SONYMA CREDIT AND PROPERTY UNDERWRITING NOTES

AUTOMATED UNDERWRITING SYSTEM

SONYMA has developed its own proprietary, web-based automated system **("SONYMA Express®")** to help lenders review and make decisions on the IRS compliance and credit underwriting components of SONYMA loans. The SONYMA Express® credit guidelines mirror the SONYMA manual guidelines which are addressed beginning on page 5 of this document.

SONYMA Express® has a built-in interface that will permit lenders to upload a file from their upfront LOS system, or loan applications can be entered manually through the SONYMA Express® web portal. The system provides instantaneous IRS compliance and credit underwriting decisions. When a loan has been fully processed and all of the necessary documentation has been collected, the lender electronically submits the loan application to the pool insurance underwriter. Based on the SONYMA program chosen, the file will automatically be submitted to the correct mortgage insurer (Genworth Mortgage Insurance Corporation or the SONYMA Mortgage Insurance Fund). For more information regarding SONYMA Express®, please go to: http://www.nyshcr.org/Topics/Lenders/Lenders/AutomatedUnderwritingSystem.htm.

Currently, some participating lenders are using SONYMA Express®. For participating lenders who have not yet transitioned to SONYMA Express®, SONYMA will continue to accept decisions made by either Fannie Mae's Desktop Underwriter **("DU")** or Freddie Mac's Loan Prospector **("LP")**. See Page 5 regarding Maximum Loan- To- Value Ratios for property types and loan amounts.

LTV is based on the appraised value of the property when determining if PMI is required. For Remodel NY loans, LTV is based on the as-rehabbed appraised value of the property. The maximum loan amount is based on the lower of the purchase price or appraised value and the minimum required borrower funds in the transaction are based on the purchase price of the subject property.

Upon review of the underwriting submission, SONYMA reserves the right not to accept a recommendation from DU or LP if the mortgage insurance underwriter determines there are risk factors associated with the application which are not acceptable even though a favorable recommendation has been rendered by the AUS. SONYMA anticipates this will be a rare but potential occurrence.

In no event should a loan application be denied solely on the basis of a decision rendered by the automated underwriting system utilized, including SONYMA Express®. If the automated underwriting system rates a loan application as Ineligible, Refer, Refer with Caution, Caution or Out of Scope (depending on which system is used) and the applicant wishes to continue with the mortgage process, the lender must perform a fully documented, manual underwriting of the loan application, per the manual underwriting guidelines covered in this document.

Except as otherwise stated in these notes or in Section 3.110 (a) of the SONYMA Seller's Guide, lenders using the automated underwriting systems must comply with all the requirements of SONYMA, Fannie Mae, and Freddie Mac for the use of such systems as set forth in their licensing or user agreements, manuals, bulletins and seller's guides.

AUTOMATED DU/LP UNDERWRITING GUIDELINES

In order for SONYMA to accept underwriting decisions made by the Fannie Mae and Freddie Mac Automated Underwriting Systems, the following conditions must be met in addition to the conditions stated on the Findings Report/Feedback certificate.

- **Maximum Underwriting Ratios.** The monthly housing-to income expense ratio may not exceed 40%, and the monthly total debt-to-income expense ratio, may not exceed 45%.
- **Minimum Equity Requirement.** Mortgagors must contribute a minimum of 1% (for 1 – 2 Family homes, condominiums, PUDs, double-wide manufactured homes) or 3% (for 3 – 4 Family Homes and Cooperatives) of the purchase price from their own funds into the transaction. (Unless the borrower has received a gift which results in a LTV of 80% or less). Please refer to Down Payment and Asset section in the manual underwriting guidelines beginning on page 5.
- **Credit Scores and Minimum Lines of Credit.** If an applicant does not have at least 3 lines of credit established for a period of 12 months (not paid or inactive for

more than 24 months) prior to the mortgage loan application date, the application must be manually underwritten. Alternative or non-traditional lines of credit which require regular periodic payments (rent, utilities, etc.) may be verified and included in the manual underwriting submission. Please be reminded that the payment-to-income and debt-to-income ratios for manually underwritten loans are 40% and 45%, respectively.

For applicants who cannot document at least 3 traditional or non-traditional credit lines for 12 months or more, please refer to the section which addresses "Use of a Guarantor" on page 15.

- **Submission of Recent Pay Stubs:** In all cases, a recent pay stub must be obtained for each mortgagor.

- **Project Requirements:** If a mortgagor is purchasing a unit in a Condominium, Planned Unit Development, HOA, or Cooperative project, lender must verify the project meets SONYMA's requirements as described in Section 3.108 and 3.109 in the SONYMA Seller's Guide.

- **Other Requirements:** All open judgments must be satisfied prior to closing. All open collection accounts or charge-offs exceeding $250 or an aggregate of $1,000 (if there are multiple accounts) must be satisfied prior to closing. Income, Asset documents should not be more than 90 days old, and the Credit Report not be more than 90 days old at time of underwriting submission.
    - Alimony/Child Support obligations should be deducted from monthly qualifying income rather than added to other debts.
    - Deposits not exceeding 50% of the borrower's monthly qualifying income are not required to be documented.

DOCUMENTATION REQUIREMENTS

A copy of the documents listed below must be forwarded to Enact (for the Low Interest Rate and Achieving the Dream Programs – including Homes for Veterans and Remodel NY loans) or the SONYMA Mortgage Insurance Fund **("MIF")** (for all other programs) for pool insurance consideration:

- Application for Mortgage Insurance.
- Most recent version of the Findings Report/Feed Back Certificate generated from the automated underwriting system, including all reports and pages generated by the automated underwriting system (including the credit report). NOTE: This does

NOT apply to loans originated through SONYMA Express®; findings and credit report information are automatically saved in the system for review.

- All supporting documentation required by the Findings Report/Feedback Certificate.
- Uniform residential loan application.
- Residential appraisal report with a full interior inspection and legible color copies of photographs of the subject property and comparable sales.
- Sales contract/offer to purchase with Property Condition Disclosure Form, if applicable.
- Recent pay stubs for each borrower.
- Evidence the mortgagor has contributed 1% or 3% (as applicable for certain property types) of the purchase price from their own fund (unless the borrower has received a gift which results in an LTV of 80% or less).
- If Mortgagor is subject to home buyer education, a completion certificate from a PMI approved homebuyer education course.
- Subsidy award letter, if applicable (with repayment terms).

INELIGIBLE TRANSACTIONS

SONYMA will not permit the following types of transactions to be underwritten using the DU/LP automated underwriting systems. These transactions must be fully documented and manually underwritten. The ineligible transactions are:

- Applications for mortgagors with a history of bankruptcy (where the bankruptcy was discharged less than 3 years from the loan application date) or foreclosure/short sale (less than 4 years from loan application date).
- Applications requiring a guarantor.
- Transactions to purchase a home located in a community land trust.

SONYMA EXPRESS®/MANUAL UNDERWRITING GUIDELINES DOWNPAYMENT

Maximum Loan-To-Value Ratios for Property Types and Loan Amounts

Property Type	Loan Limit	Maximum LTV	Minimum Borrower Contribution
1 Family Units & Condos	$726,200	97%	1% of Purchase Price
2 Family Units	$726,200	97%	1% of Purchase Price
	$726,201 - $800,000	95%	1% of Purchase Price
	$800,001 - $1,136,079	90%	3% of Purchase Price
Cooperatives	$726,200	95%	3% of Purchase Price
	$726,201 - $806,590	90%	3% of Purchase Price
3-4 Family Units	$800,000	90%	3% of Purchase Price
	$800,001 - $1,706,580	90%	5% of Purchase Price

- The minimum 1% or 3% of the purchase price (determined by property type) which must be from the borrower's own funds, must be verified as of the loan application date, and maintained and invested into the loan transaction. If the verification of those funds indicates any large deposits, the source of funds for those deposits must be documented.

- SONYMA will waive the requirement for borrowers to make a minimum cash contribution in the following cases where:

  1. A cash gift of equity or a gift of land, results in an 80% (or lower) LTV.
  2. A borrower inherits a portion of a home and wishes to buy out the remaining inheritors of the property, and the borrower's share is 20% (or greater) of the appraised value.

- SONYMA calculates the loan-to-value ratio, LTV, based on the appraised value to determine if pmi is required (except for cooperative units, the LTV based on the sales price to determine if pmi is required. If the LTV based on the sales price is greater than 80%, the level of pmi coverage is determined based on the lower of the sales price or appraised value). If the LTV is greater than 80% based on the appraised value, the lower of the sales price or appraised value is used to determine the level of pmi required. SONYMA requires sufficient primary mortgage insurance to reduce the exposure of the loan down to 72%. The maximum loan amount is based on the lower of the purchase price or appraised value. If there are any subsidies being applied to the downpayment, which survive foreclosure, the LTV will be calculated based on the lower of the net sales price or the appraised value.

- Any additional down payment or closing costs paid above minimum borrower's contribution may be paid by a lender credit, gift, or subsidy. Eligible gift donors are: Relative by blood, marriage, adoption, or legal guardianship; or fiancé, fiancée, or domestic partner.

- **Subsidy Programs** must meet the following criteria:

  1. The subsidy or secondary financing program must be sponsored by a Federal, State or Local Government agency, or another source (non-profit housing entities, and employers) that is acceptable to SONYMA and its pool insurer.
  2. If the subsidy mortgage and/or note instruments require payments during the Loan term, such payments will be considered a monthly debt obligation of the borrower and shall be included in the monthly housing expense-to-income ratio.
  3. Borrowers must meet SONYMA's minimum equity requirement.
  4. In the case where SONYMA's requirements are more restrictive than the requirements of the subsidy program, SONYMA's requirements must prevail.
  5. A copy of the award letter from the grantor to the borrower must be provided. It must indicate the total amount of assistance the borrower is receiving and

how much is going to be applied to down payment, closing costs, and if any funds will be used for post-closing rehabilitation. (If the appraisal is “subject to” the completion of these repairs a detailed work scope from the grantor with the cost for each repair item is required. **Structural repairs must be completed prior to closing**. If the cost of the repairs exceeds the rehabilitation amount of the subsidy, the borrower must document sufficient funds to complete the work in addition to funds required for closing).

6. If the originating lender is providing a credit to the borrower towards funds required for closing, the lender must disclose the amount of the credit and if it will be applied towards down payment or closing costs (either a letter from the lender or a comment on the 1008 can be supplied). The credit should comply with the same limitations as allowable for seller concessions (6% of the purchase price for LTV’s up to 90%, 3% for LTV’s exceeding 90%).
7. If the repayment terms of the subsidy are not disclosed in the award letter, a blank copy of the note and mortgage the borrower will execute at closing must be provided.
8. If part of the funds for closing is a gift, a fully executed gift letter from an eligible donor must be provided. It must disclose the amount of the gift, the donor’s name and address, relationship to the borrower, and the subject property address. If the documentation provided does not evidence that the gift funds have been deposited into the Borrower’s account prior to submission to the mortgage insurer, evidence of the donor’s ability to give the gift, and the transfer of the funds into the Borrower’s account must be provided prior to closing.

- When a subsidy is being utilized for the acquisition of property, all or a portion of the subsidy may be used as borrower’s equity and may eliminate the need for PMI coverage. A subsidy may be used as equity only to the extent where the loan to value does not exceed 100% of the true market value of the property. When determining 1% of borrower’s own funds, this amount will be calculated based on the discounted sale price (gross sale price less the amount of the subsidy supported by the true market value of the property). However, SONYMA may finance up to 100% of the discounted sale price provided the mortgagor meets SONYMA’s minimum equity requirement.
- If any or all of the subsidy is being utilized for closing costs, such amounts will not be considered as equity. However, in such cases the combined loan to value ratio may exceed 100%. If the combined loan to value ratio exceeds 100%, Homebuyer Counseling is required. (Examples are attached - Page 24).

- **Maximum seller concessions** toward closing costs are 3% of purchase price for LTV's above 90% and 6% for LTV's 90% and less. This includes the $500 seller credit paid in-lieu of completing the New York State Property Disclosure statement.

ASSETS

- Borrower's own funds are funds that can be verified from a source which can be:
  1. Monies from borrower's checking or savings account as of the loan application date. (VOD's and bank statements should be no older than 90 days at the time of Pool/PMI approval).
  2. The market value of lot owned by the borrower, exclusive of any liens, or the purchase price of the lot if it was purchased in the past year, whichever is less.
- Earnest money deposits and fees paid to the lender must be documented with a copy of the canceled check and account statement evidencing the funds clearing the account.
- Joint accounts will be considered as borrower's own funds. (A letter from the non-obligated account holder is not required).
- Deposits into a borrower's bank account which do not exceed 50% of their monthly qualifying income are not required to be documented. Once the borrower's minimum required own funds have been established, up to $1,000 of undocumented deposits can be considered as cash on hand.
- Non-Traditional savings arrangements (frequently referred to as "Sou Sou" or "Gemacht" funds) are permitted with letter outlining details of arrangement from the treasurer.
- **Borrowers purchasing a 2-4 unit property (for all programs), must verify 2 months reserves in addition to funds required for closing.**

SALE OF ASSETS

Sale of an asset is permissible when the Mortgagor can prove prior ownership of such asset, can document the market value of the asset, and can provide verification that the funds were received from an arms-length source.

UNSECURED INSTALLMENT LOAN

SONYMA will allow the use of an unsecured installment loan made by the Seller (Lender) to the Mortgagor if the following conditions are met:

1. The installment loan product must be made available to all prospective Mortgagors.
2. Mortgagor must contribute 1% of their own funds (3% for cooperative share loans and Three- and Four-Family Dwellings) into the transaction.
3. The repayment of the installment loan will be considered an ongoing monthly obligation of the Mortgagor.
4. Mortgagor may not receive any cash back from the transaction.
5. The terms of the unsecured loan my not exceed 15 years.
6. All Mortgagors utilizing the unsecured loan must complete a homebuyer education course.
7. The interest rate of the unsecured loan may not exceed the rate of the first mortgage by more than 1%.

RATIOS

- **40%/45%** up to 97% LTV.
- Installment debt can be paid down to 10 payments or less.
- **Revolving Debt can be paid off and account closed.**
- If the subject property currently has a real estate tax rebate, documentation of the remaining term must be provided. The rebate must continue for at least the next three years or the borrower must be qualified at the full amount of the real estate taxes. If the rebate has not yet been approved the borrower must also be qualified utilizing the full amount of the real estate taxes.
- If the subject property is new construction where the current tax bill is based on the vacant land rate, the appraiser must use a reasonable estimate of the real estate taxes based on the value of the land and completed improvements.
- For Open 30-Day Charge Accounts that do not reflect a monthly payment on the credit report, or 30 day accounts that reflect a monthly payment that is identical to the account balance, lenders must verify borrower funds to cover the account balance (in addition to funds required for closing).
- Automobile lease payments regardless of the remaining lease term must be included.
- Alimony/Child Support obligations are deducted from gross monthly income.

- Monthly payments for 401K and Pension Loans do not have to be included in the total debt-to-income ratio.

STUDENT LOANS

For deferred student loans, the lender must use the greater of the following to determine the monthly payment to be used as the borrower's recurring monthly debt obligation:

- **.50** % of the outstanding balance; or
- The actual documented payment (documented obtained from the student loan lender).

If payment currently being made cannot be documented or verified, .50 % of the outstanding balance must be used.

> **Exception:** If the actual documented payment is less than .50 % of the outstanding balance and it will fully amortize the loan with no payment adjustments, the lender may use the lower, fully-amortizing monthly payment to qualify the borrower.

- Student loans in repayment including those utilizing Income based Repayment (IBR) type plans, may utilize the documented student loan payment from the student loan provider for qualification purposes.
- If a borrower is receiving assistance or a forgiveness grant toward the repayment of student loans, documentation of the assistance must be provided and it will be added to the borrower's income, provided it will continue for at least 3 years from the loan application date. The student loan payment must be included in the borrower's liabilities as described above.

- If a property is sold without kitchen appliances, the borrower must have sufficient reserves verified after closing to purchase them, or the lender can add $40/month to the borrower's non-housing expenses (the borrower's total DTI ratio should not exceed 45% including the $40/month). The borrower may also provide paid receipts for the appliances.

INCOME

Previous 2 year's history must be verified. Exceptions will be made for recent college graduates or honorably discharged military with less than 2 years and evidenced by a discharge certificate/diploma/degree. (Paystubs and VOE's must be no older than 90 days at the time of Pool/PMI approval).

- Over-time, bonus, commissions and second job income must be received for past 2 years and must be steady to be considered (averaged from W2's & 1040's). **Exceptions will be considered if received for 12 – 24 months.**

- **Tip Income must be average for the most recent 2 year period. A VOE, recent paystub, and most recent 2 years W2s or 1040's are required.**

- Self-employed borrowers must submit signed 1040's and business tax returns (if applicable) for past 2 years, a year to date P&L statement, and the most recent 3 months bank statements the business transactions (receipts and expenses) flow through.

- Automobile allowance may be included as income (provided the borrower has a 2 year history or receipt).

- Income for mortgagors employed in a family owned business can be determined from a verification of employment (VOE) or acceptable alternate documents. Past two years 1040's are required for third party verification purposes. If a large discrepancy is apparent when comparing the 1040's, an acceptable explanation will be required.

- Rental Income will be calculated by adding 75% of verifiable rents to gross monthly income for 2 - 4 family unit properties.

- Rental Income from a **legal** accessory unit in a 1 family property only, will be calculated by adding 75% of the market rent determined by the appraiser using similar units and utilizing a rental comparable schedule form.

- Income from a non-occupant co-borrower can be used for qualifying for a 1 family property only. The occupying borrower must qualify with a total debt-to-income ratio of 50% on their own income. The ratios when using income from both the occupying and non-occupying borrower should not exceed 40/45. The co-borrower must be on the 1003, and their income and debts must be included in the debt-to-income ratios.

- **Boarder Income** can be used for qualifying for a 1 family property only, subject to the following:

- Documentation of the boarder's shared residency with the borrower for the past 12 months

- Documentation of the boarder's rental payments to the borrower for the past 12 months. If unable to document, no more than 50% of the boarder's income (which must be documented by w2s and recent paystubs) can be used for qualifying.

- Boarder income cannot exceed 30% of the total monthly qualifying income, unless regular monthly contributions to the borrower's household can be documented, in which case the boarder income can equal up to 35% of the total qualifying income.

- Income from a legal accessory unit, a non-occupant co-borrower, and boarder income, cannot be combined. Only 1 of these types of income can be used for qualifying.

- Borrowers using alimony/child support income to qualify will be required to submit 6 months' documentation of receipt, **and it must continue for three years from the application date**. A Court Order/Divorce Decree or written Child Support Agreement is required in addition to the receipt documentation.

POLICY FOR BORROWERS ON SHORT TERM DISABILITY OR PARENTAL LEAVE

SONYMA will permit a loan closing for a borrower on Short Term Disability or Parental Leave under the following conditions:

- The borrower must provide a letter certifying:
    1. Intent to return to work.
    2. The projected return to work date.
    3. Intent to resume the previous work schedule or a modified schedule (if so, the modified new schedule must be provided). The employer must certify in writing:

    1. That the borrower is expected to return to work and the projected work schedule.
    2. The projected return to work date.
    3. The wage/salary of the borrower upon return to work.
    4. The terms of any disability benefits (including maximum time permitted).

- The qualifying ratios will be calculated based on the income certifications provided by the borrower and the employer. The standard required income documentation must be provided, up to the date the borrower began the temporary disability period.

- If the return to work date is after the first payment due date of the mortgage loan, the borrower must have sufficient reserves verified in addition to funds required for closing to cover the monthly housing payment(s) plus any other debts included in the underwriting analysis.

ACCEPTANCE OF INCOME AND DOWNPAYMENT ASSISTANCE FROM HUDADMINISTERED SECTION 8 HOMEOWNERSHIP VOUCHERS

SONYMA will accept as borrower income, payments received from HUD-administered Section 8 Homeownership Vouchers. As an alternative and pursuant to HUD Guidelines, the Section 8 Homeownership Voucher may also be applied as a one-time payment for down payment and/or closing cost assistance. In either case, all borrowers receiving such assistance must complete a homebuyer education course managed by a HUD-approved organization to provide Section 8 Homeownership Counseling. In addition, lenders will be required to submit evidence to SONYMA that the applicant has completed the counseling program and that the voucher known as the Housing Assistance Payment ('HAP'), applies to home ownership. SONYMA will permit such assistance to be applied using one of the following options:

- Deduct the HAP from Monthly Housing Expense (PITI). Under this option, the borrower's HAP is applied directly to the PITI and payment and debt ratios are calculated based on the net amount. In order to use this option, the company servicing the mortgage loans (the "servicer") must set up a dedicated account and the HAP must be deposited directly into the account by the non-profit entity administering the Section 8 Program on behalf of HUD (the "HAP administrator"). The HAP administrator must specify in their letter which discloses the monthly home ownership assistance that the assistance will go directly to the loan servicer in order for this option to be utilized. Further, the servicer must be able to accept payments on the same account from both the borrower and the HAP Administrator. For lenders not servicing for SONYMA, our master servicer, M&T Bank, is prepared to accept these loans.

- Add HAP to Borrower Income. With this option, the HAP may be added directly to the borrower's income. Since the HAP is non-taxable income, SONYMA will allow it to be grossed up by 25%.

  Subordinate Second Mortgage. In some cases, the HAP Administrator may provide a second mortgage and the HAP is used to make the payments on the second mortgage. The second mortgage must be subordinate to SONYMA's first mortgage and must meet all other requirements for secondary financing as stated above in the down payment section.

Please note that the voucher program is administered by a local Public Housing Agency (PHA). The PHA will determine the type of assistance to be used and which of the above options will be used.

NON-TAXABLE INCOME

If Mortgagor income is verified to be non-taxable income, SONYMA will allow the income to be grossed up by 25%.

CREDIT

- SONYMA will accept an electronically merged credit report obtained from the three credit repositories. (Credit reports must be no older than 90 days at the time of Pool/PMI approval).
- A mortgagor must have at least 3 lines of credit, traditional or non-traditional, established for a period of 12 months (not paid or inactive for more than 24 months), prior to the mortgage loan application date. (If there is more than 1 borrower on the 1003, only 1 needs to satisfy this requirement, and that borrower must be employed and contributing income toward qualifying).
- Late payments should be explained in writing and documented if necessary (satisfactions of judgment, collections).
- All open judgments must be satisfied prior to closing.
- **Collection accounts and chargeoffs which have been opened 3 or more years prior to the loan application date, or less than $250 are not required to be satisfied, the aggregate of open collection accounts or chargeoffs cannot exceed $1,000. Open collection accounts and chargeoffs which have been in repayment, and paid as agreed for the past 12 months, are not required to be satisfied (verification from creditor is required).**
- SONYMA utilizes credit scores. However, no minimum score has been established to consider a mortgage application.
- If a borrower (s) lack a credit history, **Non-Traditional credit** may be utilized.

  SONYMA will consider credit that requires the mortgagor to make periodic payments on a regular basis (for example, rental housing payments, payments for utilities, medical and auto insurance payments, etc.).

- SONYMA will consider borrowers who have completed **consumer credit counseling** provided the borrower has 3 re-established lines of credit for 12 months with no late payments.

BANKRUPTCY

- Mortgagors with a previous history of bankruptcy will be evaluated on case-by-case basis. At minimum, mortgagors must meet all of the following criteria to be considered for a Mortgage Loan:

  1. The bankruptcy must have been discharged at least three years prior to the Residential Loan Application date.
  2. Mortgagor must have re-established good credit evidenced by: proving a minimum of four credit references including at least one traditional credit reference and one housing related reference. Three of the four credit references must have been active in the 24 month period immediately preceding the Residential Loan Application Date.
  3. Mortgagor must have stable employment
  4. Mortgagor must also submit a letter explaining the circumstances surrounding the bankruptcy (the circumstances must have been beyond the Mortgagor's control) along with copies of bankruptcy petition, list of creditors and discharge documentation.

- SONYMA will take into consideration Mortgagor's performance on any credit accounts that were not included in the bankruptcy.

MORTGAGE FORECLOSURE OR DEED IN LIEU OF MORTGAGE FORECLOSUORE OR SHORT SALE

If Mortgagor had a previous history of mortgage foreclosure or deed in lieu of mortgage foreclosure, or a short sale, SONYMA will consider such applications on a case-by-case basis. At minimum, Mortgagor must comply with the following:

1. The foreclosure sale (or transfer of title in a deed in lieu of foreclosure), or short sale must have occurred at least four years prior to the Residential Application Date.
2. The factors causing the foreclosure or deed in lieu of foreclosure must be attributable to events beyond the Mortgagor's control and a written explanation must be provided explaining these events in detail.

3. Mortgagor must have re-established good credit as described in Bankruptcy Section above.

VERIFICATION OF RENTAL PAYMENTS

Mortgagors with a history of a bankruptcy or foreclosure/short sale must demonstrate that housing rental payments were made in a timely manner. Acceptable documentation in this regard are as follows:

- Copies of the front and back of canceled checks for prior 12 months;
- Copies of 12 months bank statements showing clearing of rental payments;
- Verification of Rent form (VOR) with payment amount and history (if the rental payments are paid to a management company);
- Where landlord is an interested third party (i.e., property seller family member), verification of rent form with payment amount and history ***and*** copies of the front and back of canceled checks for the prior 12 months.

USE OF GUARANTOR

A Guarantor may be used to provide additional security in cases when Mortgagor lacks a credit reputation. GUARANTOR'S INCOME WILL ***NOT*** BE USED TO QUALIFY THE MORTGAGOR UNDER THE MONTHLY HOUSING EXPENSE-TO-INCOME OR DEBT-TO-INCOME RATIOS, or be included in any calculation. Guarantor must meet acceptable credit standards, may not be a spouse and must be a blood relative. Other program requirements that apply to the Mortgagor will not apply to Guarantor. Seller must submit a full credit package (1003, pay stubs, W2's, credit report and bank statements) on the Guarantor. Guarantor will be required to sign the Note at closing

NON-US CITIZEN MORTGAGORS

Non-permanent resident mortgagors must be legal residents of the United States, and at a minimum must have:

- Two year job tenure in the United States.
- Two year asset base documentation from a United States-based financial institution/depository.
- Two years established credit history in the United States. (Non-traditional credit as described in "Credit" above will be considered for non-US citizens.)
- Lawful permanent residents of the United States are eligible under the same terms available to US citizens.

DEFERRED ACTION FOR CHILDHOOD ARRIVALS (DACA BORROWERS)

DACA borrowers are eligible for SONYMA financing under the same terms as

NON-CITIZEN MORTGAGORS if the following documentation can be provided:

- A current, valid visa or current (unexpired) Employment Authorization Document (EAD) issued by the U.S. Citizenship and Immigration Services (USCIS)
- The documentation must substantiate the borrower is eligible to work in the U.S.
- All borrowers must have a valid Social Security Number (SSN) or Individual Tax Identification Number (ITIN)
- At least one borrower on the loans must have a valid SSN

NON-ARMS LENGTH TRANSACTIONS

Transaction must involve disinterested third parties. Non arms-length transactions are unacceptable. Examples of unacceptable transactions include:

- Employee buying from employer.
- Family member buying from a family business.
- Realtors buying from their own listings.
- Partner buying from own partnership.

INHERITANCE TRANSACTIONS

- SONYMA will finance a property in which the Mortgagor has inherited a share of the ownership interest in the Eligible Property and wishes to buy out the remaining inheritors. To determine the maximum financing allowable, deduct the Mortgagor's proportionate share of ownership interest from the lower of the sales price or the appraised value of the property. Example: Purchase price and appraised value are $100,000 and Mortgagor's share is one quarter or $25,000. $100,000 less $25,000 is $75,000. The loan-to Value of the Property ratio on this transaction will be 75%.
- Documentation evidencing all members of the estate is required.
- Other members of the estate are not eligible as gift donors.

Note: Provided the Mortgagors have at least 20 percent total equity in the transaction, PMI insurance will not be necessary.

HOMEBUYER EDUCATION

Homebuyer education is required for at least one borrower contributing qualifying income in any of the following instances:

- Less than 5% of Borrower's own cash is contributed to the transaction;
- The LTV is greater than 95%;
- The CLTV is greater than 100% where subsidies are being utilized;
- For all loan programs reserved under the Achieving the Dream, Remodel New York, or Habitat for Humanity Programs (regardless of the LTV or cash contribution); and
- For borrowers (main borrower earning qualifying income) who select the SONYMA Down Payment Assistance Loan (DPAL) option.
- Landlord counseling is required for any borrower purchasing a 1 Family Property with a legal accessory unit, or 2-4 Family Property. This counseling should be completed with a Hud-Approved Counseling Agency.

PROPERTY REQUIREMENTS

SONYMA will not permit the mortgagor to act as the general contractor unless construction is the mortgagor's full time occupation regarding new construction and Remodel NY Loans. See Remodel NY Loans Exhibit.

PROPERTIES LOCATED IN DECLINING MARKETS

SONYMA has not designated any particular area of the state as a declining market. Any such determination will be treated on a case-by-case basis based upon the property appraisal report submitted with the loan file. If the appraisal does show that the subject property is located in a declining market, SONYMA MIF or its pool insurance administrator, Genworth, reserves the right to reduce the requested loan amount to an acceptable level.

PROPERTY FLIPPING

A property flip occurs when a recently purchased property is quickly resold for a profit by the seller. The short time frame between the acquisition and resale (within 6 months) coupled with an increase in the property value are signs that a flip may have occurred. In these cases the following guidelines apply:

- Property seller must be the “owner of record” according to publicly available information and is supported by loan file documentation.
- No back-to-back, simultaneous closings, or double closings, assignment of contract of sale.
- If an individual or investor acquires the subject property at a below market value (i.e. at auction) and property is being re-sold at a profit with no subsequent renovations to the property, the appraisal must indicate the property value is supported. Otherwise, increase in the value must be explained and renovations must be supported with detailed information reflected by the appraiser.

APPRAISALS

- Sellers must supply an appraisal report and legible color copies of photographs of the Eligible Property and the comparable sales.
- The appraisal report must be dated within four (4) months of the date a file is submitted for review. If the appraisal is greater than 4 months old at the time of submission, the mortgage insurance underwriter will determine whether an appraisal update or a new appraisal is required. If an appraisal update is submitted and the appraiser states the value of the property has declined since the date of the original appraisal, a new appraisal will be required.
- If a loan is approved and the mortgage insurance commitment(s) expire, a new appraisal is required to extend the commitment(s)
- If the appraiser, or the seller on the property condition disclosure form, notes asbestos is present in the subject property, an inspection by a qualified asbestos removal professional must be completed. The inspector must determine if the asbestos should be encapsulated or removed. A cost to cure and a disclosure specifying who will cover cost of the corrective action must also be supplied. (If the property seller is going to cover the cost an addendum to the contract of sale stating such must be provided. If the borrower is covering the cost to cure, evidence that he/she has the funds must be documented. Evidence the work has been completed must also be provided (final inspection by appraiser). Any other items the seller notes regarding the condition of the property (roof leaks, water in basement, mold, etc.) should be addressed and remediation maybe required.
- At minimum, the subject property must be in average condition to be eligible for SONYMA financing.

- The appraiser must indicate if the utilities are on and working at the time of inspection. If they are not they must be turned on prior to closing and the appraiser must re-inspect to confirm.

RURAL PROPERTIES

- The property must be suitable for year-round occupancy and residential in nature.
- The property must be readily accessible by public roads or serviced by a private road with a publicly recorded maintenance agreement that meet local standards.
- Appraisers may use comparable sales that are farther away than is typically permitted for non-rural properties.
- Appraisers may use comparable sales more than 12 months old, if more recent sales which are better indicators of value are not available.

MANUFACTURED HOUSING

- Double-Width Manufactured Housing Units are acceptable (Single Width Units are **not** Acceptable).
- The unit must be permanently affixed to real property. All foundations must have footings below the frost line.
- **Units built prior to 1996 are not eligible**.
- Units must be in compliance with the Federal Manufactured Home Construction and Safety standards established June 15, 1976, evidenced by a certification label affixed to the home.
- The appraiser must complete the appraisal on the appropriate Fannie Mae/Freddie Mac Form and should use comparable sales which are Manufactured Homes.
- Trade equity from a borrower's existing manufactured home may be used as the borrower's equity in the new home. The retail value of the traded home from the N.A.D.A. Manufactured Housing Appraisal Guide will be applied. Proof of ownership (title) for the traded home is also required.
- Lenders must follow the Title Guidelines published by Fannie Mae for New York properties.

CONDOS AND PUDS

- Minimum 10 units in a project.

- Presale requirements: 40% if LTV is 90% or less, 51% above 90% (units in contract count toward presale); however, MIF reserves the right to establish a different percentage for any project.
- Maximum of 50% investor concentration (based on number on total number of units in the project or legal phase with an independent budget , when the HOA has not yet been turned over to the unit owners). For existing projects (HOA has been turned over to the unit owners), there is no investor concentration limit.
- All projects must have a reserve fund for capital repairs.
- Minimum square footage is 500. (Exceptions below 500 square feet may be made if the unit is supported by comparable sales of similar size.)
- New conversion eviction plans are not eligible.
- The project must be managed by a professional management company experienced in managing condominiums and/or planned unit development. SONYMA will allow a condominium or PUD project to be self-managed if the unit owners have been managing the project for a minimum of ten years and at least 75% of the units are sold. The investor concentration cannot exceed 30% (based on the number of units sold).
- A SONYMA condominium questionnaire is required. The questionnaire should disclose all information regarding phasing in the project, common areas and facilities, the control of the Homeowner's Association (HOA), Unit Information (total number of units, owner occupancy and investor information), HOA dues delinquency information (no more than 15%, can be more than 30 days delinquent). If the project or sponsor is involved in any litigation, the terms of the contact with the managing agent, and, has all rehabilitation been completed (if the project is a condo conversion).
- If there is commercial space in the project, the square footage of that space cannot exceed 20% of the total square footage of the project.

COOPERATIVES

- Minimum 10 units in a project.
- Presale requirements: 40% in a conversion project, 51% in an existing project (unit owners are in control of the HOA).
- Maximum 30% investor concentration (based on total number of units in the project, or legal phase with an independent budget, when the HOA has not been transferred to the share owners).

- Minimum square footage is 500. (Exceptions below 500 square feet may be made if the unit is supported by comparable sales of similar size.)
- New Conversion Eviction Plans are not eligible.
- Underlying mortgage must have at least 3 years remaining on term.
- The proprietary lease or occupancy agreement must have a remaining term must at minimum be equal to the term of the SONYMA loan.
- If there is a ground lease the term must not expire for at least 35 years from loan closing.
- SONYMA will allow up to a 5% transfer tax (flip tax) without making any adjustments to the loan amount. If the flip tax exceeds 5% of the appraised value, the amount IN EXCESS of 5% must be deducted from the appraised value and the LTV are based on the adjusted appraised value.
- All projects must have a reserve fund for capital repairs.
- The project must be managed by a professional managing agent experienced in managing cooperative projects. SONYMA will allow a cooperative project to be self-managed if the shareholders have been managing the project for a minimum of ten years and at least 75% of the units are sold. The investor concentration cannot exceed 30% (based on the number of units sold).
- If there is commercial space in the project, the square footage of that space cannot exceed 20% of the total square footage of the project.
- A SONYMA cooperative questionnaire is required. ○ All information regarding building statistics (total number of units, total number sold, total number sold and owner occupied, total number sold and sublet, total number of shares, number of shares for the subject unit). ○ If there a flip tax, describe the terms.
  - Delinquency information regarding owner's maintenance payments. (no more than 15%, can be more than 30 days delinquent).
  - Tax abatement information if applicable (if applicable, expiration date is required).
  - Terms of the underlying mortgage. ○ All pertinent information regarding the sponsor/holder of unsold shares (total number of units held, monthly maintenance, monthly rental income, has the sponsor pledged any shares as collateral for any other loans. If yes, what are the terms, is the sponsor current on its obligations to the coop, etc).

- Is the sponsor or cooperative involved in any litigation? If yes, provide the dollar amount and the declaration page of the project insurance policy.

- "HDFC" cooperatives will be considered on a case-by-case basis (financial statements for the past 2 years are required). SONYMA will not consider loans to purchase "insider units" to existing tenants.

- Pro Rata Share of underlying mortgage <u>cannot</u> exceed 35% of lower of sale price or appraised value based on the following calculation:

<u>Pro Rata Share of Underlying Mtg.</u>

< Sale Price/Appraised Value + Pro Rata Share of Underlying Mtg.

<u>SPOT LOANS</u>

- Contact ENACT MI at: 1-800-548-0884 (Ext. 4151), for status of a project prior to underwriting an application to find out project status.
- SONYMA will finance 10 spot loans or 50 percent of the total units in the project, whichever is less, in an existing project; 3 spot loans in a newly converted or constructed project.

<u>PROJECT APPROVAL</u>

The following documentation must be submitted:

- SONYMA Project Set-Aside Application
- Offering plan with all amendments
- Engineer's Report (for conversion projects only) including Asbestos Report
- Current Financial Statements and Operating Budget
- Appraisals (1 for each unit type)
- Marketing material

PROPERTIES OWNED BY COMMUNITY LAND TRUSTS

Community Land Trusts (CLT's) are not-for-profit organizations or public entities (such as a local government) that acquire homes or vacant land for the benefit of the community, helping provide access to affordable housing for local low-and moderate-income residents. Purchasers of homes in a land trust must execute a long-term lease that includes restrictions preserving the home's affordability in perpetuity. By owning the land and restricting who can purchase the homes, land trusts ensure permanent affordability for the homes.

SONYMA will purchase mortgages secured by a lease on a property owned by a CLT under the following conditions:

- Applicants may apply for any SONYMA program available at the time of application.
- One and two-family residences and eligible condominium projects are eligible. Three and four-family homes, are *not* eligible.
- **Eligible CLT's:** ○ Must have at least two years' experience administering and managing affordable housing;
    - Must use a form of ground lease that is based on the model developed by the Institute for Community Economics; and
    - Must incorporate the Community Land Trust Ground Lease Rider (Fannie Mae Form 2100) into the ground lease.

EXAMPLES OF SONYMA'S SUBSIDY POLICY

1) A borrower is purchasing a property with a gross selling price of $110,000 and is receiving a subsidy of $25,000. Of this subsidy, $20,000 will be used for down payment assistance and the remaining $5,000 for closing cost assistance. The property has been appraised with a true market value of $100,000.

   Since the discounted sales price will be $90,000 ($110,000 minus $20,000), the maximum financing will be $90,000 and the borrower's minimum cash contribution will be $900 SONYMA would consider borrower equity, based on the property's true market value, to be $10,000 ($100,000 minus $90,000) and the final LTV is 90%.

   In this example. PMI **would be** necessary.

2) Same facts as above except all the subsidy is for down payment assistance.

The discounted sales price will be $85,000 ($110,000 minus $25,000), the maximum financing will be $85,000 and the borrower's minimum cash contribution will be $850 SONYMA would consider borrower equity, based on the property's true, market value, to be $15,000 ($100,000 minus $85,000) and the final LTV is 85.

In this example, PMI **would be** necessary.

3) Same facts as sample 2 **except** the true market value is $110,000.

The discounted sale price will be $85,000 ($110,000 minus $25,000), the maximum financing will be $85,000 and the borrower's minimum cash contribution will be $850 SONYMA would consider borrower equity, based on the property's true market value, to be $25,000 ($110,000 minus $85,000) and the final LTV is 77%.

In this example, MI **would not** be necessary.

APPRAISAL REQUIREMENTS FOR LEASEHOLDS HELD BY COMMUNITY LAND TRUSTS

In selecting an appraiser to provide an opinion of value for a leasehold held by a community land trust, the lender must make sure that the appraiser is knowledgeable and experienced in the appraisal techniques-direct capitalization and market derivation of capitalization rates-that are necessary to appraise this type of property.

When a leasehold interest is held by a community land trust, the appraiser must analyze the property subject to the ground lease. Since the community land trust typically subsidizes the sales price to the borrower, that price may be significantly less than the market value of the leasehold interests in the property. The resale restrictions (as well as other restrictions) that may be included in the ground lease also can affect the value of the property. The land records for the subject property must include adoption of the terms and conditions that are incorporated in this ground lease rider. In view of these concerns, it is important that the appraised value of the leasehold interest in the property be well supported and correctly developed.

The appraiser must use a three-step process to develop his or her opinion of value (1) determine the fee simple value of the property by using the sales comparison analysis approach to value,
(2) determine the applicable capitalization rate (and convert the income from the ground lease into a leased fee value by using the market-derived capitalization rate), and (3) determine the leasehold value by reducing the fee simple value by the leased fee value. When this appraisal technique is used, there is no need to document the actual land value of the security property.

Mortgage Insurance Commitments/Certificates

Mortgage Insurance commitments, for both pool and primary insurance, are valid for 180 days from the date they are issued. Credit reports, income documentation, asset documentation, or the appraisal report are not required to be updated unless the mortgage insurance commitment(s) expire, prior to the loan closing. If an extension is required all documentation must be updated with a new appraisal or an appraisal update with recent comparable sales, and submitted to the mortgage insurance underwriter for review for an extension.

If documentation is updated by the lender prior to closing as part of a quality control procedure, and there are any changes which would have an impact on the loan approval (ex. job change, new debt, increased property taxes and insurance, reduced assets resulting in insufficient funds for closing or elimination of a subsidy/grant), the documentation must be submitted to the mortgage insurance underwriter. SONYMA permits a 2% variance in the ratios from when the loan is approved, unless the new ratios exceed 40/45, in which case the loan must be reviewed and reapproved by the mortgage insurance underwriter. Changes like an increase in assets do not need to be submitted for

SONYMA Express to be updated. The mortgage insurance cannot make changes which do not adversely impact the initial approval.