N.C. Home Advantage Mortgage™ Program Guide ($15,000 DPA Only)

North Carolina Housing Financing Agency

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www.nchfa.com

Table of Contents

Section 1

Introduction

The purpose of this Mortgage Program Guide is to provide a basic overview of the key operational and program details of the N.C. Home Advantage Mortgage™ program with $15,000 down payment assistance (DPA) regarding borrower and property eligibility, credit, underwriting, and closing procedures. This guide is not a substitute for lender training classes offered by NCHFA on a recurring basis for the benefit of loan officers, operations personnel, and other mortgage staff. NCHFA requires all participating lender personnel to attend one of our regular training classes to get a more in-depth overview of our programs.

Lenders wishing to use the Mortgage Credit Certificate (MCC) program must refer to the MCC Program Guide on the NCHFA website.

The program permits participating lenders who have executed a Mortgage Origination Agreement (the Agreement) with NCHFA and the Master Servicer to originate, close and fund 30-year fixed-rate mortgages and to deliver such mortgages for purchase to the Master Servicer subject to the program eligibility of borrowers. FHA, VA, USDA, conventional, down payment and credit underwriting guidelines will be used where applicable. In addition, the Agreement with NCHFA and the Master Servicer permits participating lenders to originate and close deferred subordinate mortgages, subject to the program eligibility of borrowers.

At their option, participating lenders may charge origination fees but no discount points. In addition, the borrower may pay any normal and customary fees such as application fee, survey fee, credit report fee, appraisal fee, insurance fee or similar settlement or financing cost. In all cases the lender must meet RESPA rules, Dodd Frank, and North Carolina lending laws regarding fees and charges.

Participating lenders must review, execute and understand the terms of the Mortgage Origination Agreement with NCHFA and the Master Servicer and this Program Guide prior to originating, processing, underwriting, closing and delivering mortgages for purchase under the program.

NCHFA was created in 1973 by North Carolina General Statutes Chapter 122-A as a corporate body with responsibility to provide affordable housing opportunities for low- and moderate-income North Carolina households.

NCHFA has office hours between 8:00 a.m. and 5:00 p.m., Monday through Friday. The telephone number is (919) 877-5700. The mailing address for NCHFA is the following:

North Carolina Housing Finance Agency
Home Ownership Lending Group
P.O. Box 28066
Raleigh, North Carolina 27611-8066

or

North Carolina Housing Finance Agency
Home Ownership Lending Group
3508 Bush Street
Raleigh, North Carolina 27609

Our Program Guide and other resource materials may be downloaded from our website at www.nchfa.com. Marketing brochures and flyers may be available from time to time and will be provided to lenders when available.

Home Ownership Group Contact List:

Name	E-mail Address	Telephone	Responsibilities
Cathy Hatcher, GML *Senior Underwriter*	chatcher@nchfa.com	919-877-5677	Underwriting and program questions
Donna Pruitt *Loan Production Coordinator*	dmpruitt@nchfa.com	919-877-5692	Underwriting and program questions
Amber Smith *Underwriter*	ansmith@nchfa.com	919-981-2660	Underwriting and program questions
Pam Rasberry *Underwriter*	prrasberry@nchfa.com	919-850-2900	Underwriting and program questions
Bill Hobbs *Lender Liasion*	bhobbs@nchfa.com	919-850-2779	Lender outreach, lender visits, support
Jane Buchholz *Training & Outreach Coordinator*	jane@nchfa.com	919-877-5683	Lender and realtor training classes
Jan Ott *Processor*	jlott@nchfa.com	919-877-5632	MCC closing documents
Lori Purser *Loan Processor*	lgpurser@nchfa.com	919-981-2608	Processing, Closing
Rob Rusczak *Manager Home Ownership Group*	rob@nchfa.com	919-875-3777	Home Ownership Group Manager
Margie Rivera *Customer Service*	mbrivera@nchfa.com	919-877-5710	Customer Service, Locks, User IDs

NCHFA displays current interest rates, loan types and other program information on the NCHFA website. Our website address is www.nchfa.com.

Participating lenders must use our Online Lender Services System (OLS) to reserve loans and maintain their pipeline. It can be accessed via *https://www.nchfa.org/OLS/login.aspx.*

Section 2

Definitions

The following words are used in this Program Guide with these meanings:

ACH – Automated clearing house. Direct deposit transfer of funds from one bank to another.

Award Letter – Letter related to the Down Payment Assistance (DPA) on FHA loans only, provided with Commitment intended by NCHFA to satisfy the requirements of HUD Handbook **4000.1 II.A.4.d.ii.(C)**

AUS – Automated Underwriting System.

Co-borrower – An individual who is listed on loan documents and whose income and credit are used to qualify for the loan. A co-borrower must:

a. meet the annual income limits, and
b. have or will establish North Carolina residency within 60 days of closing.
c. non-occupying co-borrowers do not have to establish residency in the property

Co-signer/Co-Signor - A non-occupant who is co-signing the Note for a particular loan. For NCHFA purposes, the co-signers are not allowed.

Commitment – Letter provided to lender via OLS upon NCHFA's review and approval of pre-closing documents uploaded into OLS. **In no instance may the lender close any N.C. Home Advantage Mortgage™ loan until a Commitment has been issued.** The commitment to purchase the loan is subject to the Master Servicer's review of the closing documents for compliance with GNMA, FNMA, or Freddie Mac regulatory guidelines in addition to any requirements of the Master Servicer.

CPLP - Community Partners Loan Pool ("CPLP"), a deferred 0% interest subordinate lien offered by NCHFA, which can be used as down payment or be applied to closing costs.

Discount Points - A point equals 1% of the loan amount that is used to reduce the interest rate on a mortgage below prevailing market rates. Discount points not allowed.

DPA - Down payment assistance or subordinate financing offered by NCHFA, up to 5% of the first mortgage total loan amount for FHA, VA and USDA loans (not always available for USDA), and up to 3% of the first mortgage loan amount for conventional loans.

DTI - Debt-to-income ratio, which cannot exceed 41% for any N.C. Home Advantage Mortgage™.

Early Check – Fannie Mae's service designed to assist lenders in identifying and correcting potential eligibility and/or data issues early in the process and prior to loan delivery. Required by ServiSolutions as of January 1, 2017. Lenders without full FNMA approval may have this requirement waived with written permission from ServiSolutions.

Electronic Signature – Is acceptable on NCHFA documents if they meet ESIGN and UETA federal standards.

Eligible Property - A residence that is located in North Carolina and is eligible for insurance under FHA, VA, USDA or conventional guidelines.

Existing Home - A dwelling unit that has been previously occupied by an owner occupant.

Extension Fees – Loans may be assessed a 7-day, 15-day or 30-day extension fee at a cost of 0.09375%, 0.1875% or 0.375%, respectively. The extension fees are automatically deducted from the lender compensation at the time that the Master Servicer purchases the loan from the lender.

Fannie Mae - Federal National Mortgage Association or FNMA.

FHA - The Federal Housing Administration.

FHA Insurance, FHA-Insured - Insurance provided by FHA for residential mortgages which protects lenders against some or most of the losses that can occur when a borrower defaults on a mortgage loan.

FNMA – Federal National Mortgage Association or "Fannie Mae."

GNMA – The Government National Mortgage Association or "Ginnie Mae."

HUD - The United States Department of Housing and Urban Development.

Industry Standards - The guidelines published and used by FHA, VA, USDA or FNMA to underwrite mortgage loans for acceptance by these entities.

Legally Enforceable Obligation Letter - Letter related to the DPA for FHA loans provided with Commitment intended by NCHFA to satisfy the requirements of HUD Handbook **4000.1 II.A.4.d.ii.(C)**

Lender - Any mortgage lender that is a Fannie Mae or Freddie Mac approved seller/servicer in good standing (if originating conventional loans); is approved as an FHA mortgage originator (if originating FHA loans); is approved as a VA mortgage originator (if originating VA loans); is approved as a USDA mortgage originator (if originating USDA loans); has a physical office located in North Carolina for at least one year; must originate, close and fund the loan; has a company net worth of $1,000,000 and has executed a Mortgage Origination Agreement with NCHFA and the Master Servicer.

Lock-In Expiration Date – Sixty (60) days past the date the loan is locked. The loan must be purchased by the Master Servicer by the Lock-In Expiration Date to avoid extension fees. If the loan is not purchased by the Master Servicer by the original Lock-In Expiration Date, the lender must request an extension via OLS prior to the Lock-In Expiration Date.

Manufactured Homes (Mobile Homes) - A manufactured building designed to be used as a single family dwelling unit which has been constructed and labeled indicating compliance with the HUD administered National Manufactured Housing Construction and Safety Standards Act of 1974. (Look for HUD label.) NCHFA will only accept new, never occupied, doublewide or greater, manufactured housing on a permanent foundation for FHA, VA and USDA loans. Manufactured Homes are not eligible for a conventional loan.

Marital Interest - An interest one has only because he/she was married to a person who owned a property.

Mark-to-Market Fee – A fee applied on any loan purchased by the Master Servicer for which the lock has expired. The mark-to-market fee is based on market conditions at the time the Master Servicer purchases the loan from the lender. In no circumstance will the mark-to-market fee be less than what an extension fee would have been had an extension been requested timely.

Master Servicer – Alabama Housing Finance Authority doing business as ServiSolutions (“ServiSolutions”), the entity designated by NCHFA to purchase and service loans under the N.C. Home Advantage Mortgage™ program by which participating lenders must be approved.

MI Company – Also known as PMI. A private mortgage insurance company providing mortgage insurance on conventional loans. See eligible MI providers in Section 4.2.

MCC - Mortgage Credit Certificate issued by NCHFA according to the rules and regulations determined by the IRS.

Modular Home - A manufactured building designed to be used as a single-family dwelling unit which has been constructed and labeled indicating compliance with the North Carolina State Uniform Residential Building Code, Volume VII (Look for NC Validation Stamp).

Mortgage Origination Agreement - An agreement describing the mortgage originator’s rights and responsibilities, made between the North Carolina Housing Finance Agency, the Master Servicer and lenders participating in the N.C. Home Advantage Mortgage™ program.

Mortgagor - The borrower(s) in a mortgage transaction.

NCHFA - North Carolina Housing Finance Agency.

New Construction - A dwelling unit that is new and/or never occupied, including spec Construction and builder inventory. Not allowed on the $15,000 DPA program.

Non-Borrowing Co-Occupant - Any person age 18 years or older who will occupy the property and will not be secondarily liable on the mortgage.

Online Lender Services System (OLS) - The system made available by NCHFA to its lending partners for the lock and confirmation of N.C. Home Advantage Mortgage™ and MCC-assisted loans.

PMI Company – Also known as MI Company. A private mortgage insurance company providing mortgage insurance on conventional loans. Only Arch, Essent, Genworth, MGIC, National MI, and Radian are approved MI providers for NCHFA.

Participating Lender - A lender that has been approved by NCHFA and the Master Servicer to originate, process, underwrite, close and fund mortgage loans under NCHFA approved programs. See Section 3 for lender qualifications.

Permanently Fixed - The towing hitch or running gear, including the wheels and axles, has been removed from the mobile home, and the home has been attached to a permanent foundation (including basement, crawl space and slab types of foundations).

Prepaid Items - Amounts required by the Participating Lender to be paid at settlement in advance of their due date. These items may include property taxes, accrued interest, association dues, mortgage insurance premiums and hazard insurance premiums. Prepaid items do not include loan origination fees, “Points” or “Discount Points”, and tax service fees.

Principal Residence - Housing that the eligible borrower will occupy as a primary residence. The home cannot be used as an investment property.

Program Guidelines - Guidelines that are used in conjunction with credit and property mortgage industry guidelines to determine eligibility for N.C. Home Advantage Mortgage™ financing.

Recapture Tax - The potential repayment of a portion of the interest savings that the borrower receives from a $15,000 DPA or MCC-assisted mortgage. This federal tax, *if applicable*, is payable to the IRS on the home owner’s federal income tax returns.

RESPA – The "Real Estate Settlement Procedures Act” as enforced by HUD.

Servicing Agreement - An agreement describing the mortgage servicer's rights and responsibilities, made between NCHFA, the Lender Participant, and the Master Servicer.

State - The State of North Carolina.

Substitute TIL (Truth-In-Lending) – Available on the Forms and Resources page at www.nchfa.com. Available for lenders unable to generate a 0% interest TIL document from their own, internal systems for NCHFA Down Payment Assistance second mortgages.

TIL - A Truth in Lending disclosure statement designed to help borrowers understand their borrowing costs in their entirety. Federal law requires that lenders provide a Truth in Lending (TIL) document to all loan applicants within three business days of receiving a loan application. A truth in lending (TIL) statement contains information regarding the annual percentage rate, the finance charge, the amount financed, and the total payments required.

TRID – The TILA RESPA Integrated Disclosures that went into effect October 3, 2015. The Loan Estimate replaces the initial Truth-in-Lending disclosure and Good Faith Estimate. The Closing Disclosure replaces the final Truth-in-Lending disclosure and HUD-1 Settlement Statement.

United States Department of Agriculture/Rural Development (USDA) - The USDA home loan guaranty provides loans in rural areas to finance homes and building sites.

Veterans Administration (VA) - The Servicemen's Readjustment Act of 1944 authorized this agency to administer a variety of benefit programs designed to facilitate the adjustment of returning veterans to civilian life. The VA home loan guaranty program is designed to encourage lenders to offer long-term, low down payment mortgages to eligible veterans by guaranteeing the lender against some or all loss caused by default of the borrower.

Section 3

Lender Participation Guidelines

3.1 Lender Participation Guidelines

The Program is restricted to lenders who meet these requirements:

1. Are approved as a Fannie Mae or Freddie Mac seller/servicer in good standing if originating conventional loans, approved as an FHA mortgage originator if originating FHA loans, approved as a VA mortgage originator if originating VA loans, or approved as a USDA mortgage originator if originating USDA loans;
2. Have an office physically located in North Carolina that has originated residential mortgages for at least one (1) year; 6 months under certain conditions (see website).
3. Must originate, process, underwrite, close and fund the loan in your own name;
4. Are in compliance with applicable minimum capital requirements imposed by federal banking laws and regulations;
5. Are approved by NCHFA and the Master Servicer;
6. Are not under supervisory control of, or subject to, enforcement proceedings by federal banking regulators with respect to any violations or alleged violations of federal banking laws or regulations.
7. Have a net company asset worth of $1,000,000 (subject to change);
8. Be approved by our Agency and our Master Servicer, and execute a Mortgage Origination Agreement with both; and

9. Complete lender training with NCHFA staff. Loan officers are required to attend in-person training before offering NCHFA loan products. Whenever possible, Operations Staff are encouraged to attend in-person training, however attendance at NCHFA conducted webinars, required as indicated, will satisfy the training requirement. All staff who will originate, process, underwrite, close, or have access to NCHFA's On Line Lender Services system (OLS) must remain current on NCHFA program guidelines and requirements. All staff with access to the OLS must receive training before being issued a User ID by the Lender's System Administrator. After issuing a User ID, the system administrator must notify NCHFA of the new user, including their information, and most recent training date. Loan officers must complete in-person training annually or remain current on NCHFA programs by closing at least 3 loans in a rolling 12 month year.

By becoming an approved lender and participating in the Program, the lender understands and agrees that the Agency reserves the right to suspend the lender's ability to make new locks under the Program if the lender has outstanding fees, late documents, excessive withdrawal of locks, or for any other reason as determined by the Agency in its sole discretion.

Any lender which does not close a minimum of ten (10) loans with NCHFA in a calendar year may be removed from the program at the Agency's discretion. The Agency may also remove the lender from the Participating Lender list published on the Agency website until which time the lender meets the ten (10) loan threshold.

3.2 Online Lender Services System (OLS)

To reserve an N.C. Home Advantage Mortgage™ loan, the lender must access the Online Lender Services System (OLS) at http://www.nchfa.org/ols/login.aspx. To create a new N.C. Home Advantage Mortgage™ lock, click the N.C. Home Advantage Mortgage™ reservation link on OLS home page, left menu.

OLS will guide you through a multi-step process for creation and submission of the lock. You will use the [Continue>>] button to navigate through these steps.

It is important that you have all the requested loan information available to you at the time you are locking the N.C. Home Advantage Mortgage™ loan as the data cannot be saved partially completed. If at any time during the lock process you choose to cancel, all previously entered information will be lost.

At the Final Review step, once you have reviewed your input, you will click the [Submit!] button. This will generate a confirmation e-mail and lock your rate. This will also start the closing and delivery timelines required under the program. Note that the confirmation page displays your NCHFA Loan Number. Please use this loan number when corresponding with NCHFA concerning this loan.

3.3 Record Retention

NCHFA may perform random reviews of lender records pertaining to NCHFA's N.C. Home Advantage Mortgage™ program. Therefore, the originating lender is required to maintain for a period of 36 months a copy of the entire loan file, appraisal, and credit package, including closing package.

3.4 Annual Recertification Requirements

On an annual basis, each lender will be required to electronically recertify that it is still in compliance with NCHFA mortgage origination guidelines and reconfirm lender locations and loan officer additions/subtractions. The designated corporate contact for each participating lender will receive an e-mail from NCHFA that contains a single-purpose password and user ID for performing the recertification process. There is a $375 fee invoiced at the end of the recertification process which participating lenders are required to remit within 30 days of recertification. Failure to recertify may prohibit future participation in NCHFA programs.

In addition, the Master Servicer may require an annual recertification as well.

3.5 Program Guide Updates & Revisions

Revisions of or supplements to this Program Guide may be made from time to time. NCHFA will provide lenders e-mail notifications of program updates and changes. Information contained in the NC Home Advantage Mortgage™ Program Guide is subject to change. It is the lender's responsibility to provide NCHFA with correct e-mail contact information.

3.6 Master Servicer Contact Information

Below is the contact information for ServiSolutions, which is the Master Servicer for the N.C. Home Advantage Mortgage™ loans. Each participating lender must be approved by NCHFA and the Master Servicer through the execution of a Mortgage Origination Agreement. Below is the contact information for the Master Servicer (subject to change):

Master Servicer:	Alabama Housing Finance Authority, doing business as ServiSolutions
Contact e-mail:	lenderinquiries@servsol.com (for general questions) RevisionQuestionsNCHFA@ahfa.com (for servicing questions)
Address:	ServiSolutions - Final Documents 7460 Halcyon Pointe Drive, Suite 200 Montgomery, AL 36117 (334)-244-9200

ServiSolutions provides answers to frequently answered questions on its website at http://servsol.com/lenders/lender_faqs.aspx. Should you have any questions concerning their guidelines, please contact ServiSolutions at (334) 244-9200 or lenderinquiries@servsol.com.

It is the lender's responsibility to understand all ServiSolutions requirements for delivery of loans and requirements for purchase of closed loans under the Program.

Please refer to the ServiSolutions closing package checklist at www.servsol.com.

3.7 Lender Compensation

The lender shall be paid a fixed amount as a servicing release premium (SRP) for all eligible loans under the N.C. Home Advantage Mortgage program that also meet the guidelines of FHA, VA, USDA, or Fannie Mae. The SRP amount is 2.5% for FHA, VA, and USDA. The SRP amount for conventional loans is 1.75%. The SRP is paid on the net balance of the 1st mortgage when purchased by the Master Servicer. SRPs may be changed with 60 days advance notice by NCHFA to lender. Please note extension and penalty fees for late and non-delivery in Section 8.

Section 4

Loan Eligibility Guidelines

The following section details the various loan options available to participating lenders and their eligible borrowers.

4.1 N.C. Home Advantage Mortgage™ Loan Program with $15,000 DPA Overview

The N.C. Home Advantage Mortgage™ program with $15,000 DPA is open to first-time homebuyers only. NCHFA does not make the loan(s) directly to the borrower; instead, its designated Master Servicer purchases eligible loans from its participating lenders.

To be eligible, all borrowers must:

1. Meet FHA, VA, USDA, or Fannie Mae HFA Preferred (conventional) industry guidelines. For example, follow standard industry guidelines for seller contribution, student loans, bankruptcy, foreclosure, etc. **Issues not addressed in this guide will revert to industry standards.**

2. Have incomes within the established limits. MCC income guidelines apply to this program.

3. Have a maximum DTI ratio of 41%, which is subject to change.

4. Have at least two (2) credit scores per borrower, the mid or low score must be 640 or better, and receive an AUS approve/eligible.

5. Occupy and maintain the property as a principal residence.

6. Recapture tax applies to the 1st mortgage portion of the funds (lender must provide customer with Recapture Tax information).

4.2 Eligible Loan Types

NCHFA accepts 30-year fixed-rate FHA, VA, USDA and Fannie Mae HFA Preferred Conventional loan types under its N.C. Home Advantage Mortgage™ program. FHA loan types include FHA 203(b) loans and condominium 234(c) loans.

FHA 203(k) loans are not eligible.

Loans requiring repair escrows are acceptable. However, the lender must get follow ServiSolutions guidelines before proceeding. Approved repairs typically include paint (interior and exterior), carpet, appliances, roofing, minor exterior repairs such as facia boards, eaves, gutters and window replacements.

ServiSolutions® does not require prior approval of escrow hold backs. The lender must maintain a copy of the escrow agreement and copies of work bid estimates. The escrow agreement usually gives the list of repairs, cost of repairs, total price of the holdback (150% of repair unless it is a HUD repo, then it is 110%) and who will hold/disburse the funds. Funds cannot exceed $10,000 and work must be completed within 10 days of closing. Please send information requests to: NCHFAescrow@ahfa.com. Go to www.servsol.com for details.

The lender is responsible for ensuring that the borrower, property, and other aspects of the loan meet the particular insurer and servicing guidelines of the loan type chosen. Credit score requirements are specified in Section 5 and apply to all borrowers on the loan.

All loans financed under the N.C. Home Advantage Mortgage™ program must be purchase transactions.

1. FHA Loan Program

NCHFA offers 30-year fixed-rate loans insured by the Federal Housing Administration. These loans are underwritten to FHA and program guidelines. The lender must submit FHA loans through an automated underwriting system approved by FHA and NCHFA. All loans must receive an AUS Approve/Eligible FHA Total Scorecard credit recommendation. If the information reflected on the final application (Form 1003) differs from the data submitted to the automated underwriting system (AUS), NCHFA may ask the lender to re-run the submission.

2. VA Loan Program

NCHFA offers 30-year fixed-rate loans guaranteed by the Veterans Administration. These loans are underwritten to VA and program guidelines. The lender must submit VA loans through an automated underwriting system approved by VA and NCHFA. All loans must receive an AUS Approve/Eligible credit recommendation. If the information reflected on the final application (Form 1003) differs from the data submitted to the automated underwriting system, NCHFA may ask the lender to re-run the submission.

3. USDA Loan Program

NCHFA offers 30-year fixed-rate loans guaranteed by the US Department of Agriculture. Lenders must use USDA's Guaranteed Underwriting System (GUS). All loans must receive a GUS Accept credit recommendation. If the information reflected on the final application (Form 1003) differs from the data submitted to the automated underwriting system, NCHFA may ask the lender to re-run the submission.

4. Conventional Loan Program

NCHFA offers 30-year fixed-rate loans under the HFA Preferred program by Fannie Mae. These loans are underwritten to Fannie Mae and program guidelines under FNMA's "HFA Preferred" program. The lender must submit conventional loans through the DU automated underwriting system approved by Fannie Mae and NCHFA.

Conventional loans must be run through Fannie Mae's Desktop Underwriter (DU); **use of Loan Prospector (LP) is not permitted for conventional loans**. FHA/VA loans may use either LP or DU.

All loans must receive an AUS Approve/Eligible credit recommendation. If the information reflected on the final application (Form 1003) differs from the data submitted to the automated underwriting system (AUS), NCHFA may ask the lender to re-run the submission. The post-closing package must contain the final approved 1003 and AUS findings. Unapproved changes may result in a loan that is ineligible for purchase.

Early Check is required to be run and provided to ServiSolutions as part of the closed loan file package for Fannie Mae Seller/Servicer lenders.

As a special feature under the HFA Preferred program, mortgage insurance coverage is significantly less than a traditional conventional loan. The coverage factors for a loan designated "HFA Preferred" in DU is as follows:

Loan to Value	Coverage Required
95.01-97%	18%
90.01-95%	16%
85.01-90%	12%
80.01-85%	6%

Use the applicable MI rates for the coverage a factor listed above. Rates may vary by PMI provider. Borrower paid, split premium, and financed MI are all acceptable. In all cases using MI, the max LTV cannot exceed 97% and the CLTV 105%. LPMI is not acceptable, as the lender cannot premium price the rate.

Special feature codes 741 and 088 are required to identify HFA Preferred loans.

4.3 Ineligible Loans/Loan Types

The following loans and loan types are not eligible for financing under the N.C. Home Advantage Mortgage™ program:

- Refinances (purchase transactions only)
- Vacation homes or "second homes"
- USDA Direct 502
- HUD 184 loans

High priced mortgage loans (HPML) are acceptable if all federal guidelines and Master Servicer guidelines are met. High cost mortgage loans (HCML) are not accepted.

4.4 Down Payment Assistance (DPA)

The $15,000 down payment assistance (DPA) is available to first-time homebuyers only who qualify for an N.C. Home Advantage Mortgage™ loan from one of our participating lenders. Income limits are the same as the MCC income limits, which are subject to change. In addition, the same minimum FICO credit scores and DTI limits apply, regardless of whether the borrower uses DPA.

The DPA is provided as a 5-year deferred/forgiven subordinate lien. Repayment of the DPA (any portion not yet forgiven) is due and payable only when the house is sold or refinanced before year 5 or there is a breach of the Promissory Note. The home cannot be rented, leased, or not occupied as a primary residence during the first five years.

NCHFA does not offer stand-alone subordinate liens. The DPA is not assumable.

The DPA must be in compliance with all federal and state statutes, rules and regulations, as amended from time to time including, but not limited to, RESPA and mortgage loan servicing regulations, and secured by a residential second-lien mortgage against the borrower's primary residence located within the State. No fees may be charged on the Down Payment Assistance.

The lender must repurchase from NCHFA any DPA upon the occurrence of any of the following events:

- The lender breaches any covenant, warranty or representation in the Mortgage Origination Agreement or this Program Guide,
- The DPA is defective arising from the origination, closing or delivery of the DPA to the Master Servicer,
- The DPA documents are not delivered in a timely manner or in the form described in the Program Guide,
- The DPA does not conform to the terms of its commitment or approval as per the Program Guide,
- Any request by the Master Servicer to repurchase the related first mortgage loan,
- Lender makes any warranty or representation under the Mortgage Origination Agreement which, in the sole discretion of NCHFA or the Master Servicer, is determined to be false at the time when made by the Lender. Such representations

or warranties include any fraud, material misrepresentation, or material act of omission regarding information submitted for the DPA or related first mortgage, regardless of whether the lender had knowledge.

The repurchase of any DPA will be equal to the unpaid balance of the Note plus any interest, attorneys fees, legal expenses, court costs or other expenses that have been incurred by NCHFA or the Master Servicer regarding the DPA.

1. General Down Payment Assistance Program (DPA) Guidelines

The N.C. Home Advantage Mortgage™ is a fixed-rate FHA, USDA, VA, or conventional 30-year loan. The borrower may use our $15,000 DPA toward down payment assistance, closing costs, or prepaid expenses as eligible under FHA, USDA, VA, or conventional loan types. It is the lenders responsibility to verify that the DPA and any terms under the DPA meet FHA, VA, USDA, or FNMA requirements.

In addition, the borrower can obtain subordinate financing from other non-NCHFA funded sources that also meet FHA, VA, USDA, and conventional guidelines.

Gift funds are eligible as long as the loan type (i.e., FHA, USDA, VA or conventional) allows them. Conventional loans must also comply with any requirements of the PMI company used.

The DPA subordinate mortgages must be funded directly by the lender at closing. The Master Servicer will reimburse the lender for both the 1st and NCHFA DPA subordinate mortgage upon purchase by the Master Servicer.

***DPA for USDA may not be available when rates exceed USDA's maximum rate thresholds. Lender must verify before locking a loan in the NCHFA OLS system.**

2. Closing of DPAs in NCHFA's Name

The lender must close the NCHFA DPA subordinate mortgage in NCHFA's name and use our Note and Deed of Trust documents available on our website. Forms 505 and 506 are available on our website at www.nchfa.com.

Lender must use current forms, found on our website at www.nchfa.com.

3. Gross Household Income

For borrowers using the $15,000 DPA program, the income limits are the same as our MCC Program income limits. The 1003 and AUS Findings must match.

4. Cash Flow

A cash flow worksheet or analysis is not required. There is no personal asset limitation under this program.

5. Minimum Investment

No minimum investment is required from the borrower. Follow the AUS findings and all industry guidelines for loan type. All funds for down payment and closing may come from the borrower's funds, a gift, seller contribution to closing expenses, down payment assistance, or grant.

6. Maximum Asset Limitation

There is no maximum asset limitation for the borrower.

7. Funding of the DPA by Participating Lender

The lender must fund NCHFA DPA mortgages at closing.

The NCHFA DPA must be closed in North Carolina Housing Finance Agency's name using our Note and Deed of Trust. Forms 505 and 506 are available on our website at www.nchfa.com.

The Master Servicer will purchase the first mortgage and NCHFA DPA from the lender after the approval of the closed loan by the Master Servicer. The Lender must use the ServiSolutions checklist(s) for delivery.

ServiSolutions requires a copy of the NCHFA Commitment to be included as part of the closing package which is uploaded via OLS. For FHA loans, at the time the lender obtains the Commitment Letter, the document will also contain a Down Payment Assistance (DPA) Award Letter and a Legally Enforceable Obligation Letter pursuant to HUD Mortgagee Letter 2013-14 and HUD Handbook **4000.1 II.A.4.d.ii.(C)** The lender must provide a copy of the Down Payment Assistance (DPA) Award Letter and the Legally

Enforceable Obligation Letter executed by the Borrower(s) in the FHA case binder as well as the closed loan file electronically delivered to ServiSolutions by upload in OLS. The Award Letter must be signed by the borrower(s) at or before closing.

4.5 Lien Position Policy

At time of closing, NCHFA will take 3rd lien position on down payment assistance loans only if the subordinate lien is from another governmental agency or non-profit subordinate mortgage.

The subordinate lien must be from an eligible source for NCHFA to take a lower lien position. All subordinate financing must meet investor and federal regulatory mortgage guidelines.

4.6 Principal Reduction Policy

No Principal Reduction is allowed at closing, although minor adjustments may be considered for amounts under $250.00. If a loan reduction is necessary, then the Lender must have the loan reapproved by NCHFA prior to closing.

4.7 Subordination Policy

Down payment assistance loans from NCHFA are not eligible for subordination upon a refinance by the lender or any third party. The lender may request pay off information at subordinations@nchfa.com and provide details of the transaction.

Under no circumstances will a cash-out be allowed for subordinations.

Section 5

Borrower Eligibility Guidelines

Lenders must review the borrower requirements of this section to ensure the eligibility of mortgages to be purchased in the program.

The lender is responsible for ensuring the borrower's compliance with various program requirements, including the income limit requirement.

5.1 Borrower Requirements

1. Borrower(s) shall occupy the property as a principal residence within sixty (60) days after loan closing.

2. Borrowers must be first-time homebuyers or eligible, non-active duty veterans.

3. Pre-purchase education is required for first-time homebuyers.

4. Must be permanent, legal residents of the United States.

5. Recapture tax applies to the 1st mortgage portion of the loan. The lender is required to explain and provide Recapture Information to the customer at time of loan origination.

6. Co-signors are not eligible or allowed on this program.

5.2 Pre-Purchase Education Requirement for First-Time Homebuyers

Pre-purchase education is required for first-time homebuyers. The Lender should submit evidence of pre-purchase education via a certificate as part of the document upload to

NCHFA prior to issuance of NCHFA's Commitment. On-line pre-purchase education programs are acceptable. All borrowers must take pre-purchase education.

5.3 Income Limits

Borrower(s) must meet the same income limits for the MCC program, and lenders must calculate income using the procedures outlined in this section. Please note that income guidelines must be followed are identical to the MCC Program Guidelines and income limits.

Our income limits are subject to change.

Current income limits can be found on our website at **www.nchfa.com** or via OLS at **www.nchfa.org/OLS/login.aspx**.

Borrower and all adult occupants, with the exception of full time dependent students (12+ credit hours), must meet household income limits for the program, which are identical to the MCC Program Income limits, and lenders must calculate income by using the procedures of this section.

a. Income Limits

Household income is defined as the gross annual income of the mortgagor(s) (those signing the Deed of Trust) and any other person who is expected to live in the residence being financed; including income received by any household member who is 18 years of age or older (except a full-time dependent student), even if they will not be secondarily liable on the mortgage.

The income limits can be found on our Online Lender System (OLS) or our website at ***www.nchfa.com*****.**

5.4 Income Calculation for Compliance Underwriting

Compliance Income

NCHFA will count all household income being earned as of date of lender submission of loan documents to NCHFA for loan approval. Income calculations for compliance underwriting are different from qualifying income calculations for investor (i.e., FHA, VA, USDA, and Conventional) credit underwriting.

NCHFA will review copies of the Verification of Employment (written or verbal VOE), last year's W-2s, pay stubs and copies of additional income verifications to substantiate income calculations (i.e., social security award letter, retirement, National Guard or Reserve income, child support, etc.)

Note: The pay stub must be dated within 45 days of submission of documents to NCHFA for loan approval and clearly indicate all sources of income (i.e., shift differential, overtime, etc.) and verify total YTD earned income. If employer does not issue pay stubs it will be necessary to obtain a copy of the latest payroll ledger on company letterhead, signed by company official.

NCHFA requires a copy of all last year's W-2s. The sum of the W-2s must match the federal tax returns. No W-2s are required for the previous two years. The lender must document the employment dates for all employers represented on the last year's tax returns. Verbal Verification of Employments (VOE's) are acceptable.

Disclosure of Income

Lenders should always ask the borrowers to disclose their current base income (before any payroll deductions). Current base income includes income from primary and part-time jobs at the time of lender submission of documents for NCHFA loan approval and all other income that the borrowers receive. This information must be used for compliance underwriting. All income is *projected* for 12 months to calculate compliance income (regardless of its likelihood to continue).

Other Income

The lender should also ask the borrower for other sources of income.

Examples include (not inclusive):

- alimony
- annuities
- auto allowance
- bonuses
- child support
- commission
- disability or death benefits
- dividends
- education benefits used for subsistence

- housing allowance
- interest income
- income received from business activities or investments
- income received from trusts
- insurance policies (if received on a continuous basis)
- net rental income
- overtime
- pensions
- public assistance
- recurring monetary contributions regularly received from persons not living in the unit
- royalties
- shift differential
- sick pay
- social security benefits
- special pay and allowances of a member of the armed forces (excluding hazardous duty pay)
- tips
- unemployment income
- Veterans Administration (VA) compensation
- Workers compensation

Read further for more specific details on certain types of income. Types of income not listed in this guide but disclosed by borrowers should also be counted.

c. Income Calculation: Salaried Base Pay

The lender will use each borrower's verified gross annual income for calculation of income for salaried borrowers. When the verified gross income disclosed does not agree with the gross income on the borrower's pay stub, the lender's file must be documented with the gross income that was applicable at the time of lender submission of documents for NCHFA loan approval and an explanation should be in the lender's file stating why there is a variance.

Verifications of employment are used to determine the income of a salaried borrower. The lender must compare the current annual salary with year-to-date earnings and with the borrower's current pay stubs to note any discrepancies. Lender should investigate discrepancies and document the file appropriately.

NCHFA will calculate compliance income for salaried and hourly borrowers by projecting current base pay for the next 12 months, and averaging "other" income for the previous tax year and year to date until June 30. On July 1, current base pay projected for 12 months will be averaged with year to date "other" income.

d. Income Calculation: Self-Employment Income

The lender must calculate gross annual income for self-employed borrower by averaging the reported net income for the previous two years signed federal tax returns and year-to-date income. Year-to-date earnings will be taken from a current, signed year-to-date (based on most recent quarter) profit and loss statement (may be self-prepared).

Example:

2014 net earnings from Schedule C		$ 33,003.00
Depreciation	+	2,550.00
2014 earnings (12 month period)		$ 35,553.00
2015 net earnings from Schedule C		$ 38,000.00
Depreciation	+	3,000.00
2015 earnings (12-month period)		$ 41,000.00
2016 net earnings for 9 months from P&L		$ 36,000.00
Depreciation	+	1,000.00
2016 year-to-date earnings (9-month period)		$ 37,000.00
2014 earnings		$ 35,533.00
2015 earnings	+	41,000.00
2016 year-to-date earnings	+	37,000.00
	=	$ 113,553.00
$113,553 ÷ 33 months = $3,441 x 12 months	=	**$41,292.00**

If the sum of the self-employed income from the past two years and year-to-date equals a negative income figure, NCHFA will treat the sum as zero ($0). 26n self-employed.

Example:

2015 net earnings from Schedule C		$ 38,000.00
Depreciation	+	3,000.00
2015 earnings (12-month period)		$ 41,000.00
2016 net earnings 9 months from P&L		$ 36,000.00
Depreciation	+	1,000.00
2016 earnings (9-month period)		$ 37,000.00
2015 earnings		$ 41,000.00
2016 year-to-date earnings (9-month period)		+ 37,000.00
	=	$ 78,000.00
$78,000 ÷ 21 months = $3,714.29 x 12 months =	**$**	**44,571.48**

If the sum of the self-employed income from the past year and year-to-date equals a negative income figure, NCHFA will treat the sum as a $0. In the above example, if the 2015 earnings were a negative $41,000; the sum would be a negative $4,000. NCHFA would use $0 to calculate compliance income.

The partnership or corporate returns, together with all schedules, must be submitted with the loan application if the borrower is a 25% or greater partner in a partnership or has a 25% or greater ownership interest in a small corporation (i.e., assets of one million dollars or less).
If the tax returns indicate that the borrower was self-employed full-time or part-time in the prior year and the borrower is no longer self-employed, the borrower must provide a signed statement indicating he/she is no longer self-employed. The statement should verify that the last date of self-employment.

e. Income Calculation: Part-Time Salary Income

Part-time salary income must be included when calculating the borrower's gross annual income if the borrower is employed at a part-time job at the time of lender submission of documents for NCHFA loan approval. It is considered current income.

The lender must calculate income based on what the borrower is making at the time of lender submission of documents for NCHFA loan approval if the part-time employer verifies a specific hourly rate and gives the specific number of hours worked (or states the monthly amount). The lender must ensure that year-to-date figures equal this amount. If not, the file must be documented as to the reason for the discrepancy. If the part-time employer does not state a specific hourly rate and gives the specific number of hours worked (or states the monthly amount), <u>the lender must average past year and year-to-date</u> earnings and project the income on an annual basis.

Example:

Part-time employer states $7.50 per hour for 15 hours per week and the year-to-date figures verify this.

$7.50 hourly rate x 15 hours x 52 weeks = **<u>$5,850</u>** annual income Part-time employer states $7.50 per hour but does not state the hours worked. The date of employment was February 19, 2015, date of VOE was October 22, 2015, and year-to-date earnings were $3,806; from February 19, 2015, to October 22, 2015, is 35 weeks.

$3,806 year-to-date earnings ÷ 35 weeks x 52 weeks = **<u>$5,655</u>** annual income.

f. Income Calculation: Part-Time Self-Employed Income

The lender must use the self-employed income method to calculate compliance income if the borrower is self-employed on a part-time basis at the time of lender submission of documents for NCHFA loan approval in addition to full-time salaried employment. This can be detected when the tax returns are reviewed. The part-time self-employment income is calculated in the same way as when the borrower is self-employed on a full-time basis.

When tax returns indicate a history of self-employment and the borrower indicates that he/she no longer works the self-employment job, the lender must submit a signed statement from the borrower verifying when the self-employment ceased.

g. Income Calculation: Commission Income

Income for a 100% commissioned individual will be calculated as it is for a self-employed borrower (past two years and year-to-date average).

Income for commissions received in addition to a base salary (or a "guaranteed" draw) is treated as "other income". NCHFA will average the commission income for the previous year and year to date until June 30. On July 1, use only year to date to average and project forward for the next 12 months.

h. Income Calculation: Bonus and Overtime Income

The lender must average past year and year-to-date bonus and/ or overtime income. If the borrower was not employed full-time for twelve months during the past year, the borrower's income should be averaged using the applicable number of months. If the borrower has been with the same employer for the previous year and year to date, then average the bonus and overtime for the previous year and year to date until June 30. On July 1, use only year to date to average and project forward for the next 12 months.

i. Income Calculation: Dividends and Interest Income

The lender must average past year and year-to-date dividend and interest income. The tax returns will indicate dividend and interest income received for the prior tax year. The borrower should furnish copies of bank statements, or other documentation to substantiate year-to-date dividend and interest income. This should be made a part of the lender's file.

j. Income Calculation: Child Support and Alimony Income

The lender must use the monthly amount of child support or alimony indicated in the separation papers or divorce decree. The issue of child support must be addressed by having the occupant complete the applicable questions in the Child Support Income Certification section on the **Mortgage Affidavit (Form - 016)**. For married borrowers (or non-borrowing co-occupants) who do not have a separation agreement or divorce decree, NCHFA will accept a notarized statement of the borrower’s intent to live separately from their spouse, which must include information regarding child support, alimony, and ownership interest in any other property, if applicable.

k. Income Calculation: Social Security Income

The lender must annualize gross benefits based on the benefit letter from the Social Security Administration. Social Security benefits include payments received by adults on behalf of minors for their own support.

l. Income Calculation: Other Income Excluded

The following types of income can be excluded in determining a borrower's income eligibility for the program:

- amounts of educational scholarships paid directly to the student or to the educational institution
- amounts paid by the Government to a veteran for use in meeting the costs of tuition, fees, books, and equipment
- amounts that are specifically for reimbursement of business and/or educational expenses
- one-time sign-on bonus
- lump sum additions to family assets, such as inheritance, insurance payments (including payments under health and accident insurance and workers’ compensation), capital gains, and settlement for personal or property losses
- payments received for the care of foster children
- temporary, non-recurring sporadic income or gifts
- amounts that are specifically for or in reimbursement of the cost of medical expenses
- severance pay
- inheritance (lump-sum)

l. Income Calculation: Future Employment, Changes in Employment and/or Pay Structure

The lender must provide documentation to NCHFA regarding future employment (e.g., full-time student not employed at time of lender submission of documents for NCHFA loan approval however an employer has promised a job position), changes in employment (e.g., borrower relocating and changing jobs), and pay structure changes (e.g. borrower is going from a commissioned job to straight salary, or part-time to full-time) for an income determination.

m. Recertification of Income

If the loan is scheduled to close 120 days after the period ending date of the latest pay stub, the borrower's income must be re-verified and a **Recertification of Income (Form-103)** form must be submitted for approval by NCHFA prior to closing. The lender must receive a new updated pay stub (or payroll ledger) reflecting current year-to-date earnings for salaried employees and a more current profit and loss statement for a self-employed borrower.

Other income must be re-verified as well as the borrower's base income.

Example

The period ending date on the latest pay stub is March 8, 2015. The income verifications are valid for 120 days, in this case until July 5, 2015. If the loan closes after July 5, 2015, the borrower’s income must be re-verified prior to closing.

2. Other borrower requirements are as follows:

a. Compliance Certification for Non-Borrower Occupant

He/she must execute all NCHFA documents.

The Compliance Certification for Non-Borrower Occupant on the **Mortgage Affidavit (Form - 016) form and the Notice of Potential Recapture (Form -**

015), must be properly executed by a spouse or other adult who will be residing in the property to be purchased.

The income of the non-borrowing spouse or other adult occupant will be included in calculations to determine eligibility for participation in the Mortgage Credit Certificate Program. The lender must provide all current and prior year's VOEs, current pay stub, award letters, W-2s and 1099s, and the most recent 3 years signed federal tax returns, IRS printouts or tax transcripts.

Neither the spouse nor other adult occupant(s) can have owned an interest in a principal residence and occupied a principal residence within the last three years, and all borrowers must occupy the home to be purchased within 60 days of loan closing.

b Separation Agreement and/or Divorce Decrees

NCHFA may request a copy of any separation agreement and/or divorce decree and any subsequent modification documents for any borrower, co-borrower, or non-borrowing co-occupant that has been previously married or receives alimony or child support, to verify additional sources of income. If the borrower (or non-borrowing co-occupant) does not have a separation agreement or divorce decree, they will be required to provide a notarized statement that must include the date of their separation, amount of child support or alimony received, if any, and that they have not owned any property as a primary residence within three years of the closing date.

Information regarding child support or alimony can be disclosed on the Form 016 Program Certification and supported by other documents gathered by the lender.

5.5 Ratios

The maximum debt-to-income ratio for all loan types with or without down payment assistance is 41.0%. These ratio maximums apply to all NC Home Advantage Mortgage™ loans regardless of the AUS recommendation. Subject to change.

5.6 Credit Score Requirements

All loans must receive an AUS Approve/Eligible credit recommendation (DU/GUS/FHA Total Scorecard). **In addition, all borrower(s) must have a <u>minimum of two credit scores</u>**, the lowest or mid-score being 640 or higher. Both borrower and co-borrower must meet these credit score minimum thresholds, including any GNMA, FNMA or MI company minimum credit scores, if applicable.

To determine the applicable minimum credit score, the lender should first evaluate each borrower separately. The applicable credit score is the lower score when two credit scores are obtained or the middle score when three credit scores are obtained. **Borrower(s) with only one score or no credit scores are not eligible for the program.** If more than one individual is applying for the same mortgage, the lender should determine the applicable credit score for each individual borrower and then select the lowest applicable score from the group as the "representative" credit score for the mortgage. The "representative" credit score for the mortgage should be used to underwrite and evaluate the comprehensive risk for the mortgage application.

NCHFA does not accept loans with non-traditional credit histories, no credit scores, or borrower(s) with one credit score.

5.7 Collections Policy / Bankruptcy Policy

Industry standards for payment of collections vary based on loan type. The Automated Underwriting Systems [Desktop Underwriter (DU), Desktop Originator (DO), FHA Total Scorecard or Guaranteed Underwriting System (GUS)] must show that all collections were included in the final AUS Findings analysis.

All judgments regardless of the balance must be paid in full prior to or at closing or meet industry guidelines for repayment, if applicable.

The participating lender should follow industry standards regarding bankruptcy waiting periods which may vary based on loan type. NCHFA does not have a standalone policy regarding prior or existing bankruptcy waiting periods.

5.8 Short Sales/Foreclosures

The participating lender should follow industry standards regarding short sale/foreclosure waiting periods which may vary based on loan type. NCHFA does not have a standalone policy regarding short sales or foreclosures.

5.9 Flip Properties

The participating lender should follow industry standards regarding flip transaction waiting periods which may vary based on loan type. NCHFA does not have a standalone policy regarding flip transactions.

NON-ARMS LENGTH transactions must follow industry guidelines.

Section 6

Property Eligibility Guidelines

Lenders must review the property requirements of this section to ensure the eligibility of mortgages to be purchased in the program.

6.1 Property Requirements

The sales price limit for a home financed through the N.C. Home Advantage Mortgage™ with $15,000 DPA is $245,000, which is subject to change.

1. The residence must be located in North Carolina and must be eligible for mortgage insurance under FHA, VA, USDA, or conventional guidelines as a principal residence.

2. The residence MUST be existing, previously occupied. New homes do not qualify.

FHA, USDA, VA Eligible Properties	Conventional Eligible Properties
▪ Single family detached or semi-detached ▪ Townhomes ▪ Condos ▪ Modular homes –existing only	▪ Single family detached or semi-detached ▪ Townhomes ▪ Condos ▪ Modular Homes–existing only **Off-Frame only**

6.2 Maximum Acreage

The land acquired in connection with the mortgage loan may not exceed five (5) acres. The Property cannot be subdivided for the purpose of qualifying for MCC Program, unless required by local health or safety code(s). No portion of the land may be used as an income producing property.

The property may not have accesorry untis, storage sheds, or other seperate structures that are livable space.

A. No more than fifteen percent (15%) of the total area of the principal residence can be used for:

   a. The principal place of business for, or in connection with, any trade or business on an exclusive and regular basis.

   b. A place of business that is used exclusively and on a regular basis for meeting or dealing with patients, clients, or customers in the normal course of trade or business.

   c. A place that is used on a regular basis where the inventory is held for use in the trade or business of selling products at wholesale or retail but only if the residence is the sole fixed location of such trade or business.

B. **Not Allowed:**

   a. Rental to any person, this includes rental to a roommate. Roommate rental is assumed to be using more than 15% of the residence for business purposes.

   b. A place that is used on a regular basis in the trade or business of providing day care for children, or for other individuals, regardless of age.

C. Property acquisition costs may not exceed NCHFA's limits, which are based on the sale price. Some living units include unfinished space (i.e. an area designed or intended to be completed or refurbished and used as living space). For example, if the unfinished square footage in the lower level of a tri-level residence or the upstairs of a Cape Cod exceeds 25% of the total square footage, the cost to complete this area, whether or not the work is actually to be done, must be added to the sales price to arrive at the acquisition cost.

   The lender may use the appraiser's cost estimation for completion. The Seller Affidavit (Form – 013) must include this cost.

D. The mortgages are also subject to the FHA 203(b) maximum mortgage limits or published Agency acquisition limits, whichever are lower.

6.3 Repairs and Escrows for Completion

Repairs to the property and escrows for completion are handled by the originating lender and must be completed according to Master Servicer requirements. Master Servicer's requirements can be located at http://www.servsol.com/.

6.4 Owning More Than One Home Not Allowed

Borrowers cannot own any other home and must be a first-time home buyer.

All loans financed under the N.C. Home Advantage Mortgage™ program must be for a primary residence.

In no case may a borrower have more than one (1) loan outstanding from NCHFA at a time.

6.5 Property Condition Requirements

Eligible property conditions are C1, C2, C3, and C4.

C5 and C6 property conditions are not eligible for NCHFA programs. The property condition will be shown on the Uniform Appraisal from a licensed property inspector.

All homes must have a working HVAC system.

Section 7

Loan Origination and Underwriting Steps

7.1 General

Eligible borrowers apply for the N.C. Home Advantage Mortgage™ program at participating lenders by completing a standard mortgage application. If the loan meets the applicable credit and underwriting guidelines, the lender would enter the requested information and lock the loan in OLS, starting the 60-day lock and establishing the Lock-In Expiration Date, the date by which the loan must be purchased by the Master Servicer. Subsequent to locking the loan, the lender must upload the requested documents for NCHFA's review prior to closing. Once NCHFA approves the documents, it issues a Commitment, pending the Master Servicer's approval of the loan post-closing. **In no instance should any N.C. Home Advantage Mortgage™ loan close without a Commitment from NCHFA.**

Documents required to be uploaded via OLS electronically should be submitted as early as possible to allow sufficient time for NCHFA to review the file and for the lender to make corrections. NCHFA will review files on a first-come, first-served basis within 48 hours of receipt. This policy also applies to any additional or revised documentation which is submitted at a later date.

7.2 Loan Origination

Borrowers and non-borrowing occupants are required to meet all FHA, VA, USDA, or Fannie Mae HFA Preferred industry guidelines, and loans must be eligible for FHA insurance, VA or USDA guarantee, or private mortgage insurance (PMI). Conventional loans may use any Fannie Mae and ServiSolutions approved PMI company. Conventional loans equal to or less than 80% LTV do not require PMI.

Note: The following procedures outlined here suggest the typical sequence of events for N.C. Home Advantage Mortgage™ loans:

1. Borrower reviews program details or visits our website at www.nchfa.com and schedules an appointment with a participating lender.

2. If the preliminary screening indicates that the borrower meets N.C. Home Advantage Mortgage™ program guidelines and the loan meets FHA, VA, USDA, or conventional underwriting guidelines, the lender takes a formal application.

3. Lender verifies that borrower's income, DTI ratio, and industry guidelines are met. The lender's underwriting staff runs AUS Findings and completes a formal underwriting review of the loan file.

4. A TIL is required for the 2nd Mortgage. **No fees may be charged on the second mortgage (DPA).** If you are unable to generate a TIL, a substitute TIL is available on our website at www. NCHFA.com.

5. All loans must receive an AUS Approve/Eligible credit recommendation (DU/GUS/FHA Total Scorecard). In addition, all borrower(s) must have a minimum of two credit scores, the lowest score being 640. **For conventional loans, only loans that are DU eligible are allowed (LP is not accepted for these loans).** LP is acceptable for FHA and VA.

To determine the single applicable credit score, the lender should first evaluate each borrower separately. The single applicable credit score is the lower score when two credit scores are obtained or the middle score when three credit scores are obtained.

If the borrower(s) only has one credit score, they are not eligible for financing.

6. NCHFA will not accept loans with non-traditional credit histories or those with only one credit score, regardless of the loan type.

7. After the lender has underwritten the borrower loan file, the lender will access the Online Lender Services System (OLS) (http://www.nchfa.org/ols/login.aspx) and input the loan information and print the lock confirmation form. Once this step is complete, the interest rate is locked for a period of 60 days.

8. Expired locks are subject to a mark-to-market fee based on market conditions at the time the loan is purchased. To avoid a mark-to-market fee, an extension must be requested via OLS, for which extension fees apply.

9. After the rate is locked and prior to closing, the lender must upload the documents required for NCHFA's review via OLS. See Section 7 for details on documents to upload.

10. Once all required documents are uploaded, NCHFA will review the documents within 48 hours. NCHFA will notify the lender via OLS if there are any issues to be addressed with the uploaded documents. If the documents are approved, NCHFA will issue a Commitment via e-mail to the participating lender.

11. For an FHA loan with DPA, the printing of the Commitment will also include a Down Payment Assistance Award Letter which the lender will provide to the borrower as well as a Legally Enforceable Obligation Letter pursuant to HUD Mortgagee Letter 2013-14 and HUD Handbook **4000.1 II.A.4.d.ii.(C)**.

NCHFA reserves the right to reject any mortgage loan application if, in its sole discretion, NCHFA believes the mortgage loans do not comply with all rules, procedures and guidelines set forth in this Program Guide.

7.3 Pre-Closing Forms/Documents Required

The participating lender shall upload via OLS the following documents prior to closing an N.C. Home Advantage Mortgage™ loan:

1. Final Uniform Residential Loan Application (Form 1003)
2. Automated Underwriting System (AUS) Findings (final)
3. Loan Estimate (LE) on 1st and TIL on 2nd (if utilizing DPA)
4. Proof of homebuyer's homeownership education (if first-time home buyer)
5. Form 026 - Notice to Borrower
6. Form 013 - Seller Affidavit
7. Form 015 – Prelimiminary Notice to Applciants of Potential Recapture
8. Form 016 – Mortgage Affidavit and Borrower Certification

Once all documents are uploaded, NCHFA reviews the submission package for completeness and verifies income and ratios according to program guidelines.

If the submission package is acceptable, NCHFA will provide a Commitment, which the lender will be able to print via OLS. **No N.C. Home Advantage Mortgage™ loan may close without a formal approval and Loan Commitment from NCHFA.**

If the loan is an FHA loan with DPA, the Commitment letter will also contain a Down Payment Assistance (DPA) Award Letter and a Legally Enforceable Obligation Letter.

The Master Servicer will purchase a 1st mortgage loan and a DPA loan in a specified amount from the lender on evidence of compliance with the N.C. Home Advantage™ program requirements and the closing of the mortgage loan.

Note: Any changes on Form 1003 or to the AUS findings, after the issuance of the Commitment Letter may render the loan subject to non-purchase. A TIL is always required on the 2nd mortgage.

No fees can be charged on the 2nd mortgage – either by lender or a 3rd party.

7.4 Loan Closing After NCHFA Issues Commitment

1. No N.C. Home Advantage Mortgage™ loan can be closed without NCHFA's Commitment prior to loan closing.

2. The lender should provide copies of the following documents to the closing attorney prior to closing (forms available at www.servsol.com):

- Early Default Notification
- Quality Control Certification and Authorization

These documents are found on the ServiSolutions website in the following link: www.servsol.com/lenders/nchfa_documents.aspx.

3. If the loan does not meet all program and industry guidelines, the loan will not be purchased by the Master Servicer. Contact an NCHFA underwriter if you have any questions.

4. Lender closes the loan following its normal procedure. For the NCHFA DPA portion, make sure to use Form 505 NC Home Advantage Mortgage™ DPA Deed of Trust and Form 506 NC Home Advantage Mortgage™ DPA Promissory Note, available on the NCHFA website. Forms 505 and 506 must be used for the $15,000 DPA offered in the five (5) eligible counties.

5. We require all of our participating lenders to be MERS® members.

Steps for MERS® Members

a. Generate a MIN (Mortgage Identification Number) within your system and place the MIN on the Deed of Trust.
b. Use the MOM (MERS as Original Mortgagee) Deed of Trust form.
c. Register the loan in your name with the MERS® System using your MERS Org. ID as Servicer and Investor within 10 business days of closing.
d. Initiate Transfer of Beneficial Rights (TOB) and Transfer of Servicing Rights (TOS) or combined TOS/TOB to ServiSolutions.

Servicer	ORG ID
ServiSolutions	1002536

6. Lender should further instruct the closing attorney/agent as follows:

   a. The borrower(s) may not be charged discount points.
   b. The mortgage payment must include amounts to pay the property taxes and all applicable insurances.
   c. The maximum principal reduction at closing cannot exceed $250.00.
   c. The Trustee fee on all Deeds of Trust must be 5%.
   d. If the borrower is receiving DPA, the Closing Disclosure for the first mortgage must reflect the correct subordinate financing calculation. A TIL is required on the 2nd mortgage and the APR must be 0%.
   e. Homeowners' and flood insurance mortgagee clauses:

      1st Mortgage:
      ServiSolutions a department of Alabama Housing Finance Authority
      ServiSolutions
      Its successors and/or assigns, as their interest may appear
      PO Box 242967
      Montgomery, AL 36124-2967

Interim Servicing

Until the closed loan is formally purchased by the Master Servicer, the originating lender must process all mortgage payments, including servicing of the loan. Lender is required to follow all federal and state requirements for proper servicing of customer payments.

Hazard Insurance Requirements

Note that the maximum hazard insurance deductible per ServiSolutions for government loans (FHA, VA, USDA) is the greater of $2,500 or 2.5% of the face amount of the policy. The flood insurance deductible on a conventional loan may not exceed $2,000.

2nd Mortgagee – NCHFA Subordinate Loan (DPA) - Additional Mortgagee Clause
North Carolina Housing Finance Agency
Its successors and/or assigns, as their interest may appear
PO Box 28066
Raleigh, NC 27611-8066

7.5 Electronic Signatures

Electronic Signatures are allowed on all Agency forms and industry forms, subject to these general rules:

The use of e-signatures is voluntary, but lender transactions utilizing e-signatures must meet the following standards:

a) NCHFA does not accept documents that have been signed solely via voice or audio. The electronic signature and date should be clearly visible on any and all documents when viewed electronically and on a paper copy of an e-signed third-party document.

b) For borrowers that are entities, the signatory must be a representative who is duly authorized in writing to bind the entity;

c) Evidence of such written authority must be maintained by Lender;

d) Lenders are not permitted to have borrowers sign documents in blank or with incomplete documents;

e) E-signatures and the accompanying dates must be clearly visible on all e-signed documents; and

f) E-signatures are not permitted on promissory notes, mortgages, documents that require notarization or witnesses, or transactions utilizing a power of attorney.

Section 8

Post-Closing Processing Steps

8.1 General

After the participating lender has closed the N.C. Home Advantage Mortgage™ loan according to the guidelines specified in Section 7, it should follow the procedures outlined below for post-closing steps. NCHFA's designated Master Servicer will only purchase mortgages that are originated by approved participating lenders, which meet compliance with program guidelines including federal and state requirements.

The closing package related to the closed loan must be uploaded to OLS using the Master Servicer stacking order within 10 calendar days after closing. The stacking order of documents is detailed in the following link on the ServiSolutions website: www.servsol.com/lenders/nchfa_documents.aspx. The closing package needs to contain all documents in the proper order* and uploaded as one pdf file to ensure a timely review of the documents by ServiSolutions. Neither NCHFA nor the Master Servicer is obligated to purchase a loan past its Lock-in Expiration Date if the loan has not been timely extended by the lender via OLS prior to its expiration date.

***Loans not in proper stacking order may be subject to delayed review and purchase. Loans will not be reviewed until the recorded Note and DOT have been received by ServiSolutions.**

A. Review of the Mortgage Loan.

The closed mortgage loan package is to be received by ServiSolutions within 10 days of loan closing.

1. Lenders must check the closed loan package to confirm all items listed on the Funding Checklist are included in the package. Loans will not be funded if any of the items on the checklist are missing or incorrect.

2. All loans purchased by ServiSolutions will require mandatory registration with MERS. No assignments will be accepted for first or second mortgages. Lenders must transfer all applicable rights in MERS to ServiSolutions immediately after purchase.

Upon completion of the closed loan file compliance review, the mortgage loan(s) will be funded if the file is complete and is in compliance with all requirements. Closed loan packages will not be funded until all required fundable documentation has been received and all compliance issues cleared.

B. **Penalties Withheld From Funding**.

Lenders have 10 days from closing to deliver the complete closed loan package to ServiSolutions. A loan is considered to be in a fundable condition when a complete closed loan package is delivered without errors or missing documents. Also, loans with delinquent payments will not be purchased. Lenders will have 40 days from the date of closing to clear the loan exception with no penalty. If the loan is not cleared <u>until 41 days</u> from the date of closing, the lender will be charged a <u>late delivery fee of 50 basis points</u> (0.50%) of the principal purchased. If the file is not cleared by the <u>71st day</u> from the date of closing, original Notes will be returned to the lender and the loan(s) will not be purchased. This section does not override any applicable lock expiration period.

Extension fees may be required if the loan is not funded by the applicable expiration date. The amounts of all fees and penalties are subject to change. Please refer to the current schedule of penalties and fees located at www.servsol.com for the most current information.

C. **Funding of the Mortgage Loan.**

ServiSolutions will issue an ACH (or wire) on single and multiple funding's each Wednesday and Friday for each lender. A breakdown of the multiple lender's funding's will be included with the ACH or wire. Any discrepancies should be directed to the Funding and Delivery Department at ServiSolutions. Only one set of ACH/wiring instructions will be accepted from each lender. Lenders are allowed one change to the wiring instructions per calendar year. Subsequent changes to ACH/wiring instructions will result in a $500 fee per transaction.

Lenders are responsible for servicing the loan until purchased by ServiSolutions to include the payment of all required escrow disbursements for each loan during the period from closing to purchase.

In general, fundable closed mortgage loan packages received by the close of the business day on Monday of each week will be funded on Friday and those received by the close of business on Thursday will be funded on Wednesday of the next week once approved by North Carolina Housing Finance Agency.

The funding amount for both first and second mortgages will consist of:

1. Scheduled unpaid principal balance.
2. Servicing Release Premium per the Program Guidelines (1st mortgage only).
3. Interest from the closing date through the purchase date or interest from the last paid installment date to purchase date at the loan's per diem rate.

Amounts to be deducted from funding of both first and second mortgages will consist of:

1. Penalties or fees assessed in B or C.
2. Flood notification transfer fee of $10 (not required for flood certification from CoreLogic).
3. Prepaid interest (Loans purchased by the 10th of the month prior to the first payment due date only).
4. Prepaid escrow (unless after first payment) or current amortized escrow balance on the loan less and disbursements
5. Tax service fee of $65
6. eDocs Administration Fee of $40 (if applicable).
7. Wire fee of $20 (per transaction (if applicable)

D. **Final Documentation**.

The lender is to submit the final mortgage loan documentation consisting of the following original documents to ServiSolutions within 120 days of closing:

- Recorded First Mortgage
- Title Policy
- Mortgage Insurance documentation (FHA Mortgage Insurance Certificate, PMI Certificate of Coverage, Loan Guaranty Certificate)
- Recorded Second Mortgage (if applicable)

E. **Transfer of Loan Servicing Rights and Benefits**.

The originating lender retains the loan servicing rights and benefits until ServiSolutions purchases the loan. The originating lender will perform all servicing duties until that time. Servicing and benefits rights transfers to ServiSolutions at the time of loan purchase.

Lender will be sent a reminder along with the purchase payment advice to send out their goodbye letter to the borrower ServiSolutions will send the borrowers a Notice of Sale, Assignment or Transfer and two temporary payment coupons at the time of loan purchase.

The first payment due to ServiSolutions will be determined based upon when the Notice of Sale, Assignment or Transfer is sent. If the loan is purchased (purchase date) on or before the 10th of the month, the first payment due to ServiSolutions will be the next scheduled monthly payment due date.

After the 10th, the effective date will roll to the following scheduled monthly payment due date. The lender must transfer the loan to ServiSolutions through the MERS system immediately after purchase.

Examples

1. A loan that closed on 06/02/16 is received by ServiSolutions 06/8/16 and is being funded on 06/10/16. This loan will be purchased at the original note amount with no late delivery penalty.

2. A loan that closed on 06/24/16 is not received by ServiSolutions until 7/28/16 and is ready to be funded on 08/11/16. The initial payment on this loan is due on 08/01/16. Since this loan is being purchased after the 10th of the month, the loan will be purchased effective with the payment scheduled for 10/01/16. The lender would be charged a late delivery fee of 50 basis points (0.50%) of the principal purchased.

8.2 Uploading the Closing Package in OLS

All closing documents are to be uploaded in OLS within 10 calendar days after closing to ensure that the Master Servicer has adequate time to review the documents, clear contingencies and purchase the loan no later than the Lock-In Expiration Date.

The Master Servicer provides a complete checklist and stacking order of required documents on its website at www.servsol.com/lenders/nchfa_documents.aspx or you may request assistance from the Master Servicer at lenderinquiries@servsol.com.

The closing package will be uploaded as a single, combined pdf document into OLS following the stacking order specified by ServiSolutions for its review. As part of its review process, if the Master Servicer needs additional documents or corrections to documents already provided, the Lender may upload additional documents in the same manner into OLS. Omission of required documents or documents that do not follow the stacking order as directed by ServiSolutions will result in delays of the review process and may require another upload of the entire package.

The first mortgage NOTE must be endorsed by the lender as follows:

> "Pay to the Order of ServiSolutions, a Department of Alabama Housing Finance Authority without Recourse" and must be signed by the appropriate lending official. This endorsement should be on the last page of the Note.
> **The use of an Allonge is not acceptable**.

The original Note and Deed of Trust for the first mortgage and the original Form 506 - Promissory Note and Form 505 – Deed of Trust for the NCHFA subordinate mortgage (DPA) must be mailed to ServiSolutions at the following address:

ServiSolutions
Attn: Funding and Delivery
7460 Halcyon Pointe Drive, Suite 200
Montgomery, AL 36117

The signature(s) and date on the Promissory Note must match the first mortgage Note. Under no circumstances is the lender allowed to advance a mortgage payment on behalf of the borrower.

The Master Servicer website, which has copies of its checklist and other information, may be found at www.servsol.com.

8.3 Loan Purchase Review and Funding

As noted in Section 8.2, mortgage loan closing documents are uploaded into OLS within 10 calendar days after closing for review by the Master Servicer.

1. The Master Servicer reviews the closing package for completeness and compliance. If the Master Servicer needs corrected documents or additional documents in its review process, it will notify the lender by e-mail. The lender may upload the additional documents via OLS as one PDF document in the same manner as it did the original closing package, and these additional documents will be transmitted to the Master Servicer. Make sure that ServiSolutions has the correct contact information and that the contact email box is monitored. ServiSolutions will use the contact information provided on the Funding Checklist.

2. Loans are purchased by the Master Servicer twice weekly on Wednesdays and Fridays. If the loan has not been delivered to the Master Servicer by the Lock-In Expiration Date, the lender must request an extension via OLS and an associated extension fee will be assessed. Locks that expire without an extension will be assessed a mark-to-market fee at the time of purchase based on market conditions.

3. The Master Servicer will purchase mortgages in the sequence in which they are approved for funding by the Master Servicer and wire transfer or ACH funds to the specified account of the lender. The Master Servicer cannot make assurances about the time required for mortgages to be purchased.

4. Purchase schedules will be forwarded to originating lenders by the Master Servicer indicating which loans will be purchased.

5. The Master Servicer will pay to the lender compensation based on the first loan amount, inclusive of any servicing release premium, upon completed purchase of the loan(s). Any extension fees (for extended locks) or mark-to-market fees (for expired locks) will be netted from the lender compensation amount at the time of purchase.

6. For fees and costs at loan purchase/funding please refer to section 8.

8.4 Shipping the Final Documents to Master Servicer

1. All final documents (recorded Deed of Trust, Title Policy, and any corrections and/or title endorsements must be received by the Master Servicer within 120 days of loan closing.

   The lender should send all final documents to the following address:

   ServiSolutions
   Post-Closing Documents
   7460 Halcyon Pointe Drive, Suite 200
   Montgomery, AL 36117

   (Please use the Master Servicer checklist found at www.servsol.com/lenders/nchfa_documents.aspx)

2. Lender must submit to the Master Servicer the original executed FHA Mortgage Insurance Certificate (MIC), Loan Guaranty Certificate (LGC) for VA, Loan Note Guarantee (LNG) for USDA loans, or Mortgage Insurance Certificate (MIC) for conventional loans. Failure to submit the insurance or guaranty certificate may result in a claim for the mortgage to be repurchased.

3. If a subordinate mortgage is included in the transaction, the Title Policy must reference both the 1st and 2nd Deed of Trust mortgages in the policy. The title insurance companies should include the second Deed of Trust (the "DPA") under Part II and list the specific coverage. The insurer must endorse the title policy and complete the Part II information correctly. A separate Title Policy for the 2nd is not required.

4. Our Master Servicer, ServiSolutions, does not offer mortgage life or disability insurance or any other type of optional insurance. Lenders are required to not include optional insurance products with loans sold to ServiSolutions.

Section 9

Rate Extensions, Changes to Lock-In and Loan Withdrawal Guidelines

The lender is responsible for ensuring that loan officers and underwriters understand the qualifying guidelines and program requirements, including the income limit requirement. Below are additional miscellaneous requirements of which each participating lender should be aware.

9.1 Late File Submission

The loan must be purchased by the Master Servicer prior to the Lock-In Expiration Date. If the loan is not going to be purchased by the Lock-In Expiration Date, and the loan has not been delivered via the OLS to ServiSolutions, the lender must request an extension via OLS prior to the Lock-In Expiration Date, and an extension fee will apply. If the loan has been delivered to ServiSolutions prior to the lock in expiration, but not yet purchased, ServiSolutions will extend the loan in 7 day increments. for up to 30 days. If the lock expires, a mark-to-market fee will be applied to the loan which is assessed based on market conditions at the time the loan is purchased by the Master Servicer.

An extension fee or mark-to-market fee can only be charged to the borrower where allowed by RESPA and all other federal regulations and/or state laws are in compliance. Proper disclosures and re-disclosures must meet all federal and state requirements.

The extensions are applied in the following manner:

If the complete closing package has been uploaded by the Lender via OLS in the proper stacking order prior to the original Lock-In Expiration Date:

The lock will automatically be extended in 7-day increments with an associated extension fee of 0.09375% applied for each 7-day extension until the loan is purchased by the Master Servicer or has exceeded the maximum 30 day extension period.

If the closing package has not been uploaded by the Lender via OLS prior to the original Lock-In Expiration Date:

The lender must request an extension via OLS prior to the Lock-In Expiration Date.

If the lender **fails** to request an extension via OLS prior to the Lock-In Expiration Date, the lock expires and will be assessed a mark-to-market fee based on market conditions at the time the loan is purchased by the Master Servicer. **The loan is still active.**

If the lender requests an extension via OLS prior to the Lock-In Expiration Date, 7 day extension option is available, as well as a 15-day or 30-day extension. A 30 day extension is assessed an extension fee of 0.375%:

- If the Lender uploads the complete closing package in the proper stacking order prior to the end of the extension period, the lock will automatically be extended in 7-day increments with an associated 7-day extension fee of .09375% applied for each 7-day extension until the loan is purchased by the Master Servicer.

- If the Lender requested a 30-day extension, but the Lender has not yet uploaded the complete closing package in OLS prior to the end of the 30-day extension period, the lock expires and will be assessed a mark-to-market fee based on market conditions at the time the loan is purchased by the Master Servicer.

- If the Lender requested a 15-day extension, but the lender has not yet uploaded the complete closing package in OLS prior to the end of the 15-day extension period, the Lender has one additional opportunity to request a second 15-day extension in OLS. If at the end of the second 15-day extension period, the complete closing package has not been uploaded, the lock expires and will be assessed a mark-to-market fee based on market conditions at the time the loan is purchased by the Master Servicer.

Please note that for the closing package to have been properly uploaded, it must contain all the documents requested and in the stacking order as directed by the Master Servicer on its website: www.servsol.com/lenders/nchfa_documents.aspx. Uploading a partial file does not constitute a proper upload of the closing package and will result in delays in the review process and may require the documents to be uploaded again in the proper order.

All extension fees or mark-to-market fees will automatically be deducted from the lender compensation at the time that the Master Servicer purchases the loan from the lender. The lender will be notified once via e-mail prior to the expiration of any lock.

9.2 Interest Rate Lock-In Policy

The N.C. Home Advantage Mortgage™ program is available on a loan-by-loan, first-come, first-served basis. NCHFA offers a 60-day lock-in period, which may vary from time to time. The mortgage loan must close and be purchased by the Master Servicer by the Lock-In Expiration Date. Once the mortgage loan closes, the lender must upload the Closing Package via OLS for review by the Master Servicer in accordance with Section 8. If the loan is not purchased by the Lock-In Expiration Date, but the lock has been granted an extension, extension fees will apply and will be deducted from the final remittance amount.

If the lock has expired, the loan will be assessed a mark-to-market fee based on market conditions at the time the Master Servicer purchases the loan from the lender. In no instance will the mark-to-market fee be less than what would have been charged if a timely extension had been requested.

NOTE: If a lock is withdrawn/cancelled the lender cannot initiate a new lock for the borrower until 60 days after the withdrawal/cancellation date. Loans that expire without withdrawal/cancellation are not eligible for re-lock, but will be assessed mark to market costs and are still active.

EXCEPTION: A lock-in is for a borrower and specific property. If the property is not purchased and the borrower subsequently contracts for a different property, a new manual lock can be requested immediately at **ratelocks@nchfa.com**.

9.3 Requesting an Extension

Extensions may be requested for expiring locks by submitting a request for extension via OLS. All extensions will incur an extension fee which will be deducted from lender compensation at the time that the loan is purchased by the Master Servicer.

If the complete closing package has been uploaded in the proper stacking order via OLS prior to the original Lock-In Expiration Date, the loan will automatically be granted extensions until the loan is purchased by the Master Servicer. **Please note that the closing package that is uploaded must be complete in accordance with the Master Servicer stacking order as directed in the following link: www.servsol.com/lenders/nchfa_documents.aspx. If the document uploaded does not reflect a complete closing package in accordance with the Master Servicer stacking order, it will be deemed as not having been received.**

The only two instances in which a lock will expire are the following:

- If the complete closing package has not been uploaded into OLS by the original Lock-In Expiration Date, and the lender fails to request an extension via OLS prior to the Lock-In Expiration Date.

- If the lender timely requested a 30-day extension via OLS or two 15-day extensions via OLS, but the complete closing package still has not been uploaded into OLS by the lender by the end of the 30-day extension period. If the lock expires, the loan will be assessed a mark-to-market fee that will be based on market conditions at the time the loan is purchased by the Master Servicer.

9.4 Changes to a Lock-In

A lender may update the lock-in data by e-mailing the requested changes to ratelocks@nchfa.com. Your request will be reviewed to determine if the changes may be made. Please note that the loan amount and the purchase price may not be changed by more than 10% of the original amount.

For example, if the locked-in purchase price was $100,000 and was subsequently increased to $108,000 to include additional construction options, the lender may update the purchase price to $108,000. This is an 8% change and within the allowance. Please note that a change in the first mortgage loan amount may change the DPA to ensure that DPA is no more than 5% of the first mortgage loan amount for an FHA, VA or USDA loan or no more than 3% of the first mortgage loan amount for a conventional loan.

9.5 Withdrawal of Loan Locks

The lender must notify NCHFA of any loan withdrawals by accessing OLS (https://www.nchfa.org/ols/login.aspx) and withdrawing the lock. You will be prompted to enter a reason for withdrawing the loan.

If a lender withdraws a loan lock, the borrower(s) will not be eligible to re-lock under the NC Home Advantage Mortgage™ program for 60 days after the withdrawal/cancellation date.

Only new locks due to withdrawals from customer changes in subject property address are allowed under 60 days. Rates are not transferrable.

9.6 Duplicate Locks or Borrowers

If lender determines upon entering a borrower's information into OLS that a duplicate lock was previously made, the lender must contact NCHFA. Please contact NCHFA when a duplicate social security number is detected by OLS. Email a manual request Form -010 to ratelocks@nchfa.com.

Section 10

Appendices

A. N.C. Home Advantage Mortgage™ Program Summary

B. Documentation Required for N.C. Home Advantage Mortgage™ and MCC-Assisted Loans

C. Frequently Asked Questions (FAQ)

N.C. Home Advantage Mortgage™
Program Summary - $15,000 DPA Only

The Program Summary below provides a condensed version of information provided in this overall Program Guide.

ELIGIBILITY CRITERIA:

1. The Borrower(s) must meet published income guidelines. Income limits for the NC Home Advantage Mortgage™ program with $15,000 DPA vary by county and are dependent on family size. The MCC Program income limits apply and are subject to change. (Please see Section 5 of this Program Guide for a complete explanation.)

2. Income limits are subject to change. The income qualification for the borrower(s) is based on the total, gross household income of all occupants.

3. The Borrower(s) <u>must</u> be first-time homebuyers.

4. The Borrower(s) must have a FICO credit score of 640 or higher. Each Borrower must have at least two credit scores.

5. The Borrower(s) cannot have a DTI ratio that exceeds 41.0%, subject to change.

6. The home must be used as the Borrower's principal residence. (Please see Section 6 of this Program Guide for a complete explanation.)

7. All loans must be underwritten by the lender to meet FHA, VA, USDA, or Fannie Mae HFA Preferred conventional established guidelines. For conventional loans, only Desktop Underwriter (DU) findings will be accepted (LP cannot be used for conventional loans).

8. **ALL LOANS MUST RECEIVE A COMMITMENT FROM NCHFA PRIOR TO THE PARTICIPATING LENDER CLOSING THE LOAN.**

9. For conventional loans, you may use any FNMA and ServiSolutions approved PMI company.

10. NCHFA reserves the right to request any additional documentation needed to make an accurate determination on any given loan.

$15,000 DOWN PAYMENT ASSISTANCE (DPA) OFFERED UNDER N.C. HOME ADVANTAGE MORTGAGE™:

1. The DPA is a 0% interest rate subordinate mortgage, forgiven at a rate of 20% per year in years 1 through 5. If the first mortgage loan is paid in full prior to the end of year 5, the borrower must repay the un-forgiven portion of the DPA.

2. The DPA may be used for down payment assistance, closing costs, and pre-paid items. <u>DPA cannot be used to cover negative equity in the property</u>.

3. The DPA cannot be given as cash-back at closing.

4. Borrower may contribute additional cash resources for down payment and closing costs.
5. A TIL for the subordinate mortgage is required. If the lender is unable to generate a TIL, a substitute TIL is available on our website. The APR must be 0%.

6. Lender will fund the first and the DPA directly at closing.

CLOSING/PURCHASE GUIDELINES:

1. Borrowers are not allowed to receive cash back at closing other than POCs. Lender credits are allowed, however, neither NCHFA nor ServiSolutions pays lender credits.

2. A Borrower may contribute additional cash resources for closing costs and/or prepaid items.

3. All loans must be purchased by the Master Servicer. Upon purchase, the Participating Lender will be paid lender compensation inclusive of SRP, by the Master Servicer upon purchase of the loan based on the 1st loan amount. Any extension fees and mark-to-market fees are reduced from lender compensation at the time of purchase.

4. All 1st loans locked through NCHFA must close in the name of the Participating Lender in which the lock was made. DPA mortgages must close in the name of NCHFA.

OPERATIONS PROCESS:

1. Participating Lenders can only submit lock requests via OLS for this program on business days between the hours of 9:00 am and 6:00 pm E.S.T. Periodically, OLS may be updating rates during this time period and will not be able to accept locks.

2. Interest rates for the program will appear on the NCHFA website. When a Participating Lender locks a loan via OLS, the lock confirmation will reflect the current interest rate in effect for that loan.

3. A PARTICIPATING LENDER MUST BE APPROVED BY NCHFA AND THE MASTER SERVICER.

4. The purchase of the loan by the Master Servicer must occur by the Lock-In Expiration Date. If the complete closing package in the proper stacking order has been received by the Master Servicer by the Lock-In Expiration Date, the lock will

automatically be granted 7-day extensions until the loan is purchased. If the complete closing package has not been received by the Master Servicer by the Lock-In Expiration Date, the lender may request an extension via OLS prior to the expiration date. If the lock is extended, it is subject to extension fees. If the loan is not extended and expires, it is subject to a mark-to-market fee if the loan is purchased by the Master Servicer. Both extension fees and mark-to-market fees are reduced from lender compensation at the time the loan is purchased by the Master Servicer.

5. The Participating Lender must upload any requested conditions to NCHFA via OLS.

NCHFA STRONGLY ENCOURAGES PARTICIPATING LENDERS TO PRINT THIS PROGRAM SUMMARY FOR QUICK REFERENCE

Documentation Required for N.C. Home Advantage Mortgage™ with $15,000 DPA

Documents Submitted for Loan Approval by NCHFA (Note: additonal docs will be needed for Closing Package sent to Servicer)	**N.C. Home Advantage Mortgage™ with $15,000 DPA**
1008 or FHA Transmittal summary / VA analysis	X
Final AUS findings	X
Final Application (1003)	X
All VOE's for current employment	X
Other income documentation	X
Form-013: Seller Affidavit	X
Last Year's W-2 and/or 1099's	X
Last 3 years tax returns/IRS Transcript	X
Form-016: Mortgage Affidavit	X
Form-015: Prelim Notice to Applicants of Potential Recapture	X
Form-101: Borrower Closing Affidavit	X
Form-102: Lender Closing Affidavit	X
Loan Estimate (LE) on 1st	X
Proof of First-time homebuyer education (only if all borrowers are first-time homebuyer)	X
Form 500 – Dodd Frank Certification	X
Form 026 – Notice to Borrower	X
TIL – if using Down Payment Assistance (2nd mortgages)	X

Note: The lender must close the NCHFA DPA subordinate mortgage in NCHFA's name and utilize our Note and Deed of Trust documents available on our website. Forms 505 and 506 are available on our website at www.nchfa.com. ServiSolutions documents to be included at closing are available at http://www.servsol.com.

Frequently Asked Questions

1. Can I reserve a loan online without locking in a rate? Do you offer a float option?
   A. No. The loan and rate will be locked upon completion of the lock process using OLS. There is no float option. In addition, if the lock process is not completed to the point of the submission of the rate lock, the data will not be saved. Therefore, please have all data ready to enter at the time of rate lock.

2. What happens if my borrower is locked into a rate, and the market rates decline?
   A. Rates are locked upon receipt of the lock confirmation. Borrowers cannot withdraw and re-lock at a lower rate. A borrower must wait 60 days after the withdrawal/cancellation of a lock before s(he) may re-lock under the N.C. Home Advantage Mortgage™ program.

3. When should I lock in the interest rate?
   A. Lenders should only lock their loans after a full underwrite has occurred by their internal underwriting staff. At a minimum, loans should be locked only after an appraisal, credit, and AUS Findings are completed.

4. My borrowers decided not to buy the property for which a rate has been locked. Instead, they want to buy a different property. Market rates have changed since the initial lock-in. Does the borrower retain the old interest rate lock and Lock-In Expiration Date, or does the borrower get a new interest rate lock at today's rates, with a new 60-day Lock-In Expiration Date?

   A. Borrowers may be allowed to re-lock if the original property has changed and verification of changed property is provided. Rates in effect the day of new lock apply.

5. The original lock-in data included two borrowers. Now, one of the borrowers will not be on the loan after all. How do I correct OLS?
   A. The lender must contact NCHFA for all changes to locked loans.

6. My borrower is currently locked in for an NC Home Advantage Mortgage™ loan with DPA using an FHA-insured loan. My borrower now wants to change the loan type to USDA. Can I do that and keep the same interest rate and expiration date?
   A. Borrowers may change loan program types between FHA, VA and USDA loans; however, the original Lock-In Expiration Date still applies. A borrower may not switch from a government loan (FHA, VA, USDA) to a conventional loan or vice versa since different rates and lender compensation apply, unless approved by NCHFA.

7. My borrower is using your NC Home Advantage Mortgage™. How do I calculate the DPA loan amount?
   A. The $15,000 DPA is a fixed amount.

8. My borrower is buying a "fee simple townhome." Is he/she eligible for a conventional N.C. Home Advantage Mortgage™?
   A. Existing, previously occupied townhomes are acceptable. Condominiums are eligible for conventional financing and must meet all Fannie Mae guidelines.

9. Our underwriter denied the mortgage loan based on information included in the underwriting file. Once the loan was denied, I withdrew the loan from OLS. We have been able to more fully document the underwriter's concern, and a loan approval has now been issued. Now that the loan has been approved, how do I re-establish the lock-in? Does the borrower still receive the original lock-in rate, or do current market conditions apply?
   A. The loan will be subject to review by NCHFA.

10. The 1st mortgage loan amount has changed from what I locked in. How do I change the information in OLS?
    A. The lender must contact NCHFA to make any changes to an existing loan lock.

11. For a conventional loan, what MI coverages are required under the Fannie Mae HFA Preferred program used by NC Home Advantage Mortgage™?
    A. The table below shows the required coverage for Fannie Mae's HFA Preferred produt used for N.C. Home Advantage Mortgage™ conventional loans:

Loan to Value	Coverage Required
95.01-97%	18%
90.01-95%	16%
85.01-90%	12%
80.01-85%	6%

12. We will not be able to have the loan purchased by the Master Servicer by the Lock-In Expiration Date. What do I do? Are there any penalties?
    A. All loans must be purchased by the Master Servicer by the Lock-In Expiration Date. If the loan is not able to be purchased by the Master Servicer by the Lock-In Expiration Date, the lender may request an extension via OLS prior to the expiration date, and the loan will be subject to extension fees. If the lock is not extended and expires, it will be subject to a mark-to-market fee if the loan is purchased by the Master Servicer. Maximum lock-in is 90 days. Loans past 90 days are priced mark-to-market. See Section 9 of Program Guide for details.
    B. The loan **must** be purchased by ServiSolutions by day 40 after loan closing to avoid a late delivery fee. A late delivery fee of .5% will be assessed by ServiSolutions for all loans purchsed from day 41 through day 70. On day 71 after closing, the loan will no longer be eligible for purchase by ServiSolutions and all documents received by ServiSolutions will be returned to the originating lender. See Chapter 8 for full details.

Section 11

$15,000 DPA Option Summary (Available in Five Eligible Counties)

The $15,000 down payment assistance (DPA) program is available, from time-to-time, for the purchase of previously occupied homes for qualified first-time home buyers in five counties: Cabarrus, Cumberland, Guilford, Johnston and Mecklenburg counties.

The $15,000 DPA is funded through the U.S. Department of the Treasury's Hardest Hit Fund®, which is authorized under the Emergency Economic Stabilization Act, Troubled Asset Relief Program (TARP). Special income and sales price limits apply, and it is available for **existing**, **previously occupied** properties only.

Qualified borrowers who receive the $15,000 DPA CANNOT combine these funds with any other down payment assistance programs offered by the Agency (NCHFA). The $15,000 DPA program **cannot** be combined with the MCC.

11.1 Property Requirements

The property must meet all of the requirements of the N.C. Home Advantage Mortgage as detailed in Section 6 of the Program Guide. In addition, the properties must meet the requirements listed below:

- Only available for **existing construction** (previously occupied) homes. New homes and those that have never been lived in are not eligible.

- The property must be located in one of the following five counties:
    - Cabarrus
    - Cumberland
    - Guilford
    - Johnston
    - Mecklenburg

- Maximum sales price/acquisition cost of the home cannot exceed **$245,000**.

11.2 Borrower Eligibility

Eligible borrowers must qualify for and meet all requirements of an NC Home Advantage Mortgage as defined in Section 5 of the Program Guide. In addition, the borrower must meet all of the additional requirements listed below:

- Must meet the same income limits as for the Mortgage Credit Certificate program ("MCC"), which are determined based on household income and size. The household income limits are detailed in Section 11.
- Must be first-time homebuyers. This applies to all borrowers and non-borrowing co-occupants. For purposes of this DPA program, a first-time homebuyer is someone who has not had an ownership interest in a primary residence in the past three years, unless qualifying under a Veteran's Exception or purchasing a home in a Federally Designated Targeted Area as specified on our website at www.nchfa.com.
- All occupants must sign our HHF-500, Mortgage Affidavit (Form - 016) and Notice to Borrower (Form - 026) which includes an affidavit certifying occupants have not been convicted of a mortgage-related felony in the past ten years.
- Buyers and household members who have be convicted of a mortgage related felony in the last ten years are ineligible for this program.
- Non-occupant co-borrowers are **NOT allowed** under this program.

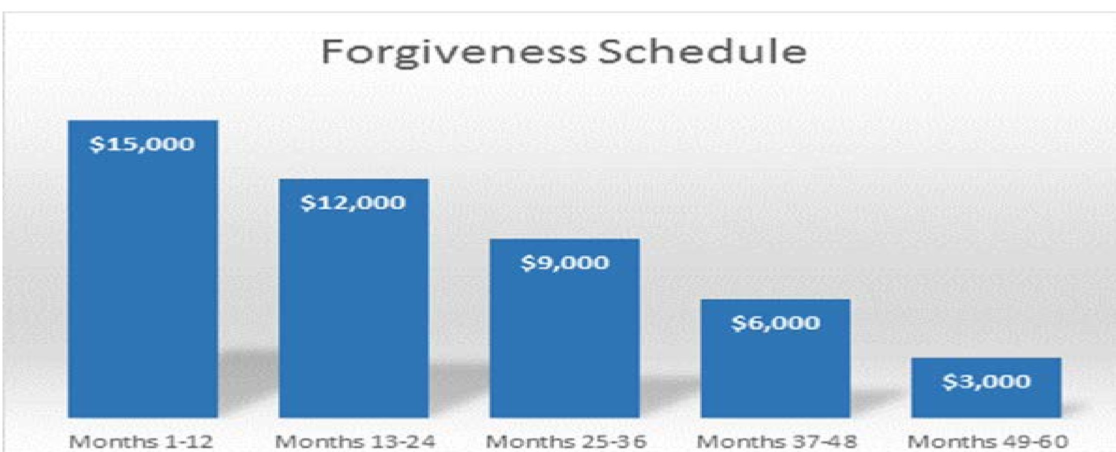
11.3 Loan Terms and Fees

The first mortgage associated with the $15,000 DPA must be a N.C. Home Advantage Mortgage loan, and all loan types are eligible (FHA, VA, USDA and Fannie Mae HFA preferred conventional). The $15,000 DPA may be used toward down payment, mortgage insurance and closing expenses. No cash back at closing other than POCs. The DPA cannot cover negative equity, all of the $15,000 must be used, the maximum loan adjustment at closing cannot exceed $250.00.

The $15,000 DPA has a five-year term with a 0% interest rate. It is a non-recourse, deferred loan, forgiven over five years. The forgiveness clause reduces the loan amount by 20% a year for every year the borrower stays in the home. At the end of the five years, the note will be considered satisfied and NCHFA will release the lien securing the note. Please note that the forgiveness schedule is annual, not monthly.

Non-arm's length transactions must follow industry guidelines.

The home must be maintained as a primary residence for the term of the down payment.



All or a portion of the unforgiven loan funds are due and payable to NCHFA if the home is sold, refinanced, or no longer owner-occupied (unless otherwise prohibited under applicable federal law). Loans are repayable only from proceeds to the borrower from a sale or refinance. If the property is sold or refinanced and has not increased in equity to the degree necessary to repay the loan, all or portion of the loan remaining unpaid after the proceeds are applied will be forgiven.

No subordinations are allowed on the $15,000 DPA during the first five (5) years.

Under no circumstances may the lender or any other entity charge the buyer any lender fees, 3rd party costs, or other expenses on the $15,000 subordinate loan. This includes title, recording, and attorney fees. No closing costs are allowed to be charge on the subordinate loan. The DPA cannot be used to cover negative equity.

The subordinate loan must be 0% interest and 0% APR. No fees can be charged.

All deferred subordinate mortgages will be evidenced by a Promissory Note (Form 506) and secured by a recorded Deed of Trust (Form 505) on the property. **Do <u>not</u> use** Form 405 and 406 for the $15,000 DPA.

A borrower who obtains the $15,000 DPA <u>CANNOT</u> use the Mortgage Credit Certificate (MCC) Program.

Any borrower receiving funds from the $15,000 DPA Program will not be eligible for other down payment assistance programs offered by NCHFA.

If the borrower has previously received Hardest Hit Funds™ (HHF), the maximum amount of all assistance may not exceed $75,000.

11.4 Income Limits

The income limits below apply to the $15,000 DPA program only and **may be subject to change**. The income limits are based on MCC income limits, vary based on number of people living in the home, and reflect gross household income of all occupants. Current income limits must always be verified on the NCHFA website at www.nchfa.com

County	1-2 Persons Household Size	3+ Persons Household Size
Cabarrus	$67,000	$77,000
Cumberland	$65,000	$75,000
Guilford	$59,000	$67,000
Johnston	$76,000	$87,500
Mecklenburg	$67,000	$77,000

(Subject to change; see www.nchfa.com for current limits)

For the $15,000 DPA option, the gross household income of the buyers and all occupants over the age of 18 intending to live in the property must be counted. The lender and buyer, and all non-borrowing co-occupants will be required to submit the following documents as proof of income:

- Three years of tax returns (or tax transcripts)
- Paystubs
- Verification of Employment (VOEs)
- P&L (if self-employed)
- Any other income related documents

In addition, the buyers and seller must sign and submit additional forms under the $15,000 DPA program:

- Form 500 (HHF-Dodd Frank Certification)
- Form 013 (Seller Affidavit)
- Form 015 (Preliminary Notice to Applicants of Potential Recapture)
- Form 016 (Mortgage Affidavit and Borrower Certification)
- Form 026 (Notice to Borrower)
- Form 101 (Borrower Closing Affidavit)
- Form 102 (Lender Closing Affidavit)

The $15,000 DPA program has a limited amount of funding and will be discontinued once funds are allocated.

Appendix A

Recapture Provisions and Disclosures

North Carolina Housing Finance Agency
Home Ownership FirstHome Program and
Mortgage Credit Certificate (MCC) Program

Summary of Recapture Requirements

Condition	Provision
To whom recapture applies	Buyers who receive FirstHome or other NCHFA Mortgage or MCCs starting January 1, 1991.
When recapture is due	The year in which the owner sells or otherwise disposes of the home.
How much is recaptured	The maximum amount is 6.25 percent of the assisted mortgage amount.
Reductions and limitations	The recapture amount increases from $0 to the maximum amount over the first 5 years of ownership, and then decreases to $0 after 10 years. The recapture amount cannot exceed 50 percent of the gain realized on the sale. The recapture amount can be reduced depending on how much the household income exceeds the threshold income for that household size at the time of sale.
How recapture is paid	Recapture is part of the mortgagor's individual income tax liability.
Other provisions	The housing agency must inform the mortgagor of the potential recapture amount within 90 days of settlement. Home improvement loans are exempt from recapture. Other requirements, including limited exceptions to those subject to recapture and refinancing, were also enacted.
You may have to pay recapture if:	• Sell your house prior to ninth anniversary date of closing and; • Have significant increase in income and; • Make a significant net gain in the sale of the home

The Basics of Recapture

- Recapture applies to certain NCHFA Mortgages and MCC-assisted loans closed after December 31, 1990.

- The maximum recapture will occur if the home is disposed of during the fifth year. The lowest recapture will occur within the first year and the ninth year.

- Recapture does not apply if the home is disposed of more than nine years after the loan closing.

- Recapture does not apply if disposition occurs due to the death of the mortgagor(s). A successor may be subject to recapture if the property is disposed of.

- Recapture does not apply to transfers to spouses and former spouses in which no gain or loss is recognized.

- The maximum recapture amount is provided immediately after the loan closing. The actual recapture amount is calculated at the time of disposition. A holding period adjustment and an income adjustment may reduce the amount of recapture.

- The recapture amount will be determined separately according to the respective interests in the residence when two or more persons (generally unmarried) receive an MCC-assisted mortgage or a bond loan.

- The borrower is responsible for paying the recapture amount as additional federal tax liability upon the disposition of the home financed with an MCC-assisted mortgage or certain NCHFA mortgage loans. The borrower is responsible for the recapture calculation and payment of the recapture amount to the federal government.

Recapture Provision

General Information For Lenders, Realtors, Builders

Purpose

Congress enacted legislation in 1988, subsequently amended in October of 1990, to recapture some or all the subsidy from first-time homebuyers who receive qualified mortgage bond assistance after January 1, 1991. This includes all buyers who use NCHFA FirstHome mortgage revenue bonds and mortgage credit certificates (MCCs). The purpose of recapture is to retrieve the subsidy from owners who receive rapid income increases after they purchase their home and, as a result, do not need the subsidy to remain homeowners. Recapture became effective for all loans closed after December 31, 1990.

Recapture Concept

The recapture of subsidy on a FirstHome or certain NCHFA mortgage or MCC is triggered when a disposition of the financed residence takes place within nine years of the purchase date. Transfers to a spouse in which, no gain or loss is recognized and dispositions by reason of death are excluded. The amount of recapture that owners might have to pay depends on how much their incomes have increased, their family size at the time of the sale, the size of their mortgages, the length of time they owned their home and any gain realized on disposition of their residence. The owner is responsible for paying the recapture amount as an additional federal tax liability for the tax year in which the home is disposed of. The owner is responsible for the calculation and payment to the federal government. The originating lender is only responsible for disclosure at time of application and closing.

How It Works

No recapture is required if the borrower's income at the time of disposition is below the threshold income. The threshold income is calculated as in the following example:

Example

Assume the federal income limit at the time of purchase is $35,200 based on a family size of two at the time of disposition. The disposition occurred 2 years and 2 months from the purchase date.

Threshold Income
$35,200 x (1.05)(1.05) = $38,808

Adjustments

Two adjustments may reduce the maximum recapture amount.

1. Holding-Period Adjustment

The holding period adjustment affects the actual recapture amount based on how long the home is owned prior to disposition. The holding period percentage increases from 20% to 100% of the original mortgage amount over the first 5 years and then decreases evenly during years 6 to 9. Assume the mortgage was $60,000 and the unit is sold at the end of 2 years and 2 months.

Maximum Recapture Amount after Application of Holding-Period Percentage (HPP) $60,000 x .0625 x .6 (year 3 HPP) = $2,250

2. Income Adjustment

The income adjustment is to estimate, at the time of sale, whether the owner will still meet the income eligibility limits for an NCHFA mortgage or MCC. The threshold income is subtracted from the borrower’s adjusted gross income at the time of disposition and divided by a constant factor of 5,000 to determine an income adjustment percentage. The income adjustment percentage cannot exceed 1.0. Assume the owner's income in the year of disposition is $41,000.

Income Adjustment Percentage
$41,000 - $38,808 ÷ 5,000 = .4384

Gain-on-Disposition

The gain-on-disposition limitation ensures that the actual recapture amount does not exceed 50% of the gain realized on the disposition. Assume the realized gain is $12,000.

Gain-on-Disposition Limitation
50% x $12,000 = $6,000

Adjusted Recapture

The adjusted recapture amount includes the holding period adjustment and the income adjustment percentage.

Adjusted Recapture
$2,250 x .4384 = $986.40

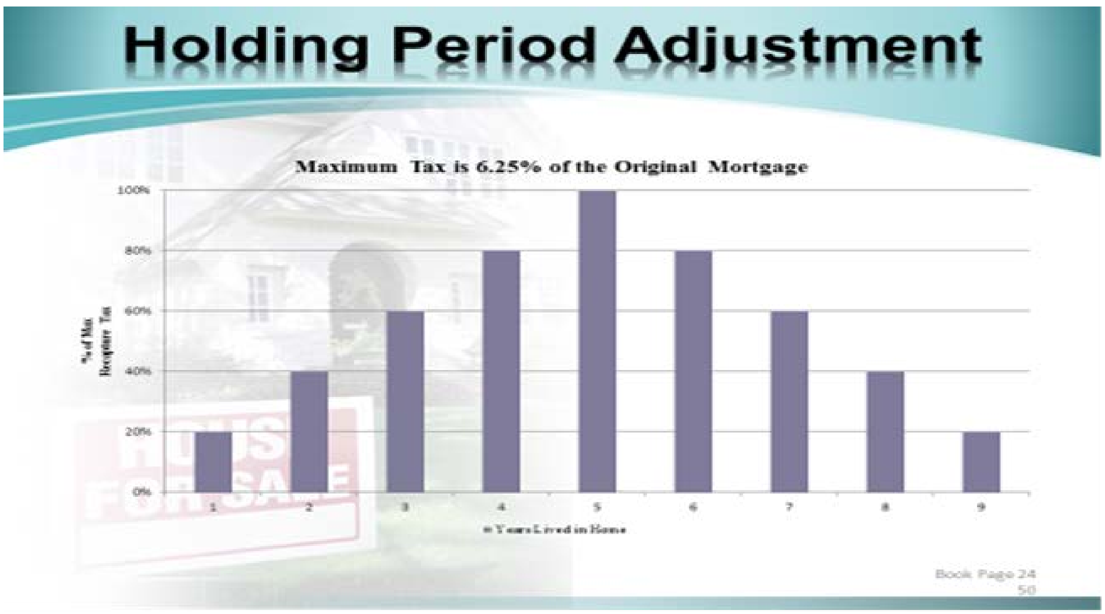
Recapture Calculation

The actual recapture equals the lesser of Adjusted Recapture ($986.40), or one-half the realized gain on the disposition ($6,000). In this example the recapture amount will be $986.40.

Recapture Formula

Several steps are required to calculate the actual recapture amount owed. Adjustments may be made based on the number of years the home is owned prior to disposition and the borrower's income at the time of disposition. The steps involved in the calculation are outlined as follows:

Holding Period Percentage



Threshold Income (Adjusted Qualifying Income)

The highest federal family income (based on family size at the time of disposition) at the date of the loan closing multiplied by 1.05 to the nth power, where n equals the number of **full** years between the loan closing and the date of disposition.

Maximum Recapture Amount

The federally-subsidized amount which is 6.25% *multiplied* by the original principal amount of the mortgage, multiplied by the holding period percentage.

Income Percentage

The modified adjusted gross income of the borrower for the taxable year in which the disposition occurs minus the threshold income divided by 5,000.

Adjusted Recapture Amount

The maximum recapture multiplied by the income percentage.

Recapture

Equals the lesser of the Adjusted Recapture Amount, or one-half the gain realized on the disposition.

Recapture Examples

$108,800 Mortgage Amount

Mortgage Amount	$ 108,800	$ 108,800	$ 108,800	$ 108,800	$ 108,800
Disposition Period	13 months	37 months	13 months	13 months	61 months
Family Size at Disposition	3	3	1	3	3
Owner's Income at Disposition	$ 62,000	$ 62,000	$ 59,000	$ 70,000	$ 62,000
Federal Income Limit	$ 61,870	$ 61,870	$ 53,800	$ 61,870	$ 61,870
Realized Gain on Disposition	$ 10,000	$ 10,000	$ 10,000	$ 10,000	$ 10,000
Threshold Income	$64,963.50	$71,622.26	$56,490.00	$64,963.50	$78,963.54
Maximum Recapture	$ 2,720	$ 5,440	$ 2,720	$ 2,720	$ 5,440
Income Percentage	0	0	.5020	1.0	0
Adjusted Recapture	$ 0	$ 0	$ 1,365.44	$ 2,720	$ 0
Recapture Amount (lesser of adjusted Recapture or ½ gain realized)	$ *0	$ *0	$ 1,365.44	$ 2,720	$ *0

*Owner's income at disposition less than threshold income.

Recapture Examples

EXAMPLE A

J, a single individual, purchases a home with a $110,000 loan. At the time of purchase, the applicable income limit for small families (2 or fewer persons) was $71,600 and for large families (3 or more persons) was $82,340. He marries S, and they have two children. They sell their home 2 years and 2 months later and realize a gain of $15,000 on the sale of the home. In the year of sale, J and S's household income (adjusted gross income plus tax-exempt interest) is $92,000.

Threshold Income:	$82,340 x $(1.05)^2$ = $90,780
Holding Period Percentage (from Table)	60% (.6)
Maximum Recapture:	$110,000 x .0625 x .6 = $4,125
Income Adjustment:	($92,000 - $90,780) / 5000 = .2440 (rounded down) Income Adjustment Calculation (not to exceed 1.0). Recapture equals Income Adjustment x Maximum Recapture.
Adjusted Recapture:	$4,125 x .2440 = $1,006.50

Recapture equals the lesser of Adjusted Recapture ($1,006.50), Maximum Recapture ($4,125), or one-half the gain on the house ($7,500).

NORTH CAROLINA HOUSING FINANCE AGENCY

Notice to Mortgagors of Federal Subsidized Amount and Family Income Limits

EXAMPLE

The maximum recapture tax that you may be required to pay as an addition to your federal income tax is **$7,375** . This amount is 6.25% of the original principal amount of your mortgage loan and is your federally subsidized amount with respect to the loan.

Date You Sell Your Home	Holding Period Percentage	Adjusted Qualifying Income Family Members Living in Your Home at the Time of Sale: 2 or less	3 or more
Before the first anniversary of closing (December 1, 2007)	20%	$ 71,600.00	$ 82,340.00
On or after the first anniversary of closing (December 1, 2007), but before the second anniversary of closing (December 1, 2008)	40%	$ 75,180.00	$ 86,457.00
On or after the second anniversary of closing (December 1, 2008), but before the third anniversary of closing (December 1, 2009)	60%	$ 78,939.00	$ 90,780.00
On or after the third anniversary of closing (December 1, 2009), but before the fourth anniversary of closing (December 1, 2010)	80%	$ 82,886.00	$ 95,319.00
On or after the fourth anniversary of closing (December 1, 2010), but before the fifth anniversary of closing (December 1, 2011)	100%	$ 87,030.00	$100,085.00
On or after the fifth anniversary of closing (December 1, 20011), but before the sixth anniversary of closing (December 1, 2012)	80%	$ 91,382.00	$105,089.00
On or after the sixth anniversary of closing (December 1, 2012), but before the seventh anniversary of closing (December 1, 2013)	60%	$ 95,951.00	$110,343.00
On or after the seventh anniversary of closing (December 1, 2013), but before the eighth anniversary of closing (December 1, 2014)	40%	$100,749.00	$115,860.00
On or after the eighth anniversary of closing (December 1, 2014), but before the ninth anniversary of closing (December 1, 2015)	20%	$105,786.00	$121,653.00

Note: The closing date for the loan is December 1, 2006.

NORTH CAROLINA HOUSING FINANCE AGENCY

EXAMPLE

Notice to Mortgagors of Federally Subsidized Amount and Family Income Limits

The maximum recapture tax that you may be required to pay as an addition to your federal income tax is **$** ______________ . This amount is 6.25% of the original principal amount of your mortgage loan and is your federally subsidized amount with respect to the loan.

		Adjusted Qualifying Income Family Members Living in Your Home at the Time of Sale	
Date You Sell Your Home	**Holding Period Percentage**	**2 or less**	**3 or more**
Before the first anniversary of closing (see note below)	20%	$ __________	$__________
On or after the first anniversary of closing, but before the second anniversary of closing	40%	$ __________	$__________
On or after the second anniversary of closing, but before the third anniversary of closing	60%	$ __________	$__________
On or after the third anniversary of closing, but before the fourth anniversary of closing	80%	$ __________	$__________
On or after the fourth anniversary of closing, but before the fifth anniversary of closing	100%	$ __________	$__________
On or after the fifth anniversary of closing, but before the sixth anniversary of closing	80%	$ __________	$__________
On or after the sixth anniversary of closing, but before the seventh anniversary of closing	60%	$ __________	$__________
On or after the seventh anniversary of closing, but before the eighth anniversary of closing	40%	$ __________	$__________
On or after the eighth anniversary of closing, but before the ninth anniversary of closing	20%	$ __________	$__________

Note: Closing means the closing date for your loan.

Recapture Calculation Worksheet

EXAMPLE B

A. Maximum federal family income for area, year, family size — $ 54,500.00

B. Home was sold or transferred ___3___ years ___4___ months from the date of original loan closing.

C. Amount in A x (1.05) to the nth power where *n* equals the number of full years from B = $ 63,090.56

D. Mortgagor(s) modified adjusted gross income for year in which house is sold (Form 1040) — $ 65,000.00

(tax-exempt income) + ___0___

(gain on sale on home) (report on tax returns as capital gain only.) - ___0___

(modified adjusted gross income) = $ 65,000.00

E. If the amount in C is greater than or equal to the amount in D, no recapture; stop here.

F. Original mortgage loan amount — $108,896.00

G. Applicable holding period percentage (year in which sale or disposition takes place) __80%

Year 1	20%	Year 4	80%	Year 7	60%
Year 2	40%	Year 5	100%	Year 8	40%
Year 3	60%	Year 6	80%	Year 9	20%

H. Amount in F x 6.25% x percentage from G = $ 5,444.80

I. The amount in D subtract the amount in C ÷ 5000 (*$1909.44 ÷ 5000*) = ____.382%
(use the lesser of the calculated % or 1%)

J. The amount in H x I = $ 2,079.91

K. Gain on sale of the home $10,000 x 50% = $ 5,000.00

L. The recapture amount is the lesser of the amount in J or in K = $ 2,079.91

Recapture Calculation Worksheet

A. Maximum federal family income for area, year, family size — $ ______

B. Home was sold or transferred ___________ years _____________months from the date of original loan closing.

C. Amount in A x (1.05) to the nth power where *n* equals the number of full years from B — = $ ______

D. Mortgagor(s) modified adjusted gross income for year in which house is sold (Form 1040) — $ ______

(tax-exempt income) — + ______

(gain on sale on home) (report on tax returns as capital gain only.) — - ______

(modified adjusted gross income) — = $ ______

E. If the amount in C is greater than or equal to the amount in D, no recapture; stop here.

F. Original mortgage loan amount — $ ______

G. Applicable holding period percentage (year in which sale or disposition takes place)____%

Year 1	20%	Year 4	80%	Year 7	60%
Year 2	40%	Year 5	100%	Year 8	40%
Year 3	60%	Year 6	80%	Year 9	20%

H. Amount in F x 6.25% x percentage from G — = $ ______

I. The amount in D subtract the amount in C ÷ 5000 (use the calculated % or 1% whichever is less) — = __________%

J. The amount in H x I — = $ ______

K. Gain on sale of the home $____________________ x 50% = $_____

L. The recapture amount is the lesser of the amount in J or in K = $_____

Recapture Threshold Income

EXHIBIT B

Holding Period	Federal Income Limit Based on Family Size and County (see Table)				Threshold Income
1 years	$ 54,500	x	$(1.05)^{1}$	=	$ 57,225.00
2 years	$ 54,500	x	$(1.05)^{2}$	=	$ 60,086.00
3 years	$ 54,500	x	$(1.05)^{3}$	=	$ 63,090.56
4 years	$ 54,500	x	$(1.05)^{4}$	=	$ 66,245.09
5 years	$ 54,500	x	$(1.05)^{5}$	=	$ 69,557.35
6 years	$ 54,500	x	$(1.05)^{6}$	=	$ 73,035.21
7 years	$ 54,500	x	$(1.05)^{7}$	=	$ 76,686.97
8 years	$ 54,500	x	$(1.05)^{8}$	=	$ 80,521.32
9 years	$ 54,500	x	$(1.05)^{9}$	=	$ 84,547.39

* Number of full years between loan closing and the date of disposition.

Recapture Threshold Income

Holding Period	Federal Income Limit Based on Family Size and County (see Table)				Threshold Income
1 years	$ ____________________	x	$(1.05)^1$	=	$ ____________________
2 years	$ ____________________	x	$(1.05)^2$	=	$ ____________________
3 years	$ ____________________	x	$(1.05)^3$	=	$ ____________________
4 years	$ ____________________	x	$(1.05)^4$	=	$ ____________________
5 years	$ ____________________	x	$(1.05)^5$	=	$ ____________________
6 years	$ ____________________	x	$(1.05)^6$	=	$ ____________________
7 years	$ ____________________	x	$(1.05)^7$	=	$ ____________________
8 years	$ ____________________	x	$(1.05)^8$	=	$ ____________________
9 years	$ ____________________	x	$(1.05)^9$	=	$ ____________________

* Number of full years between loan closing and the date of disposition.

Recapture Provision
Federal Family Income Limits Table

SAMPLE

	Federal Income Limit					Federal Income Limit			
	Small Family 2 or Less		Large Family 3 or More			Small Family 2 or Less		Large Family 3 or More	
Counties	Non-Target	Target	Non-Target	Target	Counties	Non-Target	Target	Non-Target	Target
Alamance	$53,800	$64,560	$61,870	$75,320	Davidson	$53,800	$64,560	$61,870	$75,320
Alexander	$53,800	$64,560	$61,870	$75,320	Davie	$58,200	$69,840	$66,930	$81480
Alleghany	$53,800	$64,560	$61,870	$75,320	Duplin	$53,800	$64,560	$61,870	$75,320
Anson	$53,800	$64,560	$61,870	$75,320	Durham	$61,700	$74,040	$70,955	$86,380
Ashe	$53,800	$64,560	$61,870	$75,320	Edgecombe	$53,800	$64,560	$61,870	$75,320
Avery	$53,800	$64,560	$61,870	$75,320	Forsyth	$58,200	$69,840	$66,930	$81,480
Beaufort	$53,800	$64,560	$61,870	$7,5320	Franklin	$71,600	$85,920	$82,340	$100,240
Bertie	$53,800	$64,560	$61,870	$75,320	Gaston	$64,400	$77,280	$74,060	$90,160
Bladen	$53,800	$64,560	$61,870	$75,320	Gates	$53,800	$64,560	$61,870	$75,320
Brunswick	$53,900	$64,680	$61,985	$75,460	Graham	$53,800	$64,560	$61,870	$75,320
Buncombe	$53,800	$64,560	$61,870	$75,320	Granville	$53,800	$64,560	$61,870	$75,320
Burke	$53,800	$64,560	$61,870	$75,320	Greene	$53,800	$64,560	$61,870	$75,320
Cabarrus	$64,400	$77,280	$74,060	$90,160	Guilford	$56,400	$67,680	$64,860	$78,960
Caldwell	$53,800	$64,560	$61,870	$75,320	Halifax	$53,800	$64,560	$61,870	$75,320
Camden	$53,800	$64,560	$61,870	$75,320	Harnett	$53,800	$64,560	$61,870	$75,320
Carteret	$53,800	$64,560	$61,870	$75,320	Haywood	$53,800	$64,560	$61,870	$75,320
Caswell	$53,800	$64,560	$61,870	$75,320	Henderson	$53,800	$64,560	$61,870	$75,320
Catawba	$53,800	$64,560	$61,870	$75,320	Hertford	$53,800	$64,560	$61,870	$75,320
Chatham	$61,700	$74,040	$70,955	$86,380	Hoke	$53,800	$64,560	$61,870	$75,320
Cherokee	$53,800	$64,560	$61,870	$75,320	Hyde	$53,800	$64,560	$61,870	$75,320
Chowan	$53,800	$64,560	$61,870	$75,320	Iredell	$56,900	$68,280	$65,435	$79,660
Clay	$53,800	$64,560	$61,870	$75,320	Jackson	$53,800	$64,560	$61,870	$75,320
Cleveland	$53,800	$64,560	$61,870	$75,320	Johnston	$71,600	$85,920	$82,340	$100,240
Columbus	$53,800	$64,560	$61,870	$75,320	Jones	$53,800	$64,560	$61,870	$75,320
Craven	$53,800	$64,560	$61,870	$75,320	Lee	$53,800	$64,560	$61,870	$75,320
Cumberland	$53,800	$64,560	$61,870	$75,320	Lenoir	$53,800	$64,560	$61,870	$75,320
Currituck	$60,300	$72,360	$69,345	$84,420	Lincoln	$55,100	$66,120	$63,365	$77,140
Dare	$57,900	$69,480	$66,585	$81,060	Macon	$53,800	$64,560	$61,870	$75,320

Note: Refer to “Notice to Mortgagors of Federally Subsidized Amount and Family Income Limits” for actual figures, which will be sent to you within 90 days of closing.

Recapture Provision
Federal Family Income Limits Table

	Federal Income Limit					Federal Income Limit			
	Small Family 2 or Less		Large Family 3 or More			Small Family 2 or Less		Large Family 3 or More	
Counties	Non-Target	Target	Non-Target	Target	Counties	Non-Target	Target	Non-Target	Target
Madison	$53,800	$64,560	$61,870	$75,320	Stokes	$58,200	$69,840	$66,930	$81,480
Martin	$53,800	$64,560	$61,870	$75,320	Surry	$53,800	$64,560	$61,870	$75,320
McDowell	$53,800	$64,560	$61,870	$75,320	Swain	$53,800	$64,560	$61,870	$75,320
Mecklenburg	$64,400	$77,280	$74,060	$90,160	Transylvania	$53,800	$64,560	$61,870	$75,320
Mitchell	$53,800	$64,560	$61,870	$75,320	Tyrrell	$53,800	$64,560	$61,870	$75,320
Montgomery	$53,800	$64,560	$61,870	$75,320	Union	$64,400	$77,280	$74,060	$90,160
Moore	$56,300	$67,560	$64,745	$78,820	Vance	$53,800	$64,560	$61,870	$75,320
Nash	$53,800	$64,560	$61,870	$75,320	Wake	$71,600	$85,920	$82,340	$100,240
New Hanover	$53,900	$64,680	$61,985	$75,460	Warren	$53,800	$64,560	$61,870	$75,320
Northampton	$53,800	$64,560	$61,870	$75,320	Washington	$53,800	$64,560	$61,870	$75,320
Onslow	$53,800	$64,560	$61,870	$75,320	Watauga	$53,800	$64,560	$61,870	$75,320
Orange	$61,700	$74,040	$70,955	$86,380	Wayne	$53,800	$64,560	$61,870	$75,320
Pamlico	$53,800	$64,560	$61,870	$75,320	Wilkes	$53,800	$64,560	$61,870	$75,320
Pasquotank	$53,800	$64,560	$61,870	$75,320	Wilson	$53,800	$64,560	$61,870	$75,320
Pender	$53,800	$64,560	$61,870	$75,320	Yadkin	$58,200	$69,840	$66,930	$81,480
Perquimans	$53,800	$64,560	$61,870	$75,320	Yancey	$53,800	$64,560	$61,870	$75,320
Person	$53,800	$64,560	$61,870	$75,320					
Pitt	$53,800	$64,560	$61,870	$75,320					
Polk	$53,800	$64,560	$61,870	$75,320					
Randolph	$56,400	$67,680	$64,860	$78,960					
Richmond	$53,800	$64,560	$61,870	$75,320					
Robeson	$53,800	$64,560	$61,870	$75,320					
Rockingham	$53,800	$64,560	$61,870	$75,320					
Rowan	$53,800	$64,560	$61,870	$75,320					
Rutherford	$53,800	$64,560	$61,870	$75,320					
Sampson	$53,800	$64,560	$61,870	$75,320					
Scotland	$53,800	$64,560	$61,870	$75,320					
Stanly	$53,800	$64,560	$61,870	$75,320					

Notice to Mortgagors of Potential Recapture of Federal Subsidy

The below-market rate on your FirstHome Mortgage or Mortgage Credit Certificate has been made possible through the use of tax-exempt bond authority by the North Carolina Housing Finance Agency (NCHFA).

If you dispose of all or part of the interest in your home at a gain within nine years of the date of loan closing, your federal income tax for the year in which the disposition occurs may be increased by a portion of the federal subsidy received by you ('Recapture").

The recapture is accomplished by an increase in your federal income tax for the year in which you sell your home. The recapture only applies, however, if you sell your home at a gain and IF your income increases above specified levels.

Within 90 days of the loan closing NCHFA will provide you with a "Notice to Mortgagors of Federally-Subsidized Amount and Family Income Limits." This form contains information that you will need to calculate the maximum amount that you may be required to pay as an addition to your federal income tax liability if you dispose of all or part of the interest in your home. You may wish to consult a tax advisor or the local office of the Internal Revenue Service at the time you sell your home to determine the amount, if any, of the recapture tax. None of these calculations need be made unless you dispose of an interest in your home within nine years from the date of closing.

The actual amount of Recapture can only be calculated at the time of disposition. Several steps are required to calculate the actual Recapture amount. Adjustments may be made based on the number of years the home is owned by you and your income at the time of disposition. The following outlines the steps involved in the calculation:

Threshold Income (Adjusted Qualifying Income)

The highest federal family income, (based on family size at the time of disposition) at the date of the loan closing multiplied by 1.05 to the n^{th} power where "n" is the number of full years between the loan closing and the date of disposition.

Holding Period Percentage

The percentage is based on the year in which the disposition occurs after the loan closing date according to the following table:

Year 1	20%		Year 4	80%		Year 7	60%
Year 2	40%		Year 5	100%		Year 8	40%
Year 3	60%		Year 6	80%		Year 9	20%

Maximum Recapture Amount

The federally-subsidized amount which is 6.25%, multiplied by the highest principal amount of the mortgage, multiplied by the holding period percentage.

Income Percentage

The modified adjusted gross income of the borrower for the taxable year in which the disposition occurs minus the threshold income divided by a constant factor of 5,000.

Adjusted Recapture Amount

The maximum recapture multiplied by the income percentage.

Recapture

Equals the lesser of the Adjusted Recapture Amount, or one-half the gain realized on the disposition. If the disposition occurs other than through a sale, exchange or involuntary conversion, gain for purposes of Recapture will be determined as if the interest had been sold for its fair market value on the date of disposition. Further, in the event your home is destroyed by fire, storm, flood or other casualty, no Recapture will be required if you purchase additional property for use as your principal residence on the site of the home financed with this mortgage within the period of time specified in Section 1033 (a)(2)(B) of the Internal Revenue Code.

This notice is furnished by the North Carolina Housing Finance Agency according to the requirements of Section 143 (m)(7) of the Code. It should be kept by you with your mortgage loan files. You should consult your own tax advisor regarding the calculation of the Recapture amount if you dispose of any interest in your home within nine years of the date of this notice.

olina Housing Finance Agency (NCHFA)
Homebuyer Programs

Notice to Mortgagors of Maximum Recapture Tax and Method to Compute Recapture Tax on Sale of Home

Introduction

General

If you sell your home within nine years after closing your mortgage, you may have to pay a recapture tax as calculated below. The recapture tax may also apply if you dispose of your home in some other way, for example, if you give your home to a relative. Any reference in this notice to the "sale" of your home also includes other ways of disposing of your home.

Exceptions

In the following situations, no recapture tax is due.

- You dispose of your home more than nine years after you close your mortgage.
- Your home is disposed of as a result of your death.
- You transfer your home to your spouse or to your former spouse incident to divorce and you have no gain or loss included in your income under section 1041 of the Internal Revenue Code.
- You dispose of your home at a loss.

Maximum Recapture Tax

The maximum recapture tax that you may be required to pay is calculated for you in the enclosed notice. This amount is 6.25% of the original principal amount of your mortgage loan. This is your federally subsidized amount with respect to the loan. If recapture tax is due, you would pay it as an addition to your federal income tax for the year you dispose of your home.

Actual Recapture Tax

The actual recapture tax, if any, can only be determined when you sell your home. It is the lesser of (1) 50% of any gain you realize, regardless of whether you have to include that gain in your income for federal income tax purposes, or (2) your recapture amount determined by multiplying the following three numbers:

- The maximum recapture tax, as described above and as shown in the enclosure, *times*
- The holding period percentage, as listed in the enclosure, *times*
- The income percentage

Calculate the income percentage as follows:

Subtract the applicable "Adjusted Qualifying Income" in the taxable year in which you sell your home, with the following two adjustments: (a) your adjusted gross income must be increased by the amount of any interest that you receive or accrue in the taxable year from tax-exempt bonds that is excluded from your gross income (under section 103 of the Internal Revenue Code); and (b) your adjusted gross income must be decreased by the amount of any gain included in your gross income by reason of the sale of your home.

If the result is zero or less, you owe no recapture tax. If it is $5,000 or more, your income percentage is 100%. If it is greater than zero but less than $5,000, it must be divided by 5,000. This fraction, expressed as a percentage, represents your income percentage. For example, if the fraction is $1,000÷5,000, your income percentage is 20%.

Limitations and Special Rules on Recapture Tax

- If you give away your home (other than to your spouse or ex-spouse incident to divorce), you must determine your actual recapture tax as if you had sold your home for its fair market value.

- If your home is destroyed by fire, storm, flood, or other casualty, there generally is no recapture tax if, within two years, you purchase additional property for use as your principal residence on the site of the home financed with your original subsidized mortgage loan.

- In general, except as provided in future regulations, if two or more persons own a home and are jointly liable for the subsidized Mortgage loan, the actual recapture tax is determined separately for them based on their interests in the home.

- If you repay your loan in full during the nine year period and sell your home during this period, your holding period percentage may be reduced under the special rule in Section 143(m)(4)(C)(ii) of the Internal Revenue Code.

- Other special rules may apply in particular circumstances. You may wish to consult with a tax advisor the local office of the Internal Revenue Service when you sell or otherwise dispose of your home to determine the amount, if any, of your actual recapture tax. See Section 143(m) of the Internal Revenue Code generally.

Index