As noted throughout the Manual, CHFA requires the use, as appropriate, of **FHA, VA**, **USDA** or **FNMA / FHLMC** printed Mortgage Deed and Promissory Note forms on all First Mortgage transactions. Participating Lenders are responsible for processing and servicing Loans in accordance with specific **FHA, VA, USDA, FNMA, FHLMC, CHFA** or private mortgage insurance **(PMI)** requirements when applicable, and only general reference is made to those requirements in this Manual.

Throughout this Manual, masculine references shall include both genders or either gender, as appropriate.

CHFA reserves the right to request additional information, documentation and/or compensating factors to support any credit package.

SECTION 2 – ELIGIBILITY

2.1 <u>Eligible Borrowers</u>

<u>General</u>

To qualify for CHFA financing, an applicant must meet the eligibility criteria set forth in this section.

A. An applicant shall be an Eligible Borrower for a CHFA Mortgage Loan if the applicant meets the following criteria:

1. At the time of application and at the time of mortgage closing, has the financial capacity to repay such loan and has an annual aggregate income that is at or below the applicable income limit in effect at the time the application was taken. CHFA income limits may be higher in Targeted Areas. Lenders must follow income limits for Target Area census tracts if applicant's property is located in one of the specified Federally Targeted Areas of the state;
2. Agrees to occupy and use the residential property to be purchased for a principal residence within sixty days;
3. Possesses the legal capacity to incur the obligations of the CHFA Mortgage Loan;
4. Has not, at any time during the three years preceding the date the mortgage loan is executed, had a present ownership interest (as defined by the Home Mortgage Programs Operating Manual) in their principal residence. This requirement does not apply to loans on properties located in targeted areas as designated by the Authority or to loans made to prior homeowners as permitted by Federal and state law; and

5. Is not using the proceeds of the Authority's mortgage to refinance an existing mortgage on the property (except in the case of a qualified rehabilitation loan) or to finance the acquisition of the remaining interest in a property in which a partial interest already is owned. The use of the loan proceeds to refinance an existing mortgage Is permitted only if the prior mortgage is a construction period loan or other temporary financing with a period of twenty-four (24) months or less, or if it is on unimproved land on which a dwelling is to be constructed and is to be paid prior to the closing of the Authority's mortgage loan, which latter loan does not exceed the cost of construction.

2.2 Homebuyer Education Requirements

At least one borrower must attend a Homebuyer Education Workshop facilitated by a CHFA Participating – HUD Approved Counselor. CHFA Participating Lenders must advise Eligible Borrower(s) of their responsibility to attend a Homebuyer Education Workshop and provide them a copy of the Homebuyer Education Calendar or the names of the CHFA Participating – HUD Approved Counseling providers. The Homebuyer Education Calendar and the list of the CHFA Participating -HUD Approved Counselors can be found on the CHFA website at *chfa.org* under the title "Homebuyer Education".

A. As a requirement of obtaining a CHFA mortgage loan, Eligible Borrowers must attend one of the following Homebuyer Education Workshops and submit a certificate of completion to their Lender for inclusion in the CHFA loan file submission. Additionally, Landlord Education is required for borrower(s) purchasing a 2-4 family unit.

1. **Pre-Purchase Homebuyer Education:** Meets the requirements for all CHFA Programs, **or;**

2. **Pre-Closing Homebuyer Education**: ***(In Person or Online)*** Meets the requirements for all CHFA Programs.

3. **Landlord Education**: Additional Education required for borrower(s) purchasing a 2-4 family unit.

2.3 Income for Eligibility

Income to Determine Eligibility

Borrower(s) shall not have aggregate income in excess of the applicable income limit established by CHFA and in force at the time of application and date of closing for the Mortgage Loan. CHFA income limits may be higher in Targeted Areas. Lenders must follow income limits for Target Area census tracts if applicant's property is located in one of the specified Federally Targeted Areas of the state.

Eligibility income shall be based solely on the income of the mortgagor or mortgagors (borrower and co-borrowers) only.

Eligibility income is different from qualifying income. Qualifying income is the income being used to qualify the borrower under the applicable Investor/Agency guidelines. Eligibility Income is used to determine if the borrower meets CHFA's Income Limits. Please also refer to the Eligibility Income Guide for additional guidance.

Aggregate borrower(s) income shall include income from whatever source derived, including without limitation:

INCOME CONSIDERED IN LIMITS INCLUDE, BUT ARE NOT LIMITED TO:	
Alimony/Child support	Overtime
Adoption/Foster care income	Part-time earnings
Allowances: auto, uniform, housing	Pension, Annuity, Retirement, Social Security
Bonuses	Profit Sharing
Capital Gains	Regular Earnings: Base salary/hourly
Commissions	Rental income
Disability payments	Self-employment; Schedule C, E
Dividends	TANF
Gambling/Lottery winnings	Tips
Interest	Trust Income
Military income *(allowances; housing, clothing, subsistence)*	Unemployment Benefits

Determining income:

Income is to be annualized considering all income. When there is an increase in income from the previous year, use current YTD income. When there's a decline from previous year, average with previous year. When in doubt, use the higher amount or submit all income documentation to CHFA for validation. When annualizing based on YTD, the lender must consider if the OT/Bonus/etc. is earned at a higher amount at different times of the year, such as delivery persons are typically busier during the holiday season, line workers in winter/bad weather, etc. For applicants that receive an increase in pay due to an increase in hours, pay raise, promotion, etc., lenders are required to use the most recent salary/income to determine eligibility. Increased income cannot be averaged with lower earnings or previous employer earnings received in the calendar year prior in order to reduce income for participation.

The Authority may at its option exclude income where it deems such income to be of short duration and of a temporary nature.

1. **Commission/Bonus/OT Income for Eligibility Limit Purposes**

If two years tax returns are required by Agency/Investor and the income is declining, the lender shall use a 24-month average. If the income is increasing, the lender must use the most recent 12-month earnings.

2. **Calculating Rental Income for 2-4 Unit Dwelling**

The net rental income from units in a two-four-unit dwelling will be added to the borrower's income for eligibility within the CHFA income limits and will be based on the percentage of the anticipated fair market income consistent with the loan program, i.e., follow the guidelines of the loan insurer, FHA,VA, USDA, FNMA, FHLMC, or CHFA special program, when applicable. Rental income from the borrower's occupied unit does not need to be considered.

3. **Self-Employment**

- Determine # of years federal tax returns required based on AUS findings
- Net income calculated as per Agency/Investor guidelines. CHFA will add back in **all** allowable expenses, such as depreciation, mileage, etc.
  - If only 1 year required, use 12-month average
  - If 2 years required:
    - if income increased, use most recent year average
    - if income decreased substantially, use two-year average
  - YTD Profit & Loss statements are not acceptable

4. **Income Losses**

Self-employment or investment losses and employee expenses on Form 2106 will not be deducted for purposes of eligibility but will follow Agency/Insurer guidelines for qualification purposes.

2.4 First Time Homebuyer Requirement

An Eligible Borrower must not have had an "ownership interest in his/her principal residence" (as hereinafter defined), regardless of where it is located, at any time during the three years preceding the date of the execution of the new mortgage. This requirement does not apply to Mortgage Loans for Eligible Dwellings located in Targeted Areas.

1. **Definition of Ownership Interest**

“Present ownership interest in a principal residence” includes:

i. A fee simple interest;

ii. A joint tenancy, a tenancy in common, or a tenancy by the entirety;

iii. The interest of a tenant shareholder in a cooperative;

iv. A life estate;

v. A land contract, under which possession and the benefits and burdens of ownership are transferred although legal title is not transferred until some later time;

vi. An interest held in trust for the Eligible Borrower(s) (whether or not created by the Eligible Borrower(s)) that would constitute a present ownership interest if held directly by the Eligible Borrower(s); and

vii. Occupancy of a property for which an interest in real estate was created by the existence of an inheritance, probated or not, whether title is vested or not.

b. Interests which **do not** constitute a “present ownership interest in a principal residence”:

i. A remainder interest;

ii. An ordinary lease with or without an option to purchase;

iii. A mere expectancy to inherit an interest in a principal residence;

iv. The interest that a purchaser of a residence acquires on the execution of an accepted offer to purchase real estate;

v. An interest in other than a principal residence during the previous (3) years.;

vi. An interest in a mobile home that is not permanently fixed to land and which mobile home is not considered real property for local tax purposes;

vii. Ownership interest in a vacation timeshare with limited occupancy on an annual basis; and

viii. Land only.

2. **Disposal of Other Residential Property**

Any residential property that is owned by the borrower shall be sold/interest divested of before closing on the CHFA Loan.

3. **Persons Covered**

This requirement applies to any person who will execute the Mortgage Note and Deed and will have an ownership interest in the Eligible Dwelling.

4. **Evidence of Previous or Current Homeownership**

To verify that the Eligible Borrower meets the three- year requirement, the Participating Lender must obtain a credit report and a fraud report that provides a complete ownership history for the borrower, such as LoanShield, LexisNexis, FraudGuard, or other industry acceptable Fraud Risk Solution.

5. **Lender's Responsibility to Verify Real Estate Ownership Documentation**

Participating Lender must, with due diligence, verify the information in the Borrower Eligibility Certificate regarding the applicant's prior residency and certify to CHFA that on the basis of its investigation, such information is to the best of its knowledge and belief, true and accurate and evidence compliance with the requirements of this section. Such certification shall be made on the Participating Lender Certification *(CHFA Form 019-1101).*

2.5 Principal Residence Requirement; Owner-Occupancy

General

An Eligible Borrower shall covenant to occupy the Eligible Dwelling as a principal residence within 60 days after the closing of the Mortgage Loan. Unless the residence can reasonably be expected to become the principal residence of the Eligible Borrower within 60 days of the Loan closing date, the residence will not be considered an Eligible Dwelling and may not be financed with a CHFA Mortgage Loan. An Eligible Borrower must covenant to occupy the Eligible Dwelling as a principal residence within 60 days after the Loan closing on the Borrower Eligibility Certificate and Mortgage Note.

In the case of a rehabilitation loan (203(k)), follow Agency/Investor guidelines for occupancy requirements.

1. **Definition of Principal Residence**

A principal residence does not include any residence which can reasonably be expected to be used: (a) in a trade or business, except for a two to four family residence, in which case the Eligible Borrower shall be permitted to rent or lease the non-owner-occupied unit(s), (b) as an investment property, or (c) as a recreational or second home. Not more than fifteen percent (15%) of the total living area of a residence may be used in a trade or business which would permit any portion of the costs of the Eligible Dwelling to be deducted as an expense for Federal Income Tax purposes (except in the case of a two to four family residence, in which case the Eligible Borrower shall be permitted to deduct for Federal Income Tax purposes the costs associated with the non-owner-occupied units).

2. Land Not to be Used to Produce Income

The land financed by the Mortgage Loan may not provide, other than incidentally, a source of income to the Eligible Borrower. The Eligible Borrower must indicate on the Borrower Certificate that, among other things:

a. No portion of the land financed by the Mortgage Loan provides a source of income (other than incidental income);
b. The borrower does not intend to farm any portion of the land financed by the Mortgage Loan; and
c. The borrower does not intend to subdivide the property nor to apply for a zoning variance regarding minimum lot size or set-back requirements.

3. **Requirement for Existing Mortgage on Subject Property/Partial Interest**

Mortgage Loans maybe made only to persons who did not have a mortgage (whether or not paid off) on the Eligible Dwelling at any time prior to the execution of the Mortgage. A Mortgage Loan may not be made to finance the purchase of a remaining interest in a home in which a partial interest is already owned or will be acquired through inheritance or gift. Mortgage Loan proceeds may not be used to acquire or replace an existing mortgage or debt for which the Eligible Borrower is liable, or which was incurred on behalf of the Eligible Borrower, or provide financing for a property which is owned by the Eligible Borrower debt free, except for:

- A construction loan; or
- Temporary financing which has a term of twenty-four months or less;
- A mortgage on unimproved land on which a dwelling is to be constructed, as long as the mortgage is satisfied prior to the date of the Loan closing and the amount of the Loan does not exceed the cost of construction; or
- A Rehabilitation Mortgage (not currently offered for properties already owned by the borrower)

4. **Determination by Participating Lender**

The qualification of an Eligible Borrower shall be determined by the Participating Lender subject to review by CHFA. For each application, the Participating Lender must review the application form and related submissions to determine their consistency, completeness, and compliance with the terms of this Manual. Lender is required to verify the information provided to them, either independently or concurrently with credit reviews, when applicable.
Lenders are responsible for submitting applications to CHFA within a time frame sufficient to allow CHFA to perform a review of the loan prior to the anticipated closing/contingency date.

5. **Multiple Mortgage Loans**

An Eligible Borrower may not have more than one outstanding CHFA Loan including a CHFA Loan that has been assumed by another person.

2.6 Eligible Dwellings

A. In order to qualify as an Eligible Dwelling for which a Loan may be made, the premises must:

1. Be located in the State of Connecticut;
2. Be structurally sound and functionally adequate and meets all applicable zoning requirements, housing codes, agency /insurer guidelines and similar requirements;
3. Have a permanent certificate of occupancy if newly constructed or substantially rehabilitated or when a certificate of occupancy is not obtainable in the case of substantial rehabilitation, have such other documentation as CHFA may require;
4. Meet all appropriate requirements listed in (Section 2.6 B).

B. Requirements Pertaining to Land

1. Lot Size

The land on which the eligible dwelling is situated cannot exceed basic livability, other than incidentally, cannot be subdivided, and cannot be a source of income to the borrower.

2. Non-production of Income

a. Only land which does not provide a source of income to the Eligible Borrower (other than incidental income) may be financed by a Mortgage loan.

b. The Participating Lender is required to have conducted an on-site inspection/appraisal and to verify that on the grounds of that inspection and other reasonable grounds, the Lender expects that the property will not be used to produce income to the Eligible Borrower, other than incidental income.

3. Leasehold Interests

Follow Agency/Investor Requirements

C. Sales Price/Acquisition Cost Requirements

1. Acquisition Costs

The Acquisition Cost of an Eligible Dwelling may not exceed the sales price limits established by CHFA and in effect at the time of the application. Appraised value as well as actual selling price will be reviewed by CHFA on all Loan submissions. Any indirect or non-pecuniary consideration will be given effect in determining the market value. CHFA may at its option reject an application for a Mortgage Loan where the appraised value exceeds the applicable CHFA Sales Price Limit by more than five (5)percent.

Definition of Acquisition Cost

Acquisition Costs means the cost of acquiring the Eligible Dwelling from the Seller as a completed residence. The total acquisition price may not exceed CHFA's sales price limits.

Lenders must complete and have signed by the borrower(s) the Acquisition Cost Worksheet and submit with the loan file submission.

2. **Transactions Involving Built-In Equity**

The appraised value may not exceed 5% above the applicable sales price limit on any transaction.

Transactions are not eligible for the Time to Own program when the subject property's appraised value exceeds the sales price by 20% or more.

D. Condominium Projects

An individual condominium unit is included within the definition of an Eligible Dwelling provided the Lender certifies the project meets Agency/Investor guidelines.

1. **Deed Restricted Condominium Projects** – Affordable Housing Condominium Projects that are deed restricted for purchase to First-time homebuyers or that have low- to moderate-income eligibility or low- to moderate- income resale restrictions and are not eligible for FHA, VA, USDA, or Fannie Mae/Freddie Mac approval may be submitted to CHFA for consideration.

   a. CHFA mortgage loan financing for individual units in Affordable Deed Restricted Projects that are ineligible for FHA, VA, USDA or PMI insurance coverage may also require a minimum 20% down-payment investment from an acceptable source which can include CHFA approved non-profit, municipal, or Federal programs, or a combination that includes an investment of the borrower's own funds.

E. Leasehold Interests

The following requirements shall apply where a loan is secured by a mortgage on a leasehold interest:

(a) The lease shall be in full force and effect;
(b) The notice of the lease shall be recorded on the land records of the town in which the leased property is located; and
(c) The term of the lease may not terminate earlier than that number of years beyond the maturity date of the Authority's mortgage loan as is equal to the number of years remaining to maturity.