# 761 CMR 21.00: SELLER'S GUIDE

Section



## 21.01: Purpose

MHMFA will purchase Loan Participations in Mortgage Loans meeting the requirements outlined in this manual.

21.01: continued

MHMFA and Sellers intend this program to be responsive to the needs of creditworthy low and moderate income prospective and existing homeowners seeking to purchase or rehabilitate properties throughout the Commonwealth, but particularly in older residential neighborhoods, which for various reasons have suffered or are beginning to suffer deterioration and disinvestment. The properties to be financed will be appraised and underwritten according to well defined criteria that contemplate individual credit standing and individual structure conditions and the goal of the preservation and conservation of existing housing stock in the Commonwealth.

Each Seller will retain autonomy in making individual loans, and will assume responsibility for relaying and emphasizing the goals of the program to their personnel. Strong senior management commitment reinforced through middle management to loan officers and interviewers is a prime prerequisite if the program is to be successful.

Loan applications will be taken by well-trained interviewers and mortgage officers at the designated office of each Seller. Many of the applicants may be first-time homeowners or inexperienced in filling out loan applications. These conditions require mortgage officers with some perceptive skills and sensitivity in order to make sound evaluation of the applicant.

The loan officer will explain the reason(s) for any rejection of a loan application, and will suggest alternatives, if any, which may permit approval of a loan application. Alternatives could include changes in loan terms, addition of a co-signer to the loan, or longer term improvement in the financial situation of the applicant or other appropriate recommendations. Sellers are encouraged to recommend counseling agencies to applicants rejected because of poor credit, job instability, etc.; however, counseling should not be limited just to rejected loan applications. Counseling agencies offering services such as general information concerning the purchase of a home, inspection services, and legal assistance in rehabilitation should all be recommended to inexperienced applicants undertaking home rehabilitation. In Neighborhood Preservation Areas the mortgage officers should develop close ties with the city or town, neighborhood groups, and the local resources for counseling and technical assistance.

If requested in writing by the Seller or a loan applicant, MHMFA will evaluate a loan application and inform the Seller and the loan applicant if an application meets the requirements for purchase of a Loan Participation by MHMFA. MHMFA, based on its evaluation, may request in writing, but not require, the Seller to reconsider the loan application.

## 21.02: Exceptions

Sellers, with the prior written agreement of MHMFA, may make exceptions on a case-by-case basis to provisions in this document.

## 21.03: Definitions

Definitions of certain terms used in this Guide are set forth in 761 CMR 19.02 of the Statement of Terms and Conditions of the Commitment Application.

## 21.04: Amendments

This Seller's Guide may be amended or supplemented from time to time by mailing to Seller changed pages to be effective five business days after the date of mailing thereof; provided, however, that no amendment which materially affects the rights and obligations of the Seller under the Loan Participation Agreement (except reporting requirements) shall apply to loans delivered or to be delivered under an outstanding Commitment Application without the consent of Seller.

## 21.05: Reliance on Seller's Warranties

Unless Seller shall obtain a written waiver from MHMFA, MHMFA expressly relies on each Seller satisfying fully each of the warranty requirements set forth in the Loan Participation Agreement and in the Loan Participation Certificate as they pertain to the Seller and to the Loan Participations delivered.

21.06: Rent Increases

MHMFA Legislation (St. 1974 c. 846 § 5, subsection 8) requires that MHMFA loans minimize residential displacement of existing tenants in 2-4 unit structures due to rehabilitation. Therefore, any loan which includes amounts for rehabilitation of a 2-4 unit structure in which a Loan Participation is purchased by MHMFA will require execution by both the existing tenants and the Borrower of an agreement that (a) establishes a base rent resulting from the cost of rehabilitation and (b) restricts any further increases in rent for a period of two years to a *pro-rata* share of increases in expenses (limited to increases in property taxes, operating or maintenance expenses or additional capital improvements). This agreement shall run between the tenant and the Borrower, and shall not be required when no rehabilitation costs are included in the Mortgage Loan or when the proposed rehabilitation is to alleviate conditions which violate the state sanitary code or applicable building or housing codes or to carry out other essential maintenance.

21.07: Servicing

The Seller shall execute a Loan Servicing Agreement in a form acceptance to MHMFA or shall assign servicing to a Mortgage Lender acceptable to MHMFA, who shall execute such Loan Servicing Agreement.

21.11: General Loan Eligibility Requirements

Mortgage Loans made by Mortgage Lenders must meet the following requirements:

(1) No Mortgage Loan may exceed an amount such that the total first year's mortgage payments, property taxes and other escrow payments would be greater than 25% of the Borrower's income as determined for purposes of credit evaluation (See 761 CMR 21.40 through 21.44). In any case MHMFA will not purchase Loan Participations in Mortgage Loans exceeding $45,000 for a single family or condominium unit, $48,750 for a 2 or 3 family structure or $56,000 for a 4 family structure.

(2) Loan-to-value ratio. The principal amount of the Mortgage Loan may not exceed 95% of the Value of the Property on any residential structure. The Value of Property shall mean (a) in the case of a Mortgage Loan for the purchase of a one-to-four unit structure (no rehabilitation costs included) the purchase price or the appraised value whichever is less, or (b) in the case of a Mortgage Loan part or all of which is financing rehabilitation costs, the estimated appraised value at the completion of the proposed improvement(s). If the principal balance of the Mortgage Loan exceeds 80% of the Value of the Property then the Mortgage Loan must either (a) be insured or guaranteed by the Federal Housing Administration, or the Veteran's Administration or another agency or instrumentality of the United States or the Commonwealth to which the powers of the FHA or VA have been transferred or which is exercising similar powers with reference to the insurance or guaranty of Mortgage Loans (See 761 CMR 21.31) or (b) be insured under a mortgage insurance policy by a private mortgage insurance company, qualified to do business in the Commonwealth and qualified to insure Mortgage Loans purchased by FHLMC or FNMA under which the insurer, upon foreclosure of the property securing the Mortgage Loan, must pay the holder of the Mortgage Loan the unrecovered balance of a claim including the unpaid principal, accrued interest, taxes, insurance premiums and expenses of foreclosure, if any, or in lieu thereof may permit the holder of the Mortgage Loan to retain title and may pay an agreed insured percentage of such claim. (See 761 CMR 21.32).

21.11: continued

(3) Limitations on Borrower's Income. The Borrower's adjusted annual income shall not exceed: $16,000 if Borrower's household consists of one person, $19,000 if Borrower's household consists of (a) one person who is disabled or over 65, or (b) two or more persons. For the purposes of determining eligibility of a Borrower to receive a MHMFA assisted Mortgage Loan, the Borrower's adjusted annual income is determined by Seller based on current annual income calculated according to the method used by the IRS for determining adjusted gross income on the current federal income tax return, minus $1,000 for each person, excluding the Borrower and one dependent, eligible as a tax deduction on such return. The income of each person living in the Borrower's household earning in excess of $1,000 shall be included in calculating adjusted income. This method of income calculation is not required to be used for purposes of credit evaluation (See 761 CMR 21.40 through 21.45).

(4) Maturity. No Mortgage Loan shall have a stated maturity of less than 20 years or more than 30 years from the Closing Date.

(5) Interest Rate. Interest rates on the Mortgage Loans shall be no less than the MHMFA Minimum Rate and no more than the MHMFA Maximum Rate, as stated on the cover of the applicable Loan Participation Agreement.

(6) Fees and Charges:

(a) Closing Costs. Closing costs shall not exceed reasonable expenses incurred in connection with the origination of such Mortgage Loans, limited to the aggregate of (1) the actual amounts expended for continuation of abstract, title insurance, deed tax, attorney's fees, credit reports, surveys, appraisal fees, and filing and recording fees or other required fees, (2) the actual amount paid or escrowed for taxes and insurance, and (3) origination and discount fees not to exceed an amount equal to one percent of the Mortgage Loan in the case of Mortgage Loans used to finance the purchase of a residential structure and 1-1/2% in the case of a Mortgage Loan used, in whole or in part, to finance the rehabilitation of a residential structure.

(b) Late Charges. MHMFA does not require a minimum or maximum amount of late charges or length of grace period to be stated in a Mortgage Loan bond or note (except that the amounts and period as stated must be permissible under applicable law). However, with respect to Conventional Loans in which Loan Participations are purchased by MHMFA, Seller shall collect only late charges on monthly installments more than 15 days late and shall not collect any late charges in excess of four percent of the payment which is late.

(c) Prepayment charges. There shall be no prepayment charges on any Conventional Mortgage Loan in which MHMFA holds a Loan Participation.

(7) Refinancing. MHMFA will purchase Loan Participations in Mortgage Loans made for the purpose of refinancing existing first mortgages only if improvements or rehabilitation costs equal to at least 25% of the appraised value of the structure prior to rehabilitation will also be financed, however no more than ten percent of the total commitment amount of any Mortgage Lender may be used to refinance existing mortgages without the written agreement of MHMFA.

(8) Closing Date of Mortgage Loans. The Closing Date on a Mortgage Loan in which MHMFA purchases a Loan Participation must be subsequent to the execution and delivery by MHMFA of the Loan Participation Agreement.

(9) Restrictions on Total Commitment to MHMFA.

(a) At least 80% (in total principal amount) of the Loan Participations delivered by the Seller to MHMFA must be for the purchase or rehabilitation of single or multi-family dwellings at least ten years old.

21.11: continued

(b) At least 80% (in total principal amount) of the Loan Participations delivered by Seller to MHMFA must be for the purchase or rehabilitation of dwellings located in areas or neighborhoods in which at least 50% of the residential structures were constructed before 1939 (1970 census data or appraisal data accepted).
(c) No more than ten percent of the Total Commitment amount of any Mortgage Lender may be used to refinance outstanding mortgages without the written agreement of MHMFA.

(10) Occupancy. As of the Closing Date, to the best of the Seller's information and belief, Borrower is occupying or intends to occupy all or part of the property being purchased or rehabilitated with the proceeds of the Mortgage Loan, and the property is or will be Borrower's principal residence. The Borrower must be an individual(s). Borrower must sign an affidavit to the above effect and such affidavit will become part of the Loan File.

(11) Restriction on Refinance Accumulated Equity or Appreciated Value. No Mortgage Loan in which MHMFA purchases a Loan Participation shall exceed the actual cost of proposed improvements and rehabilitation (including a reasonable contingency) plus the amount of any refinanced mortgage, or the purchase price, whichever is applicable.

(12) Supplemental Insurance. Each Mortgage Loan shall be insured, prior to delivery to MHMFA, by Tiger's Investors Mortgage Insurance Company, 225 Franklin Street, Boston, Massachusetts 02110 in the Mortgage Pool Insurance Policy for MHMFA. No Loan Participation will be purchased by MHMFA without such approval.

## 21.12: Assumption

The obligation to make payments due on any Mortgage Loan shall be assumable only with the consent of MHMFA or to the extent required by FHA or VA. Each Conventional Mortgage Loan shall contain a provision giving mortgagee the right to accelerate the maturity of the Mortgage Loan upon transfer of ownership of the property.

## 21.13: Amortization

Each Mortgage Loan must provide, through regular monthly payments beginning the month following the month in which the Closing Date occurs, for full amortization by maturity.

## 21.14: Origination

Each Mortgage Loan must have been closed in Seller's name as mortgagee. Seller is fully liable for all warranties and representations made by Seller to MHMFA.

## 21.15: Security for Loans

Each Mortgage Loan in which Seller sells a Loan Participation to MHMFA shall be a legal, valid and binding obligation of the Borrower, enforceable in accordance with its terms and conditions and free from any right of set-off, counter-claim or other claim, defense or security interest. Each Mortgage Loan shall be properly acknowledged and duly recorded to perfect a first mortgage lien on a fee simple in the real property covered thereby, which first mortgage lien is subject only to the liens of taxes or assessments which are not delinquent, building restrictions or other restrictive covenants, conditions or easements which do not in the opinion of Seller materially affect the security for the Mortgage Loan. Borrower must not have an option under the Mortgage Loan to borrow from Seller additional funds secured by the property without the consent of MHMFA.

## 21.16: Principal Amount Advanced and Completion Escrows

The full principal amount of each Mortgage Loan in which MHMFA has purchased a Loan Participation must have been advanced to Borrower, advanced in accordance with the direction of Borrower or placed in a completion escrow account.

To the extent that any portion of a Mortgage Loan in which MHMFA purchases a Loan Participation is used to finance rehabilitation or improvement of the property an escrow sufficient to finance the completion of the rehabilitation must be maintained by the Seller. The completion escrow shall be held in trust for the benefit of Borrower, Seller and MHMFA, until such rehabilitation is completed. The completion escrow account may provide for periodic draws against the escrow as portions of the rehabilitation are completed.

Note: Once MHMFA has purchased a Loan Participation, interest at the MHMFA Required Rate must be remitted to MHMFA on the entire Mortgage Loan including any portion held in a completion escrow. The Seller may (a) pay the payments due MHMFA on the amount held in the completion escrow from the interest or profit earned on the temporary investment of funds in the completion escrow and may charge the Borrower for the difference, if any, between the payment due MHMFA and the interest or profits earned from the temporary investment of funds in the completion escrow, or (b) charge the Borrower for the payments due MHMFA on amounts held in the completion escrows, but then must credit the Borrower with all interest or profit earned from the temporary investment of MHMFA funds held in the completion escrows.

The Seller is permitted where appropriate to structure the financing of rehabilitation through the use of construction loans or bridge loans with MHMFA purchasing a loan Participation in a final take-out Mortgage Loan upon completion of rehabilitation. In such cases no completion escrows would be required.

## 21.17: Mortgage Loan not in Default

For each Mortgage Loan, as of the Purchase Date, principal and interest payments must not be delinquent. All costs, fees and expenses incurred in making, closing, and recording the Mortgage Loan must have been paid; and there must not be outstanding any advance of funds by Seller or by another at the request of Seller to be used by Borrower for the payment or any monthly installment of principal or interest under the terms of the Mortgage Loan.

## 21.18: Escrow Payment Requirements

Each Mortgage Loan shall provide for the monthly collection of Escrow Payments to the maximum extent permitted (except that the collection of Escrow Payments for hazard insurance premiums is not required) by the Real Estate Settlement Procedures Act, as amended, along with the monthly installment of interest and principal. The Escrow Payments shall be held in trust for the benefit of Borrower, Seller and MHMFA, in an account in a bank or trust company, savings bank, national banking association, savings and loan association, cooperative bank, or credit union (which may be the Seller) insured to the fullest extent legally possible.

In the case of default of any Escrow Payment due, the Mortgage Loan shall provide that, with or without notice or demand of the Borrower, the Seller shall pay the amount due on property taxes, mortgage insurance premiums, or other applicable assessments. Such payments shall be a lien on the mortgaged property added to the amount of the Mortgage Loan and payable on demand with interest (at the rate applicable under the Mortgage Loan) from the time of payment.

## 21.19: Title Insurance Requirements

Each Mortgage Loan must be insured by a mortgage policy of title insurance (in standard American Land Title Association form as then in effect) issued by a title insurance company qualified to do business in the Commonwealth insuring that the mortgage lien is valid and enforceable and in an amount at least equal to the outstanding balance of the Mortgage Loan, including, when applicable, any increases in the amount thereof.

21.19: continued

Title insurance requirements will be waived if title insurance is not required by prudent practice and custom in the geographic area in which the property is located; provided, however, that the closing attorney issues an opinion of title satisfactory to the Seller and MHMFA.

21.20: Survey Requirements

With respect to each Mortgage Loan, Seller must obtain and hold in the Loan File a plat of survey dated or redated within six months of the Closing Date of the Mortgage Loan certified by a licensed surveyor or engineer showing

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

(2) the exact location of all lot and street lines, all means of access to such property and all recorded easements related to such property,

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

(4) any encroachment on such property or any encroachment by the improvements on adjoining property, or any defect unless

(a) a plat of survey is not required by FHA or VA upon application for benefits; and

(b) a plat of survey is not required by prudent practice and custom in the geographic area in which the property is located; provided, however, that Seller must nevertheless supply a plat of survey at Seller's expense, is required by MHMFA.

21.21: Hazard Insurance Requirement and Flood Insurance

At the Closing Date, the property securing each Mortgage Loan must be covered by hazard insurance including fire and extended coverage insurance, meeting the standards accepted by prudent practice and custom in the geographic area in which the property is located. The Seller may, but is not required, to collect Escrow Payments for hazard insurance premiums.

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 (See 761 CMR 22.06).

Sellers are responsible for compliance with the provisions of the Flood Disaster Protection Act of 1973 whenever such provisions would be applicable to a Mortgage Loan in which a Loan Participation is sold to MHMFA.

21.22: Legal Description

The legal description as set forth in the mortgage title insurance policy, if any, and other documents must be that accepted by prudent practice and custom in the geographic area in which the property is located.

21.31: Federal Insurance Programs

MHMFA may purchase Loan Participations in Mortgage Loans insured by FHA or guaranteed by VA under one of the following provisions of law:

FHA Section 203 (b), (h), (i); Home Unsubsidized

FHA Section 221 (d) (2): Low and Moderate Income

FHA Section 222: Servicemen

FHA Section 233: Experimental Housing

FHA Section 234: Individual Condominium Unit

FHA Section 235: Lower Income (Interest Subsidy)

FHA Section 237: Special Credit Risks

FHA Section 809: Armed Services Civilian Employees

FHA Section 810: Armed Services Housing

VA -- Chapter 37 Title 38, U.S. Code (which includes Section 501 of the Servicemen's Readjustment Act of 1977, as amended).

21.31: continued

FHA Mortgage Loans may have been insured under one of the basic FHA insuring sections pursuant to the statutory requirements of another FHA section such as FHA Section 223(e).

## 21.32: Conventional Insurance Programs

Conventional Mortgage Loans in excess of 80% of the Value of the Property shall be insured by a private mortgage insurer licensed to do business in the Commonwealth and qualified to insure Mortgage Loans purchased by the Federal Home Loan Mortgage Corporation or the Federal National Mortgage Association such that:

(1) all Conventional Mortgage Loans in excess of 90% and up to and including 95% of the Value of the Property shall have 25% private mortgage insurance coverage on the outstanding principal balance of such Conventional Mortgage Loan.

(2) all Conventional Mortgage Loans in excess of 80% and up to and including 90% of the Value of the Property shall have 20% private mortgage insurance on the outstanding principal balance of such Conventional Mortgage Loan.

(3) all Mortgage Loans shall be issued prior to delivery to MHMFA, by Tiger's Investors Mortgage Insurance Company, 225 Franklin Street, Boston, Massachusetts 02110 in the Mortgage Pool Insurance Policy for MHMFA.

## GENERAL

## 21.40: Credit Underwriting Guidelines

Evaluation by Seller of each Borrower's creditworthiness must be done on a case-by-case basis in compliance with provisions of the Equal Credit Opportunity Act, as amended. MHMFA considers the following guidelines to be sound, general principles in underwriting credit, but may waive requirements upon written request for individual cases.

## 21.41: Monthly Housing Expense-to-Income Ratio

MHMFA will normally require that monthly housing (expense (mortgage payments plus escrow payments) not exceed approximately 25% of Borrower's "stable monthly income" (as defined in 761 CMR 21.43). If Borrower is purchasing a condominium or PUD unit, the monthly condominium or Planned Unit Development fee (homeowners association dues) for common elements/charges must be included in the monthly housing expense when calculating the above ratio.

## 21.42: Monthly Debt Payment-to-Income Ratio

MHMFA will normally require that the total amount of monthly housing expense (referred to in 761 CMR 21.41), plus all other monthly payments on all installment debts having remaining terms of more than 12 months do not exceed approximately 35% of Borrower's "stable monthly income." Alimony, child support and maintenance payments are considered long term monthly obligations, unless such obligations terminate in less that 12 months.

## 21.43: Stable Monthly Income

Stable monthly income is Borrower's gross monthly income from primary employment base earnings plus recognizable secondary income including a reasonable portion of anticipated or actual rental income from multi-unit structures being purchased or rehabilitated and other income as required to be recognized by law or prudent practice and custom of responsible Mortgage Lenders in Massachusetts. Secondary income of any Borrower, such as bonuses, commissions, overtime, or part-time employment, should only be recognized as "stable monthly income" if such items of secondary income are typical for the occupation, substantiated by Borrower's previous year's earnings, and continuation is probable based on foreseeable economic circumstances.

21.44: Borrower's Credit Reputation

In addition to the above guidelines, Seller must determine that Borrower's housing payments plus other obligations do not constitute an undue strain on Borrower's ability to make all such payments promptly and that the Borrower has maintained a credit reputation that is commonly acceptable to private institutional leaders.

21.45: Credit Report

A credit report comparable to a Factual Data Credit Report must be issued by an independent credit reporting agency which has a contract with FHA or VA or is otherwise acceptable to MHMFA.

Such report must verify current employment, salary, all debts listed on the credit application including terms, balances and ratings of the Borrower and other household members. It must list all other debts, in addition to all legal information, including without limitation, suits, judgments, foreclosures, garnishments, bankruptcies and divorce actions, discovered by a search of the public records. If there has been a change in employment within the past two years, the report must also contain information as to the Borrower's previous employment, location and salary. If the credit bureau does not verify current employment and income, Seller must provide separate written verification of these items.

Note: In addition to reviewing the files delivered by Seller, MHMFA will also make test appraisals, spot check credit reports and make other checks in order to assure proper underwriting. In the event MHMFA in its sole discretion determines that a credit report is inadequate, MHMFA reserves the right to declare as unacceptable the credit reporting source originating such report, in which event Seller agrees not to use such credit reporting source for Mortgage Loans in which a Loan Participation may be purchased by MHMFA.

APPRAISAL GUIDELINES

21.51: Appraisal Forms

The Seller is required to utilize appraisal forms approved by FHA or VA as appropriate. On conventional Mortgage Loans, Sellers will supply an appraisal by an appraiser on the applicable (single family, multi-family or condominium) FHLMC or FNMA Appraisal Form, or alternative forms approved by MHMFA.

21.52: Appraisers

MHMFA does not approve specific appraisers; however, an appraiser must be experienced in the appraisal of 1-4 family properties in urban neighborhoods and must be actively engaged in such appraisal work. The appraiser must be approved by the Seller and normally must be a member of one of the professional appraisal organizations.

(1) Discontinuance of Appraiser by Seller. Seller shall inform MHMFA immediately in the event Seller discontinues using the services of any appraiser who has made appraisals with respect to Mortgage Loans in which Loan Participations are purchased by MHMFA from the Seller.

(2) Discontinuance of Appraiser by MHMFA. MHMFA may, at any time, notify Seller that MHMFA will no longer accept appraisals made by a given appraiser, and Seller shall not thereafter use such appraiser with respect to Mortgage Loans in which Loan Participations are purchased by MHMFA.

(3) Representation 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 MHMFA, but may represent (where it is the case) that he or she has made appraisals for the Seller on Mortgage Loans in which MHMFA has purchased Loan Participations.

21.53: Property Appraisal Standards

Appraisers will generally use recognized appraisal standards such as those acceptable to FHLMC. However, appraising structures in older urban neighborhoods requires extra consideration of some factors as defined below. It is the responsibility of the Seller to insure that appraisers are aware of and utilize these guidelines in appraising Mortgage Loans in which Loan Participations are purchased by MHMFA.

21.54: Neighborhood and Property Location

The relationship of the location of the property to the evaluation of the loan application is perhaps the most sensitive and difficult aspect of the success of the MHMFA loan program. The MHMFA loan program requires the accurate evaluation of risk in making individual Mortgage Loans, yet seeks to increase Mortgage Loans in older urban neighborhoods. Therefore, the following factors will be taken into consideration:

(1) More than suburban or rural areas, urban neighborhoods are relatively small in size; neighborhoods of diverse character may compatibly exist in close proximity. Therefore, neighborhood evaluations will be based on conditions in the block face including the property being appraised and the immediately contiguous block faces. Whenever possible, comparable properties used for valuation will be drawn from the neighborhood as defined in 761 CMR 21.54.

(2) "Urban" neighborhoods are more likely than suburban or rural ones to contain a mixture of uses, ages, design and this may contribute to their stability and value. For instance, a variety of housing types -- i.e., 1-4 unit structures and apartments or condominiums can be compatible uses. The presence of commercial, light industrial or other employment opportunities are not automatically incompatible in urban neighborhoods.

(3) The racial or ethnic composition of the neighborhood is not a relevant appraisal factor and must not be considered in the appraisal report or in any decision on Mortgage Loan approval. Federal and state laws and regulations make it illegal to consider the racial composition or changes in a neighborhood for purposes of Mortgage Loan decision.

(4) When evaluating the neighborhood the appraiser should base his/her evaluation on a relative comparison with other existing neighborhoods containing similar housing price ranges. A neighborhood should be evaluated in terms of realistic alternatives available to the Mortgage Loan applicant.

(5) The existence of any of the following factors will be interpreted as a positive influence when analyzing the neighborhood:

(a) The existence of a strong and cohesive neighborhood or community organization;

(b) The presence of a non-profit or profit developer rehabilitating properties, or the existence of other ongoing programs by public or Private agencies to improve or rehabilitate housing.

(6) Nothing in the Seller's Guide is intended to preclude the appraiser from considering characteristics of the neighborhood to the extent that they presently, or are likely to, affect the value of the subject property. However, the appraiser is to report detrimental neighborhood conditions in factual, specific terms by giving the addresses of the affected properties and an exact description of the nature of the conditions involved in each case. For example: "There are junked and abandoned cars (or refrigerators, etc.) in the front (or rear) yards of the properties at (address) or "the houses at (addresses) are vacant (or boarded up, or vandalized as evidenced by broken windows, etc.);" or, "a lack of maintenance is evident in the neighborhood by uncut grass (or peeling paint, or fallen gutters and downspouts, etc.) at (addresses)." Another example of a relevant detrimental condition would be disinvestment by the local government, which is frequently characterized by broken sidewalks, poor condition of streets, infrequent trash collection, or inadequate police and fire protection. Furthermore, if the value trend in the neighborhood is declining as a result of detrimental conditions, statements to that effect must be supported by reporting actual property sales which demonstrate the trend. Such information may be provided in the comment section or in the addendum to the report.

21.55: Individual Structures

The basic question to be answered by property appraisals is if the Borrower fails to repay the Mortgage Loan, can the Seller, in the future, sell the structure for a price equal to the amount of the unpaid Mortgage Loan. In evaluating individual structures the appraiser shall take into consideration the following:

(1) One of the major purposes of MHMFA is to stimulate rehabilitation and improvement of older urban housing. Therefore, Sellers are encouraged to include amounts in the Mortgage Loans for needed repairs (MHMFA will purchase Loan Participations in Mortgage Loans before these repairs are complete if required Primary and/or Mortgage Pool Insurance is obtained and if the Seller escrows amounts sufficient to complete the repairs.) If applicable, the appraiser should provide supplementary appraisal information including a list and estimates of needed repair work.

(2) Estimates concerning remaining economic life of the property should be based on physical and structural considerations not neighborhood or environmental factors.

(3) Older well-maintained or rehabilitated structures may have an economic life equal to new construction.

(4) Since older urban neighborhoods contain most of the Commonwealth's two to four unit structures, underwriting standards different than those used for single family units tend to increase the difficulty in obtaining financing in these areas. Since all MHMFA Loan Participations in Mortgage Loans will be for structures that are owner-occupied the same appraisal standards and restrictions will apply to all 1 to 4 unit structures. The only exception will be to consider a reasonable portion of rental income on multi-unit structures in determining the mortgage amount an applicant can afford.

21.56: Valuation

The property valuation will be based on the structural condition of the property and comparable values of similar structures. The value may be determined by several factors: the market method which compares the sales price of similar properties; the income method which bases value on the income produced by the property; the replacement method which sets the value at the replacement cost of the house. Each of these methods will be used cautiously and with the objective of improving the housing market in urban areas.

The Seller must exercise judgment in avoiding approval of Mortgage Loans which would obligate the Borrowers to invest more in a property than they could recover from the sale of the property. However, every effort will be made to respond positively to applications for Mortgage Loans to:

(a) make emergency repairs;

(b) bring the property securing the Mortgage Loan into compliance with housing codes, building codes and other health and safety requirements including the removal of lead paint;

(c) increase the efficiency of the structure in conserving energy;

(d) rehabilitate a residential structure in an area where few, if any, other structures have undergone such rehabilitation.

DELIVERY OF MORTGAGE LOANS AND PURCHASE OF LOAN PARTICIPATIONS

21.61: Amount

Seller must deliver Mortgage Loans of which 90% of all the aggregate unpaid principal balance is equal to the Commitment Amount stated in the Notice of Acceptance.

21.62: Delivery Period

Seller must deliver Loan Participations in Mortgage Loans in accordance with the schedule established in Section 2.2 of the Loan Participation Agreement.

21.63: Purchase Date and Purchase Amount

The Purchase Date is the last business day of each month for all Loan Participations delivered to MHMFA prior to the 20th day of that month.

Seller shall calculate the purchase price of each Loan Participation on the Loan Participation Certificate.

MHMFA will pay to Seller for each Loan Participation purchased as of the Purchase Date:

(a) 90% of the unpaid principal balance of the Mortgage Loan; and

(b) interest calculated at the MHMFA Required Rate accrued on the Mortgage Loan.

Accrued interest shall be calculated at the MHMFA Required Rate from the last payment date to the anticipated Purchase Date. Servicer shall remit to MHMFA on the next scheduled remittance date all interest at the MHMFA Required Rate due on the Mortgage Loan including interest equal to the accrued interest paid by MHMFA. All interest calculations shall be based on a 360-day calendar year.

21.64: Compensation to Seller

Seller may retain the following as compensation for the origination, sale and servicing of Loan Participations:

(a) an origination fee collectible from the Borrower on the Closing Date in an amount not to exceed 1% of the Mortgage Loan in the case of Mortgage Loans used to finance the purchase of a residential structure and 1-1/2% in the case of a Mortgage Loan used, in whole or in part, to finance the rehabilitation of a residential structure.

(b) if Seller is also Servicer, an annual Servicing Fee equal to three eights of one percent of the outstanding principal balance of the Mortgage Loan collectible from monthly interest payments.

(c) the Adjusted Rate which shall be no more than ten percent of the Conventional Interest Rate established by MHMFA at the time of Bond sale.

21.65: Loan Participation Submissions

For each Loan Participation offered for sale, the Seller shall deliver to MHMFA:

(a) an original executed Loan Participation Certificate;

(b) a photocopy of the mortgage note clearly in dictating the MHMFA Loan Participation as follows: A 90% participation interest in this Note and the Mortgage securing this Note has been sold to the Massachusetts Home Mortgage Finance Agency and pledged by the Massachusetts Home Mortgage Finance Agency to New England Merchants National Bank, as Trustee;

(c) Borrower/Seller Questionnaires;

(d) an original of the acceptance by Tiger's Investors Mortgage Insurance Company of the Mortgage Loan for insurance in the Mortgage Pool Insurance Policy for MHMFA;

(e) originals or copies of such other documents from the Loan File as MHMFA may reasonably require.

21.70: Possession of Loan File

Seller shall prepare and Servicer shall maintain the entire Loan File (See 761 CMR 22.04) which must contain originals or photocopies of all documents delivered to MHMFA and such other documents as are customarily maintained in loan files by prudent lenders, investors, and loan servicers including:

(a) Borrower's loan application;

(b) Seller's commitment to borrower;

(c) Factual Data Credit Report;

21.70: continued

(d) Income verification;
(e) Appraisal report including one clear photograph of property;
(f) Sales contract and/or schedule of repairs and improvements including specifications and costs;
(g) The mortgage note evidencing the Mortgage Loan with the MHMFA Loan Participation clearly indicated;
(h) Duly executed and properly recorded mortgage;
(i) Title insurance policy or attorney's title opinion;
(j) Hazard Insurance Certificate;
(k) Private Mortgage Insurance Certification (if applicable);
(l) MHMFA Rent Agreement (if applicable);
(m) VA Loan Guaranty or FHA Mortgage Insurance Certification (if applicable);
(n) Borrower's Affidavit of Intent to Occupy the premises as principal residence;
(o) Such other documents as prudent lenders, investors, and loan servicers customarily require.

Loan Files for Mortgage Loans in which Loan Participations are sold to MHMFA shall be kept distinct from non-MHMFA loan files by labeling all such Loan Files so as to clearly identify MHMFA's Loan Participation. The Seller's (or Servicer's) records and books of account shall at all times reflect MHMFA's interest in the Loan Participations and MHMFA shall have access to the Mortgage Loan and books and records pertaining to its Loan Participation at all reasonable times.

21.80: Questionnaires

We are requiring that on or before the Closing Date the Borrower complete the Borrower questionnaire. Completion of the questionnaire is optional for homesellers. However, Sellers are requested to stress the importance of making this data available to MHMFA.

THIS DOCUMENT, THE MHMFA SELLER'S GUIDE, IS TO BE INCORPORATED BY REFERENCE IN AGREEMENTS FOR THE PURCHASE BY MHMFA OF LOAN PARTICIPATIONS AND SHALL REQUIRE NO SIGNATURE FOR ITS OPERATION OR EFFECT BETWEEN A SELLER AND MHMFA.

REGULATORY AUTHORITY

761 CMR 21.00: St. 1974, c. 846.