

## **SECTION 8 – DOWNPAYMENT ASSISTANCE PROGRAM**

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## **Section 8 - Downpayment Assistance Program**

*The Downpayment Assistance Program (DAP) provides financial assistance in the form of second mortgage loans to eligible first-time home buyers based on their financial needs to assist in the purchase of a one-to-four family, condominium or planned community development eligible property.*

### **8.1 Qualification of Participating Lenders**

All CHFA Participating Lenders and Correspondent Lenders are eligible to Participate in the DAP program. Participating and Correspondent Lenders will be required to agree to the following terms and conditions for authorization to originate the CHFA DAP second mortgage product.

#### **1. Written Agreement**

Participating and Correspondent Lenders must execute a DAP Participating Lender Agreement. The Participating Lender will be required to comply with the terms of the Agreement.

#### **2. Termination**

CHFA may terminate a Participating or Correspondent Lender for any reason. In the event of termination, CHFA will provide the Lender with written notice specifying the reason for the removal. Termination will become effective 30 days from the date of the written notice to the Lender.

#### **3. Training**

Prior to originating a CHFA DAP loan, the Lender will be required to send designated representatives to a CHFA DAP training class to learn the procedures for completing DAP Loan Applications and for qualifying and calculating DAP loan amounts for eligible borrowers. This class is offered **FREE** and is open to Loan Originators, Underwriters and Loan Processors.

CHFA shall have the right to require a Participating or Correspondent Lender to attend a re-training session when deemed appropriate.

## 8.2 Funds Availability

### 1. Notice

CHFA will not provide Participating Lenders with written notice of funds availability. Generally, mortgage money is available on a continuous basis. The interest rate for the DAP Loan Program including any information on specific targeted funding special initiatives will be included on the CHFA Loan Rate Sheet published on the CHFA website at [www.chfa.org](http://www.chfa.org).

### 2. Funds Registration

Participating and Correspondent Lenders shall register funds for the CHFA DAP second mortgage loan simultaneously when registering funding for the CHFA first mortgage loan program on the CHFA On-Line Reservation System. The Participating/Correspondent Lender Account Administrators will coordinate their staff access to the Reservation System that is found on the CHFA website at [www.chfa.org](http://www.chfa.org).

## 8.3 Eligibility

### 1. Eligible Borrowers and Dwellings

Eligibility for a CHFA DAP second mortgage loan shall follow the same criteria established for the CHFA Home Mortgage Program **Statewide** except that borrower(s) may not exceed the established CHFA Home Buyer Mortgage Program income limits for the area.

Borrower(s) purchasing an eligible dwelling in designated Targeted Area Towns or Targeted Area Census Tracts that are applying for CHFA DAP must have income that is within the established income limit for the area. The Targeted Area income limit exemption will not apply for these transactions.

### 2. Submission for CHFA Review

CHFA underwriters will review each DAP loan submission concurrently with the first mortgage loan package. CHFA will make the final determination of the borrower's eligibility for the program and may adjust the DAP loan request. If the loan is acceptable, CHFA will issue a written loan commitment for loan purchase.

Eligible dwellings must meet all established criteria as described in (Section 3.2 A. and 3.2 B.) of this manual.

The following DAP documentation shall be submitted for review with each first mortgage loan package:

- 1) DAP Application and Asset Qualification Form (Available in CHFA LOS).
- 2) DAP Borrower's Certificate (CHFA Form DAP95-05).
- 3) A copy of the TRID Loan Estimate (LE) closing costs for first and second mortgages.
- 4) Copy of Counseling Certificate from CHFA sponsored class or other approved housing counseling.

## **8.4 Computation of DAP Loans**

### **1. Minimum Loan Amount**

There is a \$3,000 minimum loan amount.

### **2. Maximum Loan Amount**

- a. To obtain a DAP second mortgage; the first mortgage loan amount must be the maximum loan-to-value (LTV) that the program allows.
- b. The maximum CLTV for a CHFA DAP loan is 100%. (if applicant receives subordinate financing for closing costs from another CHFA approved provider, the CLTV may go up to 105%).
- c. Effective with Loan Reservations dated on or after February 1, 2015, CHFA will allow Participating Lenders to calculate the CLTV for loans with CHFA DAP using the Base loan amount (excluding UFMIP) added to the Total DAP loan amount divided into the sales price. (See Bulletin 79)

### **3. Asset Limitation**

- a. Qualified borrower(s) may keep up to \$10,000 of their own assets. All other liquid assets owned must be used for the down payment and/or closing costs, with the exception of the \$10,000. The \$10,000 may include \$1,000 of equity in real property which may be retained. The applicant(s) will only be permitted to retain his own liquid assets and will not be permitted to use DAP funds to increase his assets.
- b. CHFA will require Lenders to collect the three (3) most recent month's statements for all applicant(s) asset accounts. CHFA will review deposit and withdrawal activity over the ninety (90) day period to determine any amount of funds in excess of \$10,000 required to be applied towards the cost of acquisition of the subject property.

- c. In the case of a 2 – 4 family home, applicants(s) may exceed the \$10,000 limit (if necessary) in order to retain the amount necessary to maintain the PITI reserves required by the insurer and/or investor in order to include rental income in underwriting ratios.

### **1. Definition of Liquid Assets**

Assets include all assets of the applicants, (borrower and co-borrowers).

- a. Any and all cash in checking and saving accounts; certificates of deposit (CD); or money market funds;
- b. Monies in trustee and or/or custodial accounts listed under the social security number of the borrower(s);
- c. Stocks, bonds and treasury bills;
- d. 100% of the funds in any retirement plan including, but not limited to IRA accounts and 401k plans may be excluded from inclusion in the DAP asset test calculations even if the plan allows the applicant to borrow or withdraw from the plan.
- e. Other assets which the Authority determines to be readily convertible to cash, including but not limited to, equity in vacation homes, equity in mobile homes, equity in real property and seller paid costs.

## **8.5 Application Processing**

### **1. Application**

The Participating Lender and borrower will complete and sign a DAP Loan application and Asset Qualification Form. This form serves the dual purpose of a mortgage loan application and a calculation worksheet for the maximum DAP loan amount necessary based on the borrower's needs for down payment assistance.

### **2. DAP Borrower's Certificate**

The Participating Lender will provide and the borrower shall complete and execute a DAP Borrower's Certificate (CHFA Form DAP95-05).

### **3. Counseling**

At least one borrower listed on the DAP loan application must attend a homebuyer education class facilitated by a CHFA approved Homebuyer Education Counselor. The design of the course curriculum must include a minimum of 3 hours of class

instruction. The lender must advise the borrower of his/her responsibility to attend one of these classes and provide him/her with a copy of the CHFA sponsored counseling session classes or the names of other CHFA approved counseling providers. The CHFA sponsored schedules can be found on the CHFA website at [www.chfa.org](http://www.chfa.org) shown within the "Homebuyer Education Calendar".

#### **4. Underwriting**

The Authority will underwrite CHFA Downpayment Assistance Program loans in accordance with underwriting criteria established by the Authority and as described in this section of CHFA's Home Mortgage Programs Operating Manual. First mortgages underwritten in conjunction with DAP are subject to the same underwriting criteria as described herein.

### **8.6 Loan Preparation**

#### **1. Terms and Conditions**

The term of the DAP loan shall be the same as the term of the first mortgage loan. If the homebuyer assigns, transfers, or otherwise conveys his/her interest in the dwelling or ceases to occupy the dwelling, the unpaid principal balance of the loan shall become due and payable.

#### **2. Loan Amount**

The DAP loan amount will be the minimum down payment amount necessary based upon borrower's financial needs in the purchase of an eligible dwelling.

#### **3. Interest Rate**

The interest rate for the DAP Second Mortgage Loan Program shall be listed on the CHFA Interest Rate Sheet published on the CHFA website at [www.chfa.org](http://www.chfa.org). CHFA reserves the right to provide a sliding scale interest rate based on the borrower's income under CHFA's Homeownership Program for any CHFA designated Special Program Initiative. The maximum DAP interest rate will be capped at 6.00%.

#### **4. Fees**

The Participating Lenders may charge a \$200.00 application fee for processing DAP loans and the actual costs for the recording fees which is retained by the Lender.

Title Insurance is not required on a DAP loan, however, Participating Lenders may collect up to a maximum of \$150.00 for settlement agent expenses associated with closing the second mortgage loan.

If the Participating Lender charges the \$200.00 application fee and the actual recording fees exceed \$100.00, the maximum settlement agent fee must be decreased to ensure the total allowable fees do not exceed \$450.00.

## **5. Closing CHFA DAP Loans**

All CHFA Downpayment Assistance Program loans (DAP) must be closed in the name of the Connecticut Housing Finance Authority, 999 West Street, Rocky Hill, CT, 06067. Loans closed in the name of the Connecticut Housing Finance Authority do not require an assignment.

## **6. Prepayment Penalty**

There is no prepayment penalty.

## **7. Late Charge**

There is a \$5 late charge for each monthly installment paid more than 15 days after the due date.

## **8. Insurance**

The Participating Lender will provide evidence of hazard insurance naming the Connecticut Housing Finance Authority as the insured on the second mortgage. The second mortgagee clause should read:

*When the first mortgage is retained by the Lender for servicing OR the loan is a CHFA whole loan serviced by AmeriNat: The Connecticut Housing Finance Authority, Its successors and/or assigns, as their interest may appear, C/O **Capital For Change, Inc.** (C4C).*

*When the first mortgage is serviced by Idaho Housing Finance Association (IHFA): The Connecticut Housing Finance Authority, Its successors and/or assigns, as their interest may appear, C/O **HomeLoanServ.***

## **8.7 Loan Purchase**

### **1. Scheduling**

Participating Lenders are expected to close DAP loans in accordance with their established practices (See CHFA Operating Manual - Section 7.1A). The closing of the CHFA first mortgage and the DAP second mortgage will be scheduled concurrently.

## **2. Loan Purchase Procedure**

The Participating Lender shall follow (Section 7) of the Operating Manual. The CHFA first and DAP second mortgages will be purchased concurrently. CHFA will purchase the DAP second mortgage, less the prepaid interest.

## **3. Documentation**

When the first mortgage loan is retained by the Lender for servicing OR the loan is a CHFA whole loan serviced by AmeriNat, the DAP loan will be serviced by Capital for Change, Inc. (C4C).

When the first mortgage loan is serviced by Idaho Housing and Finance Association (IHFA), the DAP loan will also be serviced by Idaho Housing and Finance Association (IHFA).

The following documentation must be submitted to CHFA to request purchase and funding of all CHFA DAP loans whether serviced by Capital for Change, Inc. (C4C) or Idaho Housing and Finance Association (IHFA).

- 1) A fully completed CHFA Loan Purchase Request Form #066-408 signed by a “Duly Authorized Signatory” staff or designee.
- 2) A copy of the fully executed Loan Note endorsed to CHFA.
- 3) A copy of the fully executed 2<sup>nd</sup> Mortgage (DAP) Note closed in the name of CHFA.

Note: The information reflected on the executed Note(s); Commitment letter(s); and Loan Purchase Request (CHFA Form 066-408), must match exactly and be accurately stated. Funding may be delayed for any incomplete or inaccurate requests or documents submitted.

The original signed DAP Note and recorded DAP Mortgage Deed must be submitted to the applicable loan servicer within 90 days of the loan closing:

Capital for Change, Inc. – ATTN: Loan Servicing Department., 121 Tremont Street, Hartford, CT 06105 within 90 days of loan closing.

Idaho Housing and Finance Association – ATTN: Loan Servicing Department, P.O. Box 7541 Boise, ID 83707-7145 within 90 days of loan closing.

## **8.8 Servicing**

The servicing of the CHFA DAP second mortgage loan will be released to a CHFA

assigned third party servicer, currently Capital For Change, Inc. (C4C) OR Idaho Housing and Finance Association (IHFA); each CHFA DAP second mortgage loan commitment will list the name of the servicer assigned to that loan and the necessary instructions to set up the release of servicing.

**Assigned Loan Servicer Contact Information:**

**Capital For Change, Inc. (C4C)**

Attn: Loan Servicing Department, 121 Tremont Street, Hartford, CT 06105

Fax - (860) 920-2041 Phone - (860) 233-5165 Ext. 2041

Email: [azielke@capitalforchange.org](mailto:azielke@capitalforchange.org)

**Idaho Housing and Finance Association (IHFA)**

Attn: Loan Servicing Department, P.O. Box 7541 Boise, ID 83707-7145

Toll Free: 1- (800) 526-7145

Email: [Mortgageserv@ihfa.org](mailto:Mortgageserv@ihfa.org)

The following documents will be required to be faxed or delivered overnight to Capital for Change (C4C) OR uploaded in IDAHO Lender Connection within 24 hours of loan closing:

1. A copy of the signed DAP second mortgage Note;
2. DAP second mortgage Deed – (original/recorded);
3. A copy of the TRID Closing Disclosure (CD) (*Settlement Statement formerly HUD-1*);
4. A copy of the declaration page/s of the mortgagor's homeowners and flood insurance policies and paid receipt with the proper second mortgagee clause;
5. A copy of the Uniform Residential Loan Application (1<sup>st</sup> page only);
6. A copy of Form W-9, Request for Taxpayer Identification Number and Certification;
7. A copy of the fully executed DAP Commitment Letter for all loans with DAP.

## **8.9 Credit Review**

### **Evaluation**

The Participating Lender is responsible for evaluating applicants for CHFA Loans. Evaluation of creditworthiness must be done on a case-by-case basis, but standards for determining income shall be applied to each applicant in the same manner.

## 8.10 Income

### **Restricted Use of Income from Overtime and Part Time Employment**

*Income used to calculate housing and debt ratios will be limited to a total of 60-hours of income from either full-time employment combined with over-time earnings; or full-time employment combined with part-time employment earnings.*

1. Aggregate borrower and/or co-borrower's income (gross income) shall include income from whatever source derived, including without limitation, regular earnings; part-time earnings; unemployment compensation; bonuses; dividends; interest; commissions; military allowances; welfare payments; disability payments; pension; annuity; retirement and social security benefits; and reimbursement for services in military reserve or National Guard. Overtime income, whether or not guaranteed by an employer, shall be included unless of short duration and of a temporary nature.
2. Generally, unemployment compensation is not to be considered as part of income in determining whether the borrower has the ability to repay the Loan. CHFA reserves the right to consider unemployment compensation as acceptable qualifying income when:
  - a. The borrower and/or co-borrower is employed in a seasonal occupation and receives unemployment compensation in "off season" periods;
  - b. The borrower and/or co-borrower's employer schedules mandatory "shut-downs" or furloughs on a recurring basis and provides unemployment compensation benefits to eligible employees;
  - c. VA educational benefits are not to be considered part of income in determining whether the borrower has the ability to repay the loan.
3. A divorced person shall submit a copy of the decree of dissolution of marriage as proof of such status. A person who is separated from a spouse will be treated for income limit purposes as being married, unless such person submits evidence of separation for more than three years or a judicial decree of separation dated prior to the date of application. An applicant's fiancé will be considered part of the family unit regardless of the proposed marriage date. In order for an unborn child to be considered a member of the family in determining the number of family members for income limit purposes, proof of pregnancy must be provided to CHFA. A doctor's certificate is sufficient proof.

4. In cases where the applicant is self-employed, or one of the principal owners of a business, the applicant's Schedule C from the applicant's two most recent federal income tax returns or the business income tax return will be used, without adjustment, to determine the income for purposes of eligibility. Self-employment or investment losses and employee expenses on FORM 2106 will not be reflected for purposes of eligibility under (Section 3.1B), but will be reflected for underwriting ratios.
5. Bonus and/or commission income may not be included as qualifying income unless the borrower has a documented two (2) year history of receiving income from either of these sources.
6. CHFA will accept FHA, USDA-RD, VA or PMI guidelines for the percentage (%) of the fair market income from all rental units in an Eligible Dwelling of two to four units to be included in total gross income for underwriting purposes.
7. Prospective rental income from boarders in a one-family Eligible Dwelling is not included in total gross income of the applicant for underwriting purposes and CHFA income limits.
8. Alimony, child support or maintenance payments are to be included in income only to the extent that they are likely to be consistently made. Factors which the Participating Lender should consider in determining the likelihood of consistent payments include, but are not limited to:
  - a. Whether the payments are received pursuant to a written agreement or court decree;
  - b. The length of time the payments have been received;
  - c. The regularity of receipt;
  - d. The availability of procedures to compel payment;
  - e. Whether full or partial payments have been made;
  - f. The age of the child; and
  - g. The creditworthiness of the obligee, including the credit history of the obligee where available to the Participating Lender under the Fair Credit Reporting Act or other applicable laws.

The Participating Lender will submit to CHFA evidence adequate to support its determination.

9. Income must be supported by copies of the borrower's federal income tax returns in accordance with Section 3.1.C.4 and copies of the three most recent pay stubs of the borrower(s). The prospective borrower(s) must demonstrate stability of income from all sources. Such wage and employment verification shall be obtained from the applicant's employer.

**8.11 Co-Signors** – Co-signors or guarantors are not permitted on a Loan.

**8.12 Underwriting Ratios** - *(NO EXCEPTIONS ALLOWED)*

**1. Monthly Housing Expense-to-Income Ratio**

CHFA will require that the monthly housing expense ratio (principal, interest, taxes, insurance, [PITI] including payment on down payment assistance loans, along with any other applicable housing expenses required to be paid in accordance with the Loan terms) be less than or equal to 35% of the borrower's gross monthly income.

2. If the applicant is purchasing a Condominium or Planned Unit Development (PUD), the periodic Condominium common charges i.e. Home Owner Association or HOA fees or PUD fees to cover operating charges (excluding heat) and maintenance costs and reserves must be included in the monthly housing expense.
3. **Monthly Debt Payment-to-Income-Ratio** – CHFA will require that the total amount of monthly housing expense plus all other monthly payments on installment loans, student loans, revolving credit debts does not exceed 43% of the borrower's gross monthly income.
4. Reserve requirements for 2-4 family properties must be in compliance with the insurer (i.e. FHA, VA, USDA or PMI) or investor (i.e. FNMA / FHLMC) guidelines. The funds needed to meet the reserve requirements will not be included in the \$10,000 asset test for DAP.
5. The Participating Lender must determine that the applicants housing payments plus other obligations do not constitute an undue strain on the applicant's ability to make all such payments promptly and that a credit reputation is evidenced which would be acceptable to a prudent institutional lender. Payment shock should be considered when submitting a loan for down payment assistance.
6. **No Exceptions Allowed** - CHFA will not consider compensating factors for eligible borrower(s) with debt ratios that exceed the maximum CHFA acceptable limits of 35% for the monthly housing expense-to-income ratio and 43% for the monthly debt payment-to-income ratio.

### **8.13 Credit Reports**

CHFA requires all credit reports to be in the form acceptable to the mortgage insurers. Additional credit information normally used by a Participating Lender in underwriting evaluation must also be submitted to CHFA with the Loan submissions. In addition:

1. A history of slow payments on previous indebtedness must be explained satisfactorily.
2. Frequent changes in employment or residence within the past five years must be explained satisfactorily.

### **8.14 Credit Scores**

CHFA is not a “credit score” driven program. CHFA will accept applications from Eligible Borrowers for mortgage loan financing regardless of credit score, with traditional or nontraditional credit references. Additional documentation may be required when there is a history of slow payments, collections, judgments, charge-offs or otherwise delinquent accounts.

Participating Lenders submitting Loan applications with FHA, USDA-RD, VA or PMI insurance are required to follow the Credit Score Guidelines of the insurer and may not submit a loan application to CHFA that is noncompliant with the insurer criteria. The Participating Lender will be required to repurchase a loan if it is rejected by the insurer for noncompliance.

### **8.15 Delinquent Credit**

The Participating Lender must include a signed and dated written credit explanation from the borrower for all Loans submitted with credit reports that show delinquencies of 60-days or more in the most recent 12 month period regardless of Automated Underwriting System (AUS) or FHA Total-Scorecard findings.

1. Major indications of derogatory credit – including judgments, collections, charge-offs, and other recent credit problems require satisfactory signed and dated written explanations from the borrower.
2. CHFA DAP loans **will** require proof of payoff of all past-due credit accounts, including but not limited to, collections, judgments and charge-offs, with the exception of medical accounts.
3. CHFA DAP loans will also require payment of all State or Federal past due tax obligations, including accounts with established payment arrangements, without exception.

4. Applicants with a Discharged Bankruptcy, Foreclosure, Short-sale or Deed-in-lieu reporting on their credit report will be eligible for DAP financing.

The acceptable amount of time that must have lapsed from the date of the event is the greater of three (3) years or the amount of time required by the insurer, i.e. FHA, VA, USDA or PMI, or the investors guidelines, i.e. FNMA or FHLMC.

The date of the event will be determined by the discharge, or dismissal date (as applicable) of the derogatory credit event. (The applicable date of the event will be the same for all types of Bankruptcy).

The following information must be provided:

- a) The Borrower(s) must provide a signed and dated written credit explanation for the delinquency;
- b) The Borrower(s) has re-established traditional credit history (Non-traditional not allowed). Re-established credit history shows **on-time** payments for the most recent 12 month period;
- c) The debt ratios are conforming and do not exceed 35% / 43%;
- d) The Borrower(s) meet all other CHFA program eligibility and underwriting criteria.

## **8.16 Property Repairs**

All repairs required by the property appraisal or negotiated between the seller and buyer must be completed prior to closing. In some instances an escrow holdback for the repair work may be allowed, if applicable (any request for escrows to repair items related to “health and safety” will not be allowed). Request for escrow holdbacks must be submitted in writing from the Lender for CHFA approval, (memos in the file or emails to the Director of Single Family Programs are acceptable).

If the escrow holdback request is approved:

1. It must meet the requirements of the insurer and/or investor, i.e. FHA, VA, USDA-RD, PMI, FNMA or FHLMC (depending on the product the loan is originated under);
2. The escrow must be for a minimum of 1.5 times the cost to cure;
3. The cost of repairs must be paid by the seller;

4. The borrower may not pay out of pocket for any expenses or costs related to repairs on the subject property to facilitate the loan closing;
5. The escrow may be held by the Lender or the borrower's attorney;
6. Documentation of completion of repairs must be submitted to the CHFA designated loan servicer and to CHFA for retention.