have a solid understanding of how to budget and manage their finances.
In order to be eligible for Online Homebuyer Education Counseling, the borrower(s) must meet the following eligibility criteria.

- Borrower lives out-of-state and will not be in Tennessee until the date of their closing.
- Borrower lives more than an hour's drive from an approved THDA counseling agency.
- Borrower is physically unable to participate in a classroom setting.
- Borrower has a minimum credit score of 720 and has ratios that do not exceed 29/41.*

  *Must attach documentation providing borrower credit score and ratios.

1. Requesting Approval

A. Each exception must be pre-approved by THDA.

B. Before requesting approval, the lender will be responsible for reviewing the Online Homeownership Education Borrower Information Form HBEO-100 with the prospective online education borrower. Form HBEO-100 provides key information, including the following:

- The borrower must pay a fee for using the online product.
- The eHomeAmerica online course will take several hours to complete. The course has test questions at the end of each section.
- The online borrower will be required to participate in at least two telephone sessions with the HBEI agency providing them access to the online product.
  - The first session is for intake and preparation before taking the online course.
  - The second telephone conference provides follow-up counseling on the test questions and additional counseling regarding the borrower's budget and their responsibilities as a THDA homeowner.

C. To request approval for online education for a borrower, a THDA lender must complete and send Online Homeownership Education Request Form HBEO-200 and the Online Homeownership Education Borrower Information Form HBEO-100 which has been executed by the borrower to THDA by fax to 615-564-1229 or email to HomebuyerEducationInfo@thda.org.

2. Approval and Connection with THDA Counseling Agency

THDA will review the lender's submitted Online Homeownership Education Request and, upon approval, assign the borrower to an approved THDA counseling agency to administer the eHomeAmerica online education product. THDA will notify the lender and the counseling agency of the borrower's approval to participate in the online education program. The borrower is responsible for contacting the counseling agency.

E. Age of Credit Documents

All credit documents must be current when submitted to THDA for underwriting. For Commitments with a term of six months (permanent financing on proposed construction), income documents (VOE and pay stubs) more than 180 days old must be updated and resubmitted for THDA review and approval when construction is complete.

All updates and requests for extension of Commitments must be submitted with updated documents for THDA approval prior to the Commitment expiration date.

F. Qualifying Spouse

When an application is made by two people, both are considered co-applicants for THDA eligibility purposes. Both must sign the Application Affidavit and the income of both persons must be included in calculating Household Income as described in Section 3.3. Both persons must execute the Note and the Deed of Trust.

G. Non-Qualifying Spouse

1. Cannot have owned principal residence in the past three years unless present property being purchased is in a targeted area.

2. Items required as documentation on the non-qualifying spouse:

    a. Income verified and a current pay stub.

    b. Signature on an original Application Affidavit (can be on the same Affidavit as borrower or on a separate Affidavit).

    c. Copy of the most recent tax year Federal Income Tax Return and W-2's.

    d. Signature on the Deed of Trust at closing (signing away marital interest).

H. Co-Signers

THDA will not approve any loan, regardless of insuring program type or provisions, that includes the use of a co-signer for loan approval by the lender.

5.2 ASSETS

A. Substantial Liquid Assets

If an Applicant has relatively large amounts of deposits or investments, explain the Applicant's circumstances submitting all relevant documentation with the loan package. THDA will make a case-by-case determination of the acceptable level of liquid assets, based on the information and documentation provided in the application file.

B. Sale of Assets

Funds to close the THDA loan that are obtained from the sale of an asset must be documented. Include a copy of the HUD-1 settlement statement for the sale of real estate.

Sale of a home or a manufactured home must be documented in order to establish whether financing income is being received, or will be received, or to show that the property was sold and not retained for rental income. If there is financing income or rental income, it must be included in Household Income (See Section 3.2).

5.3 VERIFICATIONS

A. Employment Verifications

Full documentation is required for THDA. All current full-time and part-time employment or self-employment covering a period of at least the last two years must be verified in writing. Telephone verification is acceptable on previous employment. For current employment not verified with a standard VOE form, answers to all questions contained on the standard VOE must be provided by the employer on employer letterhead. Verifications must indicate bonuses, next pay increase, overtime and scheduled number of work hours if paid by the hour. In addition, a copy of each Applicant's most recent pay stub is required (no more than 30 days old). This income verification and documentation is also required for a non-qualifying spouse and any other occupant of the property 18 years of age or older.

B. Sole-Proprietorship Verifications

Year-to-date P&L, Plus 1040's with Schedule C for a minimum of two tax years, and 24 months in business.

C. Partnership Verifications

Year-to-date P&L, Plus 1065's with Schedule K-1 and Schedule E, part II; Partnership returns with all schedules. Minimum two tax returns and 24 months in business.

D. Limited Partnership Verifications

1065, Schedule K-1 and Schedule E, part II; Partnership Return with schedules. Minimum two tax returns and 24 months in business.

E. Subchapter S Corporation Verifications

1120/1120S, Schedule K-1, Schedule E, part II, W-2 for Applicant. Minimum two tax returns and 24 months in business.

F. Corporation Verifications

Provide if Applicant owns or controls 25% or more of the stock. Corporation Return, Form 1120 and Schedule L (if applicable); W-2 for Applicant. Minimum two tax returns and 24 months in business.

G. Deposit Verifications

Borrower's bank statements for the previous two months may be submitted.

H. Veteran Status

Veterans applying for the exemption to the three year requirement must provide a copy of VA Form DD-214 or VA Form DD-4 (Enlistment/Re-enlistment Document).

I. FHA 203(h) Proof of Permanent Residence

The victim/borrower's previous permanent rental residence must have been in the disaster area and must have been destroyed or damaged to such an extent that reconstruction or replacement is necessary. The victim/borrower must provide conclusive proof of permanent residence with one of the following:

- Valid driver's license
- Voter registration card
- Utility bills

J. FHA 203(h) Proof of Destruction of Residence

The victim/borrower's previous permanent rental residence must have been in the disaster area and must have been destroyed or damaged to such an extent that reconstruction or replacement is necessary. The victim/borrower must provide proof of destruction with one of the following:

- An insurance report
- An inspection report by an independent fee inspector or government agency (FEMA)
- Conclusive photographic evidence showing the destruction or damage

5.4 DEBTS, OBLIGATIONS AND OTHER EXPENSES

A. Remaining Debt Payments

Although most program insurer underwriting guidelines allow a certain number of remaining scheduled debt payments to be disregarded for purposes of loan qualifying, the impact of existing debt payments on Applicant's budget at the time of the first scheduled THDA loan payment must be evaluated.

B. Bankruptcy (Chapter 7 and Chapter 13)

An Applicant's Chapter 7 bankruptcy must be discharged for a minimum of two years and acceptable credit must be re-established to be eligible for a THDA loan.

An applicant's Chapter 13 bankruptcy must be discharged for a minimum of one year and all payments on the plan were made as agreed, and acceptable credit has been re-established or maintained during this time.

Applicants currently in bankruptcy are not eligible for THDA loan programs.

C. Previous Default

Applicants with prior foreclosures or deeds-in-lieu are not eligible for THDA loan programs for a period of four years from the date of the foreclosure sale. If the foreclosure was on a THDA funded loan, the borrowers are not eligible for another THDA loan.

D. Child Support and Alimony Obligations

Include a copy of the final order, signed by the court. Payments must be current.

E. Judgments

Any and all judgments must be handled in accordance with the program insurer guidelines.

F. Federal or State Tax Liens, Tax Arrearages

All tax liens or arrearages must be paid in full. Include an acceptable explanation from the Applicant.

G. Collections

Any and all collection accounts must be handled in accordance with program insurer guidelines.

H. Co-Signed Debt

Any and all co-signed accounts must be included in Originating Agent underwriting decisions in accordance with program insurer guidelines.

I. Child Care Expense

Child care expenses must be handled in accordance with program insurer guidelines.

J. Gift Letters

A properly-documented gift letter, verified in accordance with program insurer guidelines is acceptable to THDA.

K. THDA Grant Award Letter (HO-0474)

A THDA Grant Award Letter is required stating that THDA has agreed to provide funds for the Borrower's required Minimum Cash Investment.

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SECTION 6: SUBMITTING AN APPLICATION FILE TO THDA

6.1 OVERVIEW

Originating Agents must present accurate and complete information with each application file. Information withheld or misrepresented may void a Commitment or if discovered subsequent to loan closing, could result in repurchase of the loan. Should the Originating Agent become aware prior to closing that either the household composition first proposed, and/or the household income first proposed has changed or will change prior to closing, THDA must be notified immediately and updated loan documentation submitted.

The application file as submitted to THDA, must have all documentation being submitted in the order shown on the THDA Underwriting Submission Checklist.

6.2 REQUIRED DOCUMENTS

A. Underwriting Submission Checklist

Include this form with each application file submitted to THDA for underwriting. See Section 9. If the borrower(s) is applying for the Stimulus Loan Program second mortgage in conjunction with their application for a first mortgage, both blocks under Program Type must be checked.

B. Check Request Memorandum

Include an original, properly completed Check Request Memorandum when an application file is submitted to THDA for underwriting if the loan is to be closed by the Pre-Funded method. THDA cannot issue a loan funding check without this official authorization.

C. Buyer Profile

A completed Buyer Profile must be included in the application file when submitted for THDA underwriting. See Section 9 for instructions.

D. Application Affidavit

The original executed and notarized Application Affidavit must be received as part of the loan submission package. The Application Affidavit must be signed by each loan applicant. Married applicants must both sign the Application Affidavit and meet first-time homebuyer eligibility requirements, even if a non-qualifying spouse is involved.

E. Veteran Exemption Application Affidavit

The original executed and notarized Veteran Exemption Application Affidavit must be received as part of the loan submission package if the veteran is applying under the exception to the three year requirement. Married veteran applicants must both sign the Veteran Exemption Application Affidavit and the veteran's spouse does not have to meet the three year requirement.

F. Seller Affidavit

The seller of the Property must execute a Seller Affidavit for each application file submitted to THDA. The original Seller Affidavit is required as part of the initial package submission. See Section 9 for additional information.

G. Tax Returns

Copies of signed and dated Federal Income Tax Returns, including W-2's, for the most recent tax year for the Applicant(s) and/or any non-qualifying spouse must be included in the initial application file. A Federal Income Tax Return also must be included in the initial application file for any household member 18 years or older who is required to file a Federal Income Tax Return.

If an Applicant or other household member 18 years of age or older cannot provide a copy of their most recent Federal Income Tax Return, they must obtain an IRS Tax Transcript or IRS Letter 1722, which are available from the IRS office where the tax return was filed. The Tax Transcript must be signed and dated by the tax payer. Transcripts may be ordered by using IRS Form 4506. If an Applicant or household member was not required to file a Federal Income Tax Return, provide a signed and dated statement specifying why they were not required to file.

THDA, at its sole discretion, may require the most recent three years Federal Income Tax Returns if there is any indication in the loan file of prior homeownership.

H. Notice To Applicants Federal Recapture Requirements

This THDA disclosure is required for all loan types and must be signed at the time of application. Include the signed original in the application file. Furnish the Applicant a copy of the signed original. (See Section 10.)

I. Grants/Downpayment Assistance Approval Letters

If the Applicant expects to receive a grant or downpayment assistance to facilitate the purchase of the Property, include an approval letter from the granting organization indicating the type of assistance and the approved amount in the application file.

J. Transmittal Summary (Conventional and USDA/RD)

Include a Transmittal Summary with each conventional and USDA/RD application. This form is considered as the Originating Agent's underwriting approval and must be signed and dated by the underwriter.

K. Insurance/Guaranty Approval

Based on the applicable loan type, include a copy of one of the following, accompanied by a copy of its condition sheet (if approved with conditions):

1. FHA/Mortgage Credit Analysis Worksheet signed and dated by a DE Underwriter if manually underwritten. If using LP or DU automated underwriting systems and states an Accept/Approve, then an underwriter's signature is not required. CHUMS number must be ZFHA; or

2. VA (or VA Automatic) approval signed and dated by VA or the Originating Agent's Automatic underwriter; or

3. Executed USDA/RD 1980-18.

L. Loan Application (1003)

Include the scratch 1003, signed and dated by the Applicant(s) and the loan officer and final typed 1003. Three years of residency should be stated on the 1003.

M. Positive Identification

For all loan types, positive identification of each Applicant must be obtained in accordance with insurer or guarantor guidelines. It is the Originating Agents responsibility to insure that those guidelines are met.

N. Credit Report

The original credit report must be included in the application file unless it is required to be submitted to the insurer or guarantor. The Applicant's credit report must comply with the program insurer's minimum acceptable credit verification guidelines. Merged credit reports that comply with program guidelines are acceptable.

O. Final Divorce Decree/Marital Dissolution; Court Ordered Child Support; SSI or Other Assistance

Include copies of any or all of these documents, as applicable.

P. Verification of Employment; Most Recent Pay Stub; Form Evidencing Telephone Verification of Prior Employment; Self-Employment

See Sections 5.3 and 5.4.

Q. Documentation for Veteran Exemption

VA Form DD-214 if applicant is a discharged or released veteran. VA Form DD-4 if applicant has re-enlisted, but was eligible for a discharge or release at the time of re-enlistment.

R. Original Certificate of Title or Original Manufactured Certificate of Origin (Manufactured Home)

The **ORIGINAL** Certificate of Title with any lien noted thereon having been marked released, or **ORIGINAL** Manufactured Certificate of Origin ("MCO") in the name of the seller of the subject property or having been endorsed to the seller MUST be included in the Underwriting Submission package. The file may be submitted electronically, however, a commitment will not be issued until THDA receives the **ORIGINAL** Certificate of Title or **ORIGINAL** "MCO".

The only exception to this requirement is, if the seller of the subject property has a mortgage on the property and the lien holder is in possession of the title or MCO and will not release it until their loan is paid off. Under this scenario, a copy of the Certificate of Title or MCO must be included in the Underwriting Submission package and the commitment will be conditioned to receive the **ORIGINAL** Certificate of Title or MCO with the Closed Loan package. However, THDA will not purchase the loan until we receive the **ORIGINAL** Certificate of Title or **ORIGINAL** MCO.

S. Verification of Deposit or Bank Statements for Previous Two Months

See Sections 5.3.

T. Sales Contract

Include a copy of the contract for the purchase of the Property (fully executed by seller and Applicant) in the application file. Information in the application file must be consistent with the contract. Any changes to the contract must be initialed by seller and Applicant.

U. FHA Conditional Commitment

Enclose the HUD Form 92800.5B (FHA Conditional Commitment) and the Appraisal Analysis Sheet, both signed by the DE Underwriter.

V. Appraisal

Enclose an original Uniform Residential Appraisal Report (FMNA 1004) in the application file. The Uniform Residential Appraisal Report must reflect inspections of both the interior and exterior of the dwelling. If the original Appraisal must be submitted to the loan insurer or guarantor, a legible copy must be enclosed. Original photos of the subject property and comparable sales or legible copies must be included. If the negotiated sales price for the Property was modified after the Appraisal was provided, enclose a letter from the appraiser that indicates any changes in the appraiser's conclusions.

W. Flood Notification

If the Property lies within a Special Flood Hazard Zone, the Originating Agent must make proper and timely disclosure to the Applicant in compliance with federal regulations. Provide a life of loan Flood Hazard certification with the initial underwriting submission package or closed loan documents.

X. Good Faith Estimate

The initial Good Faith Estimate (GFE) must be included in the Underwriting Submission Package and any subsequent changes in the GFE, if necessary, must be included in the Closed Loan Submission Package.

Y. THDA Grant Award Letter

A THDA Grant Award Letter is required stating that THDA has agreed to provide funds for the Borrower's required Minimum Cash Investment.

6.3 DOCUMENTING PROPOSED CONSTRUCTION APPLICATIONS

NOTE: *This section does not apply to the purchase of a new or proposed residence located on a lot that is not owned by the Applicant prior to the date of the loan closing.*

A. Contractor to Build on Applicant's Lot

1. Applicant provides no materials or labor

   Applicant contracts with a builder to construct a residence on Applicant's lot for a firm price. Applicant will not be responsible for any construction costs, and the contracted transaction will produce a residence that is complete in every respect. If additional costs are authorized or incurred during construction, document as in 2(b) below, correct the final 1003.

   (a) Document application with:
   Copy of Warranty Deed to lot,
   Copy of construction contract.

(b) When complete, submit:

Final inspection,
Final photos,
Updated credit documents, and
Updated income verification.

2. Price not firm, or Applicant provides materials and/or labor

Applicant contracts with a builder to construct a residence on the Applicant's lot for cost, Plus a fee or percentage; or Applicant will be responsible for <u>any</u> materials and/or labor; or materials list calls for allowances (dollar amounts) for certain items.

(a) Document application with:

Copy of Warranty Deed to lot,
Construction contract,
Contractor's materials list,
Contractor's detailed cost estimate,
Applicant's materials list, and
Applicant's detailed cost estimate and supplier bids.

(b) When complete, submit:

Final inspection,
Final photos,
Contractor's final itemized bill,
Copy of cancelled checks and paid receipts for all materials and labor provided by Applicant, with calculator tape attached,
Updated credit documents,
Updated income verifications, and
Corrected "Cost of Improvements" and "Total" on page 1 of the 1003, or new typed 1003.

B. Self-Build

1. Applicants may not act as their own contractor unless they are experienced in residential construction.

(a) Document application with:

Copy of Warranty Deed to lot,
Complete HUD 92005, Description of Materials, or comparable form,
Copies of subcontractor bids or contracts, and
Detailed and totaled cost estimate for <u>all</u> materials and labor.

(b) When complete, submit:

Final inspection,
Final photos,
Copy of cancelled checks and paid receipts for all materials and labor, with calculator tape attached,
Updated credit documents,
Updated income verifications, and
Corrected "Cost of Improvements" and "Total" on page 1 of the 1003, or new typed 1003.

C. Manufactured Housing

For manufactured housing, additional or substituted documentation must include a contract for the manufactured home and documentation for the cost of foundation, utilities, landscaping, driveways and all other necessary improvements.

D. Borrower Obtains Construction Loan

1. If applicants are acting as their own contractor, refer to Section 6.3.B above. Verification of the construction loan amount and term is required and should be added to the typed 1003. No cash out to borrower at closing is allowed.

2. If the applicants have hired a contractor to build the home, a copy of the construction contract is required and, at a minimum, the construction contract must state total cost or price. It cannot state cost plus a percent for profit.

6.4 THDA UNDERWRITING DECISIONS

A. THDA Underwriting Results

THDA Underwriters review each application file (original, update or re-submission). This review results in one of the following:

1. THDA Underwriters may approve the application file without conditions, with Prior-To-Funding conditions for loans to close by the Pre-Funding Method, Prior-To Closing conditions for loans to close by the Purchase Method, and/or conditions that must be satisfied when the loan is closed.

2. THDA Underwriters may request additional documentation from the Originating Agent.

3. THDA Underwriters will reject an application if Household Income exceeds current Household Income Limits, if Acquisition Cost exceeds current Acquisition Cost Limit, if the Property is not eligible for THDA financing, or if the Applicant's credit is not acceptable to THDA. THDA, at its sole discretion, reserves the right to credit underwrite any loan and issue a denial based on unacceptable credit issues.

B. Rejections

Any application file rejected by a THDA Underwriter is reviewed by management before the Originating Agent is notified.

C. Re-Submissions

Re-submitted application files are processed by THDA in the same manner as new application files. THDA reserves the right to question a re-submitted application file that reveals significant income, deposit or asset discrepancies when compared to the application file that was initially submitted.

6.5 COMMITMENTS

A. Application Approval

An application file is not approved until a written Commitment is issued by THDA.

B. Commitment Term

Commitments for existing homes are issued for a period of three months. Commitments for proposed homes are normally issued for a period of six months, unless a three-month period is requested because construction is near completion.

C. Commitment Conditions

Commitments may be conditioned by THDA as follows:

1. Commitments may be issued with Prior-To-Closing conditions that must be satisfied before the loan can be closed, or

2. Commitments may be issued with conditions indicated under the heading "Receipt, With Closing Documents" (closing conditions).

D. Satisfying THDA Commitment Conditions

1. All Prior-To-Closing conditions must be satisfied in a manner satisfactory to THDA prior to loan closing. Submit <u>all</u> documents needed to clear <u>all</u> Prior-To-Closing conditions for each application file simultaneously.

   Documents submitted to satisfy Prior-To-Closing conditions must include the name of the Originating Agent, the THDA Underwriter to whom they are being submitted, the name of the Applicant and the THDA loan number.

2. All Closing Conditions (indicated on the Commitment as "Receipt, With Closing Documents") must be satisfied by the time the loan is closed. Documentation acceptable to THDA to satisfy Closing Conditions must be included with the closed loan file when shipped to THDA.

   THDA, in its sole discretion, may refuse to purchase any and all loans when any loan closing condition was not satisfied at closing.

E. Update of Application or Commitment

The application file and the Commitment must be updated in the following situations:

1. After the Commitment is issued, if the Originating Agent becomes aware of significant changes in the Applicant's household composition, income or credit, updated documentation must be submitted to THDA for review and approval.

2. When construction is complete (based on a six-month Commitment for proposed construction) final inspection, final photos and updated income documents (if more than 180 days old) must <u>always</u> be submitted for THDA review and approval.

3. All requests for an extension of a Commitment must be accompanied with updated income documents if the income documents are more than 180 days old.

F. Loan Amount or Program Type Changes

Occasionally, there will be a change in the loan amount, and/or the loan program may change. If the final loan amount is less than the loan amount indicated in the commitment, the Originating Agent should immediately contact THDA Processing for a new principal and interest payment amount. THDA will issue a revised Commitment, but closing can proceed, providing all other elements of the commitment have been satisfied.

If the final loan amount is more than the amount indicated in the Commitment, the Originating Agent should immediately contact THDA Underwriting. Closing should not be scheduled or held if already scheduled. The Originating Agent must submit revised loan amount documentation and the updated Originating Agent underwriter approval on the higher loan amount.

In any and all cases where the loan amount changes after the THDA mortgage funding check and/or Great Start Assistance check has been issued, THDA must be contacted before loan closing occurs. Do not close the THDA loan when discrepancies exist between loan amounts and check or assistance amounts.

G. Commitment Delivery

THDA will deliver commitments to Originating Agents by either fax or email based on documentation provided on the Underwriting Submission Checklist.

H. Void Commitments

A Commitment is void under the following circumstances:

1. Prior-to-Closing conditions are not satisfied, as determined by THDA, before the loan is closed;

2. Documentation in connection with "Receipt, With Closing Documents" (Closing Conditions) is not submitted with the closed loan package, or is not satisfactory to THDA;

3. A grantee on the Warranty Deed is not named in the Commitment;

4. The Property described in the closing documents differs from the Property indicated in the Commitment and/or on original URAR;

5. The loan closes as a loan type that is different from the loan type indicated on the Commitment;

6. The loan closes in an amount larger than the amount indicated on the Commitment;

7. The interest rate or loan term differs from the Commitment;

8. The monthly principal and interest payment in the promissory note is less than the principal and interest payment indicated on the Commitment;

9. The monthly principal and interest payment in the promissory note exceeds the principal and interest payment indicated on the Commitment by more than $.01;

10. The loan closes prior to the date of Commitment;

11. The loan closes after the Commitment expiration date without Commitment extension by THDA;

12. The closed loan servicing package is delivered to a servicer other than the THDA Servicer indicated on the Commitment;

13. The closed loan does not otherwise conform to the requirements contained in this Guide.

A loan closed with a void Commitment is not eligible for THDA funding. THDA will not purchase a loan if the loan was closed with a void Commitment.

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6.6 FUNDING THDA LOANS

Funding Method

All THDA first mortgage loans are funded by the Purchase Method. Under this funding method, the loan closes with the Originating Agent's funds after all Prior-To-Closing conditions have been cleared by THDA. After the closed loan file is delivered to THDA with acceptable documentation, THDA may purchase the loan.

THDA Great Advantage and Great Start assistance funds are funded by wire transfer to the Settlement Agent by THDA. The Great Advantage and Great Start Program Application for Grant Assistance form is required. Also, the THDA Grant Award Letter (HO-0474) must be included in the Underwriting Submission package.

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6.7 ADDITIONAL INFORMATION

A. Scheduling Loan Closings

Depending on volume, THDA attempts to review application files in the order of date received within 5 business days following the date of receipt. Application files received later than those already on hand will not be underwritten out-of-turn due to a scheduled closing date or the personal circumstances of an Applicant or a seller. Applications hand delivered by the Originating Agent after 3:00 P.M. will be considered received the following day for processing purposes. Applications received during the final 5 business days of the month should not be expected to close by end of month.

B. Change Of Property

If, at any time between application and closing, the Applicant wishes to purchase a different Property, a new transaction is created. If Property is substituted before the application file is submitted to THDA, be sure all references to the original Property are omitted (including information on the 1003), and a correct sales contract, appraisal and all original THDA Affidavits showing correct property address are enclosed.

If the Applicant wishes to purchase a Property different from that which is indicated in the Commitment, the Commitment is void and a new application reflecting the correct Property must be submitted to THDA.

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SECTION 7: CLOSING A THDA LOAN

7.1 OVERVIEW

All THDA approved loans must be closed in compliance with the Commitment and in compliance with the instructions contained in this Guide by a Settlement Agent who is an independent, third-party attorney or a title company. A federal or state regulated financial institution may act as their own Settlement Agent only with THDA's prior written approval, and in THDA's sole discretion. THDA will, however, rely on the Originating Agent to remedy problems concerning closed loan documentation.

Any closed loan subsequently determined to be ineligible due to the terms of the closing, closing documentation, failure to comply with insurer, guarantor or THDA closing conditions, early payment default, and/or any other closing related problem or error, is ineligible for THDA funding, without exception.

A. Faxed Notes

For all closed loans, a copy of the executed Note must be faxed to THDA at (615) 741-2338 within 24 hours of loan closing. This facsimile machine receives messages 24 hours a day, seven days a week.

B. Expedite Loan Documents

The Originating Agent must immediately submit the closed loan file for loan guaranty/insurance and ship servicing documents to the THDA Servicer as soon as possible.

Failure to comply with delivery deadlines will result in the Originating Agent being required to repurchase the loan from THDA or THDA will refuse to purchase the loan. See Section 8.2 for THDA delivery deadlines.

7.2 LOAN COMMITMENT

If the terms of the closed loan do not match the Commitment, or Commitment conditions are not satisfied, the Commitment is void. THDA may refuse to fund, may refuse to purchase or may demand repurchase by Originating Agent of a closed loan that does not conform to the Commitment. If any element of the transaction does not match the Commitment or if Commitment conditions are not satisfied, do not proceed with the closing. **A revised Commitment must be issued prior to closing if any element of the proposed transaction does not match the Commitment**. Contact THDA with any questions or to obtain a revised Commitment prior to closing.

7.3 REQUIRED LOAN DOCUMENTS

A. Loan Documents

The most recent versions of the following instruments for the applicable loan type must be used, including any applicable riders. A non-qualifying spouse must sign the Deed of Trust:

1. FHA: Multistate FHA Note (Tennessee)
   Multistate FHA Deed of Trust (Tennessee)
   THDA Rider

2. VA: FNMA/FHLMC Multistate Note (Tennessee)
FNMA/FHLMC Multistate Deed of Trust (Tennessee)
VA Rider
THDA Rider

3. USDA/RD (FmHA):
FNMA/FHLMC Multistate Note (Tennessee)
FNMA/FHLMC Multistate Deed of Trust (Tennessee)
THDA Rider
USDA/RD loans must close with FNMA/FHLMC documents only.

4. Conventional:
FNMA/FHLMC Multistate Conventional Note (Tennessee)
FNMA/FHLMC Multistate Deed of Trust (Tennessee)
THDA Rider

B. Due Dates

The promissory note must specify a first payment due date as the first day of the second calendar month following the date of closing. All subsequent payments are due the first day of each month. Interest credits are not allowed on THDA loan closings.

C. Late Charges

Late charges are permitted only in compliance with the applicable program insurer's guidelines. If the charge exceeds the allowable rate, the note will be returned for correction and signature by Borrower(s).

7.4 OTHER REQUIRED DOCUMENTATION

A. Title Insurance Policy

Use ALTA Loan Policy or ALTA Short Form Residential Loan Policy and include the following:

1. The insured amount must be equivalent to the amount of the first mortgage.

2. THDA must be a "named insured". Use the following language:

   (Name of Originating Agent), and/or Tennessee Housing Development Agency, and/or *(Name of insuring or guaranteeing entity)*, as their interests may appear.

   OR

   (Name of Originating Agent), its successors and assigns and/or (Name of insuring or guaranteeing entity), as their interests may appear.

3. Taxes/assessments that are due and payable cannot be indicated as unpaid.

Endorsements to the Title Insurance Policy may be required as determined by THDA.

B. Warranty Deed

The Warranty Deed must convey the Property to the borrower(s) indicated on the Commitment.

C. Termite Inspection/Treatment Certificate

Termite Inspections/Treatment Certificate provided as required by the insurer, guarantor or the appraiser.

D. Hazard Insurance

Hazard insurance coverage must be issued in the name(s) of the titled property owner(s). The insurance company issuing the hazard insurance policy must be licensed by the State of Tennessee, and have a current financial rating by Best's Insurance Reports of class IV or better.

The policy must insure against loss due to fire and other hazards covered by the standard extended coverage endorsement on a replacement cost basis. The Borrower may elect to include additional coverages, such as liability and earthquake insurance, and special policy riders.

The minimum acceptable amount of hazard insurance coverage is the appraised value less the site value, as provided in the appraisal, or an amount sufficient to replace the structure as determined by THDA.

The maximum allowable deductible is $2,500. The deductible clause may apply to either fire, extended coverage, or both.

Minimum initial term is one year.

THDA must be named as mortgagee in the original policy or in an endorsement. Use the following language:

Tennessee Housing Development Agency
C/O *(THDA Servicer)*, Loan # _ _ _ _ _ _ _ _
(Servicer's mailing address)
(Servicer's city, state, zip)

Coverage must be in force on or before the day of closing.

An original insurance policy or Certificate of Insurance is required. An insurance binder, a memorandum of insurance or a premium bill is not acceptable. The Originating Agent must submit the original policy or certificate to the THDA Servicer promptly after closing and a copy of the declarations page to THDA with the closed loan package.

For loans in condominium developments, secure a Certificate of Insurance for the blanket hazard insurance policy that covers the development or building.

Policies are not acceptable if, under the terms of the carrier's charter, by-laws or policy, contributions or assessments may be made against the Borrower, THDA or THDA's designee; or if by the terms of the carrier's charter, by-laws or policy, loss payment is contingent upon action by the carrier's Board of Directors, policyholders or members; or the policy includes any limiting clauses (other than insurance conditions) which could prevent THDA or Borrower from collecting insurance proceeds.

E. Flood Insurance

Flood insurance is mandatory for all loans with improvements located in Flood Zone A, without exception. A copy of FEMA Form 81-93 Standard Flood Hazard Determination must be included with the closed loan package when submitted to THDA. The Flood Certification MUST state it is for the life of loan. If part of the Property is located in Flood Zone A but all of the improvements are outside Flood Zone A, flood insurance is not required, subject to the rules of the loan insurer or guarantor.

To waive the flood insurance requirement, a loan survey is required and must indicate the boundary of Flood Zone A and show that all improvements included in the appraised value are outside of Flood Zone A.

The amount of coverage must equal the total amount of the THDA approved loan up to the maximum amount available through the National Flood Insurance Program.

The maximum allowable deductible amount is $2,500.

The same mortgagee clause and mailing address previously indicated under "Hazard Insurance" must be used.

A copy of the flood insurance application and a copy of the check for the first year's premium must be enclosed with the closing package shipped to THDA.

F. Escrow for Repairs or Completion of Construction

Escrows for repair should be avoided. Submit the proposed escrow agreement to THDA prior to closing. At a minimum, the escrow agreement must state what the escrow is for, the dollar amount to be escrowed, and the completion date which may not exceed 60 days.

Loans should be closed with repair escrows only if the repairs are minor and can be completed quickly. Escrows for completion of construction should only be for minor items, such as final landscaping that is delayed due to wet weather.

The amount to be placed in escrow for the completion of repairs or construction must be the greater of (a) 150 percent of the estimated cost of the repairs or the estimated cost to complete construction or (b) the amount required by the applicable loan insurer or guarantor.

All work must be completed and a final inspection delivered to THDA by no later than 60 days after closing.

An escrow agreement acceptable to THDA for repairs or completion of construction must be used. The Originating Agent must hold and disburse the escrow funds in accordance with the Escrow Agreement.

G. HUD-1

A HUD-1 Settlement Statement is required. If the borrower(s) is taking out two loans to finance the purchase, each loan must have a separate HUD-1. However, the principal amount of the second loan should be listed on lines 204-209 of the HUD-1 for the first loan.

H. Truth In Lending

The final Truth in Lending (TIL) must be provided to THDA on all closed loans including the Stimulus Second Mortgage.

7.5 OTHER REQUIREMENTS

A. Close In The Name Of

All THDA approved loans must be closed in the name of the Originating Agent noted on the Commitment and are assigned to THDA.

B. Qualifying Spouse

Applications involving married applicants require that both spouses meet the first-time homebuyer eligibility, except in Targeted Areas.

A non-qualifying spouse must sign the Deed of Trust.

C. Rescission

THDA cannot fund or purchase a loan that is closed with a Three-day Right of Rescission.

D. Net Funds "To Borrower"

A borrower cannot receive any funds from the closing that exceed amounts that they paid in advance from their personal funds for earnest money, appraisal fees and credit report fees. If a grant from an entity other than THDA is included in the transaction, coordinate this subject with the grant provider. Borrowers using Great Start or Great Advantage assistance cannot receive any funds at closing from the assistance provided.

E. Original Certificate of Title or Original Manufactured Certificate of Origin (Manufactured Home)

If the seller of the subject property has a mortgage on the property and the lien holder is in possession of the ORIGINAL title or MCO and will not release it until their loan is paid off, the ORIGINAL Certificate of Title with any lien noted thereon having been marked released, or Manufactured Certificate of Origin ("MOC"), in the name of the seller of the subject property or having been endorsed to the seller MUST be provided to THDA with the closing documents. If the Manufactured Home consists of more than one (1) unit, you will need to provide the title or "MOC" for each unit. THDA will not purchase the loan until we receive the ORIGINAL certificate of Title or ORIGINAL MCO.

F. Affidavit of Affixation (Manufactured Home)

An Affidavit of Affixation is required on all manufactured home loans and must be recorded as a separate document. It cannot be recorded with or attached to the Deed of Trust. THDA's Affidavit of Affixation Form HO-0453 is to be used unless the Settlement Agent uses an Affidavit of Affixation that meets the statutory requirement of TCA Section 55-3-138.

G. Warranty Deed

A copy of the Warranty Deed (certified copy of recorded Warranty Deed if Manufactured Home) to the subject residence must be provided to THDA in the Closed Loan Submission package.

7.6 CLOSING COSTS

Closing Costs and Fees a THDA Borrower May Pay

1. The borrower may pay any and all reasonable and customary fees and costs normally charged in the market place. If THDA, in its sole discretion, determines that the borrower has been charged a fee that is exorbitant or not customarily charged in the market place, the Originating Agent will be required to refund these fees to the borrower.

2. Origination Fee

A fee up to 2% of the Base Loan Amount is permissible, and is paid to the Originating Agent. The origination fee may not be charged on financed FHA MIP, VA Guaranty Fee, USDA/RD Guaranty Fee or PMI, unless expressly permitted by FHA, VA, USDA/RD or PMI regulations. Either the Borrower or the seller may pay the Origination Fee up to 2%. No additional origination fee may be charged to the Borrower or seller.

A loan originator may designate an origination point on page 2 of the HUD-1 in line 801. The designation should follow "Our Origination Charge" either by adding the language "Includes Origination Point" (__% or $__) or by placing an asterisk (*) and adding the language at the bottom of the page.

3. Discount Points

A discount fee of ¼% of the actual or total loan amount is permissible, and is paid to the Originating Agent. Either the Borrower or seller may pay the ¼% discount fee. If the Originating Agent elects to charge a ¼% discount, it must be included in line 802 of the HUD-1.

4. THDA allows the Originating Agent to charge an Application Fee of up to $600. If the Originating Agent elects to charge the Application Fee, it must be included in Our Origination Charge on the GFE and HUD-1. The total Application Fee cannot exceed $600.

7.7 USE OF MERS SYSTEM

Originating Agents who are MERS members, in good standing, may use loan documentation showing Mortgage Electronic Registration Systems, Inc., as the nominee for Originating Agent and Originating Agent's successors and assigns for THDA loans closed on or after July 1, 2006. The THDA loan number must be reflected on all THDA loan documentation in addition to the use of the Mortgage Identification Number (MIN) as may be assigned and required by MERS.

Originating Agents shall cause each deed of trust (with THDA Rider) securing a THDA loan to be properly recorded in the Register's Office of the county in which the property is located and to register such deeds of trust with MERS in accordance with applicable MERS requirements. Originating Agent may sell servicing rights to THDA loans registered with MERS only to THDA approved Servicers who are also MERS members in good standing.

Originating Agent shall, upon THDA's request, obtain and properly record an assignment of any MERS registered THDA loan from MERS to THDA or as THDA may direct. In the event of any dispute regarding a THDA loan registered with MERS, Originating Agent shall take all steps deemed necessary by THDA to protect THDA's interest. All other requirements of this Guide and of the Working Agreement between THDA and Originating Agent shall apply to each THDA loan regardless of registration with MERS.

NOTE:

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The next page of the Originating Agents Guide will be page number 48 if the Guide updates have been inserted correctly.

SECTION 8: SHIPPING A CLOSED THDA LOAN

8.1 OVERVIEW

A. Originating Agent Obligations

Originating Agents must conform to strict time tables when shipping a closed loan file to THDA and to the THDA Servicer. The THDA Closed Loan Transmittal lists the documents that must be provided to THDA with each closed loan file.

In order to avoid potential problems in complying with THDA timeliness guidelines and the resulting penalties for such, upon receipt of the closed loan file from the Settlement Agent, Originating Agents are strongly encouraged to:

1. Audit all documents for accuracy,

2. Immediately secure any necessary corrections,

3. Promptly submit required documents to the THDA Servicer indicated on the Commitment to facilitate timely notification to the Borrower in preparation for the first scheduled loan payment,

4. Submit all information and materials required to obtain insurance or guarantee, and

5. Comply with THDA delivery deadlines.

B. Document Caption

Documents or files delivered to THDA must be clearly identified with the Originating Agent's name, the primary Borrower's name, the THDA loan number, and the name and telephone number of the Originating Agent's contact person. When shipping follow-up documents after the initial closed loan file has been delivered, Originating Agents must properly identify all documents being delivered. More than one loan file may be delivered in each envelope; however, documents for each loan file must be clearly identified, and must be double-hole punched at the top middle and attached with an ACCO fastener.

C. Shipping Address

When delivering closed loan files and follow-up documents, specify "Single Family Programs Division, Closing Department". Documents delivered without "Single Family Programs Division" included in the address may be misdirected or lost.

8.2 DELIVERY DEADLINES

Delivery of all THDA closed loan files must conform to the following deadlines:

1. 24 Hour Deadline

   Fax a copy of all executed Notes to "Single Family Programs Division, Attention: Closing Department" at (615) 564-2881 within 24 hours of closing, regardless of the source of funding. The executed Note and other documents can also be emailed to closing@thda.org. This facsimile machine will receive transmissions 24 hours a day, seven days a week.

2. 10 Day Deadline

For all THDA loans, Pre-Funded or Purchase, THDA must receive the THDA Closed Loan Transmittal, the original Note, Originating Agent Credit Memorandum (if applicable), per diem interest (if applicable), and all other required initial submission documentation regardless of type or source of funding, within ten (10) calendar days following closing.

3. 120 Day Deadline

THDA must be in receipt of all necessary documentation, including the recorded Deed of Trust, Assignment (n/a if MERS documents submitted), Title Insurance Policy, final inspections and insuring or guarantee certificate within 120 days of closing, on all THDA loans.

THDA may grant one extension, for a period not to exceed thirty (30) calendar days, to the delivery deadline to allow for additional efforts to resolve the problems. THDA may consider additional extensions. Any additional extensions must be approved by THDA, in THDA's sole discretion.

THDA may decide to complete a file without all final corrections being received. In those cases, the Originating Agent would receive notification from THDA of the correction(s) to be made and the Originating Agent will be responsible for completion of the file.

4. Servicing Package Deadline

Promptly after closing, required documentation must be delivered to the THDA Servicer indicated on the Commitment.

8.3 FAILURE TO MEET DELIVERY DEADLINES

Any loan closing file remaining incomplete on the 151st day following closing, regardless of extension status and/or file documentation status, will result in THDA issuing a demand for repurchase, along with repurchase instructions and deadline, without any further notice to the Originating Agent, unless a further extension was granted by THDA. If the loan has not yet been purchased by THDA, it will immediately become ineligible for purchase on the 151st day following closing, unless a further extension was granted by THDA. Loans declared ineligible for purchase by THDA, and/or loans repurchased from THDA, are not eligible for subsequent purchase by THDA.

THDA may require Originating Agents who submit loans closed by the Purchase Method and do not comply with delivery deadlines to submit all final documents before their loans will be eligible for purchase by THDA.

THDA may require Originating Agents who close loans by the Pre-Funded Method and do not comply with delivery deadlines to close future loans using the Purchase Method.

Originating Agents who consistently fail to meet delivery deadlines will be suspended from new loan originating until such time that the delinquent loan closings are completed.

8.4 REQUIRED DOCUMENTS FOR A COMPLETE CLOSED LOAN FILE

A. Closed Loan Submission Checklist

A completed THDA Closed Loan Submission Checklist must be used as the cover sheet when submitting closed loan files to THDA. See Section 9 for detailed instructions.

B. Request for Loan Purchase with Acknowledgement and Certification

For loans closed by the Purchase Method, execute this form and enclose in the order indicated on the Closed Loan Submission form. See Section 9 for detailed instructions.

Loans closed by the Purchase Method, if approved by THDA, will be purchased from the Originating Agent by wire transfer. A loan is eligible for purchase when the initial closed loan package, which must include the following documents, has been delivered to THDA.

Original Note
Copy of executed Deed of Trust
Title Insurance Commitment
Copy of executed Warranty Deed
Declaration page of Hazard Insurance
HUD-I

C. Commitment

Enclose a copy of the Commitment.

D. Original Note

Deliver the original Note, endorsed to THDA by an authorized Originating Agent staff member, to THDA within 10 days after loan closing. Include the original Note with the closed loan package if THDA will receive the entire closed loan package on or before the 10 Day Deadline.

E. Deed of Trust

Enclose the original recorded Deed of Trust and Rider(s), or a copy (before recording) of the fully executed Deed of Trust and Rider(s) which have been certified as a true and exact copy by the Settlement Agent or an authorized Originating Agent staff member.

THDA must receive the original recorded Deed of Trust and Rider(s) on or before the 120 Day Deadline. Applicant's signature and typed name on the Deed of Trust, Title Insurance Policy and Warranty Deed must match exactly or a name affidavit must be enclosed. The legal description, book, page, time of recording and other critical data must match the Title Insurance Policy and the Warranty Deed, as applicable.

F. Affidavit of Affixation (Manufactured Home)

Enclose the original, fully executed and recorded Affidavit of Affixation.

G. Assignment (n/a If MERS documents submitted)

Enclose the original recorded Assignment, or a copy (before recording) of the fully executed Assignment which has been certified as a true and exact copy by an authorized Originating Agent staff member.

THDA must receive the original recorded Assignment on or before the 120 day deadline. The recorded Assignment must indicate the correct book and page reference for the recorded Deed of Trust and any subsequent re-recordings. The Title Insurance Policy or an endorsement must reflect the recording and any subsequent re-recordings of the Assignment.

H. Title Insurance Policy/Endorsements

Enclose the original Title Insurance Policy and all required endorsements. The original Title Insurance Policy must be received by THDA on or before the 120 Day Deadline.

I. Warranty Deed

Enclose a copy (before recording) of the fully executed Warranty Deed that conveys the Property to the Borrower. A copy of the recorded Warranty Deed is required if a Manufactured Home.

J. HUD-1

The Closed Loan Submission Package must include the HUD-1 Settlement Statement.

A loan originator may designate an origination point on page 2 of the HUD-1 in line 801. THDA allows up to 2% origination points for all loans. The designation should follow "Our Origination Charge" either by adding the language "Includes Origination Point " (__% or $__) or by placing an asterisk (*) and adding the language at the bottom of the page. THDA also allows the Originating Agent to charge a ¼% discount point. If the Originating Agent elects to charge the ¼% discount, it must be included in line 802 of the HUD-1.

Please note that THDA allows the Originating Agent to charge an Application Fee of up to $600. If the Originating Agent elects to charge the $600 Application Fee, it must be included in "Our Origination Charge" on the HUD-1. The total Application Fee cannot exceed $600.

K. Truth in Lending

The final Truth in Lending (TIL) must be provided to THDA on all closed first mortgage loans.

L. Hazard Insurance

THDA must receive a copy of the hazard insurance policy declarations page, or a copy of the Certificate of Insurance, signed by an authorized agent of the insurance company. The original policy or Certificate of Insurance must be sent to the THDA Servicer.

M. Termite Inspection/Treatment Certificate (when applicable)

See Section 7.4.C.

N. Flood Insurance (when applicable)

See Section 7.4.E.

O. Commitment Conditions

Enclose any documents to satisfy, at closing, conditions specified in the Commitment, if not otherwise satisfied with documents listed above.

P. Copy of MIC/LGC; Original USDA/RD 1980-17, or As Applicable

1. The MIC must be ordered promptly after closing. THDA must receive a copy of the MIC within 120 days following closing.

   Evidence of Originating Agent compliance with HUD's electronic transmission requirements for the Mortgage Record Change must be in the closing package. A copy of the lender query from FHA connection reflecting THDA as the holder.

2. The LGC must be ordered promptly after closing. THDA must receive a copy of the LGC within 120 days following closing.

3. For USDA/RD loans, enclose the original Loan Note Guaranty 1980-17 within 120 days of closing.

   Also enclose a copy of RD Form 1980-11, Lender Record Change. The original 1980-11 must be submitted to Rural Development. In the appropriate space, indicate THDA's USDA/RD ID number: 6206001445.

Q. Final Loan Application (1003)

The final 1003 executed by the borrower(s) must be included in the Closed Loan Submission Package for the Stimulus Second Mortgage.

8.5 LOAN REPURCHASE

A. Repurchase Obligation

THDA, in its sole discretion, may refuse to purchase any loan and may require an Originating Agent to re-purchase any loan when any of the following exist:

1. Commitment conditions are not satisfied; or
2. The closed loan does not match all elements of the Commitment; or
3. The Originating Agent fails to deliver required documents to the THDA Servicer within the THDA Servicer's deadline; or
4. The loan is refused for servicing by the THDA Servicer; or
5. The Borrower fails to make the first regularly scheduled loan payment to the THDA Servicer ("first payment default"); or

6. The Borrower experiences a first payment default before the MIC, LGC, USDA/RD guarantee or PMI certificate is issued (first payment default is determined by the records of the THDA Servicer indicated on the Commitment); or

7. An entity other than THDA or the Originating Agent is named on the MIC, LGC, USDA/RD guarantee (1980-11, 1980-17 or 1980-18) or PMI Certificate;

8. The Originating Agent fails to deliver closed loan documentation to THDA within specified deadlines; or

9. The loan cannot be insured or guaranteed within 150 days of loan closing or the THDA closing file is incomplete on the 151st day following loan closing; or

10. Any material fact discovered subsequent to the closing causes the loan to be ineligible for THDA financing.

An Originating Agent who fails to repurchase loans upon demand may be suspended from submitting new loan applications to THDA, and THDA may pursue other remedies as specified in the Working Agreement.

B. Repurchase Price

The amount necessary to repurchase a loan is:

1. The sum of the outstanding principal and interest, and

2. Monthly escrow adjustment.

In addition, if the Originating Agent is not the THDA Servicer, the repurchase price may include reimbursement of the Service Release Fee to the THDA Servicer and a repurchase fee.

C. Repurchase Procedure

In the event THDA demands repurchase of a loan, the following procedures all apply:

1. The THDA Servicer will provide instructions for obtaining the repurchase price by a certain deadline.

2. The Originating Agent must prepare an Assignment from THDA to the Originating Agent and submit it to the THDA Servicer, who will forward the Assignment to THDA for execution.

3. The Originating Agent must wire the required repurchase price to the THDA Servicer according to instructions provided by the THDA Servicer.

4. Upon receipt of the repurchase price, THDA will sign and notarize the Assignment and return it to the Originating Agent with the loan file.

5. After repurchase, THDA will reimburse Originating Agent for all principal and interest received by THDA after the repurchase date.

<u>Loans declared ineligible for purchase by THDA, and loans repurchased from THDA, are not eligible for subsequent purchase by THDA.</u>

8.6 ADDITIONAL INFORMATION

A. THDA Staff Assignments

Each THDA staff member in the Single Family Programs Closing Department is assigned exclusively to specific Originating Agents. Originating Agents may be re-assigned to other Single Family Closing Department staff due to changes in volume. Address all closed loan file and document deliveries and questions to your assigned Single Family Programs Closing Department staff member.

B. THDA Reports

Single Family Programs Closing Department staff members audit each closed loan file as received and produce a report indicating which documents are lacking and/or what corrections are necessary. Individual loan reports are delivered to the Originating Agent's designated contact person. Each report will indicate the final document delivery deadline for each loan.

Periodically, each Originating Agent will receive a report indicating missing documents and necessary corrections for all incomplete closed loan files that the Originating Agent has delivered to THDA. Originating Agent must promptly supply missing documents and make necessary corrections. Failure to do so may result in a demand for loan repurchase.

Originating Agents must keep THDA informed in regard to the name(s), telephone number(s) and fax number(s) of their designated post-closing staff members. THDA's obligation to notify the Originating Agent is fulfilled when verbal instructions have been furnished to the Originating Agent's designated staff member or when reports have been placed in the mail or transmitted by facsimile transmission to the attention of the Originating Agent's designated staff member.

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SECTION 9: THDA FORMS AND INSTRUCTIONS

As a result of Tax Code requirements, THDA must require certain forms. Application files or closed loan packages that do not contain fully executed THDA forms, as required, will not be accepted by THDA. These forms must be included in THDA application files and in THDA closed loan packages as indicated in this Guide. THDA forms are in addition to the typical forms utilized in the mortgage industry. These forms are to be considered part of this Guide.

THDA forms may not be altered.

THDA forms may not be distributed to a lender who is not an Originating Agent or to any other unauthorized individual or entity.

Detailed instructions for completion of each THDA form follows in the order that they are typically encountered in the lending process:

Application Affidavit HO-0450
Veteran Exemption Application Affidavit HO-0460
Notice to Applicants Federal Recapture Requirements HO-0448
Seller Affidavit HO-0451
Buyer Profile HO-0439
Underwriting Submission Checklist HO-0449
THDA Rider HO-0440
Affidavit of Affixation HO-0453
Great Advantage and Great Start Assistance Application HO-0473
THDA Grant Award Letter HO-0474
Down Payment/Closing Cost Assistance Wire Funding Information HO-0475
Closed Loan Submission Checklist HO-0441
Request for Loan Purchase with Acknowledgement and Certification HO-0444

APPLICATION AFFIDAVIT HO-0450 (10/08) THDA
VETERAN EXEMPTION APPLICATION AFFIDAVIT HO-0460 (02/07) THDA (If Applicable)

The Application Affidavit or Veteran Exemption Application Affidavit (if applicable Application Affidavit must be executed by each applicant and non-qualifying spouse. The household income figure to be provided in item #4 is the maximum allowable income for the size of the applicant's household and location of property. The acquisition cost figure for Great Rate, Great Advantage and Great Start to be provided in item #5 is the maximum THDA acquisition cost for the county in which the property is located. The **original** Application Affidavit or Veteran Exemption Application Affidavit is required by THDA. All changes or whiteouts must be initialed by the Applicant(s).

Each Application Affidavit or Veteran Exemption Application Affidavit, must be executed and notarized within the State of Tennessee; however, in rare circumstances, an Application Affidavit or Veteran Exemption Application Affidavit may be executed and notarized outside the State of Tennessee, such as when a person is a member of the armed forces, is stationed outside the state and is unable to be present while the application is being processed.

NOTICE TO APPLICANTS FEDERAL RECAPTURE REQUIREMENTS HO-0448 (09/99) THDA

This form is mandatory for all THDA loan applications. The Applicant and all Co-Applicants must sign and date the form at the time of application. Provide a copy to the Applicant. Enclose the original signed and dated form in the application file when submitted for THDA underwriting.

SELLER AFFIDAVIT HO-0451 (09/99) THDA

The seller of the Property must complete a Seller Affidavit for each application file submitted to THDA. The Seller Affidavit is to assist in determining whether the purchase of the Property involves more than the purchase price specified in the sales contract.

In the case of an Applicant who is serving as their own contractor and is building a new residence on a lot that is owned by the Applicant, the Seller Affidavit is not required. Seller Affidavit is also not required on a HUD/PD property.

The seller must sign and date the Seller Affadavit, and it must be notarized. Enclose the original Seller Affidavit in the application file when submitting for THDA underwriting. In the absence of the original Affidavit at the time of loan approval, a prior to closing contingency will be THDA receipt of the original.

BUYER PROFILE HO-0439 (Rev 12/06) THDA

This form is critical to facilitate accurate reports by THDA. Complete this form accurately and completely and enclose it the application file when submitted for THDA underwriting.

UNDERWRITING SUBMISSION CHECKLIST HO-0449 (08/11) THDA

Use this form as a cover sheet for all application files submitted to THDA.

Follow the checklist closely and complete all information. Items omitted may cause the application file to be returned for completion and resubmission. Do not change the size of this form.

The checklist has five main sections:

1. General Information.
2. THDA Program Eligibility. Must include original documents, notarized as indicated.
3. Grants/Downpayment/Closing Cost Assistance. Must be documented as indicated, if applicable.
4. Credit Package. Must include documentation, as indicated.

Originating Agent Information: Provide complete information, including the Originating Agent's four-digit O.A. Number as assigned by THDA. An omitted or incorrect Originating Agent number and omitted or incorrect branch address are the primary causes of misdirected commitments and misdirected funding checks.

Primary Applicant: Include primary Applicant's name as it will appear on all documents. It must be accurate and consistent.

Property Address: Must be accurate and consistent on all documents.

Submission Purpose: As indicated, this form may be used for purposes in addition to the initial submission of an application file.

Program Type: Indicate the desired THDA loan program.

Loan Type: Indicate whether the loan type is FHA, VA, Conventional or USDA/RD.

Property Type: Indicate the correct property type. Check the appropriate block to indicate a residence that is a single family detached or a condominium. Check "Other" and indicate in the blank provided if the residence is a 2, 3 or 4 family home, or is a PUD, townhouse, zero lot line, modular or mobile home.

First Mortgage Loan: Indicate whether the **first** mortgage loan will close by the Purchase Method (with Originating Agent funds). Great Start first mortgage loans may be funded by the Purchase Method.

A check mark, an "X" or "N/A" must be indicated for each document listed on the form. Refer to Section 6.2 for additional information.

An Originating Agent staff member's signature, printed or typed name and telephone number must appear at the bottom of the checklist. Without this information, the file is considered incomplete. In addition, if this information is omitted, THDA does not know who to call if questions arise.

to the Originating Agent.

THDA RIDER HO-0440 (8/1/03) THDA

The THDA Rider must be completed, executed, attached to and recorded with the deed of trust for all THDA first mortgage loans, regardless of loan type. The THDA Rider must be signed by all Borrowers who are required to sign the first deed of trust and recorded with the deed of trust.

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AFFIDAVIT OF AFFIXATION HO-0453 (12/06)

An original Affidavit of Affixation is required on all manufactured home loans and must be recorded as a separate document. It cannot be recorded with or attached to the Deed of Trust for recordation.

GREAT ADVANTAGE AND GREAT START ASSISTANCE APPLICATION HO-0473 (Rev 08/11) THDA

This form must be completed and the original included in each loan application package submitted under the Great Start assistance program. The application should indicate the total FHA loan amount including MIP, the exact (dollars and cents) amount of assistance based on 4% of the referenced loan amount for Great Start or 2% for Great Advantage, the anticipated closing date, and the complete name or the settlement agent. This form must be signed by the Borrower(s), and an authorized representative of the lender.

THDA GRANT AWARD LETTER HO-0474 (6/13)

HUD/FHA requires that THDA provide a Grant Award Letter which states that THDA has agreed to provide the borrowers down payment grant funds under THDA's Homeownership choices, so long as the associated first mortgage loan is not uninsurable by FHA for reasons other than the status of the down payment grant funds.

DOWN PAYMENT/CLOSING COST ASSISTANCE WIRE FUNDING INFORMATION HO-0441 (05/13) THDA

This form must be completed in order for down payment/closing cost funds (Great Advantage or Great Start loans) to be wired to the Settlement Agent, and must be included in the Underwriting Submission package.

CLOSED LOAN SUBMISSION CHECKLIST HO-0441 (05/13) THDA

Use this form when submitting all closed loan files to THDA, regardless of the source of funding. This form can also be used as a checklist for submission of follow-up documentation. Complete all items on this form. Do not change the size of this form.

REQUEST FOR LOAN PURCHASE WITH ACKNOWLEDGEMENT AND CERTIFICATION HO-0444 (05/13) THDA

All loans closed by the Purchase Method must be accompanied by an executed Request For Loan Purchase with Acknowledgement and Certification when delivered to THDA. By submitting a loan file for purchase by THDA, each Originating Agent is deemed to affirm the Acknowledgement and Certification appearing on the master form of the Request For Loan Purchase with Acknowledgement and Certification with respect to each loan file submitted regardless of whether the Acknowledgement and Certification is included with the form submitted with a particular loan file.

Provide all information indicated. Check the appropriate box indicating whether the loan file is complete in all respects or not. Sign and date where indicated, print name and title, and provide telephone number. Omitted information may cause the loan file to be returned to the Originating Agent.

ONLINE HOMEOWNERSHIP EDUCATION BORROWER INFORMATION FORM HBEO-100 (11/10) THDA

The lender is responsible for reviewing the Online Homeownership Education Borrower Information Form with the prospective online education borrower. This form provides key information about the eHomeAmerica online product and requirements for the borrower to complete the course.

ONLINE HOMEOWNERSHIP EDUCATION REQUEST FORM HBEO-200 (11/10) THDA

To request approval for online homeowner education for a borrower, the Originating Agent must complete and send the Online Homeownership Education Request Form HBEO-200 and the Online Homeownership Education Borrower Information Form HBEO-100 which has been executed by the borrower to THDA by fax to 615-564-1229 or email to HomebuyerEducationInfo@thda.org.

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