

# STATE OF NEW YORK MORTGAGE AGENCY LOW INTEREST RATE MORTGAGE PROGRAM

## SELLER'S GUIDE

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**TABLE OF EXHIBITS**

<u>Exhibits</u>	<u>Description</u>	<u>SONYMA Form #</u>
A	Income and Purchase Price Limits Table	
B	List of Mortgage Pool Insurers	
C	Application Loan File Checklist	225/9-02
D	* Mortgage Loan Eligibility Form	212/4-99
E	* Loan Verification Form	213/10-98
F	Seller's Annual Certification	240/12-00
G	Recapture Notification and Mortgagor's Affidavit	211/4-99
H	Property Seller's Affidavit	210/4-99
I	Exhibit Deleted	
J	Property Usage Affidavit	242/9-02
K	Manufactured HomeOwner Eligibility Affidavit	217/12-00
L	Loan Reservation Worksheet and Rate Certification	238/12-00
M	Reservation Cancellation Form	228/7-97
N	Closed Loan Document Checklist	223/9-02
O	Computer Produced and/or Third Party Printed Documents Indemnification Form	239/12-00
P	Exhibit Deleted	
Q	Assignment of Mortgage	202/9-99
R	Exhibit Deleted	
S	Hazard and Flood Insurance Certificate	216/12-00
T	Satisfactory Completion Certificate	208/12-00
U	Closed Cooperative Share Loan Document Checklist	224/9-02
V	Exhibit Deleted	
W	Cooperative Loan Note	Coop Exhibit 2/4-99
X	Security Agreement	Coop Exhibit 8/4-99

<u>Exhibits</u>	<u>Description</u>	<u>SONYMA Form #</u>
Y	Acceptance of Assignment and Assumption of Lease	Coop Exhibit 3/4-99
Z	Assignment of Lease to Lender	Coop Exhibit 4/4-99
AA	Assignment of Loan	Coop Exhibit 5/4-99
BB	Stock Power	Coop Exhibit 9/4-99
CC	Exhibit Deleted	
DD	No Lien Affidavit	Coop Exhibit 7/4-99
EE	Loan Funding Certification	229/6-91
FF	SONYMA Rider to Fannie Mae/Freddie Mac Mortgage	230/12-00
GG	SONYMA Rider to Fannie Mae/Freddie Mac Note (for SONYMA Split Interest Rate Loans - 4 Year)	236/12-00
HH	Exhibit Deleted	
II	Rider to SONYMA Cooperative Share Loan Note (for Split Interest Rate Cooperative Share Loans - 4 Year)	Coop Exhibit 12/7-94
JJ	Exhibit Deleted	
KK	Exhibit Deleted	
LL	Request for Lock-in Fee Waiver	234/12-00
MM	Commitment Extension Request Form	235/12-00

Note: All of the above Exhibits may be photocopied from SONYMA produced camera-ready forms except for asterisks (\*).

**STATE OF NEW YORK MORTGAGE AGENCY  
LOW INTEREST RATE MORTGAGE PROGRAM**

**SELLER'S GUIDE**

**PART I - GENERAL**

**SECTION 1.1 - DEFINITIONS.**

- (a) **Application** The Participation Application from Seller in which Seller seeks approval to participate in the Low Interest Rate Mortgage Program.
- (b) **Application Fee** The payment made by a Seller to the Agency, in the amount set forth in the Application, as consideration for the Agency's review of the Application.
- (c) **Automated Underwriting System** Fannie Mae's Desktop Underwriter® or Freddie Mac's Loan Prospector®. Only Fannie Mae's Desktop Underwriter® and Freddie Mac's Loan Prospector® shall be considered an Automated Underwriting System for purposes of this definition.
- (d) **Availability of Funds and Notice of Terms Bulletin** Periodic notice to participating Sellers announcing the availability of funds for Mortgage Loans, the applicable interest rate, the time frame of fund availability, and any other requirements specifically applicable to Mortgage Loans financed with such funds.
- (e) **Bonds** Obligations issued by SONYMA to finance Mortgage Loans.
- (f) **Certificate as to Unsecured Credit Agreement** Certification from a financial institution with which Seller has entered into an unsecured credit agreement or other agreement relating to Mortgage Loans. The Certificate as to Unsecured Credit Agreement shall be submitted by Seller with the Application.
- (g) **Closing Date** The date, with respect to any Mortgage Loan sold or offered for sale to SONYMA by Seller under the Mortgage Purchase Agreement, on which a Mortgage Loan was closed.
- (h) **Closing Documents** The documents which Seller must provide to SONYMA as a condition precedent to SONYMA's purchase of a Mortgage Loan. With respect to Single Family Dwellings (other than cooperative share loans), Two-Family Dwellings, and Three- or Four-Family Dwellings, Seller must provide all documents listed in Section 2.710(d)(i) of this Seller's Guide. With respect to cooperative share loans, Seller must provide all documents listed in Section 2.710(e)(i) of this Seller's Guide.
- (i) **Delivery Date** With respect to any Mortgage Loan sold to SONYMA by Seller under the Mortgage Purchase Agreement and as set forth in Section 2.710 of this Seller's Guide, the date by which all documents and instruments required under this Seller's Guide are to be delivered by Seller to SONYMA in connection with the sale of the Mortgage Loan.
- (j) **Eligible Property** A building located in the State of New York which is an existing Single Family Dwelling, existing Two-Family Dwelling, existing Three- or Four-Family Dwelling, newly constructed Single Family Dwelling, or newly constructed Two-Family Dwelling located in a Targeted Area, including the land appurtenant thereto, as limited by Section 2.402(f) or condominium interest or cooperative share interest therein, to be used as the principal residence of the Mortgagor. A building or unit shall not qualify as an Eligible Property if all or any portion is used or intended for non-residential purposes or as a vacation home.
- (k) **Escrows** Payments required to be made under the terms of a Mortgage Loan by

Mortgagor and to be paid into Mortgagor's escrow account to cover expenses, which shall include but not be limited to, all taxes and special assessments, as well as hazard and flood insurance premiums, and mortgage insurance premiums.

- (l) **Existing Housing** Any Single Family Dwelling, Two-Family Dwelling or Three- or Four-Family Dwelling which has previously been occupied or used for residential purposes.
- (m) **Fannie Mae** Fannie Mae.
- (n) **FHA** Federal Housing Administration.
- (o) **Freddie Mac** Federal Home Loan Mortgage Corporation or Freddie Mac.
- (p) **Guarantor** The person or persons, having no title to or interest in an Eligible Property and thus unable to sign the mortgage instrument, who sign and thereby become personally liable for repayment of the note.
- (q) **Loan Funding Certification** The certification by Seller to be submitted with the Closing Documents regarding the source of funding of the Mortgage Loan.
- (r) **Lock-in Date** The date on which Seller locks in an interest rate with SONYMA in conformance with the requirements set forth in Section 2.201 of this Seller's Guide.
- (s) **Lock-in Fee** One percent of the amount of the Mortgage Loan, which shall be paid by the Seller from any combination of the property seller or Mortgagor. The Lock-in Fee is the property of SONYMA as of the Lock-in Date and will not be waived or returned without the consent of SONYMA. On the Lock-in Date, Seller shall certify to SONYMA pursuant to the Loan Reservation Worksheet and Rate Certification (Form 238; Exhibit L) that it is obligated, as of said date, to remit to SONYMA the Lock-in Fee.  
  
Section of 2.106 of this Seller's Guide sets forth how the Lock-in Fee will be collected and in what cases it may be forfeited by Seller or waived by SONYMA.
- (t) **Long-Term Lock-in** Type of interest rate lock which must be used for Eligible Properties that Seller expects cannot be closed within the timeframes of a Short-Term Lock-in (i.e., properties under construction or rehabilitation as of the Residential Loan Application Date). In no event may a Long-Term Lock-in be used for Existing Housing.
- (u) **Low Interest Rate Mortgage Program** The residential mortgage loan purchase program financed by the Bonds, formerly known as the Forward Commitment Program, and also herein referred to as the "Program", and any other programs which may be offered from time to time and financed by the Bonds.
- (v) **MERS®** Mortgage Electronic Registration Systems, Inc.
- (w) **Mortgage Loan** A loan evidenced by a promissory note, secured by a mortgage granting a first lien upon a fee simple or leasehold interest (with a remaining term equal to or greater than the original term of the Mortgage Loan) in the Eligible Property acquired with the proceeds of the Mortgage Loan or with respect to a cooperative unit, secured by a lien upon the related shares of stock in the cooperative housing corporation and the proprietary lease related to the financed premises, subject in each case only to the liens of taxes or assessments which are not delinquent, building restrictions or other restrictive covenants or conditions, leases or tenancies whereby rents or profits are reserved to the owners, joint driveways, sewer rights, party walls, rights of way or other easements, or encroachments, provided

that none of the foregoing, in the opinion of SONYMA, are violated or materially adversely affect the security for the Mortgage Loan.

- (x) **Mortgage Purchase Agreement** The agreement between SONYMA and each Seller of Mortgage Loans to SONYMA that sets forth the general terms of such sale to SONYMA and incorporates the terms of the Application, as modified or supplemented by the Availability of Funds and Notice of Terms Bulletins and this Seller's Guide.
- (y) **Mortgagor** The person or persons who shall hold title to the Eligible Property and who will execute or have executed the mortgage instrument securing a Mortgage Loan, each of whom shall be natural persons.
- (z) **Newly Constructed Housing** Single Family Dwellings, and Two-Family Dwellings located in a Targeted Area, that have not been previously occupied or used for residential purposes.
- (aa) **Origination Fee** One and three-quarters percent (1.75%) of the amount of the Mortgage Loan, (which is all of the discount points as set forth in Section 2.202 of this Seller's Guide), which Seller receives to originate Mortgage Loans for sale to SONYMA. Seller will collect one percent (1%) on the Lock-in Date (as the Lock-in Fee) and the remaining three-quarters of one percent (0.75%) on the Closing Date. SONYMA may assess penalties in accordance with Sections 2.201(d) and 2.710(f) of this Seller's Guide which will reduce the amount of the Origination Fee. The Origination Fee is subject to change at SONYMA's discretion.
- (bb) **Participation Acceptance Notice** The Participation Acceptance Notice from SONYMA to Seller which entitles Seller to participate in the Low Interest Rate Mortgage Program.
- (cc) **Pool Insurer** The issuer or issuers designated by SONYMA of the mortgage pool insurance policy or policies related to the Mortgage Loans.
- (dd) **PMI** (i) A primary mortgage insurer licensed to do business in the State and qualified to provide insurance on mortgage loans purchased by Freddie Mac or any successor federal agency or corporation, or (ii) the State of New York Mortgage Agency Mortgage Insurance Fund (MIF). The claims-paying ability of the PMI at the time of issuance of any primary mortgage insurance for a Mortgage Loan shall be rated Aa or the equivalent by Moody's Investors Service and/or Standard and Poor's Corporation.
- (ee) **Purchase Date** The date upon which payment is made to Seller by SONYMA with respect to any Mortgage Loan sold to SONYMA by Seller under the Mortgage Purchase Agreement.
- (ff) **Reservation** The request by a Seller, pursuant to Section 2.6 of this Seller's Guide, to set aside funds for a specific Mortgage Loan which is being processed by Seller under a SONYMA program available pursuant to the Availability of Funds and Notice of Terms Bulletin.
- (gg) **Reservation Date** The date funds for a specific Mortgage Loan are reserved.
- (hh) **Residential Loan Application Date** The initial date on which a Mortgagor applies for a Mortgage Loan as defined by the Federal Reserve Board, the regulatory authority on the Real Estate Settlement and Procedures Act (RESPA).
- (ii) **Seller** Any institution or person meeting the requirements for participation in the Low Interest Rate Mortgage Program, which shall have executed a Mortgage Purchase Agreement and an Application and received a Participation Acceptance Notice.
- (jj) **Seller's Guide** This guide, as it may be amended from time to time by SONYMA,

containing, among other things, the procedures governing the delivery of Mortgage Loans purchased by SONYMA from Seller under the Mortgage Purchase Agreement.

- (kk) **Servicer** An institution or a person who has qualified and has contracted under a Servicing Agreement, to service Mortgage Loans purchased by SONYMA under the Low Interest Rate Mortgage Program.
- (ll) **Servicer's Guide** The guide, as it may be amended from time to time by SONYMA, containing the procedures governing the servicing of Mortgage Loans purchased by SONYMA under the Low Interest Rate Mortgage Program and all previous programs of SONYMA. The Servicer's Guide incorporates applicable accounting procedures.
- (mm) **Servicing Agreement** The agreement between SONYMA and a Servicer setting forth the general terms of servicing Mortgage Loans purchased by SONYMA under the Low Interest Rate Mortgage Program and all previous programs of SONYMA.
- (nn) **Short-Term Lock-in** Type of interest rate lock which must be used for all Existing Housing, and Newly Constructed Housing which Seller is able to close within Short-Term Lock-in timeframes. Such timeframes are set forth in Section 2.201 (a) (i) of this Seller's Guide.
- (oo) **Single Family Dwelling** A building designed for use by one family, which includes a condominium unit, cooperative unit or factory-made housing permanently affixed to real property. The term condominium is used as defined in "Condominium Act," Article 9-B of the Real Property Law of the State. With respect to a condominium unit, the owner of such unit must own an undivided interest in the underlying real estate, with ownership interest including the property, owned in common with others, which is necessary or contributes to the use and enjoyment of such a structure or unit. With respect to a cooperative unit, (i) the cooperative must be located in a structure owned by a cooperative housing corporation for the purpose of the cooperative ownership of residential real estate in New York State, and (ii) evidence of the ownership of such cooperative unit must be through certificates of stock in, and a proprietary lease from, such cooperative housing corporation.
- (pp) **SONYMA** The State of New York Mortgage Agency. Also herein referred to as the "Agency".
- (qq) **SONYMA Loan Number** The number which is assigned to each Mortgage Loan by SONYMA on the Reservation Date. This number must appear on all SONYMA documents and be included as part of all correspondence submitted to SONYMA relating to the Mortgage Loan.
- (rr) **State** The State of New York.
- (ss) **Targeted Areas** Areas identified by SONYMA in accordance with the Internal Revenue Code of 1986, as amended, and the regulations thereunder, and included as Appendix II of this Seller's Guide.
- (tt) **Three- or Four-Family Dwelling** An owner-occupied dwelling containing two or three rental units, which was first occupied as a residence at least five years prior to the Residential Loan Application Date.
- (uu) **Two-Family Dwelling** An owner-occupied dwelling containing one rental unit which is: (i) a newly constructed or existing structure located in a Targeted Area, or (ii) an existing structure located in a non-Targeted Area and first occupied as a residence at least five years prior to the Residential Loan Application Date.

- (w) **Value of the Property** The lower of (i) the appraised value of the Eligible Property securing a Mortgage Loan at the time the Mortgage Loan is closed, such appraised value being the fair market value as determined by an appraiser acceptable to SONYMA or (ii) the purchase price paid for the Eligible Property securing a Mortgage Loan.

**SECTION 1.2 - AMENDMENTS.**

This Seller's Guide may be amended or supplemented from time to time by SONYMA. Seller will be mailed amended pages to be effective upon receipt, but no later than five business days after the post-marked date of mailing thereof, provided, however, in the event of any conflict between the provisions of the Mortgage Purchase Agreement and this Seller's Guide, this Seller's Guide shall govern.

**SECTION 1.3 - QUALIFICATIONS OF SELLER; RELIANCE ON SELLER'S WARRANTIES; FIDELITY AND ERRORS AND OMISSIONS INSURANCE; ANNUAL REVIEW OF SELLERS; USE OF THIRD PARTY ORIGINATORS; SELLER COMPLIANCE WITH FAIR HOUSING AND EQUAL OPPORTUNITY LAWS.**

(a) Seller must be a corporation or organization located in the State and one of the following: (i) a bank or trust company, savings bank, savings and loan association, industrial bank, national banking association, federal savings and loan association, federal savings bank; or (ii) a credit union or federal credit union; or (iii) a State licensed mortgage banker approved as a mortgage lender by Fannie Mae or Freddie Mac; or (iv) an entity exempt from licensing provisions in accordance with paragraph (a) of subdivision 2 of section 590 of the State banking law which is approved as a mortgage lender by Fannie Mae or Freddie Mac. Seller's financial condition must, in SONYMA's sole discretion, be sufficient for participation in the Low Interest Rate Mortgage Program.

(b) SONYMA expressly relies on each Seller to either (i) satisfy fully each of the warranty requirements set forth in the Mortgage Purchase Agreement at all times as they pertain to the Seller and to the Mortgage Loans delivered for purchase by SONYMA or (ii) obtain a written waiver from SONYMA.

(c) Seller must maintain in effect at all times and at its expense, fidelity insurance and errors and omissions coverage underwritten by an insurance company authorized to do business in the State and acceptable to Fannie Mae or Freddie Mac. The form and scope of such coverages shall also be consistent with the requirements of Fannie Mae or Freddie Mac. Coverage requirements are as follows:

<u>Coverage Amount</u>	<u>Annual Originations Volume*</u>
\$300,000	\$100 million or less
Plus 0.15% of the next	\$400 million
Plus 0.125% of the next	\$500 million
Plus 0.1% of any amount over	\$1 billion

\*For all one- to four-family loans including Mortgage Loans sold to SONYMA.

The maximum deductible shall be the greater of \$100,000 or 5 percent of the minimum amount of insurance required above.

(d) Annually, SONYMA will review each Seller, in accordance with the criteria set forth below, to determine each Seller's continued participation in the Low Interest Rate Mortgage Program. SONYMA reserves the right to charge Seller a fee for such annual review.

(i) Financial Requirements. SONYMA shall perform periodic reviews of the financial condition of each Seller. In general, SONYMA requires that Seller have a net worth to assets ratio of at least 5 percent. At such time as SONYMA determines, at its sole discretion, that a Seller's financial condition is not adequate for continued participation in the Low Interest Rate Mortgage Program, SONYMA may terminate Seller's participation in the Low Interest Rate Mortgage Program, which termination shall take effect immediately.

(ii) Performance Requirements.

(A) Volume Requirements - Sellers must originate and sell to SONYMA a minimum of 20 Mortgage

Loans each year. If removal of a Seller causes insufficient Low Interest Rate Mortgage Program coverage in a specific geographical area of the State, an exception to this requirement may be made.

(B) Mortgagor Complaints - In each case where SONYMA has received one or more substantiated complaints regarding a Seller, SONYMA may take the following steps:

- (1) Upon 1st occurrence: SONYMA may choose to counsel the Seller and provide Seller with an initial warning of removal from the Low Interest Rate Mortgage Program;
- (2) Upon 2nd occurrence: SONYMA may suspend taking Reservations from the Seller for a period of 30 days; and
- (3) Upon 3rd occurrence: SONYMA may remove (cease taking Reservations from) Seller from the Low Interest Rate Mortgage Program.

(iii) Annual Certification. Within 90 days after the end of Seller's fiscal year, Seller shall submit Seller's Annual Certification (Form 240; Exhibit F) to establish Seller's continued compliance with all requirements of this Seller's Guide and the Mortgage Purchase Agreement.

(e) Use of Third Party Originators. SONYMA permits the use of third party or correspondent originators ("participating mortgage brokers") to accept Mortgage Loan applications on behalf of Seller subject to the following conditions:

(i) Participating mortgage brokers must be registered with the State Banking Department and must make all disclosures to Mortgagor as required by regulations of the Banking Department. A participating mortgage broker may also be any corporation or organization that is eligible to participate as a Seller as described in Section 1.3(a) above. Seller cannot be a participating mortgage broker for another Seller.

(ii) The participating mortgage broker must be affiliated with Seller. Participating mortgage brokers will not be permitted to act as independent agents soliciting potential SONYMA business, and then transferring the Mortgage Loan application to **any** SONYMA Seller of their choice.

(iii) Seller will be required to execute an addendum to the Mortgage Purchase Agreement listing each participating mortgage broker and taking full responsibility for and holding SONYMA harmless from any wrongful acts by the participating mortgage brokers. SONYMA will have no contractual agreement with participating mortgage brokers. The addendum to the Mortgage Purchase Agreement will be made available by SONYMA upon request by Seller.

(iv) Participating mortgage brokers can only be involved in the initial processing of SONYMA loans and cannot underwrite for commitment purposes or close loans.

(v) Seller and participating mortgage brokers may not impose any additional costs on Mortgagor other than the usual fees and points permitted under this Seller's Guide.

(vi) Seller will be required to provide technical training for participating mortgage brokers.

(vii) Participating mortgage brokers are prohibited from advertising in the print media (i.e. newspapers, trade magazines, etc.) or electronic media (i.e. radio, television, internet, etc.) that they: (A) are affiliated with SONYMA, (B) represent it is a SONYMA participating lender or broker, and/or (C) have SONYMA funds available.

(f) Seller shall comply with all Federal, State and local civil rights laws, including but not limited to, the Fair Housing and Equal Credit Opportunity Acts, and shall use its best efforts to comply with any decrees of the United States Department of Justice in connection with said laws.

#### **SECTION 1.4 - DISCLOSURE.**

Any person who is refused a Mortgage Loan by Seller may request, in writing, a written explanation as to the specific reasons for the refusal. Seller shall comply with all requirements of the "Fair Credit Reporting Act".

**SECTION 1.5 - WAIVER**

Upon written request of the Seller, SONYMA, at its sole discretion, may waive certain provisions of this Seller's Guide.

**SECTION 1.6 - NOTICES/COMMUNICATIONS.**

Any written communications or notices to the Seller shall be sent to the Seller's primary contact and address as it appears in the Application, or to such other address as the Seller may designate from time to time by written notice to SONYMA. Seller is responsible to report to SONYMA in writing of any changes in contact names, branch locations, addresses, telephone, fax numbers, and e-mail addresses stated in the Application. Notices to SONYMA shall be addressed as follows: Assistant Vice President, Single Family Programs, State of New York Mortgage Agency, 2nd Floor, 641 Lexington Avenue, New York, New York 10022, or to such other address as SONYMA may designate from time to time by written notice to the Seller.

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## **PART II - MORTGAGE LOAN PURCHASE REQUIREMENTS**

### **SECTION 2.1 - PRELIMINARY REQUIREMENTS**

- 2.101 **Fund Availability** On at least a monthly basis, SONYMA will fax or mail to Sellers an Availability of Funds and Notice of Terms Bulletin pursuant to which Sellers may originate Mortgage Loans in accordance with Section 2.6 of this Seller's Guide.
- 2.102 **Application Fee** At time of Application, Seller shall remit to SONYMA an Application Fee equal to the amount specified in the Application.
- 2.103 **Terms of Sale** Each sale of a Mortgage Loan to SONYMA shall be subject to the terms and conditions of the Availability of Funds and Notice of Terms Bulletin, the Mortgage Purchase Agreement, and this Seller's Guide. Each such Mortgage Loan must be subject to a Servicing Agreement.
- 2.104 **Purchase Amount of Mortgage Loans** The purchase amount of Mortgage Loans to be acquired by SONYMA is set forth in Section 2.710 of this Seller's Guide and in the Mortgage Purchase Agreement. SONYMA will reduce the purchase amount by (a) the amount of any penalties assessed by SONYMA and (b) the amount of short-term interest due SONYMA, if the Mortgage Loan's Closing Date and Purchase Date occur in the same calendar month.
- 2.105 **Servicing** Seller, if eligible, will service the Mortgage Loans purchased by SONYMA from Seller, unless Seller upon submission of an Application has notified SONYMA that it will not service the Mortgage Loans, at which time SONYMA will assign such servicing to an eligible Servicer. Each Seller which acts as a Servicer must comply with the eligibility requirements contained in Sections 1.04 and 1.05 of the Servicer's Guide.
- 2.106 **Lock-in Fees** (a) The Lock-in Fee shall be returned to the loan applicant, retained by Seller, or remitted to SONYMA depending on the final disposition of the loan application. On or prior to the Lock-in Date, the Seller must collect the Lock-in Fee (which is a portion of the discount fees set forth in Section 2.202) and becomes obligated to SONYMA for payment of the Lock-in Fee. The Lock-in Fee shall be forfeited and remitted to SONYMA if the Closing Date does not occur within the timeframes specified in Section 2.201 of this Seller's Guide. If SONYMA grants an extension of the lock-in timeframe upon Seller's submission of a Commitment Extension Request Form (Form 235; Exhibit MM), the Lock-in Fee shall not be considered forfeited to SONYMA providing the Closing Date occurs by the date to which the Mortgage Loan was extended. If the Closing Date occurs within the timeframes set forth in Section 2.201 or by the date in which SONYMA has approved an extension of that timeframe, Seller shall retain the Lock-in Fee as part of its Origination Fee. If SONYMA or the Pool Insurer rejects the Mortgage Loan, Seller is authorized and required to refund the Lock-in Fee to the loan applicant or the property seller, as applicable. If the Seller rejects a Mortgage Loan for credit, appraisal, or other reasons, Seller is **not authorized** to refund the Lock-in Fee to Mortgagor. However, SONYMA will authorize refund of the Lock-in Fee, provided the rejection is not a result of any material misrepresentation by the Mortgagor, and SONYMA approves such rejection. Whenever a Seller rejects a mortgage loan application, and seeks waiver of the Lock-in Fee, Seller shall provide SONYMA with a Request for Lock-in Fee Waiver Form [Form 234; Exhibit LL] and appropriate supporting documentation.

*Note: SONYMA will not review or consider a lock-in fee waiver request if (i) the mortgage application was cancelled or withdrawn, (ii) Seller reserved and locked a Mortgage Loan without securing a fully executed contract of sale, or (iii) the request is submitted by Seller later than the date stated*

*in the monthly billing statement described below.*

(b) Payment of Lock-in Fees. If a Seller fails to deliver a locked in Mortgage Loan which has been accepted for inclusion in the Low Interest Rate Mortgage Program by SONYMA's Single Family Program staff, or if the Mortgagor withdraws or cancels the Mortgage Loan, the Seller remains liable to SONYMA for the Lock-in Fee. In each instance, Seller shall submit a check payable to SONYMA for the entire amount of the Lock-in Fee in accordance with the timeframes set forth in a billing statement prepared by SONYMA. Monthly, if applicable, SONYMA will bill Seller for an amount equal to 1 percent of the aggregate principal amount of the Mortgage Loans that cancelled during the preceding month and were locked-in with SONYMA by Seller. The Seller is required to pay to SONYMA by check within 15 business days of the billing date, the amount specified in SONYMA's bill. If the Seller does not pay the amount billed by SONYMA within 30 days of the due date, SONYMA may subtract the fee from future Mortgage Loan purchases or exercise its remedies under the Mortgage Purchase Agreement.

2.107     **Advertising  
Standards**

SONYMA encourages advertising by Sellers as an important means of educating the public.

While Sellers are welcome to take advantage of technical assistance offered by SONYMA's Marketing Department, and other than the requirements listed in (a) below, any and all Seller advertising is strictly voluntary. Sellers should note, however, that any advertising costs or legal ramifications resulting from advertising undertaken by Sellers shall be the sole responsibility of the individual Seller.

(a) Mandatory Seller Marketing Guidelines. Sellers must prominently display "SONYMA Participating Lender" signage supplied by SONYMA in the windows of all participating branches.

Seller must make available SONYMA brochures and other marketing materials, as appropriate, to the public by prominently displaying said materials at participating branches.

**All** advertising featuring SONYMA rates, special programs, and/or other information relevant to SONYMA-specific policy, must clearly identify rates advertised (including APR equivalent) as SONYMA rates with the Agency name and logo clearly indicated. Ads must include the disclaimer that, "rates are subject to change." All advertisements by Seller featuring SONYMA shall comply with all requirements of the Truth in Lending Disclosure Act (Regulation Z).

All advertisements bearing the SONYMA name or logo must be reviewed by SONYMA **prior** to the ad appearing in print.

(b) Optional Advertising Guidelines. SONYMA's Marketing Department will, upon request, supply Sellers with a representative sampling of reproducible ads which are designed for various target audiences. These ads, suitable for newspaper and other print advertising, contain a blank field into which Sellers may insert bank name, logo and address as appropriate, and the phrase "SONYMA Participating Lender." The purchase of print advertising space is solely at the discretion of Sellers.

All Seller advertising should: (i) be placed with SONYMA's target population in mind; (ii) be specifically targeted to home buyers, not property sellers; (iii) make no false or misleading statements regarding

Mortgage Loans; and (iv) in no way state or imply that SONYMA funds are available for debt consolidation or refinancing.

(c) Optional Homebuyer Workshops. Sellers are strongly encouraged, but not required, to conduct periodic homebuyer workshops for potential SONYMA applicants. The workshops, whether produced with or without SONYMA's involvement, should focus on the basic aspects of the home purchase and the mortgage financing process, and should include speakers from relevant professionals in the real estate industry.

2.108     **Seller Closing Attorney**           The attorney or law firm representing Seller at Mortgage Loan closings must not be affiliated with or representing any other interested party (except the Mortgagor) to the Mortgage Loan transaction.

**SECTION 2.2 - MORTGAGE LOAN ELIGIBILITY**

Each Mortgage Loan delivered under a Mortgage Purchase Agreement must comply with the following requirements:

2.201     **Interest Rate Lock-in**           (a) Interest Rate Lock-in. The Lock-in Date must occur on the Residential Loan Application Date. The Mortgage Loan must be locked either as a Short-Term Lock-in or a Long-Term Lock-in.

(i) For Short-Term Lock-ins the interest rate lock-in shall be effective for 100 days of the Residential Loan Application Date. Mortgage Loans will be locked at the Short-Term Lock-in interest rate in effect on the Lock-in Date as set forth in the appropriate Availability of Funds and Notice of Terms Bulletin. If the Closing Date occurs within this timeframe, the Mortgage Loan will close at the locked interest rate. The Short-Term Lock-in option must be used for all Mortgage Loans except as described in (ii) below.

(ii) For Long-Term Lock-ins the interest rate lock-in shall be effective for 220 days of the Residential Loan Application Date. Mortgage Loans locked as a Long-Term Lock-in will be *locked in* at the interest rate as set forth in the Availability of Funds and Notice of Terms Bulletin. Such interest rate will be equal to the interest rate available on the Lock-in Date for Short-Term Lock-ins plus one percent (1%) (the "Long-Term Lock-in interest rate"). The Long-Term Lock-in option may only be used for Newly Constructed Housing or rehabilitation properties which cannot close within the 100 day Short-Term Lock-in timeframe. All Long-Term Lock-in Mortgage Loans are required to be qualified and underwritten at the Long-Term Lock-in interest rate. If the Closing Date occurs within the above timeframe, the closing interest rate will be the **lesser** of: (A) the Long-Term Lock-in interest rate (as calculated above) or (B) the interest rate available for Short-Term Lock-ins on the Closing Date. In no event may a Long-Term Lock-in be used for Existing Housing.

Seller is responsible for determining the appropriate lock-in type. If Newly Constructed Housing or a rehabilitation property is locked as short-term, Seller must have ascertained that the Mortgage Loan will be able to close within the 100 day timeframe. If SONYMA is required to grant more than one commitment extension for the Mortgage Loan, Seller could be assessed a penalty as described in (d)(iii) below.

If the lock-in expiration date occurs on a weekend or holiday, SONYMA will permit the Mortgage Loan to close on the **first** business day immediately following the lock-in expiration date at the interest rate initially

locked-in.

(b) Procedure to Lock Interest Rate. SONYMA will automatically lock the interest rate upon receipt of the Loan Reservation Worksheet and Rate Certification (Form 238; Exhibit L). The interest rate locked will be the rate that was available on the Residential Loan Application Date for Short-Term Lock-ins or Long-Term Lock-ins, as appropriate.

The Loan Reservation Worksheet and Rate Certification (Form 238; Exhibit L) shall contain Seller's certification that Seller is liable to pay to SONYMA the Lock-in Fee for the related Mortgage Loan.

Please see Section 2.6 for details on prescreening potential applicants and submitting Form 238.

(c) Commitment Extensions. Mortgage Loan must be closed on or prior to the lock expiration date; however extensions of the above lock-in periods will be considered by SONYMA, at its sole discretion, on a case-by-case basis and must be fully documented by the Seller. **SONYMA will only consider extension of the expiration date of the Mortgage Loan, and will not extend the interest rate.** If SONYMA approves an extension of the expiration date, the Mortgage Loan must close at the interest rate as follows:

(i) For Short-Term Lock-ins, if SONYMA approves an extension of the timeframe stated in (a)(i) above, the Mortgage Loan will close at the **higher** of: (A) the interest rate locked on the Lock-in Date or (B) the interest rate available for Short-Term Lock-ins on the Closing Date.

(ii) For Long-Term Lock-ins, if SONYMA approves an extension of the timeframe stated in (a)(ii) above, the Mortgage Loan will close at the **lesser** of: (A) the Long-Term Lock-in interest rate, or (B) the interest rate available for Short-Term Lock-ins on the Closing Date.

In order for SONYMA to consider an extension request, Seller must submit the Commitment Extension Request Form (Form 235; Exhibit MM), together with documentation verifying the legitimacy of each request. SONYMA will review all such documentation in determining whether or not the extension should be granted. SONYMA will confirm, on a weekly basis, in writing to Seller the Mortgage Loans extended during the prior week. Seller is solely responsible for reviewing each extension confirmation report and **immediately** reporting any discrepancies to SONYMA.

*Note: SONYMA's approval of an extension request should not be deemed an extension of the Pool Insurer's commitment. Please see Section 2.707 for information on extending the Pool Insurer's commitment. Further, if SONYMA approves an extension of the commitment, Seller must notify, prior to the Closing Date, the Pool Insurer and, if applicable, the PMI of changes to the Mortgage Loan interest rate.*

(d) SONYMA may assess monetary penalties that would result in a reduction or forfeiture of Seller's Origination Fee if one or more of the following events take place:

(i) Seller closes the Mortgage Loan at an interest rate other than the locked rate or, if extended, at an interest rate other than as stated in the Availability of Funds and Terms Bulletin.

(ii) Seller closes the Mortgage Loan after the commitment expiration date.

(iii) Seller reserves and locks Newly Constructed Housing as a Short-Term Lock-in and more than one commitment extension is necessary to close the Mortgage Loan.

**SELLERS ARE REMINDED TO REFER TO THE APPLICABLE AVAILABILITY OF FUNDS AND NOTICE OF TERMS BULLETIN FOR THE APPROPRIATE UNDERWRITING AND CLOSING INTEREST RATES FOR EACH MORTGAGE LOAN. DIFFERENT RATES MAY APPLY DEPENDING ON THE LOCK-IN DATE.**

- 2.202 **Discount Fees (Points)** With respect to each Mortgage Loan, a maximum of a one and three-quarter (1.75) point discount fee [one and three-quarters percent of the original principal balance of the Mortgage Loan] will be collected for each Mortgage Loan. The discount fee shall be equal to the Origination Fee. THE AMOUNT OF THE DISCOUNT FEE FOR SONYMA'S VARIOUS PROGRAMS MAY BE CHANGED BY SONYMA AT ANY TIME, UPON NOTICE TO SELLER BY SONYMA. The discount fee may be paid by the Mortgagor, the property seller, or both (see Section 3.101 (b)(vi) for property seller contribution requirements). NO ADDITIONAL FEE MAY BE COLLECTED BY SELLER AS CONSIDERATION FOR EXTENDING A COMMITMENT OR A RATE OF INTEREST THAT HAS BEEN GRANTED BY SONYMA. Seller must collect one percent (1%) of the one and three-quarter percent (1.75%) discount fee on or prior to the Lock-in Date, which the Seller may be obligated to remit to SONYMA, as set forth in Section 2.106 of this Seller's Guide. The remaining three-quarters of one percent (0.75%) must be collected on the Closing Date.
- 2.203 **Permissible Expenses** In addition to the discount fee stated in Section 2.202, additional fees of whatever kind or nature collected from the Mortgagor must not exceed the actual out-of-pocket expenses incurred in closing the Mortgage Loan. Seller may charge Mortgagor a one-time application fee up to \$200 at the time a residential loan application is submitted. Seller may also charge a fee for actual out-of-pocket expenses, but only to the extent that such expenses are customary and reasonable, and do not exceed amount charged in such areas in cases where owner-financing is provided in the conventional mortgage loan market (i.e., appraisal report fee, credit report fee, flood certification, document preparation fees up to \$200).
- 2.204 **Term** The original term of a Mortgage Loan must be for a period of 20, 25, or 30 years.
- 2.205 **Amortization** Each Mortgage Loan must provide, through regular monthly payments on the first day of each month, for full amortization by maturity. Amortization must commence not later than 61 calendar days after final disbursement by Seller of the Mortgage Loan proceeds. ***However, if final disbursement takes place on the first calendar day of the month, amortization must commence on the first calendar day of the next succeeding month.***
- 2.206 **Origination** Each Mortgage Loan must have been closed in Seller's name as lender. Seller is fully liable for all warranties and representations made to SONYMA in the Mortgage Purchase Agreement. Furthermore, Seller is liable and responsible for compliance with all consumer protection laws and regulations in effect at the time of the closing of the Mortgage Loan.

- 2.207 **Occupancy** Seller warrants with respect to each Mortgage Loan, that as of the Closing Date, to the best of Seller's knowledge and belief, and based on the Recapture Notification and the Mortgagor's Affidavit (Form 211; Exhibit G) and other documents received from the Mortgagor, Mortgagor is occupying, or will occupy within a maximum of 60 days, the Eligible Property as his or her principal residence. However, a Guarantor who will have no "present ownership interest" in the residence need not occupy the Eligible Property. Seller is obligated, upon receiving notice or information that any Mortgagor is not occupying the Eligible Property, to report such information immediately to SONYMA.
- 2.208 **No Trade or Business** The Eligible Property cannot be used or intended for use in a trade or business, as an investment property, or as a recreational home, except for rental income incidental to a Two-Family Dwelling or a Three- or Four-Family Dwelling and as described in Seller's Guide Appendix III - Section B, Item 20. Seller is obligated, upon receiving notice or information that the Eligible Property is being utilized for any commercial or business use, to report such information immediately to SONYMA.
- 2.209 **Assumption** Mortgage Loans are not assumable.
- 2.210 **Mortgage Security** The security on each Mortgage Loan must constitute a valid first lien on the real property described therein (whether in fee or in a leasehold), or, with respect to a cooperative unit, the Mortgage Loan must be secured by a lien upon the related shares of stock in cooperative housing corporation and the proprietary lease related to the financed premises, and must be specific security for the payment of the obligation secured by such Mortgage Loan. The Eligible Property must be free and clear of all encumbrances and liens prior to the lien of the Mortgage Loan (except those expressly permitted by SONYMA) and no rights may be outstanding that could give rise to such liens, subject only to liens of taxes or assessments which are not due and payable, building restrictions or other restrictive covenants or conditions, leases or tenancies whereby rents or profits are reserved to the owner, joint driveways, sewer rights, party walls, rights-of-way or other easements, or encroachments, provided that, in the opinion of SONYMA, none of the foregoing adversely affects to a material degree the security for the Mortgage Loan. The note evidencing the Mortgage Loan must be a legal, valid and binding obligation of the maker thereof, enforceable in accordance with its terms, free from any right of set-off, counterclaim or other claim or defense, and no part of the property or in the case of a cooperative unit, the related shares of stock in the cooperative corporation or the Proprietary Lease may have been released from the Mortgage Loan. The terms of the Mortgage Loan must not be modified, amended, waived or changed, except as set forth in a recorded mortgage modification approved by SONYMA.
- 2.211 **Principal Amount Advanced; No Mandatory Future Advances; Outstanding Balance** The full principal amount of each Mortgage Loan must have been advanced to Mortgagor in accordance with the instruction of the Mortgagor or placed in a completion escrow account. In no event shall the Seller retain any portion of the Mortgage Loan proceeds for purposes of establishing such account. The full amount of the Mortgage Loan must be disbursed to the Mortgagor on the Closing Date. Establishment of any escrow account authorized by SONYMA must be done after the Mortgage Loan is closed and proceeds disbursed. Within a maximum of 90 days from the Closing Date, except as stated in Section 2.402(n), all repairs and/or improvements must be completed and any funds held in an escrow account must be released (see Section 3.104(d) of this Seller's Guide for certification requirements). Seller is responsible for ensuring all terms of the escrow account are met and all work is satisfactorily completed.

Mortgagor must not have an option under the Mortgage Loan to borrow from Seller or any other person or entity additional funds secured by the mortgage instrument without the consent of SONYMA. The outstanding principal balance of the Mortgage Loan must be as represented by Seller to SONYMA and must be fully secured by the Mortgage Loan.

2.212 **Mortgage and Note Forms**

Seller must utilize the mortgage, note, and rider instruments as listed below:

Note - New York Fixed Rate Note- Single Family- Fannie Mae/Freddie Mac Uniform Instrument 3233 1/01

Mortgage - New York- Single Family- Fannie Mae/Freddie Mac Uniform Instrument Form 3033 1/01

Mortgage Riders (as applicable):

1. Multistate Condominium Rider - Single Family - Fannie Mae /Freddie Mac Uniform Instrument Form 3140-1/01
2. Multistate PUD Rider - Single Family - Fannie Mae/Freddie Mac Uniform Instrument Form 3150-1/01
3. Multistate 1-4 Family Rider - Single Family - Fannie Mae/ Freddie Mac Uniform Instrument Form 3170-1/01

SONYMA Rider to the Fannie Mae/Freddie Mac Mortgage (SONYMA Form 230/12-00)

SONYMA Rider to the Fannie Mae/Freddie Mac Note (SONYMA Form 236/12-00) (for Construction Incentive Program loans only)

***Note: Seller must be careful not to commingle prior versions of these forms. Mortgage Loan files that contain any combination of forms other than listed above will not be accepted for purchase.***

Seller is responsible for obtaining blank copies of these forms. All notes should be written with the payment date as of the first of every month. Such forms must reflect that:

(a) Late charges may be collected on monthly installments more than 15 days late and should be the usual and reasonable amount, never exceeding the amount allowed by law at that time.

(b) No prepayment charges or penalties except a potential recapture tax as described in Section 2.308 of this Seller's Guide, are allowed on any Mortgage Loan.

(c) The Mortgage Loan becomes due and payable if Mortgagor does not occupy the Eligible Property or misrepresents any of the statements included in the Recapture Notification and Mortgagor's Affidavit (Form 211; Exhibit G).

(d) Seller may use the Fannie Mae/Freddie Mac plain language Consolidation, Extension and Modification Agreement [New York Single Family 3172-1/01(rev. 5/01)]. Seller is responsible for obtaining blank copies of the form and for ensuring that all requirements of the SONYMA Rider to Fannie Mae/Freddie Mac Mortgage (Form 230; Exhibit FF) are incorporated within the final recorded mortgage.

(e) No riders other than those stated in Section 2.710(d)(i) of this Seller's Guide may be added to the mortgage and note forms without the written

consent of SONYMA.

(f) Mortgage Loans closing on the first calendar day of the month must provide that the first principal and interest payment occur on the first calendar day of the next succeeding month.

(g) If Seller is a MERS® Member and elects to name MERS as nominee for Seller (see Section 2.705 below), the Mortgage (New York- Single Family- Fannie Mae/Freddie Mac Uniform Instrument Form 3033 1/01) and if applicable, the Fannie Mae/Freddie Mac plain language Consolidation, Extension and Modification Agreement [New York Single Family 3172-1/01(rev. 5/01)] must contain the appropriate MERS language required by Fannie Mae and Freddie Mac.

If any Mortgage Loan, in SONYMA's sole discretion, is not in compliance with the requirements of this Seller's Guide, SONYMA shall not purchase the Mortgage Loan. If SONYMA has already purchased the Mortgage Loan and subsequently discovers that the requirements of this Seller's Guide have not been met, Seller, at SONYMA's sole option, must repurchase the Mortgage Loan at the remaining unpaid principal balance together with accrued interest and any related expenses.

**2.213 No Refinancing or  
"Cash-out"  
Transactions**

No Mortgage Loan will be purchased by SONYMA which was made for the purpose of refinancing an existing loan, other than construction period loans, bridge loans or similar type temporary financing having an initial term of 24 months or less.

SONYMA prohibits the use of its Mortgage Loan proceeds for "cash-out" purposes (i.e., for purposes other than to consummate the purchase of the Eligible Property or to reimburse Mortgagor for construction or rehabilitation expenses paid prior to the Closing Date).

**2.214 Mortgage Loan Not  
in Default**

As of the Purchase Date of each Mortgage Loan, principal and interest payments must not be more than 15 days due and unpaid under the terms of the Mortgage Loan. All costs, fees and expenses incurred in making, closing, and recording the Mortgage Loan must have been paid; and there must not have been outstanding any advance of funds by Seller or by another at the request of Seller to or on behalf of Mortgagor to be used by Mortgagor for the payment of any monthly installment of principal or interest under the terms of the Mortgage Loan.

**2.215 Escrow  
Requirements**

Each Mortgage Loan shall provide for the monthly collection of Escrows to the extent permitted by the Real Estate Settlement Procedures Act ("RESPA"), as amended, along with the monthly installment of interest and principal. The Escrows shall be held in trust for the benefit of SONYMA and Mortgagors in an account in a bank or trust company, savings bank, national banking institution or savings and loan association (which may be the Seller) insured to the full extent possible by the Federal Deposit Insurance Corporation or the Resolution Trust Corporation.

**2.216 Title Assurance  
Requirements**

(a) Each Mortgage Loan must be covered by a title insurance policy the benefits which run to SONYMA, on the 1992 American Land and Title Association (ALTA) standard lender's policy form with ALTA Form 8.1, Environmental Protection Endorsement and the Standard New York Endorsement attached, issued by a title insurer licensed to do business in the State and qualified to provide title insurance on mortgage loans purchased by Freddie Mac and Fannie Mae in an amount equal to the original principal balance of the Mortgage Loan. If the Eligible Property is a condominium or a PUD, an ALTA 4 endorsement or an ALTA 5

endorsement, as appropriate, must be attached. No other form of title insurance policy including ALTA short forms will be accepted. Schedule B-I of the title insurance policy must not reflect any exceptions other than liens of taxes or assessments which are not due and payable, building restrictions or other restrictive covenants or conditions, leases or tenancies whereby rents or profits are reserved to the owner, joint driveways, sewer rights, party walls, rights-of-way or other easements, or encroachments, provided that none of the foregoing, in the opinion of SONYMA, adversely affect the security for the Mortgage Loan to a material degree.

(b) Acceptable Exceptions. SONYMA will accept exceptions to the title insurance policy such as public utility easements, encroachments, restrictive agreements, mutual easement agreements, provided all of the following conditions are met:

(i) The exception must not interfere with present or future use and enjoyment of the Eligible Property.

(ii) The exception must not affect the Value of the Property or the marketability of the Eligible Property.

(iii) The exception must be acceptable to any PMI and the Pool Insurer.

(iv) The exception must be commonly acceptable to private institutional mortgage investors in the area where the Eligible Property is located.

(c) If, in the normal course of business, assurance of clear title is provided in other than the manner described above, and is commonly acceptable in lieu of title insurance by private institutional mortgage investors in the area in which the Eligible Property is located, Seller may request a waiver of this policy. The request must be made in writing to SONYMA's Assistant Vice President, Single Family Programs, and the alternative method must be acceptable to SONYMA and to the applicable PMI and/or Pool Insurer.

*See Appendix IV for further details on documentary requirements for title insurance.*

2.217 **Survey Requirements**

With respect to each Mortgage Loan, except for condominium, PUD and cooperative properties, Seller must obtain a survey or plat dated or redated within six months of the Closing Date of the Mortgage Loan certified to, at a minimum, SONYMA or Seller by a licensed surveyor or engineer showing:

(a) the exact location and dimensions of the property including the improvements located thereon,

(b) the exact location of all lot and street lines and all means of access to such property,

(c) the exact location of all easements,

(d) the names of all avenues, streets and alleys abutting such property, and

(e) any encroachment on such property or any encroachment by the

improvements on adjoining property, or any other defect.

In lieu of the above, SONYMA will accept either:

(i) a survey made more than six months prior to the Closing Date provided that a title company survey inspection, performed within six months of the Closing Date, is cited within the title policy, and contains no material, adverse, or substantial changes from the survey being submitted; or

(ii) a survey endorsement written into the Title Insurance Policy containing the following language:

"This policy insures against loss or damage by a violation, encroachment, or adverse matter that would have been disclosed by an accurate survey."

2.218 **Endorsement of Notes; Execution and Recordation of Assignment; Waiver of Fee to Record Assignment**

All original mortgage notes must be endorsed and delivered to SONYMA for safe-keeping. Properly endorsed mortgage notes must be delivered to SONYMA prior to the Purchase Date. An assignment of each Mortgage Loan to SONYMA must be executed on or before the Purchase Date and recorded in the appropriate county clerk's office.

Section 2412 of the Public Authorities Law currently provides that the fee to record the Assignment of Mortgage (Form 202; Exhibit Q) on behalf of SONYMA is waived.

2.219 **Hazard Insurance Requirements**

The property securing each Mortgage Loan must be covered by hazard insurance meeting the following requirements:

(a) Scope and Amount of Coverage Required for Mortgage Loans. Insurance coverage of the following types and amounts is required on an Eligible Property covered by a Mortgage Loan:

(i) At minimum, the Eligible Property must be insured for loss or damage from fire and other perils within the scope of standard extended coverage. The insurance limits must at least equal the **higher** of the following:

(A) the unpaid principal balance of the Mortgage Loan up to 100 percent of the full replacement cost of the insurable improvements, or

(B) 80 percent of the full replacement cost of the insurable improvements.

In no event can the coverage amount be required to exceed 100 percent of the full replacement cost of the insurable improvements on the Eligible Property. All amounts under the insurance shall be sufficient to prevent the mortgagee from becoming a co-insurer thereunder.

(ii) Such insurance must be in effect on the Closing Date of the Mortgage Loan, provided, that if under applicable State law Seller is authorized to accept on the Closing Date for a Mortgage Loan a binder issued by an insurer, or a duly authorized representative thereof, licensed to do business in the State, as evidence that insurance has been procured, then such a binder shall be sufficient to satisfy the requirement that insurance be in effect on the Closing Date. The premium on each policy shall have been

paid in full by the Mortgagor and no "courtesy receipts" or other secondary financing of such premium shall be permitted.

(iii) Where Seller is aware that the property is exposed to any appreciable hazard against which Fire and Extended Coverage Insurance does not afford protection, Seller shall advise SONYMA of the nature of such hazard and the additional insurance coverage, if any, which Seller has obtained against such hazard. SONYMA shall require such coverage prior to accepting the Mortgage Loan for purchase.

(iv) Insurance policies shall be sufficient in amount and scope of coverage to meet the requirements of the PMI and/or the Pool Insurer.

(v) The deductible may not exceed the higher of \$1,000 or one percent (1%) of the policy's insurance limits.

(vi) Each Mortgage Loan shall provide that in the event of any loss settlement on a hazard insurance policy the mortgagee shall have the option of applying the loss settlement proceeds against the principal amount of the Mortgage Loan rather than to the restoration of the Eligible Property.

(b) Minimum Financial Rating of Carrier; No Assessments; Other Requirements. Each hazard insurance policy must be written by a hazard insurance carrier which is specifically licensed or authorized by law to transact business in the State and which has, or which is fully reinsured by a company which has, a current rating that is acceptable to Fannie Mae or Freddie Mac.

(c) Unacceptable Policies. Policies are unacceptable in situations where:

(i) under the terms of the carrier's charter, by-laws or policy, contributions or assessments may be made against SONYMA or SONYMA's designee; or

(ii) contributions or assessments may be made against the owner of the property which could become a lien on the property superior to the lien of the Mortgage Loan; or

(iii) by the terms of the carrier's charter, by-laws or policy, loss payments are contingent upon action by the carrier's Board of Directors, policyholders, or members; or

(iv) the policy includes any limiting clauses (other than insurance conditions) which could prevent SONYMA or the owner of the property from collecting insurance proceeds.

(d) Mortgagee Clause; Endorsement. All policies of hazard insurance must contain or have attached the standard mortgagee clause customarily used in the area in which the property is located, naming SONYMA as the first mortgagee. Seller shall cause Servicer's address to be used in the endorsement in lieu of the address of SONYMA. A sample of the mortgagee clause shall read as follows:

State of New York Mortgage Agency  
c/o Servicing Institution  
Servicer's address  
City, State, Zip Code

The policy must provide that the insurance carrier shall notify the mortgagee at least ten days in advance of the effective date of any cancellation or material modification of the policy. It is Seller's responsibility to cause each insurance policy to be properly endorsed and to give any necessary notices of transfer in order to fully protect, under the terms of the policy and applicable law, SONYMA's interest as first mortgagee. Seller must cause all documents to be delivered to Servicer, regardless of the manner in which the insurance policy is endorsed. All policies must provide that the insurance carrier waive all rights of set-off, counterclaim or deduction against Mortgagor.

(e) Flood Insurance. If the Eligible Property is located in an area identified by the Director of the Federal Emergency Management Agency (FEMA) as a Special Flood Hazard Area (SFHA), Seller must ensure that flood insurance is obtained by Mortgagor in the coverage amounts and conditions set forth below.

(i) If the property is located in a SFHA, and the community does not participate in the National Flood Insurance Program (NFIP), SONYMA will not purchase the mortgage.

(ii) For each Mortgage Loan, Seller must determine whether the Eligible Property is located in a SFHA. Seller may rely on the property appraiser, an employee of Seller, a surveyor, or a flood zone determination company to obtain this information. Seller must document each flood zone determination by submitting a completed FEMA Standard Flood Hazard Determination (FEMA Form 81-93, Oct 98) with the pre-closing application loan file as set forth in Section 2.706(c). If Seller will act as Servicer for the Mortgage Loans, SONYMA requires that Servicer monitor FEMA remappings for the entire term of each Mortgage Loan. Upon notification that an Eligible Property is located in a SFHA as a result of a FEMA remapping, Servicer must immediately secure flood insurance for the Eligible Property. If Seller is not servicing Mortgage Loans for SONYMA, Seller must comply with the requirements of the Servicer. In any event, Seller is responsible to SONYMA for the accuracy of any flood insurance determination, whether made by Seller or by another party.

(iii) Seller may waive the requirement for flood insurance if:

(A) a portion of the land is in a SFHA but the improvements are not;

(B) the Mortgagor obtains a letter from FEMA stating that its maps have been amended and the Eligible Property is no longer in a SFHA.

(iv) Coverage amounts must at least equal the **higher** of the following:

(A) the unpaid principal balance of the Mortgage Loan up to 100 percent of the full replacement cost of the insurable improvements, or

(B) 80 percent of the full replacement cost of the insurable improvements

In no event, however, does the coverage need to exceed the maximum amount currently sold under the NFIP for the type of improvements insured.

(v) The deductible may not exceed the higher of \$1,000 or one percent (1%) of the policy's insurance limits.

(vi) Flood insurance is not required for individual units in a condominium, planned unit development (PUD), or cooperative project if the unit is located in a high-rise building. However, if the condominium or PUD owners' association or cooperative corporation is located in a SFHA, it must maintain a blanket flood insurance policy on the common elements of the project, including machinery and equipment that are part of the building(s).

(f) Condominiums, Planned Unit Developments (PUD) and Cooperatives: Hazard Insurance Requirements. If the Eligible Property is located in a condominium, PUD, or cooperative project, the following requirements apply:

(i) Condominiums. A blanket "all risk" policy must be purchased and maintained by the owners' association of the condominium project. The policy must cover all of the general and limited common elements including fixtures, building service equipment and common personal property and supplies owned by the owners' association. The policy must also cover all fixtures, equipment, and improvements inside the individual units, whether or not they are part of the common areas. The insurance policy must at least protect against loss or damage by fire and all other hazards normally covered by the standard extended coverage endorsement, and all other perils typically covered with similar types of projects.

Coverage must be from an insurance company authorized to do business in the State for 100 percent of the insurable value of the common elements or property described above and provide for loss or damage on a replacement cost basis. The policy must contain all of the special endorsements typically required by Fannie Mae or Freddie Mac.

The deductible amount shall not exceed the lower of \$10,000 or one percent (1%) of the policy amount and funds to cover the deductible must be included in the owners' association operating reserve account.

The policy shall be in the name of the board of directors of the owners' association as trustee for all unit owners and mortgagees according to the loss or damage to their respective units and appurtenant common interests and payable in case of loss to such bank or trust company authorized to do business in the State as the owners' association shall designate for the custody and disposition of all proceeds of such insurance, without prejudice to the right of each unit owner to insure his unit for his own benefit. Except in the case where the "declaration" or other equivalent constituent document of the condominium project shall

provide that the owners' association may vote not to rebuild, repair or otherwise reinstate any improvements of the project damaged or destroyed by casualty required to be insured against and that such vote shall be subject to the written consent of all mortgagees affected, in every case of such loss or damage, all insurance proceeds shall be used as soon as reasonably possible by the owners' association for rebuilding, repairing or otherwise substantially reinstating the same buildings in a good and workmanlike manner according to the original plan and elevation thereof or such modified plans conforming to laws and ordinances then in effect as shall be first approved as provided in the said declaration or constituent document. In the event of a distribution of hazard insurance proceeds in lieu of restoration or repair following a loss to the property, whether to the unit or to the common elements, any such proceeds payable to the Mortgagor shall be assigned under the Mortgage Loan and be paid to SONYMA, as mortgagee, for application of such proceeds against the principal amount of the Mortgage Loan, with the excess, if any, paid to the Mortgagor.

(ii) PUDs. If the Eligible Property is located in a PUD, Mortgagor is required to obtain an individual insurance policy as described in this Section 2.219 unless the project's constituent documents permit for a blanket insurance policy to cover both the individual units and the common elements. In either case, the policy must contain the standard extended coverage endorsement and must not exclude any types of perils normally covered by the endorsement for one- to four-family properties.

If the individual unit owners purchase their own insurance, the homeowners' association must purchase a blanket "all risk" policy to cover the common areas. The coverage amounts, deductible amounts and requirements are the same as for condominiums as stated above except that for individual units covered under a blanket policy, the maximum deductible is the higher of \$1,000 or one percent (1%) of the replacement cost of the unit. The policy must name the homeowners' association as the insured, must contain the standard mortgage clause and must name Seller, its successors or assigns, as mortgagee.

(iii) Cooperatives. A blanket "all risk" policy must be purchased and maintained by the cooperative corporation. The policy must cover the entire project, including the individual units. The insurance policy must at least protect against loss or damage by fire and all other hazards normally covered by the standard extended coverage endorsement, and all other perils typically covered with similar types of projects.

The insurance must cover 100 percent of the current replacement cost of the project facilities, and the endorsements typically required by Fannie Mae must be in effect. Deductible amounts and requirements are the same as those stated above for condominiums except that for individual units, the maximum deductible is the higher of \$1,000 or one percent (1%) of the replacement cost of the unit. The policy must name the cooperative corporation as the insured, must contain the standard mortgage clause and must name Seller, its successors or assigns, as mortgagee.

(g) Insurance Coverage Varying From Above Requirements. Insurance coverage which does not meet the foregoing requirements will be considered on a case-by-case basis by SONYMA upon request by Seller. SONYMA may require such additional coverage as it may deem necessary in connection with any case or group of cases.

2.220 **Legal Description**

The legal description as set forth in the mortgage title insurance policy, the mortgage, and other documents should be in the form of a metes and bounds description. A metes and bounds description should comply with the following standards:

(a) The beginning point should be established by a monument located at the beginning point, or by reference to a nearby monument.

(b) The sides of the Eligible Property should be described by giving the distances and bearings of each. In lieu of bearings it is equally acceptable to use the interior angle method, provided that the beginning point is located on a dedicated public street line, or other properly fixed line, or the course of the first side can be otherwise properly fixed.

(c) Curved courses should be described by data including: (i) length of arc; (ii) radius of circle for the arc; (iii) chord distance and bearing provided that, if deemed locally adequate by prudent private institutional investors, when a curved course is part of a dedicated public street or road line, that course may be described merely by indicating the distance and direction which that course takes along the street line from the end of the previous course.

(d) The legal description should be a single perimeter description of the entire plot. Division into parcels should be avoided unless a special purpose of the specific loan is served. Division would be necessary, however, if the plot is located on two sides of a public way. It is also customary in many areas to describe an easement appurtenant to a fee parcel by using a separate parcel description.

In the event a metes and bounds description cannot be prepared or is unavailable, SONYMA will accept, when usual and customary to the area in which the Eligible Property is located, one of the following forms of legal description:

(a) Block and Lot Description. A description composed of blocks and lots, which includes reference to a recorded map or plat on which said blocks and lots are delineated.

(b) Additional Acceptable Descriptions. A description of a parcel bounded on all sides by dedicated streets or alleys which refer to the bounding lines of the streets or alleys alone.

2.221 **Primary Mortgage Insurance**

(a) Coverage. Each Mortgage Loan which results in a loan-to-Value of the Property ratio in excess of 80 percent shall be insured by a PMI to the extent required so that the uninsured portion of such Mortgage Loan shall not exceed 72 percent of the Value of the Property. However, in no event shall Seller require Mortgagor to obtain coverage, unless such coverage is otherwise unavailable, that reduces SONYMA's exposure to below 72 percent. Any such insurance shall be evidenced by a final endorsement, certificate or policy of insurance in the amount of the original principal balance of the Mortgage Loan.

(b) Cancellation. Regardless of the Mortgage Loan Closing Date, PMI

coverage is required to remain in force until one of the following occurs, at which time coverage must **automatically be cancelled by Servicer**, provided that at such time Mortgagor is not more than 30 days past due on his or her Mortgage Loan payments:

- (i) the principal amount of the Mortgage Loan is reduced to 80 percent of the original Value of the Property; or
- (ii) the Mortgage Loan reaches the midpoint of its amortization schedule.

**SONYMA will not permit PMI coverage to be eliminated based on an increase in the appraised value of the Eligible Property.** In no event, however, can the coverage be maintained if not permitted under applicable State or federal law.

(c) PMI Declination. Sellers must notify SONYMA of any refusal by a PMI to provide the required coverage for any reason other than unsatisfactory credit.

(d) Full Force and Effect. As of the Closing Date, Seller is responsible for ensuring that such primary mortgage insurance is in full force and effect, the benefits of such primary mortgage insurance must be assigned to SONYMA in care of the Servicer and nothing must have been done or omitted to impair the rights of SONYMA thereunder.

(e) No Commissions. In connection with the placement or renewal of such primary mortgage insurance on the Mortgage Loans including any other mortgage owned or serviced by Seller, and to the Seller's knowledge, the PMI, including its parent or any affiliate, must not have caused or permitted any consideration or thing of value (other than the protection provided by its primary mortgage insurance), including but not limited to, any commission, fee or other compensation, to be paid to or received by: (i) any mortgage lender, (ii) any officer, director, or employee of such mortgage lender or any members of the immediate family or such officer, director or employee; (iii) any insurance agency, corporation (other than the PMI), partnership, trust or other business entity including any service corporation, whether organized for profit or otherwise) in which the mortgage lender or any officer, director, employee or any members of the immediate family of such officer, director or employee has any direct or indirect ownership or financial interest; or (iv) any designee, trustee, nominee or other agent or representative of any of the foregoing.

(f) No Delegated Underwriting. Seller or any other entity is **not** permitted to underwrite Mortgage Loans on behalf of the PMI under the PMI's delegated underwriting program. Seller must submit a complete underwriting file to the PMI for determination of PMI coverage acceptability.

## 2.222 Pool Insurance

Each Mortgage Loan, regardless of the loan-to-Value of the Property, must evidence a valid and effective pool insurance commitment issued by the Pool Insurer as of the Closing Date. Pool insurance is required by bond rating agencies (i.e., Moody's) as a credit enhancement to protect bondholders and to maintain an adequate rating on the Bonds. The premium for pool insurance coverage is paid by SONYMA.

A credit underwriting loan file, as described in Section 2.706(b), must be submitted by Seller for consideration and approval to the Pool Insurer for each Mortgage Loan.

**SECTION 2.3 - BORROWER ELIGIBILITY REQUIREMENTS.**

**2.301 First-Time Home Buyers**

(a) The Mortgagor must not have had, at any time during the three year period ending on the Residential Loan Application Date, except as stated in Section 2.5, a present ownership interest in a principal residence, and such status must exist up to the Closing Date. Furthermore, the Mortgagor must not, as of the Residential Loan Application Date and up to the Closing Date, own any other home including vacation or investment residences. For purposes of the above, interests which constitute a present ownership interest include the following: a fee simple interest; a joint tenancy, a tenancy in common, or tenancy by the entirety; the interest of a tenant-share-holder in a cooperative (including interest in a "Mitchell-Lama" or similar type limited equity or limited dividend cooperative project); a life estate; a land contract; and an interest held in trust for the Mortgagor (whether or not created by the Mortgagor) that would constitute a present ownership interest if held directly by the Mortgagor. Interests which do not constitute present ownership interests include the following: (i) a remainder interest; (ii) a lease with or without an option to purchase; (iii) a mere expectancy to inherit an interest in a residence; (iv) the interest that a purchaser of a residence acquires on the execution of a purchase contract; (v) an interest in real estate other than a residence; and (vi) ownership in the Eligible Property. An interest in a time-share unit will not constitute a present ownership interest only if the Mortgagor(s) has not taken real estate tax or home mortgage interest deductions on their Federal tax returns during the last three years.

(b) To establish that Mortgagor is a first-time homebuyer, Mortgagor must execute the Recapture Notification and Mortgagor's Affidavit (Form 211; Exhibit G) and provide copies of his/her **signed** federal income tax returns (Form 1040A, 1040EZ, and/or 1040 and all schedules) for the three years immediately preceding the Residential Loan Application Date. If the required **signed** federal income tax returns are not available at such time, Seller must request the required documents from the Internal Revenue Service (IRS) on IRS Form 4506, Request for Copy or Transcript of Tax Form. If the prospective Mortgagor filed Form 1040 for the years in question, Seller must request copies of such income tax returns. If Form 1040A or Form 1040EZ was submitted for the years in question, Seller may submit IRS Form 8821 to the IRS requesting a letter from the IRS to such effect rather than submitting photocopies of the forms. If the prospective Mortgagors electronically filed their tax form or filed the Telefile Worksheet via telephone to the IRS, in addition to the form itself, SONYMA requires a separate notarized affidavit setting forth: (i) the filing date; (ii) the IRS office where the return was filed; (iii) a certification that the return did not include a deduction for either home mortgage interest or real estate taxes; and (iv) any other information available to the Mortgagors identifying the electronic filing. Alternatively, the Mortgagor may satisfy this requirement by obtaining a printout of the Telefile return. In this case, the Mortgagor may obtain a printout of the Telefile return from the IRS by calling 800-829-1040. If no tax returns were required to be filed under federal law by the potential Mortgagor for any such year, a correctly completed and signed Recapture Notification and Mortgagor's Affidavit (Form 211; Exhibit G) is sufficient.

For Mortgage Loans with a Residential Loan Application Date of April 15th or later, SONYMA requires a copy of the tax returns for the most recent tax year. If Mortgagor filed a tax extension for the current tax year, a copy of this extension form must be submitted. For Mortgage Loans with a Residential Loan Application Date between January 1st and April 14th of

the current year, SONYMA does not require tax returns for the year immediately passed. (E.g., For a loan application dated April 1, 2000, tax returns for 1996, 1997, and 1998 will be accepted. For a loan application dated April 17, 2000, tax returns for 1997, 1998, and 1999 must be submitted.)

(c) If a spouse, fiancé, fiancée, or domestic partner is not a first-time homebuyer as defined above, both parties will not be considered first-time homebuyers, whether or not both sign the mortgage instruments. To determine if both parties are first-time homebuyers, SONYMA will require signed copies of the most recent three years' federal income tax returns for each party.

(d) In order to be eligible for financing, SONYMA will require any Mortgagor, who has itemized deductions for home mortgage interest and/or real estate tax deductions on their federal tax return(s) for a residence not owned by the Mortgagor, to amend their tax returns and eliminate these deductions. To document that the amended return(s) has been filed with the IRS, SONYMA will require a copy of the signed IRS Form 1040X as well as evidence that IRS has received the amended returns.

2.302 **Manufactured Home HomeOwner**

If the Mortgagor's only potentially disqualifying present ownership interest is ownership of a manufactured home that is NOT permanently attached to land, the Mortgagor may be considered a first-time homebuyer and may be eligible for a Mortgage Loan. A manufactured home is "permanently attached" if it is permanently anchored to real property and has had wheels and other components used in transportation removed. Mortgagors will be required to complete the Manufactured HomeOwner Eligibility Affidavit (Form 217; Exhibit K) regarding the status of their manufactured home. Eligibility will be determined based on how the Mortgagor responds to the questions on Form 217. **IMPORTANT NOTE:** If, due to their ownership of a manufactured home, Mortgagors have claimed a real estate tax or a home mortgage interest deduction on their income tax returns, they will **NOT** be considered first-time homebuyers regardless of whether or not the manufactured home was permanently attached to the land.

2.303 **Income Limits**

Total combined annual household income for each "Household Member" occupying the Eligible Property must be within the applicable income limits (based on household size) as described in the Application or this Seller's Guide. A "Household Member" is defined as the Mortgagor, the Mortgagor's spouse, any person signing the Mortgage Loan and/or Note, fiancée, domestic partner, and any person age 21 or older, and who expects to occupy the Eligible Property on the Closing Date.

For purposes of calculating income under this Section only, SONYMA will aggregate all household income (as defined above) for the year-to-date and will project this amount for the remainder of the calendar year. If Mortgagor can establish, by submission of computerized paystubs (received by Mortgagor not earlier than the Residential Loan Application Date), that income, such as overtime, bonuses or commission, is not currently being received, SONYMA will not include such amounts in its projection. Conversely, if Mortgagor receives an increase in base salary, SONYMA will use the new base salary in making its determination of Mortgagor's income for this purpose. See *Appendix III for more details on calculating household income.*

Seller shall distribute the Recapture Notification and Mortgagor's Affidavit

(Form 211; Exhibit G) to each prospective Mortgagor. Upon completion of Part IV - Income Eligibility of the form by each prospective Mortgagor for all household members with respect to a Mortgage Loan, the Seller shall aggregate all current income of all such household members and shall determine whether such aggregate sum exceeds the applicable income limit. The Recapture Notification and Mortgagor's Affidavit must be completed and executed at application and reaffirmed on the Closing Date. If the aggregate sum should exceed the applicable income limit on the Residential Loan Application Date or the Closing Date, Seller shall notify such Mortgagors that their application for a Mortgage Loan has been rejected.

SONYMA will require evidence of income for any Household Members who will not be a Mortgagor. To determine such income, SONYMA will require a recent paystub from such person(s).

*Note: This Section 2.303 is for purposes of determining whether a Mortgagor's household income complies with SONYMA's income limit requirements only and should not be confused with Section 3.102 which describes credit underwriting guidelines. The calculations in these sections are unique and mutually exclusive of each other.*

- 2.304 **Owner Occupancy** The Mortgagor must occupy the Eligible Property as his/her principal residence within 60 days of the Closing Date. In the case of a Two-Family Dwelling or Three- or Four-Family Dwelling, the Mortgagor must occupy one of the units.
- 2.305 **No Trade or Business** The Mortgagor must not use any portion of the Eligible Property in a trade or business, as a vacation home or as an investment, except for rental units in a Two-Family Dwelling or Three- or Four-Family Dwelling and as described in Seller's Guide Appendix III - Section B, Item 20.
- 2.306 **Applies to All Titleholders** SONYMA requires that all individuals named on the deed as having an interest in the Eligible Property be Mortgagors and meet all requirements of Mortgagor set forth in this Seller's Guide. SONYMA requires that at least one Mortgagor execute the note and that any Mortgagor or Guarantor executing the note satisfy all requirements in Section 3.1.
- 2.307 **Does Not Apply to Guarantor** In all cases under Section 2.3, except in the case of a spouse, fiancé, fiancée, or domestic partner as described in Section 2.301(c), the requirements do not apply to a person who is solely a Guarantor of the note and does not execute the mortgage and therefore has no ownership interest in the Eligible Property.
- 2.308 **Recapture Requirement** For all Mortgage Loans, the Seller and SONYMA must inform the Mortgagor of the potential recapture tax payment that may be required to be made to the federal government upon sale or disposition of the Eligible Property as a result of receiving a Mortgage Loan financed from the proceeds of tax-exempt bonds. If any tax is due, payment to the IRS would be made upon completion of Mortgagor's federal income tax return for the tax year in which the Eligible Property was sold or transferred. The information must be provided to the Mortgagor in two parts:

(a) The Recapture Notification and Mortgagor's Affidavit (Form 211; Exhibit G) must be provided by Seller to the Mortgagor on the Residential Loan Application Date, executed, and a photocopy of the original submitted to SONYMA with the pre-closing application loan file as listed in Section 2.706(c) of this Seller's Guide. The Mortgagor must reaffirm the Recapture Notification and Mortgagor's Affidavit on the Closing Date.

(b) The Mortgagor must be provided, on or after the Closing Date, with the information necessary for the Mortgagor to determine and pay the amount, if any, of recapture required to be paid by the Mortgagor. In all cases this information will include the following:

(i) the federally subsidized amount; and

(ii) the income limits for each category of family size for each year of the 9-year recapture period.

To establish that the Mortgagor is aware of his or her responsibility as to the recapture requirement, SONYMA will send a notification directly to the Mortgagor which sets forth all pertinent information with respect to his or her recapture obligations.

*See attached Appendix I which lists adjusted incomes that Mortgagor's household income must exceed upon disposition of the Eligible Property to be liable for a potential IRS recapture tax. The chart can be a useful tool for Seller when explaining recapture to potential Mortgagors.*

- 2.309 **Mortgage Loans to Seller's Employees** Unless specifically advised by SONYMA, employees of Seller are eligible to apply for SONYMA financing provided such employee is eligible in all other respects and Seller processes the Mortgage Loan application using Alternative Documentation as described in Section 3.105 of this Seller's Guide.
- 2.310 **Mortgagor Acting as Own Contractor** If Eligible Property is Newly Constructed Housing or a rehabilitation, SONYMA will not permit Mortgagor to act as the contractor unless construction is Mortgagor's full-time occupation. In no event will Mortgagor be compensated for "sweat equity" as part of the transaction.

#### **SECTION 2.4 - PROPERTY ELIGIBILITY REQUIREMENTS.**

- 2.401 **Residential Use** An Eligible Property, any portion of which is used for trade, business or non-residential purposes, is not eligible for a Mortgage Loan. An exception to this requirement may be allowed on a case-by-case basis. Section B, Item 20 of Appendix III of this Seller's Guide describes the circumstances where business use of the Eligible Property is permissible.
- 2.402 **Eligible Properties** The following are restrictions on dwelling types, including factory-made housing which is permanently affixed to real property, which are eligible for financing under the Low Interest Rate Mortgage Program:
- (a) Eligible Property must be located in the State.
- (b) Eligible Dwelling Types:
- (i) Single Family Dwellings may be Existing Housing or Newly Constructed Housing.
- (ii) Two-Family Dwellings may be Existing Housing or Newly Constructed Housing but if the dwelling is less than five years old as of the Residential Loan Application Date, it must be located in a Targeted Area. Two-Family Dwellings five years old or older as of the Residential Loan Application Date must have been used or held out for a residential purpose for the previous five years and could not have otherwise been used for any business or commercial purpose, including use as a boarding or rooming house.

(iii) Three- or Four-Family Dwellings - Must have been used or held out for use for residential purposes and no business or commercial use of the property as a boarding or rooming house was made or advertised during the previous five years.

(c) Minimum Living Area. The residence on the Eligible Property must have a minimum living area of 500 square feet.

(d) Manufactured housing must be permanently affixed to real property and meet the requirements set forth in Section 3.107.

(e) Compliance with Building and Zoning Codes. The Eligible Property must legally conform to all applicable zoning and building codes. If Newly Constructed Housing, the Eligible Property must be warranted by the builder as to all materials and workmanship for at least one year from completion of construction.

(f) Maximum Lot Sizes. The Eligible Property must not have more land appurtenant to it than required to maintain the basic livability of the residence as follows:

(i) Zoned areas: Maximum amount of land is five acres. If the property contains more than five acres, SONYMA will require a letter from the appropriate local municipal authority stating that the property is not subdividable or the additional lot(s) is not buildable. If the property is subdividable or the additional lot(s) is buildable, SONYMA will require that the second lot be subdivided and not be financed by, or provide security for, the Mortgage Loan.

(ii) Rural or Unzoned areas: No more than five acres. Eligible Properties in excess of five acres will be required to be parceled so that SONYMA's mortgage encumbers the parcel containing only the dwelling and no more than five acres of land. SONYMA will make an exception up to 10 acres if the local municipal authority provides a letter stating that the property can only be used for residential purposes and not for business, commercial or agricultural uses.

In any event, SONYMA will require the Property Usage Affidavit (Form 242; Exhibit J) signed by all Mortgagors stating that they will not, at any time during the Mortgage Loan term, subdivide, sell, or transfer any portion of the mortgaged property and will not use the Eligible Property for any business, commercial or agricultural purpose.

(g) Properties with Multiple Buildings. Properties containing more than one building or any part thereof are not eligible unless it can be established that the additional building cannot be used for one or more separate residences.

(h) New Construction - Closing with a Temporary Certificate of Occupancy. Mortgage Loans used to finance end loans on Newly Constructed Housing or rehabilitated Existing Housing may close and be purchased by SONYMA upon the issuance of a temporary certificate of occupancy provided the PMI is satisfied as to the level of completion of the Newly Constructed Housing. Seller is responsible for obtaining a permanent certificate of occupancy and incorporating it within the Mortgage Loan file.

(i) Private Roads. SONYMA will approve Mortgage Loans secured by properties which are located on private streets or roadways, provided there is a maintenance agreement of public record which has been signed by all property owners.

(j) The Eligible Property must have a continuously fueled heat source which is permanently affixed and is considered part of the real estate.

(k) Attached townhomes or zero-lot line homes that are not part of a condominium or PUD, should have a recorded party wall agreement.

(l) Private water and sewer systems must meet local health standards. If the Eligible Property utilizes private water and/or sewer systems, well and septic certification is required.

(m) Eligible Properties must have electrical systems sufficient to handle standard appliances and lighting.

(n) Permissible Escrows. For Newly Constructed Housing, when minor exterior repairs (e.g. concrete work, painting, scraping, grading, seeding, decks, driveway paving, etc.) cannot be made due to prevailing weather conditions, Seller is **authorized** to hold an escrow, not to exceed \$2,000, to complete the necessary work and satisfy any conditions of the Mortgage Loan approval. The escrow must be: (i) held from either the property seller's or the Mortgagor's own funds, and (ii) in an amount equal to one and one-half (1½) times the cost to satisfactorily complete all work. All work must be completed by the first day of June immediately following the winter of the Closing Date. All other escrows must be requested in writing by Seller and approved by SONYMA.

(o) Mother/Daughter Type Properties. Mother/daughter type properties or properties with accessory apartments will be considered for financing on a case-by-case basis. The property must conform to all local building ordinances and zoning requirements, and must be common to the area and noted as such in the appraisal report. The appraiser must supply at least one recent mother/daughter comparable in the area. Interior access must be present between the two units. Neither of the units may be considered as income producing. For acquisition cost limit purposes (see Sections 2.406 - 2.408 of this Seller's Guide), such properties will use the limits applicable to Single Family Dwellings.

(p) Properties with "Second Kitchens". Single Family Dwellings that are not legal mother/daughter type properties and contain a "second kitchen" must have the additional kitchen removed prior to the Closing Date. Removal includes all cabinets, appliances, sinks, and the capping of all pipes inside the relevant wall. The only exception to this rule is where the "second kitchen" is listed as a summer kitchen. Generally, these are small kitchen areas, usually located in the basement, that are common and customary to the neighborhood. The area containing a second kitchen cannot be set up or partitioned off for use as a separate apartment or living quarters.

(q) Infestation, Dampness or Settlement. If the appraisal report indicates any evidence of wood-boring insects, dampness or settlement, Seller must provide either satisfactory evidence that the condition was corrected or submit a report prepared by an appropriate professional indicating, based on an inspection of the premises, that the condition poses no threat to the structural integrity of the improvements.

(r) Environmental Hazards. If the appraisal report or other document indicates evidence of an environmental hazard or potential environmental hazard (i.e., leakage of fuel from an underground oil tank), Seller must contact SONYMA for a determination as to whether the property will be eligible for financing.

(s) Other Conditions. In cases where this Seller's Guide does not address specific property-related issues, Seller should utilize prudent lending practices common and customary to the area where the Eligible Property is located and is typically acceptable to Fannie Mae or Freddie Mac.

2.403 **Two-Family and Three- or Four-Family Dwelling Requirements**

For Two-Family Dwellings located in a non-Targeted Area and for all Three- or Four-Family Dwellings, the building or one unit of the building must have been occupied as a residence for at least five years immediately preceding the Residential Loan Application Date. Any unit may have been vacant during such time if the unit was, from the time previously occupied as a residence, continuously held out for residential use and not occupied for any period of time in connection with a commercial or business use.

2.404 **Rehabilitation Loans**

The following types of rehabilitation may be financed with Mortgage Loans:

(a) Mortgagor may purchase a rehabilitated property based upon the "as-rehabbed" value and property seller completes rehabilitation.

(b) Mortgagor may receive a commitment for a Mortgage Loan based on the purchase price plus the cost of rehabilitation of the Eligible Property. The Mortgage Loan commitment must be based on the "as-rehabbed" Value of the Property. However, interim financing to purchase the Eligible Property and complete the rehabilitation, other than what is permissible under Section 2.213 of this Seller's Guide, would have to be obtained from a source other than SONYMA.

For purposes of determining whether a rehabilitation or conversion property is considered Existing Housing or Newly Constructed Housing, Seller may use the following as a guide:

(a) Existing Housing - Rehabilitated or converted from a previous residential use (i.e. apartment building, single family home).

(b) Newly Constructed Housing - Rehabilitated or converted from a previous non-residential use (i.e. school, hospital, warehouse).

2.405 **Land Contracts**

A land contract is defined as a written agreement by which real estate is sold to a buyer who pays a portion of the purchase price when the contract is signed and completes payments in installments made over a specified period of time, with title remaining with the property seller until the total purchase price or a stipulated portion of the purchase price is paid. Properties being purchased under land contracts are **not eligible** for financing under the Low Interest Rate Mortgage Program.

2.406 **Acquisition Cost Defined**

(a) Acquisition Cost is defined as the cost of acquiring a residence (which does not include property such as an appliance, a piece of furniture, a television, etc., which under applicable law is not a fixture), from the property seller as a completed residential unit and includes the following:

(i) All amounts paid, either in cash or in kind, by the purchaser (or a related party for the benefit of the purchaser) to the property

seller (or a related party for the benefit of the property seller) as consideration for the residence.

(ii) If a residence is incomplete, the reasonable cost of completing the residence whether or not the cost of completing construction is to be financed by a Mortgage Loan.

(iii) If subject to a ground lease, the capitalized ground rent computed at a discount rate established by SONYMA.

(iv) Cost of land owned by Mortgagor for less than two years.

(v) For Mortgage Loans financing units in a cooperative project, the pro rata portion of the underlying mortgage allocable to the cooperative unit must be added to the cost of the shares of stock.

*Note: In some cases, the amount of a subsidy provided by a governmental entity or not-for-profit organization may not be required to be included in the Acquisition Cost. To determine if a subsidy is required to be included, please contact SONYMA.*

(b) The term "Acquisition Cost" does **not** include the following:

(i) The usual and reasonable settlement or financing costs. Settlement costs include titling and transfer costs, title insurance, survey fees, and/or other similar costs. Financing costs include credit reference fees, legal fees, appraisal expenses, "points" which are paid by the Mortgagor and/or other costs of financing the residence. However, such amounts will be excluded in determining Acquisition Cost only to the extent that the amounts do not exceed the usual and reasonable costs which would be paid by the Mortgagor where financing is not provided under the Low Interest Rate Mortgage Program or any other program financed by tax-exempt bonds. For example, if the Mortgagor agrees to pay to the property seller more than a pro-rata share of the property taxes, such excess shall be treated as part of the Acquisition Cost.

(ii) The value of services performed by the Mortgagor or members of the Mortgagor's family in completing the residence. For purposes of the preceding sentence, the family of an individual shall include only the individual's brothers and sisters (whether by whole or half blood), spouse, ancestors, and line descendants. Where the Mortgagor builds a home alone or with the help of family members, the Acquisition Cost includes the cost of materials provided and work performed by sub-contractors (whether or not related to the Mortgagor), but does not include the imputed cost of any labor actually performed by the Mortgagor or a member of the Mortgagor's family in constructing the residence. Similarly, where the Mortgagor purchases an incomplete residence the Acquisition Cost includes the cost of material and labor paid by the Mortgagor or the Mortgagor's family in completing the residence.

(iii) The cost of land owned by Mortgagor for two years or more prior to the date on which construction commenced on Newly Constructed Housing.

2.407 **Acquisition Cost Calculation** Mortgagors will be required to complete Part III - Acquisition Cost of Residence of the Recapture Notification and Mortgagor's Affidavit (Form 211; Exhibit G) to determine eligibility. Sellers should refer to Section 2.406 of this Seller's Guide for the definition of Acquisition Cost.

2.408 **Acquisition Cost Limits** The maximum Acquisition Cost as defined in Section 2.406 must not exceed the purchase price limits set forth in the Income and Purchase Price Limits Table (Exhibit A of this Seller's Guide).

*Note: When reviewing applications for SONYMA financing, Seller must take all reasonable steps necessary to insure that there are no unaccounted funds paid by the Mortgagor (or related party) to the property seller (or related party) which would result in the purchase price of the home exceeding the relevant Acquisition Cost limit. Seller should pay particular attention to situations wherein the appraised value of the Eligible Property is higher than the purchase price which itself is at or relatively close to the relevant Acquisition Cost limit. In such cases, Seller should carefully review the appraisal to insure that any large adjustments are adequately explained. The purchase of Mortgage Loans that finance homes which exceed the appropriate Acquisition Cost limit is prohibited under IRS regulations and could result in the Seller having to repurchase the Mortgage Loan.*

2.409 **Newly Constructed Housing - Buy Down** New construction buy downs of the Mortgage Loan interest rate will not be allowed in the Low Interest Rate Mortgage Program.

2.410 **Newly Constructed Housing - Mortgagor Ownership of Land** A Mortgage Loan may be provided as end loan financing for Newly Constructed Housing on land owned by the Mortgagor as follows:

(a) If Mortgagor owns the land free and clear of any liens, the principal amount of the Mortgage Loan can never exceed the cost of constructing the residence plus any reasonable closing costs after all Mortgagor Cash as described in Section 3.101(a)(i) of this Seller's Guide is utilized. In cases where the land was recently gifted to Mortgagor, the closing costs may only be financed if Mortgagor meets the minimum equity requirement described in Section 3.101(a) below.

(b) If Mortgagor obtained financing to purchase the land and the original term of the loan was 24 months or less, the proceeds of the Mortgage Loan may be used to satisfy the land loan.

(c) If Mortgagor obtained financing to purchase the land and the original term of the loan was in excess of 24 months, the proceeds of the Mortgage Loan **may not** be used to satisfy the land loan. In this case, Mortgagor must use Cash or Other Equity as defined in Section 3.101 (a) of this Seller's Guide, to satisfy the land loan as of the Closing Date. The maximum financing in this case can never exceed the cost of constructing the residence plus any reasonable closing costs after all Mortgagor Cash as described in Section 3.101(a)(i) of this Seller's Guide is utilized.

Refer to Section 3.101 (a)(ii) of this Seller's Guide for the proper procedure for calculating the land as equity in the transaction. *Note: In cases where the value of the land exceeds 20 percent of the sum of the values of realty and improvements, PMI insurance will not be necessary.*

**IN NO EVENT WILL SONYMA PERMIT THE MORTGAGOR TO TAKE "CASH-OUT" OF THE TRANSACTION. SEE SECTION 2.213 OF THIS SELLER'S GUIDE.**

- 2.411 **Project Set-Aside** To provide developers and builders with a marketing tool to attract potential purchasers, SONYMA may agree to purchase a specific number of Mortgage Loans from a project which has been approved by SONYMA as a "Project Set-Aside". Such a designation will permit the developer or builder to market the approved project to qualified Mortgageors.
- In order to get a project designated for a set-aside commitment from SONYMA, the builder/developer must provide SONYMA and the Pool Insurer with certain project documentation. Please contact SONYMA's Project Manager for more details.
- 2.412 **Spot New Construction Mortgage Loans** Mortgage Loans for Newly Constructed Housing not designated as a project set-aside are defined as "Spot New Construction Mortgage Loans." Sellers should evaluate such applications carefully to determine if the Mortgage Loan can close within required program timeframes. Spot New Construction Mortgage Loans for the purchase of condominium and cooperative units may require project approval from the Pool Insurer in accordance with Section 3.108 or 3.109 of this Seller's Guide.

**SECTION 2.5 - TARGETED AREAS; SPECIAL REQUIREMENTS BY PROPERTY LOCATION.**

The following special provisions and exceptions are applicable to Targeted Areas. Sellers should review this Seller's Guide carefully to assure compliance with all terms. Please refer to Appendix II for the Listing of Federally Approved Targeted Areas for Economic Development published by SONYMA.

- (a) Waiver of First-Time Homebuyer Requirements. Mortgageors purchasing Eligible Properties in Targeted Areas are not required to be first-time homebuyer and the requirement to submit federal income tax returns for the previous three years is waived. However, Mortgageor is not permitted, as of the Residential Loan Application Date and up to and including the Closing Date, to own another home such as a vacation or investment home. Furthermore, all documentation for credit underwriting is required as stated in Sections 2.706 and 3.1, and the Recapture Notification and Mortgageor's Affidavit (Form 211; Exhibit G) and Property Seller's Affidavit (Form 210; Exhibit H) are required.
- (b) Acquisition cost limits and income limits are higher in Targeted Areas than in non-Targeted Areas.
- (c) Two-Family Dwellings, if located in a Targeted Area, that are less than five years old, as of the Residential Loan Application Date, are eligible.

**SECTION 2.6 - LOAN RESERVATION AND INTEREST RATE LOCK-IN PROCESS.**

**RESERVATIONS WILL BE REQUIRED FOR ALL MORTGAGE LOANS.**

- (a) Prior to reserving a Mortgage Loan with SONYMA, the Seller must review or determine, at a minimum, whether the Mortgageor is eligible based upon the following criteria:
  - (i) Household income as defined in Section 2.303 must be within the applicable household income limit as provided in Exhibit A of this Seller's Guide.
  - (ii) Preliminary debt carrying ability: must be no greater than 33 percent of gross income for housing expenses (to include principal and interest based on the interest rate as stated in the most recently published Availability of Funds and Notice of Terms Bulletin, taxes, insurance, maintenance fees, and primary mortgage insurance, if applicable) and 38 percent of gross income for housing and long-term debt;
  - (iii) Mortgageor must be in possession of a contract of sale (binders are not acceptable) executed by all property sellers and Mortgageors;
  - (iv) Acquisition cost of the property as described in Sections 2.406 and 2.407 must be within the purchase price limits as provided in Exhibit A of this Seller's Guide;

- (v) Determine if the property is located in a Targeted or non-Targeted Area;
- (vi) For non-Targeted Area properties, the Mortgagor(s) must be a first-time homebuyer;
- (vii) If the property is located in an attached housing project as described in Section 3.108 or 3.109, the Pool Insurer must be contacted to determine whether the project is approved or requires approval.

(b) If Mortgagor meets the above criteria, Seller, upon accepting a Mortgage Loan application from Mortgagor, has 20 calendar days from the Residential Loan Application Date to fax or mail to SONYMA a fully completed Loan Reservation Worksheet and Rate Certification (Form 238; Exhibit L) to reserve funds and lock the interest rate for the Mortgage Loan. A copy of the dated signature page of the mortgage loan application must be submitted with Form 238. The Reservation fax number is (212) 872-0406. **Note: SONYMA will require a copy of the fully executed sales contract for any Mortgage Loan application in which Seller attempts to lock the interest rate with a Short-Term Lock-in and property is Newly Constructed Housing. Binders are not acceptable**

(c) Upon receipt of a fully completed Form 238, SONYMA will reserve the Mortgage Loan and lock the interest rate that was available on the Residential Loan Application Date. If the fully completed Form 238 is not received within 20 days of the Residential Loan Application Date, SONYMA will determine the interest rate in which the loan will be locked and whether Seller will be assessed a penalty.

(d) SONYMA will confirm each Reservation and rate lock in writing on a weekly basis to Seller's primary contact and will assign a SONYMA Loan Number exclusively to each Mortgage Loan reserved. Seller is responsible for reviewing the confirmation reports to ensure SONYMA has received each Reservation and immediately report any discrepancies to SONYMA. **Note: Seller shall not rely on a fax confirmation to confirm Reservations and rate locks.**

**SECTION 2.7 - PRIOR APPROVAL AND PURCHASE OF MORTGAGE LOANS.**

- |       |   |  |
|-------|---|--|
| 2.701 | <b>Property Seller's Affidavit</b>                      | Sellers will be required to obtain a fully executed Property Seller's Affidavit (Form 210; Exhibit H), prior to the submission of the Mortgage Loan application file to SONYMA. The Property Seller's Affidavit cannot be executed by a person having a power-of-attorney for property sale. In the case of a property seller completely incapacitated due to illness and therefore unable to sign the document, this document may be signed by the person possessing the power-of-attorney in lieu of the property seller. In such cases, Seller must obtain a certified statement from the attending physician of property seller's incapacity and must include a copy of the power-of-attorney in the file. If Seller has any reason to believe that any misrepresentation exists in this affidavit, Seller must immediately notify SONYMA of such possible misrepresentations. |
| 2.702 | <b>Recapture Notification and Mortgagor's Affidavit</b> | Sellers will be required to obtain a fully executed Recapture Notification and Mortgagor's Affidavit (Form 211; Exhibit G) prior to the submission of the Mortgage Loan application file to SONYMA. This affidavit must be reaffirmed on the Closing Date. If Seller has any reason to believe that any misrepresentation exists in this affidavit, Seller must immediately notify SONYMA of such possible misrepresentations.   |
| 2.703 | <b>Property Data Reporting</b>                          | (a) SONYMA is required to pool its Mortgage Loan information with other State housing agencies and programs so that activities on a statewide level can be more accurately reported. As a result, Sellers are required to provide SONYMA with certain information regarding each Mortgage Loan. This information must be included in either the loan application file on the Loan Verification Form (Form 213; Exhibit E), or the closed loan document file on the Closed Loan Document Checklist (Form 223; Exhibit N), or the Closed Cooperative Share Loan Document Checklist (Form 224;  |

Exhibit U), whichever is appropriate for each Mortgage Loan. Furthermore, documentation to support the information must be included in the loan file. Specifically, SONYMA requires the following information for each Mortgage Loan:

(i) Section, Block, and Lot Number or Tax Map Parcel Number.

- (A) Section Number
- (B) Subsection Number
- (C) Block Number
- (D) Lot Number
- (E) Sublot Number
- (F) Tax Map Parcel Number

(ii) Taxing Municipality Type - choice of: County, City, Town, or Village.

(iii) Taxing Municipality Name.

(b) The conventions for this information are as follows:

(i) Section, Block and Lot Number or Tax Map Parcel Number.

(A) Section Number through Tax Map Parcel Number. This information usually takes a form such as: 107.99-01-23.10 This breaks down as:

Section	- 107
Subsection	- 99
Block	- 01
Lot	- 23
Sublot	- 10

(B) Whenever decimals follow the Section Number or Lot Number, the numbers to the right of the decimal are the Subsection Number or the Sublot Number respectively.

(C) Not all properties have a Subsection and/or Sublot Number.

(D) New York City properties only have a Block Number and a Lot Number.

(E) Tax Map Parcel Number. Some areas such as Broome County utilize a Tax Map Parcel Number in lieu of the Section, Block, and Lot Number format. In these areas, this number is acceptable to SONYMA.

(ii) Taxing Municipality Type - the following guidelines apply:

(A) In situations where taxes are paid to more than one authority - such as Town and Village - use the smaller entity - in this case Village - for your response.

(B) For the boroughs of New York City, county is the appropriate response.

(C) Outside of New York City, county is not an

acceptable response.

(iii) Taxing Municipality Name - Enter the full name of the taxing authority.

**2.704 Use of Computer  
Produced or Third-  
Party Printed  
Documents and  
Forms**

SONYMA will permit the documents listed below to be laser-printed, computer-generated or third-party printed, but only with the prior written consent of SONYMA. Examples of third-party printed documents include those reproduced by such companies as VMP Mortgage Forms and Great Lakes Business Forms, Inc. Seller will be required to execute an Indemnification Form (Form 239; Exhibit O) holding SONYMA harmless against any errors and/or omissions in any of the reproduced documents. The documents SONYMA will permit to be reproduced are:

(a) Mortgage (Fannie Mae/Freddie Mac Uniform Instrument Form 3033 1/01 - New York - Single Family)

(b) Riders to Mortgage:

(i) Condo Rider (Fannie Mae/Freddie Mac Multistate Condominium Rider Single Family - Uniform Instrument Form 3140 1/01)

(ii) PUD Rider (Fannie Mae/Freddie Mac Multistate PUD Rider - Single Family - Uniform Instrument Form 3150 1/01)

(iii) 1-4 Family Rider (Fannie Mae/Freddie Mac Multistate 1-4 Family Rider - Uniform Instrument Form 3170 1/01)

(c) Note (Fannie Mae/Freddie Mac Uniform Instrument 3233 1/01 - New York Fixed Rate Note - Single Family)

(d) Assignment of Mortgage (SONYMA Form 202; Exhibit Q)

(e) Extension, Consolidation and Modification Agreement [Fannie Mae/Freddie Mac Single Family Form 3172 1/01(rev. 5/01)]

SONYMA will also permit certain forms related to cooperative share loans to be computer generated or third-party produced. For more information, please contact SONYMA. OTHER THAN THE FORMS LISTED IN THIS SECTION 2.704, NO OTHER FORMS LISTED IN THE TABLE OF EXHIBITS (PAGE v AND vi OF THE INDEX) CAN BE COMPUTER GENERATED OR THIRD-PARTY PRODUCED.

In order to receive SONYMA's consent to use laser-printed, computer-generated or third party printed documents, Seller must submit the following:

(a) Executed and notarized Indemnification Form (Form 239; Exhibit O).

(b) A complete set of each of the above forms Seller has printed and will use to close SONYMA loans.

SONYMA will review the submission and advise the Seller in writing of its approval of the document submission.

2.705 **MERS® (Mortgage Electronic Registrations Systems, Inc.)**

MERS® is a system developed by and for the mortgage industry to electronically register and track the ownership of mortgages. If a mortgage lender, servicer or investor is a "MERS Member", the electronic registration on MERS eliminates the need for a recorded assignment of mortgage. **SONYMA has not yet made a determination to become a MERS Member and as such, will continue to require a recorded assignment.** However, the Agency will accept for purchase Mortgage Loans which designate MERS as nominee for Seller.

If Seller is an approved MERS Member and elects to close Mortgage Loans with MERS as the nominee, SONYMA requires the following:

(a) Mortgage (Fannie Mae/Freddie Mac Uniform Instrument Form 3033 1/01 - New York - Single Family) must contain the appropriate MERS as Original Mortgagee ("MOM") language required by Fannie Mae and Freddie Mac.

(b) Extension, Consolidation and Modification Agreement [Fannie Mae/Freddie Mac Single Family Form 3172 1/01(rev. 5/01)], if applicable, must contain the appropriate MERS language required by Fannie Mae and Freddie Mac.

(c) Assignment of Mortgage (SONYMA Form 202; Exhibit Q) from MERS to SONYMA must be executed by a MERS certifying officer (an employee of Seller that is duly elected as an officer of MERS) and must be recorded in the appropriate county clerk's office.

The above documents must be completed and submitted as set forth in Section 2.710 (d) below.

2.706 **SONYMA Pre-Closing Review**

(a) In order that SONYMA may make a determination that a prospective Mortgage Loan complies with all the requirements of this Seller's Guide and the Availability of Funds and Notice of Terms Bulletin, prior to Closing Date, Seller will be required to submit certain documentation to SONYMA as stated in paragraph (c) of this Section 2.706.

After review of the requested documentation, SONYMA will advise Seller of loan eligibility by faxing and mailing an executed copy of the Mortgage Loan Eligibility Form (Form 212; Exhibit D).

(b) Pool Insurer Loan File. A copy of the credit package as listed below or as described in Section 3.110 must be forwarded to the Pool Insurer for pool insurance consideration. **Unless otherwise notified by SONYMA, Pool Insurer approval is required before submitting the package to SONYMA.** The following documents, or as a substitute the alternative documents described in Section 3.105, must be submitted to the Pool Insurer:

(i) Pool Insurer's application for pool/primary insurance (indicate if coverage is for pool insurance only).

(ii) Uniform residential loan application (Fannie Mae 1003).

(iii) Standard Residential Mortgage Credit Report (not more than 90 days old) or equivalent as listed in Section 3.103.

(iv) Verification of Deposits (not more than 90 days old) or equivalent as listed in Section 3.105.

(v) Verification of Employments (not more than 90 days old) or equivalent as listed in Section 3.105.

(vi) Residential appraisal report on a form described in Section 3.104 below. The appraisal must evidence that an interior inspection of the Eligible Property was conducted by the appraiser and must include photographs of the subject premises and photographs of the comparable sales. The appraisal report must not be more than 6 months old; appraisals more than 6 months old may need to be recertified.

(vii) Sales contract/offer to purchase.

(viii) If the Mortgagor is subject to homebuyer education as described in Section 3.101(f), a certificate from a homebuyer education course, the source of which has been previously approved by the PMI, evidencing Mortgagor has successfully completed said homebuyer education course.

(ix) If the Eligible Property is manufactured housing as described in Section 3.107, original color photographs of the Eligible Property.

(x) Subsidy provider award letter, if applicable.

(xi) Any other documents appropriate to the transaction.

(c) SONYMA Pre-Closing Application Loan File. The originals and, where noted, copies as listed below of the following documents for each prospective Mortgage Loan must be forwarded to the attention of SONYMA's Senior Loan Officer/Originations, 2nd Floor, at 641 Lexington Avenue, New York, New York 10022. The SONYMA Loan Number must appear on all documents for each Mortgage Loan.

(i) Application Loan File Checklist (Form 225; Exhibit C).

(ii) Mortgage Loan Eligibility Form (Form 212; Exhibit D).

(iii) Loan Verification Form (Form 213; Exhibit E).

(iv) Property Seller's Affidavit (Form 210; Exhibit H).

(v) Copy of Recapture Notification and Mortgagor's Affidavit (Form 211; Exhibit G).

(vi) Property Usage Affidavit (Form 242; Exhibit J).

(vii) Manufactured HomeOwner Eligibility Affidavit (Form 217; Exhibit K), if applicable, as described in Section 2.302 of this Seller's Guide.

(viii) Private mortgage insurance (PMI) certificate or endorsement, if applicable.

(ix) Pool insurance certificate.

(x) Copy of executed Contract of Sale.

(xi) Copy of initial executed and dated Fannie Mae Form 1003 - Uniform Residential Loan Application with a copy of Fannie Mae Form 1008 - Underwriting and Transmittal Summary attached.

(xii) Copy of initial and executed Good Faith Estimate.

(xiii) Copy of fully executed Lender Lock-in Agreement.

(xiv) For each Household Member, copies of computerized paystubs for the most recent 30 day period. If paystubs are not applicable or available, a copy of Verification of Employment, (Standard Freddie Mac/Fannie Mae forms) or equivalent as listed in Appendix III - Section B, Item 5(d).

(xv) Copy of Verification of Deposit, (Standard Freddie Mac/Fannie Mae forms) or equivalent as listed in Section 3.105 or Section 3.110. In the event the verification does not indicate sufficient cash assets to consummate the closing, additional verification indicating sufficient cash assets must be attached.

(xvi) Copy of Residential Mortgage Credit Report on Mortgagor(s) or equivalent as listed in Section 3.103 or Section 3.110.

(xvii) As appropriate, a copy of the Fannie Mae Form 1004 (Single Family), Fannie Mae Form 1025 (Two- to Four-family), Fannie Mae Form 1073 (Condominium) appraisal form with Fannie Mae Form 1004B attached, or Fannie Mae Form 1075 (Cooperative) appraisal form. For Existing Housing Mortgage Loans only, Fannie Mae Form 2055 (Quantitative Analysis Appraisal Report) may be submitted in lieu of Form 1004 (Single Family) or Form 1073 (Condominium) provided a full interior inspection of the Eligible Property has been performed.

(xviii) Three clear, descriptive original or laser-produced photographs. One photograph should be a front view of the property showing the complete improvements, the second should be a rear view of the property, and the third should be a street scene showing neighboring improvements.

(xix) Copies of Mortgagor's **signed** Federal income tax returns for the previous three years, or equivalent as defined in Section 2.301. If the Mortgagor's tax returns show itemization for real estate tax and/or home mortgage interest deductions, then a separate notarized affidavit explaining such deductions must also be submitted. Tax returns are not required if the Eligible Property is located in a Targeted Area.

(xx) Copy of FEMA Standard Flood Hazard Determination (FEMA Form 81-93, Oct 98).

(xxi) Copies of subsidy documentation, if applicable.

(xxii) Such other documents as SONYMA may reasonably request.

For more details on completing and submitting the forms listed above, see Appendix III.

2.707	<b>Pool Insurer Commitment Timeframes</b>	The Pool Insurer issues commitments for a period of six (6) months. Mortgage Loans closing after this period must receive an extension from the Pool Insurer, and must close on or prior to the extended expiration date.
2.708	<b>Modifications After SONYMA Pre-Closing Review</b>	<p>(a) Modification of any material fact after SONYMA has reviewed the Mortgage Loan application file must be submitted by the Seller and must be approved by the PMI, the Pool Insurer, and SONYMA prior to the Mortgage Loan Closing Date.</p> <p>(b) Any change in the amount of the Mortgage Loan or other salient terms or conditions must be reported by Seller to SONYMA, the Pool Insurer, and the PMI. Any documents affected by this change may be required to be submitted to SONYMA or the Pool Insurer upon its request.</p>
2.709	<b>Seller Submission of Mortgage Loan Closing Report</b>	On the first business day of each week, Seller is required to submit a report to SONYMA identifying each Mortgage Loan closed by Seller during the prior week. The report should contain at minimum: the SONYMA Loan Number, Mortgagor's name, and the Closing Date.
2.710	<b>Purchase of Mortgage Loans by SONYMA</b>	<p>(a) SONYMA will purchase Mortgage Loans, on a weekly basis, at their current unpaid principal balance as of two (2) days prior to the Purchase Date by wire transfer of funds. SONYMA will reduce the purchase price by the amount of any penalties as described in this Section 2.710, and if the Closing Date and Purchase Date occur in the same calendar month, any short-term interest. SONYMA SHALL NOT PURCHASE A MORTGAGE LOAN UNLESS THE SELLER HAS PROVIDED SONYMA WITH THE CLOSING DOCUMENTS AND SONYMA HAS APPROVED THE CLOSING DOCUMENTS. Prior to purchasing a Mortgage Loan, SONYMA shall notify Seller by fax that the Closing Documents have been duly provided and that it will purchase the Mortgage Loan as follows:</p> <p style="padding-left: 40px;">(i) Mortgage Loans for which Closing Documents have been approved by SONYMA will be purchased by SONYMA on the next succeeding business day on which SONYMA purchases Mortgage Loans from the proceeds of the Bond series under which the Mortgage Loans are allocated. Refer to Availability of Funds and Notice of Terms Bulletin for the purchase day in which SONYMA purchases Mortgage Loans.</p> <p style="padding-left: 40px;">(ii) In order for SONYMA to review and approve a Mortgage Loan as set forth in (i) above, SONYMA must have received the complete and accurate Closing Documents not later than three business days prior to the next available Purchase Date.</p> <p style="padding-left: 40px;">(iii) If the Closing Documents as set forth in (i) and (ii) above are approved, SONYMA staff will contact the Servicer by telephone two (2) days prior to the Purchase Date to obtain the unpaid principal balance and the interest paid-to-date for each Mortgage Loan.</p> <p style="padding-left: 40px;">(iv) A confirmation of the purchased Mortgage Loans will be immediately sent to the Seller and the Servicer (if not the same). The confirmation will list for each loan (A) the balance at which the Mortgage Loan was purchased, (B) short-term interest, if any, (C) the amount of any penalty fee, if any, as described in (f) below, and (D) the net purchase price. Further, SONYMA will send to Seller with each purchase confirmation, a report entitled</p>

"New Loans Trial Balance" that will break down on a Mortgage Loan-by-Mortgage Loan basis the amount of any principal and/or interest to be retained by Seller. For Sellers that do not service Mortgage Loans for SONYMA, the report will also be sent weekly to the Servicer, so they will know promptly and exactly the amount of principal and/or interest required to be remitted to Seller.

Be advised that SONYMA calculates per diem interest based on a 360 day year. However, prepaid interest should be calculated based on the actual number of days in the month in which the Mortgage Loan has closed. For example: If a mortgage with an interest rate of 6.50% and \$100,000 original loan amount was closed on October 2nd and purchased by SONYMA on October 28th, SONYMA would net from the purchase price, interest in the amount of \$72.24  $[(\$100,000 \times 6.50\%) \text{ divided by } 360] \times 4 \text{ days (October 28th through October 31st)}$ . Seller would retain \$469.44  $[(\$100,000 \times 6.50\%) \text{ divided by } 360] \times 26 \text{ days (October 2nd through October 27th)}$ .

(b) Mortgage Loan Delivery Date. The Delivery Date for submission of a complete documentary package shall be as follows:

(i) After the Closing Date and prior to the Purchase Date, all documents listed in Section 2.710 (d)(i) or 2.710 (e)(i) below, whichever is applicable.

(ii) Within 180 days of the Closing Date, all original recorded documents, original title insurance policy, and filed documents as listed in Section 2.710 (d)(ii) or 2.710 (e)(ii) below, whichever is applicable.

(c) SONYMA requires that Seller provide the following certifications to SONYMA prior to the Purchase Date:

(i) For each Mortgage Loan, Seller shall execute, and shall cause any warehousing entity, if applicable, to execute the Loan Funding Certification (Form 229; Exhibit EE) and submit such form with the Closing Documents. Seller shall provide SONYMA with a copy of the warehousing agreement at Application and shall periodically forward evidence that such warehousing agreement has not expired and remains in full force and effect.

(ii) In connection with any unsecured credit agreements under which Seller obtains funds to close Mortgage Loans, Seller shall provide SONYMA, at Application, with the Certificate as to Unsecured Credit Agreement.

(d) Single Family Dwelling (other than cooperative share loans), Two-Family Dwelling and Three- or Four-Family Dwelling Documentary Requirements. The following documents for each Mortgage Loan submission must be forwarded to the attention of SONYMA's Senior Loan Officer/Closed Documents, 2nd Floor, 641 Lexington Avenue, New York, New York 10022. SONYMA Loan Number must appear on all documents for each Mortgage Loan. For more details on completing and submitting the below forms, see Appendix IV.

(i) Seller is required to deliver the following documents after the Closing Date and prior to the Purchase Date:

(A) Closed Loan Document Checklist (Form 223; Exhibit N).

(B) Original and a photocopy of the executed Note endorsed to SONYMA (Fannie Mae/Freddie Mac Uniform Instrument Form 3233 1/01 - New York Fixed Rate Note - Single Family), and if applicable, the SONYMA Rider to Fannie Mae/Freddie Mac Note (for split interest rate loans) (Form 236; Exhibit GG).

(C) Executed duplicate original of the Mortgage (Fannie Mae/Freddie Mac Uniform Instrument Form 3033 1/01 - New York - Single Family) with SONYMA Rider to Fannie Mae/Freddie Mac Mortgage (Form 230; Exhibit FF) and if applicable, for two- to four-family properties, the Fannie Mae/Freddie Mac Multistate 1-4 Family Rider - Uniform Instrument Form 3170 1/01, or for condominium properties, the Fannie Mae/Freddie Mac Multistate Condominium Rider - Single Family - Uniform Instrument Form 3140 1/01, or for PUD properties, the Fannie Mae/Freddie Mac Multistate PUD Rider - Single Family - Uniform Instrument Form 3150 1/01, attached thereto. No other rider should be added to this document unless approved by SONYMA.

(D) Executed duplicate original of the Consolidation, Extension, and Modification Agreement, if applicable [Fannie Mae/Freddie Mac Single Family Form 3172-1/01 (rev. 5/01)]. No Rider, except the SONYMA Rider to Fannie Mae/Freddie Mac Mortgage (Form 230; Exhibit FF) and if applicable, the SONYMA Rider to Fannie Mae/Freddie Mac Note (for split interest rate loans) (Form 236; Exhibit GG), should be added to this document unless approved by SONYMA.

(E) Original and a photocopy of the building note(s) and recorded building mortgage(s), if applicable.

(F) Executed duplicate original of the Assignment of Mortgage (Form 202; Exhibit Q).

(G) Copies of executed Mortgage and Note from government subsidized secondary lienholder, if applicable.

(H) Preliminary Title Report or other permissible assurance of title.

(I) Original and photocopy of the Reaffirmed Recapture Notification and Mortgagor's Affidavit (Form 211; Exhibit G).

(J) Property Survey or Plat or an approved substitute as described in Section 2.217 of this Seller's Guide.

(K) Original Hazard and Flood Insurance Certificate (Form 216; Exhibit S).

(L) Copy of Uniform Settlement Statement (Form HUD

-1).

(M) Original Satisfactory Completion Certificate (Form 208; Exhibit T) or equivalent Fannie Mae/Freddie Mac Form, if applicable.

(N) Original Loan Funding Certification (Form 229; Exhibit EE).

(O) Copy of Mortgage Loan Eligibility Form (Form 212; Exhibit D) executed by SONYMA at time of pre-closing commitment. If any conditions were listed by SONYMA on Form 212, also submit documentation to evidence that the conditions have been satisfied.

(P) Such other documents as SONYMA may reasonably request.

(ii) Seller is required to deliver the **original and a photocopy** of the following documentation within 180 days of the Closing Date:

(A) Recorded Mortgage (Fannie Mae/Freddie Mac Uniform Instrument Form 3033 1/01 - New York - Single Family) and appropriate riders attached as stated in Section 2.710(d)(i)(C) above.

(B) Recorded Consolidation, Extension, and Modification Agreement [Fannie Mae/Freddie Mac Single Family Form 3172-1/01 (rev. 5/01)], if applicable.

(C) Recorded Assignment of Mortgage (Form 202; Exhibit Q).

(D) Mortgage Title Insurance Policy with endorsement attached, reflecting SONYMA as insured, or other permissible assurance of title.

(e) Cooperative Share Loan Documentary Requirements. The following documents for each cooperative share loan submission must be forwarded to SONYMA's Senior Loan Officer/Closed Documents. The SONYMA Loan Number must appear on all documents for each loan.

(i) Seller is required to deliver the following documents after the Closing Date and prior to the Purchase Date:

(A) Closed Cooperative Share Loan Document Checklist (Form 224; Exhibit U).

(B) Original and a photocopy of the Cooperative Loan Note endorsed to SONYMA. (SONYMA Coop Exhibit 2; Exhibit W), and if applicable, the Rider to SONYMA Cooperative Loan Note (for split interest rate loans) (SONYMA Coop Exhibit 12; Exhibit II).

(C) Original and a photocopy of the Security Agreement (SONYMA Coop Exhibit 8; Exhibit X).

(D) Original and a photocopy of the Consent.

(E) Original and a photocopy of the Acceptance of

Assignment and Assumption of Lease (SONYMA Coop Exhibit 3; Exhibit Y).

(F) Original and a photocopy of the Proprietary Lease or Original Occupancy Agreement (see below paragraph).

(G) Original and a photocopy of the Assignment of Lease to Lender (SONYMA Coop Exhibit 4; Exhibit Z).

(H) Original and photocopy of the Assignment of Loan (SONYMA Coop Exhibit 5; Exhibit AA).

(I) Original and a photocopy of the Stock Certificate.

(J) Original and a photocopy of the Stock Power (SONYMA Coop Exhibit 9; Exhibit BB).

(K) Original acknowledgment copy and a photocopy of the filed UCC Financing Statement (National UCC Financing Statement Form UCC1).

(L) Original acknowledgment copy and a photocopy of the filed UCC Financing Statement Cooperative Addendum (New York UCC Financing Statement Cooperative Addendum Form UCC1CAAd).

(M) If the loan was not assigned to SONYMA on the Closing Date, an executed duplicate original of the UCC Financing Statement Amendment (National UCC Financing Statement Amendment Form UCC3).

(N) Original and a photocopy of the Aztech Form Recognition Agreement or the Blumberg Standard Form Recognition Agreement.

(O) Original and a photocopy of the Reaffirmed Recapture Notification and Mortgagor's Affidavit (Form 211; Exhibit G).

(P) Two copies of the Lien Search of the apartment.

(Q) Original and a photocopy of the No Lien Affidavit (SONYMA Coop Exhibit 7; Exhibit DD).

(R) Copy of Uniform Settlement Statement (Form HUD-1).

(S) Original and a photocopy of the Loan Funding Certification (Form 229; Exhibit EE).

(T) Photocopy of Mortgage Loan Eligibility Form (Form 212; Exhibit D) executed by SONYMA at time of pre-closing commitment. If any conditions were listed by SONYMA on Form 212, also submit documentation to evidence that the conditions have been satisfied.

(U) Such other documents as SONYMA may reasonably request.

(ii) If the Mortgage Loan was not assigned to SONYMA on the Closing Date, Seller is required to deliver within 180 days of the Closing Date, an original acknowledgment copy and a photocopy of the filed UCC Financing Statement Amendment (National UCC Financing Statement Amendment Form UCC3).

Original forms for SONYMA cooperative share loan documents can be obtained from SONYMA's website.

The Original Consent and Original Acceptance of Assignment and Assumption of Lease documents (items D and E above) are not required for cooperative share loans in which the project is newly converted and which the applicant is purchasing directly from the cooperative corporation.

The Lien Search [item (O) above] should run against the cooperative corporation, the purchaser, and the seller; should be dated not more than sixty (60) days prior to the loan closing; and should include, at minimum: (i) Federal tax liens (County and State), (ii) UCC financing statement (County and State), (iii) orders appointing receivers, (iv) assignments for the benefit of creditors, (v) judgements and New York tax liens, (vi) mechanic's liens, (vii) bankruptcies, (viii) U.S. judgments, (ix) leases affecting the apartment, (x) mortgages on apartment lease, (xi) mortgages on building, (xii) miscellaneous docket, (xiii) bail bond liens, (xiv) criminal surety bonds, (xv) hospital liens, and (xvi) lis pendens.

If an Occupancy Agreement has been submitted in lieu of a Proprietary Lease, SONYMA requires an affidavit executed by the Mortgagor setting forth that the Mortgagor will not terminate or refuse to extend the Occupancy Agreement, or interfere with or terminate SONYMA's right to maintain its security interest in the underlying shares of stock in the cooperative corporation and in the Occupancy Agreement.

(f) Assessment of Penalties. SONYMA will assess Seller penalties as follows:

(i) Procedural Issues. Penalties may be assessed for procedural errors, such as:

(A) Mortgage Loan was reserved more than 20 days after the Residential Loan Application Date or before the date in which the contract if sake was fully executed.

(B) Mortgage Loan closed at an interest rate that is lower than the correct interest rate. (Note: If the Mortgage Loan closed at an interest rate that is **higher** than the correct rate, Seller will be required to reclose Mortgage Loan at the correct interest rate.)

(C) Mortgage Loan closes on a date that occurs after the commitment expiration date.

(ii) Late Delivery of Closing Documents. The table below details the penalties that will be assessed against Seller for the late delivery of the Closing Documents to SONYMA where Seller does not receive SONYMA's approval of the Closing Documents within 35 days of the Mortgage Loan Closing Date.

<u>Days From Closing Date</u>	<u>Penalty as a % of the Original Loan Amount</u>
1 - 35	0%
36 - 60	0.25%
61 - 90	0.50%
91 - 120	1.00%
121 - 180	1.75%
181 or more	No Purchase

(iii) Late Delivery of Recorded and Filed Documents and Final Title Policies. The table below details the penalties that will be used against Seller for the late delivery of recorded documents and final title policies, or filed documents as described in Section 2.710(d)(ii) or (e)(ii), as applicable, more than 541 days after the Mortgage Loan Closing Date.

<u>Days From Closing Date</u>	<u>Penalty Per Document Per Month</u>
1 - 540	\$0
541 - 730	\$25
731 - 1095	\$50
1096 or more	Possible Seller Repurchase at SONYMA's Discretion

2.711 **Possession of Mortgage Loan File**

Seller, when acting as Servicer, shall maintain an entire Mortgage Loan file which must contain photocopies of all documents, including all recorded instruments and final title policies, delivered to SONYMA and, at minimum, the following additional documents:

(a) Hazard Insurance Policies, properly endorsed, and copies of any necessary notices to insurance carriers.

(b) All other documents constituting the Mortgage Loan file and such other documents as may be requested by SONYMA and as are customarily maintained in mortgage loan files by prudent lenders, investors, and mortgage loan servicers.

(c) For each Mortgage Loan covering an individual condominium unit, Seller shall possess (but need not maintain in the individual Mortgage Loan file) such documentation with respect to the condominium as will be required for the sale of the individual Mortgage Loan and deliver such documentation to SONYMA upon request.

2.712 **Requirements of Sellers Not Servicing Mortgage Loans**

If Seller will not act as Servicer of the Mortgage Loans it sells to SONYMA, copies of all documents in the Mortgage Loan files and prepaid escrow funds shall be forwarded within five days after the Closing Date to Servicer identified by SONYMA in accordance with the written agreement between Seller and SONYMA executed after the execution of the Mortgage Purchase Agreement. **Failure to deliver this file will result in a delay of SONYMA's purchase of the Mortgage Loan.** Further, Seller is responsible for delivering to Servicer copies of all recorded or filed instruments, final title policies, final certificates of occupancy, and documents to evidence that the terms of any escrow agreement have been satisfied. In addition, all relevant insurance coverage, including primary mortgage insurance, must be assigned to SONYMA in care of the designated Servicer.

2.713 **Post-Purchase  
Quality Control  
Requirements**

(a) SONYMA Audit. SONYMA reserves the right to conduct a post-purchase quality control audit of any Mortgage Loan sold to SONYMA. Seller will be notified in writing to submit a copy of the complete Mortgage Loan file(s) to SONYMA. Seller must submit legible copies of the selected Mortgage Loan file(s) within 15 business days of SONYMA's request. Failure to do so may result in SONYMA taking appropriate remedies under this Seller's Guide and the Mortgage Purchase Agreement. Sellers not servicing Mortgage Loans for SONYMA must keep a copy of the entire file for a period of at least two years from the Purchase Date for this purpose.

Upon completion of SONYMA's quality control audit, Seller will be notified in writing of any deficiencies in the Mortgage Loans reviewed. At its sole discretion, SONYMA may require Seller to repurchase any deficient Mortgage Loan.

(b) Seller's In-House Quality Control Program. Over the course of each calendar year, Seller must perform an in-house quality control review of at least 10 percent of the Mortgage Loans it has sold to SONYMA. In no case may the number of Mortgage Loans selected be less than one loan. The review must be performed by employees operating independently of Seller's originations, underwriting and closing departments. The selection process must be conducted in a manner so that each Mortgage Loan has an equal chance of being selected for review. Reviews of Mortgage Loan files must occur within 90 days of each selected Mortgage Loan's Closing Date.

Seller's quality control program procedures must be in writing and findings must be reported to Seller's senior management. At minimum, Seller shall verify or reverify the following:

(i) Employment and income. Seller must reverify all verifications of income obtained in the original underwriting process.

(ii) Source of downpayment and closing costs. Seller must reverify all verifications of sources of downpayment and closing costs (including prepaid) obtained in the original underwriting process.

(iii) Credit reports. New in-file credit reports must be ordered from at least one of the three national credit repositories.

(iv) Review appraisals. Seller must obtain a review appraisal on one out of every ten Mortgage Loans selected for review. The review appraisal should be done by a qualified appraiser, not affiliated with the original appraiser or the original appraiser's firm, and should attempt to establish market value as of the date of the original appraisal. The review appraiser must also attempt to establish if all Mortgagors are occupying the Eligible Property as their primary residence and whether or not the Eligible Property is being used for any commercial or business purposes. The results of the appraiser's findings must be incorporated into the review appraisal report.

(v) IRS tax returns. On the Closing Date, Seller must have each Mortgagor execute IRS Form 8821 or 4506 and must obtain IRS information for the three tax years immediately preceding the Closing Date, to verify (A) income information where federal tax returns were required as original income information, and (B) accuracy of other reported tax information (i.e. form type, deduction amount, nature of itemized deductions, etc).

Any oral reverifications must be documented in writing and, at minimum, must identify the Seller's employee who made the contact, the employer's or institution's name, the name and title of the person contacted at the employer or institution, date of contact, and confirmation of the accuracy of the original reported information.

Any information Seller obtains showing evidence that Mortgagor is not occupying the Eligible Property, is using the Eligible Property for commercial or business purposes, or that shows material differences in IRS tax information must be ***immediately*** reported to the Assistant Vice President, Single Family Programs at SONYMA.

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## **PART III - CREDIT AND PROPERTY UNDERWRITING REQUIREMENTS**

### **SECTION 3.1 - UNDERWRITING GUIDELINES**

Seller is required to conduct a thorough evaluation of Mortgagor's creditworthiness and of the Eligible Property. Seller must determine that Mortgagor shows the willingness and financial ability to repay the Mortgage Loan, that Mortgagor's credit is acceptable, and that the appraisal value is sufficient to support the purchase price of the Eligible Property. **Note:** Portions of this Part III may not be applicable if Seller elects to underwrite Mortgage Loans using an Automated Underwriting System as described in Section 3.110 of this Seller's Guide.

3.101 **Downpayment and Closing Costs** The maximum loan-to-Value of the Property ratio on all Mortgage Loans is 97 percent (90 percent for Three- and Four-Family Dwellings and cooperatives).

(a) Minimum Equity Requirement. An amount not less than 3 percent (5 percent for Three- or Four-Family Dwellings and cooperatives) of the purchase price or appraised value of the Eligible Property, whichever is less, must be paid from Mortgagor's own verified funds, which must consist of Cash or Other Equity, as defined below.

For purposes of this requirement, "Cash" and "Other Equity" are defined as follows:

(i) "Cash" is considered to be (a) cash from Mortgagor's checking or savings account, or other time deposits, (b) verified cash on hand up to \$1,000, or (c) cash deposit toward purchase, the source of which is verifiable.

(ii) "Other Equity" is considered to be:

(A) the lesser of the current appraised value of the lot owned by the Mortgagor, free and clear of any liens, on which subject improvement was or will be constructed, or the purchase price of that lot if it was purchased during the past two years immediately preceding the Residential Loan Application Date;

(B) credit for material furnished by Mortgagor that does not exceed 5 percent of the sales price. (However, no credit will be given for material furnished by the Mortgagor unless there is at least a 3 percent downpayment in cash or one of the types of other equity exclusive of any gift in the transaction.)

(b) Acceptable Sources for Additional Downpayment and Closing Costs. Additional funds needed for closing costs and any additional downpayment, beyond the 3 percent minimum equity requirement stated above, may be paid from one or more of the following sources:

(i) Gifts. Gift letters must be from (A) immediate family members, a fiancée, or a domestic partner, (B) corporations established for humanitarian or welfare purposes, or (C) a state or local government agency, which do not evidence obligations subject to repayment. Gift funds must be verified in the Mortgagor's account and supported by a statement from the donor confirming the gift and stating that repayment is not expected. The property seller cannot be the donor of a gift except as described in (vii) below, and unless property seller is an immediate family member.

(ii) Secondary or Subsidy Financing. No secondary financing,

other than a subsidy from a federal, state or local governmental source or other source approved by SONYMA and the Pool Insurer, may be used for additional downpayment, closing costs, or purchase price reduction in the closing of the Mortgage Loan. In general, subsidy programs are acceptable to SONYMA provided the following conditions are satisfied:

(A) Any subsidy mortgage and/or note that requires payments during the loan term [including any mortgage and/or note provided to eligible Section 8 Homeownership voucher recipients as described in Section 3.102 (c)(ix)(C) below] must be considered a monthly debt obligation of the Mortgagor and included in the monthly housing expense-to-income ratio as described in Section 3.102(a).

(B) Mortgagor must have 3 percent of their own funds (5 percent for cooperative share loans and 3- or 4-Family Dwellings) in the transaction. If the subsidy program offers matching dollars, such funds can only be used after the 3 percent (or 5 percent) cash contribution requirement has been met.

(C) In cases where requirements of this Seller's Guide are more restrictive than the requirements of the subsidy program, this Seller's Guide governs. For example, SONYMA cannot alter the first-time homebuyer definition stated in Section 2.301 to make exceptions for displaced homemakers or single parents.

(D) The subsidy mortgage instruments, deed, and/or any laws or documents must be subordinate to the Mortgage Loan sold to SONYMA and must not contain any provisions that would restrict the first mortgage holder from reselling the Eligible Property after foreclosure or acceptance of a deed in lieu of foreclosure.

Seller must provide documentation to SONYMA in the pre-closing loan file as described in Section 2.706 to support the amount and use of subsidy funds to be used in the transaction. Seller will also be required to submit a copy of the executed subordinate mortgage instruments with the post-closing loan file as described in Section 2.710.

If the subsidy program meets all of the above criteria, Seller is authorized to utilize the program. If all of the above criteria are not met, SONYMA and the Pool Insurer must review and approve the program prior to the acceptance of any loan applications.

*Note: In cases where a subsidy is being utilized for downpayment or reduction of purchase price, all or a portion of the subsidy amount may be used in calculating loan-to-Value of the Property ratio and may eliminate the need for PMI coverage. A subsidy may be used as equity only to the extent that, when added to the Mortgage Loan amount and the Mortgagor's downpayment, the subsidy does not exceed the "true market value" of the Eligible Property. "True market value" is defined as the most probable price for which the Eligible Property will sell for without consideration of any subsidy provided toward development costs*

*or credited to Mortgagor as downpayment assistance, or other restrictions such as income limits. When determining the minimum of 3 percent of the Mortgagor's own funds, this amount will be based on the discounted sale price (Value of Property less the amount of the subsidy). However, SONYMA may finance up to 100 percent of the discounted sales price provided Mortgagor contributes at least 3 percent of their own funds into the transaction.*

*If any or all of the subsidy is being utilized to pay for closing costs, such amounts will not be considered as equity. However, in cases where a closing cost subsidy is being utilized, SONYMA permits the combined loan-to-Value of the Property to exceed 100 percent. If this occurs, SONYMA will require the Mortgagor to complete a homebuyer education course as described in (g) below.*

(iii) 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.

(iv) 401(k) and Pension Loans. 401(k) and pension loans, but repayment will be considered an ongoing monthly obligation of the Mortgagor.

(v) Joint Accounts. Joint accounts shared by Mortgagor with a non-Mortgagor, if account shows Mortgagor's social security number or if, interest income is reported on Mortgagor's tax returns, or if verification is provided that deposits into such account were made by Mortgagor, or if joint owner provides a letter stating that Mortgagor has 100 percent access to all funds in the joint account.

(vi) Seller Contributions. Closing costs paid by the property seller on behalf of the Mortgagor will be considered on a case-by-case basis. To be considered, this practice must be common for the area and noted as such in the appraisal report. For Mortgage Loans with loan-to-Value of the Property ratios of 90 percent or less, the property seller is limited to pay an amount not more than 6 percent of the sales price. For Mortgage Loans with loan-to-Value of the Property ratios of 90.1 to 97 percent, the property seller is limited to pay an amount not more than 3 percent of the sales price.

(vii) Gift of Equity. "Gifts of equity" from an immediate family member will be allowed on a case-by-case basis and the downpayment, maximum financing, and loan-to-Value of the Property ratio will be calculated in the same manner as Mortgage Loans with a subsidy as described above.

(viii) Non-traditional Shared Savings Arrangements. "Sou-sou", or other similar types of non-traditional shared savings arrangements will be considered on a case-by-case basis. At a minimum, Mortgagor must provide a letter from the plan's treasurer setting forth the details and terms of the arrangement. Further, SONYMA may consider ongoing payments to the plan as a monthly obligation of the Mortgagor.

(ix) Unsecured Installment Loan. SONYMA will allow the use of unsecured installment loans made by the Seller 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 3 percent of their own funds (5 percent for cooperative share loans and Three and Four-Family Dwellings) to 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) All Mortgagors utilizing the unsecured loan must complete homebuyer education course from a source acceptable to SONYMA.

(F) Seller may not advertise or promote the unsecured installment loan as a SONYMA product nor as a joint Seller-SONYMA product. It may be advertised as Seller's own product.

(G) The installment loan interest rate must be lower than, equal to, or slightly higher than that of the Mortgage Loan.

(H) The installment loan term must not be more than 15 years.

(I) The installment loan must not have a prepayment penalty.

SONYMA will require that documentation to support the amount of the installment loan funds being used in the transaction be submitted in each pre-closing loan file.

(c) Seller will be required to obtain written verification on the Seller's conventional Verification of Deposit form (or other Alternative Documentation as described in Section 3.105 of this Guide) of all deposit monies being held for the property purchase. Such verification should be no more than three months old at time of submission of the application loan file to the Pool Insurer. Verification of Deposit must verify that funds have been deposited in account for a minimum of two months.

(d) All Escrows must be paid from Mortgagor's liquid assets. Gift funds will be considered as Mortgagor's liquid assets.

(e) Closing costs paid by the Seller on behalf of the Mortgagor will also be considered on a case-by-case basis. In all cases, however, the following must take place:

(i) The same concession standards as listed in (b)(vi) above must be followed.

(ii) The funds provided to the Mortgagor must not require repayment.

(iii) The property seller cannot be the Seller.

(f) Homebuyer Education. SONYMA requires all Mortgagors to successfully complete a homebuyer education course for Mortgage Loans if any of the following conditions exist:

(i) Mortgagor has contributed less than 5 percent of verified Cash or Other Equity, as defined above, regardless of the loan-to-Value of the Property, in the transaction;

(ii) the loan-to-Value of the Property exceeds 95 percent; or

(iii) a closing cost subsidy is being utilized and the combined loan-to-Value of the Property ratio exceeds 100 percent.

The source and format of the education must be approved by the PMI. To evidence that Mortgagor completed such education, Seller must submit with the credit package required by the PMI, as specified in Section 2.706 (b), a certificate showing that the homebuyer education course was successfully completed. Additionally, in accordance with Section 3.101(g) below, Mortgagor and Servicer must agree to participate, if necessary, in a post-closing early delinquency intervention program of which the source and format must be approved by SONYMA and the PMI.

(g) Post-Closing Early Delinquency Intervention Counseling. In order for Seller to originate Mortgage Loans where Mortgagor is subject to homebuyer education as stated in (f) above, the Servicer must be able to manage and administer the following post-closing early delinquency intervention counseling program:

(i) Servicer must be able to "flag" these Mortgage Loans on Servicer's computer system;

(ii) The counseling program must be managed in accordance with the requirements set forth by Fannie Mae/Freddie Mac and the PMI;

(iii) Counseling must be provided by Servicer to any Mortgagor who becomes delinquent during the seven years immediately following the Closing Date.

***If the Servicer is unable to comply with the above special delinquency monitoring requirements, Seller will be prohibited from originating Mortgage Loans with Mortgagor cash contribution of less than 5 percent, with loan-to-Value of the Property ratios in excess of 95 percent, or with closing cost subsidies where the combined loan-to-Value of the Property exceeds 100 percent.***

3.102 **Credit Underwriting Guidelines**

Evaluation by Seller of each Mortgagor's creditworthiness must be done for each Mortgage Loan. All standards for determining effective income must be applied to each Mortgagor in the same manner. The following are guidelines to indicate proper considerations in ascertaining the creditworthiness of the Mortgagor. These guidelines are not intended as requirements or rules which must apply in all cases. However, SONYMA considers them to be sound general principles in underwriting credit.

(a) Monthly Housing Expense-to-Income Ratio. SONYMA requires that the monthly housing expense (principal and interest payments on the Mortgage Loan plus Escrows) not exceed 33 percent of Mortgagor's "stable monthly income", as defined in clause (c) below. If Mortgagor is

purchasing a condominium, cooperative, or Planned Unit Development (PUD), the monthly condominium or PUD fee (homeowners' association dues) for common elements/property charges and maintenance, as well as the monthly maintenance fee for cooperatives (which shall include an owner's proportionate share of the cooperative's underlying mortgage), must be included in the monthly housing expense when calculating the above ratio. If the Eligible Property is a leasehold, the monthly ground rent should be included.

(b) Monthly Debt Payment-to-Income Ratio. SONYMA will require that the total monthly housing expense (referred to in clause (a) above), plus all other monthly obligations should not exceed 38 percent of Mortgagor's "stable monthly income." Other monthly obligations include, but are not limited to:

(i) installment loans with at least 10 monthly payments remaining,

(ii) automobile lease payments regardless of the remaining lease term, and

(iii) revolving charge account monthly obligations as verified on the credit report or 5 percent of the outstanding balance in absence of a stated payment).

For qualification purposes SONYMA and the Pool Insurer will not consider prepayment of revolving accounts. SONYMA and the Pool Insurer will permit prepayment of an installment loan to reduce the remaining term to less than the 10 month level, provided the funds for the prepayment are derived from an acceptable verified source.

SONYMA will permit the exclusion of deferred student loan payment obligations if the deferral does not require payment for least three years from the time the loan application file is submitted to the Pool Insurer.

Alimony, child support and maintenance payments will be deducted from gross monthly income and, therefore, will affect both the housing expense and debt payment ratios. Such payments will not be deducted from gross monthly income if Mortgagor can provide evidence that 10 or less months payments remain to be paid.

(c) Stable Monthly Income. Stable monthly income is Mortgagor's gross monthly income from primary employment base earnings verified for the previous two years plus recognizable other income. THESE GUIDELINES ARE FOR LOAN UNDERWRITING PURPOSES ONLY AND SHOULD NOT BE CONFUSED WITH SONYMA'S INCOME LIMIT REQUIREMENTS AS DESCRIBED IN SECTION 2.303 OF THIS GUIDE.

(i) Income from Alimony or Child Support. If a Mortgagor chooses to disclose income from alimony or child support, Seller agrees to consider such payments as income to the extent that they are likely to be consistently made and that payments will continue for three years following the date of the Mortgage Loan. Factors which Seller may consider in determining the likelihood of consistent payments include, but are not limited to, whether the payments are received pursuant to a written separation agreement or divorce decree; the length of time the payments have been received; the regularity of receipt; the availability of procedures to compel payment; whether full or partial payments have been made; and the creditworthiness of the payor, including the credit history

of the payor where available to the Seller under the Fair Credit Reporting Act or other applicable laws. Seller agrees to submit to SONYMA evidence adequate to support its determination. If no formal separation agreement or divorce decree has been filed, Mortgagor must provide sufficient documentation that he or she is no longer living with spouse and must also provide evidence that he or she is not paying alimony, child support or maintenance payments.

(ii) Self-Employed Mortgagors. In cases where Mortgagor is self-employed (Mortgagor has a 25 percent or great ownership interest in a business), the documentation to verify income is signed federal tax returns from the two previous years along with two years completed, signed business tax returns. If the Residential Loan Application Date is after the first quarter of the year, a year to date profit and loss statement is required (audited on a case-by-case basis). Income will be averaged for the time period verified. However, a continuing large decrease in gross income over a two or three year period must be carefully examined by Seller and such a situation may not be acceptable to SONYMA .

(iii) Mortgagors Employed in a Family Business. If Mortgagor is employed in a family business, income will be verified utilizing paystubs or verification of employment. In addition, the previous two years' signed federal income tax returns will be used as third party verification. Large increases in income must be satisfactorily explained.

(iv) Unreimbursed Business Expenses. If Mortgagor's tax returns disclose unreimbursed business expenses, the expenses must be deducted from Mortgagor's gross monthly income.

(v) Overtime, Commission, Bonus, and Part-time Income. Income for any Mortgagor, such as bonuses, commissions, overtime, or part-time employment, should only be recognized as "stable monthly income" if such items of income are typical for the occupation, substantiated by Mortgagor's previous two years' earnings and continuation is probable based on foreseeable economic circumstances. Unless Seller is utilizing Alternative Documentation as set forth in Section 3.105 below, such income will be determined by averaging the last two years' tax returns. However, if the earnings have declined in the most recent year, there must be strong offsetting factors for such income to be acceptable.

(vi) Job Tenure; Change of Residence. Three or more employment changes by Mortgagor within the previous five years, or four or more changes of residence within the previous six years, must be satisfactorily explained.

(vii) Non-Taxable Income. If Mortgagor income is verified to be non-taxable income, SONYMA will allow the income to be grossed up by 25 percent.

(viii) 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

of the income a secondary wage earner expects to earn from a job obtained upon moving to the new location. In order for SONYMA to figure this income as stable monthly income, the following criteria must be met:

(A) The secondary wage earner must be a co-Mortgagor in the transaction;

(B) The income is not derived from self-employment;

(C) Seller has obtained documentation that the secondary wage earner was employed in the same profession for the last two years and has received a written statement from the secondary wage earner of his or her intention to obtain employment in the new location;

(D) Based upon a review of the job market in the new location, Seller has determined that employment opportunities and earning potential for the secondary wage earner are comparable to or better than that of the former location;

(E) Mortgagors must have cash reserves (from an acceptable source as described in Section 3.101 of this Seller's Guide and which can be easily liquidated and converted to cash) on the Closing Date of at least six months Mortgage Loan payments, including Escrows, and all other long-term debt obligations.

If all of the above criteria have been met, SONYMA will permit a maximum of 50 percent of the secondary wage earner's documented income from his or her previous employment to be considered as stable monthly income.

(ix) Income from Section 8 Homeownership Vouchers. Mortgagors receiving assistance from HUD-administered Section 8 homeownership vouchers (such assistance is also known as the Housing Assistance Payment or HAP), and who have completed counseling from an organization approved by HUD to provide such homeownership counseling, may utilize the assistance to obtain a Mortgage Loan. In order to document that Mortgagor will continue to receive this income, Seller must submit an award letter setting forth: the voucher amount; that the issued voucher applies to homeownership; and that the Mortgagor has completed the Section 8 homeownership counseling. The Section 8 assistance may be applied under one of the following options:

(A) Deduct HAP from Monthly Housing Expense (PITI). Under this option, Mortgagor's HAP is applied directly to the PITI, and the monthly housing expense-to-income ratio is calculated on the "net housing obligation" of Mortgagor. When this option is used, a direct deposit of the monthly HAP payment, by the entity administering the Section 8 program (the "HAP administrator"), into a dedicated account established by the Servicer is required. Seller must ensure that Servicer is prepared to receive Mortgage Loan payments from the Mortgagor and HAP administrator.

(B) Add HAP to Income Option. Under this option, the HAP may be grossed up by 25 percent as described in paragraph (vii) above and added to Mortgagor's gross monthly earned income.

(C) Two Mortgage Option (SONYMA Mortgage Loan and simultaneous subordinate second mortgage). Under this option, Mortgagor is qualified for Mortgage Loan using only earned income, and the HAP is used to pay the full P&I for a second mortgage. The second mortgage must be provided by a qualified not-for-profit organization and must meet the requirements for secondary financing as set forth in Section 3.101(b)(ii) above. This option is acceptable if the Mortgage Loan-to-Value of the Property ratio is 80% or less, and the term of the second mortgage is 15 years or less.

Assistance from Section 8 may also be in the form of a downpayment/closing cost assistance grant. If Mortgagor has received such assistance, the requirements for subsidy financing as set forth in Section 3.101(b)(ii) must be followed.

Items such as education, training, technical skills, occupation and past employment history should be taken into account on a case-by-case basis when determining "stable monthly income".

Income necessary to qualify a Mortgagor must be verified on the Seller's conventional Verification of Employment Form (or other Alternative Documentation as described in Section 3.105 of this Guide) and should be no more than three months old at the time the application loan file is submitted to the Pool Insurer. If there has been a change in employment within the past two years, a verification of Mortgagor's previous employment must be obtained.

(d) Mortgagor's Credit Reputation. In addition to the above guidelines, and those set forth in Section 3.103 of this Guide, Seller must determine that Mortgagor's housing payments plus other obligations do not constitute an undue strain on Mortgagor's ability to make all such payments promptly and that a credit reputation is evidenced which would be commonly acceptable to private institutional mortgage investors. SONYMA does not set standards for the use of credit scoring of potential Mortgagors. However, SONYMA urges Sellers to utilize credit scoring to establish that a Mortgagor has an acceptable credit reputation. The following additional guidelines should be considered:

(i) Bankruptcy. Mortgagors with a previous history of bankruptcy will be evaluated on a 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; and

(C) Mortgagor must have stable employment; and

(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.

(ii) 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, assuming Mortgagor meets SONYMA's definition of first-time homebuyer as described in Section 2.301 or is purchasing in a Targeted Area, SONYMA will consider such applications on a case-by-case basis. At minimum, Mortgagor must comply with the following:

(A) 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;

(B) 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; and

(C) Mortgagor must have re-established good credit as described in (i) above.

(iii) 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 cancelled 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;

(D) residential mortgage credit report when rental payments are verified;

(E) 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 cancelled checks for the prior 12 months.

(e) 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. Guarantor must meet acceptable credit standards, may not be a spouse and must be a blood relative. Other program requirements that apply to Mortgagor will not apply to a Guarantor. Seller must submit a full credit package on the Guarantor.

(f) Two-Family Dwellings and Three- or Four-Family Dwellings: Maximum

Loan-to-Value and Rental Income.

(i) For Three- or Four-Family Dwellings only, SONYMA will finance a maximum of 90 percent loan-to-Value of the Property.

(ii) SONYMA recognizes that rental income will be generated from tenant-occupied units. The benefit of the rental income will be calculated as follows:

(A) Rental income will be credited based on actual leases. Credit will be provided based on the lower of the stated rent or the economic rent, as determined by an appraisal.

(B) Rental income will be calculated using 75 percent of verifiable rents for all properties.

(g) Other Restrictions. Transactions must involve disinterested third parties. Non arms-length transactions are unacceptable. Examples of unacceptable transactions include:

(i) Employee buying from employer.

(ii) Realtors buying from their own listings.

(iii) Partner buying from own partnership.

NOTE: FAMILY MEMBER BUYING FROM A FAMILY MEMBER WILL BE REVIEWED ON A CASE-BY-CASE BASIS. HOWEVER, IN ALL CASES THE MORTGAGOR MUST HAVE AT LEAST 3 PERCENT IN CASH OR OTHER EQUITY AS DEFINED AND DESCRIBED IN SECTION 3.101 ABOVE. GIFTS OF EQUITY WILL ALSO BE HANDLED AS DESCRIBED IN SECTION 3.101 ABOVE.

(h) Non-Citizen Mortgages. A non-citizen Mortgage must be a legal resident of the United States, and at a minimum, must have:

(i) Two years job tenure in the United States with no income for qualification purposes derived from any foreign source;

(ii) Established asset base as confirmed by a Verification of Deposit, or equivalent documentation as described in Section 3.105 of this Seller's Guide, from a United States-based financial institution/depository; and

(iii) Two years established credit history in the United States as verified by a standard Residential Mortgage Credit Report.

(i) Inheritance Transactions. SONYMA will finance a property in which the Mortgagee 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 Mortgagee's proportionate share of ownership interest from the lower of the sales price or the appraised value of the property and multiply the remaining portion by 100 percent. Example: Purchase price and appraised value are \$100,000 and Mortgagee's share is one quarter or \$25,000. \$100,000 less \$25,000 is \$75,000 ("net selling price"). Assuming Mortgagee has contributed 3 percent of their own funds towards closing costs, the maximum allowable financing is \$75,000. The loan-to-Value of the Property ratio on this transaction will be 75 percent. The 3 percent Mortgagee contribution will be based on the net selling price (\$2,250).

The remaining members of the estate are not eligible as gift donors.

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

3.103 **Credit Report**

In connection with each Mortgage Loan, the Seller must obtain a written report meeting the following requirements:

(a) The credit report must be a Residential Mortgage Credit Report issued by an independent credit reporting agency acceptable to SONYMA. Such report must be no more than three months old at the time the Mortgage Loan application file is submitted, and must verify all debts listed on the credit application including terms, balances, opening dates of accounts and ratings. It must list all other debts discovered and all legal information including without limitation: suits, judgments, foreclosures, garnishments, bankruptcies, and divorce actions discovered by search of public records. In lieu of a Residential Mortgage Credit Report, SONYMA will accept an electronically merged credit report obtained from the three credit repositories.

(b) All judgments, bankruptcies, collections and adverse credit problems must be satisfactorily explained as part of the Mortgage Loan application file. Any debt disclosed on the credit report and not indicated on the loan application must be satisfactorily explained.

(c) In the event that SONYMA, in its sole discretion, determines that a credit report is inadequate, SONYMA reserves the right to declare the credit reporting source originating such report unacceptable. In such event, Seller must agree not to use such credit reporting source for future Mortgage Loans purchased by SONYMA.

(d) Non-Traditional Mortgage Credit Reports. SONYMA will accept a Non-traditional Mortgage Credit Report for Mortgagors who do not have the type of credit that would typically appear on a traditional credit report. This report may be used as an alternative to a traditional credit report (only if the Mortgagor has no traditional forms of credit) or to supplement a traditional credit report. It may not be used to enhance poor credit that has been reported on a traditional credit report. Prior to obtaining a Non-traditional Mortgage Credit Report, Seller must first attempt to verify the Mortgagor's credit history by requesting a merged credit report that combines the credit information from the three credit repositories. The Non-traditional Mortgage Credit Report should be pursued only if Seller cannot make an underwriting decision based on inadequate information from the tri-merged report and must conform to the requirements of Fannie Mae.

3.104 **Appraisals**

(a) Appraisal Forms. Sellers must supply an appraisal report and photographs of the Eligible Property. If the appraisal report is more than six 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 old may not accurately reflect the true market condition and are, therefore, **not** acceptable. The appraisal report must be on one of the following Fannie Mae Appraisal Forms with Fannie Mae 1004B (6-93) attached:

Single Family. . . . .Fannie Mae Form 1004 (6-93)

Two- to Four-Family . . . . .Fannie Mae Form 1025 (10-94)

Condominiums, All PUD's,

Homeowners Association  
with Project Approval. . . . . Fannie Mae Form 1073 (10-94)

Cooperatives . . . . . Fannie Mae Form 1075 (11-94)

For Existing Housing Mortgage Loans only, in lieu of Fannie Mae Form 1004 or Fannie Mae Form 1073, and 1004b, SONYMA will accept Fannie Mae Form 2055 (Quantitative Analysis Appraisal Report) provided a full interior inspection of the Eligible Property has been performed by the appraiser.

Appraisals must provide at least three comparable sales within one mile of the Eligible Property, and such comparables must not be more than six months old. For an Eligible Property that is considered “attached housing” under Section 3.108 or 3.109 of this Seller’s Guide, the appraisal report must contain at least one comparable sale outside of the project containing the Eligible Property.

(b) All appraisals must be accompanied by three photographs showing the front and back of the property and the street scene.

(c) The appraisal report should contain complete information in the appropriate section of the form identifying whether the Eligible Property is in a Special Flood Hazard Area as determined by the Director of the Federal Emergency Management Agency (FEMA) [see Section 2.219(e)]. Seller must attach to each appraisal report a completed FEMA Standard Flood Hazard Determination (FEMA Form 81-93, dated 6/95).

(d) Satisfactory Completion Certificate. With respect to appraisals made subject to repairs, alterations or conditions, or subject to completion per plans and specifications, and also in the case of certain rehabilitation loans as described in Section 2.404, Seller must submit to SONYMA with the Closing Documents package as described in Section 2.710(d), as appropriate, a Satisfactory Completion Certificate (Form 208; Exhibit T or equivalent Fannie Mae/Freddie Mac form). This report shall be made after completion of repairs, improvements, alterations, conditions or construction, and must clearly state substantial compliance with all conditions or requirements as set forth in the original appraisal of the mortgaged premises. SONYMA recognizes the fact that due to weather conditions, minor items not affecting livability, may be incomplete at the time of Mortgage Loan closing. This is acceptable to SONYMA provided that Seller assumes the responsibility for an escrow to guarantee timely completion as described in Section 2.211 and 2.402(n). This report, whenever possible, should be prepared by the original appraiser.

(e) Appraisers. SONYMA does not approve specific appraisers; however an appraiser must be experienced in the appraisal of 1 - 4 family properties and must be actively engaged in such appraisal work.

(i) Discontinuance of Use of Appraiser by Seller. Seller shall inform SONYMA immediately in the event Seller discontinues using the services of any appraiser who has made appraisals with respect to Mortgage Loans purchased by SONYMA from the Seller.

(ii) Discontinuance of Appraiser by SONYMA. SONYMA may, at any time, notify Seller that SONYMA will no longer accept appraisals made by a given appraiser, and Seller shall not

thereafter use such appraiser, with respect to Mortgage Loans purchased by SONYMA.

(iii) Representations to Third Parties by Appraiser. An appraiser must not make any representations to third parties that he or she has been, in any way, approved or qualified by SONYMA but may represent (where it is the case) that he or she has made appraisals for the Seller on Mortgage Loans accepted for purchase by SONYMA.

3.105 **Alternative  
Documentation  
Guidelines**

SONYMA will permit Sellers to submit documentation related to Mortgagor's income, employment and funds for closing in lieu of those set forth herein before in this Guide, in accordance with the following criteria:

(a) General Eligibility Requirements. All substitute documentation must be legible copies that do not have any erasures, "whiteouts" or alterations. Any copies submitted must be made from the original documents and not from photocopies.

Such documentation may be downloaded by Mortgagor from the internet (i.e., on-line bank and investment statements or employer's website). Further, employment, asset, and income information may be sent to Seller by e-mail or fax. In either case any documents downloaded by Mortgagor from the internet or e-mailed or faxed to Seller must clearly identify the source of such information (e.g., website address or fax banner). While these guidelines allow Sellers to save some valuable processing time, they may not meet SONYMA's needs in every situation. SONYMA reserves the right to require additional documentation, including standard VOE's or VOD's whenever the submitted documentation appears inadequate.

(b) Verification of Employment and Income. To substantiate income and employment for a salaried employee, Seller must obtain:

(i) Mortgagor's IRS W-2 forms for the past two years. Forms must be complete and legible and must be the "original" of any of the W-2 copies that did not have to be attached to a taxpayer's tax return;

(ii) Computer-generated paystubs or payroll earning statements for the most recent 30 day pay period. Statements must clearly identify the Mortgagor and indicate Mortgagor's gross earning both for the pay period and the year-to-date;

(iii) A telephone confirmation from the Mortgagor's employer. This confirmation should be directed to the employer's Human Resources or Personnel Department, but if the firm does not have such a department, it may be directed to the Mortgagor's supervisor. Seller must provide written documentation of contact with the Mortgagor's employer specifying the following:

(A) Method of independent confirmation of employer's telephone number (e.g. directory assistance, telephone book);

(B) Mortgagor's employer;

(C) Name and title of person confirming information;

(D) Date of contact;

(E) Name of Seller employee making call;

(F) Employer's response to questions about the Mortgagor's current employment; probability of continued employment; Mortgagor's income; and probability that bonus or overtime is likely to continue. At minimum, employer MUST CONFIRM that the Mortgagor is still employed at the firm.

Sellers using overtime, bonus or commission income to qualify a Mortgagor must:

(i) Utilize the methodology described in Section 3.102(c)(v) above;

(ii) Submit computer generated payroll statements for the 30 days immediately preceding the date the application file is submitted to the Pool Insurer; and

(iii) Confirm with the Mortgagor's employer that such income is likely to continue.

Self-employed Mortgagors must follow verification requirements outlined in Section 3.102(c) of this Seller's Guide.

(c) Verification of Funds Available for Deposit and Closing Costs. Acceptable documentation to substantiate availability of funds is as follows:

(i) For funds in deposit institutions, original bank statements or statements downloaded by Mortgagor from the internet are required for the most recent two months prior to the date the application file is submitted to the Pool Insurer identifying the following:

- (A) Name of depository institution;
- (B) Account holder's name and account number;
- (C) Time period covered by statement;
- (D) All deposit and withdrawal transactions; and
- (E) Ending account balance.

If statement predates Mortgagor application by more than 45 days, the Mortgagor must submit a supplemental statement such as a bank-generated deposit or withdrawal slip showing a machine-printed account number, balance and date.

(ii) For other sources of funds such as gift letters, stocks 401K or pension loans etc., lender must follow guidelines set forth in Section 3.101 of this Seller's Guide.

**3.106 Lease Provisions**

SONYMA will consider a Mortgage Loan on a leased premises on a case-by-case basis. In any event, (i) the remaining term of the lease must exceed the term of the Mortgage Loan by at least five years, (ii) the lease rent must be included in calculating the monthly housing expense-to-income ratio [Section 3.102(a)], and (iii) the lease must be assignable to Seller, its successors and/or assigns, in the event of foreclosure or deed in lieu of foreclosure, and to the new purchaser when SONYMA resells the property.

**3.107 Manufactured Housing**

All manufactured (and factory-built) housing must be permanently affixed to real property and must assume the characteristics of site-built housing.

Manufactured housing units are double-width units that are constructed off-

site and then transported to their permanent site where they are completed and/or attached to a foundation. Single-wide manufactured housing is **not eligible** for SONYMA financing.

Additional Underwriting Guidelines - Manufactured Housing. The following underwriting guidelines apply to manufactured housing:

(i) The structure must have sufficient living area, interior room size, and storage space as well as adequate roof pitch and overhangs.

(ii) For all manufactured housing, the value of the unit plus improvements must exceed 50 percent of the total property value.

(iii) All improvements must be permanently affixed to a foundation which is suitable for the soil conditions of the site. All foundations, both the perimeter and interior, must have footings below the frost line. When pier or post foundations are used, the unit must be placed where the unit manufacturer recommends. Units with piers and posts must also have acceptable perimeter skirting. The wheels, axles, and trailer hitches must be removed when the unit is placed on its permanent site.

(iv) The unit must be built with materials acceptable to the subject market area and must be in compliance with the Federal Manufactured Home Construction and Safety Standards that were established June 15, 1976. Compliance with these standards must be evidenced by a "certification label" that is permanently affixed to each transportable section of the manufactured home.

(v) All manufactured housing units must be comparable to site built housing in the immediate area, comply with local zoning and land use requirements, and have a residential appearance.

(vi) A maximum of three applications or 50 percent of the total units in a project, whichever is less, can be accepted from a manufactured housing project before project approval from SONYMA and the Pool Insurer must be obtained.

(vii) The purchase price of the Eligible Property cannot include any personal property or any type of insurance.

(viii) The land and improvements must be real property. An attorney's opinion that the property is real property or evidence that a title insurance policy will be issued must be provided.

3.108 **Condominiums,  
Planned Unit  
Developments, or  
Homeowner's  
Associations**

(a) Presale Requirements. SONYMA requires that 40 percent of the total units in the project be sold or under contract of sale prior to purchasing any Mortgage Loan. For a Mortgage Loan over 90 percent loan-to-Value of the Property, 51 percent of total units in the project must be sold or under contract of sale prior to purchasing the Mortgage Loan. Multiple purchases of units by one person shall constitute a single purchase.

Seller should submit a written certification to SONYMA that the required percentage of the units in a Condominium, Planned Unit Development, or Homeowners' Association project are sold or under contract of sale to fulfill requirements of this section.

Seller should receive sufficient information to make such determination, but

evidence that the presale requirements have been met need not be forwarded to SONYMA. SONYMA will purchase Mortgage Loans for units within the Condominium, Planned Unit Development, or Homeowners' Association project upon receipt of certification by Seller.

(b) Minimum living area, including studio apartments, is 500 square feet.

(c) Investor concentration in a project, excluding sponsor held units, cannot exceed 30 percent of the units sold.

(d) All projects must consist of a minimum of ten units. Projects with less than ten units will be considered on a case-by-case basis.

(e) Units in developments, buildings, or projects with eviction plans are not eligible for SONYMA financing.

(f) A blanket Fire and Extended Coverage Policy must be in full force and effect, and evidence that the Seller is named as an additional insured must be provided prior to or at closing. See Section 2.219(f) for more details.

(g) Project Approval. SONYMA's Pool Insurer will allow (i) up to 10 units or 50 percent of the total units in the project, whichever is less, to be financed in Existing Housing projects without requiring project approval and (ii) up to three units to be financed in Newly Constructed Housing, rehabilitations, and conversion projects without project approval. After these amounts have been used, all additional units in the project will require project approval. Prior project approval will be required for all attached housing development projects in accordance with the requirements provided herein, and is the responsibility of the Seller. The project analysis will be conducted by SONYMA and its Pool Insurer. In addition, the Pool Insurer may, at its discretion, request submission for project approval before providing a mortgage insurance commitment for a Mortgage Loan and without regard to requirements described in this Seller's Guide.

(h) Single Unit Resales. As stated in (g) above, project approval by the Pool Insurer may be required for single unit resales. To determine if a unit in an existing housing project requires project approval, please contact the Pool Insurer.

(i) Project Approval by SONYMA's Pool Insurer in accordance with Section 3.108(g) may be required. Documentation requirements will include, but are not limited to, the following to be submitted in triplicate:

(i) Offering Plan (including approved operating budget with a replacement reserve)

(ii) Appraisals (unit appraisals not more than six months old)

(iii) Market/Feasibility Studies

(iv) Promotional Literature

(v) Engineer's Report (asbestos report)

(vi) Letter of Intent from Seller

(vii) Environmental Report

(viii) Grant Documentation

(ix) Professional management agreement or plans for management.

Specific requirements for New Construction and conversions:

(i) Financial statements, resume, contact person and phone number of builder/developer, if applicable.

(ii) Promotional literature, photographs and feasibility study or marketing plan.

(iii) Engineer's report (for conversion projects only) including asbestos reports.

(iv) Sales price listing.

3.109 **Cooperative Share Loans**

(a) SONYMA will accept applications for cooperative share loans. General guidelines for cooperative share loans are as follows:

(i) Financing will be provided for cooperative share loans up to a maximum of 90 percent loan-to-Value of the Property.

(ii) Minimum living area, including studio units, is 500 square feet.

(iii) All projects must consist of a minimum of 12 units. Projects with less than 12 units will be considered on a case-by-case basis.

(iv) Presale Requirement. Not less than 40 percent of the total units in a conversion project and 51 percent of the total units in an existing project must be sold or under contract of sale at loan closing; however, the Pool Insurer reserves the right to establish a different percentage for any project. Seller certification of the presale requirement must be provided to SONYMA in writing.

(v) Cooperative units must be in buildings with fully effective and approved cooperative plans. Units in cooperative developments, buildings or projects with eviction plans are not eligible for SONYMA financing.

(vi) Project approval by SONYMA's Pool Insurer in accordance with Section 3.108(g) above may be required. The documentation requirements for project approval of cooperatives include, but are not limited to, the following to be submitted in triplicate:

(A) Offering Plan (including approved operating budget with a replacement reserve)

(B) Appraisals (unit appraisals not more than six months old)

(C) Market/Feasibility Studies

(D) Promotional Literature

(E) Engineer's Report (asbestos report)

(F) Letter of Intent from participating lender

(G) Environmental Report

(H) Grant Documentation

(I) Professional management agreement or plans for management.

Specific requirements for New Construction and conversions only:

(A) Financial statements, resume, contact person and phone number of builder/developer, if applicable.

(B) Promotional literature, photographs and feasibility study or marketing plan.

(C) Engineer's report (for conversion projects only) and asbestos report.

(D) Sales and price listing.

(vii) The cooperative shares and proprietary lease must be assigned to SONYMA at loan closing.

(viii) All additional phasing, annexation, or construction with reference to the project must be completed prior to closing.

(ix) Investor concentration in a project, excluding sponsor held units, cannot exceed 25 percent of the units sold.

(x) The remaining term of the underlying mortgage must be at least five years from the date of loan application. Exception: SONYMA's Pool Insurer will consider cooperative share loans where the remaining term of the underlying mortgage has a minimum of three years remaining. To be considered under this exception, the cooperative must have, as of the Residential Loan Application Date: (A) 51 percent project presale; and (B) a cooperative plan that has been fully effective for at least four years.

(xi) The term of the proprietary lease must at least be equal to the term of the cooperative share loan.

(xii) There must be no greater impediment to transfer possession of the unit than a 30 day right of first refusal by the Cooperative Corporation.

(xiii) 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 loan amount will be based on 90 percent of the computed sales price. If the cooperative requires the flip tax to be paid ONLY when the shares are sold at a profit, reduction of the sales price by the amount of the flip tax is not required.

(xiv) The cooperative corporation must sign the Aztech Form of Recognition Agreement or the Blumberg Form Recognition Agreement.

(b) Additional Underwriting Guidelines - Cooperative Share Loans. In addition to the underwriting guidelines detailed in Section 3.1 of this Seller's Guide, the following guidelines also apply to cooperative share loans:

(i) To qualify for financing, the individual unit's proportionate or pro rata share of the cooperative's underlying mortgage must not exceed 35 percent of the sum of the unit's total Value of the Property plus the unit's proportionate share. For example, the Value of the Property of an individual unit is \$100,000 and the proportionate share of the underlying mortgage is \$45,000. The proportionate share of the underlying mortgage is 31 percent (\$45,000 divided by the sum of \$100,000 plus \$45,000). Therefore, in this example, the unit would qualify for financing.

(ii) Share loans with the proportionate share of the underlying mortgage exceeding 35 percent do not qualify for SONYMA financing.

(c) Cooperative Share Loan Documentary Requirements. For documentary requirements on cooperative share loans, see Section 2.710(e).

3.110 **Automated Underwriting System Requirements**

The provisions of this Section 3.110 shall supercede any other Sections of this Seller's Guide in connection with the Automated Underwriting System requirements.

SONYMA will accept decisions derived from the Automated Underwriting System to determine Mortgage Loan eligibility. ***Seller is advised that in no event should a loan application be denied solely on the basis of a decision rendered by the Automated Underwriting System. For example, 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), Seller must perform a fully documented, manual underwriting of the loan application in conformance with Sections 3.101 through 3.109 of this Seller's Guide.***

(a) Seller Representations and Warranties to SONYMA. If Seller elects to use the Automated Underwriting System to underwrite Mortgage Loans for sale to SONYMA, by submitting a Mortgage Loan file for consideration to SONYMA or its Pool Insurer with the Automated Underwriting System Findings Report or Feedback Certificate (herein defined as the "Findings Report/Feedback Certificate") included in such file, Seller represents and warrants to SONYMA that with respect to each such Mortgage Loan:

(i) All data entered into the Automated Underwriting System is accurate, complete and up-to-date.

(ii) When selecting the product under which the Mortgage Loan will be submitted to the Automated Underwriting System, Seller has entered the Mortgage Loan as a conventional fixed-rate Fannie Mae or Freddie Mac product, and has not entered the Mortgage Loan under one of their affordable or subprime products.

(iii) Except as amended by this Section 3.110, Seller has complied with and met all requirements of, as applicable: (a) Fannie Mae's Desktop Underwriter® Seller/Service License and Subscription Agreement, Seller's Guide, user manuals, lender announcements, and any other agreements and manuals; and/or (b) Freddie Mac's Loan Prospector® User Agreement, Seller's Guide, user manuals,

lender bulletins, and any other agreements and manuals.

(iv) The Findings Report/Feedback Certificate submitted to the Pool Insurer for pool insurance consideration is the most recent version of such report, contains the most up-to-date information available to Seller about the Mortgage Loan application, and includes all reports and pages generated by the Automated Underwriting System relevant to the Mortgage Loan.

(v) Seller will perform post-purchase reviews of Automated Underwriting System Mortgage Loans and will comply with all quality control procedures and requirements for Automated Underwriting System Mortgage Loans in the same manner as mandated for mortgage loans sold to either Fannie Mae or Freddie Mac, depending on the system used. All files, findings, and reports are subject to review in accordance with Section 2.713 of this Seller's Guide.

(vi) Regardless of the decision rendered by the Automated Underwriting System, except as permitted by this Section 3.110, all terms, conditions, and requirements of this Seller's Guide and the Mortgage Purchase Agreement have been satisfied.

(b) Additional SONYMA Requirements for Automated Underwriting System Mortgage Loans. In order for SONYMA to accept a Mortgage Loan underwriting decision by the Automated Underwriting System, in addition to the conditions stated on the Findings Report/Feedback Certificate, the following additional requirements must be met:

(i) Maximum underwriting ratios. For Mortgage Loans with loan-to-Value of the Property ratios of 95 percent or less, the monthly housing expense-to-income ratio may not exceed 40 percent and the monthly debt payment-to-income ratio may not exceed 45 percent. For Mortgage Loans with loan-to-Value of the Property ratios of more than 95 percent, the monthly housing expense-to-income ratio and the debt payment-to-income ratio may not exceed 33 and 38 percent, respectively.

(ii) Minimum equity requirement. In all cases, Mortgagor must meet the same minimum equity requirement as stated in Section 3.101 above and Seller must be able to sufficiently document the source of such equity in the same manner as described in Section 3.101.

(iii) Submission of recent paystub. In all cases, a recent paystub must be obtained from each Mortgagor.

(iv) Project requirements. If Mortgagor is purchasing a unit in a condominium, planned unit development, homeowners association, or cooperative project, Seller must verify that the project meets SONYMA's requirements for these property types as described in Sections 3.108 and 3.109 above.

(v) Other requirements.

(A) 401(k) and pension loans, and unsecured installment loans, as described in Sections 3.101(b)(iv) and 3.101(b)(ix) above, respectively, must be included as debt obligations of the Mortgagor.

(B) Deferred student loans must be included as a debt obligation of the Mortgagor unless documentation is provided showing that the loan payments will be deferred for at least 3 years from the Residential Loan Application Date.

(C) Seller contributions may not exceed the maximum amounts set forth in Section 3.101(b)(vi) above.

(c) PMI Requirements for Automated Underwriting System Mortgage Loans. Since Fannie Mae and Freddie Mac have primary mortgage coverage level requirements different from SONYMA, Seller may not use the Automated Underwriting System to order mortgage insurance from a PMI. Seller must ensure that each Mortgage Loan meets the coverage requirements set forth in Section 2.221 above.

(d) Documentation Requirements for Automated Underwriting System Mortgage Loans. If Seller utilizes the Automated Underwriting System to underwrite Mortgage Loans for sale to SONYMA, Section 2.706(b) and (c) of this Seller's Guide shall be replaced by the following paragraphs.

(i) Pool Insurer Loan File. A copy of the documents listed below must be forwarded to the Pool Insurer for pool insurance consideration. **Unless otherwise notified by SONYMA, Pool Insurer approval is required before submitting the package to SONYMA**

(A) Pool Insurer's application for pool/primary insurance (indicate if coverage is for pool insurance only).

(B) Most recent version of the Findings Report/Feedback Certificate generated from the Automated Underwriting System as described in (a)(iv) above.

(C) All supporting documentation required by the Findings Report/Feedback Certificate.

(D) Uniform residential loan application (Fannie Mae1003).

(E) Residential appraisal report, as described in Section 3.104 above, with a full interior inspection and photographs of the Eligible Property and photographs of the comparable sales.

(F) Sales contract/offer to purchase.

(G) Recent paystub for each Mortgagor.

(H) Evidence that Mortgagor has contributed 3 percent (or 5 percent, as applicable for certain property types) of their own funds to the transaction as described in Section 3.101 above.

(I) If Mortgagor is subject to homebuyer education as described in Section 3.101(f) above, a completion certificate from a PMI approved homebuyer education course.

(J) Subsidy provider award letter, if applicable.

(ii) SONYMA Pre-Closing Application Loan File. The originals and, where noted, copies of the following documents for each prospective Mortgage Loan must be forwarded to the attention of SONYMA's Senior Loan Officer/Originations, 2nd Floor, at 641 Lexington Avenue, New York, New York 10022. The SONYMA Loan Number must appear on all documents for each Mortgage Loan.

- (A) Application Loan File Checklist (Form 225; Exhibit C).
- (B) Mortgage Loan Eligibility Form (Form 212; Exhibit D).
- (C) Loan Verification Form (Form 213; Exhibit E).
- (D) Property Seller's Affidavit (Form 210; Exhibit H).
- (E) Copy of Recapture Notification and Mortgagor's Affidavit (Form 211; Exhibit G).
- (F) Property Usage Affidavit (Form 242; Exhibit J).
- (G) Manufactured HomeOwner Eligibility Affidavit (Form 217; Exhibit K), if applicable, as described in Section 2.302 of this Seller's Guide.
- (H) Private mortgage insurance (PMI) certificate or endorsement, if applicable.
- (I) Pool insurance certificate.
- (J) Copy of executed Contract of Sale.
- (K) Copy of initial executed and dated Fannie Mae Form 1003 - Uniform Residential Loan Application with a copy of Fannie Mae Form 1008 - Underwriting and Transmittal Summary attached.
- (L) Copy of initial and executed Good Faith Estimate.
- (M) Copy of fully executed Lender Lock-in Agreement.
- (N) Copy of most recent version of the Findings Report/Feedback Certificate generated from the Automated Underwriting System as described in (a)(iv) above.
- (O) Copies of all supporting documentation required by the Findings Report/Feedback Certificate.
- (P) Recent paystub for each Mortgagor.
- (Q) Evidence that Mortgagor has contributed 3 percent (or 5 percent, as applicable for certain property types) of their own funds into the transaction as described in Section 3.101above.
- (R) As appropriate, a copy of the Fannie Mae Form 1004 (Single Family), Fannie Mae Form 1025 (Two- to Four-family), Fannie Mae Form 1073 (Condominium) appraisal form with Fannie Mae Form 1004B attached, or Fannie Mae Form 1075 (Cooperative) appraisal form. For Existing

Housing Mortgage Loans only, Fannie Mae Form 2055 (Quantitative Analysis Appraisal Report) may be submitted in lieu of Fannie Mae Form 1004 (Single Family) and Form 1073 (Condominium) provided a full interior inspection of the Eligible Property has been performed.

(S) Three clear, descriptive original or laser-produced photographs. One photograph should be a front view of the property showing the complete improvements, the second should be a rear view of the property, and the third should be a street scene showing neighboring improvements.

(T) Copies of Mortgagor's **signed** Federal income tax returns for the previous three years, or equivalent as defined in Section 2.301. If the Mortgagor's tax returns show itemization for real estate tax and/or home mortgage interest deductions, then a separate notarized affidavit explaining such deductions must also be submitted. Tax returns are not required if the Eligible Property is located in a Targeted Area. **Note:** Regardless of what may be required by the Findings Report/Feedback Certificate, SONYMA will require complete copies of **all** pages and schedules of Mortgagor's Federal income tax returns.

(U) Copy of FEMA Standard Flood Hazard Determination (FEMA Form 81-93, Oct 98).

(V) Copies of subsidy documentation, if applicable.

(W) Such other documents as SONYMA may reasonably request.

(e) Ineligible Transaction Types. SONYMA will not permit the types of transactions listed below to be underwritten using the Automated Underwriting System. Such transactions must be fully documented and manually underwritten in accordance with Sections 3.101 through 3.109 above. The ineligible transaction types are as follows:

(i) Applications for Mortgagors with a history of bankruptcy (where the bankruptcy was discharged less than 5 years from the Residential Loan Application Date) and/or foreclosure.

(ii) Applications requiring a Guarantor.

(iii) Applications where Mortgagor is utilizing a budget letter to accumulate the required funds for downpayment and closing costs.

(f) Ineligible Underwriting Decisions. SONYMA will not accept Automated Underwriting System approval decisions with "loan-level price adjustments". In order to be eligible for purchase by SONYMA, such Mortgage Loans must be fully documented and manually underwritten in accordance with Sections 3.101 through 3.109 above.