



State of New York Mortgage Agency

641 Lexington Avenue, New York, NY 10022
(212) 688-4000 • Fax: (212) 872-0789

SONYMA CREDIT AND PROPERTY UNDERWRITING NOTES

AUTOMATED UNDERWRITING SYSTEM REQUIREMENTS

SONYMA accepts decisions made by either Fannie Mae's Desktop Underwriter (DU) or Freddie Mac's Loan Prospector (LP). 1 - 2 Family Homes (including condominiums and manufactured homes) are eligible up to 97% LTV, cooperatives are eligible up to 95% LTV, 3 - 4 Family Homes are eligible up to 90% LTV. (When entering a 2 Family Home or Manufactured Home into the AUS, enter the property type as a Single Family Home).

DU "EA-1" and LP "A Minus (Level 1)" decisions are accepted up to 95% LTV for Single Family Homes. A minimum credit score of 620 is required (borrowers will be required to complete a face-to-face Homeowner Counseling Program from a HUD-Approved Not-For-Profit Housing Agency). Loans with an LTV of 80% or less and a credit score less than 620 will be considered on a case-by-case basis. For all other property types, expanded approvals are not accepted.

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

In no event should a loan application be denied solely on the basis of a decision rendered by the automated underwriting system utilized. If the automated underwriting system rates a loan application as Refer, Refer with Caution, Caution or Out of Scope (depending on which system is used) and the applicant wishes to continue with the mortgage process,

the lender must perform a fully documented, manual underwriting of the loan application in conformance with Sections 3.101 through 3.109 of the SONYMA Seller's Guide.

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

AUTOMATED UNDERWRITING GUIDELINES

All loans must be entered into the automated underwriting system as a conventional fixed rate Fannie Mae or Freddie Mac loan product. The interest rate entered should be the rate locked in with SONYMA. (SONYMA recommends entering loan applications at the point of sale, or shortly thereafter). Loans which have received a recommendation upgrade from EA-II /Eligible to EA- I/Eligible because the borrower's income is at or below HUD's median income, must be manually underwritten and meet SONYMA's conventional underwriting guidelines.

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

- (I) **Maximum Underwriting Ratios** The monthly housing-to income expense ratio may not exceed 40%, and the monthly total debt-to-income expense ratio, may not exceed 45%.
- (II) **Minimum Equity Requirement** Mortgagors must contribute a minimum of 1% for (1 - 2 Family homes, condominiums, puds, double-wide manufactured homes) or 3% for (3 - 4 Family Homes and Cooperatives) of the purchase price from their own funds into the transaction. (unless the borrower has received a gift which results in a LTV of 80% or less). Please refer to Down Payment and Asset section in the manual underwriting guidelines beginning on page 5.
- (III) **Credit Scores and Minimum Lines of Credit** Credit scores are a major factor considered by both the DU and LP engines when rendering a loan recommendation. It is not uncommon that a few lines of credit (possibly only 1) can be open for a short period of time with no late payments and possibly never even utilized, and a high credit score appears on an applicant's credit report. SONYMA does not consider a credit profile as described above to be an indication that an applicant should receive a favorable AUS recommendation. If an applicant does not have at least 3 lines of credit established for a period of 18 months prior to the mortgage loan application date, the application must be manually underwritten. Alternative or non-traditional lines of credit which require regular periodic payments (rent, utilities, etc.) may be verified and included in the manual underwriting submission. Please be reminded that the

payment-to-income and debt-to-income ratios for manually underwritten loans are 40% and 45%, respectively.

For applicants who cannot document traditional or non-traditional credit, please refer to the section which addresses “Use of a Guarantor” on page 12.

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

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

- (VI) **Other Requirements**
 - (A) Deferred student loans must be included as a debt obligation of the borrower unless documentation can be provided showing the loan payments will be deferred for at least 3 years from the residential loan application date.
 - (B) All open judgments and collection accounts must be satisfied prior to closing.
 - (C) Income, Asset and Credit documents must not be more than 90 days old at time of underwriting submission.
 - (D) Alimony/Child Support obligations should be deducted from monthly qualifying income rather than added to other debts.
 - (E) Borrowers may utilize up to \$1,000.00 “Cash on Hand” after they have established 1% or 3% of their own funds in the mortgage transaction. These funds must be on deposit at the time of application. Proof of source of funds is not required.

**PMI REQUIREMENTS FOR AUTOMATED UNDERWRITING
SYSTEM MORTGAGE LOANS**

Since Fannie Mae and Freddie Mac have Primary Mortgage Insurance coverage levels different from SONYMA, lenders may not use the automated underwriting systems to order mortgage insurance.

DOCUMENTATION REQUIREMENTS

A copy of the documents listed below must be forwarded to Genworth (for the Low Interest Rate and Achieving The Dream Programs) or the Mortgage Insurance Fund (for all other programs) for Pool Insurance Consideration:

- (A) Application for Mortgage Insurance.
- (B) Most recent version of the Findings Report/Feed Back Certificate generated from the automated underwriting system, including all reports and pages generated by the automated underwriting system (including the credit report).
- (C) All supporting documentation required by the Finding Report/Feedback Certificate.
- (D) Uniform residential loan application.
- (E) Residential appraisal report with a full interior inspection and legible color copies of photographs of the subject property and comparable sales.
- (F) Sales contract/offer to purchase with Property Condition Disclosure Form, if applicable.
- (G) Recent pay stubs for each borrower.
- (H) Evidence the mortgagor has contributed 1% or 3% (as applicable for certain property types) of the purchase price from their own fund (unless the borrower has received a gift which results in a LTV of 80% or less).
- (I) If Mortgagor is subject to home buyer education, a completion certificate from a PMI approved homebuyer education course. (If the borrower receives an EA-1 or a A-Minus (Level 1) recommendation, the counseling must be face to face and done by a HUD-Approved counseling entity).
- (J) Subsidy award letter, if applicable. (with repayment terms)

INELIGIBLE TRANSACTIONS

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

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

SONYMA MANUAL UNDERWRITING GUIDELINES

DOWNPAYMENT

- Maximum Loan To Value (LTV) for 1 – 2 Family Homes including Condominiums, PUDS, HOA's and double-wide manufactured homes is 97%. (Minimum 1% of the purchase price from borrower's own funds).
- Maximum LTV for 3 - 4 family homes is 90% and cooperative units is 95% (minimum 3% of purchase price from borrower's own funds).
- The minimum 1% or 3% of the purchase price (determined by property type) which must be from the borrower's own funds, must be verified as of the loan application date. If the verification of those funds indicates any large deposits, the source of funds for those deposits must be documented.
- SONYMA will waive the requirement for borrowers to make a minimum cash contribution in the following cases where:
 - (1) A cash gift, a gift of equity or a gift of land, results in an 80% (or lower) Loan-To-Value Ratio.
 - (2) A borrower inherits a portion of a home and wishes to buy out the remaining inheritors of the property, and the borrower's share is 20% (or greater) of the lower of the purchase price or appraised value.
- Loans with LTV's exceeding 80% require sufficient mortgage insurance coverage to reduce the exposure of the loan down to 72%.
- Any additional down payment or closing costs paid above minimum borrower's Contribution may be paid by gift or subsidy. Eligible gift donors are: immediate

Family members, fiancée, not-for-profit organizations acceptable to SONYMA and Mortgage Insurance Fund (MIF)

Subsidy Programs must meet the following criteria:

- (a) The subsidy or secondary financing program must be sponsored by a Federal, State or Local Government agency, or another source that is acceptable to SONYMA and its pool insurer.
 - (b) If the subsidy mortgage and/or note instruments require payments during the loan term, such payments will be considered a monthly debt obligation of the borrower and shall be included in the monthly housing expense-to-income ratio.
 - (c) Borrowers must meet SONYMA's minimum equity requirement.
 - (d) In case where SONYMA's requirements are more restrictive than the requirements of the subsidy program, SONYMA's requirements must prevail.
- When a subsidy is being utilized for the acquisition of property, all or a portion of the subsidy may be used as borrower's equity and may eliminate the need for PMI coverage. A subsidy may be used as equity only to the extent where the combined loan to value does not exceed 100% of the true market value of the property. When determining 1% of borrower's own funds, this amount will be calculated based on the discounted sale price (gross sale price less the amount of the subsidy supported by the true market value of the property). However, SONYMA may finance up to 100% of the discounted sale price provided the mortgagor meets SONYMA's minimum equity requirement.
 - If any or all of the subsidy is being utilized for closing costs, such amounts will not be considered as equity. However, in such cases the combined loan to value ratio may exceed 100%. If the combined loan to value ratio exceeds 100%, Homebuyer Counseling is required. (Examples are attached - Page 18).
 - Maximum seller concessions toward closing costs are 3% of purchase price for LTV's above 90% and 6% for LTV's 90% and less.

ASSETS

- Borrower's own funds are funds that can be verified from a source which can be:
 - (a) Monies from borrower's checking or savings account as of the loan application date. (VOD's and bank statements should be no older than 90 days at the time of Pool/PMI approval).

- (b) The market value of lot owned by the borrower, exclusive of any liens, or the purchase price of the lot if it was purchased in the past year, which ever is less.
- Joint accounts will be considered as borrower's own funds. (A letter from the non-obligated account holder is not required).
- SONYMA allows borrowers to utilize up to \$1,000 of "cash on hand" to be used for closing costs after the requirement that they have at least 1% of their own funds in the mortgage transaction has been documented. Lenders are reminded, however, that while the sources of these funds do not require verification, the funds must be verified in a bank account or other acceptable arrangement to evidence the existence of such funds.
- Non-Traditional savings arrangements are permitted with letter outlining details of arrangement from the treasurer.

SALE OF ASSETS

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

UNSECURED INSTALLMENT LOAN

- SONYMA will allow the use of unsecured installment loan made by the Seller (Lender) to the Mortgagor if the following conditions are met:
 - (a) The installment loan product must be made available to all prospective Mortgagors.
 - (b) Mortgagor must contribute 1% of their own funds (3% for cooperative share loans and Three- and Four-Family Dwellings) into the transaction.
 - (c) The repayment of the installment loan will be considered an ongoing monthly obligation of the Mortgagor.
 - (d) Mortgagor may not receive any cash back from the transaction.
 - (e) The terms of the unsecured loan may not exceed 15 years.
 - (f) All Mortgagors utilizing the unsecured loan must complete a homebuyer education course.
 - (g) The interest rate of the unsecured loan may not exceed the rate of the first mortgage by more than 1%.

RATIOS

- **40/45** up to 97% LTV.
- **Cannot** pay-off revolving debt to qualify, installment debt can be paid down to 10 payments or less.
- Automobile lease payments regardless of the remaining lease term must be included.
- Alimony/Child Support obligations are deducted from gross monthly income.
- SONYMA will permit the exclusion of deferred student loan payment obligations if the deferral does not require payment for three years from the date of the loan application.

INCOME

- Previous 2 year's history must be verified. (Paystubs and VOE's must be no older than 90 days at the time of Pool/PMI approval).
- Over-time, bonus, commissions and second job income must be received for past 2 years and must be steady to be considered (averaged from W2's & 1040's).
- Self employed borrowers must submit signed 1040's for past 2 years and year to date P&L statement.
- If a mortgagor is reporting non reimbursed business expenses on his/her 1040's, those expenses will be deducted when determining the monthly income.
 - (If the 1040's are submitted in the manual underwriting file, they will be reviewed and if non-reimbursed expenses are present, they will be deducted).
- Income for mortgagors employed in a family owned business can be determined from a verification of employment (VOE) or acceptable alternate documents. Past two years 1040's are required for third party verification purposes. If a large discrepancy is apparent when comparing the 1040's, an acceptable explanation will be required.
- Rental Income will be calculated by adding 75% of verifiable rents to gross monthly income for 2 - 4 family unit properties.

**Acceptance of Income and Downpayment Assistance from HUD-Administered
Section 8 Homeownership Vouchers.**

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

- Deduct the HAP from Monthly Housing Expense (PITI). Under this option, the borrower’s HAP is applied directly to the PITI and payment and debt ratios are calculated based on the net amount. In order to use this option, the company servicing the mortgage loans (the “servicer”) must set up a dedicated account and the HAP must be deposited directly into the account by the non-profit entity administering the Section 8 Program on behalf of HUD (the “HAP administrator”). The HAP administrator must specify in their letter which discloses the monthly home ownership assistance, that the assistance will go directly to the loan servicer in order for this option to be utilized. Further, the servicer must be able to accept payments on the same account from both the borrower and the HAP Administrator. For lenders not servicing for SONYMA, our master servicer, M&T Bank, is prepared to accept these loans.
- Add HAP to Borrower Income. With this option, the HAP may be added directly to the borrower’s income. Since the HAP is non-taxable income, SONYMA will allow it to be grossed up by 25%.
- Subordinate Second Mortgage. In some cases, the HAP Administrator may provide a second mortgage and the HAP is used to make the payments on the second mortgage. The second mortgage must be subordinate to SONYMA’s first mortgage and must meet all other requirements for secondary financing as stated above in the down payment section.

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

TRAILING SECONDARY WAGE EARNER INCOME

- In cases where a household’s primary wage earner has transferred employment as a result of a corporate relocation, SONYMA will consider a portion (up to 50%) of the income a

secondary wage earner expects to earn from a job obtained upon moving to the new location. Please refer to SONYMA Sellers Guide, section 3.102 for details.

NON-TAXABLE INCOME

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

CREDIT

- SONYMA will accept an electronically merged credit report obtained from the three credit repositories. (Credit reports must be no older than 90 days at the time of Pool/PMI approval).
- A mortgagor must have at least 3 lines of credit, traditional or non-traditional, established for a period of 18 months prior to the mortgage loan application date.
- Late payments should be explained in writing and documented if necessary (satisfactions of judgment, collections).
- All open judgments and collection accounts must be satisfied prior to closing.
- SONYMA utilizes credit scores. However, no minimum score has been established to consider a mortgage application.
- If a borrower (s) lack a credit history, Non-Traditional credit may be utilized. SONYMA will consider credit that requires the mortgagor to make periodic payments on a regular basis (for example, rental housing payments, payments for utilities, medical and auto insurance payments, etc.).

BANKRUPTCY

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

- (a) The bankruptcy must have been discharged at least three years prior to the Residential Loan Application date.
- (b) Mortgagor must have re-established good credit evidenced by: proving a minimum of four credit references including at least one traditional credit reference and one housing related reference. Three of the four credit references must have been active in the 24 month period immediately preceding the Residential Loan Application Date.
- (c) Mortgagor must have stable employment.

- (d) Mortgagor must also submit a letter explaining the circumstances surrounding the bankruptcy (the circumstances must have been beyond the Mortgagor's control) along with copies of bankruptcy petition, list of creditors and discharge documentation.
- SONYMA will take into consideration Mortgagor's performance on any credit accounts that were not included in the bankruptcy.

MORTGAGE FORECLOSURE OR DEED IN LIEU OF MORTGAGE FORECLOSURE

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

The foreclosure sale (or transfer of title in a deed in lieu of foreclosure) must have occurred at least four years prior to the Residential Loan Application Date.

- (a) The factors causing the foreclosure or deed in lieu of foreclosure must be attributable to events beyond the Mortgagor's control and a written explanation must be provided explaining these events in detail.
- (b) Mortgagor must have re-established good credit as described in Bankruptcy Section above.

VERIFICATION OF RENTAL PAYMENTS

Mortgagor must demonstrate that housing rental payments were made in a timely manner. Acceptable documentation in this regard are as follows:

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

USE OF GUARANTOR

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

NON-CITIZEN MORTGAGOR

- A non-citizen mortgagor must be a legal resident of the United States, and at a minimum must have:
 - (i) Two year job tenure in the United States.
 - (ii) Two year asset base documentation from a United States-based financial institution/depository.
 - (iii) Two years established credit history in the United States.

NON-ARMS LENGTH TRANSACTIONS

- Transaction must involve disinterested third parties. Non arms-length transactions are unacceptable. Examples of unacceptable transactions include:
 - (a) Employee buying from employer.
 - (b) Family member buying from a family business.
 - (c) Realtors buying from their own listings.
 - (d) Partner buying from own partnership.

INHERITANCE TRANSACTIONS

- SONYMA will finance a property in which the Mortgagor has inherited a share of the ownership interest in the Eligible Property and wishes to buy out the remaining inheritors. To determine the maximum financing allowable, deduct the Mortgagor's proportionate share of ownership interest from the lower of the sales price or the appraised value of the property. Example: Purchase price and appraised value are \$100,000 and Mortgagor's share is one quarter or \$25,000. \$100,000 less \$25,000 is \$75,000. The loan-to Value of the Property ratio on this transaction will be 75%.

- Documentation evidencing all members of the estate is required.
- Other members of the estate are not eligible as gift donors.

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

PROPERTY REQUIREMENTS

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

PROPERTIES LOCATED IN DECLINING MARKETS

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

If a lender receives a DU or LP decision that reduces the LTV due to the property being located in a Fannie or Freddie designated declining market, SONYMA or Genworth may decide that the reduction, or a portion thereof, may not be necessary, and may allow the loan amount to be adjusted upward.

APPRAISALS

- Sellers must supply an appraisal report and legible color copies of photographs of the Eligible Property and the comparable sales. If the appraisal report is more than four months old from the date the application loan file is submitted to the Pool Insurer, but less than twelve months old, recertification of the Eligible Property will be required. Appraisals more than twelve months may not accurately reflect the true market condition and are, therefore, ***not*** acceptable.
- If the appraiser, or the seller on the property condition disclosure form, notes asbestos is present in the subject property, an inspection by a qualified asbestos removal professional must be completed. The inspector must determine if the asbestos should be encapsulated or removed. A cost to cure and a disclosure specifying who will cover cost of the corrective action must also be supplied. (If the property seller is going to cover the cost an addendum to the contract of sale stating such must be provided. If the borrower is covering the cost to cure, evidence that he/she has the funds must be documented.

Evidence the work has been completed must also be provided (final inspection by appraiser).

- At minimum, the subject property must be in average condition to be eligible for SONYMA financing.

RURAL PROPERTIES

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

PROPERTIES OWNED BY COMMUNITY LAND TRUSTS

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

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

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

- **Underwriting Requirements:**

- Manual underwriting only. No AUS recommendations.
- Loans must be appraised in accordance with Fannie Mae guidelines (see page 19)

MANUFACTURED HOUSING

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

CONDOS AND PUDS

- Minimum 10 units in a project.
- Presale requirements: 40% if LTV is 90% or less, 51% above 90% (units in contract count toward presale); however, MIF reserves the right to establish a different percentage for any project.
- Maximum of 30% investor concentration (based on number of units sold).
- All projects must have a reserve fund for capital repairs.
- Minimum square footage is 500.
- New conversion eviction plans are not eligible.
- The project must be managed by a professional management company experienced in managing condominiums and/or planned unit development. SONYMA will allow a condominium or PUD project to be self managed if the unit owners have been managing the project for a minimum of ten years and at least 75% of the units are sold. The investor concentration cannot exceed 30% (based on the number of units sold).

- A SONYMA condominium questionnaire is required. The questionnaire should disclose all information regarding phasing in the project, common areas and facilities, the control of the Homeowner's Association (HOA), Unit Information (total number of units, owner occupancy and investor information), HOA dues delinquency information (no more than 15%, can be more than 30 days delinquent). If the project or sponsor is involved in any litigation, the terms of the contact with the managing agent, and, has all rehabilitation been completed (if the project is a condo conversion).
- If there is commercial space in the project, the square footage of that space cannot exceed 20% of the total square footage of the project.

COOPERATIVES

- Minimum 10 units in a project.
- Presale requirements: 40% in a conversion project, 51% in an existing project.
- Maximum 30% investor concentration (based on number of units sold).
- Minimum square footage is 500.
- New Conversion Eviction Plans are not eligible.
- Underlying mortgage must have at least 3 years remaining on term.
- Loans in cooperatives with flip taxes will generally be handled by reducing the sales price of the cooperative unit by the amount of the flip tax. The maximum loan amount will be 95% of the computed sales price.
- All projects must have a reserve fund for capital repairs.
- The project must be managed by a professional managing agent experienced in managing cooperative projects. SONYMA will allow a cooperative project to be self managed if the shareholders have been managing the project for a minimum of ten years and at least 75% of the units are sold. The investor concentration cannot exceed 30% (based on the number of units sold).
- If there is commercial space in the project, the square footage of that space cannot exceed 20% of the total square footage of the project.
- A SONYMA cooperative questionnaire is required.
 - (i) All information regarding building statistics (total number of units, total number sold, total number sold and owner occupied, total number sold and sublet, total number of shares, number of shares for the subject unit).
 - (ii) If there a flip tax, describe the terms.
 - (iii) Delinquency information regarding owner's maintenance payments. (no more than 15%, can be more than 30 days delinquent).
 - (iv) Tax abatement information if applicable (if applicable, expiration date is required).
 - (v) Terms of the underlying mortgage.
 - (vi) All pertinent information regarding the sponsor/holder of unsold shares (total number of units held, monthly maintenance, monthly rental income, has the sponsor pledged any shares as collateral for any other loans. If yes, what are the terms, is the sponsor current on its obligations to the coop, etc).

- (vii) Is the sponsor or cooperative involved in any litigation? If yes, provide the dollar amount and the declaration page of the project insurance policy.
- “HDFC” cooperatives are not eligible.
- Pro Rata Share of underlying mortgage cannot exceed 35% of lower of sale price or appraised value based on the following calculation:
 - ☞ Pro Rata share of Und. Mtg.
 $< \text{Sale Price} / \text{Appraised Value} + \text{Pro Rata Share of Und. Mtg.}$

SPOT LOANS

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

PROJECT APPROVAL

- The following documentation must be submitted:
 - ~ SONYMA Set-Aside Application.
 - ~ Offering plan with all amendments.
 - ~ Engineer’s Report (for conversion projects only) including Asbestos Report
 - ~ Current Financial Statements and Operating Budget
 - ~ Appraisals (1for each unit type)
 - ~ Marketing material.

EXAMPLES OF SONYMA'S SUBSIDY POLICY

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

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

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

- 2) Same facts as above except all the subsidy is for downpayment assistance.

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

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

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

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

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

LEASEHOLDS HELD BY COMMUNITY LAND TRUSTS

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

When a leasehold interest is held by a community land trust, the appraiser must analyze the property subject to the ground lease. Since the community land trust typically subsidizes the sales price to the borrower, that price may be significantly less than the market value of the leasehold interests in the property. The resale restrictions (as well as other restrictions) that may be included in the ground lease also can affect the value of the property. However, we have developed a ground lease rider that the lender and the borrower must execute to remove such restrictions from the community land trust's ground lease (see Part VII, section 2 102.11). The land records for the subject property must include adoption of the terms and conditions that are incorporated in this ground lease rider. In view of these concerns, it is important that the appraised value of the leasehold interest in the property be well supported and correctly developed.

The appraiser must use a three-step process to develop his or her opinion of value (1) determine the fee simple value of the property by using the sales comparison analysis approach to value, (2) determine the applicable capitalization rate (and convert the income from the ground lease into a leased fee value by using the market-derived capitalization rate), and (3) determine the leasehold value by reducing the fee simple value by the leased fee value. When this appraisal technique is used, there is no need to document the actual land value of the security property. The appraiser must develop the opinion of value for the leasehold interest under the hypothetical condition that "the property rights being appraised are the leasehold interest without the resale and other restrictions that our ground lease rider removes when we have to dispose of a property acquired through foreclosure." The lender should advise the appraiser that he or she must include the following statement in the appraisal report:

This appraisal is made on the basis of hypothetical condition that the property rights being appraised are the leasehold interest without resale and other restrictions that are removed by the Uniform Community Land Trust Ground Lease rider.

