

# *LENDER PROGRAM MANUAL*



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# **PREFACE**

This Program Manual is intended for use by all CalHFA Approved [Lenders](#) who have entered into a Mortgage Purchase and Servicing Agreement with the California Housing Finance Agency (The "Agency" or "CalHFA"). Lenders are to use this Manual as a guide for originating loans for purchase by CalHFA under the Agency's Homeownership Program.

As of the date of this printing, the Program Manual contains all the current program loan eligibility requirements and is considered a part of the Purchase and Servicing Agreement between CalHFA and participating Lenders. The Manual will be periodically updated and amended by [Program Bulletins](#).

Questions relating the Program Manual or CalHFA policies and procedures should be directed to: Homeownership Programs, California Housing Finance Agency, 1121 "L" Street, 7<sup>th</sup> Floor, Sacramento, CA 95814, (916) 324-8088, E-mail: [homeownership@calhfa.ca.gov](mailto:homeownership@calhfa.ca.gov)

# LENDER CONTRACTURAL REQUIREMENTS

## Chapter 1

This chapter details the Lender's responsibilities to CalHFA under the contractual requirements.

### A. Contractual Requirements

#### 1. Mortgage Purchase and Servicing Agreement

Each Lender is required to execute a CalHFA Mortgage Purchase and Servicing Agreement (MP&SA) which incorporates the policy and procedures stated in this Program Manual as well as the CalHFA Servicer's Guide and [Program Bulletins](#) issued by the Agency. The Lender must also submit a Letter of Opinion from its Corporate Counsel affirming the legal status of the Lender.

#### 2. Federal Tax Law

CalHFA raises most of its mortgage capital through the sale of tax-exempt mortgage revenue bonds. In order to maintain the tax-exempt status of these bonds, all loans must remain in compliance with the federal tax laws that govern the program. These laws are sometimes referred to as the "Tax Act". The following policies are applicable to all MP&SAs and mortgage loans originated by Lenders for purchase by the Agency:

- a. If CalHFA discovers tax law defects before purchase, the loan will not be purchased by CalHFA, whether or not it has been funded by the Lender.
- b. If CalHFA discovers tax law defects after purchase, the defects of the loan must be cured by the Lender within 60 days of discovery by CalHFA. In the case of Borrower fraud or misrepresentation, the Lender has 150 days from the date of discovery to cure the defects. If the tax law defects cannot be cured within this time frame, the loan must then be REPURCHASED by the Lender.
- c. The Lender bears total responsibility for originating loans that meet CalHFA requirements as well as the technical requirements imposed by the private mortgage insurer Mortgage Insurance Services, formerly known as California Home Loan Insurance

Fund (CaHLIF), VA, FHA, USDA/GRH and other future mortgage insurers and mortgage guarantors. The Agency will conduct periodic audits to ensure that the loans remain eligible.

### 3. Business Obligations

#### a. Loan Commitments/Reservations

CalHFA issues single loan reservations and new construction forward commitments to Lenders under specified terms and interest rates. Lenders contract to deliver loans for purchase by CalHFA in the amounts and by the terms of the CalHFA Conditional Approval following reservation or commitment. Further details are provided in Chapters 2, 5 and 6.

#### b. Master Security Agreements

The Agency will accept Promissory notes for purchase that have a third-party or warehouse bank's security notice (bailee letter) attached, provided that prior to their submission, the Lender and third-party bank have executed and filed a CalHFA "[Master Security Agreement](#)" with the Agency. Loans submitted for purchase with a bailee letter attached from a third-party bank for which a Master Security Agreement has not been executed and filed with the Agency will not be accepted. CalHFA will not execute nor return individual bailee letters or original promissory notes to the third-party interest holder.

#### c. Banking Instructions

The Lender must provide the Agency with [Lender Banking Instructions](#) for the remittance of mortgage purchase funds to the Lender's bank of choice. These instructions may be amended by filing a new Lender Banking Instruction form with CalHFA.

#### d. Note Endorsements

All Original First Promissory Notes delivered to CalHFA for purchase must be properly endorsed to CALIFORNIA HOUSING FINANCE AGENCY in a neat and legible manner. California Housing Finance Agency's name should be typed or stamped directly below "Pay to the Order of" followed by the Lender's name. The note endorser's name and title should be clearly typed or stamped directly below the signature of the endorser. Any

promissory note that is not properly endorsed in this manner will be rejected and returned to the Lender.

4. Fair Housing, Equal Credit Opportunity, Truth-in-Lending

Each Lender shall comply with all local, state, and federal laws that relate to fair housing, equal credit opportunity, truth-in-lending and wrongful discrimination in residential lending. Additionally, on all CalHFA subordinate loans, Lenders shall be responsible for the drawing and the timely delivery of any and all initial disclosure notices required to be provided to the Borrower. All local, state and federal regulations regarding loan procedures shall be followed, e.g. application questions, evaluation for credit worthiness or non-prohibited basis, and timely notification of action. The decision to approve a loan cannot be based on sex, age, religion, or national origin. Prohibited information cannot be requested, except where required by CalHFA, and prohibited criteria cannot be applied in interviews with Borrowers. See CalHFA Equal Opportunity Policy, Chapter 8 of this Manual.

5. Fidelity Bond, Forgery and Theft: Errors and Omissions Coverage

a. Indemnification and Defense

The Lender shall indemnify and defend CalHFA and hold CalHFA harmless against all losses, damages, judgments, and legal fees that may be sustained as a result of the Lender's failure to perform the services and duties related to the origination of the loan(s) as provided in the MP&SA, the Servicer's Guide and this Program Manual. In the event of any claim, suit, or proceeding by a mortgagor or any other private or governmental entity, resulting from acts or omissions of the Lender in connection with the origination of a loan, the foregoing obligation to indemnify, defend and hold CalHFA harmless shall apply regardless of whether such claim, suit, or proceeding is meritorious.

b. Type of Coverage Required

Each Lender shall maintain at its expense at all times (i) a Fidelity Bond (or Direct Surety Bond); (ii) a Forgery and Theft insurance policy issued by a company having a current rating in Best's Insurance Reports of B+ or better and on a policy form acceptable to CalHFA; and (iii) a bond and insurance policy, which shall insure the Lender, or CalHFA as applicable, against loss arising from dishonest, criminal, fraudulent or negligent

acts and errors and omissions of persons authorized to act on behalf of the Servicer for CalHFA.

c. Amount of Coverage and Other Requirements

Refer to the CalHFA MP&SA and the CalHFA Servicer's Guide for coverage requirements, policy provisions and reporting requirements.

6. Loan Servicing

Lenders are required to service CalHFA loans, unless CalHFA has approved the servicing to be released to CalHFA or another CalHFA approved Servicer. Requirements and responsibilities for loan servicing are set forth in the CalHFA Servicer's Guide.

7. Financial Reporting Requirements

The Lender and its parent company, if applicable, shall submit to CalHFA financial statements on a quarterly and annual basis. Details on the reporting requirements are provided in Section 1 of the CalHFA Servicer's Guide.

## **B. Lender Qualifications and Continuing Eligibility**

1. At all times, the Lender shall be an approved FHA single-family Lender/servicer.
2. Lenders are subject to an Annual Lender Recertification process wherein the Lender's performance will be evaluated. Poor performance may be grounds for termination from participation in the CalHFA Homeownership Program.
3. Additional continuing eligibility requirements for loan servicers are contained in Section 1 of the CalHFA Servicer's Guide.

## **C. Correspondent Lender Relationships**

1. CalHFA-Approved Lenders

CalHFA-approved Lenders may be permitted to develop correspondent Lender or broker relationships with other Lenders in order to originate CalHFA loans. CalHFA reserves the right to terminate or restrict such participation with correspondents and brokers at any time.

## 2. Indemnification

When using correspondents or brokers, CalHFA-approved Lenders have the same obligation and responsibility to provide loans that comply with the Tax Act and CalHFA Program requirements. CalHFA-approved Lenders with correspondent or broker relationships will hold the Agency harmless and will indemnify and defend the Agency against any and all claims, losses, damages or liabilities to which the Agency may become subject as a result acts or omissions of a correspondent or broker.

# **ELIGIBLE LOANS AND GENERAL REQUIREMENTS**

## **Chapter 2**

This chapter describes the products and lending policies of the Agency.

### **A. Eligible Loans**

CalHFA loan products are intended to facilitate the purchase of a home by low- to moderate-income, first-time homebuyers. For CalHFA purposes, a first-time homebuyer is defined as a Borrower who has not had an ownership interest in any principal residence during the previous three-year period. Prior ownership during this period is allowed only when purchasing in federally designated targeted areas.

The following is a list of loan products the Agency offers to qualified mortgage Lenders. Availability of these products may change from time to time and will be announced by Program Bulletin.

1. Types of Loans
  - a. Fixed Rate - CalHFA offers 30-year fixed rate FHA, VA, USDA (GRH) or Conventional, CalHFA Mortgage Insurance Services ("Mortgage Insurance Services," formerly known as "CaHLIF") - insured mortgages in all areas of the State.
  - b. Subordinate Mortgages - from time to time, the Agency may offer subordinate mortgage programs to provide downpayment and/or closing cost assistance. The terms and conditions of the subordinate mortgage programs are provided in the applicable Program Bulletins when the programs are announced and funds are made available.
  - c. Adjustable Rate Mortgages (ARMs) - From time to time CalHFA may offer ARMs and will provide the terms and conditions in applicable Program Bulletins when funds are made available.

## 2. Special Programs

CalHFA operates several special programs designed to benefit specific groups of Borrowers. General information on these programs can be found in Chapter 7 of this Program Manual.

## **B. General Loan Requirements and Policies**

To comply with the federal tax law governing mortgage revenue bonds, and statutory and fiscal responsibilities of the Agency, specific policy and eligibility requirements for the purchase of mortgage loans have been established.

### 1. Mortgage Insurance

All CalHFA first mortgage loans, except conventional loans with a loan-to-value ratio of 80% or less, that are purchased under the Homeownership Program must be covered by adequate mortgage insurance for the term of the loan in accordance with the CalHFA Servicer's Guide and Program Bulletins. CalHFA will only purchase loans insured or guaranteed by FHA, VA, Mortgage Insurance Services (formerly known as CaHLIF), or USDA/GRH. Other types of insurance may be added from time to time by the Agency.

All CalHFA conventional (non-government insured or guaranteed) loans are subject to the "Homeowner's Protection Act of 1998" which provides for the termination of mortgage insurance and Borrower-initiated cancellations as well as those provisions which define the equity requirements for conventional Borrowers requesting cancellation of their private mortgage insurance (PMI.)

#### a. Federal Housing Administration (FHA)

CalHFA will purchase loans insured by the Federal Housing Administration pursuant to Section 203(b) and 234(c) and other sections as permitted from time to time. CalHFA requires coverage of 100% of the original principal amount.

#### b. Department of Veterans Affairs (Federal only)

CalHFA will purchase VA mortgage loans guaranteed by the Department of Veterans Affairs. The minimum guaranty will be 25% of the loan and any loan with less than a 25% guaranty will not be eligible for the program.

- c. CalHFA's Mortgage Insurance Services, formerly known as California Home Loan Insurance Fund (CaHLIF), a division of CalHFA that administers its mortgage insurance program.

Mortgage Insurance Services (formerly known as CaHLIF) or other private mortgage insurers designated by the Agency from time to time will provide primary mortgage guaranty insurance for conventional loans purchased by the Agency equal to 50% of the original principal amount of the loan. Conventional 1<sup>st</sup> loans with a loan-to-value ratio of 80% or less will not require mortgage insurance; however, these loans will continue to be underwritten by Mortgage Insurance Services (formerly known as CaHLIF) as CalHFA's designated underwriter.

- d. USDA Guaranteed Rural Housing (GRH) Loan program

CalHFA will purchase mortgage loans guaranteed by the United States Department of Agriculture and administered by the Rural Housing Service (RHS) effective July 7, 1999. The Guaranteed Rural Housing Loan Program (GRH) is a 100% loan program for first-time homebuyers in rural areas as established by the Rural Housing Service.

2. Maximum Loan-to-Value Requirements

Maximum loan-to-value requirements will be the same as required by the applicable mortgage insurer/guarantor (FHA, VA, USDA/GRH or Mortgage Insurance Services (formerly known as CaHLIF).)

3. Other Required Insurance Coverage

- a. Hazard Insurance

For the life of the loan, each Borrower will be required to maintain hazard insurance, including fire and extended coverage with a loss payable endorsement to the Lender and/or CalHFA, as their interest may appear, in an amount not less than the replacement value of the structure improvements maintained on an inflationary basis. The selected hazard insurer must be qualified to do business in California and have a current rating in Best's Insurance Guide of B or better. The maximum allowable deductible shall be the greater of \$1,000 or 1% of the face amount of the policy. Condominium or PUD insurance shall be in the form of a "master" or "blanket" policy for the entire project. Hazard insurance premiums are to be

paid through an impound account maintained by the Lender/Servicer on behalf of the Borrower. See Chapter 2 Page 3, Paragraph 6 - Impound Accounts.

b. Flood Insurance

If the property is located in an area identified by HUD as having special flood hazards and in which the sale of flood insurance is available under the National Flood Insurance program, the Borrower will be required to obtain and maintain flood insurance. The amount of flood insurance required is equal to the outstanding balance of the loan or the maximum limit of coverage available for the particular type of property under the National Flood Insurance program, whichever is less. Flood insurance premiums are to be paid through an impound account maintained by the Lender/Servicer on behalf of the Borrower. See Chapter 2 Page 3, Paragraph 6 - Impound Accounts.

c. Title Insurance Policy

The outstanding principal balance of each first mortgage loan must be covered by an ALTA Lender's Policy of Title Insurance naming the Lender and CalHFA as their interests appear. The policy must have endorsements 100 and 116, 116.2 or 115, 110.5 and 104.1, as applicable. TAXES AND ASSESSMENTS MUST BE PAID CURRENT. No title insurance will be required on CalHFA's subordinate loans.

4. MERS - Mortgage Electronic Registration System  
(NOTE: MERS MUST ***NOT*** BE USED ON CalHFA SUBORDINATE FINANCING)

All first mortgage loans submitted to CalHFA for purchase may be registered with Mortgage Electronic Registration Systems, Inc. ("MERS") wherein MERS has been designated beneficiary (as nominee). Approved MERS Deed of Trust documents for FHA and VA loans are available from the following sources: 1) VMP Mortgage Forms 1-800-512-7291, 2) The Compliance source, Inc. at [www.compliancesource.com](http://www.compliancesource.com), 3) Greatland 1-800-530-9393, and 4) "Pierson and Patterson 1-972-720-3263". Approved CalHFA MERS Deed of Trust documents for conventional loans and the CalHFA approved MERS Assignment form are available from CalHFA's web page at [www.calhfa.ca.gov](http://www.calhfa.ca.gov)

Before submitting a MERS loan to CalHFA for purchase, the originating Lender shall electronically register the loan with MERS naming California Housing Finance Agency as investor and including the 18-digit "MIN" number in the appropriate place on the Deed of Trust or Assignment prior to recording. By delivering a title company certified copy of a MERS-registered Deed of Trust or Assignment for purchase to CalHFA, the Lender warrants that MERS is the beneficiary of record (either by being named in the Deed of Trust as nominee for the Lender or by being named as assignee in a recorded Assignment of the Deed of Trust) and also warrants that the loan has been **properly electronically registered under CalHFA's MERS Org ID: 1000645**. The beneficiary rights on the MERS System are to be transferred naming California Housing Finance Agency as the current investor, **WITHIN 7 BUSINESS DAYS OF CalHFA'S PURCHASE**.

The following represents two methods for Lenders to register loans with MERS:

- a. Be or become a MERS member,
- b. Service-release loans to a CalHFA-Approved MERS Servicer. The originating Lender shall complete the "CalHFA Approved Assignment" form to MERS, provide the Assignment to the receiving Servicer who would then assign a MERS "MIN" and record the document. The Servicer would provide the originating Lender with a title company certified copy of the Assignment making the loan eligible for CalHFA's purchase.

#### 5. Delinquent Loan Purchase and Expired Commitments

CalHFA will not purchase delinquent loans. Once the loan has been brought current, it will be eligible for purchase by the Agency provided it is submitted for purchase within the remaining term of the loan commitment.

To be acceptable for purchase, all loans must be closed, funded and delivered in error-free condition, prior to the commitment expiration date.

#### 6. Impound Accounts

Lenders will collect on a monthly basis a prorated amount to be impounded for the payment of all regular and special assessments or supplemental real estate taxes and assessments, mortgage guaranty insurance premiums, hazard insurance premiums, and/or any other

insurance premiums as required when the loan was closed (flood, etc.). This impound amount will be for the term of the loan and is in addition to the monthly payment of principal and interest. Refer to the CalHFA Servicer's Guide for further instructions and requirements for impound accounts.

7. Permissible Fees and Charges

(All permissible fees to the Borrower/Seller by the Lender are subject to change without notice)

a. Origination Fee

Lenders are permitted to charge an origination fee (or combination of origination fees and discount points) not to exceed a total of one percent (1%) of the loan amount or an amount subsequently designated by CalHFA. Unless expressly prohibited by CalHFA, Lenders may pass on or recover from the applicable party as necessary, any discount points (late delivery fees, commitment fees, etc.) previously paid to CalHFA or charged by CalHFA upon purchase of the loan by the Agency.

b. Processing, Underwriting and Other Lender Charges

In addition to the allowed origination fee, Lenders are permitted to charge THE BORROWER OR THE SELLER processing fees, such as application, packaging or processing, document preparation and/or underwriting fees, etc., to a maximum of \$550 (\$350 for processing, underwriting and other miscellaneous fees plus \$200 for document preparation.) Any "pre-qualification" fee charged up front to a Borrower whose loan ultimately closes as a CalHFA loan must be netted out of the allowed processing fee. All fees are subject to the mortgage insurer's restrictions and requirements.

In addition to normal fees allowed for CalHFA first mortgage loans, Lenders are permitted to charge the Borrower or the seller an additional \$250 to process each CalHFA subordinate mortgage. This \$250 processing fee should compensate Lenders for all accrued interest from the date of recordation to the date of purchase by CalHFA, plus cover the normal origination and processing costs for the subordinate loan. See applicable Program Bulletins for specific requirements affecting any of CalHFA's subordinate loan programs.

Lenders are also permitted to recover out-of-pocket expenses for billed expenses from third party sources which may include appraisal fees, inspection fees, credit report fees, tax service fees and other similar expenses, provided it is customary to pass through these fees in the origination of non-CalHFA mortgage loans. The Lender will be asked to substantiate the fees with invoices if they appear excessive, and will be required to rebate to the proper party any fee that is not substantiated or is considered by CalHFA to be non-allowable.

c. Servicing Fees

Lenders who retain the CalHFA loan servicing on loans purchased by the Agency on or after August 1, 1999, may deduct from the monthly principal and interest payment collected the following servicing fees that should be computed on the unpaid principal balance of the loan prior to the monthly payment being applied:

- (1) Conventional loans – one-twelfth of thirty basis points (.30%) per annum;
- (2) Government insured/guaranteed loans – one-twelfth of thirty seven and a half basis points (.375%) per annum.

CalHFA retains the right to change the servicing fee on new loan purchases as announced from time to time by Program Bulletins.

8. Escrow Hold-Backs

For all loans, except FHA EEM loans, any post-closing work to be done on the security property requiring satisfaction of completion prior to the release and disbursement of escrow-held funds must be completed or resolved and the funds released prior to purchase of the loan by CalHFA.

In an effort to encourage energy efficiency, CalHFA will purchase FHA [EEM](#) loans prior to the disbursement of funds held at closing for energy-efficient improvements. However, the Lender must (1) clearly label the loan as an EEM on the approved MCAW, (2) provide CalHFA with a copy of the HERS report prior to CalHFA's Conditional Approval, (3) provide a final HUD1 that clearly labels the funds as being held for energy improvements, and (4) meet all FHA requirements regarding processing, closing and disbursing held funds.

## **C. Underwriting Standards and Guidelines**

### **1. General**

Lenders must use prudent underwriting practices established by the applicable mortgage insurer of each loan. Automated underwriting may be used provided the mortgage insurer has approved the use of this service.

CalHFA will generally accept all Borrower credit and appraisal underwriting decisions made by the Lender, provided they are in accordance with the mortgage insurer's guidelines. These generally include credit, downpayment requirements, loan-to-value requirements, debt-to-income ratios, etc., unless expressly provided for in this Program Manual or subsequent Program Bulletins. CalHFA may, however, request that the Lender document its underwriting decisions, particularly if the loan becomes delinquent. CalHFA also reserves the right to re-underwrite any loan submitted for approval and/or purchase, and may audit the underwriting decisions made by the Lender and/or re-verify any documentation as necessary.

### **2. Co-Mortgagors**

For CalHFA purposes, co-mortgagors are defined as occupying, co-Borrowers. All mortgagors (including co-mortgagors) will be required to meet all of the CalHFA eligibility requirements, including the tax law requirements such as the first-time homebuyer rule, income eligibility and owner-occupancy. All individuals that will be on title must comply with the eligibility requirements under the federal tax laws.

### **3. Co-signers**

For CalHFA purposes, co-signers are defined as non-occupying loan guarantors only. They are not permitted to occupy the property and are not permitted to be on title nor have any vested interest in the property. CalHFA will permit co-signers only as permitted by the mortgage insurer/guarantor of the loan and provided that the co-signer is clearly labeled by the underwriter as a "non-occupying co-signer only" on the Lender's loan approval sheet. The only closing document the co-signer will be permitted to execute is the Promissory Note(s). Co-signers must sign all CalHFA Promissory Notes pertaining to the transaction, including the first note, and any CalHFA subordinate loan notes. Co-signers are not required to comply with CalHFA eligibility requirements including the tax law requirements as to first-time homebuyer rule, income eligibility and owner-occupancy. The Lender may use the co-signer's income for

qualifying purposes; however, the co-signer's income will not be counted when computing income for CalHFA loan eligibility.

4. Gifts

Gift donations for the down payment are permissible; however, all donations are subject to the applicable mortgage insurer's underwriting guidelines and requirements.

5. Eligible Buy-Down Arrangements

Temporary interest rate buy-downs are acceptable, but may not exceed one percent (1%) per year, may not extend longer than three (3) years, and are subject to requirements and approval of the applicable mortgage insurer. Permanent buy-downs are prohibited.

6. Equal Credit Opportunity Act

Under the Equal Credit Opportunity Act (ECOA), Lenders normally are prohibited from requesting disclosure of certain information from an applicant. Under Section 202.5(b) and 202.8(a)(1) and (d) of the ECOA regulations, income information such as child support and alimony, and other information such as marital status, residence status, etc., can be requested in order to allow CalHFA to determine whether an applicant meets the income and other eligibility requirements of federal and state law relating to the loan.

7. Truth-In-Lending Requirements

The Lender is required to make all necessary Truth-In-Lending disclosures on all loans, including CalHFA subordinate loans within the required time period. The Lender must use its own forms for this requirement and maintain copies in the loan servicing file. Prior to Conditional Approval, CalHFA will require a copy of only the initial Truth-In-Lending Disclosure on CalHFA's subordinate loans.

## D. Targeted Area Requirements

CalHFA may make reservations/commitments for the Program to meet the Tax Act requirement and statewide allocation goals to deliver loans on homes in [Targeted Areas](#) in an amount equal to 20% of the Bond proceeds available for purchasing loans.

"Targeted Areas" as defined by the Federal Tax Act are: (a) census tracts in which seventy percent (70%) or more of the families have an income which

is eighty percent (80%) or less of the statewide median family income, and (b) areas of chronic economic distress as provided in Section 143(j) of the Internal Revenue Code of 1986. For purposes of the Program, the census tracts that are listed by county on our web page at [www.calhfa.ca.gov](http://www.calhfa.ca.gov) are the only census tracts that qualify as **Targeted Areas**. When buying a home in a Targeted Area using a CalHFA first mortgage, the Borrower need not be a first-time homebuyer; however, the Borrower must be a first-time homebuyer when receiving any of CalHFA's subordinate loan products. In addition, the sales price and income limits for homes in Targeted Areas may be more lenient.

Lenders are responsible for verifying the **Targeted Area** status of a home by consulting the appropriate Thomas Brother's Census Tract Map or other such maps as may be available through local governments or private sources.

## **E. Appraisal/Appraiser Requirements**

Qualified appraisers must be approved by the applicable mortgage insurer/guarantor and must meet the licensing requirement of the State of California.

For all loans, CalHFA requires that an appraisal for each unit be prepared by a qualified appraiser and be submitted with a location map, photos and a floor plan at the time the loan is submitted for conditional approval.

Lenders must follow the appraisal requirements of the applicable insurer/guarantor. For conventional loans with loan-to-values less than or equal to 80%, Lenders must follow the appraisal requirements of Mortgage Insurance Services, formerly known as CaHLIF, CalHFA's designated loan underwriter.

## **F. "Recapture" Tax - Federal Law**

All loans originated since January 1, 1991, are subject to a special Federal recapture provision that creates a potential individual tax liability for the Borrower. Borrowers may be subject to a recapture tax (by IRS) of up to 6.25% of the loan amount (subject to conditions and adjustments that may reduce or eliminate the tax) or up to 50% of the gain realized on the sale of the property, whichever is less, if the property is resold or title transferred within nine (9) years of the date of recordation.

A [Recapture Disclosure Notice](#) will be sent to the Lender upon conditional approval of the loan by the Agency. This notice will include maximum recapture amounts when a combination of the CALHFA first loan and any

other CalHFA subordinate loan is secured by the property. The Borrower must sign this notice and be given a copy at closing. The notice will detail to the Borrower the facts applicable to the loan(s) and the Borrower's potential recapture liability.

Any recapture tax due the IRS must be reported and paid with the Borrower's federal income tax for the year in which the property was sold. Information brochures on recapture are available on CalHFA's web page at [www.calhfa.ca.gov](http://www.calhfa.ca.gov)

## **G. Subordinate Lien and Resale Restrictions**

CalHFA's policy for subordinate financing and resale controls applies to all local government and State government and private (eg., nonprofit corporation) subordinate loans. CalHFA's [Affordable Housing Partnership Program \(AHPP\)](#) list shows all of the [locality/lender](#) programs that are approved to provide subordinate financing and/or resale restrictions on CalHFA loans. This list may be found on CalHFA's web page at [www.calhfa.ca.gov](http://www.calhfa.ca.gov). All subordinate loans and resale controls are subject to the approval of CalHFA's bond counsel and of the mortgage insurer. Subordinate loans and resale controls from private sources generally will not be accepted.

Before submitting a loan to CalHFA that contains subordinate financing or resale restrictions, the Lender must verify that the program is approved on CalHFA's current [AHPP](#) list. If the program is shown as approved on this list, the Lender must include a sample copy of all of the entity's closing documents to be signed in escrow by the Borrower(s). CalHFA will compare these documents against its approved program documents to determine their acceptability.

CalHFA will not consider any loan reservation or forward commitment that includes subordinate financing or resale controls not listed on CalHFA's [AHPP](#) list and/or not having CalHFA's prior approval. Any program not shown on this list has not yet been approved for use with CalHFA loans. To submit a program for approval by its bond counsel, the locality must forward to CalHFA all applicable subordinate documents including, but not limited to, promissory notes, deeds of trust, loan agreements, declarations of restrictions, etc. CalHFA's bond counsel will review all subordinate lien and resale control documents for compliance with tax law.

## **H. Loan Assumption Policy**

CalHFA loans are assumable by eligible homebuyers. Please refer to the CalHFA Servicer's Guide for eligibility requirements and procedures.

## **I. Borrower Fraud or Misrepresentation**

In the event that any representation by a Borrower was untrue when made or at the time of delivery of a loan to CalHFA, the Lender shall have 150 days from the date of discovery of the misrepresentation in which to cure any tax law defects by the Borrower. If such cure cannot be effected within the 150-day period, at the option of CalHFA, the Lender shall immediately repurchase the loan.

If it is subsequently determined or discovered that the Borrower never occupied the CalHFA financed property, or fraudulently induced the Lender and CalHFA to approve and purchase the loan, CalHFA may take appropriate action against the applicable parties that may include, but is not limited to, non-monetary default action on the loan and/or other legal action under the civil or criminal codes. CalHFA may also require the Lender to repurchase the loan and all subordinate CalHFA loans.

## **J. Prepayment Penalties**

There are no penalties for prepayment of CalHFA loans.

# ***BORROWER ELIGIBILITY REQUIREMENTS***

## ***Chapter 3***

This chapter addresses Borrowers' eligibility to participate in the Homeownership Program.

### **A. General**

CalHFA may be required to disclose all information provided by Borrowers to the IRS pursuant to the IRS reporting requirements under the Tax Act.

### **B. Borrower Credit Qualification**

Borrowers must be able to qualify under the prudent underwriting credit standards of the Lender, CalHFA and/or the mortgage insurer. Borrowers must have sufficient funds to meet the required down payment, closing costs, and necessary reserves and sufficient income to meet the monthly mortgage payments, as determined by the mortgage insurer and the CalHFA Lender. In addition, any lien, judgment and/or collection account must be paid prior to the close of escrow.

### **C. First-Time Home Buyer Requirement**

#### **1. General**

Federal tax law requires that first mortgage loans under the Program be restricted to first-time homebuyers. This rule does not apply to CalHFA first mortgage loans originated in Targeted Area [census tracts](#) (see Chapter 2, Paragraph D for a definition of [Targeted Areas](#)).

#### **2. Determination of First-Time Home Buyer Status**

Tax Law defines a first-time homebuyer as a person who has not had an ownership interest in any principal residence (a home in which they lived) during the three-year period prior to the execution of the mortgage loan.

Evidence of compliance with this tax law requirement includes the [Borrower's Affidavit](#). Executed copies of this affidavit, together with the [Seller's Affidavit](#) must accompany each loan package delivered to CalHFA for conditional loan review. Each party must personally execute all affidavits; no powers of attorney may be used with any of these documents.

In addition to the Borrower's Affidavit, the following evidence is required to determine first-time home buyer status and must be included with each loan submission file:

- a. true, correct and complete signed copies of the Borrower's federal income tax returns as filed with the IRS (or IRS printouts of complete tax returns) for the immediate three years, or
- b. an [affidavit](#) that the Borrower has not been required to file a federal income tax return during one or all of the preceding three years because the Borrower's gross income was less than the minimum required for filing federal income tax returns. In addition, if the Borrower submits this [affidavit](#) of non-filing, the Borrower must also include additional documentation, including, but not limited to verification from the Borrower's landlord, and rental receipts with rental agreements for the year(s) in question, and
- c. signed IRS Form 4506.

#### **D. Maximum Income Limits**

The Borrower's annual family income may not exceed the [maximum income limits](#) as published by CalHFA in the most recent applicable Program Bulletin. The maximum income limits are based on median family income data published by the [Department of Housing and Urban Development \(HUD\)](#) and may be lower than the maximum allowed under federal tax law. Revised income limits are periodically announced to Lenders by CalHFA Program Bulletin.

At the loan approval stage CalHFA will recalculate the Borrower's income pursuant to guidelines outlined in this manual and examine it for eligibility purposes.

##### **1. Family Income Definition**

"Family income" is defined as the annualized gross income of a mortgagor, and any other person who is expected to 1) live in the residence being financed, 2) be vested on title, and 3) be liable on the mortgage. When calculating annual income for eligibility purposes, CalHFA will not include income from other household family members who are not co-borrowers, or the income from non-occupying co-signors. CalHFA calculates family income for program eligibility purposes only, and these calculations are not intended to reflect or

replace the income calculations used by the Lender or the mortgage insurer for loan qualification purposes. CalHFA's income-eligibility calculations are described below.

2. Gross Income **INCLUDES**:

a. Wages/Salaries/Commissions

The gross amount of wages and salaries, before payroll deductions or unreimbursed employee expenses, commissions, fees, tips, bonuses, gambling winnings, prizes, and other compensation for personal services. (IRS Form 2106 unreimbursed business expenses CANNOT be deducted from gross income.)

b. Assets and Business Income

- (1) All interest and/or dividends earned on assets.
- (2) The net income from the operation of a business or profession or from the rental of real or personal property. For this purpose, if this operation results in a loss, the loss may not be used to offset income generated from other sources. Any shareholder that owns ten percent or more of any outstanding class of stock in a corporation, shall also be deemed to have received income in its proportionate share of net earnings not otherwise distributed in salaries or dividends.
- (3) The distributive share of partnership income.
- (4) Periodic payments from a trust fund.

c. Human Assistance/Services

- (1) The full amount of periodic payments received from social security (unless deferred or paid in a lump sum), housing assistance payments, annuities, insurance policies, retirement funds, pensions, disability or death benefits, and other similar types of periodic receipts.
- (2) Payments in lieu of earnings, such as unemployment and disability compensation, worker's compensation, and severance pay.
- (3) The full amount of public assistance payments.

d. Alimony/Child Support/Contributions

- (1) Periodic determinable allowances, such as alimony and separate maintenance payments received, housing allowances received, and regular contributions or gifts received from persons not residing in the dwelling, where such sums are received on a recurrent basis and which may be reasonably expected to continue.
- (2) Child support payments received by an applicant for the benefit of the applicant's child or children.

e. Military

All regular pay, special pay and allowances of a member of the Armed Forces (whether or not living in the dwelling) who is the head of the household or spouse (or other persons whose dependents are residing in the unit) who will have a vested interest in the property and receive such pay up to the time of closing.

3. Gross Income **DOES NOT INCLUDE:**

a. Gifts/Service Payments

- (1) Casual, sporadic, or irregular gifts.
- (2) Resident service payments in an amount received by a resident for performing a service for the housing authority or owner, on a part-time basis that enhances the quality of life in the development, if it does not exceed \$200 per month.

b. Medical

Amounts that are specifically for, or in reimbursement of, the cost of medical expenses.

c. Lump Sums

Lump-sum additions (other than regular payments) to household assets, such as inheritances, insurance settlements (including payments under health and accident insurance and worker's compensation), capital gains, student financial assistance,

settlements for personal or property losses, and property tax rebates.

d. Education

- (1) Amounts of education scholarships paid directly to the student or to the educational institution and amounts paid by the Government to a Veteran, for the "cost of attendance" at an education institution. "Cost of attendance" covers not only tuition, but also includes fees, books and miscellaneous expenses for material. (Non-school related veteran's benefits are included in the income calculations).
- (2) Payments received from the Workforce Investment Act or State or local job training programs.
- (3) Amounts of scholarships funded under Title IV of the Higher Education Act of 1965, including awards under federal work-study programs or under Bureau of Indian Affairs student assistance programs.

e. Foster Care/Adoption/Minors/Students

- (1) Foster child care payments or adoption assistance payments, if not used to credit qualify for the loan.
- (2) Income from employment of minor dependents not on title.
- (3) Earnings in excess of \$480 for each full-time student 18 years old or older (excluding the head of household and spouse).

f. Human Assistance/Services

- (1) The value of coupon allotments for the purchase of food pursuant to the Food Stamp Act of 1977 U.S.C. Sections 2011 and 2027, which is in excess of the amount actually charged the eligible household.
- (2) Payments to volunteers under the Domestic Volunteer Service Act of 1973.

- (3) Payments of allowances made under the Department of Health and Human Services Low-Income home Energy Assistance Program.
- (4) Home care payments for developmentally disabled children or adult family members.
- (5) Deferred periodic payments of supplemental security income and social security benefits that are received in a lump sum.
- (6) Income of a live-in aide, as defined in 24 CFR §5.403.
- (7) Adoption assistance payments in excess of \$480 per adopted child.
- (8) Amounts specifically excluded by any other Federal statute from consideration as income for purposes of determining eligibility or benefits under a category of assistance programs that includes assistance under any program to which the exclusions set forth in 24 CFR 5.609(c) apply. A notice will be published in the Federal Register and distributed to PHAs and housing owners identifying the benefits that qualify for this exclusion.
- (9) The value of any child care provided or arranged (or any amount received as payment for such care or reimbursement for costs incurred for such care) under the Child Care and Development Block Grant Act of 1990.

g. Government Payments/Credits

- (1) Amounts received by the family in the form of refunds or rebates under State or local law for property taxes paid on the dwelling unit.
- (2) Reparation payment paid by a foreign government pursuant to claims filed under the laws of that government by persons who were persecuted during the Nazi era.
- (3) Payments received from programs funded under Title V of the Older Americans Act of 1985.

- (4) Payments received on or after January 1, 1989, from the Agent Orange Settlement Fund or any other fund established pursuant to the settlement in In Re Agency-product liability litigation.
- (5) Earned income tax credit (EITC) refund.
- (6) The special pay to a family member serving in the Armed Forces who is exposed to hostile fire.
- (7) Any amount of crime victim compensation (under the Victims of Crime Act) received through crime victim assistance (or payment or reimbursement of the cost of such assistance) as determined under the Victims of Crime Act because of the commission of a crime against the applicant under the Victims of Crime Act.

h. Native Americans

- (1) Payments received under the Alaska Native Claims Settlement Act.
- (2) Income derived from certain submarginal land of the United States that is held in trust for certain Indian tribes.
- (3) Income derived from the disposition of funds to the Grand River Bank of Ottawa Indians.
- (4) The first \$2000 of per capita shares received from judgment funds awarded by the Indian Claims Commission for the U.S. Claims Court, the interests of individual Indians in trust or restricted lands, including the first \$2000 per year of income received by individual Indians from funds derived from interests held in such trust or restricted lands.
- (5) Payments received under the Maine Indian Claims Settlement Act of 1980.
- (6) Payments by the Indian Claims Commission to the Confederated Tribes and Bands of Yakima Indian Nation or the Apache Tribe of Mescalero Reservation.

i. Allowances/Compensation

- (1) Allowances, earnings and payments to AmeriCorps participants under the National and Community Service Act of 1990.
- (2) Any allowance paid under the provisions of 38 U.S.C. 1805 to a child suffering from spina bifida who is a child of a Vietnam veteran.
- (3) Allowances, earnings and payments to individuals participating in programs under the Workforce Investment Act of 1998.

4. Income Calculations

a. Wage and Salary

Use one of the appropriate formulas for full time employment (40 hours) or employment with consistent regular hours or income to arrive at the Borrower's base pay:

Monthly -

Monthly income x 12 months = annual income

Bi-weekly -

Bi-weekly income x 26 = annual income

Weekly -

Weekly income x 52 = annual income

Hourly -

Hourly income x 40 (hours per wk) x 52 = annual income

b. Variable Income

Calculations such as part-time employment with variable hours (or less than 40 hours per week), inconsistent income or hours, overtime, bonuses and commissions, etc., can be calculated using year-to-date income, plus previous year income (from the same income source), divided by the number of months reviewed (UP TO BUT NOT EXCEEDING 24 MONTHS) times 12 to arrive at the annual income.

c. Self-Employed or Non-Corporation

A self-employed Borrower can also be considered to have variable income. Gross annual income calculations will be based on the

previous year's net income shown on Schedule C of the federal income tax returns plus net income before taxes from the Borrower's signed, year-to-date Profit and Loss Statement, divided by the appropriate number of months (UP TO BUT NOT EXCEEDING 24 MONTHS) times 12 to arrive at the annual income.

d. Corporation

If the applicant owns 10% or more of any outstanding class of stock in the corporation, refer to the federal income tax returns, and to the schedule that lists officer salaries by name and amount. The figure given for that named applicant, plus the applicable proportionate share of net earnings not otherwise distributed, plus dividends constitutes income.

e. Interest Income

Interest earnings are computed on the net principal at the current market rate after reduction for down payment and/or closing cost requirements as applicable.

f. Real Estate Income

Refer to the federal income tax form, and the appropriate Schedule E, for net income after depreciation, expense of upkeep, rental income, etc.

5. Income Limit Determination

Once all of the various sources of income are calculated and added together, compare the annual income against the most recent Program Bulletin's income limits for the county under the applicable family size and area.

a. For non-targeted area loans

If the total annual income falls at or below the low-income limit, the corresponding low-income interest rate applies. If the income is higher than the low-income limit, but less than or equal to the moderate-income limit, the moderate interest rate applies.

b. For targeted area loans

Interest rates are determined in the same manner as for non-targeted area loans, except that the moderate-income limits are discarded and replaced with the targeted area income limits attached to the most recent Income Limits Program Bulletin. Low income limits are not affected by targeted area designation.

6. Employment/Income Verification Documentation

Verifications of Employment and other supporting documentation regarding income such as paycheck stubs should be no more than 60 days old at the time of submission to the Agency for loan approval.

## **E. Owner-Occupancy**

Borrowers seeking CalHFA financing must occupy the financed residence as their principal residence within 60 days of closing, and continuously thereafter, for the term of the loan or until the property is sold. Investor loans are prohibited. Upon discovery that the property financed by CalHFA is rented out by the Borrower without CalHFA's prior written approval, the Agency will require the Lender or Servicer to notify the Borrower immediately to correct the situation. Failure on the part of the Borrowers to re-occupy the property may result in a declaration of a non-monetary default.

## **F. Residency Requirement**

Pursuant to CalHFA regulations - "Restrictions on Agency Public Benefits to Aliens" CalHFA will require all Borrowers to be either a citizen or national of the United States or a qualified alien as defined by the federal Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA). Qualified aliens include:

1. An alien lawfully admitted for permanent residence under the Immigration and Naturalization Act (INA).
2. An alien who is granted asylum under Section 208 of the INA.
3. A refugee admitted to the United States under Section 207 of the INA.
4. An alien paroled into the United States under Section 212(d)(5) of the INA for a period of at least one year.
5. An alien whose deportation is being withheld under Section 243(h) of the INA or Section 241(b)(3).
6. An alien who is granted conditional entry under Section 203(a)(7) of the INA as in effect prior to April 1, 1980.
7. An alien who is a Cuban or Haitian entrant.

8. An alien not in the above categories who has been admitted to the United States for a limited period of time (a non-immigrant). Non-immigrants are persons who have temporary status for a specific purpose.
9. An alien who has been battered or subjected to extreme cruelty in the United States by a spouse or a parent who is a citizen or lawful permanent resident of the United States (or by a member of the spouse or parent's family residing in the same household and the parent or spouse has acquiesced to such battery or cruelty); or
10. An alien whose child has been battered or subjected to extreme cruelty in the United States by a spouse or parent of the alien who is a citizen or lawful permanent resident of the United States (or by a member of the spouse's or parent's family residing in the same household and the parent or spouse has acquiesced to such battery or cruelty) and the alien did not actively participate in such battery or cruelty; or
11. An alien child who resides in the same household as a parent who has been battered or subjected to extreme cruelty in the United States by that parent's spouse (or by a member of the spouse's family residing in the same household as the parent and the spouse or parent consented to or acquiesced to such battery or cruelty) and the alien child did not actively participate in such battery or cruelty.

Borrowers must declare their status on a [Statement of Citizenship, Alienage, and Immigration Status for State Public Benefits](#) form and provide the Lender with photo identification and documentation to support their declared status. For a list of acceptable supporting documentation, refer to the Statement and the accompanying lists A and B attached thereto (list A provides a list of acceptable documents to substantiate the status of U.S. citizens or nationals; list B provides a list of acceptable documents to substantiate the status of battered aliens only).

LENDERS MUST REVIEW AND VERIFY THE SUPPORTING DOCUMENTS, and if acceptable, execute the [Lender Verification of Citizenship/Qualified Alien Status](#). If the supporting source documents appear genuine, the Lender will RETAIN A COPY OF THE SUPPORTING DOCUMENTS FOR THE TERM OF THE LOAN IN THE LOAN SERVICING FILE, and include a copy of ONLY the Lender Verification of Citizenship/Qualified Alien Status in the Loan submission file. **DO NOT SUBMIT THE SUPPORTING DOCUMENTS TO CalHFA UNLESS THEY APPEAR SUSPICIOUS.** In that instance, a copy should be forwarded to CalHFA for verification with the INS.

If an applicant is declared ineligible under the residency requirement, the Lender must issue a written notice advising the applicant of his/her ineligibility and the reason why he/she was determined ineligible and provide

a description of the applicable appeal process. Lenders may use the [Determination Letter of Ineligibility](#) for this purpose.

Any applicant who is determined to be ineligible to receive a CalHFA loan pursuant to a determination that they are not a citizen or national of the United States or a qualified alien, may appeal such a determination. The appeal process CANNOT be used to appeal other CalHFA or Lender eligibility decisions. All appeals must be submitted in writing to CalHFA within 15 calendar days from the applicant's receipt of the written determination and must state the reason why the applicant believes the residency determination was in error. CalHFA will appoint an appeals officer to review the case and may refer the documentation to the INS. The appeals officer will issue a written decision within fifteen (15) calendar days following receipt of the appeal. All decisions by the appeals officer as well as determinations by the INS are final and cannot be overruled.

## **G. Downpayment and Closing Cost Requirements**

Downpayment and closing cost requirements will be the same as those of the applicable mortgage insurer except on allowable Lender fees. Refer to Chapter 2, Paragraph B-7 on allowable Lender fees.

## **H. Non-discrimination and Privacy Requirements**

All applicant eligibility requirements contained in this manual must be applied without regard to the race, creed, color, gender, religion, or national origin of the applicant. Lenders shall be sensitive to the privacy interests of the applicants, and should use the information received only for purposes of verifying the applicant's eligibility for a CalHFA loan.

# PROPERTY ELIGIBILITY REQUIREMENTS

## Chapter 4

This chapter addresses minimum property requirements and standards for eligibility under the Homeownership Program.

### A. Purchase Price (Acquisition Cost) Limits

In accordance with federal tax laws, CalHFA must establish home purchase [\(sales\) price limits](#) within the federal "safe harbor" limits for eligibility purposes. "Purchase price" for purposes of eligibility, refers to the total contract purchase price (acquisition cost) as shown on the settlement statement (HUD 1) of acquiring a residence from the seller as a completed unit, plus any monies paid to the seller outside of escrow, along with expenses paid by the Borrower on behalf of the seller, and any liens or assessments to which the home is subject.

See CalHFA's most recent Program Bulletin for a current list of maximum purchase price limits by county for new construction and existing-resale homes. These limits are updated periodically by Program Bulletin.

Compare the total acquisition cost (price) of the property to the [price limit](#) for the county in which the property is located, under the applicable columns for Targeted or Non-Targeted Area, new construction or resale. If the unit price exceeds the applicable price limit, the property is ineligible for a CalHFA-financed loan.

### B. Eligible Single Family Units

The following minimum standards and/or requirements shall apply for eligibility purposes.

1. The property must be eligible under the [purchase price limits](#) described above.
2. Newly constructed and existing resale real estate units of any design configuration are eligible statewide. Newly constructed homes are defined as homes that have not been previously occupied and include model homes not previously used as a residence. Condominium conversions and rehabilitated units are treated as resale homes because the units were previously occupied.

3. Only homes, including manufactured homes that are taxed as “real estate” and have permanent foundations, are acceptable.
4. Each unit must meet the minimum eligibility requirements of the applicable mortgage insurer.
5. The property must be intended for single-family residential use only. Additional units, including guest houses, “Granny” units, “in-law” quarters, and/or separate units containing kitchen facilities are not eligible for CalHFA financing.
6. Any residential unit where more than 15% of the total area of the residence will be used for a trade or business and which qualifies the Borrower for a tax deduction for business expenses for business use of the residence under Section 280A of the IRS code is not eligible.
7. Lot size cannot exceed five (5) acres maximum.
8. All units must be free and clear of all resale controls/restrictions and/or secondary financing unless previously approved by CalHFA.
9. Defects identified by the appraiser and/or requirements specified by the appraiser on the appraisal report must be corrected.
10. All units must be complete with respect to construction or repairs, ready to occupy, meet health and safety standards of the locality, and meet all of the requirements of the mortgage insurer.

# **LOAN RESERVATION AND COMMITMENT**

## **Chapter 5**

This chapter addresses the policies and procedures to make loan reservations which lock interest rates for both existing resale and new construction and long-term builder forward commitments.

### **A. SINGLE LOAN ([SL](#)) RESERVATION PROCESS**

#### 1. General

Using the CalHFA Lender Access System (LAS), CalHFA approved Lenders may reserve loan funds and lock interest rates on behalf of qualified homebuyers at no fee for 90 days on existing/resale or 180 days on new construction properties. Reservations may be made after a sales contract has been executed between the buyer and seller. Approved CalHFA Lenders may also reserve funds on behalf of their correspondent Lenders or mortgage brokers.

#### 2. Lender Access System (LAS)

CalHFA allows Lenders access to its Homeownership Program's computer information system through the Lender Access System (LAS). The LAS allows Lenders to access the CalHFA Homeownership Program's computer information system to obtain reservations on behalf of an individual homebuyer. LAS allows Lenders to enter loan reservations and cancellations, inquire on a loan status, and make general Homeownership program inquiries through the LAS network or LAS internet. CalHFA ONLY ACCEPTS LOAN RESERVATIONS BY THE LAS PROCEDURE.

An LAS User's Guide that contains detailed information about LAS procedures may be obtained by directing your request to:

Homeownership Programs  
California Housing Finance Agency  
1121 L Street, 7<sup>th</sup> Floor  
Sacramento, CA 95814  
(916) 324-8088 or fax (916) 324-6589  
Email: [homeownership@calhfa.ca.gov](mailto:homeownership@calhfa.ca.gov)

### 3. Interest Rates

CalHFA interest rates and fees may change without notice. Rate changes are announced by CalHFA Program Bulletins and are usually posted on its web page at [www.calhfa.ca.gov](http://www.calhfa.ca.gov) by 8 a.m. each morning. Resale loan rates may differ from new construction loan rates as determined by CalHFA's Business Plan goals. CalHFA endeavors to maintain interest rates usually below the FNMA 60-day yield plus 25 bp for servicing. [CalHFA interest rates](#) may vary according to the Borrower's income, loan program, loan product, or property's designated area (high cost vs. statewide.) For example, the [Affordable Housing Partnership Program](#) (see Chapter 7) currently allows the low-income interest rate on a CalHFA first loan to be reduced by 25 bp if the Borrower obtains down payment and/or closing cost assistance from a unit of local government whose program has been approved by CalHFA bond counsel for use with CalHFA loans.

### 4. Borrower/Property Specific Reservations

All reservations are considered unique and specific for each Borrower and property. Once a reservation has been made, CalHFA will not permit any substitutions for different properties, Borrowers or Lenders. An existing reservation must be canceled and a new reservation must be obtained if a substitution is necessary. All reservations, whether first-time or re-reservations, are subject to the policies, procedures and rates in effect at the time of the **new** reservation.

### 5. Extensions

A one-time, 30-day extension will be granted on any reservation that has received conditional approval within the 90- or 180-day reservation period. CalHFA's computer will automatically extend the reservation 30 days and assess a 1% late delivery fee for the extension; no special request is required from the Lender.

### 6. Loan Approval and Purchase

CalHFA will cancel any reservation that has not received its conditional approval within the 90-day reservation period for resale loans, or within the 180-day reservation period for construction loans. Also, any loan that has received conditional approval but whose purchase documents have not been delivered to and approved for purchase by CalHFA within the 120-day delivery date for resale loans or within the 210-day delivery date for new construction will be cancelled. CalHFA's current policy is not to grant additional

extensions after these delivery dates have elapsed. (See Chapter 6 for loan submission, approval and purchase information.)

## 7. Re-reservations

CalHFA permits Lenders to re-reserve a loan on the same property and for the same Borrower at any time. There is no charge for a re-reservation if CalHFA's [current interest rates](#) are the same or higher than the rates on the initial reservation. If CalHFA's re-reservation rate is lower than the initial reservation's rates, CalHFA will automatically assess a 1% re-reservation fee. An additional 1% fee will be assessed for each new reservation when the new rate is lower than the original and/or prior reservation rate for the same Borrower and property. If a new reservation is made for the same Borrower on a different property, no re-reservation fee will be charged, regardless of whether or not the new rate is lower. The date of the re-reservation determines the rate, terms and conditions of the loan and supercedes all prior reservation's rates, terms and conditions.

When the new reservation (re-reservation) rate for the same Borrower and property is lower than the original reservation rate, and both reservations were made by the same Lender, the Borrower may choose to keep the original, higher rate and CalHFA will waive the 1% re-reservation fee. The Borrowers must sign a re-reservation fee waiver letter, and this letter must be included in the loan file submitted to CalHFA for Conditional Approval. This option will not be granted to Borrowers who use a Lender different from the original reserving Lender to re-reserve their loan.

## B. BLOCK Forward Commitment Process for New Construction

### 1. General

CalHFA offers two processes to secure a commitment for new construction loans: (a) a 180-day, no-fee lock through the LAS (the same SL process as used for resale), or (b) a forward commitment of 6- 9- or 12-months (up to 18 months for nonprofits) through the [BLOCK](#) process for which commitment fees are charged. The SL process requires a specific Borrower and lot/unit at the time of registration. The BLOCK process allows the purchase of a pool of funds upfront. Individual loans are subsequently registered against the commitment amount until all funds are used, or the commitment expires. Both processes are accessible to CalHFA-approved Lenders through the LAS. All of the terms and conditions for the SL process set forth in Section A of this chapter apply to both resale and new

construction loans. Lenders/developers may utilize both types of commitments simultaneously at any development in the state. No separate application or prior approval of the developer or the development is required, beyond that required by the mortgage insurer. All of the requirements for eligible new construction loans, eligible Borrowers, and eligible properties set forth in the Program Manual apply regardless of which commitment allocation process is used.

This section B describes the terms, conditions to access pools of funds for new construction loans in the form of longer-term forward commitments using the [BLOCK](#) process.

## 2. Requesting a Forward Commitment (FC)

On any business day, a developer may contact a CalHFA-approved Lender to request a FC under the BLOCK process. Interest rates are published periodically in Program Bulletins and are posted daily on CalHFA's web page under the Homeownership Program. The interest rate schedule also shows the commitment fees for the various terms for a FC.

By accessing CalHFA's computer through the LAS, the Lender, using the developer's code, under the option "Request a Commitment (New Construction)" may purchase a commitment, providing there is a balance available under the allocation cap. [See Sections 4 & 5 below] Upon entry of the amount and term requested the system generates a Forward Commitment Transaction Record (FCTR) showing the rate, expiration date, and the fees to be collected upfront or at discount. This transaction "receipt" locks the interest rate for 10 days, during which upfront fees (if required) are to be submitted.

CalHFA then processes the request for approval and issues the commitment number and sends confirmation to the Lender. Upon receipt of confirmation, Lenders may begin to register individual Borrower/property specific loans through the LAS. Requests for 6-month [BLOCK](#) forward commitments are normally approved within two days, since no upfront cash is required. Requests for longer-term commitments are normally approved within two weeks, provided the required fees are received within the 10-day lock period. Failure to deliver fees within the deadline will result in cancellation of the request.

For nonprofit developers, CalHFA requires a Development Information Form (DIF) for the development(s) where the funds are intended to be

utilized at the time of commitment approval. The Agency may also require additional information from nonprofit/SHBAP developers on their developments (e.g. site plan, construction status, marketing timing, use of prior commitments, and similar information), the review of which could extend the amount of time necessary for CalHFA to issue commitment confirmation.

### 3. Commitment Terms and Conditions

#### a. Interest Rates

Interest rates for [BLOCK](#) forward commitments are established on the date that the request is generated in the Lender Access System. These rates are guaranteed for 10 days, regardless of whether rates change for the SL process while the request is pending. Failure to deliver the required upfront fees within 10 days will result in cancellation of the request.

#### b. Terms

CalHFA offers for-profit developers forward commitments of 6-, 9- or 12-month terms. Nonprofits may purchase commitments of 12- or 18-month terms. All FC's expire on the last day of the month. Commitment terms are set on the first day of the month. Thus, for example, a 6-month commitment for July that is approved anytime between June 16<sup>th</sup> and July 15<sup>th</sup> would expire on December 31<sup>st</sup>. As with the SL process, the FC expiration date is the last date upon which the closing documents may be received by CalHFA in purchasable condition for the agreed interest rate and commitment fees.

#### c. Commitment Fees

Commitment fees are structured to the length of the commitment term as set forth in periodic Program Bulletins and posted on CalHFA's web page. For-profit developer 6-month forward commitments under the [BLOCK](#) process require **no cash upfront**. Fees are collected as a discount as each loan is purchased. Longer-term commitments are structured as one-half cash upfront and one-half discount for each loan that is purchased. Upfront cash fees must be submitted on the Lender's corporate check made out to the "California Housing Finance Agency" or "CalHFA". **No penalty is imposed for non-delivered loans.**

Nonprofit developers, organized under Section 501 (c)(3) of the I.R.S. code, are offered lower commitment fees and longer terms. Additional fee incentives are offered nonprofits developing mutual self-help housing under the Agency's [Self Help Builder Assistance Program \(SHBAP\)](#). The fee structure for all developers for all terms is set forth in periodic Program Bulletins and on [CalHFA's web page](#).

d. Early Delivery Incentive

For long-term commitments with cash upfront under the [BLOCK program](#), CalHFA will rebate a portion of the cash commitment fee paid based on the length of time the funds are outstanding. Thus a loan originated under a 12-month FC that delivered within the first 6 months would be charged the 6-month fee; if between the 7<sup>th</sup> and 9<sup>th</sup> month, the 9-month term fee would apply. These actual fees collected are reported on the Purchase Manifest transmitted to the Lender by CalHFA's Accounting Department. Early delivery could result in a partial rebate of cash fees paid upfront. It is the responsibility of the Lender to forward any rebated fees to the developer.

e. Late Fees

All loans, whether originated through the SL or BLOCK processes, must be delivered by the required commitment expiration date. CalHFA allows a 30-day grace period after commitment expiration for the Lender to deliver closing documents in purchasable condition. A 1% late fee will be collected as a discount at purchase on all loans delivered within this grace period, with the exception of nonprofits, which will be charged a 0.50% late fee.

f. Minimum and Maximum Commitment Amounts

Commitment requests are accepted in amounts for only one loan up to a pool of funds equal to the maximum allocation cap established for each developer based on their current production levels with CalHFA. (See Developer Allocation Caps below.)

g. Commitment Extensions

- (1) For-Profit Developers – No extensions under any circumstances.

- (2) Nonprofit developers - Upon request, nonprofit developers may extend their commitments for a 0.50% fee per six months, collected at discount. No extensions will be granted beyond two years from the initial commitment confirmation date. For all commitment extensions, the original interest rate will be extended. Requests for extensions must be received two weeks prior to the scheduled commitment expiration.

#### 4. Developer Allocation Caps

New construction allocation caps have been established for individual developers. **They apply only to the [BLOCK Forward Commitment Program](#)**, that is, new construction commitments of six months or longer. The caps operate as a "rolling allocation" which will be replaced as loans are purchased. As loans are approved for purchase, funds will be freed up to make additional loan reservations and/or purchase additional forward commitments, i.e. the "rolling allocation". The system is designed with sufficient flexibility to allow periodic adjustments to these caps. Lenders will have on-line access to the developer's allocation cap balance, loan status and commitment balances, supplemented by reconciliation reports provided by CalHFA.

Current CalHFA developers have been assigned allocation caps within the following categories, based on their total new construction production (SL and FC) during the most recent year:

Very High-Volume Producers	\$15 Million
High-Volume Producers	\$10 Million
Moderate-Volume Producers	\$ 5 Million
All Others	\$ 1 Million

New developers are initially assigned the minimum allocation. Developers who do not use any of their allocation during a year will lose it, but it can be restored upon submission of a loan.

Lenders will bear responsibility for providing the required information on the LAS as to the developer's firm name, address, city, ZIP, phone and fax numbers, and principal contact to assure accurate tracking of loans to the correct developer account. This includes entering the correct developer code from the CalHFA developer data base or entering information to create a new developer code whenever the LAS is utilized for any new construction loan. CalHFA will verify this information by reviewing the preliminary title report, sales agreement, escrow instructions, MCRV, builder's affirmative marketing

certification, the Seller's Affidavit or other such documentation in the loan file.

5. Nonprofit Developer Allocation Caps

Nonprofit developers organized under section 501 (c)(3) of the IRS code are eligible to purchase forward commitments (FC's) under the [BLOCK](#) program, providing they have or will provide evidence of their nonprofit tax status as a condition of commitment confirmation. This category of developers includes those nonprofits doing contractor-built construction and those doing mutual self-help housing under CalHFA's [Self Help Builder Assistance Program \(SHBAP\)](#).

A nonprofit developer's cap is determined by its production with CalHFA over the past two years. CalHFA reserves the right to further restrict FC's for the lowest interest rate SHBAP funds and to require additional information or documentation regarding the developments in which the funds are to be utilized.

6. Commitment Management/Transfer Policies

CalHFA will facilitate transfer transactions of [BLOCK](#) forward commitments among Lenders and developers. Commitments eligible for transfers must match as to interest rates and expiration dates, except that funds from later-expiring commitments may be transferred to earlier-expiring commitments. Developers requesting to change Lenders for all or a portion of the funds from a previously issued commitment will need to notify CalHFA and the original Lender in writing. (A fax or e-mail is acceptable). CalHFA commitments are **not automatically assignable**, and must receive CalHFA approval. No transfer will be approved that will have the net effect of extending a commitment. After approval, CalHFA will send copies of amended FCTR's to the Lender(s) for any transfer, forfeiture or other transactions that are initiated by the Agency.

When registering a new construction loan in the LAS, the system prompts the user if there are outstanding forward commitments, and offers the option to utilize the FC commitment interest rate or the SL process rate in effect on that date. Depending on when the forward commitment was approved it could be a lower rate than the SL rate on that date.

Loans registered using either the SL or FC processes may be transferred from one process to the other. This is implemented by the Lender by canceling and re-reserving in the LAS system. Such

transfers from FC into SL resulting in a lower interest rate are subject to the re-reservation fees established for the SL process. No re-reservation fee is charged when a SL reservation is cancelled and re-reserved into an outstanding forward commitment with a lower rate, which commitment had been purchased previously.

7. Loan Reservation

Under the [BLOCK](#) process, Lenders will enter on the LAS Borrower/property-specific loan reservations against previously established FC numbers anytime during the term of the commitment. The commitment number will already show the developer code, but information will need to be entered in the LAS screen for the marketing name of the development as identified on the sales contract, appraisal, or other documentation. This is the same information on developer and development that is required for entering a new construction loan in the [SL process](#).

8. Conditional Approval and Loan Purchase

See Chapter 6 for procedures on loan submission, CalHFA conditional approval and purchase procedures.

# **LOAN SUBMISSION, APPROVAL AND PURCHASE**

## **Chapter 6**

This chapter addresses the loan submission, approval and purchase process for the Homeownership program.

### **A. General**

The Lender must submit a fully underwritten, Lender-approved loan package to CalHFA for Tax Act and program policy compliance review within 90 days of the initial loan reservation date or within the time period of the Forward Commitment. Upon completion of its review process, CalHFA will issue a decision of conditional approval or denial. Once it is conditionally approved, the loan may be funded, closed, and delivered for purchase. CalHFA's conditional approval and purchase procedures are provided below.

### **B. Conditional Approval Process**

#### **1. General**

After the Lender's designated underwriter has given final approval for the loan, has established that the Borrower and property are within the CalHFA Program eligibility limits, and has obtained the mortgage insurer's approval, the Lender can forward the loan to CalHFA for conditional approval. The loan package must have the underwriter's signed, final approval of loan closing and include all of the documents listed under Section B-2 below. If the loan is intended to be insured by [Mortgage Insurance Services](#) (formerly known as CaHLIF) , two (2) separate, identical loan files must be submitted to CalHFA (one for CalHFA and a separate one for Mortgage Insurance Services [formerly known as CaHLIF]). CalHFA will deliver the second package to Mortgage Insurance Services (formerly known as CaHLIF) .

#### **2. Required Documents for Loan Approval**

The following documents are required to obtain CalHFA conditional approval. The file should be submitted in a legal size folder with the required documents attached in the stacking order described below:

a. Credit Documents (Right Side of File)

- (1) Final, signed MCAW 4155.1 Worksheet for FHA loans; VA Loan Analysis Form 26-6393 for VA loans; Uniform Underwriting and Transmittal Summary (FNMA form 1008) for conventional loans, or Conditional Commitment for Guaranty (FR 1980-18) for USDA loans. All forms must be signed and approved by the Lender's delegated credit underwriter. For loans using allowable automated underwriting, include the Approved/Eligible "Findings Report"
- (2) URLA - (Uniform Residential Loan Application) copy of signed original and final, typed copy for all Borrowers
- (3) URLA - (Uniform Residential Loan Application) copy of signed original for all Co-signors, if applicable
- (4) Credit Reports (Any real estate loans showing must include the property address of the collateral, and the report must contain a 3-year landlord rating)
- (5) Income Verifications including: Verification of Employment, copies of paycheck stubs covering minimum of one (1) month, latest W-2 forms, signed, year-to-date Profit & Loss Statement, social security award letters, etc.
- (6) Signed, complete copies of federal income tax returns (IRS 1040s) for the previous three years. IRS printouts with complete details that reflect either the standard deduction or itemized deductions may be substituted
- (7) [CalHFA Tax Return Affidavit of Non-Filing](#), if applicable. (This form is only to be used if the Borrowers were "NOT REQUIRED" to file federal income tax returns.)
- (8) IRS Form 4506
- (9) Sales/Purchase Agreement with all addendums, and/or final Escrow Instructions
- (10) Complete copy of URAR (Uniform Residential Appraisal Report) with location map, sketch, and clear photos
- (11) Preliminary Title Report with plat map and A.L.T.A. address supplement. Include a full copy of any document appearing on the Title Report that contains resale restrictions or equity sharing
- (12) Certificate of Eligibility (Form 26-8320)-VA loans only
- (13) Copy of any resale control lien, and/or sample copy of all closing documents for any non-CalHFA Subordinate Loan (note, deed of trust, loan agreement, covenants, etc.) CalHFA's bond counsel should have previously approved these documents.

b. CalHFA Documents (Left Side of File)

- (1) [Borrower's Affidavit](#)
- (2) [Seller's Affidavit](#)
- (3) [CalHFA Notice and Borrower Representations Affidavit](#)
- (4) [CalHFA Statement of Citizenship, Alienage, and Immigration Status for State Public Benefits \(CalHFA Benefit Status Form 1\)](#)
- (5) [Lender Verification of Citizenship/Qualified Alien Status](#)
- (6) Copy of each initial Truth-In-Lending Disclosure Statement issued on each CalHFA subordinate loan

c. NO OTHER DOCUMENTATION SHOULD BE SUBMITTED UNLESS REQUIRED TO DETERMINE THE ELIGIBILITY OF BORROWER OR PROPERTY FOR THE PROGRAM.

3. CalHFA Procedures

a. Document Receipt

On the day of receipt, the loan file is coded as a status 10 in the computer and placed with other files received on the same day to await review.

b. File Assignment to CalHFA Reviewer

CalHFA assigns loans files on a first-come, first-served basis. Lenders should check their LAS computer system to determine which CalHFA reviewer has been assigned a particular loan file. A Status 15 on the system will show the name of the assigned reviewer. From this point forward, all inquiries regarding the file should be directed to the assigned reviewer.

c. File Review

CalHFA's loan reviewer will verify the following:

- (1) a valid loan reservation (SL reservation) or Forward Commitment (FC) exists;
- (2) the loan was properly underwritten and approved by a FHA, VA, USDA or Mortgage Insurance Services (formerly known as CaHLIF) underwriter;
- (3) all required forms and documents are included, current and correct;

- (4) the Borrower meets all CalHFA eligibility and program requirements, including first-time homebuyer and residency requirements;
- (5) the Borrower's income, as computed by CalHFA for eligibility purposes, is within CalHFA's published [income limits](#) at the time of loan reservation;
- (6) the property meets CalHFA standards and is within the CalHFA's published [sales price limits](#) at the time of loan reservation;
- (7) the property is in a [Targeted](#) or Non-Targeted Area;
- (8) all senior and/or subordinate liens or resale controls on the property are acceptable.

d. Notice of Conditional Approval, Suspension or Rejection

CalHFA reviewers will notify Lenders of each loan approval, suspension or rejection by electronic fax. If the package is incomplete, the process will be delayed and the file will be suspended until all items are complete and accurate. When the loan is approved, CalHFA will electronically fax to the Lender the Conditional Approval and Recapture Disclosure. The disclosure must be signed at close of escrow by the Borrowers. After signing, a copy of the recapture disclosure should be given to the Borrowers.

e. Cancellation

Using the Lender's Access System (LAS,) the Lender must cancel reservations for any loans that will not be delivered to CalHFA for purchase within the 120-day reservation period. The Lender must notify CalHFA in writing as soon as possible after cancellation so that CalHFA may return the loan file to the Lender. In the case of a loan cancellation and re-reservation on the same loan, CalHFA will retain the loan file, update it with the new manifest number provided by the Lender, and take the necessary steps to issue a conditional approval.

f. Normal and Priority Processing

Depending on volume levels, the Agency normally reviews loans within three to five working days. All loans will be prioritized by the date and time received and reviewed on a first-come, first-served basis. Under [extreme](#) hardship situations, CalHFA will consider requests for priority processing. Lenders requesting priority processing must submit their

request in writing with a full explanation of the hardship situation and pertinent backup documentation if requested. CalHFA will review the circumstances and render a decision to accept or decline the request based on the merits of the situation. Lenders should, however, make every effort to allow CalHFA adequate time to review submitted loans. Requests to prioritize that become routine will be declined.

g. Status Codes and Loan Status Inquiries

Status codes are assigned by the Agency to indicate the various stages of a loan in process. Status codes are issued for both loans processed under the SL reservation system and the FC system. Lenders may check the status of their loan with CalHFA by reviewing the menu option in the Lender Access System (LAS) under LOAN STATUS INQUIRY. Refer to the LAS Guide for instructions on checking for loan status.

The following status code legend explains the various codes used by the Agency:

- 01-** active reservation of loan funds
- 05-** cancellation or rejection of a reservation
- 10-** loan compliance review file has been received by CalHFA
- 12-** SHBAP Pre-Approved
- 15-** file assigned to CalHFA underwriter; review process started
- 17-** suspension of loan file for additional information or correction of documents
- 20-** loan compliance review completed, approval pending
- 25-** rejection of the loan due to ineligibility or non-compliance with CalHFA requirements
- 30-** conditional loan approval
- 35-** rejection of loan purchase documents (collateral documents)
- 37-** suspension of loan purchase for corrections to purchase document
- 40-** loan purchase documents (promissory note, settlement statement, Lender certification, etc.) have been received for review/loan purchase
- 45-** loan documents approved for purchase
- 47-** loan purchased, temporarily warehoused by agency prior to assigning loan to specific mortgage revenue bond issue

- 50- loan purchased, placed into bond issue, documents still pending delivery to CalHFA
- 65- loan purchased, placed in bond issue, record closed, all documents received
- 99- loan record canceled by CalHFA for non-delivery of loan by Lender; repurchase of loan by Lender; and/or discovery of Borrower or property ineligibility.

### C. Loan Purchase (See Table at end of Chapter)

First loans will be purchased separately from and prior to any and all subordinate CalHFA loans. The submission process for each type of loan is described below.

#### 1. 1<sup>st</sup> LOANS - **SERVICED BY LENDER**

The Lender may fund and close the loan after receiving CalHFA's Conditional Approval, and must forward all of the following purchase loan documents to CalHFA within 90 days of loan reservation for resale loans and 180 days for new construction loans. Upon receipt and acceptance of these completed purchase documents, CalHFA will process the loan for purchase.

- a. [Mortgage Submission Voucher Part II](#) Purchase Submittal and Lender Certification (MSV-II\*);
- b. Original, executed first Promissory Note with any applicable attachments clearly endorsed to California Housing Finance Agency (Endorsement Allonges are not acceptable without prior approval from CalHFA);
- c. Original, executed Promissory Note for each CalHFA subordinate loan clearly endorsed to California Housing Finance Agency (Endorsement Allonges are not acceptable without prior approval from CalHFA);
- d. Title company certified, complete copy (including legal description, notary page, and any applicable attachments) of the first deed of trust;
- e. Verification of MERS Registration on MERS first deed of trust, if applicable;
- f. Title company or Lender certified copy of all Assignments of Deed of Trust, if applicable;
- g. Final HUD1;
- h. Loan payment history.

\*By executing the MSV-II, the Lender certifies that it has assigned its beneficial interest in the Deed of Trust to CalHFA, that the Borrower

meets all eligibility requirements, that it has obtained title insurance and hazard insurance, and that the loan meets all of CalHFA's program requirements. In addition, the Lender certifies that all conditions of closing have been satisfied and that the Lender has possession of and will retain all required documents including, but not limited to, those documents outlined in Paragraph C-4 below.

2. **1<sup>ST</sup> LOANS - SERVICED BY CalHFA**

a. ONLY for **1<sup>st</sup> LOANS** that are service-released to CalHFA, the Lender must provide the following additional documents in a separate, legal-size folder prior to loan purchase:

- (1) Initial signed or final signed Loan Application(s) for each Borrower and co-signor, if applicable;
- (2) Copy of all CalHFA Promissory Notes, including any note attachments and the endorsement page;
- (3) Original Buydown Agreement;
- (4) Master Record and Loan History;
- (5) Title company certified copy of the 1<sup>st</sup> Deed of Trust;
- (6) Title company or Lender certified copy of all Assignments, if applicable;
- (7) Verification of MERS registration, if applicable;
- (8) Copy of Inter-spousal Quitclaim Deed, if applicable;
- (9) Final HUD1 Settlement Statement;
- (10) Truth in Lending Disclosure – Reg. Z (1<sup>st</sup> Mortgage);
- (11) Good Faith Estimate; and
- (12) Declaration of Insurance for hazard, flood, as applicable.

b. On 1<sup>st</sup> Loans service-released to CalHFA, the Lender must provide the following additional items within 120 days of the date of purchase by CalHFA:

- (1) the ALTA Title Insurance Policy insuring California Housing Finance Agency with endorsements 100, 116, 116.2, 115, 110.5 and 104.1 (as applicable);
- (2) Approved Mortgage Credit Analysis Worksheet for FHA-insured loans; the VA Loan Analysis form 26-6393 for VA-guaranteed loans; or the Uniform Underwriting Summary form 1008 for conventionally insured loans showing payment breakdown;
- (3) Original Mortgage Insurance Certificate on FHA loans; original Loan Guaranty on VA loans, or original Certificate of Insurance ([Mortgage Insurance Services](#) [formerly

- known as CaHLIF] or approved mortgage insurer) on conventional loans;
- (4) All originally signed CalHFA affidavits including [Borrower's](#) and [Seller's](#) Affidavit, [CalHFA Notice and Borrower Representations Affidavit](#), [Recapture Notice](#) along with all of the Borrower's originally signed disclosure statements, including the Truth-in-Lending Disclosure Reg. Z Statement(s), etc.;
  - (5) Documentation evidencing satisfaction of the loan conditions placed on the loan by the underwriter, mortgage insurer, and/or CalHFA loan reviewer;
  - (6) All original recorded CalHFA documents including Deed(s) of Trust, Assignments, and Reformation Agreement, as applicable;
  - (7) "Life of the loan" Flood Determination Certificate; and
  - (8) Copy of the "Goodbye Letter" sent to the Borrower by the Lender.

### 3. 2<sup>ND</sup> LOANS

**(CalHFA will service all Subordinate CalHFA loans.)**

The Lender must provide the following documents on all subordinate CalHFA loans within 90 days of the reservation date of either the 1<sup>st</sup> mortgage resale loan or the reservation date of the CHDAP ONLY subordinate loan. On new construction 1<sup>st</sup> mortgage loans, this time period is extended to 180 days.

- (1) [Subordinate Financing Mortgage Submission Voucher Part II](#)  
(Subordinate MSV-Part II)
- (2) The Original and full copy of CalHFA Subordinate Promissory Note showing California Housing Finance Agency, a public instrumentality and a political subdivision of the State of California, as Lender/Beneficiary
- (3) Lender or Title Company certified copy of the subordinate Deed of Trust showing California Housing Finance Agency, a public instrumentality and a political subdivision of the State of California, as Lender/Beneficiary and Trustee. The document should reflect CalHFA's corresponding loan number and must instruct the County Recorder to forward the original deed of trust directly to CalHFA, Homeownership Programs, Subordinate Loan Processing Unit at 1121 L Street, 7<sup>th</sup> Floor, Sacramento, CA 95814
- (4) HUD Final Settlement Statement for each loan being submitted for purchase

- (5) Copy of the final Truth-In-Lending Disclosure Statement signed by the Borrower(s) if changes to the initial Truth-In-Lending Disclosure were required

#### 4. Eligible Loan Security Documents

##### a. FHA Loans

FHA approved California Notes and Deeds of Trust, the CalHFA [Tax-Exempt Financing Riders](#), and other applicable FHA riders/addenda required by the mortgage insurer are authorized. All riders and addenda must be specifically referenced on the Note and Deed of Trust as applicable and be attached to said document. Failure to reference the attachment on the original document or to attach the rider so referenced will result in rejection of the loan purchase.

##### b. VA Loans

VA approved California Notes and Deeds of Trust, the CalHFA [Tax-Exempt Financing Riders](#), and other applicable VA riders/addenda required by the mortgage guarantor are authorized. All riders and addenda must be specifically referenced on the Note and Deed of Trust as applicable and be attached to said document. Failure to reference the attachment on the original document or attach the rider so referenced will result in rejection of the loan purchase.

##### c. [Mortgage Insurance Services](#) (formerly known as CaHLIF) Insured Loans

All [CalHFA's current, conventional loan documents](#), including notes, deeds of trust and riders are located on CalHFA's web site at [www.calhfa.ca.gov](http://www.calhfa.ca.gov). These documents, which are listed below, are the only documents authorized for use on a Mortgage Insurance Services (formerly known as CaHLIF) insured conventional loan. (NO FNMA/FHLMC DOCUMENTS WILL BE ACCEPTED BY CalHFA.) All riders and addenda must be specifically referenced on the Note and Deed of Trust as applicable and be attached to said document. Failure to reference the attachment on the original document or attach the rider so referenced will result in rejection of the loan purchase.

- (1) Promissory Note,
- (2) Deed of Trust,

- (3) Condominium Rider,
- (4) Planned Unit Development Rider, and
- (5) Adjustable Rate Rider

d. CalHFA Subordinate Mortgage Documents

All subordinate loan documents for each currently offered CalHFA program are located on CalHFA's web site at [www.calhfa.ca.gov](http://www.calhfa.ca.gov). Refer to the applicable CalHFA Program Bulletin for complete information regarding these CalHFA subordinate loans.

e. Altered Documents

Altered documents which show evidence of strikeovers, whiteouts, typewritten correction tapes, or other corrections must be initialed by all signers to the document. CalHFA will not accept any changes that are not properly initialed.

5. Lender-Maintained Documents - Post Purchase

On all loans serviced by Lender, the Lender must retain the following minimum documents in their loan servicing file through a date not less than six (6) years following full payment or prepayment of the loan. Failure to maintain the following documents, free of errors and omissions, will result in the requirement that the Lender re-purchase the loan from CalHFA.

- a. Mortgage insurance/guaranty certificate;
- b. Hazard insurance policy or policies;
- c. Regulation Z, Truth-in-Lending Disclosure;
- d. Borrower's signed final Loan Application;
- e. Conditional Approval, Suspension/Rejection;
- g. Credit Reports;
- h. Employment verifications, wage stubs, and/or Borrower signed year-to-date and prior year Profit and Loss Statements;
- i. Three year's signed federal income tax returns, if required;
- j. Deposit verifications;
- k. Property appraisal with Addendum A, sketch, map, and pictures;
- l. Preliminary title report and ALTA Title Policy with endorsements 100, 116, 116.2, 115, 110.5 and 104.1 (if applicable);
- m. Original recorded Assignment to CalHFA or confirmation of MERS registration and assignment to CalHFA, as applicable;
- n. Buyer-Seller purchase agreement with all addendums;

- o. [Mortgage Submission Voucher Part II](#);
- p. Copy of the Promissory Note with required Addendums and/or Riders and endorsement to CalHFA;
- q. Original recorded Deed of Trust on 1<sup>st</sup> with required Addendums and/or Riders; copy of all fully signed and notarized subordinate loan closing documents;
- r. All Lender/Service's instructions to escrow/title company;
- s. Final HUD1 Settlement Statement;
- t. Legal notices;
- u. Correspondence, forms and reports;
- v. Collection activity card showing results of conversations with Borrower;
- w. Original Buydown Agreement, as applicable (copy required if loan has been service released to CalHFA);
- x. Termite Report and completion notices, if applicable;
- y. Recertification of completion and value, as applicable;
- z. [Recapture Notice](#) (signed by Borrowers);
- aa. Original, completed and signed CalHFA [Borrower's](#) and [Seller's](#) affidavits and CalHFA [Notice and Borrower Representations Affidavit](#);
- ab. Original, completed and signed CalHFA [Statement of Citizenship, Alienage and Immigration Status](#);
- ac. Copy of Borrower's documentation verifying citizenship, alienage and immigration status; and
- ad. CalHFA [Lender Verification of Citizenship, Alienage and Immigration Status](#).

## 6. Document Rejection

If an omission or other error is discovered on the Promissory Note, CalHFA will reject the loan purchase until the Lender properly corrects the document. If the corrected Note is not provided within the specified reservation period, the loan will be returned to the Lender. Reinstatement of a rejected loan will be at the discretion of CalHFA and only if the corrections have been satisfactorily made, the loan is in immediate purchasable condition, and the loan is still within the applicable reservation period of 90 days for resale loans or 180 days for new construction loans.

## 7. Expiration Periods

All loans must be submitted for purchase on or before the reservation or forward commitment expiration date. CalHFA will allow a 30-day grace period after the commitment expiration date to deliver the Note (with a late delivery penalty fee) before the loan is canceled.

8. Bailee Letters

Where Lenders have established credit lines with third-party banks (warehouse banks) to finance the origination of loans, and the warehouse bank has issued a notice of its security interest ("bank bailee letter"), CalHFA will require that the Lender and the warehouse bank execute a ["MASTER SECURITY AGREEMENT"](#) with the CalHFA, prior to submission of any loans to CalHFA for purchase.

9. Disbursement of Funds

Upon review and approval of the Promissory Note, CalHFA will disburse funds in the face amount of the Note evidencing the loan, less the cash portion of the late penalty fee and/or commitment fees, if applicable, plus accrued interest at the mortgage interest rate from the date of loan closing to the date of loan purchase (less any amount received on the Note from the Borrower prior to purchase).

The Lender has the option of having:

- a. a check deposited with a downtown Sacramento bank;
- b. funds wire transferred to the bank;
- c. a check mailed to said Lender; or
- d. funds sent in accordance with the Lender's warehouse bank's instructions.

The Lender must complete a [Lender Banking Instruction](#) form prior to disbursement of the first loan remittance.

## DOCUMENTS REQUIRED FOR LOAN PURCHASE

Document Required	1 <sup>st</sup> Loan Serviced by Lender	1 <sup>st</sup> Loan Service Released to CalHFA	Subordinate Loans (CHAP, CHDAP, ECTP, HiCAP)
<a href="#">MSV Part II Purchase Submittal and Lender Certification (MSV II)</a>	X	X	
Original and one copy of Promissory Note with all attachments on 1 <sup>st</sup> endorsed to California Housing Finance Agency	X	X	
<a href="#">MSV Part II (Subordinate) – Subordinate Financing Mortgage Submission Voucher Part II</a>			X
Original and one copy of Promissory Note on 2 <sup>nd</sup> with California Housing Finance Agency as Lender			X
Title Company certified, complete copy (including legal description, notary page & applicable attachments) of 1 <sup>st</sup> deed of trust	X	X	
Title Company certified, complete copy (including legal description & notary page of all CalHFA subordinate deeds of trust			X
Verification of MERS Registration on MERS 1 <sup>st</sup> deed of trust	X	X	
Title company or Lender certified copy of all Assignments of Deed of Trust, if applicable	X	X	
Final HUD Settlement Statement (one copy for EACH loan submitted for purchase)	X	X	X
Loan Payment History showing 1 <sup>st</sup> loan current.	X	X	
Loan Payment History on subordinate loan if loan balance differs from Note amount			X
Initial Signed or Final signed Loan Application for each Borrower and co-signor, if applicable		X	
Original Buydown Agreement		X	
Copy of Inter-Spousal Quitclaim Deed, if applicable		X	

## DOCUMENTS REQUIRED FOR LOAN PURCHASE

Document Required	1 <sup>st</sup> Loan Serviced by Lender	1 <sup>st</sup> Loan Service Released to CalHFA	Subordinate Loans (CHAP, CHDAP, ECTP, HiCAP)
Truth in Lending Disclosure – (Reg. Z) on 1 <sup>st</sup> mortgage		X	
Truth in Lending Disclosure – (Reg. Z) on CalHFA subordinate loan signed by Borrower if changes to the initial TIL were required			X
Good Faith Estimate		X	
Declaration of Insurance for hazard, flood, etc., as applicable		X	X

**On 1<sup>st</sup> Loans Service-Released to CalHFA, the following additional documents must be provided WITHIN 120 DAYS of date of purchase of loan by CalHFA**

ALTA title Insurance Policy insuring California Housing Finance Agency with endorsements 100, 116, 116.2, 115, 110.5 and 104.1, if applicable		X	
Approved Mortgage Credit Analysis Worksheet, VA Loan Analysis or Uniform Underwriting Summary Form 1008 showing payment breakdown		X	
Original Mortgage Insurance Certificate, Loan Guaranty or Certificate of Insurance		X	
All originally signed CalHFA Affidavits including <a href="#">Borrower's</a> and <a href="#">Seller's</a> Affidavits, <a href="#">Borrower Representations</a> Affidavit, <a href="#">Recapture Notice</a>		X	
Documentation evidencing satisfaction of all loan conditions to closing		X	
All original, recorded CalHFA documents		X	
"Life of Loan" Flood Determination Certificate		X	
Goodbye Letter from Lender		X	

# **SPECIAL PROGRAMS**

## **Chapter 7**

This section is a summary of the various special programs offered by the Agency for the benefit of the Borrower or nonprofit developer, Lender, or local government.

**Detailed information regarding these programs is outlined on Program Bulletin announcements that are available on CalHFA's web page at [www.calhfa.ca.gov](http://www.calhfa.ca.gov) or by contacting CalHFA's Special Programs Department at 916-324-8089.**

### **A. Affordable Housing Partnership Program ([AHPP](#))**

This is a partnership program between CalHFA and non-profit housing organizations, cities and counties designed to encourage additional affordable homeownership opportunities. CalHFA intends to provide [AHPP](#) funds with interest rates that are lower than CalHFA's low-income rates for 30-year fixed-rate loans, on new construction and existing resale housing with availability on a first-come, first-served basis. The partnership requires the local government lending agency to provide some direct financial assistance, e.g., down payment or closing cost assistance, grants or deferred payment subordinate loans to the Borrower, while CalHFA provides first mortgage funding through the CalHFA lending network. Additional eligibility restrictions may be imposed from time to time.

CalHFA maintains a current [list of eligible city/county programs](#) on its web page at [www.calhfa.ca.gov](http://www.calhfa.ca.gov) under the heading of "Down Payment Assistance."

### **B. Subordinate Loan Programs**

Low-interest, long-term subordinate mortgages may be available in conjunction with CalHFA's first mortgage program. The general purpose of CalHFA subordinate mortgage programs is to provide downpayment or closing cost assistance and are usually limited in funding and normally include special eligibility criteria. Borrower and property eligibility requirements, funding availability, loan limits, interest rates and other program requirements, documents and criteria are included in [CalHFA Program Bulletins](#).

## C. Nonprofit Housing Program

This program is limited to nonprofit developers who develop single family housing for very-low and low income, first-time homebuyers. CalHFA offers permanent 30-year fixed-rate financing with interest rates under a long term forward commitment to the nonprofit developer. Eligible Borrowers must meet the income limits for this program which are adjusted periodically on a percentage basis with respect to the federal median limits in non-high cost and high cost counties. CalHFA may issue commitments for up to 18 months to nonprofit developers who have established their tax-exempt status under Section 501(c)(3) of the Internal Revenue code. Nonprofit developers may apply for a forward commitment in the [BLOCK](#) program through the Lender Access System (LAS).

## D. Self-Help Builder Assistance Program ([SHBAP](#))

This program is intended to provide nonprofit [501(c)(3)] builders with limited-term financial assistance for the development and/or construction of mutual self-help housing for qualified low-income first-time homebuyers. (Mutual self-help developments are projects where Borrowers, acting as owner/builders, establish sweat equity under the supervision of the nonprofit self-help housing developer, which may be used in lieu of a cash down-payment.) Assistance may be provided for acquisition of lots, lot development or unit construction. The amount of the [SHBAP](#) assistance is announced by CalHFA Program Bulletin.

Forward commitments for the permanent loan for the self-help homebuyer are also available. Self-help nonprofit developers may apply for the forward commitments in the [BLOCK](#) program through the Lender Access System. Interest rates for the homebuyer are substantially below market rates. This Program provides up to an 18-month commitment for permanent financing for the Borrower. The maximum allocation of funds for this program is set by the nonprofit developers' allocation cap. However, the Agency reserves the right to further restrict the allocation of funds for this program based on available resources.

## E. Energy Efficient Mortgage Program ([EEM](#))

In an effort to encourage energy efficiency, CalHFA encourages the use of FHA's [Energy Efficient Mortgage Program \(EEM\)](#). The EEM can be used to make energy-efficient improvements to both existing and new homes. The improvements can be included in a Borrower's mortgage only if their total cost is less than the total dollar value of the energy that will be saved during the improvement's useful life as determined by a Home Energy Rating

Systems (HERS) report. CalHFA will purchase FHA EEM loans prior to the disbursement of funds held at closing for energy-efficient improvements, provided the Lender:

1. clearly labels the loan as an EEM loan on the approved MCAW;
2. provides CalHFA with a copy of the Home Energy Rating Systems (HERS) report prior to CalHFA's loan approval;
3. provides a final HUD1 that clearly labels the funds as being held for energy improvements; and
4. meets all the FHA requirements regarding processing, closing and disbursing held funds.

**F. Extra Credit Teacher Home Purchase Assistance Program (ECTP)**

This program is intended to assist [low performing schools](#) recruit and retain credentialed teachers, administrators, and credentialed staff members to increase the school's academic standing and thus provide pupils with high quality education. The program will provide a below market interest rate CalHFA first loan together with a forgivable interest CalHFA second loan to assist qualified teachers, administrators and credentialed staff members to purchase their first home. The program is offered on a first-come, first-served basis as long as funds are available.

**G. High Cost Area Home Purchase Assistance Program (HiCAP)**

This program is intended to assist first-time homebuyers in designated high cost areas. The [HiCAP](#) is a combination of a CalHFA 30-year fixed rate first loan and a deferred payment, low, simple interest rate, 30-year second loan up to \$25,000. The HiCAP may be combined with approved [local government assistance programs](#). The program is offered on a first-come, first-served basis as long as funds are available.

# ***EQUAL OPPORTUNITY POLICY***

## ***Chapter 8***

It is the policy of both state and federal governments to administer their housing programs affirmatively, and to achieve a condition in which individuals of similar income levels in the same housing market area have a like range of housing choices available to them regardless of their race, color, religion, sex, handicap, familial status, or national origin. Accordingly, Lenders participating in the Agency's Homeownership loan programs are expected to pursue affirmative fair housing marketing policies in both advertising and soliciting Borrowers, in determining Borrower eligibility, and in concluding loan transactions. Lenders are also expected not to discriminate in any manner in their employment practices.

In addition, in selection of an appraiser, there shall be no discrimination on the basis of race, color, religion, national origin, sex, age, or disability. Racial/ethnic composition of the surrounding neighborhood of the subject property shall in no way affect the appraisal determination.

The requirements as specified herein shall be in addition to, not in substitution for, any other requirements imposed by or under Executive Order 11063, 11246, 24 CFR Part 5 of the Fair Housing Act.