SECTION 3 – APPLICATION PROCESSING AND UNDERWRITING

3.1 Reserving Funds

When a fully ratified contract is received, the lender must determine that the transaction meets the eligibility requirements for CHFA financing in order to proceed. When the eligible transaction is within approximately 45 days (recommended) of the anticipated closing date, the lender shall Reserve the Loan/Lock in CHFA's Loan Origination System ("LOS") and simultaneously register any/all CHFA subordinate financing. The reservation should match the AUS and loan transmittal type. A fully ratified contract must be received by the lender prior to creating a reservation.

Note: *only lender staff that has participated in the appropriate training for their job function should be given access to LOS or permitted to work on any CHFA loan file. This is an annual requirement.*

Interest rates for each program are included on the CHFA Loan Rates published on the CHFA website at www.chfa.org.

See Section 5 for additional information on reservation and lock policies.

3.2 Loan Program(s) Selection

A. Type of Financing

Lenders are expected to select the best financing option(s) available to the borrowers including, but not limited to, the first mortgage type and any CHFA subordinate financing available.

1. First Mortgage Loans (Agency):

- FHA
- HFA Preferred/HFA Advantage (Fannie/Freddie)
- VA
- USDA
- FHA 203(k) Limited and FHA 203(k) Standard w/prior approval from CHFA
- Conventional Renovation Program w/prior approval from CHFA

2. Special Programs:

CHFA offers special rate discounts on the following programs:

- Home of Your Own (for households with a disabled family member or borrower)
- Homeownership for Residents of Public Housing

- Veterans and Military Service Members
- First Responders Mortgage Program
- Teachers Mortgage Assistance Program
- Smart Rate Pilot Loan Program (limited funding)

3. Down Payment and Closing Cost Assistance Loans:

CHFA offers various forms of Down Payment and Closing Cost Assistance Subordinate Loans to complement its first mortgage loans. Although its flagship program, the Down Payment Assistance Program (DAP) Loan is typically continuously funded, other programs may have limited funding, such as the Time to Own (TTO) and the First Responders Time to Own (TTO) Forgivable Down Payment and Closing Cost Assistance Loans. A borrower may benefit from Time to Own only once.

Since programs are constantly evolving and limits, etc. may change, please refer to the Loan Program Outlines for specific terms and guidelines/ overlays.

Lenders will receive emailed Bulletin notifications any time a new program is introduced, funding is exhausted, or one is changed. To sign up to receive bulletins, please email Bulletins@chfa.org.

4. Other Special Programs

CHFA offers several other loan programs that are administered either in- house or via a designated partner. These programs are not offered through our Participating Lenders, with the exception of the Mobile/ Manufactured Home Loan Program which is offered through specific Participating Lenders.

- Emergency Mortgage Assistance Program (EMAP)
- Reverse Annuity Mortgage (RAM)
- Mobile/Manufactured Home Loan Program

See *chfa.org* for additional information.

3.3 Credit Review

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

A. Evaluation

The Participating Lender is responsible for evaluating applicants for CHFA loan eligibility. Evaluation of creditworthiness must be done on a case-by-case basis.

B. Income

Each applicant for an Authority's home mortgage loan shall provide such evidence as the Authority may deem appropriate, consistent with industry practice and current requirements under the Internal Revenue Code and other applicable laws. Such evidence may include, in the Authority's discretion, the procurement by a participating lender of income and employment verification, federal income tax returns, and such other documentation as may be common in the industry.

1. **Repayment/Qualifying Income**

Standards for determining qualifying income shall follow the requirements of the Agency/Investor, barring boarder income as this is not permitted on CHFA loans due to property requirements, and unless otherwise noted on the applicable Loan Program Outlines.

All income calculations must be provided to CHFA from the Participating Lender underwriter in a clear and concise manner. CHFA reserves the right to request additional documentation when deemed appropriate.

2. **Eligibility Income Limits**

Aggregate borrower(s) gross income shall include all income from whatever source derived, annualized to project current rate of earnings.

CHFA Limits and TTO Eligibility Income Guide

3. **Family Size**

Applicants expecting the birth of a child are allowed to count the unborn child as a member of the family for income limit purposes. Satisfactory documentation of pregnancy must be provided.

4. **Area Median Income**

Borrower(s) Area Median Income limits must be calculated as specified in the applicable program guides, including additional AMI calculation requirements as deemed necessary by any CHFA special programs. Under no circumstance can income lower than base pay be used to determine AMI.

Some loan programs may require use of all eligible income for qualifying to determine AMI. Refer to the CHFA loan Program Outlines available at *www.chfa.org*.

C. Co-signers

Co-signers/guarantors and non-occupant co-borrowers are not permitted on a loan.

D. Underwriting Ratios

1. The Participating Lender must determine that the applicant(s) housing payments plus other obligations do not constitute an undue strain on the applicant's ability to make all such payments promptly and that an acceptable credit reputation is evidenced.

Maximum Total Debt-to-Income-Ratio

2. The maximum debt-to-income ratios permitted for each CHFA loan type are listed in the most recent Loan Program Outlines for that loan type.

When applicable, files must be underwritten in compliance with the Agency/Investor [i.e. FHA,VA, USDA, Fannie Mae/Freddie Mac] guidelines but cannot exceed the established CHFA debt ratios.

E. Credit Reports

CHFA requires Participating Lenders to obtain a tri-merge credit report on all borrowers in a format acceptable to the Agencies/Investors. Any additional credit information from borrowers normally used by a Participating Lender in the underwriting evaluation must also be submitted to CHFA for review with the loan submission.

Credit Scores

1. Participating Lenders submitting loan applications are required to follow the credit guidelines of the Agency/Investor and may not submit a loan application to CHFA that is non-compliant with the Agency/Investor criteria. CHFA may also require Lenders to comply with credit overlays of Secondary Market investor program(s) for specific loan products. The Participating Lender will be required to repurchase a loan if it is rejected by the Agency or the Investor for noncompliance.

Credit Analysis

2. Follow Agency guidelines for AUS and/or manual underwriting.

F. Secondary Market– Underwriting

The AUS submissions for underwriting purposes must occur before the closing of the mortgage loan. In instances where AUS has been updated, and the loan or borrower information changes and it no longer matches the information used when last reviewed, the lender must update the AUS data and resubmit. AUS must be run in compliance with all secondary market investor guidelines.
When the loan file is resubmitted to AUS after closing and prior to delivery, the lender is responsible for ensuring that:

1. All information provided in the final submission to AUS matches the terms of the closed loan;
2. The loan complies with the requirements specified by the Agency/Investor;
3. The loan delivery data matches both the closed loan and the final data submitted to AUS; and
4. The loan file receives an eligible recommendation from the applicable AUS on the final submission.

The Automated Underwriting System report summarizes the overall underwriting recommendations and lists the steps necessary for the Lender to complete the processing of the loan file.

G. Manual Underwriting

Follow Agency/Investor Guidelines. Review CHFA Loan Program Outlines for program overlays.

H. Age of Documents

Participating Lenders are responsible for ensuring the age of the appraisal, income and credit documents are in compliance with Secondary Market guidelines at the time of the loan closing. Lenders are required to update documents prior to closing in compliance with Agency/Investor guidelines.
NOTE: CHFA loans committed for purchase that do not close within the documentation expiration periods will require the Participating Lender to update and/or recertify documents as needed. Substantial changes in the integrity of a loan application, including deterioration of credit history, change of income, increase in debt ratios must be reported to CHFA. CHFA reserves the right to re-underwrite the application at its discretion.
Loans when Servicer is AmeriNat, McCue or Serviced Retained must be reviewed by CHFA.

I. Equal Opportunity for CHFA Loans

All financing for which funds are provided by CHFA shall be open to all persons, regardless of race, color, creed, national origin and ancestry, religion, sex, marital status, physical or mental disability.

3.4 Appraisal Requirements

General

A color copy of the complete property appraisal report with a physical inspection of the property is required to be submitted by the Participating Lender with each loan submission. **Appraisal waivers offered by the Agencies are not permitted.** All appraisals for Mortgage Loans must be made by appraisers who are licensed or certified by the State of Connecticut and follow Agency/Investor Guidelines. Participating Lenders must adhere to the Appraiser Independence Requirements as outlined in the FNMA Selling Guide.

1. **Forms** – The report must be prepared on a current FNMA/FHLMC appraisal form or on the appropriate VA or FHA form including any additional attachments or addenda necessary to provide an adequately supported opinion of market value.
   In the case of a property that "under appraises" the borrower, at his option, may proceed with the purchase at the higher price and pay the difference, while following all applicable Agency/Investor guidelines. Use of subordinate financing is not permitted to fill the gap.

2. **Appraised Value** - Appraisals should report the highest price which the property will bring contemplating:

   a. 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;

   b. Both parties are well informed or well advised and act prudently, each for what he considers his own best interest;

   c. Reasonable exposure is given to the property in the open market;

   d. Payment is made in cash or on terms reasonably equivalent to cash, assuming typical financing terms are available in the community for similar property.

3. **Repairs** - CHFA requires all mortgaged properties to be in good repair.

   a. 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.

   b. All repairs required by the property appraisal or negotiated between the seller and buyer must be completed prior to closing, however, an escrow hold back for the repair work is permitted in compliance with Agency/ Investor guidelines.

4. **The validity period** for all appraisals on existing, proposed, and under construction properties must meet all applicable Agency/Investor requirements.

5. **Independent Appraisal -** CHFA reserves the right to obtain an independent appraisal in order to establish fair market value and to determine whether a dwelling is eligible for the Mortgage loan requested.

3.5 Mortgage Insurance or Guaranty

1. CHFA requires mortgage insurance/guarantee on the property and the Lenders are required to follow the guidelines of the Agency/Investor, i.e. FHA, VA, USDA, or Fannie Mae/Freddie Mac. Mortgage insurance is not required on Conventional loans with LTV's less than or equal to 80%.

2. Each loan application submitted for commitment to CHFA by a Participating Lender must be accompanied by a mortgage insurance or guaranty commitment, where applicable/required.

3. CHFA independently reviews each loan application and in appropriate instances may decline to commit to purchase loans despite earlier review and approval for insurance or guaranty by FHA, USDA, VA or PMI. CHFA will make a firm commitment to purchase only those loans that satisfy the requirements of this Manual.

A. Private Mortgage Insurance (PMI) Loans (Conventional Loans over 80% LTV)

B. Financed Conventional Private Mortgage Insurance is permitted (Single or Split Premium)

1. Following first mortgage Agency/Investor guidelines.

C. Loans Which May Be PMI-Insured - CHFA will accept PMI insurance on:

1. Loans originated under the Connecticut Housing Finance Authority (CHFA) Programs: Fannie Mae (FNMA) HFA Preferred™ and Freddie Mac (FHLMC) HFA Advantage® Products;

2. Loans originated in partnership with a CHFA Approved Affordable Housing Program provider (these loans may also be uninsured if applicable to the provider program criteria);

3. Loans originated under new product initiatives as authorized by the Board of Directors.

4. CHFA will allow borrower paid monthly premiums for all loans. CHFA will also allow borrower paid single premium for HFA Preferred™ and HFA Advantage® loans. The source of funds used to pay single premiums must meet Fannie Mae/Freddie Mac and MI company guidelines.

D. Acceptable Insurers:

Private Mortgage Insurance is acceptable only from companies which meet Fannie Mae (FNMA) and Freddie Mac (FHLMC) eligibility requirements.

E. Required Coverage (follow AUS findings):

a. CHFA HFA Preferred™ and HFA Advantage® loans with income **at or below 80% AMI** may use reduced coverage:

Loan-to-Value Ratio	PMI Coverage Required
95.01% - 97.00%	18%
90.01% - 95.00%	16%
85.01% - 90.00%	12%
80.01% - 85.00%	6%

b. HFA Preferred™ and HFA Advantage® loans with income **over 80% AMI** require the following coverage:

Loan-to-Value Ratio	PMI Coverage Required
95.01 - 97.00%	35%
90.01 - 95.00%	30%
85.01 - 90.00%	25%
80.01 - 85.00%	12%

F. FHA Insured, USDA and VA-Guaranteed Mortgage Loans

1. CHFA accepts FHA Insurance or USDA and VA Guarantees for new or existing Eligible Dwellings.

2. FHA 203(k) Limited is an allowable FHA loan type as long as the Participating Lender receives prior approval from CHFA. FHA 203(k) Standard loans may only be originated by lenders that have prior approval from CHFA. Loans may be insured under any other FHA insurance program with the prior approval of CHFA.

3. FHA Up-Front MIP or USDA and VA Guaranteed funding fees may be included in the first mortgage loan financed by the Authority, providing the loan meets the guidelines of the Agency/Investor.

4. In the case of a VA Guaranteed Loan, the Participating Lender must inform the applying veteran of the restriction on the veteran's ability to assign the Loan and must obtain a Veteran's Statement-Due on Sale *(CHFA Form 018-0296)*, as required by 36 CFR Section 36.4306(a) and (e). The Participating Lender must include the signed consent statement with the application to CHFA.

G. Required Down Payment

1. Minimum

All loans insured by FHA, VA, USDA, or PMI must meet the minimum requirements of the Agency/ Investor.

3.6 Loan File Submissions

A. Exhibits for Review Package/Commitment

B. Please refer to the current Compliance Submission Checklist and File Order Form (CHFA Form #009-1107C) posted on the CHFA website for the list of Submission documents required for most loans.

C. For lenders that retain servicing of their loans, a complete full underwriting package must be submitted to CHFA instead of only a Compliance Review Package. See CHFA Form #009-1107W)

D. In some cases, CHFA may agree to accept a loan as a whole loan, such as in the event an affordable condominium project does not meet Investor/Agency guidelines. These are typically serviced by AmeriNat. In those cases, the lender will be required to submit a full underwriting package to CHFA. See CHFA Form#009-1107W. Please submit all documentation in descending order through CHFA Sharefile program upload process.

1. STANDARD DOCUMENTS REQUIRED FOR ALL LOAN TYPES

a. CHFA Compliance Submission Checklist and File Order

b. All supporting documents required on the Compliance Submission Checklist

c. Lender's underwriter to ensure that all information on the reservation screen is completed accurately.

d. The CHFA "Additional Data" screen within LOS must be completed and a final, verified, Uniform Residential Loan Application FNMA Form 1003xml file, must be uploaded to the CHFA LOS portal for file submission. Lender is required to submit a compliance package using the Compliance Submission checklist to Sharefile via the CHFA LOS system. The compliance package will be counted as "arrived" and accepted for review only upon upload/receipt of these completed items.

2. **Expired Loan Documents**
It is the lender's responsibility to ensure the loan is compliant at delivery. Any loan delivered to AmeriNat or McCue Mortgage must be re-submitted to CHFA for review.

3. **Product – Specific Forms**

a **Special Discount Products / Pilot Program Documentation**
CHFA may require additional documentation specific to a Special Program or Pilot Program initiative. When applicable refer to the Special Program or Pilot Program product description and eligibility requirements for the program.

b **Processing Time**
The Eligible Borrower must be advised that CHFA's normal review time is typically 72 hours, however, delays are not the responsibility of CHFA.

3.7 Issuance of Commitment(s) for Compliance

CHFA underwriters will review each submission package for adherence with CHFA eligibility requirements. A written Commitment to Purchase (or Commitment to Fund, for Servicing Retained Lenders) will be issued on Files submitted that meet the Compliance Eligibility requirements.

The Commitment(s) will list the Servicer for each loan (first mortgage and any subordinate financing).

Loans will be purchased in accordance with the commitment and pursuant to Section 6 of this Manual. The complete closed loan package must be submitted for final review/purchase far enough in advance of the reservation expiration date to allow time for review before purchase/funding.

A. Escalation Process
Requests will be accepted from the lender's Underwriter/Underwriting Manager **ONLY** and must adhere to the following process:

- Submit email request to: Escalations@chfa.org.
- The subject line should list the borrower's last name and CHFA's loan number.
- The email must list issues/concerns and lender's rationale.
- Do not send documents via email.
- The file should already contain any necessary documentation to support the escalation request.
- Files will be reviewed by CHFA Management on a first-come first-served basis and the lender should receive a reply via a call/email within 24-48 hours of escalation request.
- Should further conversation be required, the CHFA Underwriting Manager will schedule a call with the lender's Underwriter or Underwriting Manager who submitted the request.

- Once a CHFA final determination is made, the lender will be contacted via phone/email and will subsequently receive either a Missing Exhibits Letter or Commitment from CHFA.

The escalation decision made by CHFA Management will be final and no further discussions will be considered.

3.8 Electronic Signatures

A. "Wet" or ink signatures are required on loan documents executed by borrower(s) applying for first and subordinate mortgage loan financing from CHFA, however, when applicable, CHFA will allow electronic signatures on some documents pursuant to current mortgage industry requirements.

B. All documents submitted with electronic signatures must be executed in compliance with the standards set by the Electronic Signatures in Global and National Commerce Act (ESIGN) and the Uniform Electronic Transactions Act (UETA).

C. "Wet" or ink signatures are required on the followingdocuments:

a. First Mortgage Note and Deed (And any applicable Riders, including the Tax-Exempt Financing Rider (CHFA Form #053-1199)).

b. CHFA DAP Subordinate Mortgage Note and Deed

c. CHFA TTO Subordinate Mortgage Note and Deed

d. TRID - Closing Disclosure (CD)

e. Final Uniform Mortgage Loan Application (1003)

f. Borrower Signature Affidavit (CHFA Form 014-0718)

D. Electronic signatures are accepted on thefollowing CHFA documents where applicable:

a. Borrower Eligibility Certificate (CHFA Form 014-1107)

b. Down Payment Assistance Program/s - Applicant Notice (CHFA Form DAPDiscl or TTODiscl, if applicable)

c. Down Payment Assistance Program/s - Borrower's Certificate (CHFA Form DAP95-05 or TTO95-05, if applicable)

d. Federal Recapture Tax Notice - Mortgagor Potential Tax (Application Disclosure) (CHFA Form 051-0597)

e. Sales Price and Acquisition Cost Worksheet (Application Disclosure) (CHFA Form 017-0694)

f. Federal Recapture Tax Notice- Method to Compute (Closing Disclosure) - This document is provided to lender with CHFA Commitment

g. CHFA Down Payment Assistance Commitment