OHCS Flex Lending Program Guideline Manual

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SECTION 1 – INTRODUCTION

1.1 Forward

The Flex Lending program, developed by Oregon Housing and Community Services, is a lending program designed to help lower income Oregonians obtain homeownership. Mortgage Loans are provided by OHCS Approved Lenders who qualify, approve and close the mortgage loans which are then purchased by the Department's Servicer.

Additionally, Flex Lending Program Approved Lenders must be approved with the Department's Servicer in order to participate in the Program. It is our expectation that Mortgage Loans originated by Approved Lenders under the Department Mortgage Loan programs are Underwritten and approved using prudent and sound rationalization. The Department does not wish to purchase Mortgage Loans that may cause a financial hardship to borrowers or that may result in default.

1.2 Mortgage Loan Requirements

As a prerequisite for delivering Mortgage Loans to the Department, the Credit and Underwriting requirements of the Department's Servicer must be met. Additionally, all Mortgage Loans must meet the requirements established by the Department set forth in this manual.

SECTION 2 – MORTGAGOR ELIGIBILITY

2.1 Eligible Borrower

A borrower is eligible to receive a mortgage loan under the program if, on the dates of application and closing:

1. Income – The annual gross income of all borrowers listed on the loan application does not exceed $125,000.
2. The person:
    a. Is a resident or intends to be a resident of Oregon;
    b. In good faith intends to occupy the property as a permanent principal residence;
    c. Possesses the legal capacity to incur the obligations of the program loan;
    d. Has a credit standing acceptable to the Department;
    e. Does not own any other residential property.

2.2 First-time Homeowner Requirement

Borrowers do not have to be First-Time Homebuyers.

2.3 Homebuyer Education

Homebuyer Education is required for all first-time homebuyers. Homebuyers must complete Homebuyer Education through an OHCS Homeownership Center. See below link for list of participating homeownership centers.

https://www.oregon.gov/ohcs/homeownership/pages/homebuyer-education.aspx

Lender must retain a copy of the certificate of course or counseling completion in the loan file.

In the event Homebuyer Education cannot be completed with an OHCS Homeownership Center, Homebuyer Education may be completed using Finally Home which is available at https://www.finallyhome.org/

2.4 Occupancy

Principal Residence Requirement – The Borrower must occupy the residence as their Principal Residence not to exceed 60 days from Mortgage Loan Closing. Borrower must maintain the residence as their Principal Residence for a minimum of 12 months from Date of Closing.

Year-Round Occupancy – Any property that is not suitable for year-round occupancy regardless of where it is located is not eligible for purchase by the Department.

Ineligible Occupancy Types – The following types of residences are NOT eligible for any loan products offered in this program:

- Homes used as investment properties
- Recreational, vacation or "second" homes

Usage of Residence in a Trade or Business – Follow the Department's Servicer's guidelines for the loan product used in connection with the Mortgage Loan.

2.5 Income Limits

The Borrower's qualifying income must not exceed Program Income Limits. The Borrower's Gross Annual Income may not exceed $125,000 based on qualifying income as determined by the Underwriters. Additional income tiers based on county AMI limits are available on our webpage, https://www.oregon.gov/ohcs/homeownership/Pages/flex-lending.aspx.

a. For purposes of meeting the eligibility criteria associated with the Income Limits, only the loan qualifying income of the Mortgagor(s) will be considered.
b. The qualifying mortgagor's income will fall between one of the income tiers below:

80% and below
80% - 120% AMI
120% AMI to $125K

c. Lenders must ensure that the income meets the guidelines.

2.6 Penalties for Misstatement

If any person makes a material misstatement in any affidavit or certification made in connection with the Mortgage Loan application and such misstatement is due to negligence of that person or to fraud, that person may be liable under applicable civil or criminal law.

2.7 Ownership Interest and Title

Borrowers may NOT own other properties at time of Closing. Non-occupant co-borrowers and non-occupant co-signers may own other property.

2.8 Co-Signers and Non-Occupying Co-Borrowers

Non-occupant co-borrowers and non-occupant co-signers are eligible under the Program Guidelines by following the guidelines of Department's Servicer.

SECTION 3 – PROPERTY ELIGIBILITY

3.1 Eligible Loan Area

Only real estate located in the State of Oregon is eligible for this Program.

3.2 Property Requirements – All Products

All loans must comply with the requirements of the department's servicer.

- Eligible properties include single family dwellings used as primary residence property
  - 1-Unit
  - Condominiums
  - Townhomes
  - PUD's
  - Manufactured Homes
- No multi-plexes (duplex, etc) allowed.

3.3 Purchase Price or Appraised Value Limitation

Follow first mortgage guidelines of the department's Servicer as it relates to purchase price or appraised value limits for this program.
Note: DPA may not be used to pay the difference between the sales price and appraised value if the sales price is higher (gap financing).

3.4 Targeted Area Census Tract

Currently there are no applicable targeted areas for this program.

3.5 Hazard Insurance

Hazard insurance must comply with the requirements of the department's servicer. Maximum deductible for hazard insurance is $1000.00.

3.6 Flood Insurance

Flood insurance must comply with the requirements of the department's servicer. Maximum deductible for insurance is $5000.00.

SECTION 4 – MORTGAGE LOAN UNDERWRITING

Lenders are responsible for all underwriting decisions for all mortgages originated under the program. Mortgage Loans must be underwritten to the standards of the applicable loan type.

4.1 Loan Types

The following first mortgage loan types are eligible provided they meet the Department's Servicer's guidelines.

- <u>FHA Loans</u>
  - 203(b), Single Family Residences
  - 234(c), Condominiums.
  - Section 184 Indian Home Loan Guarantee Program
- <u>VA Loans</u>
- <u>USDA Rural Housing Service (RHS) Loans</u>
- <u>Conventional Loans</u>
  - Fannie Mae (FNMA) HFA Preferred / Freddie Mac (FHLMC) HFA Advantage - up to 97.00% LTV.

- CLTV not to exceed 105.00%.

4.2 Seller Contributions

First Mortgage Loan Seller Contribution Limitations

- FHA, VA & USDA-RHS Loans have a Maximum Seller Contribution of 6%
- Fannie HFA Preferred and FHLMC HFA Advantage Loans have a Maximum Seller Contribution of:
  - 3% with CLTV's greater than 90%.
  - 6% with CLTV's less than or equal to 90%.
  - May be used for closing costs and/or single or split MI premiums.
- Lender-Paid Mortgage Insurance may not be paid with Seller Contributions

4.3 Mortgage Insurance

Conventional Mortgage Loans that require Mortgage Insurance (MI) must acquire the policy from one of the following Mortgage Insurance Providers.

- Arch
- Enact
- Essent
- MGIC
- National MI
- Radian

Coverage Requirements for Fannie Mae HFA Preferred and Freddie Mac HFA Advantage:

LTV Range	Coverage Amount	
	Under 80% AMI	Over 80% AMI
>95% and < = 97%	18%	35%
>90% and < = 95%	16%	30%
>85% and < = 90%	12%	25%
>80% and < = 85%	6%	12%

Payment Options:

- Borrower Paid – monthly with annual renewal
- Split Premium
- Single Premium

Lender is responsible for activating any MI policy and remitting any MI payments due to the Mortgage Insurer prior to the sale of the Mortgage Loan to the Department's Servicer. The Lender is also responsible for transferring the MI policy to the Department's Servicer after the sale of the Mortgage Loan.

4.4 Credit Scores

All borrowers are required to have a minimum credit score of 620 for Mortgage Loans Underwritten using AUS (Automated Underwriting Systems). Manually Underwritten Mortgage Loans require a minimum credit score of 640, see Manual Underwriting Section 4.5 for available loan types.

4.5 Manual Underwriting

Manual Underwriting is permitted for FHA, VA, USDA, Section 184 Mortgage Loan types, provided all borrowers have a credit score of 640 and 2 months reserves after closing.

4.6 Debt to Income Ratio (DTI)

Borrowers' Maximum DTI may not exceed 50%.

SECTION 5 – FOCUSED DEMOGRAPHICS

In an effort to address disparities in homeownership, the department has developed a Focused Demographics DPA option providing increased DPA and more favorable terms to borrowers who apply for and meet the Focused Demographics criteria.

5.1 Focused Demographics Criteria

To be eligible for Focused Demographics borrowers must apply for and meet the Flex Lending Program Guidelines and two of four demographic criteria below:

- Household of four or more people.
- A household member with a disability
    - Disability is defined under ORS 456.515 (9) "Person with a disability" means a person who has a physical or mental impairment that substantially limits one or more major life activities.
- Front-End Debt Ratio of 28% or higher
- Sole Head of Household (Household includes only one adult that is not an Eligible Dependent) with at least one eligible dependent residing in the household who are:
    - Under 18;
    - A household member with a disability
    - Age 62 or older

5.2 Focused Demographics DPA

The Focused Demographics DPA is 5%.

5.3 Focused Demographics DPA Terms

- Silent Second, for borrowers at or below 80% AMI DPA is in the form of a silent second mortgage loan bearing 0% interest and no payments, the term is 120 months and is forgivable on a monthly pro rata basis after the 5th year on the anniversary of the Note date.
- Amortizing Second, for borrowers whose income is above 80% and up to 120% AMI DPA is in the form of a 30 year amortizing second mortgage loan with an interest rate 1% above the interest rate of the first mortgage.

SECTION 6 – DOWN PAYMENT ASSISTANCE (DPA)

The Flex Lending Program offers Down Payment Assistance to qualified applicants.

6.1 DPA Options

Flex Lending's Standard DPA is 4% and our Focused Demographics DPA is 5%.

6.2 DPA Types

DPA is calculated as a percentage of the first mortgage loan amount and terms are income based.

- Silent Second, for borrowers at or below 80% AMI DPA is in the form of a silent second mortgage loan bearing 0% interest and no payments, forgivable on a monthly pro rata basis after the 5th year on the anniversary of the Note date.
- Amortizing Second, for borrowers above 80% AMI DPA is in the form of an amortizing second mortgage loan with an interest rate 1% above the interest rate of the first mortgage.

6.3 Silent Second Terms & Repayment

Silent Second Mortgage Loans are provided to qualifying borrowers with income at or below 80% AMI.

- Standard DPA of 4% - 240 month term, forgivable on a monthly pro rata basis after the 5th year on the anniversary of the Note date.
- Focused Demographics DPA of 5% - 120 month term, forgivable on a monthly pro rata basis after the 5th year on the anniversary of the Note date.
- Repayment - Any outstanding balance is repayable as follows:
  - Sale or Transfer - If all or any part of the Property, or any interest in the Property (including a beneficial interest), is sold, conveyed, or transferred, whether voluntary, involuntary or by operation of law.
  - Refinance or Payoff - Refinancing or paying off the First Mortgage
  - Rental of Property - If borrower rents or leases (whether by written or oral agreement) the Property or any portion of the Property.
  - Failure to Occupy Property as Principal Residence - If Borrower fails to occupy the Property as the Borrower's principal residence for a period of more than sixty (60) days.
  - Default or Acceleration - Upon acceleration of the First Loan or Second Loan for any reason.
  - *****There is no forgiveness for partial months*****

6.4 Amortizing Second Terms

Amortizing Second Mortgage Loans are provided to qualifying borrowers with income greater than 80% AMI at an interest rate 1% over the first mortgage loan interest rate.

- Standard DPA of 4%
  - Income >80% AMI up to 120% AMI – 240 month fully amortizing term.
  - Income >120% AMI – 120 month fully amortizing term.
- Focused Demographics DPA of 5%
  - Income >80% AMI up to 120% AMI – 360 month fully amortizing term.

6.5 Use of DPA Funds

DPA funds may be used for up to 100% of the Borrower's cash requirement to close, including down payment, closing costs, pre-paid items, upfront borrower paid Mortgage Insurance and other related Mortgage Loan fees and expenses. The borrower may not receive cash back at close with exception of earnest money deposit and prepaid items. Any unused DPA funds must be applied to the first mortgage loan principal.

6.6 Additional Funds

Additional subsidy programs may be used in conjunction with the DPA provided they meet Department and Servicer guidelines. Oregon Housing 2nd Mortgage DPA must be in 2nd lien position.

SECTION 7 – FEES AND CHARGES

7.1 Servicer Fees

The following fees, which may be passed onto the borrower, will be charged by the Servicer, and deducted from the Mortgage Loan Purchase Price:

Fee	Amount	Payor/Payee
Loan Acquisition Fee	$200.00	Lender Fee to the Servicer
Tax Service	$85.00	Lender Fee to the Servicer
Flood Cert	$18.00	Lender Fee to the Servicer

7.2 Program Administrator Fees

The following fee, which may be passed onto the borrower, will be charged by the Program Administrator, Hilltop Securities.

Fee	Amount	Payor/Payee
Code Compliance Review Fee	$225.00	Lender Fee to the Program Administrator

7.3 Mortgage Loan Purchase Price and Lender Compensation

Mortgage Loans originated under the Flex Lending Program will be purchased by the Servicer.

- Total Lender compensation for Mortgage Loans originated in the program will be as follows:
  - 1.25% SRP for each FHA, USDA-RD, VA or Conventional Loan
  - Lenders may collect and retain origination fees as allowed by the Servicer's guidelines from the buyer or seller.
  - No fees may be charged on DPA second mortgages. With the exception of title and escrow fees.

Lenders may collect all reasonable and customary fees and closing costs, provided all fees are fully disclosed in accordance with federal, state, and local regulations. Ancillary fees collected may not exceed the amount collected on the Lenders' similar non-Program loans.

7.4 Extension Fees

Lenders must close, fund and deliver Mortgage Loans to the Servicer within sixty (60) calendar days of the date the Mortgage Loan is reserved on the Lender Portal. It is highly recommended that Lenders provide the borrower with a forty-five (45) day lock. Adequate time should be allowed for the Servicer to perform a compliance review of the credit loan package to cure any conditions prior to their approval to purchase the loan.

Mortgage Loans not purchased within such sixty (60) day period, require an extension. The Lender may request a one-time extension at the following cost. These fees will be netted out upon loan purchase.

Extension Term	Cost
7days	0.0625%
15days	0.1250%
22days	0.1875%
30days	0.2500%

SECTION 8 – LOAN RESERVATION

8.1 Reservation Hours

The reservation window is open on Business days, Monday through Friday between 9:00 a.m. and 4:00 p.m. (Pacific Time) and will be unavailable on Saturdays, Sundays, Oregon State Holidays, and when the financial markets are closed.

8.2 Lender Portal

The Lender Portal is used by Approved Lenders to:

- Reserve funds & Manage Reservations
- Submit Pre- and Post-Closing Compliance Packages
- Check status of compliance conditions
- Run Reports

8.3 Reserving Funds

The Lender commits to accept applications in all its lending offices within the Eligible Loan Area. Funds will be issued on a first-come, first-served basis, irrespective of the Borrower's race, color, religion, national origin, age, or gender. There will be no restrictions as to the total number of reservations issued to any Lender.

Lenders must have taken the mortgage loan application and pre-qualified the borrowers and must have a fully executed purchase contract at the time the loan/interest rate is locked.

Reservations may not be transferred from one borrower to another or from one lender to another. In the event another lender tries to make a reservation for a currently reserved loan, we will need a cancellation confirmation from the original lender before allowing a new lender to relock. This will only be allowed one time.

8.4 Reservation Changes

- Changes in Current Income - Income eligibility is based upon the current Income of the borrower(s). The Commitment is issued based on verified income as of the date the Commitment is issued.
- Changes: If there are changes in Purchase Price, Loan Amount, or address, the Lender must submit the following documents through the Lender Portal and notify the Program Administrator via phone or email:
    a. Copy of Revised Checklist
    b. Copy of Revised 1003
    c. Copy of Revised 92900LT or 1008

d. LE/CD
e. Second Lien Documents
f. Copy of Property sales contract addendum (Purchase Price & Address changes only)

The Program Administrator will revise the loan to reflect the changes requested and will notify the Lender when the revision(s) are completed and available via the Lender Portal.

8.4 Cancellation and Commitment Expirations

The Lender is responsible for cancelling all Mortgage Loans subject to a reservation if the Mortgage Loan will not be delivered under the Program by contacting the Program Administrator. Cancelled reservations may not make another reservation for that Borrower for a period of 60 days or unless otherwise authorized by the Program Administrator.

- In a case where the Borrower cancels or withdraws the Borrower's application, the reservation of funds must be cancelled by contacting the Program Administrator.
- In a case where the Commitment expires, the Lender must request an extension using the Extension Request Form available through the Lender Portal and provide the new estimated closing date.

In all cases, the expiration of the Commitment without the required action by the Lender may result in the Lender being placed on "Inactive Status," meaning the Lender may submit no new reservations until the problem is resolved. Failure to comply with this provision may result in the Lender's expulsion from the Program.

SECTION 9 – LOAN COMPLIANCE, FUNDING, DELIVERY & PURCHASE

9.1 Mortgage Loan Delivery Timeframes

Lenders must submit:

1. Pre-Closing Compliance Package - The Pre-Closing Compliance Package should be submitted to the Program Administrator (through the Lender Portal) three to five (3-5) calendar days prior to loan Closing.
2. Post-Closing Compliance Package - The Post-Closing Compliance Package should be submitted to the Program Administrator (through the Lender Portal) within ten (10) calendar days following the Closing Date of the Mortgage Loan, but in no event after the Commitment Expiration Date.
3. Closed Mortgage Loan Package - The closed Mortgage Loan must be delivered and purchased by the Servicer within sixty (60) calendar days of loan reservation (the "Commitment Expiration Date") unless an extension is purchased to cover the amount of time required to purchase the mortgage loan.

9.2 Pre-Closing Compliance

The Pre-Closing Compliance Package submitted to the Program Administrator (through the Lender Portal) will contain the following documentation:

- Pre-Closing Compliance Checklist
- Executed Underwriter's Certification (Form 92900, 1008, etc.)
- Most Current Loan Applications (1003)
- Executed Purchase Contract
- Homebuyer Education Certificate for all first time homebuyers on transaction

The down payment assistance documents will be made available after the Pre-Closing Compliance approval.

9.3 Post-Closing Compliance

The Post-Closing Compliance Package submitted to the Program Administrator (through the Lender Portal) within will contain the following documentation:

- Compliance Checklist Final
- Executed Closing Disclosure
- Executed Borrower's Acknowledgement Letter
- Executed DOT and Mortgage Note
- Final Executed 1003
- Executed Legally Enforceable Obligation Letter

9.4 Delivery of the Closed Mortgage Loan Package

The closed Mortgage Loan must be delivered and purchased by the Servicer within sixty (60) calendar days of loan reservation (the "Commitment Expiration Date") unless an extension is purchased to cover the amount of time required to purchase the mortgage loan and include:

- Lender Delivery Checklist
- Compliance Review - All loans must be compliance approved pre-closing to ensure the program criteria have been met, as well as post-closing to receive final, executed documents.
- Executed Final Closing Disclosure
- Executed Final URLA's – (Lender, Borrower, and any addendums)
- Executed Second Mortgage Subordinate Deed of Trust
- Executed Second Mortgage Note
- Executed Borrower's Acknowledgement Letter
- All documents required by the Servicer

9.5 Purchase of Down Payment Assistance Mortgage Loan

In conjunction with the Purchase of the first Mortgage Loan the Servicer will reimburse the Lender the amount of the Down Payment Assistance Mortgage Loan advanced at Closing.

If the servicer cannot purchase the first Mortgage Loan, the Lender may request the Department reimburse the lender for the Down Payment Assistance Mortgage Loan if the first Mortgage Loan meets the agency requirements. Reimbursements are at the discretion of the Department, an administrative fee may be charged to the Lender not to exceed the amount of the Down Payment Assistance Mortgage Loan.

9.6 Delinquent Closing Documentation

If the Post-Closing Compliance Package is not submitted through the Lender Portal within ten (10) days of loan Closing, the Program Administrator may contact the Lender to request the status of the Mortgage Loan. If the Lender fails to timely provide to the Program Administrator the required closing documentation, the corresponding reservation will automatically be considered delinquent and the reservation subject to cancellation. Such action may result in the Lender being suspended or terminated from the Program until the problem is remedied.