



State of New York Mortgage Agency

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PRISCILLA ALMODOVAR
President and CEO

By E-mail and Mail

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**RE: Acceptance of Expanded Approval Automated Underwriting Decisions; Reduction of Borrower's Minimum Cash Contribution; Other Loan Underwriting Changes; Modification to Certain Program Features
Seller's Guide Bulletin #1-2008**

Dear Participating Lender:

The State of New York Mortgage Agency ("SONYMA") has a mandate to provide affordable homeownership opportunities for New Yorkers. Over the years, we have fulfilled this mission by, among other things, making below-market, fixed-rate mortgages available to first-time homebuyers using prudent loan underwriting criteria. As a result, SONYMA has a strong performing loan portfolio with delinquency rates consistently below state and national averages. The subprime mortgage crisis, however, has prompted us to reevaluate our loan underwriting guidelines in an effort to provide a safe and sustainable homeownership option for first-time homebuyers with less-than-perfect credit. To that end, we are making some important underwriting changes. Additionally, we analyzed our current menu of products and as a result, are initiating changes to certain program features to provide more accessibility and improve consistency across programs.

Effective immediately unless otherwise stated in this bulletin, SONYMA is making the below program changes/updates.

Acceptance of Expanded Approval Automated Underwriting Decisions

For 1-family homes (including condominiums and cooperatives) with loan-to-value ratios of 95% or less, and applicants with FICO scores of 620 or higher, SONYMA will now accept EA-1 and A-Minus (Level 1) decisions from Fannie Mae's Desktop Underwriter® (DU) and Freddie Mac's Loan Prospector® (LP). And more importantly, SONYMA will accept these decisions with no loan pricing adjustments. Qualified borrowers will receive the same interest rate and point structure as all other SONYMA borrowers.

Loans for 1-family homes with an LTV of 80% or less and a FICO of less than 620 that receive EA-1 and A-Minus (Level 1) decisions will be considered on a case-by-case basis. Please note that SONYMA will not allow EA-1 and A-Minus (Level 1) decisions for borrowers purchasing 2- to 4-family homes or manufactured homes.

Borrowers receiving an EA-1 or A-Minus (Level 1) decision will be *required* to complete face-to-face homebuyer counseling from a HUD-approved not-for-profit counseling agency. Evidence of course completion will be required to be submitted to SONYMA prior to closing the loan. If the borrower opts for a SONYMA loan product with a Closing Cost Assistance Loan (CCAL), SONYMA will allow the counseling (up to \$500) to be paid by the CCAL. If the borrower is already receiving the maximum CCAL amount (greater of 5% of the loan amount or \$5,000), SONYMA will allow up to \$500 to be added to the maximum CCAL for the counseling.

Lenders should be aware that borrowers receiving an EA-1 or A-Minus (Level 1) decision will most likely be required to pay A-minus mortgage insurance premium rates. However, Genworth Mortgage Insurance Corporation (through its Counseling Saver product) and other mortgage insurers offer a 0.10% discount on the premium if the borrower receives a minimum of 8 hours of face-to-face counseling from an approved counseling agency. A list of Genworth’s approved agencies is available on their [website](#).

Be reminded that SONYMA’s mortgage insurance coverage requirements are as follows:

<u>LTV</u>	<u>Maximum Coverage</u>	<u>Reduces Exposure to</u>
97.01% to 100%*	28%	72%
96.01% to 97%	26%	72%
90.01% to 96%	25%	72%
85.01% to 90%	20%	72%
80.01% to 85%	17%	71%

*Construction Incentive Program only.

Reduction of Borrower’s Minimum Cash Contribution

In our continued efforts to remove one of the primary barriers to homeownership - the necessary cash required for downpayment and closing costs – SONYMA is reducing the borrower’s minimum cash contribution requirement. For 1-family (including condominiums) and 2-family homes, the minimum borrower contribution will be reduced from 3% to 1%. For cooperatives and 3- and 4-family properties, the minimum borrower contribution will be reduced from 5% to 3%. The remaining downpayment can come from a gift or other acceptable source. SONYMA will continue to allow borrowers to use up to \$1,000 cash-on-hand as an acceptable source of funds but only after the borrower's minimum contribution has been established. Except as stated in this letter for cooperative units, the maximum LTVs for our various programs and property types will remain the same.

Additional Underwriting Changes

The following underwriting changes are being made to make SONYMA’s underwriting guidelines more consistent with conventional guidelines:

- *401k and pension loans* - Payments towards 401k and pension loans will no longer be counted against the borrower(s) when calculating debt-to income ratios.
- *Unreimbursed Employee Business Expenses* - For loans receiving a favorable recommendation from DU or LP, unreimbursed expenses will no longer be deducted from borrower's income. If the loan is submitted as a manual underwrite and the 1040's are included in the file (or are required

due to the nature of the applicant's profession), the unreimbursed expenses will be deducted from the borrower's income.)

- *Joint bank accounts* - Funds used for downpayment and/or closing costs and withdrawn from a joint bank account (where the joint owner is a non-applicant) will be considered as the borrower's own funds. A "joint access" letter from the non-applicant will no longer be necessary.
- *Bankruptcies* - Applications with a bankruptcy discharged at least 3 years from the date of loan application may now be submitted to DU or LP. (previously required a manual underwrite)
- *Gift information* - For loans with gifts receiving a favorable recommendation from DU or LP, follow the documentation requirements stated in the Findings Report\Feedback Certificate. At minimum, SONYMA requires the gift to be entered on the 1003. For manually underwritten loans, gift letters are required and SONYMA's standard gift policy still applies.
- *Submitting Manufactured Home and 2-Family Property types to DU or LP* - To remove the underwriting bias inherent with these property types, Lenders may submit these loans to LP or DU as "single family" homes.
- *Appraising rural properties* - For rural areas, SONYMA has expanded the guidelines for acceptable comparable sales. Because rural properties typically have unique characteristics (lot size, topography, and shape; style of home, etc.), appraisers may have difficulty identifying recent comparable sales in the immediate vicinity of a subject property. As such, SONYMA will accept comparable sales that are located further away than typically allowed for non-rural properties. Further, appraisers may use comparable sales more than 12 months old. In such cases, the appraiser should include an explanation of why the particular comparables were selected in his or her analysis.
- *New York State Property Condition Disclosure Statement/Credit* – SONYMA will no longer reduce the purchase price by the amount of the credit when calculating maximum LTV.
- *Condominium and Cooperative Changes*
 - The maximum financing on cooperatives has been increased to 95% LTV.
 - The maximum investor concentration for cooperatives is now 30% (previously 25%) and the minimum remaining term for the underlying mortgage is 3 years (previously 5 years).
 - The cooperative requirement that the remaining term of the proprietary lease must be at least equal to the term of the SONYMA loan has been eliminated.
 - Existing condominium and cooperative eviction plan projects are now eligible for SONYMA financing (new conversion eviction plans are NOT acceptable).
 - Condominium and cooperative projects which have LTV restrictions are now eligible for SONYMA financing.

Inclusion of Structural Inspections in CCAL Amount

SONYMA will permit the reasonable cost for a structural inspection conducted by a certified property inspection company or a structural engineer to be included in the CCAL amount.

Changes to SONYMA Program Menu: Effective for loan reservations accepted on or after February 1, 2008.

Lenders and applicants are often confused by SONYMA's various program rate lock and extension policies. To simplify this, we are making the following program modifications:

- Low Interest Rate Program
 - The long-term rate option under this program has been eliminated.
 - Terms of 20 and 25 years are no longer available.

- Construction Incentive Program
 - The step interest rate feature has been eliminated. Loans will lock at the same fixed rates offered under the Low Interest Rate Program (for short-term lock-ins), but with a rate lock period of 240 days.
 - 40-year mortgages are now eligible for financing.

- Achieving the Dream
 - The rate lock period for long-term lock-ins has been increased to 240 days.
 - Applicants requiring an extension of the lock-in period will close at the higher of the initial rate or the rate available on the closing date for the program.

SONYMA decided to remove the step rate feature from the Construction Incentive Program because the program had a significantly higher default rate than all other programs and the vast majority of the defaults occurred *after* the rate reset. As a result of these changes, all lock periods (100 days for short-term locks and 240 days for long-term locks) and extension policies are consistent for all programs.

Please refer to the attached Program Comparison Chart for more details on the above modifications.

Revised CCAL Calculator

We are in the process of revising the CCAL calculator to reflect the above changes. By accurately inputting certain loan characteristics, inclusive of the loan reservation date, lenders are able to determine the amount of CCAL assistance. Please note that the calculator does not eliminate the requirement for lenders to submit the CCAL Request for Disbursement Form (Form C6) (with the required supporting documentation) and SONYMA must still approve the final amount prior to closing. The revised calculator will be available for download from our website (<http://www.nyhomes.org/home/index.asp?page=104>) in the next day or so. If there are any questions or issues regarding the calculator, please contact Olivia Jervis, Assistant Vice President, at extension 396 or ojervis@nyhomes.org.

If you should have any questions regarding this announcement, please feel free to contact your Relationship Manager, Gail Kresge (downstate) at extension 399 or gkresge@nyhomes.org, or Lynn Morris (upstate) at extension 398 or lmorris@nyhomes.org.

Sincerely,



George M. Leocata
Senior Vice President
Single Family Programs

STATE OF NEW YORK MORTGAGE AGENCY

PROGRAM COMPARISON CHART

Effective 2/1/08

All SONYMA Programs feature the following:

- Mortgage interest rate below conventional fixed interest rates;
 - Availability of closing cost assistance⁽³⁾;
 - Minimum borrower cash contribution as low as 1%⁽¹³⁾;
- No payment reserve requirements after loan closing;
 - No prepayment penalties;
 - Interest Rate Lock Periods that are longer than lock-in periods for conventional loans;

	Low Interest Rate Program	Construction Incentive Program	Achieving the Dream Mortgage Program	Remodel New York Program ⁽¹²⁾
Interest Rate⁽¹⁾				
Loans without Closing Cost Assistance	5.375% ⁽¹¹⁾	5.375% ⁽¹¹⁾	4.875% ⁽¹¹⁾	5.375% ⁽¹¹⁾
Loans with Closing Cost Assistance	5.875% ⁽¹¹⁾	5.875% ⁽¹¹⁾	5.375% ⁽¹¹⁾	5.875% ⁽¹¹⁾
Borrower Points⁽³⁾	1% ⁽⁴⁾	1% ⁽⁴⁾	1% ⁽⁴⁾	1% ⁽⁴⁾
Closing Cost Assistance⁽³⁾	Yes	Yes	Yes	Yes
Mortgage Term	30 or 40 years ⁽¹¹⁾	30 or 40 years ⁽¹¹⁾	30 or 40 years ⁽¹¹⁾	30 or 40 years ⁽¹¹⁾
Maximum Financing	97% ⁽¹³⁾	100% ⁽¹³⁾	97% ⁽¹³⁾	97% ⁽⁹⁾
Rate Lock Periods:				
Existing Housing (Short-Term):	100 days from reservation ⁽²⁾	N/A	100 days from reservation ⁽²⁾	100 days from reservation ⁽²⁾
New Construction (Long-Term):	N/A	240 days from reservation ⁽²⁾	240 days from reservation ⁽²⁾	N/A
First-time Homebuyer Requirement⁽⁵⁾	Yes (Requirement Waived in Target Areas)	Yes (Requirement Waived in Target Areas)	Yes	Yes (Requirement Waived in Target Areas)
Household Income Limits	Yes (click here for limits).	Yes (click here for limits).	Yes (click here for limits).	Yes (click here for limits).
Owner Occupancy Requirement	Yes	Yes	Yes	Yes
Eligible Properties	Existing 1- to 4-Family, Newly Constructed 1- and 2-Family ⁽⁶⁾	Newly Constructed 1- and 2-Family ⁽⁶⁾	Existing & Newly Constructed 1-Family & 2-Family Homes ⁽⁶⁾	Existing 1- and 2-Family
Purchase Price Limits	Yes (click here for limits).	Yes (click here for limits).	Yes (click here for limits).	Yes (click here for limits).
PMI Requirement	Yes, for LTVs over 80%.	Yes, for LTVs over 80%.	Yes, for LTVs over 80%.	Yes, for LTVs over 80%.
Homebuyer Education	Required if less than 5% downpayment, LTV exceeds 95%, or CLTV exceeds 100%.	Required if less than 5% downpayment, LTV exceeds 95%, or CLTV exceeds 100%.	Required on all loans.	Required on all loans.
Special Feature	N/A	N/A	N/A	Borrowers may finance both the purchase and renovation of the home. ⁽¹⁰⁾
Recapture Tax Liability⁽⁸⁾	Yes, but reimbursed by SONYMA	Yes, but reimbursed by SONYMA	Yes, but reimbursed by SONYMA	Yes, but reimbursed by SONYMA
Funding Availability	Continuous	Continuous	Limited on a first-come, first-served basis.	Limited on a first-come, first-served basis.

NOTES:

- (1) Interest rates are subject to change and applies to loan reservations taken on or after January 1, 2008.
- (2) If the loan requires an extension of this timeframe, it will close at the higher of the initial rate or the rate available on the closing date for the applicable program.
- (3) Funds for closing cost assistance are limited and are available on a first-come, first-served basis. Closing cost assistance up to the greater of \$5,000 or 5% of the loan amount is available for all programs and borrowers. Borrower points can be paid from CCAL.
- (4) Lock-in deposit of 1% of the loan amount required at application. Amount will be retained by lender at closing (as borrower's 1 point). If the applicant withdraws their application, lender must pay 1% to SONYMA. The 1% will be refunded to the applicant if their loan application is denied.
- (5) First-time homebuyer is defined by SONYMA as not owning your primary residence during the last three years and not currently owning an investment or vacation home.
- (6) 2-Family New Construction must be located in a Target Area.
- (7) Achieving the Dream Mortgage Program has separate household income and purchase price limits, and also has appraised value limits.
- (8) Recapture tax may be due to IRS if Borrower: (a) sells or transfers the property within 9 years of purchase, (b) makes a profit on the sale of the home, and (c) household earns an income over a certain amount at time of property disposition. Recapture tax paid is reimbursed by SONYMA. [Click here](#) to obtain additional information regarding reimbursement requirements.
- (9) Maximum financing is based on the lower of (a) the purchase price of the home plus the cost of the renovations, or (b) the "as-improved" appraised value of the property.
- (10) Minimum renovation amount is the lower of (a) \$5,000 or (b) 5% of the "as-improved" appraised value of the property. Maximum renovation is 40% of the "as-improved" appraised value of the property.
- (11) The interest rate for loans with 40 year terms is 0.125% higher.
- (12) Lenders need prior approval from SONYMA to participate in the Remodel New York Program.
- (13) Maximum LTVs for coops is 95% and for 3- and 4-family homes is 90%. The minimum cash contribution for cooperatives and 3- & 4-family homes is 3%.

For more information, please visit our website at www.nyhomes.org or call us at (800) 382-HOME.

