

# SECTION 5 – ADDITIONAL INFORMATION FOR LENDERS

## 5.1 Qualification of Participating Lenders

### General

A “Participating Lender” is a lending institution that cooperates with CHFA in making funds available under its’ home mortgage program by making and/or servicing mortgage loans that CHFA has agreed to purchase.

#### A. Lender Capability

**To be approved as a Participating Lender to originate mortgage loans, a lending institution must meet the following criteria:**

1. Have in Connecticut, a brick-and-mortar facility with the capacity and personnel to originate and close mortgage loans, as determined by the Authority;
2. In the case of a non-depository financial institution, maintain a minimum tangible net worth of \$250,000 or such amount (if higher) as the State of Connecticut Department of Banking may require as a condition of licensing as a mortgage lender or provide a letter of credit, available and otherwise uncommitted line of credit, bond or other financial instrument acceptable to the Authority totaling such amount;
3. Be in compliance with applicable federal and state laws, regulations promulgated thereunder and any licensing requirements by agencies of government having jurisdiction;
4. Maintain quality control and management systems to evaluate and monitor the overall quality of its origination activities: and
5. Execute a Master Commitment Agreement for mortgage purchase
6. Will be required to re-certify on an annual basis.

#### B. Servicing Capability

**To be approved by CHFA as a Participating Lender to service Authority loans, the institution must meet the following criteria:**

1. Have the capacity and personnel to service mortgage loans, as determined by the Authority;
2. Demonstrate a proven ability to service the type of mortgages for which Authority approval is being requested;
3. In the case of a licensed mortgage servicer, maintain a minimum tangible net worth as required by the Connecticut Department of Banking as a condition of licensure or provide a letter of credit, available and otherwise uncommitted line of credit, bond or other financial instrument acceptable to the Authority totaling such amount;
4. Be in compliance with applicable federal and state laws, regulations promulgated thereunder and any licensing requirements by agencies of government having jurisdiction;
5. Maintain quality control and management system systems to evaluate and monitor the overall quality of its servicing activities; and
6. Execute a Home Mortgage Servicing Agreement and/or other contracts as determined by the Authority.

### **C. Other Requirements**

1. The Authority may remove from the list of approved participating lenders any lending institution that has (i) failed to commit, close and/or service mortgage loans in accordance with the Act, these procedures, the Master Commitment Agreement for Mortgage Purchases, and/or the Home Mortgage Servicing Agreement or other agreement governing the closing, origination, or servicing of loans for the Authority, or (ii) ceased to meet the criteria for becoming a participating lender. The Authority may terminate the Master Commitment Agreement for Mortgage Purchases and/or the Home Mortgage Servicing Agreement or other agreement governing the closing, origination, or servicing of loans for the Authority in accordance with the provisions thereof.
2. Participating lenders shall not restrict applications for loans to any segment of all loan products offered by the Authority under the Homebuyer Mortgage Program, except that for rehabilitation mortgage loans and construction loans. A participating lender need not accept applications for rehabilitation mortgage loans and need not accept applications for mortgage loans on homes located outside its normal geographic lending areas nor for loan products which the Authority did not offer at the time the participating lender was approved as a participating lender. The Authority may nonetheless approve a participating lender which offers rehabilitation mortgage loans or construction loans but does not offer all of the other loan products offered by the Authority. The Authority

shall have the discretion to deny a request by a lender to become a participating lender based on the number of approved participating lenders and the geographic areas served by the approved participating lenders.

The Authority shall require a newly approved participating lender, from time to time, to attend training sessions as the Authority deems appropriate.

- a. A participating lender may sponsor a “broker” or “third-party originator” to originate mortgage loans with prior written approval of the Authority. The sponsoring lender must be in good standing in order to sponsor a broker or third-party originator. In addition to such other requirements as the Authority may from time to time establish in its Operating Manual, to be approved by the Authority as a broker/third-party originator to originate mortgage loans, the broker must meet the same criteria for a participating lender to originate mortgage loans as described in subsection (A) above, except as follows:
- b. The broker/third-party originator may have a minimum tangible net worth of \$50,000
- c. The broker may be required to execute a Master Commitment Agreement for Mortgage Purchases or other agreement setting forth its obligations to the Authority;
- d. The broker/third-party originator may be required to attend a training session(s) prior to originating any Authority loans on behalf of the sponsoring participating lender and any other training sessions as the Authority deems appropriate; and
- e. The broker/third-party originator shall conform to guidelines as required by the Connecticut Department of Banking and/or the Authority regarding licensing required to act as a broker/third-party originator in the State of Connecticut.

An approved broker/third-party originator may originate home mortgage loans on behalf of a sponsoring participating lender. However, the sponsoring participating lender shall remain fully responsible to the Authority for its obligations pursuant to the Authority’s Procedures, the Authority Homebuyer Mortgage Program Operating Manual, and a Master Commitment Agreement for Mortgage Purchases. The Authority reserves the right to limit the number of brokers/third party originators and may rescind approval of a broker/third-party originator at any time with (prior) written notice.

#### **D. Removal of a Participating Lender**

CHFA may terminate the Master Commitment Agreement for Mortgage Purchases and/or the Home Mortgage Servicing Agreement according to their terms, respectively, and remove from the list of approved Participating Lenders any lending institution that has:

1. Failed to commit close and/or service Mortgage Loans in accordance with the Act, the Procedures of this manual; and the Master Commitment Agreement for Mortgage Purchases, and/or the Home Mortgage Servicing Agreement or,

2. Ceased to meet the criteria for becoming a participating lender. CHFA may terminate the Master Commitment Agreement for Mortgage Purchases and/or the Home Mortgage Servicing Agreement in accordance with the provisions thereof. Such removal may take place thirty (30) days after written notice to such participating lender specifying the reason for the removal.

#### **E. Lending Areas**

Participating Lenders are not required to go beyond their normal geographic lending areas.

#### **F. Training Sessions**

After CHFA has approved a Participating Lender, the Participating Lender shall promptly attend appropriate training sessions with CHFA staff prior to originating a CHFA loan. The training session(s) shall cover CHFA's requirements in regard to originating and closing loans, providing CHFA with the required loan documents after closing, and, where appropriate, servicing requirements. CHFA requires training to be attended annually and shall have the right to require retraining sessions when CHFA deems it appropriate.

## **5.2 Distribution of Mortgage Funds**

### **A. Availability of Funds**

CHFA will not issue separate allocations to any particular Participating Lenders. A funds reservation system which allows the borrower to apply for a CHFA Loan at the Lender of their choice will be used.

CHFA reserves the right, however, to set aside a portion of the proceeds of any issue of bonds on an uncommitted basis for any purpose of the Program. Specifically, CHFA expects to set aside certain proceeds from each issue for the purpose of making Mortgage Loans in Targeted Areas.

1. The Participating Lender will determine if the prospective mortgagor is qualified as an Eligible Borrower. Such preliminary determination shall include the Participating Lender's examination of (i) the prospective borrower's written purchase agreement concerning the property to be financed, (ii) appropriate documentation required to determine income for eligibility and qualifying, and (iii) any other documentation or information required to determine eligibility.
2. After the Participating Lender has determined an applicant's eligibility for CHFA financing, and a fully ratified contract is received the lender will reserve mortgage funds using the CHFA On-line Reservation System.
  - a) The reservation of funds is valid for ninety (90) days unless extension is requested by the Participating Lender and granted by CHFA.

3. The Participating Lender must notify CHFA of any cancellation of reserved funds so that the funds may be made available for others. No substitution of borrower will be permitted for served funds. No substitution of property will be permitted for reserved funds.

**B. Reservation of Loan Funds**

CHFA will administer the reservation program and Participating Lenders may accept Loan applications from prospective borrowers.

CHFA reserves the right, however, to set aside a portion of the proceeds of any issue of bonds on an uncommitted basis for any purpose of the Program. Specifically, CHFA expects to set aside certain proceeds from each issue for the purpose of making Mortgage Loans in Targeted Areas.

**C. Free Accessibility to Funds**

Applications for Loans shall be based on eligibility and not on special relationships between a Participating Lender and particular real estate brokers or developers. A Participating Lender may not deny a Loan to an Eligible Borrower solely because the Eligible Borrower is not a depositor or customer of the Participating Lender. Neither may the Participating Lender limit the availability of CHFA financing by denying an application based on the fact that the applicant does not belong to a specified group of the public such as employees of certain organizations.

## **5.3 Funds Available for Targeted Areas**

**A. General**

In accordance with Federal requirements, CHFA will make funds available for Eligible Dwellings located in Targeted Areas. CHFA will exercise due diligence in making Mortgage Loans in Targeted Areas. Participating Lenders under CHFA's direction shall assist in advising potential Eligible Borrowers of the availability of funds in Targeted Areas.

**B. Eligibility**

Mortgage Loans for Eligible Dwellings located in Targeted Areas must comply in all respects with the requirements in Section 3 and elsewhere in the Manual for all Mortgage Loans except for the requirement that an Eligible Borrower may not have had an ownership interest in the Borrower's principal residence in the three years preceding the closing date for the Mortgage Loan.

## **5.4 Retention and Inspection of Records**

Any documents required by this Manual or by State or Federal law, not delivered to CHFA pursuant to a Commitment or purchase of a loan, must be retained by the Participating Lender or Servicer for at least two years after the date of purchase by CHFA, or such longer period as may be required by law, and, if requested by CHFA, for a reasonable period thereafter. If during such retention time CHFA requests original or certified copies of such documents, the same must be delivered to CHFA. Where appropriate, such documents may be kept on photographic media, in electronic format acceptable to the Authority, or in another manor which complies with state law.

Participating Lenders shall maintain accurate records for each Authority mortgage loan application which is declined.

Participating Lenders must make all records and books maintained in connection with loans available for inspection by CHFA upon request during reasonable business hours.

The absence of documentation required to be retained by this section may, at the option of CHFA, be construed to conclusively evidence a defect in such documentation under the Master Commitment Agreement for Mortgage Purchases.

## **5.5 The Federal Recapture Tax**

Congress enacted legislation in 1988, subsequently amended in October of 1990, to recapture a portion of the “subsidized amount” from home buyers who receive qualified mortgage bond assistance after January 1, 1991. This includes all buyers who use CHFA Mortgage Revenue Bond (MRB) Loans and Mortgage Credit Certificates (MCC), dispose of an interest in their residence within nine (9) years of purchase, and whose incomes substantially increase. The amount of Recapture Tax that Borrower(s) might have to pay depends on how much their income has increased, their family size at the time of sale, the original amount of their mortgage, the length of time they owned their home and any gain realized on disposition of the home. The recapture amount is the lesser of:

- (1) 50 percent of the gain realized on disposition, or
- (2) A percentage of the subsidized amount. The percentage is the product of the holding period percentage and the income percentage (both discussed below).

The Borrower(s) is responsible for calculating and paying the Recapture Tax, if any, as additional Federal tax liability for the tax year in which the interest in the home is disposed. However, Participating Lenders are required to provide homebuyers with the Authority’s “Notice of Potential Recapture Tax Form 051-0597” and “Method to Compute Recapture Tax Form 052-1195”.

For additional information, visit [www.chfa.org](http://www.chfa.org).