DHCD

Maryland Department of Housing
and Community Development

MARYLAND DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

MARYLAND HOUSING FUND

SINGLE FAMILY OPERATIONS

UNDERWRITING GUIDELINES

APPRAISAL GUIDELINES

MINIMUM PROPERTY STANDARDS

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TABLE OF CONTENTS

UNDERWRITING GUIDELINES

I. INTRODUCTION

The Maryland Housing Fund (MHF) of the Division of Credit Assurance, Maryland Department of Housing and Community Development, is the State's mortgage insurance agency and operates under the direction of the Department of Housing and Community Development. MHF offers mortgage insurance to help lenders and public agencies provide housing for Maryland residents in those markets not being adequately served by the private or public sector and to prevent neighborhood deterioration and encourage community development. The following operational guidelines have been developed with the intent to provide beneficial treatment of buyers, ease of utility by lenders, while providing sufficient structure to minimize the risk associated with such an insurance program. Note: MHF does not provide mortgage insurance on junior liens.

Underwriting is as much an art as it is a science. MHF underwriters combine experience and judgment with the standards identified to formulate an equitable decision regarding the insurability of each case. The underwriters approach loan applications with reasonableness and logic, in order to assist a greater number of individuals in achieving the dream of homeownership, while assuring that the risks associated with delinquency and default are minimized.

II. MORTGAGE INSURANCE APPLICATION PACKAGE

Generally, the documentation in the application package should be on Fannie Mae or FHA forms, as applicable. Photocopies are acceptable for all items except appraisal photographs. MHF reserves the right to require original or additional documentation on a case-by-case basis.

The following items must be submitted in the following order in the application package:

1. MHF Application for Mortgage Insurance Transmittal Form;
2. Underwriting Certification;
3. Borrower/Co-Borrower Signed Initial and Final FNMA Uniform Residential Loan Application (1003);
4. Credit Score page(s) of credit report(s);
5. Verification of Loans not appearing on credit report(s), if applicable;
6. Verification of Rental;
7. Income Verifications;
8. Asset Verifications;
9. Lender's request for use of Compensating Factors Consideration & Documentation, if applicable;
10. Contract of Sale with Addendums;
11. Appraisal with Addendums, submitted via e-mail. See Program Appraisal Form Guidelines for further details;
12. Warranty of Completion of Construction, if applicable;
13. Condominium Certificate, if applicable;
14. Documentation on any approved Grants, Buydowns, Soft Seconds, SELP Financing, etc.;
15. Good Faith Estimate.
16. Any other documentation the lender/Maryland Housing Fund determines is needed.

III. NOTICE OF CHANGE

Any change in circumstances or conditions of an application after submission to MHF, must be immediately brought to MHF's attention. The lender is obligated to inform MHF and fully document the change. This not only applies to applications for insurance but also applies to Mortgage Insurance Certificates that have been issued. Failure to notify MHF will be deemed an automatic denial of an insurance request or cancellation of the Mortgage Insurance Certificate and coverage.

IV. GENERAL BORROWER ELIGIBILITY

To be considered, all borrowers must be legally able to enter into a contractual obligation as determined by the laws of the State of Maryland.

Refinances: All parties on the previous loan must be included on the application for refinance. Credit reports must be provided for all parties on the application as well.

V. HOUSING EXPERIENCE

Borrower(s) must have demonstrated their ability to meet present housing expense in a timely manner. Verification of rental is required by MHF.

Borrower(s) should show stability in residency. Generally, two (2) years' successful, previous rental housing experience is desired, in lieu of evidence of previous home ownership. Where borrower(s) have moved frequently, MHF may require written explanation or evidence of satisfactory housing experience.

Close examination will be given to those applications where borrower(s)' proposed housing expense greatly exceeds their current housing expense. Generally, these applications must have offsetting favorable qualities.

VI. BORROWERS WHO ARE NOT SELF-EMPLOYED

Documentation Requirements:

1. Income Documentation:

a. Pay stubs must be the two (2) most recent obtainable prior to the loan application date and be accompanied by W2's for the immediate past two (2) years. If pay stubs are not available, Verifications of Employment (VOEs) may be obtained.

b. VOEs (Verifications of Employment) must have been completed not more than sixty (60) days prior to the date MHF receives the application package for processing.

c. 1098s and 1099s must be for the immediate past two (2) years.

d. Increases in subsidy income (social security, disability, pension, etc.) should be documented with a copy of the most recent award letter

e. Refer to **Section VIII. Other Income Considerations** for documentation of other sources of income

2. Asset Documentation:

a. Borrower(s) must have verified cash assets necessary to meet the total down payment and costs of settlement.

b. Bank statements (for each account and for each borrower) must be for the two months immediately preceding the loan application date. If bank statements are not obtainable, Verifications of Deposit may be used.

c. Verifications of Deposit (VODs) must have been completed not more than sixty (60) days prior to the date MHF receives the application package for processing.

d. Grants and funds (non-amortizing/due on sale loans) from governmental agencies and non-profit entities for settlement and/or closing costs and/or down payment are acceptable, provided that MHF has granted prior approval.

e. Loans or withdrawals from the borrower’s 401K or similar retirement plan are acceptable. Note: Loan payments will be included as part of Long Term Debt.

f. Sales concessions from sellers and/or realtors may be permitted for use as closing costs and/or down payment funds. MHF does not have a maximum seller contribution. The seller, for example, can pay all closing costs plus the upfront insurance premium. However, where seller contributions exceed what is normal and customary for the area, the appraiser must address the issue and adjust value accordingly on the appraisal.

g. Gifts may be given by anyone other than the Realtors, Sellers or parties having an interest in the contract. The following documentation will be required:

    1. A letter certifying that the contribution is a gift, not a loan, and denoting the relationship of the contributor to the borrower or co-borrower(s); and

    2. VOD (Verification of Deposit), most recent bank statement (s), or a letter from the contributor's bank stating that the contributor has the financial ability to contribute the gift funds.

h. Earnest Money Deposits and items paid outside closing must be documented on the 1003.

3. Other Documentation:

Credit Reports, Verifications of Loan (VOLs) and Verifications of Rent (VORs) must have been completed not more than sixty (60) days prior to the date MHF receives the application package for processing. See Appraisal/Minimum Property Sections for appraisal requirements.

Employment Requirements:

1. Two (2) years of employment must be documented for each borrower and co-borrower unless a substitution of education or training is requested for ONE of the two years.

2. The borrower and co-borrower(s) should show stability of employment. MHF defines stable employment as at least two years of continuous employment in the same career field. Frequent employment changes are not acceptable.

Income Calculations:

1. Full-time Employment:

For borrower's and co-borrower's full time employment, one hundred (100) percent of the base salary/wage is recognized if properly documented. Raises on full time employment will be allowable for affordability calculations if verified by the employer to begin within thirty (30) days of the date MHF receives the application package.

2. Secondary Employment/Income:

a. Part-time Employment: For income to be recognized, part-time employment should be at least two (2) years in the same position and with the same employer. Raises on part-time employment will not be used in affordability income calculations.

b. Overtime and Bonuses: Overtime and bonuses must be verified as having been received for the immediate past one year at the current level of hours being worked at the present time. If documented by a VOE (Verification of Employment), the VOE must state this income is a normal part of the job and is likely to continue.

3. Commissions and/or Tips

The Borrower or co-borrower(s)' immediate income derived from commissions and/or tips requires two (2) previous federal tax returns with supporting tax schedules for a determination of income.

4. **Other Income Sources**

Refer to **Section VI. Other Income Considerations** for other sources of income.

VII. SELF-EMPLOYED BORROWER(S)

Income Documentation for Self-Employment

The following documentation is required for all self-employed borrowers and co-borrowers:

1. Signed individual federal income tax returns, including all applicable schedules for the previous two (2) years;

2. A current financial statement (audited if possible), including a balance sheet and a year-to-date profit and loss statement if more than three (3) months have passed since the end of the last tax year; and

3. If the business is a corporation or partnership, copies of signed federal business income tax returns for the last two (2) years with all applicable schedules attached.
4. Certain expense items shown on the federal income tax returns may be added to the taxable income to determine the borrower's gross income for qualifying purposes. However, these adjustments should not result in a qualifying income that exceeds the borrower's actual earnings. Adjustments that may be added to taxable income include (if applicable under federal law):

a. depreciation on real property;
b. depreciation on personal property, if there are at least three years of depreciation remaining;
c. IRA/Keogh contributions;
d. interest income exclusions;
e. non-taxable pension income;
f. non-cash losses; and
g. Alimony.

Form 1040

Particular attention must be paid to the following items when evaluating income from the IRS Form 1040:

1. Wage, Salaries and Tips: If an amount is entered on this line and borrower is self-employed, the lender should investigate. This could mean that the self-employed borrower operates as a corporation and pays him or herself a salary. It could also mean that the borrower's spouse is employed. If this is the case, the spouse's income should be subtracted from the income on the tax returns. If this income is needed to qualify the borrower; the lender must verify it directly with the spouse's employer.

2. Dividends: The dividend exclusion may be added back to income.

3. Business Income: The Sole Proprietorship income calculated on Schedule C is business income. Depreciation and depletion from Schedule C may also be added back to income.

4. Capital Gain or Loss: A capital gain or loss is generally a one-time transaction. Therefore, it should not generally be considered as either a gain or loss in determining income. However, if the borrower's business has a constant turnover of assets that precedes regular gains and losses, the capital gain or loss may be considered. (An example of this is the person who buys old houses, remodels them, and sells them for profit.) If the borrower has operated in this manner over a period of time; the lender may develop an average of the past two years' gains or losses for consideration in the income calculation. An asset sold during the year may be an income-generating asset. Future income may be reduced as a result of the sale.

5. Rent, Royalties. Partnerships, etc.: This includes any income received from partnerships or rental properties. It may be used as income after any depreciation shown on Schedule E is added back.

6. Farm Income: Any depreciation expense shown on Schedule F may be added back to income.

Form 1120

The primary purpose for reviewing the corporate tax return is to analyze the business financial strength and to confirm that it will continue to generate the income the owner/borrower needs to qualify for the requested mortgage. When the individual tax return confirms sufficient borrower income and the corporate tax return indicates a viable company, the lender does not need to investigate the corporation any further. However, if the borrower needs to (and has the ability to) draw additional income from the corporation, further evaluation is necessary.

Particular attention must be paid to the following items when evaluating income from the IRS Form 1120:

1. Taxable Income: Taxable income is the corporation's net profit. Only the borrower's proportionate share may be used on the Income Analysis.

2. Depreciation: Depreciation represents the corporation's total depreciation. Only the borrower's proportionate share may be used on the Income Analysis.

3. Depletion: Depletion is the corporation's total depletion. Only the borrower's proportionate share may be used on the Income Analysis.

4. Compensation of Persons with Ownership Interests: The borrower's percentage of ownership in the corporation must be determined. This is the percentage that is applied against corporate income to determine the borrower's share. If this information is not provided, other evidence of the borrower's ownership must be obtained in order for this business income to be considered. A statement by the corporation's accountant is satisfactory evidence.

5. Fiscal Years: Many corporations operate on a fiscal year that is different from a calendar year. In these cases, the lender must make time adjustments to relate the corporate income to the individual tax return, which is on a calendar year.

Once the above items have been credited to the borrower, the overall corporate financial position should be re-evaluated. Additional borrower withdrawals of cash cause have a severe negative cash flow. When this occurs, it may not be possible to confirm the stable, ongoing income that is needed to approve the mortgage.

Business Debts

The obligations of the corporation are considered obligations of the borrower and counted as individual debt. Additionally, in any case where the borrower has given his personal guarantee for a business debt, the debt shall be considered an obligation of the borrower regardless of the legal structure of the business.

"S" Corporations

"S" Corporations are usually small, start-up businesses that are taxed in the same manner as partnerships. They pass gains and losses on to their share holders, who are then taxed at the tax rates for individuals. Depreciation, depletion, and ordinary income (or loss) can be proportionately added back to (or subtracted from) the borrower's income. The obligations of the corporations are considered obligations of the borrower and are counted as individual debt.

General and Limited Partnerships

Both General and Limited Partnerships use the IRS Form 1065 and Schedule K-1 for filing federal income tax returns. The Partnership Return of Income (IRS Form 1065) should be reviewed to determine if the business is a viable concern. Because the partnership income is carried over to the individual tax return, the partner's share of income, credits, deductions, etc. (Schedule K-1) is used only to determine items that can be added back to income to qualify the borrower. The borrower's proportionate share of the depreciation, amortization and depletion may be added back to the borrower's income.

Profit and Loss Statement

A typical Profit and Loss Statement has a format similar to Schedule C of IRS Form 1040. Any salaries or draws received by the borrower, as well as the allowable add-backs indicated in the Adjustment to Income section, may be added to the net profit. However, only the borrower's proportionate share of these items can be considered.

Income Averaging/Earnings Trends

The lender must develop an average monthly income by using at least two (2) full years' actual income of the borrower. When a year-to-date profit and loss statement is used, the income on that statement should be averaged with the borrower's income for the previous two (2) years, thus providing an average based on a period of time that is greater than two (2) years. If a lender has been provided with tax returns for three (3) years, all three (3) years' income may be used to establish an average income. Because self-employed income may change each year, an average better approximates the borrower's long term earning ability. Projected income that cannot be verified is not acceptable for qualifying purposes.

It is also important to establish the borrower's earnings trends. Annual earnings that are level or increasing are acceptable. However, a continuing large decline in gross income over two (2) or three (3) years would be a reason to decline the application, even if the borrower's current income and debt ratios meet our guidelines. The lender should pay attention to the overall business trends reflected in the statements. The lender should also evaluate the individual business through its knowledge of other businesses in that industry to estimate the potential for long-term earnings. The lender may wish to use Fannie Mae Form 1084A in assisting their analysis of self-employed Income.

VIII. OTHER INCOME CONSIDERATIONS

1. **Dividends/trust fund payments/interest/royalties** must be verified in writing by payor or account manager/trustee stating the probability of continuance is likely. The term of the payments must be specified therein and should support the receipt of this type of income for at least three (3) years after settlement.

2. **Unemployment compensation** will be used only for seasonally affected jobs (if the person is regularly laid off during the course of a year). The pattern must have been established for two (2) years and documentation proving this is required.

3. **Alimony, maintenance payments and child support** may be included as normal income for the recipient to the extent the payments are verified in a manner acceptable to MHF. Acceptable verification would be:

    a. A photocopy of the bank statements which exhibit timely and continuous payment of the claimed income in the proper amount to the borrower over at least the last six (6) months prior to the date of application;

    b. A letter from the municipal, county, state or federal agency through which the income is passed which attests to the timely and continuous payment of the income claimed in the proper amount by the payor to the borrower over at least the last six (6) months prior to the date of application and which discloses any arrearage.

    c. Documentation in the form of the divorce decree and/or separation agreement must be submitted. A review of the documentation must reveal that the income is to continue unabated for at least three (3) years after the date of the application for the insurance. Any term of payment that will be less than three (3) years will reduce the amount of income recognized.

4. **Government Transfer Payments**: Public assistance/social security must be verified in writing by paying agency. Any term of payment that will be less than three (3) years will reduce the amount of income recognized.

5. **Tax Exempt Income**: Tax exempt income may be grossed upward twenty five (25%) percent when calculating for affordability.

6. **Additional Documentation**: MHF may at its discretion require that the lender furnish additional information and/or documentation to substantiate income.

7. **Income Determination**: MHF will make the final determination of acceptability and the amount of income to be used for affordability ratios.

IX. CREDIT

Credit Reports

MHF requires that the lender obtain a mortgage credit report(s) for both the borrower and any co-borrower(s). Credit reports must be obtained from an independent credit reporting agency within 90 days of the mortgage insurance application.

Minimum Acceptable Credit Score

All borrowers will be required to have a score of **660 or greater.** Lenders should use the middle of the three reporting agency credit scores, or the lowest if only two are obtained.

Borrowers Who Have Not Established Traditional Credit History:

Should a borrower or co-borrower not have established a credit history, the following documentation is required:

1. Housing payment required to be verified by a non-interested third party for the past twelve (12) months.

2. Automobile financing/leasing and/or cell phone carrier required for previous twelve (12) months.

3. For the past twelve (12) months, at least one of these categories is required: Utilities, cable television, furniture rental or land-line telephone service.

Other Credit Considerations

1. **Lender Credit Review:** The Lender must have reviewed the credit report(s) and determined that the information in the credit report(s) indicates acceptable credit and a positive and reasonable probability that the borrower(s) will meet the financial obligations as agreed.

2. **Paying of Delinquent Debts, Judgments and Collections:** Simply paying off delinquent debts, judgments, and/or collections is not viewed as acceptable credit.

3. **Consumer Credit Counseling:** Being currently involved with a consumer credit counseling agency is not viewed as acceptable credit.

4. **Intent or Predications to Pay:** Borrower intent to pay or predications by lender that delinquent debts are to be paid is not viewed as acceptable credit.

5. **No Established Credit History:** Borrower(s) must have established acceptable credit. Alternative credit documentation should not be considered.

6. **Accounts Not Listed on Credit Report:** Accounts not listed on the borrower(s)' credit report, but established by the borrower(s), must be verified by the creditor in writing to the lender and included on the FNMA Loan Application/1003.

7. **Foreclosure:** In the instance of foreclosure, at least three (3) years must have elapsed since final ratification of the foreclosure sale. Acceptable credit must have been re-established for the immediate past twelve (12) months.

8. **Bankruptcy:** Bankruptcy will require the following additional documentation:

    a. In all instances, a written explanation and appropriate documentation are required to be provided by the borrower(s) detailing the date incurred, the problem or cause and the manner of resolution. MHF will determine if the documentation and explanation are acceptable.

    b. Documentation evidencing discharge AND any other documentation MHF may require.

At least two (2) years must have elapsed since final discharge of the bankruptcy action and Acceptable credit must have been newly established since the discharge and maintained for the immediate past twelve (12) months.

X. QUALIFYING RATIOS FOR AFFORDABILITY

Definitions

The qualifying ratio by which affordability will be calculated is as follows:

1. Allowable gross income, in accordance with the guidelines related in this manual, will be used. This income, for calculation purposes, will be rendered to a monthly amount, the Allowable Gross Monthly Income (AGMI).

2. Monthly mortgage payment (PITI) or Mortgage Debt is defined to include principal and interest, property taxes as taken from the Good Faith Estimate, hazard insurance, mortgage insurance, ground rent, homeowner's association fee, condominium fee and any other required escrow items.

Note: The verified utility portion of the condominium fee may be eliminated for affordability. Documentation is required.

Mortgage Debt Ratio

The Mortgage Debt Ratio is that of PITI/AGMI. This should not exceed thirty three (33) percent. The MHF underwriters may add a discretionary two (2) percent to the thirty three (33) percent standard only when compensating factors are documented by the lender. There must be at least two (2) compensating factors present for the two (2) percent addition to the ratio. MHF will review the lender's documentation of the compensating factors and determine whether or not the addition of the two (2) percent to the Mortgage Debt Ratio will be allowed.

Long Term Debt

Installment Accounts - Installment debt includes all monthly payment(s) on all outstanding installment debt(s) that require ten (10) or more monthly payments to satisfy the obligations. However, those debts excluded from long term debt may still be relevant, i.e., an auto loan that will be paid in seven (7) months but is a significant portion of the borrower(s)' income. The borrower(s)' total obligations and their ability to meet these total obligations during the months immediately following loan closing must be considered.

Revolving Accounts - Revolving debt includes the greater of either the total of all payments as verified on the credit report or three (3) percent of the outstanding balances. Three (3) percent of the outstanding balances(s) will be used failing provision of acceptable documentation showing the monthly payment(s) or for accounts which are routinely required to be paid in full each month we will use 3% of the balance.

Deferred Student loans - Student loans, with payments commencing within twelve (12) months from the date of application, must have the payment identified and included in the debt ratio.

Total Debt Ratio

The Total Debt ratio is that of PITI plus Long Term Debt)/AGMI. This should not exceed forty-one (41) percent. MHF underwriters may add a discretionary two (2) percent to the forty-one (41) percent standard only when compensating factors are documented by the lender. There must be at least two (2) compensating factors present for the two (2) percent addition to the Total Debt Ratio. MHF will review the lender's documentation of the compensating factors and determine whether or not the addition of the two (2) percent to the Total Debt Ratio will be allowed.

IMPORTANT NOTE: Predications to reduce long term debts to meet the qualifying ratio are not acceptable. Borrower(s) must qualify under both ratios.

Additional Inclusions/Exclusions from the Total Debt Ratio

Settlement Expense Loan Programs (SELP) - SELP monthly payments are considered long term debt.

Retirement Accounts - Borrowing against one's own retirement plan will be allowed. The repayment amount will be used in the affordability calculations (Total Debt Ratio). Loans will only be allowed under plans adopted under that tax code such as IRA's and 401K's where penalties for early withdrawal exist.

Co-signed loans - Monthly payments on co-signed loans are considered debts. However, if it is documented that the co-signed loan is currently being paid as agreed and has been paid in that manner for the past twelve (12) months by the original borrower, and then the debt does not have to be counted in the Total Debt Ratio.

XI. COMPENSATING FACTORS

The following compensating factors may be considered by MHF underwriters in permitting the usage of the discretionary additional two (2) percent in the qualifying ratios. Note: Lenders must document two (2) compensating factors for the discretionary addition to the qualifying ratios.

1. Job Tenure: Borrower(s) has job tenure in excess of five (5) years in the current job.

2. Down Payment: Borrower(s) makes a down payment with funds documented to be the borrower(s) own money, not borrowed, a grant, gift, concession, or from any other source; such that the loan to value ratio (as calculated by MHF) falls below ninety-five (95) percent.

3. Cash Reserves: Borrower(s) is documented to have liquid assets after settlement of at least three (3) percent of the sales price.

4. Rental Payment History: Borrower(s) is documented as having paid their rent in an agreed manner in excess of two (2) years and the amount of the rent for the past two (2) years has been greater than the proposed PITI of the mortgage to be insured.

5. Debt Free: Borrower(s) currently are, and have been, debt free for a period of six months prior to the loan application date.

6. Credit Score of 720 or greater for one borrower. For a borrower plus co-borrower(s), the average of their credit scores must be 720 or greater.

XII. PROPERTY ELIGIBILITY

1. The property must be located in the State of Maryland.
2. The property must be residential in nature and use and be owner-occupied as a primary residence throughout the life of the loan.
3. The property must meet MHF's current property standards. See the "Property Standards and Appraisal Requirements" Section.
4. If the unit is proposed or new construction, including rehabilitation, it must be one hundred (100) percent complete according to plans and specifications upon which the appraisal report is based. A Use and Occupancy Certificate is required if such certificates are issued by the jurisdiction in which the property is located. A written certification of completion and final inspection from the Lender by the original appraiser must be presented prior to or at settlement.
5. If the unit is a part of a new or proposed subdivision/development, including townhouse or condominium projects, the proposed subdivision/developments including townhouse or condominium projects may be subject to MHF approval.
6. All existing condominium units shall meet FHA "spot loan" requirements per HUD mortgagee letter 96.-41.
7. On new construction, a Builder/Developer Warranty acceptable to MHF is required.
8. On condominiums, a Condominium Certification acceptable to MHF is required.
9. If an existing property, a termite inspection certification must be presented at settlement. In the case of new construction, a soil treatment guarantee certificate is required to be presented at settlement. The improvement covered by appropriate levels of property insurance against hazard and flood, if applicable.

Home Inspection

Lenders should follow the investor's home inspection requirements. In addition, while not being an MHF requirement, MHF suggests that a home inspection be performed on the subject property by a qualified inspector.

XIII. PROGRAM APPRAISAL FORM GUIDELINES

In order to determine the reasonableness of the amount of the loan which will be subject to mortgage insurance, the Maryland Housing Fund (MHF) will require an appraisal of the property. The value of the property determined by the appraisal will be a factor considered by MHF in determining the acceptable loan-to-value ratio and general acceptability of the property as a component in the decision on the issuance or denial of mortgage insurance coverage.

The Maryland Housing Fund requires all appraisals to meet the following criteria:

1. The Maryland Housing Fund guidelines for property analysis include specific requirements to which appraisers must adhere for the appraisal to reflect an accurate valuation. Therefore, appraisals submitted shall adhere to FHA guidelines section 4150.2 Chapter 3 (property analysis) and section 4905.1 Chapter 2 (general acceptability criteria).

2. Complete Summary Appraisal reports must be submitted via e-mail for review in a format compatible with ACI appraisal software. The Appraisal should include, but not be limited to, the following:

i) Fannie Mae Form 1004 Complete Summary Appraisal Report (as revised March 2005)with addendums;
ii) Exterior photographs of subject to include front, rear and street scenes;
iii) Interior photographs of subject.
iv) Exterior front photographs of all comparable sales used in report;
v) Location Map showing subject and all comparable sales used in report;
vi) Flood Map page;
vii) Building sketch of subject to include interior floor plan; and

MHF may require additional standards and/or documentation from time to time.

3. MHF requires all appraisers to be currently on the HUD roster as approved FHA appraisers and be in good standing as well as being licensed or certified in the State of Maryland. MHF will not accept appraisals performed by appraisers with a Trainee license.

XIV. Investor Sales/Certifications/Appraisals

Investor Sales - In cases where the seller has not owned the property for at least one (1) year prior to sale, and has not used it as a primary residence, evidence of the following shall be submitted:

A. The last arm’s length purchase price and expense of purchase;
B. Certification of interim financing expenses incurred in holding the property and effecting any improvements;
C. Costs of improvements made to property by seller;
D. Holding costs associated with improved property;
E. A reasonable overhead and profit allowance on the above;
F. A typical broker’s commission on the sum of the above, except where an identify of interest exists between the seller and the broker.

EXAMPLE

Purchase or option price ……………………………....	$10,000
Expense of purchase ……………………………………	125
Interim financing expense (10%, 6 months on $10,000)…..	500
Holding costs (includes taxes, assessments, Ground Rent, etc.	175
Repairs …………………………………………………………	1,500
Total	$12,300
Overhead and profit (20% on $12,300+)	2,460
Subtotal	$14,760
Broker's commission (7% of purchase price)	700
Total – Modified Cost Approach	$15,460

The MHF review appraiser will consider the Modified Cost Approach and the appraised market value in the final conclusion for mortgage insurance.

NOTE: This section applies only to individual investors, Government Agencies or Lending Institutions are exempt.

XV. MINIMUM PROPERTY STANDARDS

The Maryland Housing Fund (MHF) requires all properties, which are to be the subject of mortgage insurance, be fully habitable. These minimum property standards describe the factors which should be considered in determining a property's eligibility.

1. All properties must meet FHA Minimum Property Standards, any applicable local government codes and satisfy all State of Maryland Livability Code (http://lhi5.umbc.edu/dhcd2) criteria where applicable;
2. MHF requires 100 amp electric service for all properties; and
3. MHF may require additional standards from time to time.

Warranty of Completion of Construction

Lender's Name, Address and Phone Number(Include Area Code)	Name(s) of Purchase/Owner
	Property Address

For good and valuable consideration, the undersigned Warrantor hereby warrants to the Purchaser(s) or Owner(s) identified in the caption hereof, and to his/her successors or transferees, that:

The dwelling located on the property identified in the caption hereof is constructed in substantial conformity with the plans and specifications including any amendments thereof, or changes and variations therein.

Provided, however, That this warranty shall apply only to such instances of substantial nonconformity as to which the Purchaser(s)/Owner(s) or his/her (their) successors or transferees shall have given written notice to the Warrantor at any time or times within one year from the date of original conveyance of title to such Purchaser(s)/Owner(s) or the date of initial occupancy, whichever first occurs: **Provided further, however**, That in the event (1) the Purchaser(s)/Owner(s) acquired title to the captioned property prior to the completion of construction of the dwelling thereon, such notice of nonconformity to the Warrantor may be given any time or times within one year from the date of completion or initial occupancy of such dwelling, whichever first occurs, or (2) where it has been necessary to postpone improvements such notice of nonconformity to the Warrantor as to such incomplete items may be given at any time or times with one year from the date of full completion of each of such items. The term "dwelling" as used herein shall be deemed to include all improvements or appurtenances set forth in the plans and specifications upon which Maryland Housing Fund has based the valuation of the property.

The undersigned Warrantor further warrants to the Purchaser(s)/Owner(s) or his/her (their) successors or transferees, the property against defects in equipment, material, or workmanship and materials supplied or performed by the Warrantor or any subcontractor or supplier at any tier resulting in noncompliance with standards of quality as measured by acceptable trade practices. This warranty shall continue for a period of one year from the date of original conveyance of title to such Purchaser(s) or from the date of full completion of each of any items completed after conveyance of title. The Warrantor shall remedy, at the Warrantor's expense, any defect(s) of equipment, material, or workmanship furnished by the Warrantor. Warrantor shall restore any work damaged in fulfilling the terms and conditions of this warranty.

	Manufacturer's Name, Address & Phone Number (Include Area Code)
I hereby certify the following: I have been a builder for at least five (5) years and have acted as a general contractor in the construction and sale of at least 25 single family residences.	

This warranty shall be in addition to, and not in derogation of, all other rights and privileges which such Purchaser(s)/Owner(s) or his/her (their) successors or transferees may have under any law or instrument, and shall survive the conveyance of title, delivery of possession of the property, or other final settlement made by the Purchaser(s)/Owner(s), and shall be binding on the Warrantor notwithstanding any provision to the contrary contained in the contract of purchase or other writing executed by the Purchaser(s)/Owner(s) or his/her (their) successors or transferees heretofore or contemporaneously with the execution of this agreement or prior to final settlement.

Warrantor represents and certifies that he/she is authorized to execute the same by the warrantor and by his/her signature the Warrantor is duly bound under the terms and conditions of said warranty.

Warrantor Warrantor's Title		Purchaser(s)' Acknowledgement Signature of Purchaser	Date (mm/dd/yyyy)
Signature	Date (mm/dd/yyyy)	Signature of Purchaser	Date (mm/dd/yyyy)

Builder's Name and Address	Builder's Phone Number (Include Area Code)

Purchaser Note: Any notice of nonconformity must be delivered to the warrantor within the period or periods set forth above.

CONDOMINIUM CERTIFICATION

(SAMPLE)

All applications for primary mortgage insurance on condominium unit loans must be accompanied by a letter from the lender, on its stationary and signed by an officer, listing and certifying items number one (1) through number seven (7). (Contact the Maryland Housing Fund for further information.)

1. Name of condominium ____
2. Address ____
3. Total number of units in condominium ____________________________
4. The condominium meets all FNMA Guidelines in compliance with FNMA Announcement 07-18, dated 11/15/07, Lender Delegation of Project Review Processes and Related Changes for Condominiums, Cooperatives, and Planned Unit Developments (PUDs).
5. That the title company states it will attach ALTA Form 4 to their title insurance policy.
6. The condominium is not a conversion, or if a conversion, either

   a. The legal process for conversion was fully approved by all state and local entities at least six (6) months prior to the origination date of the buyer's application, except in the instance where the buyer is currently a tenant in the project/development being converted;

   OR

   b. The building(s) was/were one hundred (100) percent vacant at least twelve (12) months prior to the start of the conversion.

7. The lender extends all FNMA required representations and warranties to the Maryland Housing Fund.

NOTE: The Maryland Housing Fund will offer insurance coverage on no more than 10% of the condominiums sold/settled per phase for new or existing construction projects.

UNDERWRITING CERTIFICATION

(SAMPLE)

All applications for mortgage insurance must be accompanied by a letter from the lender, on its stationary and signed by the lender's underwriter. The underwriter must certify that the application has been underwritten and meets all of MHF's underwriting guidelines, appraisal guidelines and minimum property standards. The following information is also required to be in the letter:

1. Name of the applicants.
2. The address of the subject property.
3. The originating Branch's address/location.
4. Name of the underwriter.
5. Contact telephone number for the underwriter.
6. Date the underwriter certified MHF's guidelines and standards were met.