Arkansas Development Finance Authority

HomeToOwn

Program Guide

Adopted by the Board of Directors
July 15, 2004

EQUAL HOUSING
OPPORTUNITY

TABLE OF CONTENTS

Arkansas Development Finance Authority
HomeToOwn Program

CHAPTER 1 - INTRODUCTION

A. About the Program Guide

The Arkansas Development Finance Authority ("ADFA" or the "Authority") has developed this HomeToOwn Program Guide (the "Program Guide") for the use and benefit of any and all parties having an interest in the HomeToOwn Program (the "Single Family Program" or the "Program"). However, we have attempted to target the materials in the Program Guide to the Mortgage Lenders (as defined in Chapter 1, Section G) in order to aid and assist them in complying with the terms and conditions required for participation in the Single Family Program. Mortgage Lenders should familiarize themselves with each and every obligation set out in the Program Guide - the requirements discussed herein are mandatory and the failure of a Mortgage Lender to adhere to the Single Family Program requirements may lead to the termination of such Mortgage Lender's participation in the Single Family Program, as well as triggering possible claims for damages from other parties having a role or an interest in the Program. The terms and conditions set forth in this Program Guide are specifically incorporated by reference into each Mortgage Lender's "Mortgage Origination Agreement" by and among ADFA, the Master Servicer (as defined in Chapter 1, Section G) and the Mortgage Lender.

B. The Arkansas Development Finance Authority

ADFA was created by Act 1062 of 1985, the Arkansas Development Finance Authority Act. This act abolished the former Arkansas Housing Development Agency, whose purpose was to develop safe, decent, sanitary and affordable housing for low and moderate income Arkansans, and transferred all records, funds, property, obligations, debts, functions, powers and duties to ADFA. This newly created Authority was empowered to issue tax-exempt bonds and other debt instruments for housing, manufacturing, export finance, small business, agricultural business enterprises, education, health care, municipalities and infrastructure projects.

The State of Arkansas is not obligated to pay the Bonds (as defined in Chapter 1, Section G) and other debt instruments of the Authority, and neither the faith and credit nor the taxing power of the State of Arkansas is pledged to the payment of the principal or redemption of interest on the Bonds and other debt instruments.

C. The HomeToOwn Program

The HomeToOwn Program, formally known as the Mortgage Revenue Bond Program and referred to herein as the Single Family Program, has been a mainstay of the Authority since its formation and is designed to provide low-cost homebuyer financing for the low- to moderate-income citizens of Arkansas. As a means of providing improved delivery to the marketplace of low-cost Mortgage Loans (as defined in Chapter 1, Section G), ADFA is pleased to provide a "continuous funding" program. What this means to the Mortgage Lender is that ADFA will always have funds available. This will eliminate the peak periods of high demand and the rapid depletion of funds. By simplifying the procedure, the Authority hopes that Mortgage Lenders will soon realize that ADFA is offering an improved product for Eligible Borrowers (as defined in Chapter 1, Section G) that Mortgage Lenders can happily recommend.

D. Mortgage Revenue Bonds

Under the Single Family Program, ADFA accomplishes its public purpose primarily by selling Bonds in the municipal bond market. The interest that Bond holders receive is generally exempt from both Federal and Arkansas state income taxes. Because of this feature, investors are willing to accept a lower interest rate. This lower cost of borrowing enables ADFA to provide financing to Eligible Borrowers at a rate lower than the prevailing market rate. Bond proceeds ultimately are used to purchase Mortgage Loans from participating Mortgage Lenders.

Federal tax law places restrictions on (a) the type and value of property that may qualify; and (b) the persons who may qualify. This Program Guide will explain these various restrictions in later chapters. As an issuer of tax-exempt bond financing, ADFA must make a good faith effort to ensure that all Mortgage Loans comply with the guidelines. This is accomplished by the Mortgage Lenders and the ADFA staff. All Mortgage Lenders must thoroughly review all documents, tax returns, etc., before making any submission of the proposed Mortgage Loan to ADFA.

The consequences of ADFA's acceptance of a Mortgage Loan that does not comply with the Tax Code (as defined in Chapter 1, Section G) could be catastrophic to the Authority. The Bonds issued could become taxable, with interest and penalties, retroactive to the date of Bond sale. Thus, it is imperative that Mortgage Loans are made only to Eligible Borrowers purchasing Qualified Dwellings (all as defined in Chapter 1, Section G).

E. Servicing of Single Family Program Mortgage Loans

The Authority currently utilizes a master servicer to act as servicing agent and to purchase qualified Mortgage Loans from participating Mortgage Lenders. The master servicer (referred to in this Program Guide as the "Master Servicer" or the "Servicer") is:

U.S. Bank Home Mortgage
17500 Rockside Road
Bedford, Ohio 44146
Telephone: 800-562-5165

The Master Servicer will pay each participating Mortgage Lender a Servicing Release Fee (as defined in Chapter 1, Section G) in an amount established by the Authority from time to time. The current Servicing Release Fee will be posted at the ADFA website.

For information concerning the submission of documents to the Master Servicer, see Chapter 8 of this Program Guide.

F. Term of the Mortgage Loans

Currently, the Single Family Program features a 30-year, fixed-rate Mortgage Loan. The interest rate on qualified Mortgage Loans is typically 50-75 basis points below the prevailing "conventional" rate for similar term, fixed-rate mortgage loans. With the implementation of continuous funding, ADFA will periodically adjust the Mortgage Loan interest rate. Remember, we want to eliminate peaks and valleys in the availability of funds. ADFA will notify each Mortgage Lender via facsimile transmission, email transmission, or otherwise, in the event that the loan rate is raised or lowered; also, current loan rate and other Single Family Program information will be posted on the ADFA website.

G. Definitions

The following words and phrases shall have the following meanings:

Acquisition Cost means the total cost of acquiring a residence from a Seller as a completed residential unit and more fully described in Exhibit 5-B, Borrower's Application Affidavit and Certification. The meaning of Acquisition Cost is set forth in further detail in Chapter 2, Section C.1.c. of this Program Guide.

Affidavit of Seller shall have the same meaning as "Seller's Certificate," as defined below.

Annual Household Income means, for purposes of determining the qualifications of proposed borrowers under the income limitations of the Single Family Program, the current household income of a proposed borrower determined pursuant to Exhibit 5-A, Borrower's Certification as to Income, and shall in any event include the current gross income of all persons who reside or intend to reside with such borrower in the same residence (other than persons under age 18 who are not primarily or secondarily liable on the Mortgage Note), but exclusive of the income of any co-signer of a Mortgage Note who does not reside or intend to reside in the residence, as evidenced by documentation satisfactory to the Authority. The concept of Annual Household Income is further described in Chapter 2, Section B of the Program Guide.

Application Agreement means the "Application for ADFA Approved Mortgage Lender" which proposed mortgage lenders must submit to ADFA for approval prior to the execution of any Mortgage Origination Agreement.

Assignment of Mortgage Note and Mortgage/Deed of Trust means the instrument substantially in the form of Exhibit 7-O, completed and executed by the Mortgage Lender, in recordable form, and pursuant to which a Mortgage Lender assigns and delivers the related Mortgage and endorses the Mortgage Note to the Master Servicer in connection with the purchase of the related Mortgage Loan by the Master Servicer.

Average Area Purchase Price means the purchase price amounts, respectively, for (i) residences not previously occupied ("new residences") and (ii) residences previously occupied ("existing residences"), for the State as specified in Schedule II hereto or such other amounts as may from time to time be determined by the Authority or published by the United States Department of the Treasury as the average area purchase price for the State. An Average Area Purchase Price is not provided for new residences for three- and four-family homes because multi-unit dwellings, other than duplexes, may not be financed with the proceeds of the Bonds.

Bonds means any of the Authority's Home Mortgage Revenue Bonds authorized under the General Resolution and issued pursuant to a Home Mortgage Revenue Bond Series Resolution.

Builder means a person or firm regularly engaged in the construction of residential property within the State.

Business Day means any day other than a Saturday or Sunday or a day on which the principal trust office of the Trustee, Master Servicer or the banks in the City of New York are authorized to be open for regular business.

Buyer shall have the same meaning as borrower as used within this Program Guide.

Certificate of Compliance means the Authority's Certificate, substantially in the form of Exhibit 6-H, in which the Authority must certify to certain investigations made with respect to each Mortgage Loan approved for purchase by the Master Servicer. A Certificate of Compliance shall cover each Mortgage Loan and must be issued prior to Mortgage Loan Closing.

Closing and Closing Date mean the funding of the Mortgage Loan by the Mortgage Lender and the execution and delivery by the Borrower of all documents in connection therewith and the date on which such Closing occurs.

Commit or Commitment means a binding written commitment by the Mortgage Lender, in the form customarily used by the Mortgage Lender in its owner-occupied home lending practice or in a form customarily used in the mortgage lending industry, as may be specified by the Master Servicer, to a particular Eligible Borrower to finance the purchase of a particular Qualified Dwelling with a Mortgage Loan, which Commitment shall specify a stated expiration date, a stated principal amount and an interest rate equal to the Loan Rate.

Compliance Package or Preliminary Approval and Compliance Package means the documents listed in Exhibit 6-G.

Condominium Unit means a single family unit in a multi-unit housing development (i) which has been subject to a recorded declaration pursuant to the Condominium Property Act, and (ii) in which ownership of the units includes the ownership in fee of a specified residential unit together with an undivided pro rata interest in appurtenant real estate and any improvements thereon. A loan made on a condominium unit must be eligible for insurance by FHA, VA, USDARD, or the PMI insurer and Fannie Mae.

Cure Period shall mean the period of [thirty (30)] days from the earlier of the time the Mortgage Lender discovers a Defect or the Mortgage Lender receives notice of such Defect from the Authority or the Master Servicer.

Deed of Trust shall have the same meaning as the term "Mortgage", as set forth below.

Default means one or more of the following events:

a. Any representation or warranty of a Mortgage Lender to the Authority and the Master Servicer shall be false in any material respect;

b. Failure of a Mortgage Lender to duly observe or perform any other covenant, condition or agreement in the Mortgage Origination Agreement or the Program Guide to be observed or performed by such Mortgage Lender in any material respect for a period of thirty (30) days after a written notice to such Mortgage Lender from the Authority specifying such failure and requesting that it be remedied, *provided*, *however*, if the failure stated in the notice cannot be corrected within the applicable period, the party giving such notice shall consent to a reasonable extension of time if corrective action is instituted by the Mortgage Lender within the applicable period and diligently pursued until such failure or defect is fully corrected;

c. Requirement that the Master Servicer purchase a Mortgage Loan as a result of a failure of such Mortgage Lender to abide by the provisions of the Mortgage Origination Agreement and the Program Guide, and the failure of such Mortgage Lender to timely repurchase said Mortgage Loan upon receipt of proper notice;

d. Decree or order of a court, agency or supervisory authority having jurisdiction in the premises appointing a conservator, receiver or liquidator in any insolvency, readjustment of debt, marshalling of assets and liabilities or similar proceeding affecting the Mortgage Lender or substantially all of its properties, or for the winding-up or liquidation of its affairs, if such decree or order shall have remained in force undischarged or unstayed for a period of thirty (30) days;

e. Consent by the Mortgage Lender to the appointment of a conservator, receiver or liquidator in any insolvency, readjustment of debt, marshalling or assets and liabilities or similar proceeding affecting the Mortgage Lender or substantially all of its properties; or

f. Admission in writing by the Mortgage Lender of its inability to pay debts generally as they mature, or the filing of a petition to take advantage of any applicable bankruptcy or insolvency statute, or the making of an assignment for the benefit of creditors.

<u>Defect</u> or <u>Defective</u> shall mean a failure to cause any Mortgage Loan to comply with the terms of the Mortgage Origination Agreement or this Program Guide.

<u>Discount Fee</u> means the fee to be collected at closing by each Mortgage Lender and remitted to the Authority within [thirty (30)] days of each Closing Date in an amount equal to one percent (1%) of each Mortgage Loan.

<u>Eligible Borrower</u> means a person:

a. Who is or will be a resident of the state of Arkansas within sixty (60) days of the Closing of a Mortgage Loan;

b. Whose Annual Household Income does not exceed the amount set forth by the Authority, which amount may be amended from time to time by ADFA; and

c. Who intends to occupy the Qualified Dwelling financed by the Mortgage Loan as his or her principal residence within sixty (60) days after the Closing of the Mortgage Loan. Please see the definition of Qualified Dwelling and Chapter 2, Section C of the Program Guide for further information on the rules for determining whether a residence is a Qualified Dwelling.

Escrow Account means the account by that name created and maintained by the Mortgage Lender.

Fannie Mae means the Federal National Mortgage Association, or any successor thereto.

Fannie Mae Community Home Buyer's Program means the Community Home Buyer's Program described in the Pool Purchase Contract.

Fannie Mae Custodial Agreement means the Fannie Mae Form No. 2003 from a Custodian to Fannie Mae for the Program.

FDIC means the Federal Deposit Insurance Corporation, or any successor to its functions.

FHA means the Federal Housing Administration of the Department of Housing and Urban Development or any agency or instrumentality of the United States of America succeeding to the mortgage insurance functions thereof.

FHA Insurance means FHA mortgage insurance issued under one of the following FHA Insurance programs pursuant to the National Housing Act: FHA Section 203(b), FHA Section 234(c), FHA Section 221(d)(2), FHA Section 203b\vet, FHA Section 203(k) and FHA Section 203(h) in applicable areas. ADFA encourages all participating Mortgage Lenders to disclose to potential Eligible Borrowers the availability of an energy saving home mortgage. This optional service may be obtained and financed with an FHA-insured loan.

First-Time Homebuyer means any borrower who has NOT had a present ownership interest in his or her principal residence at any time during the three-year period ending on the date of the Closing of the Mortgage Loan and the execution of the Mortgage related thereto. The meaning of First-Time Homebuyer is set forth in further detail in Chapter 2, Section A of this Program Guide.

Flood Insurance Policy means the insurance coverage provided under the National Flood Insurance Program authorized by 42 U.S.C. Sections 4001-4128.

General Resolution means the Home Mortgage Revenue Bond General Resolution of the Authority adopted June 20, 1995.

GNMA Custodial Agreement means the HUD Form 11215 from a Custodian to GNMA for the Program.

GNMA Commitment means a commitment to the Master Servicer from GNMA that GNMA will guarantee securities in the amounts stated in such commitment for a period of one year from the date of such commitment.

Government Obligations means direct obligations of the United States of America, or obligations the principal of which and interest on which are fully guaranteed by the United States of America.

HUD means the United States Department of Housing and Urban Development.

Loan Rate means the interest rate per annum with respect to the Mortgage Loans as specified by the Authority from time to time. The Loan Rate for each specific Mortgage Loan will be set at the time of loan reservation by the Mortgage Lender.

Manufactured Home means any residential dwelling built in an "off-site" production facility, transported to the customer's destination, and installed with a minimum of on-site construction.

Master Servicer means U.S. Bank Home Mortgage, its successors and assigns as servicer hereunder and under the Servicing Agreement, or any substitute or successor appointed pursuant to the Servicing Agreement.

Maximum Household Income Limit means the maximum permitted Annual Household Income of a borrower and anyone 18 years or older who resides in the Single Family Residence, determined pursuant to Chapter 2, Section B with reference to Schedules III and IV hereto and as such schedules may be modified from time to time by the Authority.

Maximum Purchase Price means the maximum Purchase Price permitted by the Single Family Program determined pursuant to Chapter 2, Section C with reference to Schedule II hereto and as such schedule may be modified by the Authority subject to the standards stated therein.

Mortgage means the written Mortgage or Deed of Trust instrument securing the related Mortgage Loan and encumbering a Single-Family Residence, which instrument shall be in the then-effective form required by FHA for FHA Insured Mortgage Loans, USDARD for USDARD Guaranteed Mortgage Loans, VA for VA Guaranteed Mortgage Loans, or Fannie Mae for Conventional Mortgage Loans, as applicable, with appropriate riders, and with such modifications as may be required by the terms hereof (particularly the restriction on assumptions set forth as Exhibit 7-N hereto).

Mortgage File means the mortgage documents (or photocopies, thereof) listed in Exhibit A to the Program Guide pertaining to a particular Mortgage Loan, except the original Mortgage Note and the related Mortgage, and all other documents as are customarily maintained in mortgage loan files by private institutional mortgage servicers, *provided* that there need be contained only a copy (or other evidence satisfactory to the Master Servicer) of hazard or other insurance policies, the original of which is not customarily held by a mortgagee.

Mortgage Lender means any party executing a Mortgage Origination Agreement on the final execution page thereof, being a home mortgage lending institution or entity approved by the Authority (i) which has been doing business on a regular basis in the State for at least 12 months and is currently participating in the local private home lending market from one or more offices located within the State, (ii) is a mortgagee approved by FHA, USDARD and/or VA, as applicable, (iii) which can make the representations, warranties and covenants set forth in Section 1.02 of the Mortgage Origination Agreement, and (iv) which has agreed to originate and sell Mortgage Loans in accordance with the terms of this Program Guide and to release servicing to the Master Servicer pursuant hereto.

Mortgage Lender's Delivery Obligation. The Mortgage Lender's agreement to make, deliver, and sell qualified Mortgage Loans to the Servicer pursuant to the Authority's agreement to purchase Mortgage Loans under the Mortgage Origination Agreements.

Mortgage Loan. A loan made by a participating Mortgage Lender to an Eligible Borrower for the purchase of a Qualified Dwelling and secured by a Mortgage on such real estate.

Mortgage Note means the written instrument executed to evidence the borrower's obligation to repay the Mortgage Loan, which shall be the then-effective form of mortgage note required by FHA for FHA Insured Mortgage Loans, USDARD for USDARD Guaranteed Mortgage Loans, or VA for VA Guaranteed Mortgage

Loans, each approved under the GNMA Guide, or in the form required by Fannie Mae for Conventional Mortgage Loans, with such modifications or riders or addenda as may be required by the terms hereof.

Mortgage Origination Agreement means the agreement executed by the Authority, the Master Servicer and any Mortgage Lender that serves as the basis for such Mortgage Lender's participation in the Single Family Program.

Mortgage Purchase or Purchase means any closing held at which a Mortgage Loan is sold by the Mortgage Lender to the Master Servicer.

Mortgage Purchase Date or Purchase Date means the date on which a Mortgage Purchase occurs.

Mortgage Submission Voucher means the voucher substantially in the form of Exhibit B hereto, as the same may be amended by the Authority from time to time, which is submitted by the Mortgage Lender to the Master Servicer.

Mortgagor means any person who has a present ownership interest in a Single-Family Residence subject to the related Mortgage and/or executes the Mortgage (but such term does not include any person who (i) executes only the Mortgage Note as a guarantor or co-signor and does not have such a present ownership interest in the Single Family Residence, or (ii) executes the Mortgage solely for the purpose of waiving any rights of dower or curtesy in the Single Family Residence).

Mortgagor's Certificate means the forms of Mortgagor's Application Affidavit and Certification (attached as Exhibit 5-A) and Mortgagor's Closing Affidavit and Certification (attached as Exhibit 5-B) upon which each prospective borrower must certify certain things in order to comply with the Tax Code.

New Construction means a residence which has not previously been occupied.

Non-Qualifying Mortgage Loan shall mean and include any Mortgage Loan purchased hereunder with respect to which:

a. The Master Servicer fails to approve the Pool Documentation Package, as defined in the Servicing Agreement, or the Mortgage Lender fails to deliver all documents to the Mortgage File on a timely basis, or such documentation for Mortgage Loans do not conform to the requirements of the Program Guide and the GNMA Guide or the Fannie Mae Guides, as applicable.

b. Borrower fails to occupy the related Single-Family Residence as a principal residence within sixty (60) days after execution of the related Mortgage.

c. The related residence does not qualify as a Single-Family Residence as defined herein, including, but not limited to, a situation where more than fifteen (15%) percent of the total area of the residence will be used in a trade or business, including child care services on a regular basis for compensation, or as investment or rental property, or as a recreational home.

d. The Purchase Price of the related residence exceeded the Maximum Purchase Price.

e. Except as to Mortgage Loans that relate to residences in Targeted Areas, prospective Eligible Borrowers are not First-Time Homebuyers.

f. The prospective Eligible Borrower's Annual Household Income at the time of the Closing of the Mortgage Loan exceeds the applicable Maximum Household Income Limit.

g. The Mortgage Loan fails to comply with all the applicable provisions of Chapter 2 of this Program Guide or the Mortgagor's Certificate or Seller's Certificate or Notice to Mortgagor of Information Regarding Potential Recapture Tax (attached as Exhibit 7-P).

h. Any statements contained in any of the Affidavits of the Buyer, Seller or Mortgage Lender are determined to be incorrect, untrue, misleading or fraudulent.

i. The Mortgage Loan is a refinancing of an existing loan other than a construction period loan, bridge loan, or similar temporary financing of not more than twenty-four (24) months.

j. The Mortgage assumability rider attached to an FHA Insured or USDARD or VA Guaranteed Mortgage Loan is not approved by FHA, USDARD or VA, as applicable, or the Mortgage assumability rider attached to an USDARD Guaranteed or Conventional Mortgage Loan is not approved by Fannie Mae.

l. Failure to provide the Master Servicer with the documentation required in Part II of Exhibit A of the Program Guide within the time period specified therein.

m. The Mortgage Loan otherwise fails to comply with the terms set forth in the Mortgage Origination Agreement or this Program Guide.

Notice Address means:

a. As to the Authority:

Attention: Single Family Housing
Arkansas Development Finance Authority
423 Main Street - Suite 500
Little Rock, Arkansas 72201 **or**
P.O. Box 8023
Little Rock, Arkansas 72203-8023

b. As to the Master Servicer:

U.S. Bank Home Mortgage
17500 Rockside Road
Bedford, Ohio 44146

c. As to the Trustee:

Attention: Corporate Trust Department
Simmons First National Bank
501 Main Street
Pine Bluff, Arkansas 71611

d. As to the Mortgage Lender, the address shown on the Mortgage Origination Agreement.

Origination Fees means the fees collected by the Mortgage Lender from an Eligible Borrower or Seller of a Single Family Residence.

Permitted Encumbrances means liens, encumbrances and clouds on the legal title of a Single Family Residence permitted by FHA, USDARD, VA, the PMI Insurer or Fannie Mae, as applicable.

Preliminary Approval and Compliance Package means Exhibit 6-G hereto, and all documents required by Exhibit 6-G to be delivered to the Authority prior to the Closing of a Mortgage Loan.

Prepayment means any monies, however derived, which are received or recovered by the Authority from any payment of, or with respect to, principal on any Mortgage Loan prior to scheduled payments of principal called for by such Mortgage Loan; *provided*, *however*, that no monies received or recovered by the Authority from the repurchase of a Mortgage Loan by a Mortgage Lender pursuant to any Mortgage Origination Agreement must be a prepayment.

Private Mortgage Insurance or PMI means any private mortgage insurance company approved by Fannie Mae and providing private mortgage guaranty insurance on Conventional Mortgage Loans in accordance with the Fannie Mae Guide, and licensed to conduct business in the State of Arkansas.

Property Value means the lesser of the Acquisition Cost or the Appraised Value of the Qualified Dwelling at the time of origination of the Mortgage Loan.

Qualified Appraiser means an individual who is approved and/or assigned, as applicable, by FHA, USDARD or VA, or the PMI Insurer and Fannie Mae, as applicable, and is licensed by the State under Arkansas Code Annotated Sections 17-51-101 et seq., as amended and supplemented from time to time.

Qualified Census Tract means a census tract (as defined by the Secretary of Commerce) in which 70 percent or more of the families have an income which is 80 percent or less of the State-wide median family income.

Qualified Condominium Unit means a condominium unit meeting the requirements of the GNMA Guide or the Fannie Mae Guides, as applicable, and which is acceptable to FHA, USDARD or VA, or the PMI Insurer and Fannie Mae, as applicable.

Qualified Duplex means a Single Family Residence (i) consisting of two attached single family units, one unit of which is occupied by the owner as his or her primary residence or is to be so occupied within a reasonable time after the Purchase Date but not more than sixty (60) days thereafter and (ii) which was first occupied as a residence at least five (5) years before the Closing of the Mortgage Loan and the execution of the Mortgage related thereto.

Qualified Dwelling or Single Family Residence means a private detached or attached owner-occupied house, rowhouse, townhouse, or condominium which:

a. contains complete living facilities and facilities functionally related and subordinate thereto;
b. is located within the State;

c. is designed and intended primarily for residential housing (not more than 15% of the total area of which can be used in a trade or business) for one family;

d. which is determined by a Qualified Appraiser to have an expected useful life of not less than the FHA, USDARD, VA or Fannie Mae requirement for a 30-year loan;

e. will be occupied by the Eligible Borrower as his or her principal residence within 60 days of Mortgage Loan Closing;

f. is permanently affixed to land;

g. the Purchase Price does not exceed the Maximum Purchase Price as set by the Authority; and

h. which appurtenant land does not exceed five acres and reasonably maintains the basic livability of the residence and does not provide, other than incidentally, a source of income to the borrower, including child care services on a regular basis for compensation.

THE TERM QUALIFIED DWELLING SPECIFICALLY DOES NOT INCLUDE:

- Rental houses;
- Vacation homes;
- Factory-made housing that is not permanently affixed to land;
- Stock or any other ownership interest in a cooperative housing corporation or organization;
- Property, such as appliances or furniture, that is not a fixture under applicable law;
- Land that is not necessary to maintain basic livability of a residence or which provides, other than incidentally, a source of income to the eligible borrower. A general rule of thumb is that a residence in which more than fifteen percent (15%) of the total area is expected to be used in a trade or business or which contains land greater than 5 acres is NOT eligible!

<u>Qualified Insurer</u> means any insurance company approved by FHA, USDARD, VA, Fannie Mae, GNMA and the PMI Insurer, as applicable, to provide insurance, other than Private Mortgage Guaranty Insurance on single family residences in the State.

<u>Qualified Mortgage Loan</u> means a Mortgage Loan which is not a Non-Qualifying Mortgage Loan.

<u>Resolution</u> means, together, the General Resolution and the Series Resolution.

<u>Seller</u> shall mean any seller or sellers of a Qualified Dwelling to be acquired by a borrower using the proceeds of a Mortgage Loan.

<u>Seller’s Certification</u> shall mean the Seller’s Affidavit and Certification (attached as Exhibit 7-M) to be completed by the Seller of a Qualified Dwelling to be acquired using the proceeds of a Mortgage Loan upon which each Seller must certify certain things in order to comply with the Tax Code.

<u>Series Resolution</u> means any Series Resolution authorizing the issuance and sale of Home Mortgage Revenue Bonds.

<u>Servicing Agreement</u> means, collectively, the Master Program Administration and Servicing Agreement dated as of July 1, 1998, and supplemented as of June 1, 2000, and again on June 1, 2001, by and among the Authority and the Master Servicer.

<u>Servicing Release Fee</u> means the fee payable by the Servicer to a Mortgage Lender that shall equal a percentage of the outstanding principal amount of a Mortgage Loan as the Authority shall from time to time determine.

Single Family Residence has the same meaning as Qualified Dwelling, as set forth above.

Standard Hazard Insurance Policy means a standard homeowner's fire insurance policy with extended coverage as approved by the Insurance Commissioner of the State, and which qualifies under all applicable requirements of FHA, USDARD, VA or Fannie Mae, as applicable.

Standard Residential Purchase Contract means a contract to purchase residential property, but not an installment agreement for deed, articles of agreement for deed, land sales contract or any other form of ownership or financing that allows a purchaser to enjoy the benefits of ownership without title to the property.

State means the State of Arkansas.

Supplemental Notice means a written notice from the Authority to all affected Mortgage Lenders and the Master Servicer, by which the Authority exercises its reserved right to modify certain provisions of the Mortgage Origination Agreement and this Program Guide.

Targeted Area means an area which is either (a) listed as a Qualified Census Tract, or (b) an "area of chronic economic distress" designated by the State as meeting the standards established by the State and approved by HUD. ADFA maintains a current list of Targeted Areas on its website; also, the Targeted Area list is contained in Exhibit E.

Targeted Area Loans means Mortgage Loans secured by Mortgages on Single Family Residences located in a Targeted Area.

Tax Code means the Federal Internal Revenue Code of 1986, as amended, and all subsequent tax legislation duly enacted by the Congress of the United States of America. Each reference to a section of the Tax Code herein shall be deemed to include the United States Treasury Regulations proposed or in effect with respect or applicable thereto and applicable to the Bonds or the use of the proceeds thereof.

USDARD means the USDA Rural Development or any successor to its functions.

USDARD Guaranteed means guaranteed pursuant to an USDARD Guaranty.

USDARD Guaranty means a guaranty of a Mortgage Loan by the USDARD under Section 502 of Title V of the Housing Act of 1949, as amended, and as such Act may be amended from time to time.

VA means the Department of Veterans Affairs of the United States of America or any successor to its functions.

VA Guaranteed means guaranteed pursuant to a VA Guaranty.

VA Guaranty means a guaranty of a Mortgage Loan by the VA in accordance with the provisions hereof and under the Servicemen's Readjustment Act of 1944, as amended.

Unless otherwise defined herein, all words and phrases defined in Article I of the General Resolution or Article I of the Series Resolution shall have the same meaning herein.

H. A Special Word About Buyers, Borrowers and Mortgagors

You will notice throughout the Program Guide that, from time to time, the terms “buyer”, “borrower”, and “mortgagor” are used somewhat interchangeably. We apologize for any confusion this may cause. Please note that these variations are a product of the Tax Code. For the most part, when either term is used, it is possible to use the other without disrupting the overall meaning of the relevant provision.

Arkansas Development Finance Authority
HomeToOwn Program

CHAPTER 2
MORTGAGE REVENUE BONDS - TAX CODE COMPLIANCE ISSUES

Participating Mortgage Lenders must understand that there are two separate but simultaneous reviews that will have an impact on any Mortgage Loan originated through the Single Family Program: (1) Tax Code compliance, and (2) credit/real estate underwriting. The latter is what Mortgage Lenders presumably do every day. However, Tax Code compliance review is unique to ADFA loans.

There are three key elements to the determination of Tax Code compliance with regard to borrower eligibility for participation in the Single Family Program:

- The borrower must be a First-Time Homebuyer (if property is located in a Non-Targeted County).
- The borrower's Annual Household Income must be within the allowable Maximum Household Income Limit for the county in which the property is located.
- The residence that will be subject to a Mortgage must meet the definition of a Qualified Dwelling.

ADFA requires documentation to support these three basic determinations. The documentation must be inclusive enough to satisfy IRS auditors.

A. First-Time Homebuyer Requirements

1. General

As a general matter, a First-Time Homebuyer is an Eligible Borrower who has not had a present ownership interest in a principal residence at any time during the three-year period prior to the date on which the Mortgage is executed. Each Eligible Borrower (including a non-borrower spouse or co-occupant) must meet the First-Time Homebuyer requirements as set forth by Tax Code in order to participate in the Single Family Program (there is an exception for any residence located in a Targeted Area, as discussed below).

"Present ownership interest" includes not only an outright ownership interest (a fee simple interest) in a residence; it also includes any of the following interests if held directly by the borrower or in trust for the benefit of the Eligible Borrower:

- A joint tenancy
- A tenancy in common
- A tenancy by the entirety
- A community property interest
- The interest of a tenant-shareholder in a co-operative
- A life estate
- A contract for deed

"Present ownership interest" does not include:

- A remainder interest
- A lease with or without an option to purchase
- A mere expectancy to inherit an interest in a principal residence
- The interest that a purchaser of a residence acquires upon the execution of a purchase contract
- An interest in other than a principal residence during the previous three (3) years

2. Special Areas of Concern Regarding the First-Time Homebuyer

a. Prior Ownership of a Mobile Home. The determination of whether or not prior ownership of a mobile home disqualifies an Eligible Borrower from being a First-Time Homebuyer must be made on the basis of facts and circumstances of each particular case. In order to preserve Single Family Program eligibility, the mobile home at issue must have at all times been "mobile"! Any Eligible Borrower who had a prior ownership interest in a mobile home during the three year period prior to execution of the Mortgage must provide adequate documentation that:

- The components which operate only during transportation (hitch and axle) have not been removed;
- The mobile home is moveable and transportable; AND
- No permanent additions have been built around or added to the mobile home structure. Such items include permanently affixed decks, room additions, etc. However, if a deck has been built and the mobile home is merely sitting next to the deck, that would not constitute permanently affixed.

The prior ownership of a "double wide" mobile home will disqualify a prospective Eligible Borrower from First-Time Homebuyer status.

b. Inherited Property. An expectancy to inherit property does not constitute a present ownership interest. However, if the Eligible Borrower occupies the residence after acquiring a vested title interest, the person no longer fits the definition of a First-Time Homebuyer. For example, if a child resides in a residence owned by a parent, and if the child inherits the residence when the parent dies, he/she immediately acquires a present ownership interest at the time of death and thereby loses his or her ability to qualify as a First-Time Homebuyer. However, if the child has not occupied such residence at or since the time of the parent's death, he/she may still qualify as a First-Time Homebuyer.

c. Divorce Within the Last Three Years. You may occasionally encounter a situation where the Eligible Borrower or Co-Eligible Borrower was divorced within the last three years. Be careful!! It is possible that the divorced party may have had a present ownership interest in a residence while in the previous relationship. If this proves to be true, the Eligible Borrower will not qualify as a First-Time Homebuyer. Please see Section 3(b), below, for a detailed explanation.

d. Residence Located in a Targeted Area. An Eligible Borrower need not qualify as a First-Time Homebuyer if the residence that will be financed with a Mortgage Loan is located within a Targeted Area.

e. Dower/Curtesy. Under Arkansas property law, dower and curtesy constitute a right (or said another way, in this case, an inchoate, or incomplete, interest) prior to the time a person becomes a widow or widower. Upon the death of a person's spouse, however, this right matures into a life estate in real property. Thus, so long as a person is not widowed, there is no question with regard to dower or curtesy that an Eligible Borrower may qualify as a First-Time Homebuyer, but if the Eligible Borrower is a widow or widower, the Mortgage Lender must inquire as to whether such Eligible Borrower's rights of dower or curtesy (as the case may be) had matured into a life estate, which would be a disqualifying interest for the purposes of the First-Time Homebuyer rules.

3. Required Documentation

a. Tax Returns for Prior Years. It is relatively easy to document the Eligible Borrower's compliance with the Tax Code requirements for a First-Time Homebuyer. The primary form of documentation is the Federal income tax returns. Each Eligible Borrower, co-borrower, and any other occupant of the Single Family Residence of 18 years or older must provide copies of his or her federal tax returns for the last three (3) years, including all schedules and copies of his or her W-2(s). Copies of state tax returns are not required. ADFA will review the returns to see if the Eligible Borrower, co-borrower or other occupant of the Single Family Residence of 18 years or older has claimed deductions for home mortgage interest or real estate taxes. In addition to looking for deductions, the Authority will check to make sure that the name of the taxpayer shown on the first page of each return matches the name or former name of the Eligible Borrower. Each first page must also reflect the taxpayer's address and social security number. The return MUST be signed and dated. Extensions filed for late tax payment should be included at application with a copy of the actual return forwarded to the Authority at time of filing.

IF DEDUCTIONS WERE CLAIMED FOR MORTGAGE INTEREST OR FOR REAL ESTATE TAXES, THE ELIGIBLE BORROWER MUST SUPPLY A WRITTEN EXPLANATION OF THESE ITEMS, ALONG WITH SUPPORTING DOCUMENTATION. THE BURDEN OF PROOF WITH RESPECT TO QUALIFICATION AS A FIRST-TIME HOMEBUYER RESTS WITH THE ELIGIBLE BORROWER AND THE FAILURE TO ADEQUATELY EXPLAIN ANY MORTGAGE INTEREST OR REAL PROPERTY TAX DEDUCTIONS WILL RESULT IN THE DISQUALIFICATION OF THE ELIGIBLE BORROWER FROM THE SINGLE FAMILY PROGRAM.

During the period of January 1 through April 15, the question arises as to which three years of tax returns should be submitted. ADFA must have the three most recent returns. So the answer to the question depends on whether the Eligible Borrower has or has not filed a return for the prior year.

> Example: On February 20, 2004, the Eligible Borrower makes application for a Mortgage Loan. If the Eligible Borrower has already filed his or her 2003 tax returns, then the Mortgage Lender must obtain a copy of the 2003 return along with the 2002 and 2001 returns. If the Eligible Borrower has not yet filed a 2003 tax return, then the Mortgage Lender must obtain copies of the 2002, 2001, and 2000 returns. Here is where it can get a little tricky. If the Eligible Borrower has provided the 2002, 2001 and 2000 returns and then, prior to the Closing, files a return for 2003, then the 2003 federal tax return will be required before ADFA can approve the Mortgage Loan for purchase. We strongly recommend that you obtain the return that is due on April 15 BEFORE you close the Mortgage Loan. This assures the Mortgage Lender that the Eligible Borrower, co-borrower or other occupant of the Single Family Residence of 18 years or older continues to meet the requirements for a First-Time Homebuyer.

b. Tax Returns for Persons Divorced Within Three Years. The following represents some of the more common approaches used in divorce situations that ADFA recommends:

- Mortgage Lenders should ask the Eligible Borrower whether he or she owned a residence during the previous marriage.
- The Mortgage Lender should review the divorced Eligible Borrower's prior year tax returns to see if deductions were taken for home mortgage interest or real estate taxes. If none were taken, you are probably OK.
- Mortgage Lenders should obtain a copy of the divorce decree along with any other relevant agreement, such as an agreement for child support, etc. Review the decree to determine if there is any language which may give an indication of prior residence ownership. References to such things as a quitclaim deed, a transfer of interest, a release of obligation or a hold harmless agreement are terms often used when settling property disposition. If these references are present, please forward a copy of the relevant document to ADFA for an opinion.

Example: An Eligible Borrower divorced two years ago. The divorce decree indicates that the Eligible Borrower split the proceeds from the sale of the former residence of which she was on title. Does this Eligible Borrower qualify as a First-Time Homebuyer? Based upon this information alone, the answer is no. However, if the Eligible Borrower presents documentation (for example, rent receipts) that substantiate that for 14 months prior to the divorce, the Eligible Borrower was separated and living in an apartment, the Eligible Borrower may in fact qualify. Even though this Eligible Borrower clearly had an ownership interest in a residence, it was not the Eligible Borrower's "principal place of residence;" therefore, the ownership interest is viewed similarly to an ownership of investment property. The Eligible Borrower satisfies the 3-year, non-ownership rule and can be treated as a First-Time Homebuyer.

c. Extension for Filing Tax Return. If an Eligible Borrower has requested an extension to file a tax return, the Mortgage Lender must obtain a copy of the filed extension request and all W-2's. In the event that the return is filed prior to the Closing, copies of the return must be submitted to the Authority.

d. If an Eligible Borrower Did Not File a Tax Return. If the Eligible Borrower was not obligated to file a Federal tax return during one or more of the prior three years (for example, if the Eligible Borrower's level of income did not trigger a filing requirement), then the Eligible Borrower must complete Exhibit 5-B, "Mortgagor's Application Affidavit and Certification." THIS EXHIBIT MAY NOT BE USED IN THE CASE OF LOST OR MISPLACED TAX RETURNS. An Eligible Borrower may include multiple years on one form; however, a separate form must be used for EACH separate Eligible Borrower.

e. Lost or Misplaced Tax Returns. You will be amazed how many people can't find copies of tax returns! If the Eligible Borrower cannot find copies of the tax returns, he or she must request and provide ADFA with certified copies or original transcripts of the missing returns from the Eligible Borrower's local IRS office. **There is no waiver or substitute for federal tax returns!** The transcript as provided by IRS must contain line-by-line information. Transcripts MUST bear the IRS stamp, date and official signature. Informational or condensed forms provided by tax private preparation companies are not approved for use with ADFA loans. Upon receipt of the copy of the tax returns or the transcript, the Mortgage Lender must review them in order to determine that no deductions were taken for home mortgage interest or real estate taxes.

f. Special Documentation with Regard to Manufactured Homes. ADFA requires photographic evidence of the removal of the axles and hitch to any manufactured home; the photographs must be included with the Mortgage Loan File at prior approval. We advise whoever is taking the pictures to use a flash attachment since most cameras take poor pictures in low light/no light areas such as the underside of a manufactured home. In addition, Eligible Borrowers must execute Exhibit 5-E, "Supplemental Affidavit and Certification - Manufactured Home."

4. Special Issues Dealing With Prior Mortgages

The Eligible Borrower fails to qualify as a First-Time Homebuyer if he or she has had a prior mortgage loan or other financing on the subject residence, with the following exceptions:

a. Bridge loans. A prior mortgage loan obtained for temporary financing, such as a construction loan or bridge loan, is acceptable, provided that the prior mortgage loan must have a term of twenty-four (24) months or less.

b. Lease with Option to Purchase. When a credit toward purchase price is provided under a lease with option to purchase, impermissible Seller financing is established. In this situation, the Eligible Borrower/renter is not an eligible First-Time Homebuyer. However, an Eligible Borrower may qualify as a First-Time Homebuyer if the lease only provides a right of first refusal or an option to purchase and no portion of the rent paid has been or will be credited to the purchase price; or if the term of the lease is for no more than 24 months as of the date of Closing.

c. Required Documentation. In order to substantiate any of the above exceptions, the financing document (mortgage, contract or lease) must have been recorded in the relevant county real estate records at the time of execution. A certified copy of the relevant documents must be obtained from the county recorder's office and provided to the Authority.

B. Household Income Requirements

1. General

Of the three compliance issues we review, Household Income is by far the most difficult and frustrating. In fact, the number one reason for rejection of a loan application under the Single Family Program is due to the Eligible Borrower being "over income." In the context of this issue, the term "Eligible Borrower" means the Eligible Borrower as well as any co-Eligible Borrower, and any person who is 18 or older who will reside in the residence, collectively, including those not taking title. The Eligible Borrower must satisfy each of the following requirements.

a. Applicable Income Limits. The Eligible Borrower's Annual Household Income must not exceed the Maximum Household Income Limit shown in Schedules III and IV. Please note that the Maximum Household Income Limit varies depending on the county in which the residence is located and whether the residence is located within a Targeted Area. The Maximum Household Income Limit also varies depending on the household size of the Eligible Borrower.

HUD publishes median household income figures that are the basis for determining the Maximum Household Income Limits. The Tax Code requires the Authority to set the Maximum Household Income Limit at the following percentages of the median household income for the area of the State in which the Eligible Borrower intends to reside:

Household Size of	One (1) or two (2)	Three (3) or more
Targeted Areas	120%	140%
Non-Targeted Areas	100%	115%

NOTE: HUD issues revised figures periodically and generally on an annual basis. The Authority will notify all Mortgage Lenders in advance of the effective date when Maximum Household Income Limits are revised.

b. Calculating the Eligible Borrower's Annualized Gross Income Generally. The Eligible Borrower's Annual Household Income is equal to the Eligible Borrower's annualized gross income. Annualized gross income is calculated by multiplying the Eligible Borrower's gross monthly income by twelve (12). That's right. The Tax Code requires a twelve-month forward projection of the Eligible Borrower's gross monthly income. Gross monthly income is the sum of monthly gross pay as well as additional income from overtime, part-time employment, bonuses, dividends, interest, royalties, pensions, Veterans Administration compensation, net rental income, and so forth. Gross monthly income also includes alimony, child support, public assistance, sick pay, social security benefits, unemployment compensation, income received from trusts, income received from business activities or investments and also deferred income such as 401(k) plan elective deferrals. In other words, **ALL INCOME FROM ALL SOURCES.**

c. Date of Income Determination. The date used to determine the Eligible Borrower's Annual Household Income is the date of Closing of the Mortgage Loan.

2. Special Areas of Concern With Regard to the Household Income Requirements

a. Commission, Bonus and Overtime Compensation. Please note that calculating an Eligible Borrower's Annual Household Income begins to become more difficult with regard to any Eligible Borrower who works irregular overtime, receives bonuses and/or commission income, or is self-employed. Generally, Mortgage Lenders must average commissions, bonuses and overtime over the last two (2) years, using tax returns and current year-to-date pay stubs as the basis for such calculation. If there is a clear pattern of such income either increasing or decreasing, emphasis will be placed on the past twelve (12) month period.

b. Self-Employed Eligible Borrowers. Generally, Mortgage Lenders must determine the Annual Household Income of a self-employed Eligible Borrower by averaging his or her income over the last two (2) years using both Federal income tax returns as well as a profit and loss statement for the current year prepared by a third party or prepared by and signed by the Eligible Borrower. The effect of legitimate operating expenses may be taken into account when calculating income for this type of Eligible Borrower. As with commission, bonuses and overtime, emphasis must be placed on the past twelve (12) months of income activity if there is a clear pattern of increasing or decreasing income.

c. Child Support/Alimony. Child support and alimony payments must be included in the calculation of Annual Household Income regardless of whether the Eligible Borrower is divorced or separated or a single person. Proof of amounts received is required from OCSE.

d. Married or Separated Eligible Borrowers Taking Title Individually. Mortgage Lenders may encounter a married or separated Eligible Borrower who wishes to apply for a Mortgage Loan and take title to the residence in his or her name only and not jointly with his or her spouse. This is acceptable, but only after documenting that the Eligible Borrower would still be eligible if the spouse were also to apply and take title. In other words, both Eligible Borrower and his or her spouse must be First-Time Homebuyers and have a combined Annual Household Income within the applicable Maximum Household Income Limit.

If a spouse of an Eligible Borrower (or any other occupant 18 years and older and residing in the home) is not taking title to the Single Family Residence, such spouse (or resident) must sign Exhibit 5-A along with the Eligible Borrower.

3. Required Documentation

a. General. As noted above, Annual Household Income is calculated by annualizing an Eligible Borrower's gross monthly income as of the date of the Closing of the Mortgage Loan. Because of the obvious practical problems presented by the determination date and this method in general, the Tax Code allows the Mortgage Lender (and ADFA) to rely upon the following documentation:

- Information obtained from loan application documents; i.e., the Affidavit of Buyer included in the initial loan application, copies of the two most recent pay stubs and tax returns, and the like; and
- A re-affirmation by the Eligible Borrower at Closing that the information set forth in the Affidavit of Buyer (including Household Income) is still true, correct and complete.

NOTE: IT IS VERY IMPORTANT TO DOCUMENT ANY AND ALL CHANGES WITH RESPECT TO THE FINANCIAL CONDITION OF THE BORROWER THAT MAY OCCUR AFTER PRIOR APPROVAL AND BEFORE CLOSING. IF A BORROWER'S HOUSEHOLD INCOME EXCEEDS THE APPLICABLE MAXIMUM HOUSEHOLD INCOME LIMIT, ADFA WILL NOT PERMIT THE PURCHASE THE MORTGAGE LOAN. IN OTHER WORDS, AN ELIGIBLE BORROWER WOULD BE WELL ADVISED NOT TO NOT BE A "SUPERSTAR" ON THE JOB UNTIL AFTER CLOSING. BIG PROMOTIONS MIGHT MAKE THE ELIGIBLE BORROWER INELIGIBLE. ALSO, BE CAUTIOUS OF ANY SITUATION WHERE AN ELIGIBLE BORROWER FALLS IN LOVE AND TAKES ON A ROOMMATE. IF THIS HAPPENS, AND IT HAS, ANNUAL HOUSEHOLD INCOME MUST BE RECALCULATED ALL OVER AGAIN.

b. Commission, Bonus or Overtime. Where commission, bonus or overtime income cannot be estimated or anticipated with relative certainty, letters of explanation from the Eligible Borrower and his or her employer may be appropriate. Some Eligible Borrowers and realtors might say that certain previous income sources such as overtime, commissions or bonuses were "one-time events" and will never occur again. Mortgage Lenders must verify these statements with an unbiased third party, such as the Eligible Borrower's employer.

c. Verifications of Employment. Mortgage Lenders are required to obtain a verification of employment. This information may not be totally accurate, but it usually contains a breakdown of overtime, commissions, bonuses, when next raise will occur, etc.

d. Self-Employed Eligible Borrowers. As noted above, Mortgage Lenders must obtain from any self-employed Eligible Borrower both Federal income tax returns for the past two years as well as a profit and loss statement for the current year either prepared by a third party, such as a certified public accountant, or prepared by and signed by the Eligible Borrower. If applicable, self-employed Eligible Borrowers who have an ownership interest in a partnership, a limited liability company or a corporation must provide Federal income tax returns for such entities.

NOTE: A PROFIT AND LOSS STATEMENT MAY ALSO BE REQUIRED FROM AN ELIGIBLE BORROWER WHO IS EMPLOYED FULL TIME, BUT SHOWS OTHER BUSINESS INCOME LOSS/GAIN ON HIS OR HER FEDERAL INCOME TAX (SEE LINE 12 OF FEDERAL INCOME TAX FORM 1040).

e. Child Support/Alimony. With regard to Eligible Borrower s receiving child support or alimony payments, Mortgage Lenders must obtain a copy of the appropriate (and most current) court decree, which sets forth the amount of the support. As an alternative, if the payments for support are being made directly to the State of Arkansas, Mortgage Lenders may obtain a "print-out" sheet from the State which displays all of the information needed to determine the amount of income to include for the Eligible Borrower. Proof of amounts received is required.

f. Married or Separated Eligible Borrowers Taking Title Individually. The spouse not taking title must execute Exhibit 5-B (Mortgagor's Application Affidavit and Certification) and Exhibit 7-L (Mortgagor's Closing Affidavit and Certification) if tax returns were not filed due to either age or non-obligation of filing returns, and must also provide the previous three years' tax returns with W-2's attached and his or her two most recent pay stubs. If after review, the loan application can still be approved, the spouse not taking title must waive homestead rights. (Please see the Closing section of this Program Guide for proper language to waive homestead rights.)

4. Special Issues Dealing With Other Miscellaneous Forms of Income

a. Deferred Income. Annual Household Income also includes all deferred income such as an employee elective deferrals (such as for a cafeteria plan) or contributions to a pre-tax retirement plan, the most common such plan being the 401(k) plan. Furthermore, any amounts that the employer contributes into a retirement plan that can be withdrawn (not borrowed against) must be included in the Eligible Borrower's Annual Household Income calculation, even if such withdrawal will lead to a penalty or tax liability for the participant/Eligible Borrower. The key is whether the contributions can be "withdrawn**"** vs. "borrowed against"! The following steps can be used to make this determination:

- Calculate Annual Household Income and include the employer contributions and employee elective contributions/deferrals. If the Eligible Borrower's income does not exceed the applicable Maximum Household Income Limit, you need to do nothing more.
- If the elective deferred income causes the Eligible Borrower to exceed the Maximum Household Income Limit, then the Eligible Borrower should obtain from his or her plan administrator a copy of the section from the plan document that provides for any restrictions governing withdrawals from the plan. If the plan document states that the contributions can only be borrowed against and cannot be withdrawn, then these amounts are not included in the Annual Household Income calculation.
- In all instances, the Eligible Borrower's elective deferrals or contributions must be included in the Annual Household Income calculation.

b. Interest Earnings. If an Eligible Borrower has a large savings account and there will be savings left after Closing, interest must be imputed on the savings account assuming a 3.25% interest rate (which is determined by HUD and subject to change from time to time).

c. Dividends From Stock and Bonds etc. Annual Household Income includes realized earnings from dividends paid from investment portfolios unless the portfolio is liquidated prior to Closing.

d. Temporary or Nonrecurring Income. Temporary, nonrecurring or sporadic income (including gifts) or income derived from "straight-line depreciation" is not included in the calculation of Annual Household Income. Included in this category are such things as: business expense reimbursements; amortization of capital expenses; per diem allowances; reimbursements for moving expenses; or income used to pay for operating expenses, as often seen with the self-employed Eligible Borrower.

C. Purchase Price Limitations and Qualified Dwellings

1. General

The residence being financed must be a Qualified Dwelling and must not exceed the Maximum Purchase Price for the area in which it is located. The Eligible Borrower must acquire a fee simple interest in the real estate and the residence being financed must become the principal residence of the Eligible Borrower within 60 days after the Closing of the Mortgage Loan.

a. Types of Residence. The following types of residences qualify:

- A single family detached residence, including a manufactured home that is permanently affixed to real property
- A townhouse
- A Condominium Unit
- A Qualified Duplex, provided the structure was first occupied as a residence at least 5 years before the execution of the Mortgage.

b. Acquisition Cost Limits. In order to qualify for participation in the Single Family Program, the residence must have an Acquisition Cost no greater than the allowable Maximum Purchase Price shown in Schedule II. Please note that the Maximum Purchase Price varies depending on whether the residence is located within a Targeted Area; the county in which the residence is located; whether the residence is new or existing construction; and whether it is a duplex. The U.S. Treasury Department publishes Average Area Purchase Prices which are the basis of setting the Single Family Program Maximum Purchase Price limits. The Maximum Purchase Price limits represent 90% of average area median purchase price for non-Targeted Area residences and 110% of average area median purchase price for Targeted Area residences As with the Maximum Household Income Limits, the Treasury Department will periodically issue new figures. ADFA will notify all Mortgage Lenders in advance of the effective date when the Maximum Purchase Price limits are revised.

It has been the experience of the Authority that the Treasury Department limits do not always seem realistic. In fact, it would be safe to say that on occasion they aren't even close. In order to address this problem, the Authority conducts its own data collection every January. We obtain year-end data from the various boards of realtors for the existing residences. New construction data is not so easy. We must rely upon participating Mortgage Lenders to obtain sales data for us. So, if you don't like the numbers reflected, give us a call and we will work with you in obtaining more accurate data and include it with our annual Private Letter Ruling Request that we send to the IRS every year.

c. Determination of Acquisition Cost for a Particular Residence. In theory, determining the Acquisition Cost should be easy. Generally, it is equal to what is shown on the Standard Residential Purchase Contract and reflected on the Affidavits of Buyer and Seller. If the numbers match and the Purchase Price of the residence is less than the Maximum Purchase Price limit, then the residence should qualify. If this sounds too simple, you are starting to catch on. The Tax Code (and our lawyers) have an enormously difficult time in dealing with "simple." We must approach this Tax Code compliance issue from a viewpoint more closely resembling that of an IRS auditor: "there is something wrong here and I'm going to find it!"

As defined by the Tax Code, Acquisition Cost includes all amounts paid, either in cash or in kind, by the borrower (or any party related to the borrower) to the Seller (or to any party related to the Seller) as consideration for the residence. This includes the reasonable cost of completing an incomplete or unfinished residence (incomplete or unfinished means that occupancy is not permitted under law, or that the residence lacks fixtures or architectural appointments normally included or needed to provide adequate living space for the family members who intend to occupy the residence). Completion costs are included in the Tax Code definition of Acquisition Cost whether or not the cost of completing construction is to be financed with a qualified Mortgage Loan. In other words, you must include everything the borrower pays the Seller or incurs to finish out the residence, minus the items listed below, to purchase the residence.

Acquisition Cost does <u>not</u> include:

- Usual and reasonable settlement or financing costs (including titling and transfer costs, title insurance, survey fees, credit reference fees, legal fees, appraisal expenses, "points" which are paid to the borrower, or other similar costs). Please note that, in order for these costs to be excluded from the definition of Acquisition Cost, they must not exceed usual and reasonable charges for these expenses.
- The unpaid value of services performed by the borrower or members of his or her family in completing or finishing the residence. **THIS IS BETTER KNOWN AS SWEAT EQUITY.**
- Items of personal property which are not fixtures and/or are permanently affixed to the property.
- The cost of minor repairs, fix-ups, etc. performed after Closing and paid for by the borrower.

When a Standard Residential Purchase Contract includes personal property, the borrower and Seller must establish a fair market value for the personal property. The fair market value must be deducted from the Purchase Price when calculating the Acquisition Cost and the loan-to-value ratio. We are not going to worry about such things as old refrigerators and stoves, draperies or other typical items that really have no value to the Sellers. We <u>will</u> concern ourselves if the Standard Residential Purchase Contract includes the $10,000 bass boat parked in the garage or the new stereo system. If in doubt, <u>call the Authority</u>.

2. Special Areas of Concern With Regard to Residence Qualification

The following are additional standards and requirements of a Qualified Dwelling.

a. <u>New Construction</u>. To qualify as new construction, the residence cannot ever have been occupied by anyone. A model home qualifies, provided it was never rented or occupied as a residence prior to being sold.

b. <u>Properties With More Than 5 Acres</u>. The Tax Code prohibits the Authority from financing a residence located on land in excess of that needed to "reasonably maintain basic livability." This prohibition has been generally interpreted to mean land not exceeding <u>five (5) acres</u>. Therefore, if the land on which the house sits is in excess of five acres, you should determine that the property meets this standard and provide ADFA an explanation to justify the determination.

c. <u>Properties With More Than One Livable Structure</u>. Properties containing a main structure and a "coach house" can be cause for frustration. Unfortunately, the only solid advice we can give you is to say that we will consider these loans on a case-by-case basis. Our concern gets back to the issue of what constitutes "basic livability." We have to be confident that there is no intention on the part of the Eligible Borrower to use the additional structure in a trade or business. In some cases we can rely on a sworn affidavit from the Eligible Borrower stating that the "coach house" will not be used in any trade or business, including use as rental property. But, depending upon the appearance of the structure, statements, or comments made by the appraiser, the real estate tax numbers (one or two) or other circumstances surrounding the intended use of the additional dwelling, we may be forced to deny the Mortgage Loan. Again, the key is to contact us for advice if you encounter this situation.

d. Appraised Value Exceeds Program Limit. If the appraised value of the property exceeds the Maximum Purchase Price, do not assume that the loan will not qualify as a Mortgage Loan; we still may be able to approve the Mortgage Loan. The issue that needs to be addressed is whether there is a deliberate attempt to circumvent the Maximum Purchase Price limits or whether the Eligible Borrower just got a good deal. If the appraised value exceeds the Maximum Purchase Price Limit but the Acquisition Cost is below the limit and transaction is clearly an "arm's length" transaction (not between relatives, for example), we usually conclude that our Eligible Borrower bargained for a "good deal." We may require a statement from the Eligible Borrower and Seller indicating that no relationship exists if we are unclear about the relationship between the Eligible Borrower and the Seller. If you discover that the transaction is NOT "arm's length," then you will be required to sell the loan to some other investor. Generally, the residence is not eligible if the appraised value exceeds 110% of the Purchase Price.

e. Land Owned By Eligible Borrower. If the Eligible Borrower intends to have a residence built on land already owned, the cost of such land will be excluded from the Tax Code definition of Acquisition Cost ONLY IF such land has been owned by the borrower for at least two (2) years prior to the date on which construction of the land begins. If the land was purchased less than two years ago, the cost of the land is included in the Acquisition Cost. In order to determine whether to include the cost of the land or not, you should obtain a certified copy of the deed from the county recorder's office and submit it to the Authority when you submit the file. Likewise, the contract of sale or the settlement statement for the land can be used to substantiate such land's cost.

3. Required Documentation

Copy of the Standard Residential Purchase Contract between borrower and Seller.
Copy of the appraisal.
Certified copy of deed for any property owned by Borrower prior to loan application.

4. Special Issues Dealing with Benefit Recapture

The Federal government views Eligible Borrower who purchase a residence with Mortgage Loans financed with the proceeds of tax-exempt Bonds as having received a "subsidy" because of the below-market Loan Rate. The Tax Code requires that an Eligible Borrower who has taken advantage of the below-market Loan Rate may be required to repay part or all of this subsidy to the Federal government if: the Eligible Borrower sells the residence within nine (9) years of purchase; realizes a capital gain; and has had significant increases in Annual Household Income since the Mortgage Loan was made. The repayment is in the form of a tax and is commonly referred to as **"Recapture."**

Due to this provision in the Tax Code, ADFA requires that the potential Eligible Borrower be informed of this possible taxation at the time of loan application. The Notice to Eligible Borrower, attached as Exhibit 5-F, must be provided to and signed by the Eligible Borrower at the time of application. By evidence of the Eligible Borrower's signature, we are assured that the Eligible Borrower has been given notice. Two (2) additional notices will be provided to the borrower. One is incorporated into the Affidavit of Buyer and the other will be signed by the Eligible Borrower at Closing.

a. How Does Recapture Work. The Tax Code assumes that the amount of the subsidy realized by the borrower is equal to 1.25% per year. This recapture rate increases in increments of 1.25% for the first five years of residence ownership; then, it declines by the same incremental rate through the ninth year of ownership. The rate of recapture is multiplied by the original Mortgage Loan amount to determine the amount of recapture tax to be paid. The following chart shows the recapture rates by year:

YEAR OF RESALE	RECAPTURE TAX RATE
1	1.25%
2	2.50%
3	3.75%
4	5.00%
5	6.25%
6	5.00%
7	3.75%
8	2.50%
9	1.25%
10	No recapture tax due

As you can see, the maximum amount of the recapture tax increases during the first five years of ownership and decreases for the next four years. After you have informed your borrower of the potential for a recapture tax, let the borrower know that in most cases (estimated to be around 90% - 95%), a recapture tax will **not** need to be paid! Several factors will determine whether the recapture tax must be applied. The factors include: the year in which the residence is subsequently sold; the circumstances surrounding this disposition of the residence; the household size and Annual Household Income at the time of resale; and the amount of capital gain made upon the resale.

b. Recapture Tax Is Not Paid Under the Following Conditions**:**

- The Eligible Borrower lives in the residence for more than nine years.
- The Eligible Borrower does not realize capital gain upon resale.
- The Eligible Borrower dies.
- The Eligible Borrower's Annual Household Income at the time of resale has not increased to an amount greater than the Maximum Household Income Limit for the Single Family Program calculated with a 5% annual growth rate.

Let's focus on this last reason, since we feel that it will be the primary reason for not having to pay the recapture tax. Page 5 of Exhibit 7-P, signed by the borrower at the Mortgage Loan Closing, shows a worksheet of the real or perceived risks involved with recapture. We believe that, in most cases, the Eligible Borrower will not have to pay a recapture tax because his or her Annual Household Income likely will not exceed the Maximum Household Income Limit at the time of resale. As you will see in reviewing the chart, we have taken the Maximum Household Income Limit for the Single Family Program and projected it with a 5% annual growth rate. If the Eligible Borrower's income is at or below this adjusted amount at the time of resale, the Eligible Borrower pays no recapture tax! Since our typical borrower's Annual Household Income is well below the Maximum Household Income Limit, it would require an Eligible Borrower to realize significant increases (7% - 15% or greater) annually before exceeding the limit.

c. Who Are the Eligible Borrower s Most at Risk?

- Single Eligible Borrowers. If they get married they can double their Annual Household Income overnight.

- Eligible Borrowers who are very close to being over income at the time of loan application. They will be limited to Annual Household Income growth of no more than 5% annually if they expect to stay beneath the allowable limits.

- Young professionals or "superstars" who anticipate significant salary increases within the near future and do not intend to stay in the property for more than nine years.

d. How Does the Borrower Pay the Tax? If the recapture tax must be paid, it will be part of the Eligible Borrower's income tax computation when the Eligible Borrower files his or her annual income tax return for the year in which the Eligible Borrower resells the residence.

e. What If the Eligible Borrower Refinances? It is hard to believe that anyone would want to refinance one of our great rates. However, let's assume for discussion purposes only that an Eligible Borrower wishes to refinance. If this occurs, the recapture tax rate (see chart under "How Does Recapture Work") freezes in the year of refinance. As long as the Eligible Borrower continues to reside in the residence, no recapture tax is due.

> Example: The Eligible Borrower refinances in the third year. The recapture tax rate for year three is 3.75%. In year four the rate declines to 2.50%, year five it drops to 1.25% and year six it goes away. In any event, the Eligible Borrower would not pay any recapture tax until a resale of the residence occurs and the recapture tax rate would be the rate for the year of the subsequent sale. All other aspects of the recapture provision remain the same.

D. Mortgage Loan Assumptions

Often a purchaser wants to purchase a home that is subject to a previous mortgage, and the purchaser may want to assume all the rights and obligations of the prior owners under the previous mortgage. In such a case, the Master Servicer may release (subject to any required FHA, USDARD, VA and GNMA, or USDARD, PMI Insurer and Fannie Mae approval, as applicable, and in accordance with currently-applicable FHA, USDARD, VA and GNMA or USDARD, PMI Insurer and Fannie Mae rules and regulations) the prior owners and enter into or take an assumption agreement with or from the new purchaser. However, the Master Servicer can only agree to an assumption **with ADFA's written approval**.

a. What does it take to get ADFA's approval on an assumption? In order to get ADFA's approval, the mortgage assumption must satisfy the mortgage eligibility requirements:

(i) the purchaser is an eligible Borrower, subject also to the requirement of initial and continued occupancy of the residence as his or her primary residence;

(ii) the Acquisition Cost of the Single-Family Residence does not exceed current county limits that is applicable for the Single-Family Residence in Arkansas at time of application for assumption;

(iii) the Mortgage Loan continues to be insured under the insurance policies described in this Agreement and approved by the Master Servicer;

(iv) the Purchaser's current Annual Family Income does not exceed the Maximum Household County Income Limit currently in effect; and

(v) the Mortgage Loan continues to comply with the requirements of FHA, USDARD or VA regulations and the GNMA Guide, or the requirements of USDARD or the PMI Insurer and the Fannie Mae Guides, as applicable.

(vi) the eligible Borrower must complete the current available Bond documents that include the applicable HomeToOwn Bond compliance documents. (See Chapter 5 Compliance Documents)

b. How does ADFA determine whether these requirements are met? Whether or not these requirements are met is determined when the mortgage is assumed and is based on the circumstances at that time (as if the loan were being made for the first time). For example, the purchase price requirement is to be determined by reference to the average area purchase price at the time of the assumption and not when the mortgage was originally placed.

c. What if the mortgage is assumed, but it does not meet the eligibility requirements? If a mortgage is assumed that does not meet the mortgage eligibility requirements, then that mortgage must be accelerated or replaced with a qualified mortgage.

ADFA will not consent to the assumption if the eligibility requirements are not met.

d. What effect does an assumption have on the Mortgage? Upon the assumption, the eligibility requirements become incorporated in the related Mortgage and are kept as a part of the Mortgage File.

- When a Mortgage is assumed, the interest rate on that Mortgage remains the same.
- The Master Servicer may charge a fee in connection with the assumption as permitted by FHA, USDARD, VA, GNMA and/or Fannie Mae. They may also charge the reasonable and customary out-of-pocket costs paid or incurred by the Mortgage Lender as specified in Section 4.04 and to the extent permitted by law.
- All warranties and representations of the Mortgage Lender made to the original Borrower with respect to the Mortgage Loan remain in full force and effect with respect to the period prior to the assumption. Once the assumption has occurred, the warranties and representations still apply, but they only apply to the extent they relate to facts concerning the status or performance of the assuming purchaser.

E. Tax Code Compliance Schedules and Tables

SCHEDULE I
CURRENT LIST OF TARGETED AREAS

Borrowers purchasing a Qualified Dwelling in a Federally Targeted Area need not meet the First-Time Homebuyer regulation. The following counties constitute Targeted Areas:

Bradley	Lee
Calhoun	Lincoln
Chicot	Madison
Clark	Mississippi
Cleburne	Monroe
Columbia	Nevada
Conway	Ouachita
Crawford	Perry
Crittenden	Phillips
Cross	Prairie
Dallas	Scott
Desha	St. Francis
Drew	Searcy
Jefferson	White
Lafayette	Woodruff
	Yell

ARKANSAS DEVELOPMENT FINANCE AUTHORITY

HomeToOwn Program
SCHEDULE II

MAXIMUM PURCHASE/SALES PRICE, DOWNPAYMENT REQUIREMENTS, LOAN AMOUNT REQUIREMENTS AND MORTGAGE LOAN INSURERS

A. MAXIMUM PURCHASE/SALES PRICE

The following are the Maximum Purchase/Sales prices permitted by the ADFA for housing purchased and/or constructed pursuant to this Mortgage Obligation Agreement:

SINGLE UNIT HOUSING	
Newly Constructed	See Schedule III
Existing Housing	See Schedule III

PROVIDED FURTHER THAT THE APPRAISED VALUE OF SUCH HOUSING SHALL NOT EXCEED 100% OF SAID MAXIMUM PURCHASE/SALES PRICES.

B. DOWNPAYMENT REQUIREMENTS

Following Loan Insuring Agency guidelines and regulations.

C. LOAN AMOUNT REQUIREMENTS

The principal amount of the mortgage loan will not exceed any applicable loan-to-value limits as established by FHA, USDARD, VA, GNMA or FNMA.

D. MORTGAGE LOAN INSURERS

1. FannieMae guidelines **must** be followed for insuring of Conventional Loans. Private Mortgage Insurance Companies must be approved by Fannie Mae/FHLMC and be licensed to conduct business in the State of Arkansas.
2. FHA loans **must** be insured by FHA.
3. RURAL DEVELOPMENT loans **must** be guaranteed by RURAL DEVELOPMENT.
4. VA loans **must** be guaranteed by Department of Veterans Affairs.

ARKANSAS DEVELOPMENT FINANCE AUTHORITY

HomeToOwn Program
Schedule III

STATE OF ARKANSAS 2004 INCOME BY COUNTY & HOUSEHOLD SIZE

Purchase Price Limits by County/New Existing (Effective March 19, 2004)

Income Limits by County and Household Size (Effective February 27, 2004)

N=Non-Targeted T=Targeted		PURCHASE PRICE LIMITS		2004 INCOME LIMITS	
				1-2 MEMBER	3-MORE MEMBER
N/T	**COUNTY**	**EXISTING**	**NEW CONSTRUCTION**	**HOUSEHOLD**	**HOUSEHOLD**
N	Arkansas	$160,176	$160,176	$45,300	$52,095
N	**Ashley**	**$160,176**	**$160,176**	**$45,300**	**$52,095**
N	Baxter	$160,176	$160,176	$45,300	$52,095
N	**Benton**	**$160,176**	**$160,176**	**$52,000**	**$59,800**
N	Boone	$160,176	$160,176	$45,300	$52,095
T	**Bradley**	**$160,176**	**$160,176**	**$54,360**	**$63,420**
T	Calhoun	$160,176	$160,176	$54,360	$63,420
N	**Carroll**	**$160,176**	**$160,176**	**$45,300**	**$52,095**
T	Chicot	$160,176	$160,176	$54,360	$63,420
T	**Clark**	**$160,176**	**$160,176**	**$54,360**	**$63,420**
N	Clay	$160,176	$160,176	$45,300	$52,095
T	**Cleburne**	**$160,176**	**$160,176**	**$54,360**	**$63,420**
N	Cleveland	$160,176	$160,176	$46,700	$53,705
T	**Columbia**	**$160,176**	**$160,176**	**$54,360**	**$63,420**
T	Conway	$160,176	$160,176	$54,360	$63,420
N	**Craighead**	**$160,176**	**$160,176**	**$46,200**	**$53,130**
T	Crawford	$160,176	$160,176	$54,360	$63,420
T	**Crittenden**	**$160,176**	**$160,176**	**$68,760**	**$80,220**
T	Cross	$160,176	$160,176	$54,360	$63,420
T	**Dallas**	**$160,176**	**$160,176**	**$54,360**	**$63,420**
T	Desha	$160,176	$160,176	$54,360	$63,420
T	**Drew**	**$160,176**	**$160,176**	**$54,360**	**$63,420**
N	Faulkner	$160,176	$160,176	$55,100	$63,365
N	**Franklin**	**$160,176**	**$160,176**	**$45,300**	**$52,095**
N	Fulton	$160,176	$160,176	$45,300	$52,095
N	**Garland**	**$160,176**	**$160,176**	**$45,300**	**$52,095**
N	Grant	$160,176	$160,176	$46,000	$52,900
N	**Greene**	**$160,176**	**$160,176**	**$45,300**	**$52,095**
N	Hempstead	$160,176	$160,176	$45,300	$52,095
N	**Hot Spring**	**$160,176**	**$160,176**	**$45,300**	**$52,095**
N	Howard	$160,176	$160,176	$45,300	$52,095
N	**Independence**	**$160,176**	**$160,176**	**$45,300**	**$52,095**
N	Izard	$160,176	$160,176	$45,300	$52,095
N	**Jackson**	**$160,176**	**$160,176**	**$45,300**	**$52,095**
T	Jefferson	$160,176	$160,176	$54,720	$63,840
N	**Johnson**	**$160,176**	**$160,176**	**$45,300**	**$52,095**

SCHEDULE III

Page 2

N=Non-Targeted
T=Targeted

N/T	COUNTY	PURCHASE PRICE LIMITS EXISTING	PURCHASE PRICE LIMITS NEW CONSTRUCTION	2004 INCOME LIMITS 1-2 MEMBER HOUSEHOLD	2004 INCOME LIMITS 3-MORE MEMBER HOUSEHOLD
T	Lafayette	$160,176	$160,176	$54,360	$63,420
N	**Lawrence**	**$160,176**	**$160,176**	**$45,300**	**$52,095**
T	Lee	$160,176	$160,176	$54,360	$63,420
T	**Lincoln**	**$160,176**	**$160,176**	**$54,360**	**$63,420**
N	Little River	$160,176	$160,176	$45,300	$52,095
N	**Logan**	**$160,176**	**$160,176**	**$45,300**	**$52,095**
N	Lonoke	$160,176	$160,176	$55,100	$63,365
T	**Madison**	**$160,176**	**$160,176**	**$54,360**	**$63,420**
N	Marion	$160,176	$160,176	$45,300	$52,095
N	**Miller**	**$160,176**	**$160,176**	**$45,300**	**$52,095**
T	Mississippi	$160,176	$160,176	$54,360	$63,420
T	**Monroe**	**$160,176**	**$160,176**	**$54,360**	**$63,420**
N	Montgomery	$160,176	$160,176	$45,300	$52,095
T	**Nevada**	**$160,176**	**$160,176**	**$54,360**	**$63,420**
N	Newton	$160,176	$160,176	$45,300	$52,095
T	**Ouachita**	**$160,176**	**$160,176**	**$54,360**	**$63,420**
T	Perry	$160,176	$160,176	$54,360	$63,420
T	**Phillips**	**$160,176**	**$160,176**	**$54,360**	**$63,420**
N	Pike	$160,176	$160,176	$45,300	$52,095
N	**Poinsett**	**$160,176**	**$160,176**	**$45,300**	**$52,095**
N	Polk	$160,176	$160,176	$45,300	$52,095
N	**Pope**	**$160,176**	**$160,176**	**$45,300**	**$52,095**
T	Prairie	$160,176	$160,176	$54,360	$63,420
N	**Pulaski**	**$160,176**	**$160,176**	**$55,100**	**$63,365**
N	Randolph	$160,176	$160,176	$45,300	$52,095
T	**St. Francis**	**$160,176**	**$160,176**	**$54,360**	**$63,420**
N	Saline	$160,176	$160,176	$55,100	$63,365
T	**Scott**	**$160,176**	**$160,176**	**$54,360**	**$63,420**
T	Searcy	$160,176	$160,176	$54,360	$63,420
N	**Sebastian**	**$160,176**	**$160,176**	**$45,300**	**$52,095**
N	Sevier	$160,176	$160,176	$45,300	$52,095
N	**Sharp**	**$160,176**	**$160,176**	**$45,300**	**$52,095**
N	Stone	$160,176	$160,176	$45,300	$52,095
N	**Union**	**$160,176**	**$160,176**	**$45,300**	**$52,095**
N	Van Buren	$160,176	$160,176	$45,300	$52,095
N	**Washington**	**$160,176**	**$160,176**	**$52,000**	**$59,800**
T	White	$160,176	$160,176	$54,360	$63,420
T	**Woodruff**	**$160,176**	**$160,176**	**$54,360**	**$63,420**
T	Yell	$160,176	$160,176	$54,360	$63,420

03/19/04

SCHEDULE III

Page 3

The Maximum Household Income Limits are regulated by the Treasury Department. The following **MUST** be considered when calculating borrower's income. **ALL** SOURCES OF INCOME **MUST** BE CONSIDERED.

Household Income is defined as "the current family income of a potential Mortgagor, and shall in any event include the current gross income of **ALL** persons who reside or intend to reside with such Mortgagor in the same dwelling unit (other than persons under 18 years of age who are not primarily liable or secondarily liable on the Mortgage Note), but exclusive of the income of any CO-SIGNER of a Mortgage Note who does not reside or intend to reside therein, as evidenced by documentation satisfactory to the Authority." Current gross income is annualized current gross monthly income (gross monthly income multiplied by 12).

GROSS MONTHLY INCOME IS THE SUM OF MONTHLY GROSS PAY AND ANY ADDITIONAL INCOME INCLUDING BUT NOT LIMITED TO THE FOLLOWING:

Alimony
Bonuses
Business Activities Income
Child Support
Commissions
Dividends
Income from Assets
Interest
Investments Income
Mileage
Military Allowance
Net Rental Income
Overtime
Part-Time Employment
Pensions
Public Assistance
Royalties
Shift Differential
Sick Pay
Social Security Benefits
Trust Income
Unemployment Compensation
VA Compensation

Arkansas Development Finance Authority
HomeToOwn Program

CHAPTER 3
MORTGAGE LENDER CREDIT/REAL ESTATE UNDERWRITING

ADFA is pleased to purchase the following types of Mortgage Loans for our HomeToOwn Program. These types of Mortgage Loans are eligible for participation in the Single Family Program:

FHA Loans: 203(b), 203(b)/Vet, 234c, 203(k), 203(h), in applicable areas. **ADFA encourages the use of the FHA Energy-Saving Mortgage**.

V.A. Guaranteed Loans: Guaranteed by the Department of Veterans Affairs.

Conventional Loans: (for pooling to Fannie Mae) will include Community Home Buyer Program Loans and the Housing Finance Agencies (HFA) One Percent Option using the Downpayment Assistant Loan.

Rural Development: Guaranteed Rural Housing Loans.

Each Mortgage Lender is required to provide to ADFA, in the Mortgage Origination Agreement (as defined in Chapter 1), its Approved Mortgage Lender Numbers for FHA Loans, VA Loans, FNMA Loans and Rural Development Loans. If the Mortgage Lender is also an approved direct endorsement "Chums Underwriter", those approved mortgager lender numbers must also be included in the Mortgage Origination Agreement. If any changes occur within your lending institution, please notify ADFA.

As our bond lender, we are allowing you to credit underwrite our ADFA loans. ADFA needs additional compliance underwriting information to make our files complete. Items we now request **must** include:

FHA Loans: signed mortgage credit analysis worksheet (MCAW), and any automated underwriting finding (if applicable).

V.A. Guaranteed Loans: signed loan analysis approval sheet, and automated underwriting findings (if applicable).

Conventional Loans: signed uniform underwriting transmittal summary (1008), and automated underwriting findings (if applicable).

Rural Development: signed conditional commitment and any automated underwriting findings (if applicable).

Please note that the Master Servicer has provided the following underwriting checklists for use with the following categories of Mortgage Loans: FHA Loans, VA Loans, Conventional Loans and USDA Rural Development Loans. For your convenience, ADFA has included copies of those four checklists at the end of this Chapter.

The **Real Estate Appraisal** should have consistency throughout the appraisal. The comparables need to be similar. All appraisers must be on the Mortgage Lender's approved appraiser list. Note: If there are any discrepancies with the appraisal, ADFA may ask for clarification.

ALL MORTGAGE LOANS MUST BE INSURABLE OR GUARANTEED BY MORTGAGE TYPE AND SALEABLE ON THE SECONDARY MARKET. IN THE EVENT THAT A MORTGAGE LOAN IS NOT INSURABLE OR GUARANTEED, BOTH THE MORTGAGE LOAN AS WELL AS ANY DPA LOAN MUST BE REPURCHASED BY THE ORIGINATING MORTGAGE LENDER.

ADFA's main goal is to quickly process loans with accuracy so when the loans are delivered to the secondary market, they can be purchased faster with no exceptions.

USBank Home Mortgage MRBP Division
Underwriting Checklist

DATE: ______________________________ LENDER: ____________________________

LOAN # ____________________________ PROCESSOR:_________________________

APPLICANT: ___________________________ PHONE NO.: __________________________

LOAN TYPE : FHA VA CONVENTIONAL RD FAX NO.: __________________________

CIRCLE ONE OF THE ABOVE

If Conventional – specify product ________________ UNDERWRITING FEE REQUIRED: _________

CHECK ALL BOXES INDICATING DOCUMENTS INCLUDED IN THIS PACKAGE. FAILURE TO FOLLOW STACKING ORDER MAY CAUSE DELAYS IN UNDERWRITING.

RIGHT SIDE OF FILE (ACCO-FASTENED)

- ❑ **UNDERWRITING FEE**
- ❑ **BOND REGISTRATION**
- ❑ **SECONDARY FINANCING, GIFTS, GRANTS**
- ❑ **FNMA TRANSMITTAL, MCAW, LOAN ANALYSIS LOAN SUMMARY, REQ. FOR LOAN GUARANTEE**
- ❑ **ORIGINAL & TYPED APPLICATION**
- ❑ **ADDENDUM FOR FHA**
- ❑ **CASE # ASSIGNMENT, CAIVR # AND LDP/GSA REVIEW (ON MCAW OR LOAN ANALYSIS OR 1008)**
- ❑ **EVIDENCE OF SOCIAL SECURITY NUMBER**
- ❑ **CUSTOMER IDENTIFICATION NOTICE – PATRIOT ACT NOTICE**
- ❑ **ORIGINAL CERTIFICATE OF ELIGIBILITY**
- ❑ **THREE BUREAU MERGED CREDIT REPORT OR RMCR**
- ❑ **SIGNED CREDIT EXPLANATIONS, BANKRUPTCY PETITION & DISCHARGE**
- ❑ **VERIFICATION OF MORTGAGE/RENT**
- ❑ **DIVORCE DECREE/SEPARATION AGREEMENT**
- ❑ **VOE (2 YEAR HISTORY) OR PHONE CERTIFICATION**
- ❑ **REQUIRED PAY STUBS, OTHER INCOME DOCUMENTS**
- ❑ **3 YEARS TAX RETURNS, ALL SCHEDULES, W-2'S, SIGNED 4506**
- ❑ **YEAR TO DATE PROFIT AND LOSS (SELF-EMPLOYED)**
- ❑ **2 YEARS BUSINESS RETURNS FOR S CORPS & PARTNERSHIPS**

- ❑ **VOD OR RECENT TWO MONTHS BANK STATEMENTS (all pages)**
- ❑ **GIFT LETTER & ALL REQUIRED DOCUMENTS**
- ❑ **HUD-1 FROM SALE OF HOME**
- ❑ **PURCHASE CONTRACT & ALL ADDENDUMS, REAL ESTATE CERTIFICATION AND AMENDATORY CLAUSE**
- ❑ **FHA IMPORTANT NOTICE TO HOMEBUYER**
- ❑ **FOR YOUR PROTECTION GET A HOME INSPECTION**
- ❑ **REPAIR LETTER SIGNED BY BUYER/SELLER**
- ❑ **APPRAISAL, VC SHEETS, REQUEST FOR DETERMINATION OF REASONABLE VALUE**
- ❑ **THERMAL COMPLIANCE CERTIFICATION & CERTIFICATION FOR EXISTING HOME COMPONENT SYSTEMS**
- ❑ **CONDITIONAL COMMITMENT**
- ❑ **GOOD FAITH & TIL**
- ❑ **INFORMATION DISCLOSURE AUTHORIZATION**
- ❑ **FEDERAL COLLECTION POLICY NOTICE**
- ❑ **DEBT QUESTIONNAIRE**
- ❑ **RATE & DISCOUNT DISCLOSURE**
- ❑ **COUNSELING CHECKLIST FOR MILITARY HOMEBUYERS (IF ACTIVE DUTY)**
- ❑ **ALL REQUIRED DISCLOSURES**
- ❑ **HOMEBUYER EDUCATION CERTIFICATE**
- ❑ **CERTIFICATION OF RATE LOCK**

ALL DOCUMENTS ARE REQUIRED TO BE ORIGINAL OR CERTIFIED COPIES

Rev. 6/4/04

Arkansas Development Finance Authority
HomeToOwn Program

CHAPTER 4 - DOWN PAYMENT ASSISTANCE LOANS

ADFA is ready to offer two types of down payment assistance loans. Both of these down payment choices will be available on the Internet Reservation System for ADFA's approved lenders. The two types of loans include the current Down Payment Assistance (DPA) Loan that is a 10 year amortizing mortgage or the American Dream Down Payment Initiative (ADDI)/HOME Program that is a forgivable loan with a five year affordability period attached to it.

A. ADFA'S Down Payment Assistance Loan (DPA)

ADFA is pleased to be able to provide down payment and closing cost assistance in the form of a Down Payment Assistance Loan secured by a second mortgage ("DPA Loan") to those who qualify for it. The amount of assistance available ranges from $1,000 up to a maximum of $3,000. All DPA Loans must be issued in conjunction with a Single Family Program Mortgage Loan. Please note that the funds are a loan.

The proceeds of the DPA Loan can only be used for certain items. Of course, funds may be used for an Eligible Borrower's down payment and Closing costs. There is no "cash back" to the Eligible Borrower at Closing. If the amounts of the Mortgage Loan and the DPA Loan exceed the amounts required at Closing, the DPA Loan amount must be reduced. We urge you to calculate your loan amounts as accurately as possible to save everyone the hassle of reducing the principal balance of the Mortgage Loan at Closing. It is also important to calculate the loan amounts accurately, because in most cases, the reduction of Mortgage Loan principal costs the Eligible Borrower extra money! Origination fees and other fees based on a percentage of the Mortgage Loan amount would have already been incurred. Reducing the principal balance of the Mortgage Loan doesn't allow the Eligible Borrower to recoup any of these fees, nor does it reduce the monthly payment amount. So do everybody a favor and keep all loan amounts accurate!

The DPA Loan term is based on a 10-year amortization. It is due on sale, transfer, other disposition of the property (including any involuntary transfer by or as a result of foreclosure or judicial sale or operation of law), refinance or other satisfaction of the Mortgage Loan.

The interest rate on DPA Loans may be changed by the Authority at any time. Please refer to the ADFA website for the current rate.

Here are some other requirements for down payment assistance loan:

1. <u>Homebuyer Education</u>. All borrowers, with the exception of co-signors, are required to complete an eight our homebuyer education course taught by an ADFA-approved homebuyer counseling agency. A copy of the certificate that is issued at the end of the

course must be included in the Mortgage File. All persons that will be signing the Mortgage Note are required to take the course!

2. <u>Minimum Cash Investment</u>. A borrower will be required to invest one percent (1%) of the total sales price or purchase price of the residence or $500, whichever is greater. This change applies to all income levels, so there will no longer be a need to consider the Eligible Borrower's median income. IN NO INSTANCE SHALL THE REQUIRED DOWNPAYMENT FALL BELOW $500. The Mortgage Lender will use the Fannie Mae conventional loan Housing Finance Authority 1% Option mortgage loan product with the DPA Loan.

3. <u>Maximum Cumulative Loan to Value (CLTV)</u>.

- FHA: The sum of all financing may not exceed 100% of the Acquisition Cost plus any prepaid expenses.
- VA: The sum of all financing may not exceed 100% of the reasonable value of the property established by VA plus any Closing costs and prepaids.
- Conventional: The sum of all financing cannot exceed 100% of the lower of the Purchase Price or appraised value.
- USDARD: Sum of financing cannot exceed 100% of appraised value.

4. <u>Allowable Fees to Participant Mortgage Lender</u>. No commitment or origination fee will be charged for the DPA Loan. The Mortgage Lender may collect and retain a $50 application fee for each DPA Loan.

5. <u>Closing Requirements</u>.

- DPA Loan must meet federal truth-in-lending disclosure requirements.
- A Notice to Mortgagor and Participant Lender Certification must be completed and included in the Mortgage File for purchase.
- Second mortgage must be recorded in the official public records of the County Recorder's Office such that it constitutes a valid second lien upon the property.
- Hazard insurance policy must show the Mortgage Lender and/or its assigns as an insured second mortgagee.
- Title insurance policy must reflect the second mortgage as a valid lien against the property subordinate to the Mortgage.
- Mortgage Lender advances the funds and is reimbursed at the purchase by the Master Servicer.
- The DPA loan will be assigned to Arkansas Development Finance Authority.

6. <u>Servicing Information</u>.

- DPA Loan will be serviced by the Master Servicer.
- A monthly statement will be issued and the Eligible Borrower will remit one check to cover both the first and second mortgage loan obligations.
- Assumptions are not allowed.

- A DPA Loan administration fee of $150 will be netted at purchase from the DPA Loan funds by the Master Servicer.
- There is no prepayment penalty.
- There is no recapture tax provision.
- In the event that the Mortgage Loan (the “First Mortgage”) is determined to be uninsurable on the secondary market, then the originating Mortgage Lender will be obligated to repurchase both the Mortgage Loan (“First Mortgage”) as well as the DPA Loan.

B. AMERICAN DREAM DOWNPAYMENT INITIATIVE (ADDI)/HOME PROGRAM

President Bush signed the American Dream Down payment Initiative (ADDI) into law on December 16, 2003, under the American Dream Down payment Act (Public Law 18-186) (ADDI statute). Funds made available under the ADDI statute will be allocated to eligible HOME Investment Partnerships Program participating jurisdictions (PJ) to assist low-income families become first-time homebuyers. Goals of the ADDI Program include increase overall homeownership rate, create greater opportunity for homeownership among lower income and minority households, and revitalize and stabilize communities.

ADFA will provide the ADDI/HOME Program funds in the form of a forgivable loan (second mortgage) in an amount of $1,000 to $5,000 for down payment and closing costs in conjunction with ADFA’s HomeToOwn Mortgage Revenue Bond Program. The ADDI/HOME Program forgivable loan is accessible through the Internet Reservation System. The assistance will be forgiven in equal annual installments over the five-year affordability period for qualified borrowers who have maintained the home as their principal residence. The documents for this program will include a note, mortgage, assignment and ADDI/HOME Agreement.

If the home is pre-1978 built, lead-based paint may need to be addressed and the HOME staff will work with the first-time homebuyers in making the home free of any lead-based paint by placing another forgivable loan on the property with an affordability period attached to it also. Documents will include a note, mortgage and Lead-based Paint HOME Agreement. All of these documents will be available through the Internet Reservation System.

Requirements of the ADDI/HOME Program that must be attained include:

1. A first-time homebuyer is an individual or a married person who along with their spouse who have not owned a home for the past three years. Borrower(s) must furnish the most recent 3 years tax returns with W-2’s attached to the lender and Verification of Rental for the past three years. This includes both targeted and non-targeted counties.

2. The first time homebuyer’s income cannot exceed 80% of area median income for all seventy-five counties throughout the State of Arkansas. Income limits are adjusted for the total number of persons who will occupy the residence.

3. Homebuyer(s) must complete an 8-hour Homebuyer Counseling Course from an ADFA approved counselor.

4. Under ADDI eligible property types include, single-family housing (1-4 family residence), condominium unit, or combination of manufactured housing attached to real estate property. The unit must meet all applicable State and local housing quality standards, and the Model Energy Code. The purchase price cannot exceed the HUD 203 (b) Mortgage Limits.

5. The borrower(s) must own, maintain, and occupy this home as their principal residence. The borrower must occupy the home within 60 days of closing the loan.

6. A Housing Quality Standard (HQS) Inspection will be conducted on all homes by ADFA Inspectors. This inspection will be done on all homes that are using the ADDI/HOME Program. This is NOT a home inspection.

7. Only one down payment assistance loan can be obtained for a qualified buyer from ADFA. If the person's income qualifies for the ADDI/HOME Program that is great but if they are over the income limit, then the regular ADFA Down Payment Assistant (DPA) loan can be used.

8. The borrower(s) will be subject to an affordability period of years based upon the amount of assistance received from the ADDI/HOME Program. If the home is not maintained and sold before the affordability period is up, there will be recapture of HOME subsidy.

Affordability Periods

Home Subsidy	Affordability Period
Less than $15,000	5 years
$15,000 - $25,000	10 years

9. If the home purchase was built pre-1978, lead-based paint may be present and additional HOME funds may be used in conjunction with HOME Program to rehabilitate or eliminate identified lead-based paint hazards. A **Lead-Based Paint Risk Assessment Inspection** will occur by ADFA Inspectors to determine if the home has any lead-base paint hazards and cost will be determined based on the Risk Assessment findings. Other financing will then be discussed with the first-time homebuyer through the HOME Department Staff.

10. Closing instructions will be given by ADFA HOME Staff to the lender per each loan since the ADDI/HOME Program regulations are different from the Mortgage Revenue Bond Program. On the ADDI/HOME approval sheet, the fee structure will be made available to send to the title company. As a lender, you will be able to view the loans and know the status just like the DPA on the Internet Reservation System. ADFA is making this additional down payment assistance similar to the current program.

Arkansas Development Finance Authority
HomeToOwn Program

CHAPTER 5 – MORTGAGE LOAN ORIGINATION

A. Taking Loan Applications - Initial Screening

Mortgage Lenders may accept applications on residences located anywhere within the State. If, after a particular Mortgage Lender initially joins the Single Family Program by executing a Mortgage Origination Agreement, the Mortgage Lender opens additional loan origination branches, the Mortgage Lender must send or fax a letter to ADFA listing the name, address, telephone and contact person at each new location.

a. Date of Sales Contract or Application. Since we have moved to continuous funding, we should always be able to offer Mortgage Loan proceeds. You will no longer have to restrict the date of the Standard Residential Purchase Contract or explain the date the loan application was taken.

b. Pre-Screening Applicants. We request that prior to taking a loan application for an ADFA Mortgage Loan, you take a few minutes to pre-screen the Eligible Borrowers. Ask such questions as:

- Is the Eligible Borrower and any Co-Eligible Borrower a first-time homebuyer?
- Is the Eligible Borrower's spouse a first-time homebuyer even though he or she may choose not to be liable on the Mortgage Loan?
- How does the Eligible Borrower honestly describe his or her credit history?

Once the Mortgage Lender is satisfied with the answers and believes that it has a legitimate candidate for the Single Family Program, then the Mortgage Lender should take the application and proceed to website at:

https://www.adfaweb.adfa.state.ar.us/logon.htm

c. Click here for loan origination documents. Origination documents can be processed by the originator with the Eligible Borrower(s) present. You will need to log on the Internet using your originator number, branch number, password and user ID number.

B. The Reservation Process

The next step is to reserve Single Family Program funds for the borrower. In order to reserve funds, Mortgage Lenders need only access to the ADFA web page at:

https://www.adfaweb.adfa.state.ar.us/logon.htm

Prior to making a reservation request, the Mortgage Lender should have in hand the following information:

a. **LOAN APPLICATION** (**Signed and dated** by borrower, any co-borrower and the Mortgage Lender).

b. **CREDIT REPORT** (Standard report from a credit reporting bureau or merged-in file with three repositories).

c. **OFFER & ACCEPTANCE** (**Signed and dated** by borrower(s), Seller(s) and all real estate persons involved with the transaction).

d. **CONSTRUCTION/HOME BUILDER CONTRACT** (**Signed and dated** by the borrower and his or her homebuilder).

e. **ITEMIZED ACQUISITION COST BREAKDOWN/WITH MATERIAL AND LABOR LIST** (If Eligible Borrower is building his or her own house).

f. **CONTRACTOR BIDS** (For **FHA 203(k)** Loans, copies of **signed** contractor bids to rehabilitate property. If unavailable at time of Mortgage Loan application, ADFA will accept **signed** letter from Mortgage Lender stating approximate cost of rehabilitation).

A **$100 reservation fee** must be collected on all Mortgage Loans--including new construction--to be credited at Closing. Please be sure that all documents are executed by all parties involved.

The loan reservation system is open from 7:00 a.m. to 10:00 p.m., Monday through Friday, except for State-observed holidays.

At time of reservation, you will be assigned a loan tracking number. This is very important. Put the tracking number on all documentation throughout your file. Refer to it every time you send us a fax, a letter or other documentation. If you don't, we won't be able to respond in a prompt manner because we will be conducting computer searches to identify the file and its underwriter. If you are utilizing our downpayment assistance program (described below), you will also reserve those funds at this point.

Keep in mind that you have thirty (30) days to review the Mortgage File, assemble the ADFA package and send it to us. WE ARE NOT OBLIGATED TO HONOR THE RESERVATION AFTER THE THIRTY (30) DAYS HAVE EXPIRED.

Note: At the time the reservation is made the Loan Rate is LOCKED regardless of future rate changes.

Please keep in mind that once you've received a tracking number, you're telling us you're pretty much ready to go with that specific Eligible Borrower and Mortgage Loan. We realize there might be an occasion to transfer either a given residence (property address) or a Mortgage Lender and we will consider these types of requests, but know that we will ask for a written explanation from the loan officer.

ADFA charges each lender a $25 fee for every loan that is reserved. The Lender cannot charge the fee to the buyer of the property on the HUD-1 Settlement Statement at closing due to FHA/HUD Regulations as to what are borrower items that may be charged at closing. This $25.00 fee needs to be sent with the closing package that ADFA receives after the loan is closed.

C. Applicable HomeToOwn Compliance Schedule:

****Applicable Forms - Available on Internet Reservation System in fillable form****

5-A Borrower's Certificate as to Income

5-A1 Occupant Income Certification Affidavit

5-B Borrower's Affidavit and Certification

5-C Notice to Buyers

5-D Supplemental Affidavit and Certification - Rental Property

5-E Supplemental Affidavit and Certification - Manufactured Home

5-F Notice to Mortgagor of Potential Recapture Tax; Owner Occupancy Requirement; Purchase Price Limits and Income Limits; Final Shipping Date

ARKANSAS DEVELOPMENT FINANCE AUTHORITY
HomeToOwn Program
EXHIBIT 5-A

BORROWER'S CERTIFICATE AS TO INCOME

Ladies and Gentlemen:

I understand that HOUSEHOLD INCOME includes total income from all sources (before taxes or withholding) of all adult persons residing or intending to reside in the Single Family Residence to be financed with the proceeds of the Mortgage Loan. The total number of all persons who will reside or intend to reside in this Single Family Residence is ______. The total number of all persons 18 years old or older who will reside or intend to reside in this Single Family Residence is ______. Household Income is defined as the "current household income of a potential Mortgagor, and shall in any event include the current gross income of all persons who reside or intend to reside with such Mortgagor in the same dwelling unit (other than persons under 18 years of age who are not primarily liable or secondarily liable on the Mortgage Note), but exclusive of the income of any CO-SIGNER of a Mortgage Note who does not reside or intend to reside therein, as evidenced by documentation satisfactory to the "Authority." The information contained in the loan application is information relevant to a determination of my annual Household Income as the date hereof, and to the best of my knowledge and belief. Current gross income is gross monthly income multiplied by twelve (12). Gross monthly income is the sum of monthly gross pay, any additional income from overtime, part-time employment, bonuses, commissions, dividends, income from assets, interest, royalties, shift differential, pensions, VA compensation, net rental income, etc., and other income such as alimony, child support, mileage, military allowance, public assistance, sick pay, social security benefits, unemployment compensation, income received from trusts, and income received from business activities or investments, etc.

As defined above, my annual Household Income is $______________. I do not expect such annual Household Income to change within the next 120 days. This amount includes the annual income of all persons age 18 years and older who intend to occupy the mortgaged property.

BORROWER:	**CO-BORROWER:**
(x)______________________________	(x)______________________________
Name:____________________________	Name:____________________________
Date:_____________________________	Date:_____________________________

PROPERTY ADDRESS:____
(MAILING ADDRESS/STREET & NUMBER) (AS ON NOTE & MORTGAGE)

____
(CITY/STATE/ZIP CODE)

THIS DOCUMENT MUST BE EXECUTED BY BORROWER AND CO-BORROWER AT TIME OF LOAN APPLICATION

ARKANSAS DEVELOPMENT FINANCE AUTHORITY
HomeToOwn Program
EXHIBIT 5 A-1

NON BORROWER OCCUPANT INCOME AFFIDAVIT

The undersigned,____ duly states under oath that:

1. I intend to be an occupant of the residence located at : _________________________
   ____.

2. My gross monthly income is $_____________ (Gross monthly income is the sum of monthly gross pay, any additional income from overtime, part-time employment, bonuses, commissions, dividends, income from assets, interest, royalties, shift differential, pensions, VA compensation, net rental income, etc., and other income such as alimony, child support, mileage, military allowance, public assistance, sick pay, social security benefits, unemployment compensation, income received from trusts, and income received from business activities or investments, etc.).

3. Three years of Federal Income Tax Returns are required.

   I am providing tax returns with W-2's attached for the following years:
   _______; _______;_______.

   I have **not** filed, and was under no obligation to file, the following income tax years: _______;_______;_______.

4. (CHECK APPROPRIATE RESPONSE). I have ____ I have **not** ____ had a present ownership interest in a principal residence of mine at any time during the three-year period prior to the date of executing the mortgage on said residence.

I UNDERSTAND THAT FOR THE PURPOSES OF THE FOREGOING, EXAMPLES OF INTERESTS WHICH CONSTITUTE A PRESENT OWNERSHIP INTEREST (AND THUS WOULD RESULT IN MY **NOT** MEETING SUCH REQUIREMENTS) ARE THE FOLLOWING:

a. A fee simple interest:
b. A joint tenancy, a tenancy in common, or a tenancy by the entirety;
c. The interest of a tenant-shareholder in a cooperative;
d. A life interest;
e. A land contract (i.e., a contract pursuant to which possession and the benefits of ownership transferred although a legal title is **not** transferred until some later date);
f. An interest held in trust for the mortgagor (whether or **not** created by the mortgagor) that would constitute ownership interest if held directly by the mortgagor;

g. A lease with an option to purchase for a nominal sum; and
h. An interest in a mobile home that has been, and is now, permanently affixed to real property.

EXAMPLES OF INTEREST WHICH DO **NOT** CONSTITUTE PRESENT OWNERSHIP INTEREST AND THUS WOULD **NOT** RESULT IN MY FAILING TO MEET THE REQUIREMENTS ARE THE FOLLOWING:

a. A remainder interest;
b. A lease without an option to purchase or a lease with an option to purchase at fair market value;
c. A mere expectancy to inherit an interest in a principal residence;
d. The interest that a purchaser of a residence acquires on the execution of a purchase contract;
e. An interest in other than a principal residence during the previous three years;
f. An interest in a mobile home that has **not** been, and is **not** now, permanently affixed to a real property.

OCCUPANT (x)____________________________________

Name:____________________________________

Date:__________

ACKNOWLEGMENT

STATE OF ARKANSAS)
COUNTY OF ____________________)

On this______ day of ___________, 20_____, before me, a Notary Public within and for the said County and State, personally appeared ____
to me known to be the person(s) subscribed therein and who, being by me first duly sworn, executed the foregoing Occupant's Income Certification Affidavit, and acknowledged, deposed and said that he/she/they executed the same as his/her/their free act and deed and stated that the information and certifications contained therein are true and correct.

IN WITNESS WHEREOF, I have hereunto set my hand and seal this _____ day of __________, 20____.

____
Notary Public

My Commission Expires:
____
(SEAL)

ARKANSAS DEVELOPMENT FINANCE AUTHORITY
HomeToOwn Program
EXHIBIT 5-B

BORROWER'S APPLICATION AFFIDAVIT AND CERTIFICATION

The undersigned, ____, duly states under oath that:

1. I am a borrower and mortgagor (the "Borrower") of the residence located at ____, and legally described as follows:

   Legal Description:

2. I either occupy such residence (or one unit of the duplex constituting such residence) as my principal residence, or I will do so within sixty (60) days of the date the Mortgage Loan is executed, and I will maintain such property (or units) as my principal residence. (If a duplex, property was occupied as a residence at least five (5) years prior to the date hereof).

3. No part of the Mortgage Loan proceeds is being or will be used to acquire or replace an existing mortgage loan, and I did **not** have a mortgage loan (whether or **not** paid off) on said residence at any time prior to the execution of the Mortgage loan (except that I may have a construction period loan or temporary initial financing of 24 months or less with the respect to the residence and may use the proceeds of the Mortgage Loan to repay such financing).

4. The purchase price of the residence is $______________ or less. I understand that for the purpose of the foregoing Purchase Price of the residence is the cost of acquiring the residence from the seller as a completed residential unit. The acquisition cost includes:

   a. **All** amounts paid, either in cash or in kind, by the purchaser (or a related party or for the benefit of the purchaser) to the seller (or a related party or for the benefit of the seller) as a consideration for the residence (including the payment or assumption of any liability for a debt of the seller). The residence includes **all** property that is a fixture. The purchase price also includes the acquisition cost of any other item in excess of the fair market value.
   b. If a residence is incomplete, the reasonable cost of completing the residence whether or **not** the cost of completing construction is to be financed with the proceeds of the Mortgage Loan.
   c. (DELETE IF **NOT** APPLICABLE). Where a residence is purchased subject to a ground lease, the capitalized value of the ground lease, using the discount rate provided by the Arkansas Development Finance Authority ("ADFA").

____/____
Initial

The acquisition cost does **not** include:

d. The usual and reasonable settlement or financing costs. Settlement costs include titling and transfer costs, title insurance, survey fees, or other similar costs. Financing costs also include credit reference fees, legal fees, appraisal expenses, "points" which are paid by the purchaser or other costs of financing the residence.
e. The value of services performed by any purchaser's family in completing the residence. For purposes of the preceding sentence, the family of an individual includes only the individual's brothers and sisters (whether by whole or half blood), spouse, ancestors, and lineal descendants.
f. The cost of land, which has been owned by any purchaser for, at least two (2) years prior to the date on which construction of the residence began.

5. (CHECK APPROPRIATE RESPONSE). I have I have **not** had a present ownership interest in a principal residence of mine at any time during the three-year period prior to the date on which I will be executing the Mortgage on said residence, and to the best of my knowledge, the same is true with respect to each other person (if any) purchasing and mortgaging said residence with me.

I UNDERSTAND THAT FOR THE PURPOSES OF THE FOREGOING, EXAMPLES OF INTERESTS WHICH CONSTITUTE A PRESENT OWNERSHIP INTEREST (AND THUS WOULD RESULT IN MY **NOT** MEETING SUCH REQUIREMENTS) ARE THE FOLLOWING:

a. A fee simple interest:
b. A joint tenancy, a tenancy in common, or a tenancy by the entirety;
c. The interest of a tenant-shareholder in a cooperative;
d. A life interest;
e. A land contract (i.e., a contract pursuant to which possession and the benefits of ownership transferred although a legal title is **not** transferred until some later date);
f. An interest held in trust for the mortgagor (whether or **not** created by the mortgagor) that would constitute ownership interest if held directly by the mortgagor;
g. A lease with an option to purchase for a nominal sum; and
h. An interest in a mobile home that has been, and is now, permanently affixed to real property.

EXAMPLES OF INTEREST WHICH DO **NOT** CONSTITUTE PRESENT OWNERSHIP INTEREST AND THUS WOULD **NOT** RESULT IN MY FAILING TO MEET THE REQUIREMENTS ARE THE FOLLOWING:

a. A remainder interest;
b. A lease without an option to purchase or a lease with an option to purchase at fair market value;
c. A mere expectancy to inherit an interest in a principal residence;

d. The interest that a purchaser of a residence acquires on the execution of a purchase contract;
e. An interest in other than a principal residence during the previous three years;
f. An interest in a mobile home that has **not** been, and is **not** now, permanently affixed to a real property.

6. The residence contains no more than two separate family dwelling units, if there are two units, one unit **must** have been used as a residence for 5 years, and one of the units **must** be occupied by the borrower as his or her principal residence.

7. I WILL **NOT** PERMIT ANY PERSON TO ASSUME MY OBLIGATIONS UNDER THE MORTGAGE (AND RELATED MORTGAGE NOTE), NOR WILL I TRANSFER TITLE TO THE RESIDENCE (EXCEPT AS SET FORTH IN THE MORTGAGE), UNLESS SUCH PERSON SATISFIES THE FOREGOING REQUIREMENTS, AND UNLESS THE PURCHASE PRICE OF THE RESIDENCE DOES **NOT** EXCEED THE MAXIMUM PURCHASE PRICE ALLOWED BY ADFA AND SUCH PERSON SO STATES UNDER OATH.

   The purchase price limitation, which is required by the federal tax laws, may be a lower number at the time of the assumption than was in effect at the time of the ORIGINAL purchase. This may occur in the case of the purchase of a newly constructed home. If such home has **not** previously been occupied (i.e., at the time of ORIGINAL purchase), such home is subject to the maximum purchase price for the "new construction." However, because such home will have been previously occupied at the time of a subsequent assumption, such home will be subject to the maximum purchase price for an "existing home." This is the case if the ORIGINAL purchaser occupied the home for any period of the time (i.e., technically even one day).

____/____
Initial

8. (DELETE THE FOLLOWING IF MORTGAGOR FILED FEDERAL INCOME TAX RETURNS). I have **not** filed, and was under no obligation to file, federal tax returns, for the following income tax years: ________________________________.

____/____
Initial

9. (DELETE THE FOLLOWING IF MORTGAGOR RESPONDED TO ITEM 8). I have filed federal income tax returns for the most recent tax years.

10. I do **not** expect to use more than 15% of the total area of the residence in a trade or business.

11. I recognize and acknowledge (i) that the indebtedness evidenced by the Mortgage Note and secured by the Mortgage is being funded by the ADFA, and by the issuance of revenue bonds by ADFA, and (ii) that in order that the funding may be effected on the terms provided by the Mortgage Note and the Mortgage, the revenue bonds of ADFA are issued in compliance with certain provisions of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations issued and proposed thereunder; and (iii) that it is pursuant to those provisions of said Code and Regulations that the certifications and requirements set forth above (including, without limitation, those set forth in paragraph 7), are made and agreed to.

12. I understand that if my Mortgage Loan is being financed (or assumed by a subsequent purchaser) after December 31, 1990, federal law provides for a "recapture tax" which may be applicable to me (or a subsequent purchaser) upon the resale of the residence. I acknowledge receipt of the Notices to Mortgagor regarding Potential Recapture Tax, **EXHIBIT 5-F** and **7-P.**

13. I acknowledge that I have received and executed the "Notice to Borrower's" regarding potential foreclosure, which notice shall be deemed incorporated herein by reference.

BORROWER:	**CO-BORROWER:**
(x)________________________________	(x)________________________________
Name:______________________________	Name:______________________________
Date:______________________________	Date:______________________________

ACKNOWLEDGMENT

STATE OF ARKANSAS)
COUNTY OF ______________________)

On this ______ day of ____________, 20____, before me, a Notary Public within and for the said County and State, personally appeared ____
____,
to me known to be the person(s) subscribed therein and who, being by me first duly sworn, executed the foregoing Borrower's Affidavit and Certification, and acknowledged, deposed and said that he/she/they executed the same as his/her/their free act and deed and stated that the information and certifications contained therein are true and correct.

IN WITNESS WHEREOF, I have hereunto set my hand and seal this ______ day of _____________, 20____.

____
Notary Public

My Commission Expires:

____
(SEAL)

ARKANSAS DEVELOPMENT FINANCE AUTHORITY
HomeToOwn Program
EXHIBIT 5-C

NOTICE TO BORROWERS

THIS NOTICE IS FOR FHA AND RURAL DEVELOPMENT HOMEBUYERS

Your home purchase is being financed with a Mortgage Loan made available with the assistance of the Arkansas Development Finance Authority. This Mortgage Loan is made at an interest rate below what is usually being charged. Because of this, your Mortgage provides that you cannot sell your home to a person ineligible for the assistance from the Authority, unless you pay your loan in full. If you sell your home to a party ineligible for the Authority's assistance, the Authority may demand immediate full repayment of the Mortgage Loan. This could result in foreclosure of your Mortgage and repossession of the property. In addition, if you rent the property or committed fraud or intentionally misrepresented yourself when you applied for the Mortgage Loan, the Mortgage Lender may foreclosure your Mortgage and repossess the property. If the Mortgage Lender takes your home through foreclosure of the Mortgage because of these reasons, HUD/Rural Development will not be able to help you.

If the money received from the foreclosure sale is not enough to pay the remaining amount you owe on the Mortgage Loan, the Authority may obtain a deficiency judgment against you (a court ruling that you must pay whatever money is still owed on the Mortgage Loan after the foreclosure sale). Such judgment will be taken over by HUD/Rural Development if the Authority files an insurance claim against HUD/Rural Development because of the foreclosure. HUD/Rural Development may then bring an action against you to collect the judgment.

BORROWER:	**CO-BORROWER:**
(x)______________________________	(x)____________________________
Name:____________________________	Name:____________________________
Date:______________________________	Date:____________________________

THIS DOCUMENT MUST BE EXECUTED BY BORROWER(S)
AT TIME OF LOAN APPLICATION

ARKANSAS DEVELOPMENT FINANCE AUTHORITY
HomeToOwn Program
EXHIBIT 5-D

SUPPLEMENTAL AFFIDAVIT AND CERTIFICATION – RENTAL PROPERTY

The undersigned,____hereby states under oath that:

1. (I)(We)have owned residential rental property during the preceding three years, set forth below:
   (Insert address(es) of unit/units). ____
   ____

2. During such period of time, the unit or units described above have been held or utilized solely as rental property and have not been utilized by (me)(us) at any time as (my)(our) principal residence.

3. During such period of time, (I)(we) have had as (my)(our) principal residence the following dwellings which
   have been (rented)(leased) (other-specify below): ____
   ____

4. (I)(We) recognize and acknowledge that:

   (a) This affidavit is furnished to the Arkansas Development Finance Authority ("ADFA") to permit ADFA to determine (my)(our) eligibility for a Mortgage Loan under applicable provisions of the Internal Revenue Code of 1986, as amended, and Treasury Regulations adopted and proposed thereunder; and
   (b) It is pursuant to those provisions of the Code and Regulations that the certifications set forth above are made, with the full intention and understanding on (my)(our) part that ADFA rely thereon.

BORROWER:	**CO-BORROWER:**
(x)________________________________	(x)________________________________
Name: _____________________________	Name: _____________________________
Date: ______________________________	Date: ______________________________

ACKNOWLEDGMENT

STATE OF ARKANSAS)
COUNTY OF __________________________)

On this______ day of _____________, 20____, before me, a Notary Public within and for said County and State, personally appeared ____, to me know to be the person(s) subscribed therein and who, being by me first duly sworn, executed the foregoing Supplemental Affidavit and Certification, and acknowledged, deposed and said that he/she/they executed the same as his/her/their free act and deed and stated that the information and certifications contained therein are true and correct.

IN WITNESS WHEREOF, I have hereunto set my hand and seal this ______, day of _____________, 20____.

My Commission Expires: ____________________________________
Notary Public

____
(SEAL)

ARKANSAS DEVELOPMENT FINANCE AUTHORITY
HomeToOwn Program
EXHIBIT 5-E

SUPPLEMENTAL AFFIDAVIT AND CERTIFICATION - MANUFACTURED HOME

The undersigned, ____hereby states under oath that:

2. (I)(We) have owned a manufactured home (or specify other):________________________________ for the past ______ years and ______months, more particularly described as follows:

(Insert description of model, type and serial number of unit)

____

3. The manufactured home described above has been (my) (our) principal residence during such period of time.

4. During the period of time that it has been (my) (our) principal residence, the manufactured home has not been, and it is not now, permanently affixed to real property. It has been and is movable and transportable without material modifications to the dwelling, other than disconnection of hookups and similar matters.

5. The manufactured home has been located at the following site(s): (insert addresses or location descriptions)

   ____

   ____

6. The site(s) listed in paragraph (4) above, (has) (have) been:

   ___ Rented ___Leased ___Other (Specify Below)

____

____

7. (I)(we) recognized and acknowledge that:

   (a) This affidavit is furnished to the Arkansas Development Finance Authority (ADFA) to permit ADFA to determine (my) (our) eligibility for a Mortgage Loan under applicable provisions of the Internal Revenue Code of 1968, as amended, and Treasury Regulations adopted and proposed thereunder; and

It is pursuant to those provisions of the Code and Regulations that the certifications set forth above are made, with the full intention and understanding on (my) (our) part that ADFA rely thereon.

BORROWER:	**CO-BORROWER:**
(x)________________________________	(x)________________________________
Name:____________________________	Name:____________________________
Date:_____________________________	Date:_____________________________

ACKNOWLEDGMENT

STATE OF ARKANSAS)
COUNTY OF ________________________)

On this ______ day of ____________, 20____, before me, a Notary Public within and for the said County and State, personally appeared ____,
to me known to be the person(s) subscribed therein and who, being by me first duly sworn, executed the foregoing Supplemental Affidavit and Certification, and acknowledged, deposed and said that he/she/they executed the same as his/her/their free act and deed and stated that the information and certifications contained therein are true and correct.

IN WITNESS WHEREOF, I have hereunto set my hand and seal this ______ day of ______________, 20____.

____
Notary Public

My Commission Expires:

____
(SEAL)

ARKANSAS DEVELOPMENT FINANCE AUTHORITY
HomeToOwn Program
EXHIBIT 5-F

NOTICE TO MORTGAGOR OF POTENTIAL RECAPTURE TAX; OWNER OCCUPANCY REQUIREMENT; PURCHASE PRICE LIMITS AND INCOME LIMITS; FINAL SHIPPING DATE

TO BE DELIVERED TO MORTGAGOR AT THE TIME OF APPLICATION FOR MORTGAGE LOAN

Because you are receiving a mortgage loan from the proceeds of a tax-exempt bond, you are receiving the benefits of a lower interest rate than is customarily charged on other mortgage loans. If you sell or otherwise dispose of your home during the next nine years, this benefit may be "recaptured." The recapture is accomplished by an increase in your federal income tax for the year in which you sell your home. The recapture only applies, however, if you sell your home at a gain and if your income increases above specified levels.

You may wish to consult a tax advisor or the local office of the Internal Revenue Service at the time you sell your home to determine the amount, if any, of the recapture tax.

Upon the closing of your Mortgage Loan, you will be given certain additional information that will be needed to calculate the amount, if any, of the "recapture tax."

The undersigned mortgagor(s) is (are) aware that they must occupy the subject residence as their principal residence, or will do so within sixty (60) days of the date of the mortgage is executed, and will maintain such property (or unit) as their principal residence and will do so until the loan is paid in full or assumed by a qualifying borrower. The mortgagor(s) is (are) also aware of the Purchase Price Limits and Income Limits as set forth in Schedule II & III of the Supplement to the Mortgage Origination Agreement.

ALL FILES MUST BE CLOSED AND SHIPPED TO THE U.S. BANK HOME MORTGAGE OF BEDFORD, OHIO, THE MASTER SERVICER.

The undersigned mortgagor(s) has (have) received and read a duplicate copy of the foregoing Notice to Mortgagor of Potential Recapture Tax, Principal Residence Requirement, Sales Price and Income Limits, and Final Shipping Dates.

MORTGAGOR:
(x)________________________________

Name: ________________________________

Date: ________________________________

CO-MORTGAGOR:
(x)________________________________

Name: ________________________________

Date: ________________________________

Arkansas Development Finance Authority
HomeToOwn Program

CHAPTER 6 – MORTGAGE LOAN PROCESSING

A. Changes to Loan Amounts, Cancellations

Changes in Mortgage Loan amounts can be made in our system prior to ADFA receiving the complete Mortgage Loan package. Once the compliance package has been received at ADFA, any additional change must be requested by fax using form Exhibit 6-J. It is very important that you do not ship a Mortgage Loan to the Master Servicer without notifying us of any changes in Mortgage Loan amounts.

If you need to cancel a Mortgage Loan, please do so within three (3) business days upon the decision that the Mortgage Loan will not qualify. We have provided a form, Exhibit 6-I, Cancellation of Reservation Form, specifically for this purpose. We will accept a copy of your notice of adverse action as long as it contains all of the information outlined in our Exhibit 6-I.

Canceled Mortgage Loan files will be warehoused at ADFA for a maximum of 30 days from cancellation and will be destroyed unless we hear from you that you want the file returned. If ADFA denies the file, we will return file to the Mortgage Lender per written request; otherwise, the denied file will be destroyed within 30 days of cancellation.

B. Compliance Approval

Mortgage Lenders underwrite the Mortgage Loan for credit. Upon your institution's conditional approval, you send the complete file to ADFA, as outlined on the checklist provided in Exhibit 6-G. We urge you to submit a completed package, as incomplete packages impede the approval process. Failure to submit the required documentation may result in the deletion of your Mortgage Loan from the reservation system.

Tax Code compliance issues are addressed more comprehensively in Chapter 2 of this Program Guide.

C. Applicable Forms – **Available on Internet Reservation System in fillable form**

6-G Preliminary Approval and Compliance Package

6-H ADFA Certificate of Compliance

6-I Cancellation of Reservation

6-J Request for Loan Amount Change

ARKANSAS DEVELOPMENT FINANCE AUTHORITY
HomeToOwn Program
EXHIBIT 6-G

PRELIMINARY APPROVAL AND COMPLIANCE PACKAGE

LOAN MUST NOT CLOSE WITHOUT SUBMISSION OF THE FOLLOWING INFORMATION AND ISSURANCE BY ADFA OF THE CERTIFICATE OF COMPLIANCE-EXHIBIT 6-H

MAIL TO: **Single Family Housing**
Arkansas Development Finance Authority
P.O. Box 8023
Little Rock, AR 72203-8023

______________________	______________________
Name of Lending Institution	ADFA Number DPA Number
______________________	______________________
Mailing Address-P.O. Box or Street & Number	ADFA Lender Number
______________________	______________________
City/State/Zip Code	Telephone Number Fax Number
______________________	______________________
Contact Person for This Loan	Email Address

NAME OF BORROWER: ____

NAME OF CO-BORROWER: ____

PROPERTY ADDRESS: ____
(Street & Number) (As on Note and Mortgage)

____
(City/State/Zip Code)

LOAN AMOUNT: $___________________

EXPECTED CLOSING DATE: ______________

DPA LOAN AMOUNT: $ ____________________

COUNTY PROPERTY LOCATED: ___________________________________

COUNTY TYPE :_________________________

Purchase Price: $ **Appraised Value: $**

LOAN TYPE ____

THIS IS A THREE (3) PAGE DOCUMENT AND MUST BE COMPLETE IN CONTENT, SIGNED AND DATED

In connection with the ADFA HomeToOwn Program, The following documents are attached for your review and issuance of Compliance Certificate (EXHIBIT 6-H)

THE FOLLOWING DOCUMENTS MUST BE ACCO-FASTENED, FOLDER IS NOT REQUIRED

- ❑ A. **TYPED, FINAL LOAN APPLICATION (Signed** and **dated** by Borrower, Co-borrower & Mortgage Lender). If typed copy is not signed, submit both typed copy and copy of initial application.
- ❑ B. **OFFER AND ACCEPTANCE** (**Signed** and **Dated** by **All** parties).
- ❑ C. Construction/Home Builder Contract **If Proposed/New** **(Signed** and **Dated** by **All** parties).
- ❑ D. Itemized Acquisition. Cost Letter **If Borrower/s Building own House** (**Signed** and **Dated** by borrower and Lender)
- ❑ E. **Copies** of **signed** CONTRACTOR BIDS TO REHABILITATE PROPERTY **IF 203K** (If unavailable at the time of Loan Application, we will accept **signed** letter from the Mortgage Lender stating the approximate cost of rehabilitation).
- ❑ F. **Copy** of CREDIT REPORT- **Standard report from a credit reporting bureau** (or merged-in file with three repositories)
- ❑ G. **Original** NOTICE TO BORROWER OF POTENTIAL RECAPTURE TAX- **EXHIBIT-5F** (**Signed** and **Dated** by borrower).
- ❑ H. Make sure $100 Reservation Fee collected on all loans (even new construction) to be credited at closing.

YOU MUST ALSO INCLUDE ALL OF THE FOLLOWING ITEMS IN THIS PACKAGE

- ❑ I . **Copy** of ALTERNATIVE DOCUMENTS FOR BORROWER(S) – (**Information must be current, within 90 days)** phone verification made by the lender confirming borrower's current income, social security number, terms and dates of employment, probability of continued employment and the person's full name and title of position within the company giving the information, or VERIFICATION OF EMPLOYMENT.
  COPY of INCOME CALCULATIONS IF INCOME FROM SOURCES OTHER THAN WAGES
- ❑ J. **Copy** two current pay stubs (of 30 consecutive days) or with year-to-date totals.
- ❑ K. **For Self-Employed Applicants** PROVIDE PAST TWO YEARS FEDERAL TAX RETURN WITH 1099's AND/OR W-2's, CURRENT PROFIT & LOSS STATEMENT- **(CERTIFIED AS TRUE AND CORRECT -Signed** and **Dated)**
- ❑ L. **ORIGINAL** MORTAGAGORS APPLICATION AFFIDAVIT AND CERTIFICATION **Exhibit 5-A** (which **MUST** be **Signed** by **All** loan applicants residing in the home who are 18 years or older).
- ❑ M. **Exhibit 5 A-1 ORIGINAL OCCUPANT AFFIDAVIT AND CERTIFICATION** must be signed by all non-loan applicants (including spouse) who will be residing in the home who are 18 years or older. This Exhibit also addresses the tax return issue for the occupant
- ❑ N. **ORIGINAL** NOTICE TO BUYERS- **EXHIBIT 5-C** (for HUD and RURAL DEVELOPMENT Loans.
- ❑ O. **CERTIFIED COPIES** of **Signed** and **Dated** FEDERAL TAX RETURNS AND ACCOMPANYING W-2'S FOR PRECEEDING THREE (3) YEARS (if borrower purchasing property in a **non-targeted** county). IRS transcripts may be submitted in lieu of copies of tax returns. Transcripts **MUST** be stamped, dated and signed by authorized representative of I.R.S.
  1. Most recent three (3) years Tax Returns required.
  2. For Loan Applications taken **after** April 15, the most recent three (3) years tax returns **must** be included. See Chapter 2, Part A for details and examples.

- P. **Copy** of the following APPROPRIATE APPRAISAL:
  1. **For FHA Loans-**FHA Conditional Commitment. Direct Endorsement Underwriters **Must** also include a **Copy** Uniform Residential Appraisal Report. For FHA Acquired Properties ADFA will accept a **copy** of Offer and Acceptance **if** Conditional Commitment is not available.
  2. **For VA Loans**- Certificate of Reasonable Value plus Appraisal Report, if available.
  3. **For Conventional Loans and Rural Development Loans**- Uniform Residential Appraisal report.
- Q. Borrower has been made aware that the property must be used as their principal residence.
- R. **Typed** CERTIFICATE OF COMPLIANCE- **EXHIBIT 6-H**
- S. **Copy** of Lender worksheet analysis that includes income and debt ratios. If ratios are higher than the allowable mortgage type (FHA, RD, FANNIEMAE,VA) justification must be presented to ADFA at compliance.
- T. **Need** copy of all DU findings and underwriting requirements, if DU underwritten. If deviation from DU underwriting, justification must be presented at compliance.
  Or SIGNED MCAW by underwriter

*****NOTE THAT ALL OF THE FOLLOWING APPLIES IF THIS IS A 203K LOAN***

Further: *Mortgage lender hereby makes the following warranties, representations, and covenants:*

- U. I am familiar with HUD guidelines pertaining to FHA 203(k) loans. (HUD Handbook No.4240.4 Rev-2 December 6, 1991) with revisions-Mortgage letter 94-11, dated March 17,1994.
- V. I have reviewed the bids for rehabilitation submitted by the borrowers contractor and have determined the contractor has the expertise to perform the work outlined in the contract.
- W. The borrower is not acting as a self-contractor (ADFA regulation).
- X. The Rehabilitation Funds are deposited subject to the terms of the Rehabilitation Loan Agreement.
- Y. The Depository of the Rehabilitation Funds is an FDIC insured Institution.
- Z. I will notify the HUD assigned inspector when an inspection is due and will only authorize disbursement of funds according to the draw-down plan with an acceptable inspection report.
- AA. I will take necessary action to complete the rehabilitation work within six (6) months from date of closing.
- BB. I agree that the Supplemental Origination Fee and the Servicing Release Premium will only be paid upon completion of the rehabilitation.
- CC. Any unused funds will be submitted to the Master Servicer to be used towards the reduction of the principal balance.

THE UNDERSIGNED MORTGAGE LENDER CERTIFIES THAT THIS MORTGAGE LOAN IS ELIGIBLE FOR CONSIDERATION UNDER THE PROGRAM DESCRIBED WITHIN THIS DOCUMENT. I HAVE VERIFIED THESE ITEMS AS THEY PERTAIN TO ADFA RESTRICTIONS. I UNDERSTAND THAT MY SIGNATURE BELOW INDICATES THAT ALL ITEMS HAVE BEEN SUBMITTED AND ARE COMPLETE.

____
LOAN PROCESSOR/AUTHORIZED SIGNATURE
Name____
Date____

ARKANSAS DEVELOPMENT FINANCE AUTHORITY
HomeToOwn Program
EXHIBIT 6-H

ADFA CERTIFICATE OF COMPLIANCE

Name of Lending Institution	ADFA Number DPA Number
Mailing Address-P.O.Box or Street & Number	ADFA Lender Number
City/State/Zip Code	Telephone Number Fax Number
Contact Person for This Loan	Email Address

NAME OF BORROWER: ____

NAME OF CO-BORROWER: ____

PROPERTY ADDRESS: ____
(Street & Number) (As on Note and Mortgage)
____
(City/State/Zip Code)

LOAN AMOUNT: $___________________	**LOAN RATE:** _____________
DPA LOAN AMOUNT: $____________________	**DPA INTEREST RATE:** _______________________
COUNTY PROPERTY LOCATED: _______________	**EXPECTED CLOSING DATE:** _____________________
LOAN TYPE:_______________________________	

The above-referenced loan file has been reviewed and found to be in compliance with the requirements of the Internal Revenue Code of 1986 as amended and Arkansas Development Finance Authority's Regulations.

The Mortgage Loan shall be closed in accordance with the guidelines set out in the Program Guide and the Mortgage Origination Agreement.

ARKANSAS DEVELOPMENT FINANCE AUTHORITY

DATE: _________________

By: ___________________________________
ADFA Mortgage Loan Underwriter________
Telephone Number: (501) 682-5900_______

ARKANSAS DEVELOPMENT FINANCE AUTHORITY
HomeToOwn Program
EXHIBIT 6-I

CANCELLATION OF RESERVATION

MAIL TO: **Single Family Housing**
Arkansas Development Finance Authority
Little Rock, AR 72203
SINGLE FAMILY GENERAL USE FAX: (501) 682-5621
TELEPHONE NUMBER: (501) 682-5933

PLEASE FILL IN THE FOLLOWNG INFORMATION

Name of Lending Institution	ADFA Number DPA Number
Mailing Address-P.O.Box or Street & Number	ADFA Lender Number
City/State/Zip Code	Telephone Number Fax Number
Contact Person for This Loan	Email Address

The following information is provided to enable ADFA to reallocate funds originally reserved for this borrower whose file, for the reason(s) I have listed, should be withdrawn.

NAME OF BORROWER: ____

NAME OF CO-BORROWER: ____

PROPERTY ADDRESS: ____
(Street & Number) (As on Note and Mortgage)

____
(City/State/Zip Code)

BRIEF REASON FOR CANCELLATION: ____
____
____
____

ARKANSAS DEVELOPMENT FINANCE AUTHORITY
HomeToOwn Program
EXHIBIT 6-J

REQUEST FOR LOAN AMOUNT CHANGE

FAX TRANSMITTAL SHEET

TO: SINGLE FAMILY GENERAL USE FAX NUMBER

(501) 682-5621

Name of Lending Institution	ADFA Number DPA Number
Mailing Address-P.O.Box or Street & Number	ADFA Lender Number
City/State/Zip Code	Telephone Number Fax Number
Contact Person for This Loan	Email Address

NAME OF BORROWERS: ____________________

NAME OF CO-BORROWERS: ____________________

PROPERTY ADDRESS: ____________________
(Street & Number) (As on Note and Mortgage)

____
(City/State/Zip Code)

Date:____________________

∗First Mortgage-New Loan Amount:____________________

∗Second Mortgage-New Loan Amount:____________________

Arkansas Development Finance Authority
HomeToOwn Program

CHAPTER 7 – MORTGAGE LOAN CLOSING

A. Pre-closing Procedures

Upon receiving approval from the Authority, you may proceed to schedule the Mortgage Loan Closing.

NOTE: We will carefully examine every Mortgage Loan submitted for purchase. These procedures, if followed by you, will help reduce:

- The period of time between the date of Closing and the Mortgage Loan purchase date per the Master Servicer.
- The number of Mortgage Loans we refrain from purchasing while waiting for the Mortgage Lender to chase after title companies, borrowers, sellers, and so forth.
- The number of Mortgage Loans not purchased and ultimately reassigned to your institution.

Our expectations are the same as any other secondary investor. We want to purchase Mortgage Loans that are compliant with the Tax Code and are "investment quality" with "valid and perfected" liens and "clean" title. Much of what you are about to read should not be new material, because it is what you do normally.

1. Revision in Loan Terms or Acquisition Cost. If the borrower requests a change in terms of a Mortgage Loan which previously had been prior approved, and the Mortgage Loan amount changes, the proposed change(s) **MUST** be approved by the Authority prior to Closing the Mortgage Loan. The change may necessitate the submission of additional or revised documentation.

2. Satisfactory Completion Certificate. Was the appraisal made subject to repairs, replacements, alterations, conditions or completion per plans and specifications? If so, you must obtain a Satisfactory Completion Certificate. The certificate must clearly indicate compliance with all conditions and requirements of the original appraisal and must be signed by the Qualified Appraiser.

3. Hazard Insurance. The residence must be covered by a policy of hazard insurance typically known as a homeowner's insurance policy maintained by the borrower meeting the following requirements:

- The coverage must include all fire and extended coverage risks customarily insured against in the geographical area in which the property is located. The policy must provide a minimum fire and extended coverage insurance on a replacement cost basis in an amount not less than (i) one hundred percent (100%) of the replacement cost, or (ii) the outstanding principal balance of the Mortgage Loan, whichever is less;
- The hazard insurance policy must be in effect on the date of Closing of the Mortgage Loan;
- Insurance policies must be sufficient in amount and scope of coverage to meet the requirements of any private mortgage insurer and/or pool insurance;
- Policies containing a deductible clause up to industry standard of $1000 **(maximum deductible)** applicable to either fire or extended coverage, or both, are acceptable in areas where these provisions are mandatory or customary;
- The "Loss Payee" must be the Mortgage Lender "and/or its successors or assigns";
- All policies of hazard insurance must contain or have attached the standard mortgage clause customarily used in the area where the home is located. Each policy must provide that the insurance carrier notify the Master Servicer, at least ten days in advance of the effective date, of a reduction in the coverage or cancellation of the policy.
- We require flood insurance for any property located in a special flood area that has federally mandated flood insurance purchase requirements. The Mortgage Lender/Master Servicer must ensure that flood insurance is maintained and that it provides coverage at least equivalent to the coverage provided under the National Flood Insurance Program. Flood insurance must remain in force for the term of the loan in an amount at least equal to 1/3 of the outstanding principal balance of the Mortgage Loan. Flood insurance policies should generally be in the form of standard policies issued by members of the National Flood Insurers Association. The **maximum deductible** should be the lesser of $1,000 or 1% of the policy face amount.

4. Escrow Account. You must establish an escrow account and collect escrow payments along with the monthly principal and interest payments. This requirement is necessary due to rating agency demands on the Authority. Since the Mortgage Loans are the source for repayment of the Bond debt, the rating agencies require assurance that the properties will always have insurance and cannot be sold at tax sales. The term "escrow payments" means sums deposited toward the payment of real estate taxes and assessments, hazard insurance premiums, and primary mortgage insurance premiums.

5. Preparing Final Documents. You can now prepare the final documents to be used at Closing. You must use current standard FHA, VA, Fannie Mae/FHLMC or USDARD documents which include:

- **Note -** The debt of each Mortgage Loan must be evidenced by a properly executed Mortgage Note made payable to the particular Mortgage Lender;
- **Mortgage -** Each Mortgage Loan must be secured by a Mortgage or Deed of Trust, as applicable, constituting a first lien on the residence financed by the Mortgage Loan;
- **ADFA Rider -** (Exhibit 7-N) The Provisions of this rider substantially modify the terms of the Mortgage and must be attached and recorded with the Mortgage;
- **Assignment of Mortgage -** (Exhibit 7-O) Each Mortgage Loan must be assigned by your institution to the Master Servicer by a properly executed and recorded Exhibit 7-O - Assignment of Mortgage/Deed of Trust.

6. Fees and Charges of Lender. You may collect actual amounts expended for customary Closing costs, including mortgage insurance premiums, inspection fees, survey charges, escrow agent's fees, filing and recording fees, transfer taxes, documentary stamps and document preparation fees paid to the closing agent.

7. Reaffirmation of Affidavits. At Closing, both the Exhibit 7-L, Mortgagor's Application Affidavit and Certification, and Exhibit 7-M, Seller's Affidavit and Certification, must be completed. The Seller may appoint an agent or representative to execute the reaffirmation at Closing. We will require a copy of the recorded power of attorney and the representative must indicate in what capacity he or she is signing (attorney in fact, power of attorney, etc.).

Exhibit 7-K is the checklist used by the Authority in reviewing the Closing/Mortgage File. ADFA requires you to use this checklist as well as Exhibit 6-G, Preliminary Approval and Compliance Package, for both preliminary Mortgage Loan approval as well as Mortgage Loan Closing.

B. Loan Closing and Submission Documents

At this point you should be ready to close the Mortgage Loan and disburse funds. Once again you should look over the ADFA checklist for reviewing purchase files to make sure that your Closing instructions cover the necessary items. In order to be eligible for purchase by the Authority and the Master Servicer, each Mortgage Loan must be delivered to the Authority within **30 days** of Closing. The Mortgage Lender must deliver to the Authority the following documents, arranged in the order listed with first item on top.

1. **Documents.**

- The original Exhibit 7-K, ADFA Required Closing Documents.
- Mortgage Lender check for 1% discount fee and $25.00 Reservation Fee payable to ADFA.

- Typed copy of final loan application with appropriate addendums (signed by all parties, including Mortgage Lender).
- Copy of HUD -1 Settlement Statement (signed by all parties), which must:

  (i) reflect $100 credit for reservation fee.
  (ii) reflect $65 tax service fee paid by Seller.
  (iii) If refund is shown on line 303 to borrower for more than $10, a letter of explanation must be included also (Please recall that **no cash back** is permitted if a DPA Note is used in connection with a Mortgage Loan).
- Copy of Mortgage Note.
- Copy of Mortgage/Deed of Trust and Exhibit 7-N rider and any other applicable riders.
- Copy of Exhibit 7-O, Assignment of Mortgage/Deed of Trust.
- Original Exhibit 7-L, Mortgagor's Application Affidavit and Certification.
- Original Exhibit 7-M, Seller's Affidavit and Certification.
- Original Exhibit 7-P, Notice to Mortgagor of Information Regarding Potential Recapture Tax (NOTE: Please be sure you have inserted the appropriate county page for the sample table (Exhibit 7-P, page 4) and completed the top of the page with the borrower's information. A copy of the completed document should be given to the borrower at Closing.).
- Copy of Title Commitment including any title exceptions that need to be cleared or noted due to encumbrances.
- Copy of DPA Loan note (if applicable).
- Copy of un-recorded DPA Loan second mortgage (if applicable).
- Copy of un-recorded assignment of DPA Loan note and second mortgage (if applicable)(Exhibit 7-R).
- Copy of DPA Loan Truth-In-Lending Disclosure form (if applicable).
- Copy of DPA Loan certificate of completion for homebuyer education course (if applicable).
- Copy of the Hazard Insurance Policy and Endorsement reflecting ADFA as second mortgagee if borrower received DPA Loan (if applicable).

The Mortgage Lender is responsible for the timely transfer of Mortgage Loan data to ADFA and the Master Servicer. In any event, the information must be provided within thirty (30) days of the date of Mortgage Loan closing. It is of primary importance that the Mortgagee be protected in this transfer. The Master Servicer and ADFA are on-line together through the Mitas System which allows the Mortgage Lender to send the complete closing package following the Master Services document guide before ADFA's approval is given. The Master Servicer will read the Mitas Pipeline Tracking Status for Closing Approval and then will purchase the Mortgage Loan based on ADFA's Pipeline Tracking Status Criteria.

The Authority has advised you of the identity of the Master Servicer and with the name of a contact person. You should establish contact with the contact person and become familiar with the Master Servicer's delivery guide, Mortgage Loan set-up requirements and transfer procedures.

If you have any questions regarding this data, you should contact the Master Servicer. IT IS YOUR RESPONSIBILITY TO GET COMPLETE DOCUMENTATION TO THE MASTER SERVICER.

The Mortgage Lender is also responsible for advising the borrower of the servicing change. This is done through the “goodbye” letter, as required by RESPA. **Pay close attention to the minimum time requirement of RESPA**. The contents of the “goodbye” letter should be coordinated with the Master Servicer, especially regarding such items as when and where to send payments and customer service numbers.

If you receive a payment after the transfer of a Mortgage Loan, it is your responsibility to forward all payments to the Master Servicer in a timely manner.

If a problem arises regarding the transfer of the Mortgage Loan, you should contact the Master Servicer and the Authority.

C. Program Fees

The Mortgage Lender may, at the appropriate processing stage, collect the following fees:

a. All reasonable and customary out-of-pocket costs permitted by law to be paid or incurred by the Mortgage Lender, including, but not limited to, notary fees, settlement fees, hazard or mortgage insurance premiums, appraisal fees, attorneys fees, documentary revenue stamps, recording fees and charges, credit report fees, flood zone determination fee and escrow fees. Such fees and expenses may be collected only once in connection with the origination of the Mortgage Loan and shall not exceed limits established from time to time by Federal and state law and in any event may not exceed similar amounts charged in such area in cases where owner financing is not provided through tax-exempt revenue bonds. For FHA 203(k) loans, you may collect the customary HUD-allowed fees for appraisals, inspections and review fees. All charges must conform with the guidelines of the appropriate loan insuring agency.

b. All appraisal fees shall comply with the guidelines of the loan insuring agency.

c. Amounts that must be prepaid by Eligible Borrower or Seller for taxes, assessments, hazard insurance premiums and other similar recurring charges. Deposits paid by Eligible Borrower or Seller to a reserve or escrow account for taxes, assessments, hazard insurance premiums and other similar recurring charges.

d. A lock-in deposit not to exceed $100 must be collected for each Mortgage Loan by the originating Mortgage Lender from proposed Eligible Borrower or Seller at time of Mortgage Loan application. Such fee must be credited at Mortgage Loan Closing. This fee is refundable to the borrower in certain circumstances, including but not limited to, denial of the proposed Eligible Borrower because of job or credit; non-qualification of the residence; inability of the proposed Eligible Borrower to meet the requirements of the Tax Code or this Program Guide; or refusal of the Seller to close the transaction. Please call if you have any questions.

e. An origination fee to the Mortgage Lender to be paid by the Eligible Borrower or Seller, not to exceed one percent (1%) of the amount of the Mortgage Loan. Follow HUD guidelines for FHA 203(k) loans.

f. A discount fee paid by the Eligible Borrower or Seller at the Closing of one percent (1%) of the Mortgage Loan amount. This fee must be remitted to ADFA within thirty (30) business days of Mortgage Loan Closing.

g. A tax service fee of $65.00 must be collected from the Seller. This amount will be netted at purchase by the Master Servicer.

h. ADFA charges each Mortgage Lender $25.00 for every Mortgage Loan reservation accepted by ADFA. Each Mortgage Lender will send ADFA the $25.00 fee with the closing package. **The fee is non-refundable and cannot be paid by the borrower.**

YOU MAY NOT COLLECT ANY ADDITIONAL FEES FROM EITHER THE BORROWER OR SELLER. DO NOT COLLECT UNDERWRITING FEES, ADMINISTRATION FEES, MORTGAGE LENDER’S DOCUMENT PREPARATION FEES OR LENDER’S COMMITMENT FEES.

The principal amount of the Mortgage Loan may not exceed the applicable loan-to-value limits as established by HUD, USDARD, VA, or Fannie Mae. The financing of allowable closing costs is acceptable as permitted by the loan insuring agency.

D. Applicable Forms – **Available on Internet Reservation System in fillable form**

7-K ADFA Required Closing Documents

7-L Borrower's Closing Affidavit and Certification

7-M Seller's Closing Affidavit and Certification

7-N Mortgage/Deed of Trust Rider

7-O Assignment of Deed of Trust/Mortgage

7-P Notice to Mortgagor of Information Regarding Potential Recapture Tax

7-Q Notice to Homeowner

7-R Assignment of Down Payment Assistance (DPA) Subordinate Mortgage

- Down Payment Assistance (DPA) Note
- Down Payment Assistance (DPA) Subordinate Mortgage

ARKANSAS DEVELOPMENT FINANCE AUTHORITY
HomeToOwn Program
EXHIBIT 7-K

ADFA REQUIRED CLOSING DOCUMENTS

THE FOLLOWING DOCUMENTS MUST BE SHIPPED TO ADFA WITHIN TEN (10) BUSINESS DAYS OF LOAN CLOSING

Mail To: Single Family AR Development Finance Auth. – P.O. Box 8023, Little Rock, AR 72203-8023

Name of Lending Institution	ADFA Number DPA Number
Mailing Address-P.O.Box or Street & Number	ADFA Lender Number
City/State/Zip Code	Telephone Number Fax Number
Contact Person for This Loan	Email Address

NAME OF BORROWER: ______________________________

NAME OF CO-BORROWER: ______________________________

PROPERTY ADDRESS: ______________________________
(Street & Number) (As on Note and Mortgage)

____
(City/State/Zip Code)

LOAN AMOUNT: $__________________ COUNTY PROPERTY LOCATED: ______________

DPA LOAN AMOUNT**: $**__________________ DATE OF NOTE: ______________

The following CERTIFIED COPIES of documents were attached as closing documents.
The following documents must be Acco-Fastened. Folder is not required.

- ❑ **A. Check** for 1% DISCOUNT FEE and the $25.00 Reservation Fee made payable to Arkansas Development Finance Authority. (Including Home Builders With Approved Application Request) (Commitment Fee may be paid by Seller or Borrower for all loans).
- ❑ **B. Typed copy** of Residential Loan Application with appropriate addendums (**Signed** by **All** parties, including loan interviewer).
- ❑ **C. Copy** of Title Commitment on all loans.
- ❑ **D. Copy** of HUD- 1 SETTLEMENT STATEMENT (**Signed** by **All** parties):
  1. Must reflect $100.00 Credit for Reservation Fee for all loans (including new construction).
  2. Must reflect $65.00 Tax Service Fee paid by Seller (Construction may be paid by Home Builder or Buyer).

3. If Refund on Line 303 to Buyer more than $10.00 for any reason, letter of explanation must accompany closing package (please remember that no cash back to borrower is permitted if a DPA Loan is used).

- ❑ **E.** **Copy** of Mortgage Note.
- ❑ **F.** **Copy** of Mortgage/DEED of TRUST and RIDER (EXHIBIT 7-N) and other applicable Rider(s).
- ❑ **G.** **Copy** of ASSIGNMENT OF MORTGAGE/DEED OF TRUST (EXHIBIT 7-O).
- ❑ **H**. **ORIGINAL** of Mortgagor's and Seller's Affidavits (**EXHIBITS 7-L and 7-M).**
- ❑ **I.** **ORIGINAL** NOTICE TO MORTGAGOR OF INFORMATION REGARDING POTENTIAL RECAPTURE TAX **(EXHIBIT 7-P)** **(Signed** and **Dated)** **Note**: Be sure that you have inserted the appropriate county information page for the sample table (7-P page 4) & completed the top portion with the borrower information. A copy should be provided to the borrower at closing.
- ❑ **J**. **Copy** of Warranty Deed showing who has taken title to property on ALL ADFA loans.
- ❑ **K**. **Copy** of SUBORDINATE NOTE FOR DPA LOAN **IF APPLICABLE**- Note is endorsed on back as follows:
- ❑ **"***Without recourse pay to the order of the Arkansas Development Finance Authority*" (Original must be submitted to the Master Servicer).
- ❑ **L.** **Copy** of un-recorded SUBORDINATE MORTGAGE FOR DPA LOAN **IF APPLICABLE.** (Original must be submitted to the Master Servicer within 60 days).
- ❑ **M.** **Copy** of un-recorded ASSIGNMENT OF SUBORDINATE MORTGAGE FOR DPA LOAN (**EXHIBIT 7-R)** **IF APPLICABLE**. (Original must be submitted to the Master Servicer within 60 days).
- ❑ **N.** **Copy** of TRUTH-IN-LENDING DISCLOSURE FORM FOR DPA LOAN **IF APPLICABLE.**
- ❑ **O.** **Copy** of CERTIFICATE OF COMPLETION FOR HOMEBUYER EDUCATION COURSE FOR DPA LOAN **IF APPLICABLE.**
- ❑ **P.** **Copy** of HAZARD INSURANCE POLICY and ENDORSEMENT reflecting Mortgage Lender and/or "assigns" as second mortgage if borrower obtained DPA Loan **IF APPLICABLE.**
- ❑ **Q.** **Copy** of First Payment Letter on both First and Second Mortgage Loans.

Mortgage Lender hereby certifies that the above information is true and correct and that the loan has been closed in accordance with the terms of the Mortgage Origination Agreement and the Single Family Program Guide.

FURTHER: Mortgage Lender hereby reaffirms the warranties, representations, and covenants contained in the Mortgage Origination Agreement.

____
(Name of Lending Institution)

By: ______________________________________
Name: ___________________________________
Date: ____________________________________

CLOSING DOCUMENTS HAVE BEEN RECEIVED AND REVIEWED AT ADFA. WE HEREBY AUTHORIZE THE MORTGAGE CLOSING APPROVAL.

ARKANSAS DEVELOPMENT FINANCE AUTHORITY:

By: ______________________________________
ADFA Mortgage Underwriter_________________
Date: _____________________________________

ARKANSAS DEVELOPMENT FINANCE AUTHORITY
HomeToOwn Program
EXHIBIT 7-L

BORROWER'S CLOSING AFFIDAVIT AND CERTIFICATION

The undersigned, ____, duly states under oath that:

1. I am a purchaser and mortgagor (the "Borrower") of the residence located at ____________________
   ____
   and legally described as follows:

   Legal Description:

2. I either occupy such residence (or one unit of the duplex constituting such residence) as my principal residence, or I will do so in within sixty (60) days of the date the Mortgage Loan is executed, and I will maintain such property (or units) as my principal residence. (If a duplex, property was occupied as a residence at least five (5) years prior to the date hereof).

3. No part of the Mortgage Loan proceeds is being or will be used to acquire or replace an existing mortgage loan, and I did **not** have a mortgage loan (whether or **not** paid off) on said residence at any time prior to the execution of the Mortgage Loan (except that I may have a construction period loan or temporary initial financing of 24 months or less with the respect to the residence and may use the proceeds of the Mortgage Loan to repay such financing).

4. The purchase price of the residence is $______________ or less. I understand that for the purpose of the foregoing Purchase Price of the residence is the cost of acquiring the residence from the seller as a completed residential unit. The acquisition cost includes:

   a. **All** amounts paid, either in cash or in kind, by the purchaser (or a related party or for the benefit of the purchaser) to the seller (or a related party or for the benefit of the seller) as a consideration for the residence (including the payment or assumption of any liability for a debt of the seller). The residence includes **all** property that is a fixture. The purchase price also includes the acquisition cost of any other item in excess of the fair market value.
   b. If a residence is incomplete, the reasonable cost of completing the residence whether or **not** the cost of completing construction is to be financed with the proceeds of the Mortgage Loan.
   c. (DELETE IF **NOT** APPLICABLE). Where a residence is purchased subject to a ground lease, the capitalized value of the ground lease, using the discount rate provided by the Arkansas Development Finance Authority ("ADFA").

_____/_____
Initial

The acquisition cost does **not** include:

g. The usual and reasonable settlement or financing costs. Settlement costs include titling and transfer costs, title insurance, survey fees, or other similar costs. Financing costs also include credit reference fees, legal fees, appraisal expenses, "points" which are paid by the purchaser or other costs of financing the residence.
h. The value of services performed by any purchaser's family in completing the residence. For purposes of the preceding sentence, the family of an individual includes only the individual's brothers and sisters (whether by whole or half blood), spouse, ancestors, and lineal descendants.
i. The cost of land, which has been owned by any purchaser for, at least two (2) years prior to the date on which construction of the residence began.

5. (CHECK APPROPRIATE RESPONSE). I have I have **not** had a present ownership interest in a principal residence of mine at any time during the three-year period prior to the date on which I will be executing the Mortgage on said residence, and to the best of my knowledge, the same is true with respect to each other person (if any) purchasing and mortgaging said residence with me.

I UNDERSTAND THAT FOR THE PURPOSES OF THE FOREGOING, EXAMPLES OF INTERESTS WHICH CONSTITUTE A PRESENT OWNERSHIP INTEREST (AND THUS WOULD RESULT IN MY **NOT** MEETING SUCH REQUIREMENTS) ARE THE FOLLOWING:

a. A fee simple interest:
b. A joint tenancy, a tenancy in common, or a tenancy by the entirety;
c. The interest of a tenant-shareholder in a cooperative;
d. A life interest;
e. A land contract (i.e., a contract pursuant to which possession and the benefits of ownership transferred although a legal title is **not** transferred until some later date);
f. An interest held in trust for the mortgagor (whether or **not** created by the mortgagor) that would constitute ownership interest if held directly by the mortgagor;
g. A lease with an option to purchase for a nominal sum; and
h. An interest in a mobile home that has been, and is now, permanently affixed to real property.

EXAMPLES OF INTEREST WHICH DO **NOT** CONSTITUTE PRESENT OWNERSHIP INTEREST AND THUS WOULD **NOT** RESULT IN MY FAILING TO MEET THE REQUIREMENTS ARE THE FOLLOWING:

a. A remainder interest;
b. A lease without an option to purchase or a lease with an option to purchase at fair market value;
c. A mere expectancy to inherit an interest in a principal residence;

d. The interest that a purchaser of a residence acquires on the execution of a purchase contract;
e. An interest in other than a principal residence during the previous three years;

f. An interest in a mobile home that has **not** been, and is **not** now, permanently affixed to a real property.

6. The residence contains no more than two separate family dwelling units, if there are two units, one unit **must** have been used as a residence for 5 years, and one of the units **must** be occupied by the borrower as his or her principal residence.

7. I WILL **NOT** PERMIT ANY PERSON TO ASSUME MY OBLIGATIONS UNDER THE MORTGAGE (AND RELATED MORTGAGE NOTE), NOR WILL I TRANSFER TITLE TO THE RESIDENCE (EXCEPT AS SET FORTH IN THE MORTGAGE), UNLESS SUCH PERSON SATISFIERS THE FOREGOING REQUIREMENTS, AND UNLESS THE PURCHASE PRICE OF THE RESIDENCE DOES **NOT** EXCEED THE MAXIMUM PURCHASE PRICE ALLOWED BY ADFA AND SUCH PERSON SO STATES UNDER OATH.

   The purchase price limitation, which is required by the federal tax laws, may be a lower number at the time of the assumption than was in effect at the time of the ORGINAL purchase. This may occur in the case of the purchase of a newly constructed home. Is such home has **not** previously been occupied (i.e., at the time of ORIGINAL purchase), such home is subject to the maximum purchase price for the "new construction." However, because such home will have been previously occupied at the time of a subsequent assumption, such home will be subject to the maximum purchase price for an "existing home." This is the case if the ORIGINAL purchaser occupied the home for any period of the time (i.e., technically even one day).

_____/_____
Initial

8. (DELETE THE FOLLOWING IF MORTGAGOR FILED FEDERAL INCOME TAX RETURNS). I have **not** filed, and was under no obligation to file, federal tax returns, the following income tax years: ________________________________.

_____/_____
Initial

9. (DELETE THE FOLLOWING IF MORTGAGOR RESPONDED TO ITEM 3). I have filed federal income tax returns for the most recent tax years.

10. I do **not** expect to use more than 15% of the total area of the residence in a trade or business.

11. I recognize and acknowledge (i) that the indebtedness evidenced by the Mortgage Note and secured by the Mortgage is being funded by the ADFA, and by the issuance of revenue bonds by ADFA, and (ii) that in order that the funding may be effected on the terms provided by the Mortgage Note and the Mortgage, the revenue bonds of ADFA are issued in compliance with certain provisions of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations issued and proposed thereunder; and (iii) that it is pursuant to those provisions of said Code and Regulations that the certifications and requirements set forth above (including, without limitation, those set forth in paragraph 7), are made and agreed to.

12. I understand that if my Mortgage Loan is being Financed (or assumed by a subsequent purchaser) after December 31, 1990, federal law provides for a "recapture tax" which may be applicable to (or a subsequent purchaser) upon the resale of the residence. I acknowledge receipt of the Notices to Mortgagor regarding Potential Recapture Tax, **EXHIBIT 5-F** and **7-P.**

13. I acknowledge that I have received and executed the "Notice to Buyers" regarding potential foreclosure, which notice shall be deemed incorporated herein by reference.

BORROWER:	**CO-BORROWER:**
X___________________________________	X____________________________________
Name______________________________	Name_________________________________
Date_______________________________	Date__________________________________

ACKNOWLEGMENT

STATE OF ARKANSAS)
COUNTY OF ______________________)

On this ______ day of _____________, 20____, before me, a Notary Public within and for the said County and State, personally appeared____, to me known to be the person(s) described therein and who, being by me first duly sworn, executed the foregoing Borrower's Affidavit and Certification, and acknowledged, deposed and said that he/she/they executed the same as his/her/their free act and deed and stated that the information and certifications contained therein are true and correct.

IN WITNESS WHEREOF, I have hereunto set my hand and seal this ______ day of _____________, 20____.

____
Notary Public

My Commission Expires:
____
(SEAL)

ARKANSAS DEVELOPMENT FINANCE AUTHORITY
HomeToOwn Program
EXHIBIT 7-M

SELLER'S CLOSING AFFIDAVIT AND CERTIFICATION

The undersigned, ____, duly states under oath that:

14. I am a seller of the residence located at ____ ____, and legally described as follows:

Legal Description:

15. The selling price of the residence is $ ___________________ or less.

I understand that for the purpose of the foregoing the selling price of the residence is the purchaser's cost of acquiring the residence from me as a completed residential unit. The acquisition cost includes:

a. **<u>All</u>** amounts paid, either cash or in kind, by the purchaser (or related party or for the benefit of the purchaser) to me as seller (or a related party or for the benefit of me as the seller) as a consideration for the residence (including the payment or assumption of any liability for a debt of the seller). The residence includes **<u>all</u>** property that is a fixture. The purchase price also includes the acquisition cost of any other items in excess of their fair market value.

b. If the residence is incomplete, the reasonable cost of completing the residence whether or **<u>not</u>** the cost of completing construction is to be financed with the proceeds of the purchaser's Mortgage Loan.

____/____
Initial

c. (DELETE IF **<u>NOT</u>** APPLICABLE). Where a residence is purchased subject to a ground lease, the capitalized value of the ground lease, using the discount rate provided by the Arkansas Development Finance Authority (the "ADFA") (_________%).

∗The acquisition cost does **<u>not</u>** include:

d. The usual and reasonable settlement or financing cost. Settlement costs include titling and transfer costs, title insurance, survey fees, or other similar costs. Financing costs include credit reference fees, legal fees, appraisal expenses, "points" which are paid by the purchaser or other costs of financing the residence.

e. The value of services performed by any purchaser's family in completing the residence. For purposes of the preceding sentence, the family of an individual includes only the individual's brothers and sisters (whether by whole or half blood), spouse, ancestors, and lineal descendants.

f. The cost of land which been owned by any purchaser for at least two (2) years prior to the date on which construction of the residence begins.

16. To the best of my knowledge, no part of the Mortgage Loan proceeds is or will be paid to acquire or replace an existing mortgage of the purchaser, and the purchaser did **not** have a mortgage (whether or **not** paid off) on said residence at any time prior to the execution of the Mortgage (except that the purchaser may have a construction period loan or temporary initial financing of 24 months or less with respect to the residence and may use the proceeds of the Mortgage Loan to repay such financing).

17. I recognize and acknowledge (i) that the indebtedness evidenced by the Mortgage Note and secured by the Mortgage is being funded by the ADFA, and by the issuance of revenue bonds by ADFA, and (ii) that in order that the funding may be effected on the terms provided by the Mortgage Note and the Mortgage, the revenue bonds of ADFA are issued in compliance with certain provisions of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations issued and proposed thereunder; and (iii) that it is pursuant to those provisions of said Code and Regulations that the certifications and requirements set forth above (including, without limitation, those set forth below), are made and agreed to.

Seller:	**Seller:**
(x)________________________________	(x)__________________________________
Name:______________________________	Name:________________________________
Date:_______________________________	Date:_________________________________

ACKNOWLEGMENT

STATE OF ARKANSAS)
COUNTY OF ______________________)

On this ______ day of ____________, 20____, before me, a Notary Public within and for the said County and State, personally appeared ____, to me known to be the person(s) described therein and who, being by me first duly sworn, executed the foregoing Seller's Affidavit and Certification, and acknowledged, deposed and said that he/she/they executed the same as his/her/their free act and deed and stated that the information and certifications contained therein are true and correct.

IN WITNESS WHEREOF, I have hereunto set my hand and seal this ______ day of _____________, 20____.

____
Notary Public

My Commission Expires:

____
(SEAL)

ARKANSAS DEVELOPMENT FINANCE AUTHORITY
HomeToOwn Program
EXHIBIT 7-N

MORTGAGE/DEED OF TRUST RIDER

This Rider is made this ______ day of _______________, 20____, and is incorporated into and shall be deemed to supplement the Deed of Trust/Mortgage of the same date given by the undersigned borrowers to the Mortgage.

The Mortgagee,____ or such of its successors or assigns as may by separate instrument assume responsibility for assuring compliance by the Mortgagor with the provisions of this, may declare all sums secured by this Mortgage to be immediately due and payable if:

a) all or part of the property is sold or otherwise transferred (other than by devise, descent or operation of law) by Mortgagor to a purchaser or other transferee:

   i. who cannot reasonably by expected to occupy the property as a principal residence within a reasonable time after the sale or transfer, all as provided in Section 143(c) and (I)(2) of the Internal Revenue Code of 1986, as amended (the "Code");

   ii. who has had a present ownership interest in a principal residence during any part of the three-year period ending on the date of the sale or transfer, all as provided in Section 143(d) and (I)(2) of the Code (except that the language "100 percent" shall be submitted for "95 percent or more" where the latter appears in Section 143(d)(1); or:

   iii. at an acquisition cost which is greater than 90 percent of the average area of purchase price, all as provided in Sections 143(e) and (I)(2) of the Code; or

   iv. who has a gross family income in excess of the applicable percentage of applicable median family income as provided in Section 143(f) and (I)(2) of the Code; or

b) Mortgagor fails to occupy the property described in the Mortgage without prior written consent of the Mortgagee or its successor or assigns described at the beginning of the Addendum; or

c) Mortgagor omits or misrepresents a fact that is material with respect to the provisions of Section 143 of the Code in an application for this Mortgage.

References are to the Code in effect on the date of execution of the Mortgage and are deemed to include the implementing Treasury Department regulations

MORTGAGOR:	**CO-MORTGAGOR:**
(x)________________________________	(x)________________________________
Name:______________________________	Name:______________________________
Date:_______________________________	Date:_______________________________

PROPERTY ADDRESS: ____

(Mailing Address) (As on Note & Mortgage)(Street Number and Name)

____

(City/State/Zip Code)

ARKANSAS DEVELOPMENT FINANCE AUTHORITY
HomeToOwn Program
EXHIBIT 7-O

ASSIGNMENT OF DEED OF TRUST/MORTGAGE

KNOW ALL MEN BY THESE PRESENTS, that ____, for good and valuable consideration to it in hand paid by U.S. Bank N.A., Bedford, Ohio, organized under the laws of the State of Ohio ("Assignee"), the receipt of which consideration is hereby acknowledged, does hereby assign, transfer, and set over unto Assignee all its right, title and interest in and to that certain Deed of Trust/Mortgage executed ____unto __________ ____, Mortgage dated _______________________, and filed of record in the office of the Circuit Clerk and Ex Officio Recorder of _______________________ County, Arkansas on the _____ day of ________________,______, and appearing of record in Book # _________, Page # ________________, or Instrument #______________________, together with the notes(s) and indebtedness described and secured by the instrument aforesaid.

Legal Description:

TO HAVE AND TO HOLD the same unto the said Assignee and its successors and assigns forever.

EXECUTED AND DELIVERED this ______ day of ______________________________, 20____.

____
NAME OF ASSIGNOR/LENDING INSTITUTION
By: ____
Title:____
Name:_____________________________________
Date:____________________

ATTESTATION:
____
____
(Printed Name)

STATE OF ARKANSAS)
COUNTY OF________________________)

BEFORE ME, the undersigned, a Notary Public, within and for the said County and State, duly commissioned and qualified, personally appeared ____and ____ of ____ as ASSIGNOR, and were duly authorized in their respective capacities to execute the foregoing instrument for and in the name of and on behalf of said ASSIGNOR, and further stated and acknowledged that they had so signed, executed, and delivered said foregoing instrument for the consideration, uses and purposes therein mentioned and set forth.

WITNESS my hand and Notarial Seal at my office in said _____________________ County this _____ day of ________________, 2____.

____
Notary Public

My Commission Expires:

____
(SEAL)

ARKANSAS DEVELOPMENT FINANCE AUTHORITY
HomeToOwn Program
EXHIBIT 7-P

NOTICE TO MORTGAGOR OF INFORMATION REGARDING POTENTIAL RECAPTURE TAX

TO BE DELIVERED TO MORTGAGOR AT TIME
OF SETTLEMENT OR ASSUMPTION OF MORTGAGE LOAN

Your mortgage loan has been financed with the proceeds of a tax-exempt qualified mortgage bond. As a result, pursuant to Section 143(m) of the Internal Revenue Code of 1986 (the "Code"), you may, at the time at which you resell the residence financed by the Mortgage Loan, be subject to a special "recapture tax" for federal income tax purposes. You should consult you tax advisor at the time of resale by you of the residence to determine the amount, if any, of such "recapture tax." The following information will assist you in determining the amount, if any, of "recapture tax."

1. Name of Morgagor:____
2. Name of Co-Mortgagor: ____
3. Date of Settlement of Mortgage Loan: ____
4. Location of Residence: ____
   ____
5. Residence is located in a ________________________area.
6. Principal amount of Mortgage Loan on date of settlement: $____________.
7. Federally subsidized amount pursuant to Section 143(m)(4)(B) of the Code (6.25%): $_________.

A. Introduction

1. General. When you sell your home you may have to pay a recapture tax as calculated below. The recapture tax may also apply if you dispose of your home in some other way. Any reference in this notice to the "sale" of your home also includes other ways of disposing of your home. For instance, you may owe a recapture tax if you give you home to a relative.
2. Exceptions. In the following situations, no recapture tax is due and you do not need to do the calculations:

(i) You dispose of your home later than nine years after you close your Mortgage Loan;
(ii) Your home is disposed of as a result of your death;
(iii) You transfer your home either to your spouse or to your former spouse incident to divorce and you have no gain or loss included in your income under Section 1041 of the Code; or
(iv) You dispose of your home at a loss.

B. Maximum Recapture Tax. The maximum recapture tax that you may be required to pay as an addition to your federal income tax is $ ___________. This is 6.25% of the highest principal amount of your mortgage loan and is your federally subsidized amount with respect to the loan.

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

(i) $ __________(the maximum recapture tax, as described in paragraph B above),
(ii) The holding period percentage, as listed in Column 1 in the Table. See page 4. (County Income Limit Sheet)
(iii) The income percentage, as described in paragraph D below. See page 4. (County Income Limit Sheet)

D. Income Percentage. You calculate the income percentage as follows:

(i) Subtract the applicable adjusted qualifying income in the taxable year in which you sell your home, as listed in Column 2 in the Table, from your modified adjusted gross income in the taxable year in which you sell your home. Your modified adjusted income means your adjusted gross income shown on your federal income tax return for the taxable year in which you sell your home, with the following two adjustments: (a) your adjusted gross income must be increased by the amount of any interest that you receive or accrue in the taxable year from tax-exempt bonds that is excluded from your gross income (under Section 103 of the Code) and (b) your adjusted gross income must be decreased by the amount of any gain included in your gross income by reason of the sale of your home.

(ii) If the amount calculated in (i) above is zero or less, you owe no recapture tax and do not need to make any more calculations. If it is $5,000 or more, your income percentage is 100%. If it is greater that zero but less than $5,000, it must be divided by $5000. This fraction, expressed as a percentage, represents your income percentage. For example, if the fraction is $1,000/$5,000, your income percentage is 20%.

E. Limitations and Special Rules on Recapture Tax.

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

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

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

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

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

See Sample Chart Available

The undersigned Mortgagor(s) has (have) received and read a duplicate copy of the forgoing Notice to Mortgagor of Information Regarding Potential Recapture Tax.

MORTGAGOR:	**CO-MORTGAGOR:**
(x)________________________________	(x)________________________________
Name: ______________________________	Name: ______________________________
Date: ______________________________	Date: ______________________________

EXHIBIT 7-P
Page 4

SAMPLE ONLY
Mortgage Lender must use correct county document

County: Arkansas

Borrower's Name:

Co-Borrower's Name:

Tracking Number:

Date That You Sell Your Home	Holding Period Percentage	Adjusted Qualifying Income — # of Family Members Living In Your Home at the Time of Sale: 2 or less	3 or more
Before the first anniversary of closing (See Note below)	20%	34,700.00	39,905.00
On or after the first anniversary of closing, but before the second anniversary of closing	40%	36,435.00	41,900.25
On or after the second anniversary of closing, but before the third anniversary of closing	60%	38,256.75	43,995.26
On or after the third anniversary of closing, but before the fourth anniversary of closing	80%	40,169.59	46,195.03
On or after the fourth anniversary of closing, but before the fifth anniversary of closing	100%	42,177.85	48,504.53
On or after the fifth anniversary of closing, but before the sixth anniversary of closing	80%	44,286.92	50,929.95
On or after the sixth anniversary of closing, but before the seventh anniversary of closing	60%	46,501.47	53,476.69
On or after the seventh anniversary of closing, but before the eighth anniversary of closing	40%	48,826.37	56,150.33
On or after the eighth anniversary of closing, but before the ninth anniversary of closing	20%	51,267.86	58,958.04

NOTE: Closing means the closing date of your loan.

Please insert here the correct County Income Limit Sheet for your county each year.

NOTICE TO HOMEOWNER

FHA Case Number:
Loan Number:

Notice to Homeowner
Assumption of HUD/FHA Insured Mortgages
Release of Personal Liability

You are legally obligated to make the monthly payments required by your Mortgage (deed of trust) and Mortgage Note.

The Department of Housing and Urban Development (HUD) has acted to keep investors and non-creditworthy purchasers from acquiring one-to-four family residential properties covered by certain FHA-insured mortgages. There are minor exceptions to the restriction on investors: loans to public agencies and some non-profit organizations, Indian tribes or service people; loans under special mortgage insurance programs for property sold by HUD; rehabilitation loans or refinancing of insured mortgages. Your lender can advise you if you are included in one of the exceptions.

HUD will therefore direct the lender to accelerate this FHA-insured mortgage loan if all or part of the property is sold or transferred to a purchaser or recipient (1) who will not occupy the property as his or her principal residence, or (2) who does occupy the property but whose credit has not been approved in accordance with HUD requirements. This policy will apply except for certain sales or transfers where acceleration is prohibited by law.

When a Mortgage Loan is accelerated, the entire balance is declared "immediately due and payable." Since HUD will not approve the sale of the property covered by this Mortgage to an investor or to a person whose credit has not been approved, you, the original homeowner, would remain liable for the Mortgage debt even though the title to the property might have been transferred to a new buyer.

Even if you sell your home by letting an approved purchaser (that is, a creditworthy owner-occupant) assume your mortgage, you are still liable for the mortgage debt unless you obtain a release from liability from your mortgage lender. FHA-approved lenders have been instructed by HUD to prepare such a release when the original homeowner sells his property to a creditworthy purchaser who executes an agreement to assume and pay the Mortgage debt and thereby agrees to become the substitute mortgagor. The release is contained in Form HUD-92210-1 ("Approval of Purchaser and Release of Seller"). You should ask for it if the Mortgage Lender does not provide it to you automatically when you sell your home to a creditworthy owner-occupant purchaser who executes an agreement to assume personal liability for the debt. When this form is executed, you are no longer liable for the mortgage debt.

You must sign and date this Notice as indicated, return one copy to your lender as proof of notification and keep one copy for your records.

Date: ____________ ____

____

Instructions to Mortgage Lender: A copy of this notice must be given to the Mortgagor(s) on or before the date of settlement. You should retain a signed copy in the Mortgage File.

NOTE
(ADFA DOWN PAYMENT ASSISTANCE PROGRAM)

DATE: ________________________ _________________________________
City, State

PROPERTY ADDRESS: ____
(Street) (City/State/Zip)

1. BORROWER'S PROMISE TO PAY

In return for a loan that I have received (the "Loan"), I promise to pay U.S. $_________(this amount is called "principal"), plus interest to the order of the Lender. The Lender is ____________ ____________, a ______________________________organized and existing under the laws of the State of____. The Lender or anyone who takes this Note by transfer and who is entitled to receive payments under this Note is called the "Note Holder."

The Loan evidenced by this Note is being made pursuant to the Arkansas Development Finance Authority Down Payment Assistance Program.

The Loan is being made in order to assist me in purchasing the Property. The sales price of the Property is $_____________________.

2. INTEREST

Interest will be charged on the unpaid principal until the full amount of principal has been paid. I will pay interest at a yearly rate of _______%. The interest rate required by this Section 2 is the rate I pay both before and after any default described in Section 6(B) of this Note.

3. PAYMENTS

(A) Time and Place of Payments

I will pay principal and interest as provided in Section 2 above by making payments every month.

I will make my monthly payments on the first day of each month beginning on the first day of ________________, 2____. I will make these payments every month until I have paid all the principal and interest, if any, and any other charges described below that I may owe under this Note. My monthly payments will be applied to interest before principal. If, on the first day of______________, 2____, I still owe amounts under this Note, I will pay those amounts in full on that date, which is called the "Maturity Date."

The principal amount of this Note shall be due and payable in full upon acceleration of the Note in the event of a default hereunder of the Subordinate Security Interest, or on the date of the first sale or transfer of the Property to occur after the date of this Note.

I will make my payments at ____or at a different place if required by the Note Holder.

The indebtedness evidenced by this Note, and any other financial obligation which may hereafter be imposed on me by the Lender, is subordinate to the indebtedness evidenced by a note payable to a senior lender, which note is secured by a first mortgage on the Property (the “First Mortgage”).

(B) Amount of Monthly Payments

My monthly payments will be in the amount of U.S. $________________________.

4. BORROWER’S RIGHT TO PREPAY

I have the right to make payments of principal at any time before they are due. A payment of principal only is known as a “prepayment.” When I make a prepayment, I will tell the Note Holder in writing that I am doing so.

I may make a full prepayment or partial prepayments without paying a prepayment charge. The Note Holder will use all of my prepayments to reduce the amount of principal that I owe under this Note. If I make a partial prepayment, there will be no changes in the due date or in the amount of my monthly payment unless the Note Holder agrees in writing to those changes.

I have the right to prepay the principal amount of this Note, together with any accrued interest without any prepayment charge provided that such prepayment is in full or not in part.

5. LOAN CHARGES

If a law, which applies to this loan and which sets maximum loan charges, is finally interpreted so that the interest or other loan charges collected or to be collected in connection with this loan exceed the permitted limits, then; (i) any such loan charge shall be reduced by the amount necessary to reduce the charge to the permitted limit; and (ii) any sums already collected from me which exceeded permitted limits will be refunded to me. The Note Holder may choose to make this refund by reducing the principal I owe under this Note or by making a direct payment to me. If a refund reduces principal, the reduction will be treated as a partial prepayment.

6. BORROWER’S FAILURE TO PAY AS REQUIRED

(A) Late Charge for Overdue Payments

If the Note Holder has not received the full amount of any monthly payment by the end of 15 calendar days after the date it is due, I will pay a late charge to the Note Holder. The amount of the charge will be 4% of my overdue payment of principal and interest. I will pay this late charge promptly but only once on each late payment.

(B) Default

If I do not pay the full amount of each monthly payment on the date that it is due, I will be in default.

(C) Notice of Default

If I am in default, the Note Holder may send me a written notice telling me that if I do not pay the overdue amount by a certain date, the Note Holder may require me to pay immediately the full amount of principal which has not been paid and all the interest that I owe on that amount. That date must be at least 30 days after the date on which the notice is delivered or mailed to me.

(D) No Waiver By Note Holder

Even if, at a time when I am in default, the Note Holder does not require me to pay immediately in full as described above, the Note Holder will still have the right to do so if I am in default at a later time.

(E) Payment of Note Holder's Costs and Expenses

If the Note Holder has required me to pay immediately in full as described above, the Note Holder will have the right to be paid back by me for all of its costs and expenses in enforcing this Note to the extent not prohibited by applicable law. Those expenses include, for example, reasonable attorneys' fees.

7. GIVING OF NOTICES

Unless applicable law requires a different method, any notice that must be given to me under this Note will be given by delivering it or by mailing it by first class mail to me at the Property Address above or at a different address if I give the Note Holder a notice of my different address.

Any notice that must be given to the Note Holder under this Note under this Note will be given by mailing it by first class mail to the Note Holder at the address stated in Section 3 (A) above or at a different address if I am given a notice of that different address.

8. OBLIGATIONS OF PERSONS UNDER THIS NOTE

If more than one person signs this Note, each person is fully and personally obligated to keep all of the promises made in this Note, including the promise to pay the full amount owed. Any person who is a guarantor, surety or endorser of this Note is also obligated to do these things. Any person who takes over these obligations, including the obligations of guarantor, surety or endorser of this Note, is also obligated to keep all the promises made in this Note. The Note Holder may enforce its rights under this Note against each person individually or against all of us together. This means that any one of us may be required to pay all of the amounts owed under this Note.

9. WAIVERS

I and any other person who has obligations under this Note waive the rights of presentment and notice of dishonor. "Presentment" means the right to require the Note Holder to demand payment of amounts due. "Notice of dishonor" means the right to require the Note Holder to give notice to other persons that amounts due have not been paid.

10. UNIFORM SECURED NOTE

In addition to the protections given to the Note Holder under this Note, a Subordinate Mortgage (the “Subordinate Security Instrument”), dated the same date as this Note, protects the Note Holder from possible losses which might result if I do not keep the promises which I make in this Note. The Subordinate Security Instrument is and shall be subject and subordinate in all respects to the liens, terms, covenants and conditions of the First Mortgage. The Subordinate Security Instrument describes how and under what conditions I may be required to make immediate payment in full of all amounts I owe under this Note. Some of those conditions are described as follows:

Transfer of the Property or a Beneficial Interest in Borrower. Except for a conveyance to the Senior Lien Holder under the First Mortgage, if all or any part of the Property or any interest in it is sold or transferred (or if a beneficial interest in Borrower is sold or transferred and Borrower is not a natural person) without Lender’s prior written consent, Lender may, at its option, require immediate payment in full of all sums secured by this Security Instrument. However, this option shall not be exercised by Lender if exercise is prohibited by federal law as of the date of this Security Instrument.

If Lender exercises this option, Lender shall give Borrower and the Senior Lien Holder prior written notice of acceleration. The notice shall provide a period of not less than 30 days from the date the notice is delivered or mailed within which Borrower must pay all sums secured by this Security Instrument. If Borrower fails to pay these sums prior to the expiration of this period, Lender may invoke any remedies permitted by this Security Instrument without further notice or demand on Borrower.

Witness the hand(s) and seal(s) of the undersigned.

_______________________________________(Seal)
-Borrower

____
(Borrower’s Typed Name)

_______________________________________(Seal)
-Borrower

____
(Borrower’s Typed Name)

SUBORDINATE MORTGAGE
(ADFA DOWN PAYMENT ASSISTANCE PROGRAM)

THIS SUBORDINATE MORTGAGE ("Security Instrument") is made on this ______day of ________________, 2____. The grantor is ____________________________________ ("Borrower"). This Security Instrument is given to ___________________________________, organized and existing under the laws of the State of ______________________ and whose address is ____ ("Lender"). Borrower owes Lender the principal sum of $________________________. This debt is evidenced by the Borrower's note dated the same date as this Security Instrument ("Note").

The Note provides that the full debt, if not paid earlier, shall be due and payable on the ______, day of ____________________, 2____ the "Maturity Date" of the Note.

The loan evidenced by the Note and secured by this Security Instrument (the "Loan") is being made pursuant to the Arkansas Development Finance Authority Down Payment Assistance Program. In addition to the Loan, the Borrower obtained a mortgage loan (the "First Mortgage Loan") from ___________________________ organized and existing under the laws of the State of ____________________________ (the "Senior Lien Holder"), which loan is secured by a first mortgage lien on the Property (the "First Mortgage"). The documents evidencing or securing the First Mortgage Loan are collectively referred to herein as the First Mortgage Loan Document.

This Security Instrument secures to Lender: (a) the repayment of the debt evidenced by the Note, with interest as provided in the Note, and all renewals, extensions and modifications of the Note; (b) the payment of all other sums, with interest as provided in the Note, advanced under paragraph 8 herein to protect the security of this Security Instrument; and (c) the performance of Borrower's covenants and agreements under this Security Instrument and the Note. For this purpose, Borrower irrevocably mortgages, grants and conveys to Lender and Lender's successor and assigns, with power of sale, subject to the rights of the Senior Lien Holder under the First Mortgage, the property located in _________________________County which has the address of ____ and is further described in Exhibit A attached hereto ("Property Address");

TO HAVE AND TO HOLD this property unto Lender and Lender's successors and assigns, forever, all the improvements now or hereafter erected on the property, and all easements, appurtenances, and fixtures now or hereafter a part of the property. All replacements and additions shall also be covered by this Security Instrument. All of the foregoing is referred to in this Security Instrument as the "Property."

BORROWER COVENANTS that Borrower is lawfully seised of the estate hereby conveyed and has the right to mortgage, grant and convey the Property and, except for the First Mortgage and the other encumbrances of record acceptable to the Senior Lien Holder, the Property is unencumbered. Borrower warrants and will defend generally the title to the Property against all claims and demands, subject to such encumbrances of record.

Borrower and Lender covenant and agree as follows:

1. <u>Payment of Principal and Interest; Prepayment and Late Charges.</u> Borrower shall promptly pay when due the principal of and interest on the debt evidenced by the Note and any late charges due under the Note.

2. <u>Funds for Taxes and Insurance.</u> Subject to applicable law or to a written waiver by Lender, Borrower shall pay to Lender on the day monthly payments are due under the Note, until the Note is paid in full, a sum ("Funds") for: (a) yearly taxes and assessments which may attain priority over this Security Instrument as a lien on the Property; (b) yearly leasehold payments or ground rents on the Property, if any; (c) yearly hazard or property insurance premiums; (d) yearly flood insurance premiums, if any; (e) yearly mortgage insurance premiums, if any; and (f) any sums payable by Borrower to Lender, in accordance with the provisions of paragraph 9, in lieu of the payment of mortgage insurance premiums. These items are called "Escrow Items." Lender may, at any time, collect and hold Funds in an amount not to exceed the maximum amount a lender for a federally related mortgage loan may require for Borrower's escrow account under federal Real Estate Settlement Procedures Act of 1974 as amended from time to time, 12 U.S.C. Section 2601 et seq. ("RESPA"), unless another law that applies to the Funds sets a lesser amount. If so, Lender may, at any time, collect and hold Funds in an amount not to exceed the lesser amount. Lender may estimate the amount of Funds due on the basis of current data and reasonable estimates of expenditures of future Escrow Items or otherwise in accordance with applicable law. The Borrower shall not be obligated to make such payments of Funds to the Lender to the extent that the Borrower makes such payments to the Senior Lien Holder in accordance with the First Mortgage.

The Funds shall be held in an institution whose deposits are insured by a federal agency, instrumentally, or entity (including Lender, if Lender is such an institution) or in any Federal Home Loan Bank. Lender shall apply the Funds to pay the Escrow Items. Lender may not charge the Borrower for holding and applying the Funds, annually analyzing the escrow account, verifying the Escrow Items, unless Lender pays Borrower interest on the Funds and the applicable law permits Lender to make such a charge. However, Lender may require Borrower to pay a one-time charge for an independent real estate tax reporting service used by Lender in connection with this loan, unless applicable law provides otherwise. Unless an agreement is made or applicable law requires interest to be paid, Lender shall not be required to pay Borrower any interest or earnings on the Funds. Borrower and Lender may agree in writing, however, that interest shall be paid on the Funds. Lender shall give Borrower, without charge, an annual accounting of the Funds, showing credits and debits to the Funds and the purpose for which each debit to the Funds was made. The Funds are pledged as additional security for all sums secured by this Security Instrument.

If the Funds held by Lender exceed the amounts permitted to be held by applicable law, Lender shall account to Borrower for the excess Funds in accordance with the requirements of applicable law. If the amount of the Funds held by Lender at any time is not sufficient to pay the Escrow Items when due, Lender may so notify Borrower in writing, and, in such case Borrower shall pay the Lender the amount necessary to make up the deficiency. Borrower shall make up the deficiency in no more than twelve monthly payments, at Lender's sole discretion.

Upon payment in full of all sums secured by this Security Instrument, Lender shall promptly refund to Borrower any Funds held by Lender. If, under paragraph 23, Lender shall acquire or sell the Property, Lender, prior to the acquisition or sale of Property, shall apply any Funds held by Lender at the time of the acquisition or sale as a credit against the sums secured by this Security Instrument.

3. <u>Application of Payments</u>. Unless applicable law provides otherwise, all payments received by Lender under paragraphs 1 and 2 shall be applied: first, to any prepayment charges due under the Note; second, to amounts payable under paragraph 2; third, to interest due; fourth, to principal due; and last, to any late charges due under the Note.

4. <u>Prior Mortgages; Charges; Liens</u>. The Borrower shall perform all of the Borrower's obligations under the First Mortgage, including Borrower's covenants to make payments when due. Borrower shall pay all taxes, assessments, charges, fines and impositions attributable to the Property which may attain priority over this

Security Instrument, and leasehold payments or ground rents, if any. Borrower shall pay these obligations in the manner provided in paragraph 2, or if not paid in that manner, Borrower shall pay them on time directly to the person owed payment. Borrower shall promptly furnish to Lender all notices of amounts to be paid under this paragraph. If Borrower makes these payments directly, Borrower shall promptly furnish to Lender receipts evidencing the payments.

Except for the lien of the First Mortgage, Borrower shall promptly discharge any other lien which shall have attained priority over this Security Instrument unless Borrower: (a) agrees in writing to the payment of the obligation secured by the lien in a manner acceptable to Lender; (b) contests in good faith to lien by, or defends against enforcement of the lien, in legal proceedings which in the Lender's opinion operate to prevent the enforcement of the lien; or (c) secures from the holder of the lien an agreement satisfactory to Lender subordinating the lien to this Security Instrument. Except for the lien of the First Mortgage, if Lender determines that any part of the Property is subject to a lien, which may attain priority over this Security Instrument, Lender may give Borrower a notice identifying the lien. Borrower shall satisfy such lien or take one or more of the actions set forth above within 10 days of the giving of notice.

5. Subordination. Lender and Borrower acknowledge and agree that this Security Instrument is subject and subordinate in all respects to the liens, terms, covenants and conditions of the First Mortgage and to all advances heretofore made or which may hereafter be made pursuant to the First Mortgage, including all sums advanced for the purpose of (a) protecting or further securing the lien of the First Mortgage, curing defaults by the Borrower under the First Mortgage or for any other purpose expressly permitted by the First Mortgage or (b) constructing, renovating, repairing, furnishing, fixturing or equipping the Property. The terms and provisions of the First Mortgage are paramount and controlling, and they supersede any other terms and provisions hereof in conflict therewith. In the event of a foreclosure or deed in lieu of foreclosure of the First Mortgage, any provisions herein or any provisions in any other collateral agreement restricting the use of the Property to low or moderate income households or otherwise restricting the Borrower's ability to sell the Property shall have no further force or effect on subsequent owners or purchasers of the Property. Any person, including his successors or assigns (other than the Borrower or related entity of the Borrower), receiving title to the Property through a foreclosure or deed in lieu of foreclosure of the First Mortgage shall receive title to the Property free and clear from such restrictions.

Further, if the Senior Lien Holder acquires title to the Property pursuant to a deed in lieu of foreclosure, the lien of this Security Instrument shall automatically terminate upon the Senior Lien Holder's acquisition of title, provided that (i) the Lender has been given written notice of a default under the First Mortgage and (ii) the Lender shall not have cured the default under the First Mortgage, or diligently pursued curing the default as determined by the Senior Lien Holder, within 60-day period provided in such notice sent to the Lender.

6. Hazard or Property Insurance. Borrower shall keep the improvements now existing or hereafter erected on the Property insured against loss by fire, hazards included within the term "extended coverage" and any other hazards, including floods or flooding, for which Lender requires insurance. This insurance shall be maintained in the amounts and for the periods that Lender requires. The insurance carrier providing the insurance shall be chosen by Borrower subject to Lender's approval, which shall not be unreasonably withheld. If Borrower fails to maintain coverage described above, Lender may, at Lender's option, obtain coverage to protect Lender's rights in the Property in accordance with paragraph 8.

All insurance policies and renewals shall be acceptable to Lender and shall include a standard mortgagee clause. All requirements hereof pertaining to insurance shall be deemed satisfied if the Borrower complies with the insurance requirements under the First Mortgage. All original policies of insurance required pursuant to the First Mortgage shall be held by the Senior Lien Holder; provided, however, Lender may be named as a loss payee as its interest may appear and may be named as an additional insured. If Lender requires, Borrower shall promptly give to Lender copies of all receipts of paid premiums and renewal notices. In the event of loss, Borrower shall give prompt notice to the insurance carrier, the Senior Lien Holder and Lender. Lender may make proof of loss if not made promptly by the Senior Lien Holder or the Borrower.

Unless Lender and Borrower otherwise agree in writing, insurance proceeds shall be applied to restoration or repair of the Property damaged, if the restoration or repair is economically feasible and Lender's security is not lessened. If the restoration or repair is not economically feasible or Lender's security would be lessened, the insurance proceeds shall be applied to the sums secured by this Security Instrument, whether or not then due, with any excess paid to Borrower. If Borrower abandons the Property, or does not answer within 30 days a notice from Lender that the insurance carrier has offered to settle a claim, then Lender may collect the insurance proceeds. Lender may use the proceeds to repair or restore the Property or to pay sums secured by this Security Instrument, whether or not then due. The 30-day period will begin when the notice is given.

Unless Lender and Borrower otherwise agree in writing, any application of proceeds to principal shall not extend or postpone the due date of the monthly payments referred to in paragraph 1 and 2 or change the amount of the payments. If under paragraph 23 the Property is acquired by Lender, Borrower's rights to any insurance policies and proceeds resulting from damage to the Property prior to the acquisition shall pass to Lender to the extent of the sums secured by this Security Instrument immediately prior to acquisition.

Notwithstanding the above, the Lender's rights to collect and apply the insurance proceeds hereunder shall be subject and subordinate to the rights of the Senior Lien Holder to collect and apply such proceeds in accordance with the First Mortgage.

7. <u>Occupancy, Preservation, Maintenance and Protection of the Property; Borrower's Loan Application; Leaseholds</u>. Borrower shall occupy, establish, and use the Property as Borrower's principal residence within sixty days after the execution of this Security Instrument. Borrower shall not destroy, damage or impair the Property, allow the Property to deteriorate, or commit waste on the Property. Borrower shall be in default if any forfeiture action or proceeding, whether civil or criminal, is begun that in Lender's good faith judgment could result in forfeiture of the Property or otherwise materially impair the lien created by this Security Instrument or Lender's security interest. Borrower may cure such a default and reinstate as provided in paragraph 19, by causing the action or proceeding to be dismissed with a ruling that in Lender's good faith determination, precludes forfeiture of the Borrower's interest in the Property or other material impairment of the lien created by this Security Instrument or Lender's security interest. Borrower shall also be in default if Borrower, during the loan application process, gave materially false or inaccurate information or statements to Lender (or failed to provide Lender with any material information) in connection with the loan evidenced by the Note, including, but not limited to, representations concerning (i) Borrower's occupancy of the Property as a principal residence and (ii) Borrower's income. If this Security Instrument is on a leasehold, Borrower shall comply with all the provisions of the lease. If Borrower acquires fee title to the Property, the leasehold and the fee title shall not merge unless Lender agrees to the merger in writing.

8. <u>Protection of Lender's Rights in the Property</u>. If Borrower fails to perform the covenants and agreements contained in this Security Instrument, or there is a legal proceeding that may significantly affect the Lender's rights in the Property (such as a proceeding in bankruptcy, probate, for condemnation or forfeiture or to enforce laws or regulations), the Lender may do and pay for whatever is necessary to protect the value of the Property and the Lender's rights in the Property. Lender's actions may include paying any sums by a lien, which has priority over this Security Instrument (including sums secured by the First Mortgage), appearing in court, paying reasonable attorneys' fees and entering on the Property to make repairs. Although Lender may take action under this paragraph 8, Lender does not have to do so.

Any amounts disbursed by Lender under this paragraph 8 shall become additional debt of Borrower secured by this Security Instrument. Unless Borrower and Lender agree to other terms of payment, these amounts shall bear interest from the date of disbursement at the Note rate and shall be payable, with interest, upon notice from Lender to Borrower requesting payment.

Prior to taking any actions under this Section 8, however, Lender shall notify the Senior Lien Holder of such default in the manner provided in Section 23 of this Security Instrument, and shall provide the Senior Lien Holder with the opportunity to cure any such default under this Security Instrument. All amounts advanced by the Senior Lien Holder to cure a default hereunder shall be deemed advanced by the Senior Lien Holder and shall be secured by the First Mortgage. In addition, the Lender agrees that it will not commence foreclosure proceedings or accept a deed in lieu of foreclosure, or exercise any other rights or remedies hereunder until it has given the Senior Lien Holder at least 60 days prior written notice. Any action by Lender hereunder to foreclose or accept a deed in lieu of foreclosure shall be subject to the "due on sale" provisions of the First Mortgage.

Lender and Borrower further agree that a default hereunder shall constitute a default under the First Mortgage. In the event of a default hereunder, the Senior Lien Holder shall have the right to exercise all rights and remedies under the First Mortgage.

9. Mortgage Insurance. If Lender required mortgage insurance as a condition of making the loan secured by this Security Instrument, Borrower shall pay the premiums required to maintain the mortgage insurance in effect. If, for any reason, the mortgage insurance coverage required by Lender lapses or ceases to be in effect, Borrower shall pay the premiums required to obtain coverage substantially equivalent to the mortgage insurance previously in effect, at a cost substantially equivalent to the cost to Borrower of the mortgage insurance previously in effect, from an alternate mortgage insurer approved by Lender. If substantially equivalent mortgage insurance coverage is not available, Borrower shall pay to Lender each month a sum equal to one-twelfth of the yearly mortgage insurance premium being paid by Borrower when the insurance coverage lapsed or ceased to be in effect. Lender will accept, use and retain these payments as a loss reserve in lieu of mortgage insurance. Loss reserve payments may no longer be required, at the option of the Lender, if mortgage insurance coverage (in the amount and for the period that Lender requires) provided by an insurer approved by Lender again becomes available and is obtained. Borrower shall pay the premiums requires to maintain mortgage insurance in effect, or to provide a loss reserve, until the requirement for mortgage insurance ends in accordance with any written agreement between Borrower and Lender or applicable by law.

10. Inspection. Lender or its agent may make reasonable entries upon and inspections of the Property. Lender shall give Borrower notice at the time of or prior to an inspection specifying reasonable cause for inspection.

11. Condemnation. The proceeds of any award or claim for damages, direct or consequential, in connection with any condemnation or other taking of any part of the Property, or for conveyance in lieu of condemnation, are hereby assigned and shall be paid to Lender, subject to the terms of the First Mortgage.

In the event of a total taking of the Property, the proceeds shall be applied to the sums secured by this Security Instrument, whether or not then due, with any excess paid to Borrower. In the event of a partial taking of the Property in which the fair market value of the Property immediately before the taking is equal to or greater than the amount of the sums secured by this Security Instrument immediately before the taking, unless Borrower and Lender otherwise agree in writing, the sums secured by this Security Instrument shall be reduced by the amount of the proceeds multiplied by the following fraction: (a) the total amount of the sums secured immediately before the taking, divided by (b) the fair market value of the Property immediately before the taking. Any balance shall be paid to Borrower. In the event of a partial taking of the Property in which the fair market value of the Property immediately before the taking is less than the amount of the sums secured immediately before the taking, unless Borrower and Lender otherwise agree in writing or unless applicable law otherwise provides, the proceeds shall be applied to the sums secured by this Security Instrument whether or not the sums are then due.

If the Property is abandoned by Borrower, or if, after notice by Lender to Borrower that the condemner offers to make an award or settle a claim for damages, Borrower fails to respond to Lender within 30 days after the date the notice is given, Lender is authorized to collect and apply the proceeds, at its option, either to restoration or repair of the Property or to the sums secured by this Security Instrument, whether or not then due.

Unless Lender and Borrower otherwise agree in writing, any application of proceeds to principal shall not extend or postpone the due date of the monthly payments referred to in paragraph 1 and 2 or change the amount of such payments.

12. Borrower not Released; Forbearance By Lender Not a Waiver. Extension of time for payment or modification of amortization of the sums secured by the Security Instrument granted by Lender to any successor in interest of Borrower shall not operate to release the liability of the original Borrower or Borrower's successors in interest. Lender shall not be required to commence proceedings against any successor in interest or refuse to extend time for payment or otherwise modify amortization of the sums secured by this Security Instrument by reason of any demand made by the Borrower or Borrower's successors in interest. Any forbearance by Lender in exercising any right or remedy shall not be a waiver of or preclude the exercise of any right or remedy.

13. Successors and Assigns Bound; Joint and Several Liability; Co-Signers. The covenants and agreements of this Security Instrument shall bind and benefit the successors and assigns the Lender and Borrower, subject to the provisions of paragraph 18. Borrower's covenants and agreements shall be joint and several. Any Borrower who co-signs this Security Instrument but does not execute the Note: (a) is co-signing this Security Instrument only to mortgage, grant and convey the Borrower's interest in the Property under the terms of this Security Instrument; (b) is not personally obligated to pay the sums secured by this Security Instrument; and (c) agrees that Lender and any other Borrower may agree to extend, modify, forbear or make any accommodations with regard to the terms of this Security Instrument or the Note without that Borrower's consent; provided, however, that such modification or accommodation shall not be made without the prior written consent of the Senior Lien Holder.

14. Loan Charges. If the Loan secured by this Security Instrument is subject to a law which sets maximum loan charges, and that law is finally interpreted so that the interest or other loan charges collected or to be collected in connection with the loan exceed the permitted limits, then; (a) any such loan charges shall be reduced by the amount necessary to reduce the charge to the permitted limit; and (b) any sums already collected from the Borrower which exceed permitted limits will be refunded to Borrower. Lender may chose to make this refund by reducing the principal owed under the Note or by making a direct payment to Borrower. If a refund reduces principal, the reduction will be treated as a partial prepayment without any prepayment charge under the Note.

15. Notices. Any notice to Borrower provided for in this Security Instrument shall be given by delivering it or by mailing it first class mail unless applicable law requires use of another method. The notice shall be directed to the Property Address or any other address Borrower designates by notice to Lender. Any notice to Lender shall be given by first class mail to Lender's address stated herein or any other address Lender designates by notice to Borrower. Any notice required to be given to Senior Lien Holder shall be given by first class mail to the following address:

____
____
____

or such other address the Senior Lien Holder designates by notice to Borrower. Any notice provided for in this Security Instrument shall be deemed to have been given to Borrower or Lender when given as provided in this paragraph.

16. Governing Law; Severability. This Security Instrument shall be governed by federal law and the laws of the State of Arkansas. In the event that any provision or clause of this Security Instrument or the Note conflicts with applicable law, such conflict shall not affect other provisions of this Security Instrument or the Note which can be given effect without the conflicting provision. To this end the provisions of this Security Instrument and the Note are declared to be severable.

17. Borrower's Copy. Borrower shall be given one conformed copy of the Note and of this Security Instrument.

18. Transfer of the Property or a Beneficial Interest in Borrower. Except for a conveyance to the Senior Lien Holder under the First Mortgage, if all or any part of the Property or any interest in it is sold or transferred (or if a beneficial interest in Borrower is sold or transferred and Borrower is not a natural person) without Lender's prior written consent, Lender may, at its option, require immediate payment in full of all sums secured by this Security Instrument. However, this option shall not be exercised by Lender if exercise is prohibited by federal law as of the date of this Security Instrument.

If Lender exercises this option, Lender shall give Borrower and the Senior Lien Holder prior written notice of acceleration. The notice shall provide a period of not less than 30 days from the date the notice is delivered or mailed within which Borrower must pay all sums secured by this Security Instrument. If Borrower fails to pay these sums prior to the expiration of this period, Lender may invoke any remedies permitted by this Security Instrument without further notice or demand on Borrower.

Notwithstanding Lender's right to invoke any remedies hereunder, as provided in Section 8 above, Lender agrees that it will not commence foreclosure proceedings or accept a deed in lieu of foreclosure, or exercise any other rights or remedies hereunder until it has given the Senior Lien Holder at least 60 days prior written notice.

The Borrower and the Lender agree that whenever the Note or this Security Instrument gives the Lender the right to approve or consent with respect to any matter affecting the Property (or construction of any improvements thereon) or otherwise (including the exercise of any "due on sale" clause), and a right of approval or consent with regard to the same matter is also granted to the Senior Lien Holder pursuant to the First Mortgage, the Senior Lien Holder's approval or consent or failure to approve or consent, as the case may be, shall be binding on the Borrower and the Lender.

19. Borrower's Right to Reinstate. If Borrower meets certain conditions, Borrower shall have the right to have enforcement of this Security Instrument discontinued at any time prior to the earlier of: (a) 5 days (or such other period as applicable law may specify for reinstatement) before sale of the Property pursuant to any power of sale contained in this Security Instrument; or (b) entry of a judgment enforcing this Security Instrument. Those conditions are that the Borrower: (a) pays the Lender all sums which then would be due under this Security Instrument and the Note as if no acceleration had occurred; (b) cures any default of any other covenants or agreements; (c) pays all expenses incurred in enforcing this Security Instrument, including, but not limited to, reasonable attorneys fees; and (d) takes such action as Lender may reasonably require to assure that the lien of this Security Instrument, Lender's rights in the Property and Borrower's obligation to pay the sums secured by this Security Instrument shall continue unchanged. Upon reinstatement by Borrower, this Security Instrument and the obligations secured hereby shall remain fully effective as if no acceleration had occurred. However, this right to reinstate shall not apply in the case of acceleration under paragraph 18.

20. Sale of Note; Change of Loan Servicer. The Note or a partial interest in the Note (together with this Security Instrument) may be sold one or more times without prior notice to Borrower. A sale may result in a change in the entity (known as the "Loan Servicer") that collects monthly payments due under the Note and this Security Instrument. There also may be one or more changes of the Loan Servicer unrelated to a sale of the Note. If there is a change of the Loan Servicer, Borrower will be given written notice of the change in accordance with paragraph 15 above and applicable law. The notice will state the name and address of the new

Loan Servicer and the address to which payments should be made. The notice will also contain any other information required by applicable law.

21. No Assignment. Until the loan secured by the First Mortgage has been satisfied in full, the Lender and the Borrower agree that the Note and the Security Instrument will not be assigned without the Senior Lien Holder's prior written consent.

22. Hazardous Substances. Borrower shall not cause or permit the presence, use, disposal, storage, or release of any Hazardous Substances on or in the Property. Borrower shall not do, or allow anyone else to do, anything affecting the Property that is in violation of any Environmental Law. The preceding two sentences shall not apply to the presence, use, or storage of the Property of small quantities of Hazardous Substances that are generally recognized to be appropriate to normal residential uses and to maintenance of the Property.

Borrower shall promptly give Lender written notice of any investigation, claim, demand, lawsuit, or other action by any governmental or regulatory agency or private party involving the Property and any Hazardous Substance or Environmental Law of which Borrower has actual knowledge. If Borrower learns, or is notified by any governmental or regulatory authority, that any removal or other remediation of any Hazardous Substance affecting the Property is necessary, Borrower shall promptly take all necessary remedial actions in accordance with Environmental Law. Prior to taking any such remedial action, however, the Borrower shall notify the Senior Lien Holder that such remedial action is necessary and shall obtain the Senior Lien Holder's prior written consent for such remedial action.

As used in paragraph 22, "Hazardous Substances" are those substances defined as toxic or hazardous substances by Environmental Law and the following substances; gasoline, kerosene, other flammable or toxic petroleum products, toxic pesticides and herbicides, volatile solvents, materials containing asbestos or formaldehyde, and radioactive materials. As used in this paragraph 22, "Environmental Law" means federal laws and laws of the jurisdiction where the Property is located that relate to health, safety or environmental protection.

Borrower and Lender further covenant and agree as follows:

23. Acceleration; Remedies. Lender shall give notice to Borrower and the Senior Lien Holder prior to acceleration following Borrower's breach of any covenant or agreement in this Security Instrument. The notice shall specify: (a) the default; (b) the action required to cure the default; (c) a date, not less than 30 days from the date the notice is given to Borrower (and with respect to the Senior Lien Holder, 60 days from the date the notice is given to the Senior Lien Holder), by which the default must be cured; and (d) that failure to cure the default on or before the date specified in the notice may result in acceleration of sums secured by this Security Instrument and sale of the Property. The notice shall further inform Borrower of the right to reinstate after acceleration and the right to bring a court action to assert the non-existence of a default or any other defense of Borrower to acceleration and sale. If the default is not cured by the Borrower on or before the date specified in the notice, and the Senior Lien Holder has not exercised its right to cure the default, then Lender at its option may require immediate payment in full of all sums secured by this Security Instrument without further demand and may invoke the power of sale and any other remedies permitted by applicable law. Notwithstanding Lender's right to invoke any remedies hereunder, as provided in Section 8 above, the Lender agrees that it will not commence foreclosure proceedings or accept a deed in lieu of foreclosure, or exercise any rights or remedies hereunder until it has given the Senior Lien Holder at least 60 days prior written notice. Lender shall be entitled to collect all expenses incurred in pursuing the remedies provided in this paragraph 23, including, but not limited to, reasonable attorneys' fees and costs of title evidence.

If Lender invokes the power of sale, Lender shall mail copies of a notice of sale in the manner prescribed by applicable law to Borrower, the Senior Lien Holder and to the other persons prescribed by applicable law. Lender shall publish the notice of sale by public advertisement for the time in the manner prescribed by applicable law. Lender, without demand on Borrower, shall sell the Property at public auction to the highest bidder for cash at the time and place and under the terms designated in the notice of sale in one or more parcels and in any order Lender determines. Lender may postpone sale of all or any parcel of the Property to any later time on the same date by public announcement at the time and place of any previously scheduled sale. Lender or its designee may purchase the Property at any sale.

Lender shall deliver to purchaser Lender's deed conveying the Property without any covenant or warranty, expressed or implied. The recitals in the Lender's deed shall be prima facie evidence of the truth of the statements made therein. Lender shall apply the proceeds of the sale in the following order: (a) to all expenses of the sale, including, but not limited to, reasonable attorneys' fees; (b) to all sums secured by this Security Instrument; and (c) any excess to the person or persons legally entitled to it.

24. Release. Upon payment of all sums secured by this Security Instrument, Lender shall release this Security Instrument without charge to Borrower. Borrower shall pay any recordation costs.

25. Modification of First Mortgage Loan Document. The Lender consents to any agreement or arrangement in which the Senior Lien Holder waives, postpones, extends, reduces or modifies any provisions of the First Mortgage Loan Documents, including any provisions requiring the payment of money.

BY SIGNING BELOW, the Borrower and the Lender accept and agree to the terms and covenants contained in this Security Instrument.

BORROWERS:
(x)_____________________________

____
(Borrower's Typed Name)

(x)_____________________________

____
(Borrower's Typed Name)

LENDER:_________________________
By:_______________________________
(Signature)
____
(Name and Title)

ATTEST:

____
(SEAL)

ACKNOWLEDGMENT OF BORROWERS

State of Arkansas)
)ss.
County of _________________)

On this _____ day of _______________________, 2_____, before me, the undersigned duly commissioned Notary Public, within and for said County and State, appeared the within named ____ to me personally known as the grantor in the foregoing Mortgage, and acknowledged that he/she signed, executed and delivered the same on the day and the year therein mentioned and set forth.

Witness my hand and notarial seal this _____ day of _____________________, 2____.

____
Notary Public

My commission Expires:

____
(SEAL)

ACKNOWLEDGMENT OF LENDER

State of Arkansas)
)ss.
County of _________________)

On this _____ day of _______________________, 2 _____, before me, a notary public, personally appeared ____ and ________________________________, respectively, of ____ to me personally known, who stated that they were duly authorized in their respective capacities to execute the foregoing instrument and further stated that they had signed, executed and delivered said instrument for consideration, uses and purposes therein mentioned and set forth.

In witness whereof, I have hereunto set my hand and official seal, this _____ day of _____________________, 2____.

____
Notary Public

My commission Expires:_________________________
(SEAL)

EXHIBIT A
PROPERTY DESCRIPTION

________________________________, 2 _______
Settlement Date

________________________________ ________________________________
Property Address Name of Borrower

________________________________ ________________________________
City, State, Zip code Name of Borrower

Legal Description:

ARKANSAS DEVELOPMENT FINANCE AUTHORITY
HomeToOwn Program
EXHIBIT 7-R

ASSIGNMENT OF DOWNPAYMENT ASSISTANCE (DPA) SUBORDINATE MORTGAGE

KNOW ALL MEN BY THE PRESENTS, that ____, for good and valuable consideration to it in hand paid by the Arkansas Development Finance Authority, organized under the laws of the State of Arkansas ("Assignee"), the receipt of which consideration is hereby acknowledged, does hereby assign, transfer, and set over unto Assignee all its rights, title and interest in and to that certain Subordinate Mortgage executed by ____ ________________________________unto ____, Mortgage dated ________________________, and filed of record in the office of the Circuit Clerk and Ex Officio Recorder of _______________________ County, Arkansas on the _____ day of _______________,______, and appearing of record in Book # _________, Page # _________________, or Instrument #_______________________, together with the notes(s) and indebtedness described and secured by the instrument aforesaid.

Legal Description:

TO HAVE AND TO HOLD the same unto the said Assignee and its successors and assigns forever.

EXECUTED AND DELIVERED this ______ day of ____________________________, 20____.

____
NAME OF ASSIGNOR/LENDING INSTITUTION
By: ____
Title:____
Name:________________________________
Date:_____________________

ATTESTATION:

____

____
(Printed Name)

STATE OF ARKANSAS)
COUNTY OF________________________)

BEFORE ME, the undersigned, a Notary Public, within and for the said County and State, duly commissioned and qualified, personally appeared ____and ____of ____ as ASSIGNOR, and were duly authorized in their respective capacities to execute the foregoing instrument for and in the name of and on behalf of said ASSIGNOR, and further stated and acknowledged that they had so signed, executed, and delivered said foregoing instrument for the consideration, uses and purposes therein mentioned and set forth.

WITNESS my hand and Notarial Seal at my office in said _____________________ County this _____ day of ________________, 2____.

____

My Commission Expires: Notary Public

____
(SEAL)

Arkansas Development Finance Authority
HomeToOwn Program

CHAPTER 8 – MORTGAGE LOAN SALE TO MASTER SERVICER

A. Closing-Purchase/Sale

Once ADFA approves the Mortgage Loan for compliance and issues a Form 6-H, you may schedule the Closing. The Mortgage Lender will close the Mortgage Loan, send the appropriate documents for recording and deliver the appropriate documents to the Master Servicer and ADFA. Closing of the Mortgage Loan must occur no later than one hundred eighty (180) days after the Mortgage Loan reservation date. You must submit the Closing documents to ADFA within thirty (30) days of Closing. If no other documentation is needed, an ADFA representative will sign Exhibit 7-K and fax a copy to you. You may elect to attach a signed copy of the Exhibit 7-K to the Closing documents submitted to the Master Servicer. The Master Servicer is not obligated to purchase any Mortgage Loan if the Mortgage File takes longer than thirty (30) days to be delivered. If you elect to speed up the process, the Mortgage Lender may send a closing package to Master Servicer at the same time. The Master Servicer will purchase the Mortgage Loan based on the electronic approval from ADFA.

Closing issues are addressed more comprehensively in Chapter 7 and the Master Servicer section of this Program Guide. Use Exhibit 8-S **Notice of Sale of Servicer** to notify the Borrower(s).

B. Schedules

Please note that the Master Servicer has provided the following delivery checklists for use with the following categories of Mortgage Loans: FHA Loans, VA Loans, Conventional Loans and USDA Rural Development Loans. For your convenience, ADFA has included copies of those four checklists below.

C. Trailing Documents

The final step in the process is delivering the original recorded mortgage, assignment and final title policy. The Mortgage Lender is required to deliver these documents as soon as you receive them. We have established a maximum of 180 days from the date of Closing to get your documents recorded and delivered. ADFA or the Master Servicer may require you to repurchase any Mortgage Loan for failure to meet the 180 day time frame.

ARKANSAS DEVELOPMENT FINANCE AUTHORITY
HomeToOwn Program
EXHIBIT 8-S

FORM OF NOTICE OF SALE TO SERVICER

Dear Borrower:

As required by Section 6 of the Real Estate Settlement Procedure Act (RESPA) (12 U.S.C. Section 2605), you are hereby notified that the servicing of your Mortgage Loan, that is, the right to collect payments from you, is being transferred from ____ to U.S. Bank Home Mortgage effective 15 days from the date of this letter.

The transfer of servicing of your Mortgage Loan does not affect any term or condition of the mortgage instruments other than terms directly related to the servicing of your loan. Except in limited circumstances, the law requires that your present servicer send you this notice at least 15 days before the effective date or at closing. Your new servicer must also send you this notice no later than 15 days after this effective date or at Closing.

If you have any questions relating to the transfer of servicing from your present servicer, please call ____________________________________, between the hours of ________________________________, Monday through Friday. ____ will forward any payments received on your loan to U.S. Bank Home Mortgage.

Your new servicer will be U.S. Bank Home Mortgage. Their business address is 17500 Rockside Road, Bedford, Ohio 44146. Call them at 1-800-240-7890 with any questions relating to the transfer of servicing between the hours of 8:00 AM and 400 PM. U.S. Bank Home Mortgage will begin accepting your payments immediately.

If you have not received new payment coupons from U.S. Bank Home Mortgage before your next payment due date, you should forward you check to:

U.S. Bank Home Mortgage
P.O. Box 790415
St. Louis, MO 63179-0415

You should be aware of the following information, which is set out in more detail in Section 6 of RESPA:

During the 60-day period following the effective date of the transfer of the loan servicing, a loan payment received by your old servicer before its due date may not be treated by the new loan servicer as late, and a late fee may not be imposed on you.

Section 6 RESPA gives you certain consumer rights. If you send a "qualified written request" to your loan servicer concerning the servicing of your loan, your servicer must provide you with a written notice of acknowledgement within 20 business days of receipt of your request. A "qualified written request" is a written correspondence other than notice on a payment coupon or other payment medium supplied by the servicer, which includes your name and account number and your reasons for the request. Not later than 60 business days after receiving your request, your servicer must make any appropriate corrections to your account and must provide you with a written notification regarding any dispute. During this 60-day period, your servicer may not provide information to a consumer reporting agency concerning any overdue payment related to such period or qualified written request.

Section 6 RESPA also provides for damages and costs for individuals or classes of individuals in circumstances where servicers are shown to have violated the requirements of that section. You should seek legal advice if you believe your rights have been violated.

Sincerely,

____

FHA LOAN DELIVERY CHECKLIST

BORROWER ______________________ **PROGRAM** ______________________

ORIGINATING LENDER ______________________ **CONTACT** ______________________

PHONE ______________________

- [ ] CUSTOMER IDENTIFICATION NOTICE (PATRIOT ACT, APPLICABLE ONLY TO LEADER UNDERWRITTEN LOANS)
- [ ] PAY HISTORY (IF APPLICABLE)
- [ ] ORIGINAL NOTE & **1 COPY**
- [ ] NAME AFFIDAVIT, IF APPLICABLE - **1 COPY**
- [ ] MORTGAGE - **2 COPIES**
- [ ] FHA TAX EXEMPT RIDER/CONDO-PUD RIDER (IF APPLICABLE) - **2 COPIES**
- [ ] ASSIGNMENT OF MORTGAGE - **2 COPIES**
- [ ] FIRST PAYMENT LETTER
- [ ] HUD-I & AGGREGATE ESCROW ANALYSIS DISCLOSURE - **2 COPIES**
- [ ] COPY OF TITLE COMMITMENT **OR** SHORT FORM TITLE POLICY & **1 COPY**
- [ ] TAX CERTIFICATION & **1 COPY**
- [ ] HAZARD INSURANCE POLICY WITH 1 YR. PROOF OF PAYMENT & **1 COPY**
- [ ] MORTGAGEE CLAUSE LETTER, (HAZARD/FLOOD) - **2 COPIES**
- [ ] FLOOD CERTIFICATION & DISCLOSURES - **2 COPIES**
- [ ] FLOOD INSURANCE BINDER WITH 1 YR. PROOF OF PAYMENT (IF APPLICABLE)& **1 COPY**
- [ ] WIND / HAIL INSURANCE (IF APPLICABLE)
- [ ] COPY OF BUYDOWN AGREEMENT, IF APPLICABLE
- [ ] ORIGINAL REHAB AGREEMENT, IF APPLICABLE & **1 COPY**
- [ ] COPY OF W-9 FOR PRIMARY BORROWER
- [ ] FINAL TYPED LOAN APPLICATION
- [ ] MORTGAGE CREDIT ANALYSIS WORKSHEET (MCAW)
- [ ] HUD 92900A- DIRECT ENDORSEMENT APPROVAL
- [ ] LOAN MUST BE FHA INSURED IF OLDER THAN 90 DAYS FROM CLOSING
- [ ] SURVEY
- [ ] FINAL TRUTH-IN-LENDING
- [ ] ASSURANCE / WARRANTY OF COMPLETION, IF APPLICABLE
- [ ] TERMITE REPORT / SOIL TREATMENT GUARANTEE
- [ ] MIP TRANSMITTAL FORM
- [ ] NOTICE OF POTENTIAL RECAPTURE TAX (IF APPLICABLE)
- [ ] COMPLIANCE OR ERRORS & OMISSIONS AGREEMENT
- [ ] IRS FORM 4506 OR 8821
- [ ] UNDERWRITERS APPROVAL (MANUAL OR AUTOMATED) IF AUTOMATED CLUES ENCLOSED
- [ ] COPIES OF UNDERWRITING CONDITIONS AT CLOSING

- [ ] **CREDIT UNDERWRITING PACKAGE:** TRANSMITTAL SUMMARY, HANDWRITTEN LOAN APPLICATION PURCHASE AGREEMENT, FINAL INSPECTIONS, APPRAISAL, CREDIT REPORTS, NOTICE OF SALE AND ASSIGNMENT OF SERVICING RIGHTS, VOE'S, VOD'S, GOOD FAITH ESTIMATE, INITIAL TRUTH-IN-LENDING, SALES CONTRACT, MISC REC'D DOCUMENTS.

VA LOAN DELIVERY CHECKLIST

BORROWER ______________________ **PROGRAM** ______________________

ORIGINATING LENDER ______________________ **CONTACT** ______________________

PHONE ______________________

- [ ] CUSTOMER IDENTIFICATION NOTICE (PATRIOT ACT, APPLICABLE ONLY TO LEADER UNDERWRITTEN LOANS)
- [ ] PAY HISTORY (IF APPLICABLE)
- [ ] ORIGINAL NOTE & **1 COPY**
- [ ] NAME AFFIDAVIT, IF APPLICABLE - **1 COPY**
- [ ] MORTGAGE - **2 COPIES**
- [ ] VA TAX EXEMPT RIDER /PUD RIDER (IF APPLICABLE) - **2 COPIES**
- [ ] ASSIGNMENT OF MORTGAGE - **2 COPIES**
- [ ] FIRST PAYMENT LETTER
- [ ] HUD-I & AGGREGATE ESCROW ANALYSIS DISCLOSURE - **2 COPIES**
- [ ] COPY OF TITLE COMMITMENT **OR** SHORT FORM TITLE POLICY & **1 COPY**
- [ ] TAX CERTIFICATION & **1 COPY**
- [ ] HAZARD INSURANCE POLICY WITH 1 YR. PROOF OF PAYMENT & **1 COPY**
- [ ] MORTGAGEE CLAUSE LETTER, (HAZARD/FLOOD) - **2 COPIES**
- [ ] FLOOD CERTIFICATION & DISCLOSURES - **2 COPIES**
- [ ] FLOOD INSURANCE BINDER WITH 1 YR. PROOF OF PAYMENT (IF APPLICABLE)& **1 COPY**
- [ ] WIND/HAIL INSURANCE (IF APPLICABLE)
- [ ] BUYDOWN AGREEMENT (IF APPLICABLE)
- [ ] COPY OF W-9 FOR PRIMARY BORROWER
- [ ] IRS FORM 4506 OR 8821
- [ ] FINAL TYPED LOAN APPLICATION
- [ ] SURVEY (IF APPLICABLE)
- [ ] FINAL TRUTH-IN-LENDING
- [ ] TERMITE REPORT / SOIL TREATMENT GUARANTEE
- [ ] NOTICE OF POTENTIAL RECAPTURE TAX (IF APPLICABLE)
- [ ] VERIFICATION OF PAID VA FUNDING FEE (ON HUD ACCEPTABLE)
- [ ] VA26-1866A - CERTIFICATE OF COMMITMENT
- [ ] VA26-1843 - VA CERTIFICATE OF REASONABLE VALUE, IF APPLICABLE
- [ ] VA26-6393 - LOAN ANALYSIS
- [ ] VA1820-26 - REPORT & CERTIFICATION OF LOAN DISBURSEMENT
- [ ] LOAN MUST BE VA INSURED IF OLDER THAN 90 DAYS FROM CLOSING
- [ ] COMPLIANCE OR ERRORS & OMMISSIONS AGREEMENT
- [ ] COPY OF UNDERWRITING CONDITIONS
- [ ] UNDERWRITERS APPROVAL

- [ ] **CREDIT UNDERWRITING PACKAGE:** TRANSMITTAL SUMMARY, HANDWRITTEN LOAN APPLICATION PURCHASE AGREEMENT, FINAL INSPECTIONS, APPRAISAL, CREDIT REPORTS, NOTICE OF SALE AND ASSIGNMENT OF SERVICING RIGHTS, VOE'S, VOD'S, GOOD FAITH ESTIMATE, INITIAL TRUTH-IN-LENDING, SALES CONTRACT, MISC REC'D DOCUMENTS.

CONVENTIONAL LOAN DELIVERY CHECKLIST

BORROWER ______________________ **PROGRAM** ______________________

ORIGINATING LENDER ______________________ **CONTACT** ______________________

PHONE ______________________

- [ ] LOAN PRODUCT ACKNOWLEDGMENT
- [ ] CERTIFICATE OF RESIDENCE
- [ ] CUSTOMER IDENTIFICATION NOTICE (PATRIOT ACT)

PRODUCT:

CHBP 95	[ ]	MCM 97
FNMA 3/2	[ ]	MCM 100
FNMA 97	[ ]	MCM HM CHOICE
OTHER	[ ]	MCM COM SOL 97/100
		HFA HOME
		HFA COMM SOLUTIONS

IDENTIFY OTHER ______________________

- [ ] ORIGINAL NOTE & **1 COPY**
- [ ] NAME AFFIDAVIT, IF APPLICABLE - **2 COPIES**

- [ ] MORTGAGE - **2 COPIES**
- [ ] CONVENTIONAL TAX EXEMPT RIDER / CONDO-PUD-1-4 FAMILY RIDER (IF APPLICABLE) - **2 COPIES**
- [ ] ASSIGNMENT OF MORTGAGE - **2 COPIES**

- [ ] FIRST PAYMENT LETTER

- [ ] HUD-I & AGGREGATE ESCROW ANALYSIS DISCLOSURE - **2 COPIES**

- [ ] COPY OF TITLE COMMITMENT OR SHORT FORM TITLE POLICY - **2 COPIES**
- [ ] TAX CERTIFICATION - **2 COPIES**

- [ ] HAZARD INSURANCE POLICY OR BINDER WITH 1 YR. PROOF OF PAYMENT - **2 COPIES**
- [ ] FLOOD CERTIFICATION & DISCLOSURES - **2 COPIES**
- [ ] FLOOD INSURANCE BINDER WITH 1 YR. PROOF OF PAYMENT (IF APPLICABLE) - **2 COPIES**
- [ ] WIND/HAIL INSURANCE (IF APPLICABLE) - **2 COPIES**

- [ ] COPY OF BUYDOWN AGREEMENT, IF APPLICABLE - **2 COPIES**
- [ ] SIGNED MI CERTIFICATE / EVIDENCE OF PAYMENT TO MI COMPANY - **2 COPIES**

- [ ] COPY OF W-9 FOR PRIMARY BORROWER
- [ ] IRS FORM 4506 OR 8821 (FOR SELF-EMPLOYED BORROWERS ONLY OR IF UNDERWRITER REQUESTS)

- [ ] FINAL TRUTH-IN-LENDING
- [ ] FINAL TYPED LOAN APPLICATION

- [ ] ALTA 7 FOR MANUFACTURED HOMES
- [ ] SURVEY (IF NO ALTA 9)

- [ ] ASSURANCE /CERTIFICATE OF COMPLETION
- [ ] TERMITE REPORT / SOIL TREATMENT GUARANTEE IF REQUIRED FOR STATE

- [ ] COMPLIANCE OR ERRORS & OMISSIONS AGREEMENT
- [ ] 1008 UNIFORM UNDERWRITING TRANSMITTAL
- [ ] UNDERWRITER'S APPROVAL WITH COPIES OF CONDITIONS IF APPLICABLE

- [ ] **CREDIT UNDERWRITING PACKAGE:** INITIAL LOAN APPLICATION, INITIAL TRUTH-IN-LENDING PURCHASE AGREEMENT, FINAL INSPECTIONS, APPRAISAL, CREDIT REPORTS, NOTICE OF SALE AND ASSIGNMENT OF SERVICING RIGHTS, VOE'S & VOD'S OR ALT. DOCUMENTS, GOOD FAITH ESTIMATE.

RHS LOAN DELIVERY CHECKLIST

BORROWER ____________________ **PROGRAM** ____________________

ORIGINATING LENDER ____________________ **CONTACT** ____________________

PHONE ____________________

- [ ] CUSTOMER IDENTIFICATION NOTICE (PATRIOT ACT, APPLICABLE ONLY TO LEADER UNDERWRITTEN LOANS)
- [ ] PAY HISTORY (IF APPLICABLE)
- [ ] ORIGINAL NOTE & **1 COPY**
- [ ] NAME AFFIDAVIT, IF APPLICABLE - **1 COPY**
- [ ] MORTGAGE - **2 COPIES**
- [ ] RHS OR CONVENTIONAL TAX EXEMPT RIDER/CONDO-PUD RIDER (IF APPLICABLE) - **2 COPIES**
- [ ] ASSIGNMENT OF MORTGAGE - **2 COPIES**
- [ ] FIRST PAYMENT LETTER
- [ ] HUD-I & AGGREGATE ESCROW ANALYSIS DISCLOSURE - **2 COPIES**
- [ ] COPY OF TITLE COMMITMENT **OR** SHORT FORM TITLE POLICY & **1 COPY**
- [ ] TAX CERTIFICATION & **1 COPY**
- [ ] HAZARD INSURANCE POLICY WITH 1 YR. PROOF OF PAYMENT & **1 COPY**
- [ ] MORTGAGEE CLAUSE LETTER, (HAZARD/FLOOD) - **2 COPIES**
- [ ] FLOOD CERTIFICATION & DISCLOSURES - **2 COPIES**
- [ ] FLOOD INSURANCE BINDER WITH 1 YR. PROOF OF PAYMENT (IF APPLICABLE)& **1 COPY**
- [ ] WIND/HAIL INSURANCE (IF APPLICABLE)
- [ ] COPY OF BUYDOWN AGREEMENT, IF APPLICABLE
- [ ] COPY OF W-9 FOR PRIMARY BORROWER
- [ ] IRS FORM 4506 OR 8821
- [ ] FINAL TYPED LOAN APPLICATION WITH SIGNATURES & **CAIVRS#** TO APPEAR ON SIGNATURE LINE
- [ ] RHS CONDITIONAL COMMITMENT WITH SIGNATURES - RHS 1980-18
- [ ] EXECUTED RHS REQUEST FOR SFH LOAN GUARANTY - RHS 1980-21
- [ ] GUARANTEED LOAN CLOSING REPORT - 1980-19
- [ ] FMHA 1980-11
- [ ] LOAN MUST BE RHS INSURED IF LOAN IS OLDER THAN 90 DAYS FROM CLOSING
- [ ] SURVEY (IF APPLICABLE)
- [ ] FINAL TRUTH-IN-LENDING
- [ ] WARRANTY OF COMPLETION / TERMITE REPORT / SOIL TREATMENT GUARANTEE
- [ ] NOTICE OF POTENTIAL RECAPTURE TAX (IF APPLICABLE)
- [ ] COMPLIANCE OR ERRORS & OMISSIONS AGREEMENT
- [ ] 1008 UNIFORM UNDERWRITING TRANSMITTAL
- [ ] COPIES OF UNDERWRITING CONDITIONS AT CLOSING

- [ ] **CREDIT UNDERWRITING PACKAGE:** TRANSMITTAL SUMMARY, HANDWRITTEN LOAN APPLICATION PURCHASE AGREEMENT, FINAL INSPECTIONS, APPRAISAL, CREDIT REPORTS, NOTICE OF SALE AND ASSIGNMENT OF SERVICING RIGHTS, VOE'S, VOD'S, GOOD FAITH ESTIMATE, INITIAL TRUTH-IN-LENDING, SALES CONTRACT, MISC REC'D DOCUMENTS.

- [ ] **RHS DOCUMENTS:** THERMAL REQUIRMENTS AND COMPLIANCE STANDARDS,
WARRANTY COVERAGE, WATER QUALITY CHECK, EVIDENCE OF INSPECTED WASTEWATER SYSTEM,
DEFICIENCIES CORRECTED, PROPERTY SOUND &FUNCTIONALLY ADEQUATE & QUALIFIED INSPECTION.
RHS NEW CONSTRUCTION: CONSTRUCTION INSPECTION REPORT, FINAL INSPECTION, RHS 1924-25,
CERTIFIED PLANS & SPECS, & BUILDER WARRANTY
FORM 410-9 OR 410-10 PRIVAC\ EEO CLAUSE 400-1 OR 400-6 EOA

DELIVERY AND FUNDING GUIDE

JUNE 2004

GENERAL CLOSING REQUIREMENTS

TABLE OF CONTENTS

Delivery Section
GENERAL CLOSING REQUIREMENTS

INTRODUCTION

General Information

The following instructions are applicable to FHA, VA, RD, and Conventional bond mortgage loans to be sold to U.S. Bank Home Mortgage (USBHM). All loans will close in the name of the Originating Lenders. The mortgage loans must be readily marketable to prudent investors in the secondary mortgage market. In addition to these instructions, Originating Lenders must comply with individual loan conditions as set forth by the Department of HUD (FHA), the Department of Veterans Affairs (VA), the U.S. Dept of Agriculture (RHS or RD), Fannie Mae, FHLMC (Federal Home Loan Mortgage Corporation aka Freddie Mac), GNMA (Government National Mortgage Association aka Ginnie Mae), U.S. Bank Home Mortgage, and all conditions as set forth in the bond origination documents

Originating Lenders are responsible for full compliance with the Real Estate Settlement Procedures Act (RESPA), Federal Truth-in-Lending Law, and with supplying USBHM with the correct information to comply with the Home Mortgage Disclosure Act.

Originating Lenders will be responsible for the proper preparation and execution of all legal documents including but not limited to the closing statements, HUD-1 forms and Truth-in-Lending forms.

A complete closed loan package must be received in fundable condition by the Program deadline date for delivery of the loan file for purchase. If the loan being delivered is seasoned (90 days old), the closing loan package must include the original recorded Security Instrument, final Title Policy, original recorded Assignment(s) of Mortgage, if applicable, evidence of insurance on FHA/VA loans, and the original LNG (Loan Note Guaranty – RHS loans). The loan will not be considered eligible for purchase until these documents are provided.

If the loan has exceptions, which prevent immediate purchase, you will receive an individual letter regarding the items/documents needed as well as a stated time to clear the exceptions. Weekly reports of all loans with exceptions will be faxed to the Originating Lender. Failure to clear loans for purchase within the stated timeframe *may* result in the assessment of penalties or the return of the loan file to your institution. .

A. DELIVERY INSTRUCTIONS

1. Closed loan packages must be submitted in the legal sized file folder with all documentation “acco” fastened according to the appropriate Closed Loan Stacking Order Check sheet. The entire closed loan package should be reviewed for completeness and accuracy BEFORE shipping to USBHM.
2. U.S. Bank Home Mortgage Loan Number is the permanent Servicer loan number. It is to be used on all forms and correspondence given to the Mortgagor(s) at closing. The loan number will be assigned when the loan information is registered either via McWeb, by the Housing Agency, or by direct lock-in (check program guidelines for registration procedures). This is N/A of programs where a disk is used for loan delivery.

Loan packages must be sent via overnight delivery to the following address:

U.S. Bank Home Mortgage
17500 Rockside Road
Bedford, Ohio 44146
Attn: MRBP Operations Department

3. The Purchase/Review Contact Information sheet should be completed and submitted to USBHM immediately (See FORMS section). The office or department responsible for shipping the closed loans to USBHM should supply the information for "Contacts for Purchase/Review". If you currently participate in other programs being serviced by USBHM, and/or if you have personnel changes that affect this information at any time during the programs, please make sure to send the updated information to us immediately so that we have the most current contact information. Please note that wiring instructions for the wiring of funds for the purchase of loans are included on this form. Because the wiring instructions are computer-coded by USBHM when initially received from you, should your wiring instructions change **at any time** USBHM must be notified. Indicate the new information by correcting the old information on the "Purchase/Review" form and mark it "CORRECTION". U.S. Bank Home Mortgage will not be responsible for the incorrect wiring of funds if a notification was not sent to us. **NOTE*** U.S. Bank Home Mortgage will wire funds to only one bank. Multiple warehouse banks cannot be accommodated.

   Please follow these instructions:
   - All documents must be complete and correct.
   - White-outs are not acceptable.
   - Strike-outs must be initialed by the appropriate party.
   - Holes cannot be punched through recording information.
   - Information in any one document must agree with the information in all other documents.
   - All signatures must be identical to the printed or typed name.
   - All certified copies must be an original certification with original signatures of initials.
   - Certified copies of recorded documents (Assignments) must say "certified copy of the original document that has been sent for recordation".

   In addition to the above listed, please follow these requirements on all Bond Program Affidavits:
   - Mortgage Loan files submitted to the Servicer must contain signed original affidavits.
   - Blanks must be completed (enter "N/A" if not applicable to that loan).
   - The individuals signing the affidavits must initial any corrections or changes.
   - Use of BLUE PEN on documents is preferred. Pencil is not acceptable.

B. FUNDING DOCUMENTATION REQUIREMENTS

This section is to clarify the funding documentation requirements for most loans. *The documentation mentioned herein may not necessarily fulfill all requirements for all loans submitted to U.S. Bank Home Mortgage for purchase*. U.S. Bank Home Mortgage reserves the right to require additional documentation needed to enhance a loan file on the case-by-case basis. Please ensure that each document submitted is properly completed and correct.

1. **Note: Original Note must be in file**.

   i. The date must be typed and must agree with the date on the Deed of Trust/ Mortgage and HUD I.

   ii. The city and state where executed must be completed.

   iii. The property address must agree with the Deed of Trust/ Mortgage, Appraisal and HUD 1.

   iv. The loan amount must be correct, numerically and alphabetically, and must be rounded down to the nearest dollar.

   v. The Originating Lender's name must be correct.

   vi. If the Originating Lender Name includes a "DBA" (Doing Business As) or any variation of the Company Name, please include all supporting documentation.

   vii. The interest rate must be correct, numerically and alphabetically.

   viii. The first payment date must be correct as per the calculation of Per Diem Interest collected on the HUD I.

   ix. The maturity date must be correct.

   x. The Principal and Interest amount must be accurate. .

   xi. The grace period may not exceed 15 days, late charge not to exceed 5% (4% for FHA/VA/RD loans) or the maximum allowable in your state.

   xii. The borrower's name must be typed under their signatures. All borrowers listed on the loan application must execute the Note.

   xiii. The Borrower(s) must sign exactly as their names appear in type (inconsistencies will require a Name Affidavit)

   xiv. The correct acceptable Note form must be utilized.
      1. Conventional Fixed rate or RD must use the most recent Fannie Mae/ FHLMC multi-state note (unless otherwise specified in the program documents for RD loans).
      2. FHA must use most recent HUD Note.
      3. VA must use most recent VA form and be notarized if form requires it.

   xv. FHA Notes must include the case number in the upper right hand corner. Case number agrees with Certificate of Commitment or MIC/LGC/Note Guaranty.

   xvi. All parties must initial corrections. Corrections must be made by slashing through (///) or x'ing out the incorrect information typing above or below slash or x marks. All borrowers must initial all errors. No whiteouts are allowed. All pages of corrected Note must be included.

   xvii. Properly completed applicable Addendums and/or Riders must be included.

xviii. Endorsement on Note – (Please follow the Example Provided)

Pay to the Order of : **U.S. Bank N.A.** Without Recourse   By:______________________(signature) XYZ Mortgage Corporation (full legal name) John Doe, Vice President (typed name & title)

1. Be sure to type the name of your institution and the name and title of the officer endorsing the Note. ***Stamped signatures are not acceptable***.

2. All endorsements should be made on the back of original Note only. An allonge is acceptable only if there is no room on the Note for an endorsement. The allonge must reference the borrower's name, property address and loan amount. Endorsements on Riders or Addendums are not acceptable.

3. Cancelled endorsements should be lined through or stamped over "CANCELLED" and initialed.

4. The endorsements must follow the chain of title.

If an original note needs to be returned to you for any reason, it will be sent by overnight mail at your expense. When corrected, it is to be returned by overnight mail. If the note comes from your bank with a bailee letter, it will be returned to your bank.

2. Name Affidavit (If applicable):

i. Must be notarized (signed and dated by notary).

ii. Indicate that the individual is known by more than one name or variation of one name.

iii. The property address is identified.

iv. The affiant has signed the affidavit.

v. The original affidavit is in the loan file.

3. Power of Attorney (If applicable):

i. U.S. Bank Home Mortgage accepts only a Limited (Specific) Power of Attorney in those cases that require one.

ii. It must be clear that the mortgagor is appointing a Power of Attorney.

iii. It must be clear who is being appointed with a Power of Attorney.

iv. The Power of Attorney must be signed and dated by the appointer (the mortgagor).

v. The copy of the Power of Attorney must be notarized.

vi. The Power of Attorney cannot expire prior to the execution of the loan documents if there is an expiration date.

vii. The property address and legal description must agree with the Mortgage/Deed of Trust.

viii. The Power of Attorney must be recorded concurrently with the Deed of Trust/Mortgage.

ix. The person being appointed with the Power of Attorney is "Attorney in Fact" and must sign the closing documents as follows:

____

Jane Doe By John Doe, Her Attorney-in Fact

The signature could be: "Jane Doe by John Doe, Her Attorney-in Fact", "John Doe, Attorney-in Fact for Jane Doe". The manner of signing must be legally acceptable according to state guidelines and must clearly show the signer to be the one authorized to sign for the other specifically named individual.

x. Must meet applicable state requirements.

xi. The Title Company must insure a valid Power of Attorney and that seller has a valid first lien.

xii. The final Title Policy must not contain any exceptions based on the use of the Power of Attorney.

ASSIGNMENT OPTIONS:

MERS (**M**ortgage **E**lectronic **R**egistration **S**ystem):

USBHM is a member of MERS. MERS is an electronic registration system that tracks the ownership and servicing rights of a loan. If you are a member of MERS, USBHM will accept your MOM **(M**ERS as **O**riginal **M**ortgagee**)** documents. If you are not a MERS member, you will need to close the loan using the customary mortgage forms and assignments.

When you are MERS ready and will be shipping your first MOM loan, U.S. Bank Home Mortgage will need your Organization ID number (ORG ID) and the name and phone number of a contact person. A MERS Contact Sheet is provided for your use (See FORMS section). USBHM's system must be updated with your ID number and a lack of notification could result in a purchase delay.

If MOM documents have been used, please do not include copies of any assignments in the loan file that is shipped to us, as they are unnecessary. If you are a member using a customary mortgage form, but will be registering the loan with MERS, a copy of the assignment to MERS must be included in the shipped loan file. U.S. Bank Home Mortgage requires that the Beneficial and Servicing Rights be transferred to us within ten (10) business days of purchase.

4. **Corporate Assignment**—AKA Assignment of Mortgage, Transfer of Lien, Assignment of Security Deed. N/A if **MERS** Loan.

i. **U.S. Bank N.A.** is the beneficiary of the Assignment. Assignment should be made to Mortgage Electronic Registrations System, Inc P.O. Box 2026, Flint, Michigan 48501-2026, its successors and assigns as nominee for **U.S. Bank, N.A..** its successors and assigns, The mortgage identification number (MIN) and the MERS telephone number 1-888-679-6377 must appear on the first page of the assignment.

ii. All information contained in the Corporate Assignment must be complete, correct and agree with the Deed of Trust/Mortgage and Note.

iii. It must contain the legal description of the property, which is identical to that on the Deed of Trust/Mortgage.

iv. It must be signed by an officer of the assigning corporation with the officer's name and title typed below the signature. The name of the assigning corporation must appear above the signature line.

v. Copies must be a *"certified true and exact copy"*, must carry a live ink signature of the person making the certification, and must be fully notarized, with stamp, seal and expiration date of notary.

vi. Intervening Assignments must conform to the guidelines stated above.

vii. MIN (**M**ortgage **I**dentification **N**umber) and telephone number must be accurate.

5. **Deed of Trust/Mortgage** (Security Instrument) – (If MOM loan, all security instruments should continue to be transferred to MERS Originator ID 1000212)

a) Copies must be certified as true and exact copies of the original. Appropriate, complete Riders must be attached.

b) The Notarized section must be completely filled in and signed by a notary. The stamp/seal and expiration date is required.

c) The date of the notary must be the same date of the security instrument.

d) All information contained on the Deed of Trust/Mortgage must be complete, correct and agree with the Note and Corporate Assignment. The typed names of the borrowers must be included under the signature line and must match the borrower's names as shown on the faces of the Security Instrument.

e) All parties who have an interest on the property (i.e., spouses in community property states) must have signed.

f) The acceptable forms should be utilized:

1. Conventional/VA/RD loans must use most recent Fannie Mae /FHLMC form.
2. FHA must use most recent HUD form.

g) All Mortgagors must initial all corrections, additions and deletions. **No whiteouts allowed**.

6. Assignment of Rents 1-4 Family Rider

a) The date must match the Note and Deed of Trust/Mortgage.

b) The name of the lending institution must agree with the Deed of Trust/Mortgage.

c) The property address must match that on the Deed of Trust/Mortgage.

d) The borrower's typed names must be the same as on the Deed of Trust/Mortgage.

e) The borrowers must have signed as their name is typed and must match Deed of Trust/Mortgage.

f) The original must be recorded.

g) This form is mandatory on all properties with rental income or more that one unit.

7. Rehabilitation Loan Rider (*If applicable for current Bond Program. Refer to the Program Origination Agreement)

a) The date must match the Note and Deed of Trust/Mortgage.

b) The name of the Originating Lender must agree with the Deed of Trust/Mortgage.

c) The property address must match that on the Deed of Trust/Mortgage.

d) The borrower's names typed must be same as on Note, Deed of Trust/Mortgage and as vested on the Title Policy.

e) The borrower(s) must have signed as typed and match the Deed of Trust. Mortgage.

f) Rehabilitation Loan Agreement date must be inserted.

g) The FHA case number must be complete and correct.

h) The original must be recorded.

8. Condominium Rider

a) The date must agree with the Deed of Trust/Mortgage.

b) The Originating Lender's name must be the same as on the Deed of Trust/Mortgage.

c) The property address must match that on the Deed of Trust/Mortgage.

d) The correct name of the Condominium Project must be listed on the rider and match the Title Policy.

e) The borrower's names typed same as on the Note, Deed of Trust/Mortgage and as vested on the Title Policy.

f) The borrower(s) must have signed as typed and must match the Note and Deed of Trust/Mortgage.

g) The original must be recorded.

h) A completed rider is required on all condominium transactions.

9. PUD Rider

a) The date must be the same on the Deed of Trust/Mortgage.

b) The Originating Lender's name must agree with the Deed of Trust/Mortgage.

c) The property address must match that on the Deed of Trust/Mortgage.

d) The correct name of the PUD Project must be listed on the rider and match the Title Policy.

e) The borrowers names typed same as on the Note, Deed of Trust/Mortgage and as vested on the Title Policy.

f) The borrower(s) must sign the same as typed and must be the same as on the Deed of Trust/Mortgage.

g) The original must be recorded.

h) A completed rider is required on all PUD transactions.

10. VA Rider

a) The closing date must match the Note and Deed of Trust/Mortgage.

b) The name of the Originating Lender must agree with the Deed of Trust/Mortgage.

c) The property address must match that o n the Deed of Trust/Mortgage.

d) The borrower's name typed must be that same as on the Note, Deed of Trust/Mortgage and as vested on the Title Policy.

e) The borrower(s) must have signed their name exactly as typed and as on the Deed of Trust/Mortgage.

f) The original must be recorded.

g) A completed rider is required on all VA loan transactions.

11. HUD-1 Settlement Statement

Check HUD I:

a) Type of loan – proper box is marked.

b) Name of borrower agrees with the name on all legal documents.

c) The name of seller is identified and completed.

d) The name of the Originating Lender is identified and completed.

e) The property location agrees with Note, Deed of Trust/Mortgage and appraisal and loan application.

f) The settlement date is reflected. This date may or may not be the same as on the Note and Deed of Trust/Mortgage.

g) The summary of borrower's transaction:

1. The contract sales price must agree with the sales contract.

2. The principal amount of the new loan must agree with the loan amount stated on the Note and Deed of Trust/Mortgage.

3. If the loan contains a buy down agreement, the total buy down funds will be shown in either borrower's column or seller's column. In addition to buy down funds reflected here, escrow holdbacks may be shown under this heading.

4. The HUD I clearly lists all mortgage assistance or grants provided to the borrower.

5. FHA/VA loans must reflect the Mortgage Insurance Premium (MIP)/and Funding Fee (FF) paid. RD loans must have the guarantee fee paid.

6. The Hazard Insurance premium prepaid for 12 months is acceptable in lieu of a paid receipt.

7. The Flood Insurance premium prepaid for 12 months is acceptable in lieu of a paid receipt.

8. All loans must have adequate reserves deposited with the lender. Conventional loans with loan-to-value (LTV) below 80.00% may or may not reflect reserves. Requests for an escrow waiver on loans with an LTV below 80% will be reviewed on a case-by-case basis and will be subject to a .25 price adjustment at loan funding. Adequate reserves for taxes/insurance, etc. must be shown to have been collected to insure there are sufficient funds available to pay the next installment when due.

9. Both the borrower and seller must sign the HUD-1 settlement statement (if the loan transaction is a purchase). Only the borrower's signature is required if the loan transaction is a refinance. The settlement agent must sign and date this document in either case.

10. Addendums must be executed by all parties.

12. **Temporary Buy downs (*If applicable for current Bond Program. Refer to the Program Origination Agreement)**

a) A buy down is a financial incentive offered by the seller (frequently also the builder) to a buyer, which enables the buyer to reduce the mortgage payment in the early stages of the loan. This may also allow the borrower to more easily qualify for the loan. The buydown funds are held by U.S. Bank Home Mortgage and are used to supplement the borrowers payment.

b) When U.S. Bank Home Mortgage buys the loans, the buy down contribution will be deducted from the wire amount in the same was as other collected escrows for insurance and taxes.

c) To document the buy down, there must be an original, signed buy down agreement in the closed loan package.

13. **Title Commitment**—AKA Title Binder or Prelim. (Please refer to Title Insurance Requirements)

Check for these items on the title commitment:

a) Purchase transactions should show the borrower(s) as the “proposed insured”, which may or may not be accompanied by a vesting.

b) The proposed dollar amount of the Deed of Trust/Mortgage

c) The legal description agrees with the Deed of Trust/Mortgage and the appraisal

d) The date must be the same or prior to the Deed of Trust/Mortgage.

e) Schedule B items, such as delinquent taxes, judgments and liens must be paid on HUD-1

f) A copy of the survey or plat map is needed unless a location endorsement has been ordered. The commitment must contain wording such as “a comprehensive endorsement and location note have been approved for loan policy”. The address of the property will also be noted.

g) Attorney’s opinion letter (if applicable to your state) must be included. Do not include the Abstract of Title.

h) All title insurance must include an Environmental Protection Lien Endorsement.

i) The latest ALTA form of title insurance policy is required. In states where ALTA forms are not used, similar coverage will be required.

j) ALTA policies must be audited for proper endorsements (i.e., EPA endorsement 8.1, PUD endorsement ALTA 5, Condo endorsement ALTA 4, Manufactured Housing Endorsement ALTA 7, etc.)

k) An ALTA 9 endorsement to the title policy must be obtained for loans where surveys are not required.

14. Surveys or Plat Survey

Check the following items:

a) A survey will be required if evidenced on the HUD-1 that there has been a charge for a survey. If a survey is not required, an Alta 9 endorsement to the title policy must be obtained.

b) The Survey identifies the property by the street address or the legal description, (preferably both)

c) It must be signed and sealed by surveyor.

d) A photocopy of the survey is acceptable.

15. Flood Certification

All files must contain a Life of Loan Flood certification from an outside third party.

16. Hazard Insurance

U.S. Bank Home Mortgage requires an insurance policy or binder (if in a binder state) with a paid receipt for one year. Please check for the following:

a) The policy must reflect the borrower(s) name(s).

b) The original policy must contain the agent(s) signatures, their address and telephone number. It must also reflect the company name and policy number.

c) The coverage amount must be for at least the amount of the loan or for full replacement coverage. (Some states limit required coverage to amount of improvements).

d) The policy is in effect on the day of closing (coverage in force).

e) The full property address must be referenced.

f) Provide proof the policy is paid for the first year.

g) Provide evidence that **U.S. Bank N.A**. had been named as First Loss Payee. The Loss Payee should read:

   U.S. BANK N.A. its successors and or assigns as their interest may appear.
   c/o U.S. Bank Home Mortgage
   P.O. Box 7298
   Springfield, OH 45501-7298

h) Deductibles may not exceed $1,000 for a single-family dwelling.

i) A 60-day binder is acceptable with a one year paid receipt. *Check origination agreements for specifics.*

j) A copy of the hazard/liability policy for condo projects will be required when applicable.

k) U.S. Bank Home Mortgage will deduct the required amount of hazard insurance escrow from the wire amount to insure sufficient funds to pay the premium when due. The Originating Lender will be responsible for collecting any shortage from the borrower(s)

l) For conventional loans on a 2-4 unit dwelling, you must provide us with a policy which includes “rental loss” insurance if you used the rental income to qualify the applicant.

m) For properties in an association such as a townhouse or condominium, there is customarily a Master Policy with Certificates issued to each borrower. This will be acceptable as evidence of insurance.

n) Any payment of premiums due before the first payment to U.S. Bank Home Mortgage will be the responsibility of the Originating Lender as will all other late charges, penalties and other costs.

- **Acceptable Evidence of Payment of Hazard Insurance**
  1. Policy stating premium amount is paid in full.
  2. Cancelled check (copy of front).
  3. A paid receipt from the insurance agent or insurance company.
  4. Payment deducted on the HUD-1.

17. Flood Insurance

(Note: Loans on properties in a non-participating community, which is in a flood zone, will NOT be eligible for purchase

a) Flood Zones A and V require flood insurance.

b) Flood Insurance Application must reflect the borrower(s) name(s).

c) The coverage must be equal to the loan amount or the maximum available under the National Flood Insurance Program's regular program.

d) The Policy is in effect (coverage is in force).

e) The full property address must be referenced.

f) Evidence that the policy is paid for first year.

g) Evidence that **U.S. Bank N.A.** has been named as First Loss Payee. The Loss Payee should read:

U.S. BANK N.A., its successors and/or assigns as their interest may appear.
c/o U.S. Bank Home Mortgage
P.O. Box 7298
Springfield, OH 45501-7298

h) Deductibles may not exceed $1,000 for single family dwelling.

i) The name of the borrower(s) and the property address must appear on the Flood Insurance Application.

j) Any premiums which are due before the first payment to U.S. Bank Home Mortgage will be the responsibility of the Originating Lender as well any late charges or penalties assessed with the late payment.

- **Acceptable Evidence of Payment of Flood Insurance**

  1. Policy stating premium is paid in full.
  2. Cancelled check (copy of front).
  3. Paid receipt from insurance agent or insurance company.
  4. Payment is deducted on the HUD-1.

18. Private Mortgage Insurance

U.S. Bank Home Mortgage requires Private Mortgage Insurance (PMI) on all Conventional Mortgage Loans with a Loan-To-Value (LTV) in excess of 80.00%.

Please review the following:

a) Original commitment must be in the file with the lender's information completed on the bottom and signed by the lender.

b) Coverage must equal or exceed the loan amount. Private Mortgage Insurance is required on all mortgages where the loan-to-value exceeds 80.00%. Please refer to the program guidelines for Private Mortgage Insurance requirements.

c) Evidence that premium has been paid must be reflected on the HUD-1.

d) Amount of coverage must be correct per product guidelines.

e) All information must be complete, and agree with loan file.

- **Acceptable Private Mortgage Insurance Companies**

GEMICO	RADIAN	UGI
RMIC	MGIC	PMI

One-time MI premiums offered by some mortgage insurance companies are acceptable provided that total LTV doesn't exceed 90% including MI premiums. *Any program LTV limitation would take precedence on Fixed Rate Purchases and Fixed Rate Refis.*

The monthly MI premium plan is acceptable for all loan programs requiring mortgage insurance. The monthly premium plan is currently available through all the approved primary MI companies (see above). Two month's premiums must be collected at closing and non-refundable premium rates should be used. Check with your local MI company representative to make sure the program is available in your area.

U.S. Bank Home Mortgage requires full MI coverage per Fannie Mae/FHLMC requirements and **will not accept reduced MI coverage**.

19. Completed Transfer of Servicing form on FHA and RD loans (See FORMS section).
*__NOTE – Insuring of all FHA, RD, and VA loans must be done within 60 days of loan closing.__

20. Typed Loan Application

a) Fannie Mae 1003 must be utilized for all Conventional, Government and RD mortgage loans.

b) The typed Loan application must contain the verified information from the credit report, exhibits and appraisal. Any discrepancy requires a written explanation.

c) All borrowers must sign and date the Loan Application.

d) The Loan Application must be signed by the lender.

e) Interest rate and loan amount must be completed.

f) How the title is held should be indicated.

g) Home Mortgage Disclosure Act (HMDA) information section must be complete. *New HMDA requirements must be followed.

21. Appraisal

Check the following items:

a) The appraisal report form is correct for the type of property being appraised and all applicable exhibits are included.

b) The appraisal was signed by the appraiser prior to approval of the loan.

c) The appraiser is qualified and disinterested in the subject transaction.

d) The appraiser has made both exterior and interior inspections of the property.

e) The property address agrees with the Note and Mortgage.

f) If the lender/client is not the lender referenced on the Note, one of the following will be required:

   1) Credit Transfer Letter

   2) Copy of HUD Case Assignment Results

   3) Sponsor relationship reflected on page 1 of HUD form 92900A

g) The appraisal must be dated within 6 months of loan closing. A re-certification of value will be required if the appraisal is over 6 months old.

h) Original photos of the subject and comparables are required. On Conventional loans, processed originals and printed digitals are acceptable.

i) U.S. Bank Home Mortgage reserves the right to request a review appraisal if not satisfied with the one delivered. This cost will be paid by the originating lender.

22. W-9 Forms

Federal regulations require us to have in each loan transaction, verification of the social security numbers for each borrower. The completed W-9 form signed by all mortgagors satisfies this requirement. The form is to be completed with the name, mailing address and social security number of the mortgagor. Each W-9 form must be signed and dated.

23. IRS Forms 4506

U.S. Bank Home Mortgage requires IRS Form 4506 to be executed by the borrower(s) on any loan that is underwritten using alternative documentation (virtually all LP or DU approvals). A signed Form 4506 must accompany all packages submitted for validation of underwriting approval. Also, a Form 4506 will be required on all loans for which tax returns have been obtained, including self-employed borrowers. An additional Form 4506 must be executed at time of loan closing and submitted with the closed loan package.

24. Truth-in-Lending

All fees considered finance charges must be include in the calculation of the total finance charge and the APR. Any finance charges paid by the borrower outside closing must be included in the calculations. Any finance charges paid by the seller or another third party should not be included in the calculation. If the seller is paying a pre-determined amount of the borrower's closing costs, all fees that are not finance charges should be paid first before applying the seller credit to any of the finance charges. *Please note that the INITIAL TIL must be dated within three (3) days of application.

25. Notice to Mortgagor Regarding Actual Transfer of Servicing

The notice to the mortgagor advising them of the actual transfer of servicing must contain the required RESPA information. The Cranston Gonzales Act requires the borrower(s) to receive notification at least fifteen (15) days prior to the effective date of the transfer. U.S. Bank Home Mortgage suggests using the Notice of Assignment, Sale or Transfer of Servicing Right form when notifying the borrower(s) that the loan has been sold to U.S. Bank Home Mortgage. Any equivalent type of "Good-bye" letter is acceptable as long as it has all the required information. This disclosure must provide the borrowers with the name of the new servicer, the address and toll-free phone number:

U.S. Bank Home Mortgage
17500 Rockside Road
Bedford, OH 44146
1-800 240-7890

C. AGGREGATE ESCROWS

Originating Lenders will be responsible for collection of the appropriate amount of taxes and insurance.

The "Aggregate Method" of calculation must be used for establishing escrow accounts. It can be defined as the accounting method a lender or bank uses in computing the sufficiency of the escrow account funds by analyzing the account as a whole. Originating Lenders are responsible for collecting the correct amount of escrows at closing. If insufficient funds are collected at closing U.S. Bank Home Mortgage will require the Originating Lender to correct the shortage in addition to providing the borrower with a re-disclosed initial escrow account statement. The shortage must be corrected prior to purchase by U.S. Bank Home Mortgage.

***Please note that U.S. Bank Home Mortgage will not fund loans with negative escrow.**

The Aggregate Accounting Adjustment reflected on lines 1006-1008 of the HUD-1 must always be a negative number (credit) or zero. If your calculations result in a positive number (greater than zero), you should re-check your calculations.

However, if your calculations are correct. You can only reflect a zero (0) for the Aggregate Accounting Adjustment on the HUD-1. The regulation does not permit a positive charge on the HUD-1. Keep in mind that you cannot collect the positive charge Aggregate Accounting Adjustment shown in your calculation.

D. FIRST PAYMENT DATE

All loans must be closed with the monthly payments coming due on the first day of each month. Therefore, the first payment should be set so the borrower, when making the first payment, will pay an entire month's interest. First payment dates cannot exceed 61 days from the date of disbursement.

Example: Closing date is May 1st- First payment is June 1st. The borrower would pay May's interest with the June payment

Closing date is May 2nd-First Payment is July 1st. The borrower would pay interest from May 2nd to May 31st at closing; June's interest would be paid with the first payment.

U.S. Bank Home Mortgage will allow other time frames to be considered on a case-by-case basis.

Per Diem is calculated on **365**-day basis.

D1. NOTES DELIVERED BY WAREHOUSE BANK

If your Notes are delivered directly to us from your Warehouse Bank, they must be delivered in identifiable form. Please instruct your Warehouse Bank to attach the Note to a cover sheet, which reflects the identifying U.S. Bank Home Mortgage loan number, borrower's name and the property address. This will enable us to quickly match the Note with the corresponding closed loan package. Please make your bank aware that it is critical that the Note be delivered to the following address:

U.S. Bank Home Mortgage
17500 Rockside Road
Bedford, OH 44146
Attn: MRBP Bond Operations

E. EXCEPTION (SUSPENDED) LOANS

Loans which are not in a fundable condition must be perfected within 30 days of notification by USBHM to Originating Lender.

A copy of the Exception Notice must be attached to all documentation sent to U.S. Bank Home Mortgage to clear a suspended loan.

F. FUNDING

Following receipt of a complete closed loan package or the exception items needed for purchase. U.S. Bank Home Mortgage will wire funds according to the provided wire instructions. You will receive a faxed confirmation detailing the purchase transaction on the day the funds are wired.

To ensure that the proceeds from the purchase are wired to the correct warehouse bank, wiring instructions must be enclosed in each closed loan package. The instructions must include the borrower's first and last name along with the correct wire instructions.

Interest paid-to-date will be calculated by U.S. Bank Home Mortgage on a 360-day calendar year.

Any loan purchased between the 16th and the last day of the month, where the first payment is due the following month, will be funded at an amortized balance. It will be the Originating Lender's responsibility to collect that payment from the mortgagor.

Taxes/homeowners & flood insurance/MIP due prior to the first payment due to U.S. Bank Home Mortgage will be the responsibility of the correspondent to pay. (Needs to be double- checked). The

Originating Lender is also responsible for late charges, penalties and other costs if they are not paid. To assure that MIP is paid timely and the borrower's escrow account is not negatively impacted, U.S. Bank Home Mortgage will collect and pay all MIP premiums unless a payment history is provided reflecting disbursement of the MIP. If the MIP is paid in error by the Originating Lender, the Originating Lender must obtain the refund from HUD. Any payment of taxes, homeowners or flood insurance, which are due before the first payment due to U.S. Bank Home Mortgage, will be the responsibility of the Originating Lender. The Originating Lender will also be responsible for late charges, penalties and other cost if not paid timely.

A loan history is required on loans where payment(s) were due on the first of the previous month (i.e., first payment due per Note is May 1; loan to be purchased on June 15). It is the Originating Lender's responsibility to forward an updated history if the history previously provided is outdated. Mortgage payments received after U.S. Bank Home Mortgage purchases a loan must be forwarded to:

U.S. Bank Home Mortgage
P.O. Box 790415
St. Louis, MO 63179-0415
Attn: Payment Processing Department

Tax bills received after U.S. Bank Home Mortgage purchases a loan must be forwarded to:

U.S. Bank Home Mortgage
17500 Rockside Road
Bedford, OH 44146
Attn: Tax Department

G. POST-FUNDING FOLLOW-UP DOCUMENTATION

Any required post-funding follow-up documentation will be notated in a letter that is sent to the Originating Lenders. The required follow-up documentation must be delivered to U.S. Bank Home Mortgage by the deficiency due date. If not, you may be required to repurchase said loans(s) within 30 business days of a written demand by U.S. Bank Home Mortgage.

A copy of the Exception Letter must be attached to all documentation that is sent to U.S. Bank Home Mortgage to clear a post-funding deficiency.

H. FINAL DOCUMENTATION

All final documentation must be delivered to U.S. Bank Home Mortgage within 90 days of the date of purchase. Failure to provide documentation within this timeframe will result in penalties or possibly repurchase of the loan. If required to repurchase the loan, a wire must be received within 30 business days of the written demand by U.S. Bank Home Mortgage. USBHM may elect to collect outstanding documentation. If so any costs associated with the collection will be invoiced to the correspondent with timely reimbursement excepted.

Original loan documents relating to each loan purchased, which U.S. Bank Home Mortgage must receive within said 90 day period include:

1. Title Policy with applicable endorsements.

2. Recorded Deed of Trust/Mortgage or applicable security instrument.

3. Recorded Corporate Assignment, or its equivalent.

4. Mortgage Insurance Certificate/Loan Note Guarantee (address paperless environment here when determined).*

5. Recorded Power of Attorney.

6. Recorded Deed of Trust/Mortgage for Second Mortgage (if applicable).

7. Recorded Corporate Assignment for Second Mortgage (if applicable).

*Please note when submitting government insuring information to us, FHA loans must be insured within 30 days of CLOSING. The transfer of Servicing rights MUST be completed within 15 days of the purchase of the loan by U.S. Bank Home Mortgage. VA loans require the original LGC or a print screen from EDI evidencing the loan is insured. Rural Housing loans require the original LNG (Loan Note Guaranty).

All follow-up documentation, along with the Final Closed Loan Package Transmittal (see Forms section) should be forwarded as shown below.

U.S. Bank Home Mortgage
17500 Rockside Road
Bedford, OH 44146
Attn: Document Control

I. TITLE INSURANCE REQUIREMENTS

U.S. Bank Home Mortgage will accept a title insurance policy issued by an American Land Title Association Title Company (ALTA) specially authorized by law or licensed to do business within the state where the property is located. Title Insurance Companies must be acceptable to Fannie Mae, Freddie Mac and Ginnie Mae in order to be eligible title insurers for loans purchased by U.S. Bank Home Mortgage. Short form policies are encouraged.

If the final title policy has not been issued at the time you deliver your closed loan file to U.S. Bank Home Mortgage we will accept a title binder. Your final title insurance policy must contain the following:

1) Insured Party in Schedule A – The original mortgagee or assignee should be reflected with “Its Successors and/or Assigns” added.

2) U.S. Bank Home Mortgage must hold a valid first lien position.

3) The effective date of the policy must be the same as or later than the recording date of the security instrument unless the policy is a master policy or a short form policy.

4) The complete legal description must be shown, if applicable, including lot, block, addition, city, county and state and be exact to the mortgage.

5) The complete tax identification number and amount of taxes must be shown unless the policy is a master policy or a short form. (Some states may not show the amount of taxes).

6) Title insurance coverage must be for at least the loan amount. On graduated payment mortgages, coverage must be for the highest loan amount after all deferred interest is added to the principal.

7) Name(s) of the mortgagor(s) must be consistent with those on the security instrument.

8) All titles must be held as Fee Simple.

9) The mortgagor(s) and mortgagee/beneficiary names, loan amount and date, recording information and recording state entered in Schedule A should be checked against the security instrument. The following is a sample entry containing all required information:

Mortgage from Robert T. Jones and Cynthia R. Jones, husband and wife, to U.S. Bank N.A., dated January 20, 1996, and recorded January 25, 1996 in Book No. 451, Page 3544, as Document No. 1242534 in Jefferson County, Kentucky, in the amount of $50,000.00. Note: if the security instrument has been re-recorded, the security instrument description must show the re-recording information also.

10) If a borrower's spouse has not signed the security agreement, the title insurance policy must affirmatively state that the lien of the Mortgage described on Schedule of the policy is not affected by the absence of the spouse's signature.

11) A plat drawing/survey/"Mortgage Inspection Report" must be included in the closed loan package. The correct dimensions of the lot, the location of any improvements, the measurement from the improvements to the various lot lines, the location and identity of all easements and encroachments must be identified and illustrated on the drawing. All permanent structures must be identified (i.e., house, garage, storage, etc.) The location of easements (east side, west side, etc.) must be described in the title policy.

Surveys are acceptable up to six months old.

If a Location Endorsement, ALTA 116 is not customary to the state and no plat/survey is available, then survey exceptions cannot be noted on the title commitment/final policy.

12) Required Endorsements:

U.S. Bank Home Mortgage requires the following endorsements to the final title policy:

a) All loans require the Comprehensive Endorsement 100 or ALTA 9.

b) All loans require the Environmental Protection Lien Endorsement (ALTA 8.1).

c) All condominium mortgages require the Condominium Endorsement (ALTA 4).

d) All properties located in a planned unit development require the PUD Endorsement (ALTA 5).

e) All manufactured homes require an ALTA 7. Manufactured housing refers to housing produced in or at a factory. The sections are transported to the building site for final assembly. Mobile Homes meeting the specifications below are considered manufactured housing but modular, panelized or prefabricated homes are not considered manufactured housing. Manufactured housing must meet the following specific requirements: **NOTE all Manufactured homes _must be eligible products_ _as defined by the program documents_*. Additionally:

1) Property must be legally classified as real property.

2) Maximum lot size is 5 acres (In general land value should be no greater than 35% of the overall property value.

3) Its property must have a general appearance and functional utility of a site – built home.

4) The unit must have been built after June 15, 1976.

5) A unit maybe a single or double wide.

6) An appraisal or other acceptable alternative with original photos or high quality copies must be in the file. Comparables must include no more than one-site built home. The comparables and comments must support marketability and value. The value may not include furniture; free standing appliances or other items of a personal nature.

7) The home must be permanently attached and anchored per manufacturer specifications and/or state/local building codes. The home must also have acceptable full perimeter walls that include brick, block and poured concrete or treated wood.

8) Wheels, axles and trailer hitches must be removed.

9) The home must have a pitched roof with overhang. Roof covering must be standard composition shingle (asphalt or fiberglass) or better.

10) The unit must have permanent steps and stoops or proper footings.

11) On-site parking must be provided.

J. General Title Waivers

Title to the mortgaged property must be free and clear of all exceptions that would affect the first lien position of U.S. Bank Home Mortgage in any way. Schedule B, Part 1 of the title binder and final title policy lists title exceptions for which the title company is not providing coverage. Before closing, Originating Lenders must determine what action, if any, should be taken to protect the interest of U.S. Bank Home Mortgage in the case of each such exception appearing on Schedule B, Part 1.

The Title insurance industry is in the business of insuring over the title to property, not over its value. If the defect in question has potential effect on the chain of title, the title company should insure over it on the final title policy, either by specific wording on Schedule B or by endorsement.

Examples of such defects are those referred to as:
“Convenants”,”Conditions”,”Restrictions”,”Declarartions”,”Agreements”,”By-laws”, etc. which might cause the forfeiture or reversion of title if they were violated.

If the defect in question has the potential for an adverse effect on the use and enjoyment of the improvements and hence, on the value of the property as a whole, a specific waiver should be requested.

- The appraiser who completed the appraisal must execute conventional waiver.
- VA wavier request must be sent to the appropriate local VA office: Attn: Valuations.
- FHA waiver requests must be sent to the Direct Endorsement underwriter that underwrote the loan. If the wavier request involves a large adjustment in the value of the property, the local FHA office may need to approve.

All waivers should be reviewed and approved prior to closing by the appropriate agency or appraiser listed above.

Examples of defects of this kind are easements, right of way, and encroachments, which are not covered by the General Title Waivers.

a) Real Estate Taxes: FHA/VA/Conventional/RD – Real Estate Taxes must be followed by the statement, “Taxes that are not yet due and payable”. Outstanding special assessments cited must be followed by the statement, “Special assessments hereafter levied”.

   Note: There are no “pending assessments now a lien.”

b) Restrictions, Covenants and Conditions: FHA/VA/RD/Conventional restrictions, covenants and conditions cited must be followed by the statement, “which have not been violated to date. Any future violations will not result in forfeiture or reversion of title”. Restrictions, covenants and conditions cited that have been violated must be followed by the statements. “This policy insures against all losses or damages by reason of this violation. This policy insures that neither said violation nor any future violation will result in forfeiture or reversion or title.”

- **The following exceptions are not acceptable on final title policies:**
  - Rights of Tenants in Possession.
  - Easements or claims of easements not shown of public record.
  - Right of first refusal.
  - Exceptions for dower or courtesy rights.
  - Fraudulent Conveyances.
  - Liens (except taxes not yet due and payable).
  - Exceptions which state anything as to matters of survey: (Examples: discrepancies, conflicts, and shortages in area or boundary lines, encroachments or any overlapping of improvements, which an accurate survey of the premises would disclose.) Exceptions which state “possible” or “if any” must be specified or deleted.
  - Rights of others in and to the use of the secured property.

FORMS

1. **Closed Loan Stacking Order Sheet**
    a. Conventional Loans
    b. FHA Loans
    c. VA Loans
    d. RHS Loans

2. **MERS Contact Information Sheet**

3. **Contacts for Purchase/Review**

4. **Final Document Delivery Transmittal**

U.S. BANK HOME MORTGAGE
FROM THE DESK OF PAT BISHOP

PH: 216-475-8403
FAX: 216-475-8622
Patricia.Bishop@usbank.com

MERS CONTACT INFORMATION

COMPANY NAME____

ORG ID #____

*CONTACT NAME*____

*PHONE NUMBER*____

*FAX NUMBER*____

*E-MAIL ADDRESS*______________________________________

*SUPERVISOR*____
If not the same as above

*PHONE NUMBER*____

*FAX NUMBER*____

*E-MAIL ADDRESS*_______________________________________

Please sign and date: ______________________________________

Please complete the Contact Information Sheet and return to Pat by fax or e-mail. Please update should any of this information change.

U.S. Bank Home Mortgage

Participating Lender Information 2004

Bond Program: ______________________________

Participating Lender: ______________________________

Mailing Address: ______________________________

____

Main Phone Number: ______________________________

*Customer "800" Number: ______________________________

*Required

	Contact	Phone
Administrative:	________________________	________________
Shipping Super:	________________________	________________
Shipping Staff:	________________________	________________
Shipping Staff:	________________________	________________
Fax # for above:	________________________	
E-Mail address:	________________________	
Final Documents:	________________________	________________
Fax # for above:	________________________	
E-Mail address:	________________________	
Lender Scorecard Recipient	____________________________	
Fax # for above:	________________________	
E-Mail address:	________________________	

Wire Instructions:

ABA Number: ________________________

Account Number: ________________________

Bank Name: ________________________

Purchase Advice Attn: ________________________

Fax # for Purchase Advice: ________________________

E-Mail address: ________________________

Please complete and fax to: 216-475-8627

FINAL DOCUMENT DELIVERY

ATTN: DOCUMENT CONTROL DEPARTMENT

17500 Rockside Road, Bedford, OH 44146

PHONE (216) 475-8707

Ext. # 58045, 58010, 57739, 58015, 58026, 58009, 58016, 57743, 57754, 58008, 58020, 58023, 57740, 58045

FAX (216) 475-8606

To complete the captioned mortgage loan file, we submit the following documents, within 90 days of purchase:

Borrower's Name____**USBHM#**_________________

Property Address:__________________________________LoanType:_________

______ Original MIC/LGC

______ Original Recorded Mortgage

______ Intervening Assignment / Marginal Assignment

______ Condo/PUD Rehab/2-4 Family Riders, if Applicable

______ Original Title Policy

______ Other:____

A. For Pay Histories (MIC/LGC)

Please fax request to (216) 475-8606

B. Originating Lenders Name:

Address:____

C. Phone Number: ____

Fax Number:____

Contact Person:____