

SECTION 6 – LOAN PREPARATION

- 6.1 Terms and Conditions of Loans**
- 6.2 Title Insurance**
- 6.3 Hazard/Flood Insurance**
- 6.4 Property Description**
- 6.5 Appraisal Requirements**

Section 6 – Loan Preparation

6.1 Terms and Conditions of Loans

A. Priority of Lien

Each loan must be secured by a valid first lien on the Eligible Dwelling. The property must be free and clear of all prior encumbrances and liens except as approved by CHFA, and no rights may be outstanding that could give rise to such liens.

B. Validity and Enforceability

The note, mortgage deed, and any other instruments securing the Loan must be legal, valid and binding obligations of the borrower, enforceable in accordance with their terms, free from any right of set-off, counterclaim or other claim or defense. The terms of the Loan may not be modified, amended, waived or changed, except as approved by CHFA.

CHFA does not allow anyone that is not a mortgage loan applicant (i.e. borrower or co-borrower) to sign the CHFA Mortgage Note or the CHFA Mortgage Deed on any CHFA Residential Mortgage loan transaction.

If a spouse or Fiancée, or any other member of the household, is not an applicant on the mortgage loan, (i.e. borrower or co-borrower), they may not execute the CHFA Mortgage Note or the CHFA Mortgage Deed at closing, or otherwise secure an ownership interest in the subject property.

No other person or entity may be added to the CHFA Mortgage Deed.

C. Terms

1. **Fee Interest:** The original term of a mortgage Loan shall not exceed thirty (30) years.
2. **Leasehold Interest:** The original term of a mortgage Loan shall not exceed thirty (30) years, and the term of the underlying lease shall not expire for at least such number of years beyond the maturity date of such loan as is equal to the number of years remaining to maturity. (Section 3.2D3)

D. Amortization

Each Loan must be for a minimum of \$10,000 and provide for regular monthly payments, interest payable in arrears, with full amortization by maturity. Amortization must commence within two months after closing. Monthly payments shall be due on the first day of each month, and the final payment date must be shown on the Loan documents.

E. Prepayment Penalty and Late Charges

Prepayment penalties are not permitted on *any* Loan. A Loan may provide for a late charge in an amount not to exceed 5% on payments that are 15 days or more past due.

F. Principal Amount Advanced; No Mandatory Future Advances

The full principal amount of the Loan must be advanced to the borrower or at his direction at the closing. The borrower shall not have an option under the Loan to borrow, from the Participating Lender, or any other person, additional funds secured by the lien of the mortgage without the consent of CHFA.

G. Escrow Payments

Each payment must provide for the monthly collection of escrow payments for real estate taxes, mortgage insurance premiums, hazard insurance premiums in addition to the monthly installment of principal and interest. The Participating Lender or Servicer shall pay interest on escrow deposits at a rate not less than the minimum set forth in applicable statutes or regulations.

H. Maintenance and Insurance

The mortgage must obligate the borrower to maintain the Eligible Dwelling in good repair and condition, to keep the premises free and clear from other liens and encumbrances and to maintain hazard insurance in accordance with the requirements set forth in section 6.3.

I. Interest Rate

The interest rate applicable to any Loan shall be the interest rate that is shown on the Mortgage Loan Commitment.

J. Forms

Each Loan must be executed on printed forms approved by FHA, USDA-RD, or VA, where applicable, or on FNMA/FHLMC uniform instruments approved for use in the State. The CHFA Uniform Mortgage Rider must be executed and recorded. Condominium or PUD riders, as appropriate, must be executed and recorded. The promissory note for each Loan must be endorsed by the Participating Lender to CHFA unless the loan is being released for servicing pursuant to Section 7.3.C.

K. Compliance with Laws

All requirements of federal and state laws, rules and regulations now existing or hereafter adopted, applicable to mortgages and mortgage loan transactions, including without limitation, truth-in-lending laws, equal opportunity laws, usury laws and laws regulating interest on escrow accounts, must be complied with, and the mortgage and the Participating Lender must not violate any such laws, rules or regulations. In the case of any conflict between the requirements of this Manual and any federal or state law, rule or regulation, the provisions of federal or state law, rule or regulation shall govern and the Manual will be deemed to be amended to conform thereto. CHFA must be notified of any such conflict known to the Participating Lender.

6.2 Title Insurance

A. Original Mortgagee's Policy

The mortgage must be covered by a mortgagee's title insurance policy which shows good and marketable title to the mortgaged property. The benefits of such insurance must run to CHFA and must be issued on a form consistent with the standard ALTA form by a title insurer acceptable to CHFA. The policy must be in an amount equal to the original principal balance of the Loan. The original policy must accompany the Loan purchase package and must be signed by a licensed agent. The borrower shall be advised of the availability, coverage, and cost of simultaneous issuance of owners' title insurance; however, owners' coverage is not required by CHFA.

B. Additional Requirements – Schedule A

1. The name insured should be in the following form: “(Participating Lender) and/or Connecticut Housing Finance Authority, its successors and/or assigns, as their interest may appear”. (The following abbreviation is also acceptable: “...as their interests may appear” = ATIMA)

2. Recording data for both the mortgage deed and the assignment of mortgage to CHFA must be shown. (**Note: CHFA is not a member of the Mortgage Electronic Registration System, (MERS).** Assignment of CHFA mortgage loans in MERS is strictly prohibited. All CHFA mortgage loan assignments must be in the name of the Connecticut Housing Finance Authority (CHFA).

This policy may be amended by CHFA at will to accommodate the sale of mortgage loan pools to GNMA or any other CHFA designated authorized entity.

3. For all CHFA first mortgage loans delivered to CHFA sub-servicer, (AmeriNat) the assignments must be in the name of the Connecticut Housing Finance Authority, 999 West Street, Rocky Hill, CT 06067.
4. The title policy shall be endorsed from time to time as applicable to show mortgage modifications and other correcting documents which may be recorded.

C. Additional Requirements – Schedule B

1. If required, the survey must be an exhibit to the title insurance policy.
2. Exceptions for agreements or restrictive covenants of record relating to cost, use, set-back, minimum-size, building materials, architectural, aesthetic or similar matters (other than single family use restrictions on two-to-four family properties) are acceptable to CHFA if:
 - a. There is no reversion or forfeiture of title in the event of violation hereof;
 - b. The terms and provisions of such agreements or restrictive covenants are commonly and customarily acceptable to prudent lending institutions in the area in which the property is located; and
 - c. No violation of any such agreement or restrictive covenant exists.
3. Covenants, restrictions, agreements and other encumbrances must be covered by title policy language which affirmatively insures that a breach or violation of such covenants, restrictions, agreements and encumbrances will not result in a forfeiture or reversion of title.
4. The following additional exceptions will be acceptable to CHFA:
 - a. Any mutual agreement of record which establishes a joint driveway or an adjoining property, but only if the easement agreement allows all

present and future owners, their heirs and assigns forever, unlimited use of the driveway or party wall without any restriction other than restrictions by reason of the mutual easement owner's rights in common and duties as to joint maintenance as applicable.

- b. Encroachments on the subject property by improvements on adjoining property where such encroachments extend one foot or less over the property line, have a total area of fifty square feet or less, do not touch any building and do not interfere with the use of any improvements on the subject property or the use of property not occupied by improvements.
- c. Liens for real estate or other taxes and assessments not yet due and payable.
- d. Normal utility easements benefiting the subject property.

D. Standard Endorsements

The title insurance policy shall include the following standard endorsements, on forms substantially the same as those indicated herein:

- 1. Residential Mortgage Endorsement – CTA Form 001 (where applicable).
- 2. Environmental Lien Endorsement – ALTA Form 8.1.
- 3. Condominium Endorsement – ALTA FORM 4 (where applicable).

6.3 Hazard/Flood Insurance

A. Coverage

An Eligible Dwelling securing the Loan must be covered by hazard insurance as follows:

- 1. Fire and extended coverage insurance in an amount sufficient to cover the outstanding principal balance of the Loan or the full insurable value of the improvements on the mortgage property, whichever is less. In no event shall the amount of coverage be less than the amount required by the mortgage insurer or guarantor. Policies may contain a deductible clause up to a maximum of \$1,000.

2. The Participating Lender shall advise CHFA of the nature of any hazard not covered under the previous section and the additional insurance coverage, if any, which has been obtained against such hazard. If adequate insurance has not been obtained against such hazard, CHFA may require the Participating Lender to obtain such coverage.
3. The Participating Lender is responsible for and warrants compliance with the provisions of the Flood Disaster Protection Act of 1973 as amended (42 U.S.C. 4001-4129), and the Biggert-Waters Flood Insurance Reform Act of 2012, whenever such provisions would be applicable to any Loan.

If the Eligible Dwelling is located in an area having special flood hazards, as identified by FEMA flood hazard mapping, flood insurance shall be obtained in an amount equal to the lesser of (i) the outstanding principal balance of the Loan(s), or (ii) the maximum limit of coverage available under the National Flood Insurance Program, or (iii) the insurable value (must include foundation) of the structure(s).

- a. Flood Deductibles – The deductibles may not exceed the minimum and maximum deductibles currently allowed under the NFIP for all policy types.
4. Each hazard insurance policy must be written by a hazard insurance carrier licensed to do business in the State.
5. Such insurance must be in effect on the closing date of the Loan and must be paid in advance for a full year after the closing.

B. Policy Requirements

1. All policies of hazard insurance must contain or have attached a standard mortgagee clause naming The Connecticut Housing Finance Authority C/O, “(The loan servicer) its successors and/or assigns as their interest may appear” as the insured. The following abbreviations are acceptable:

its successors and/or assigns = ISAOA
as their interest may appear = ATIMA
2. The policy must provide that the insurance carrier will provide written notice to the loan servicer at least ten (10) days in advance of the effective date of any change or cancellation of the policy.
3. The Participating Lender shall give any necessary notices in order to fully protect the interest of CHFA as first lienholder under the terms of the policy and applicable law.

4. Refer to Section 7 – Loan Purchase for additional mortgagee clause information as follows: Section 7.3.B – Release of Servicing for Conventional Loans (Non-Government Insured Loans) or Section 7.3.C – Release of Servicing and Loan Funding for Conventional Loans and Government Insured Loans.

C. Unacceptable Policies

Policies are unacceptable if:

1. Under the terms of the carrier’s charter, by-laws or policy, contributions or assessments may be made against CHFA or its designee; or
2. Contributions or assessments may be made against the borrower, which could become a lien on the dwelling superior to the lien of the mortgage; or
3. By the terms of the carrier’s charter, by-laws or policy, loss payments are contingent upon action by the carrier’s board of directors, policyholders, or members; or
4. The policy includes any limiting clauses (other than insurance conditions) which could prevent CHFA or the owner of the property from collecting insurance proceeds.

6.4 Property Description

A. Legal Description

The legal description in the mortgage deed, mortgagee’s title insurance policy and other documents will be acceptable in the following forms and shall include the property address and lot number if any:

1. Metes and bounds; or
2. Reference to lots which include reference to a filed map on which the lots are delineated; or
3. Reference to the boundary lines of abutting streets and owners.

B. Loan Documents to be Consistent

The Participating Lender must check the Loan documents to assure that the legal description contained or referred to in each document is accurate and consistent with those in the others.

6.5 Appraisal Requirements

A complete property appraisal report is required to be submitted by the Participating Lender with each Loan submission except in the case of a loan eligible for the Compliance Limited Documentation Program which requires submission of only the first four (4) pages. Appraisals are required for all Loan submissions for purchases of units in eligible condominium projects for verification of current investor ratio concentration. All appraisals for Mortgage Loans must be made by appraisers who are licensed or certified by the State of Connecticut, acceptable to CHFA and as per FNMA Guidelines. Participating Lenders must adhere to the Appraiser Independence Requirements as outlined in the FNMA Selling Guide.

- a. Forms - The report must be prepared on a current FNMA/FHLMC appraisal form or on the appropriate FHA form which meets the minimum HUD requirements, including any additional attachments or addenda necessary to provide an adequately supported opinion of market value.
- b. Appraised Value - Appraisals should report the highest price which the property will bring contemplating;
 - (i) The consummation of a sale and the transfer of title from a seller to buyer who are participating in a bona-fide, arm's-length transaction and are motivated by no more than the goals of typical participants;
 - (ii) Both parties are well informed or well advised and act prudently, each for what he considers his own best interest;
 - (iii) Reasonable exposure is given to the property in the open market;
 - (vi) Payment is made in cash or on terms reasonably equivalent to cash, assuming typical financing terms are available in the community for similar property.
- c. Repairs - CHFA requires all mortgaged properties to be in good repair. Appraisal reports shall indicate whether a building code inspection is necessary. If the appraisal report indicates that repairs are needed, a recertification by the appraiser must be obtained prior to the closing of the Loan. The certification must provide the Eligible Borrower's name and the property address and must state that the property has been inspected and the indicated repairs have been completed except in the case in which an escrow has been established for such repairs. (See 203(k) Standard or 203(k) Limited Programs – Section 4).

- d. Exterior Photographs – Clear, descriptive photographs showing the front, back, and a street scene of the subject property and the front of each comparable. The subject and all comparables must be appropriately identified.
- e. Interior Photographs – At a minimum, the appraisal report must include photographs of the following:
- The Kitchen
 - All bathrooms
 - Main Living Area
 - Examples of physical deterioration, if present; and
 - Examples of recent updates, such as restoration, remodeling, and renovation, if present.
(*FNMA Selling Guide B4-1.2-01*)
- f. The validity period for all appraisals on existing and proposed and under construction properties is less than 4 months. Appraisals may not be more than 4 months old from the loan closing date to the date the loan is sold to FNMA. (*See FNMA announcement 09-19*)
- g. UCDP – Must obtain and provide a “successful” SSR report for loans delivered to FNMA (uninsured – HFA Preferred Programs). (*FNMA Selling Guide B4-1.1-06*)