Home Improvement Advantage Origination Guide

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1.00 Introduction

This guide provides our lending partners with the information needed to understand WHEDA's underwriting, and policy and procedure requirements for its Home Improvement Advantage loan program.

Lenders should also refer to the Policy and Procedures Guide for additional guidance.

2.00 Underwriting Philosophy

Underwriting decisions should be based on the evaluation of all the layers of risk using common sense, experience and sound judgment. The presence of individual risk factors found in the loan file do not necessarily threaten the borrower's ability to obtain a home improvement loan. However, when multiple layers of risks are present, and there are no compensating factors or positive offsets to the risks, their cumulative effect could dramatically increase the likelihood of default and foreclosure. Each borrower deserves an equal and fair consideration based on their unique circumstances provided the loan as a whole presents an acceptable risk.

The evaluation should include an assessment of:

- The borrower's willingness and ability to repay debt as demonstrated by the borrower's credit and employment/income history, assets and liabilities.
- The borrower's investment (equity) in the property.
- The Brokers Price Opinion (BPO) or appraisal report (supported value of the collateral and market conditions).
- WHEDA, State and Federal regulatory compliance.

Our guides and matrix establish boundaries of acceptable risk.

3.00 Mortgage Eligibility

WHEDA provides junior lien home improvement loans for properties that are a borrower's principal residence. The first mortgage, if applicable, does not need to be a WHEDA mortgage. Refer to Section 12.02 for eligible property types.

3.01 Home Equity Combined Loan-to-Value (HCLTV)

For first mortgages that have subordinate financing, the lender must calculate the HCLTV ratio. This is determined by dividing the sum of the items listed below by the appraised value or Brokers Price Opinion (BPO) value of the property. See Section 13.01-Appraisal Report and 13.02 – Brokers Price Opinion (BPO) for additional guidance.

- the unpaid principal balance of the first mortgage
- the full amount of any Home Equity Lines of Credit (HELOCs) whether or not funds have been drawn, and
- the unpaid principal balance of all closed-end subordinate financing includes but is not limited to forgivable down payment assistance (DPA) and a zero percent interest deferred DPA program.

The maximum allowable HCLTV including the WHEDA Home Improvement loan is 110%.

3.02 Lien Position

Any lien position with the exception of the following:

- A deferred 0% DPA loan requires a subordination agreement from the provider.

3.03 Prohibited Mortgage Transactions

- High Priced Mortgage Loan (HPML) under the Truth in Lending Act (TILA)
- High Cost Mortgage Loan (HCML) under the Home Owners and Equity Protection Act (HOEPA)
- Refer to the Policy and Procedures Guide Section 4.05-Higher Priced Mortgage Loans for additional guidance.

4.00 Borrower Eligibility

This Chapter provides guidance on determining a borrower's eligibility for a WHEDA Home Improvement Advantage loan.

4.01 Income Limits

Income Limits are based on household size and property location.

The combined gross annual income of all persons who occupy the subject property cannot exceed the Home Improvement Advantage Income Limit for the household size and county in which the property is located.

The borrowers must complete a Home Improvement Borrower's Affidavit (Form 2) listing all persons that will occupy or intend to occupy the subject property, their names, age and relationship to each borrower.

Refer to the Home Improvement Advantage Income Limit Chart and Section 6.0 – Determining Household Size and Section 7.0 – Calculating Compliance Income for additional guidance.

Good to Know

The number of household occupants may be different than the number of loan applicants.

4.02 Citizenship

All borrowers must have a valid Social Security Number and be one of the following:

- U.S. citizen
- Permanent resident alien (I-551)
- Temporary resident alien (I-766, I-94 or I-551 temporary stamp) with a card issued by the Department of Homeland Security U.S. Citizenship and Immigration Services. Include a copy of the card in the application package

If the validity of the Social Security Number is in question, the lender must verify and validate the Social Security Number through one of the following:

- Social Security Administration
- Acceptable third party vendor

4.03 Child Support/Maintenance

Arrearages reported on the State of Wisconsin Support Lien Docket must be paid in full prior to closing or the borrower must provide a payment agreement that has been approved by the county child support agency with a 6 month satisfactory payment history.

4.04 Occupancy

A borrower must occupy the subject property as their primary residence.

4.05 Ownership of Other Property

A borrower may own other real estate.

4.06 Guarantors and Co-Signors

A guarantor or co-signor is not allowed.

4.07 Non Occupant Co-Borrowers

Non-occupant Co-Borrowers are not allowed.

5.00 Income and Employment Documentation

The lender is required to document a 2 year history of stable employment and a reliable stream of income.

Income and employment documentation must be no more than 30 days old from the application date. The lender must update the documentation if it has expired.

5.01 Paystub

The paystub must be dated no earlier than 30 days prior to the initial loan application date, reflect a minimum 30 days of income, identify the name of the employer and the borrower, and include all year-to-date earnings. The paystub must include sufficient information to appropriately calculate income. If the borrower has been on the job for less than one year, the lender must obtain a Verbal Verification of Employment confirming the borrower's "start date" so that credit and compliance income can be calculated.

5.02 Request for Verification of Employment (VOE)

The lender may use the Request for Verification of Employment (Form 1005 or Form 1005(S)) to document income from a salaried or commissioned borrower. The date of the document must meet the Allowable Age of Credit Documents requirement. The information on the VOE must be legible. The following fields on the form are optional:

- Probability of Continued Employment
- If overtime or bonus is applicable, is its continuance likely?
- Date of Applicant's next pay increase
- Projected amount of next pay increase
- Date of applicant's last pay increase
- Amount of last pay increase
- Reason for leaving (Part III – Verification Previous Employment

The remaining fields on the form must be completed as applicable to the borrower.

Lender must obtain a blanket authorization from the borrower to request the information or the borrower must sign Form 1005 or Form 1005(S).

5.03 W-2 Forms

IRS W-2 forms must cover the most recent two year period and clearly identify the borrower as the employee. The sum of the W-2's must match the wages earned on the borrower's federal tax transcripts.

5.04 Tax Returns

The lender must obtain signed Federal Income Tax returns for the most recent two year period.

If the source of income for a borrower is self-employment or commission income that represents more than 25% or more of the borrower's total annual income, the lender must provide a fully executed IRS Form 4506-T reflecting WHEDA, 201 W. Washington Avenue, Madison, WI 53703, 800.334.6873 on line item 5.

Tax Returns will be reviewed for compliance income, self-employment activity, unreimbursed employee expenses, income from assets and claimed mortgage interest.

Refer to Section 8.22 for Self-employed, Corporation, S-Corp and Partnership's for additional guidance.

5.05 Verbal Verification of Employment (VVOE) Requirements

A VVOE for all active employment for each borrower must be obtained and dated within 10 business days prior to the Note date.

Hourly, salary and commission income employees

Verify and document the employer's phone number, and if possible, their address, independently through the phone book, the internet, directory assistance, or by contacting the applicable licensing bureau.

The VVOE should include:

- The name and title of the person who confirmed the employment,
- The date of the call, and
- The source of the phone number, if the internet – provide the website address
- Employment status

If a VVOE cannot be obtained, one of the following methods may be used:

- The Work Number Website - If the verification is obtained from The Work Number website, the 10-day business period is measured from the date of the Client's request to the vendor, not the date the information was updated in the vendor's database.
- A written verification of employment sent directly to the employer

Self-employed borrowers

Verify the existence of the borrower's business within 30 calendar days prior to the Note Date through one of the following methods:

- From a third-party such as a CPA, regulatory agency, or the applicable licensing bureau, if possible
- By a phone listing and address for the borrower's business using a telephone book, internet, or directory assistance
- By verbal contact: Document the source of the information, and document the name and title of the lender's employee who obtained the information

Seasonal employment

If verbal verification occurs during the off season and the borrower is currently not working for that business, independent verification that the business exists and that the borrower previously worked for that business as stated on the loan application is required.

6.00 Determining Household Size

Total Household Size includes all persons who will occupy the subject property. Occupants include but are not limited to the following:

- Adults age 18 or older
- Children
    - If a borrower shares custody of a minor child, a copy of the final divorce decree and marital settlement agreement or any other type of written legal agreement or court decree is required to determine if the borrower has at least 50/50 custody.
- Partner, companion
- Parent, Grandparent
- Niece, nephew
- Aunt, uncle
- Boarder, Renter (2-4 unit property)

The borrower is required to complete the Home Improvement Borrower's Affidavit (Form 2) listing the names, ages, relationship to each borrower and the amount of income earned or received on behalf of each household occupant.

7.00 Calculating Compliance Income

Compliance income is the anticipated gross income of all persons who will occupy the subject property. Calculating total gross household income is a key to determining if the borrowers are income compliant for the Home Improvement Advantage loan.

Good to Know

Compliance income is not the same as qualifying income.
Submit Form 29 - Compliance Income Evaluation for a WHEDA compliance income review.

7.01 Calculating the Household Compliance Income

Compliance income includes all earned and unearned income of all persons occupying the subject property. Lenders should review and compare information on the loan application to other documents in the loan file such as paystubs and tax returns to identify other potential occupants.

Refer to Section 4.1-Income Limits for additional guidance.

Compliance income is generally calculated using the greater of:

- Current gross income from all verified sources projected 12 months forward, or
- Gross income from all sources earned and unearned in the last tax year

Income Inclusions:

- Earned income of all occupants over the age of 18
- Unearned income of all occupants under the age of 18
- Social Security and Social Security Disability Income (SSI)
- Child support
- Alimony
- Pension/retirement
- Disability Income
- Public Assistance
- Interest and dividend income on funds retained after closing
- Re-occurring capital gain income
- Self-employment income (adding back depreciation, depletion, meals and entertainment, and business use of home). If a business is operated at a loss, such loss may not be used to offset income generated from other sources.
- Rental income from the subject property or other investment properties.
- Mortgage Credit Certificate (MCC) income being used for qualifying income

Income Exclusions:

- Earned income from a child under the age of 18
- Foster care income
- Food Share Wisconsin
- Non-recurring payments from:
  - Inheritances
  - Insurance settlements

- Lottery winnings
- Gambling winnings
- Capital gains
- Settlements for personal loss

Good to Know

Re-occurring non-payroll deposits may indicate additional undisclosed sources of income that may be required to be documented for household income compliance.

8.00 Calculating Qualifying Income

A key to determining the borrower's ability to repay their mortgage loan debt is determining all stable and predictable sources of income that are likely to continue into the future.

Good to Know

Qualifying income is not the same as Compliance income.

Refer to Section 7.0-Calculating Compliance Income for additional guidance.

8.01 Base Pay Income

A minimum history of two years of employment income is required, however, income that has been received for a shorter period of time may be considered as acceptable income, as long as there as positive factors to offset the shorter income history. For example, a borrower who graduated from college or tech school and is currently employed in a field that applies to their educational degree.

8.02 Bonus and Overtime Income

Bonus and overtime income must show a history of at least 24 months with the current employer, however, bonus and overtime income that has been received for no less than 12 months may be considered as acceptable income provided the borrower's loan application demonstrates positive factors that reasonably offset the shorter income history.

8.03 Commission Income

Commission income must show a history of at least 24 months with the current employer.

If commission income represents more than 25% or more of the borrower's total annual income, a copy of the borrower's signed federal income tax returns and W2 forms covering the two most recent tax year period must be provided along with a fully executed IRS Form 4506-T reflecting WHEDA, 201 W. Washington Avenue, Madison, WI 53703, 800.334.6873 on line item 5.

8.04 Alimony or Child Support

Alimony and child support must continue for at least three years after the date of the mortgage loan application. Non-taxable child support income can be adjusted upward 125%.

A copy of the divorce decree, separation agreement, or other written legal agreement must be provided and state the amount that is being awarded and the duration it will be received.

Document no less than a six month history from the State of Wisconsin Department of Workforce Development.

If payment amounts are inconsistent with the amount court ordered or are sporadic, the income is not acceptable for the purpose of qualifying.

8.05 Automobile Allowance

The borrower must have received payments for at least two years. All associated business expenses must be included in the calculation of the borrower's total debt-to-income ratio.

If the borrower files an Employee Business Expenses (IRS Form 2106) or IRS Form 1040, schedule C:

- Funds in excess of the borrower's monthly expenses are added to the borrower's monthly income, or
- Expenses in excess of the monthly allowance are included in the borrower's monthly debt obligations

If the borrower does not report the allowance on either IRS Form 2106 or Schedule C, the full amount of the allowance is added to the borrower's monthly income, and the full amount of the lease or auto loan payment is added to the borrower's monthly debt obligation.

8.06 Boarder Income

Rental payments that a borrower receives from one or more individuals who reside with the borrower can be considered in an amount up to 30% of the total gross income that is being used to qualify the borrower.

The boarder is someone who would not be obligated on the mortgage debt and may or may not be related to the borrower.

Document the boarder has lived with and paid rent to the borrower for the last 12 months by providing the following:

- A copy of the individual's driver's license, bills, bank account statements, etc. evidencing the boarder has demonstrated a history of shared residency, and
- Copies of cancelled rent checks for the last 12 months

Payment of rent by a boarder directly to a third party is not acceptable.

8.07 Disability Income – Long Term

Disability income must be verified with a copy of the disability policy or benefits statement from the provider, i.e. insurance company, employer, or other qualified disinterested party. It does not apply to disability income that is received from the Social Security Administration (SSA).

The policy or statement must verify the following:

- The borrower's current eligibility for the long term benefit,
- The amount and frequency of the disability payment, and
- If there is a termination or modification date.

8.08 Employment Offers or Contracts

A copy of the borrower's employment offer or contract can be used to determine the borrower's income for qualifying.

The lender must provide a copy of the borrower's paystub to evidence the borrower has started their employment prior to the date of loan closing.

The paystub must provide sufficient information to support the income that was used to qualify the borrower.

8.09 Foster Care Income

Document a two year history of the borrower receiving foster care income from a state or county agency.

If a two year history cannot be documented, the income may still be considered stable if:

- The borrower has at least a 12-month history of providing foster-care, and
- The income received does not represent more than 30% of the borrower's total gross income being used to qualify for the loan.

8.10 Housing Choice Voucher (Section 8)

Provide a copy of the Housing Choice Voucher and add the amount of the benefit to qualifying income. There is no requirement that the income history be documented prior to the loan application or evidence it will continue for any period of time from the date of the application.

If the income is verified as non-taxable, it may be grossed up 125%.

8.11 Housing or Parsonage Income

Housing or Parsonage allowance may be considered as qualifying income if there is documentation that the income has been received for the most recent 12 months and the allowance is likely to continue for the next three years. The housing allowance may be added to income but cannot be used to offset the monthly mortgage payment

8.12 Mortgage Credit Certificate (MCC)

The monthly Mortgage Credit Certificate (MCC) benefit may be treated as an addition to the borrower's monthly income using the following calculation:

[(Mortgage Amount) x (Note Rate) x (MCC %)] ÷12 = Amount added to borrower's monthly income.

Provide a copy of the borrower's Mortgage Credit Certificate.

8.13 Social Security Income

Social Security and Social Security Disability income must be documented with a current Social Security Administrator's (SSA) award letter or proof of current receipt.

Supplemental Social Security income must be documented with a current SSA award letter and proof of current receipt.

The non-taxable portion of the Social Security income can be adjusted upward 125%.

If a borrower is eligible to receive Social Security benefits on behalf of a family member, a spouse, ex-spouse, dependent parents, a minor child or disabled child the following is required:

- A copy of the SSA award letter
- Proof of current receipt and
- Verification of a three year continuance (e.g. verification of the beneficiary's age)

8.14 Retirement Income

Document regular and continued receipt of the income. Verify receipt by providing one of the following:

- Award letter
- Federal income tax transcripts
- IRS W-2 or 1099 forms
- Proof of current receipt

If the retirement income is a distribution from a 401(k), IRA or Keogh retirement account, verify the income will continue for at least three years after the date of the loan application.

The borrower must have unrestricted access to the accounts without penalty, and if the assets are in the form of stocks, bonds or mutual funds, 70% of the value, after any applicable costs for the subject transaction, must be used to determine the number of distributions remaining.

8.15 Military Income

Military personnel who are full-time may be entitled to different types of pay in addition to their base pay. Flight or hazard pay, rations, clothing allowance, quarters' allowance and proficiency pay are acceptable sources of income.

Provide evidence a particular type or types of pay will continue to be received in the future, plus additional pay (hazard pay, ratios, clothing allowance, etc.) if the additional pay is likely to be received in the future.

Military reserve pay may be used as qualifying income if it can be verified as having been uninterrupted for the previous 2 years and has a strong likelihood of continuation.

VA education benefits cannot be used as qualifying income as the benefit offsets the education expense.

8.16 Seasonal and Seasonal Unemployment Income

A minimum 2 year history of seasonal employment is required. Verify the borrower has worked with the same employer or the same line of seasonal work.

A minimum 2 year history of seasonal unemployment income is required. Provide a copy of the borrower's two most recent signed federal income tax returns.

The unemployment income must clearly be associated with reoccurring seasonal layoffs.

8.17 Secondary Employment Income

Secondary employment (part-time or full-time) is income the borrower earns from a second job or multiple jobs in addition to their primary job.

A minimum history of two years of uninterrupted secondary employment income is required.

8.18 Rental Income from the Subject Property or Other Rental Property

2-4 unit and Accessory Unit

The lender must obtain documentation that is used to calculate the monthly rental income for qualifying purposes. The documentation may vary depending on whether the borrower has a history of renting the property, and whether the prior year tax return includes rental income.

If the borrower has a history of receiving rental income from the subject property or from other rental property other than the subject property then:

- Provide a copy of the borrower's most recent year of signed federal income tax returns, including Schedule E, or
- Provide a copy of the fully executed lease agreement(s) if the borrower only reported partial or no rental on their tax return.

If the borrower has no history of receiving rental income from the subject property or from other rental property other than the subject property then:

- Provide a copy of the fully executed lease agreement(s)
- 75% of the fully executed lease agreement or Schedule E income can be added to qualifying income.

The amount of monthly qualifying rental income or loss that is considered as part of the borrower's total monthly income or loss and its treatment in the calculation of the borrower's total debt-to-income (DTI) ration varies depending on whether the borrower occupies the rental property as his or hers principal residence or is other real estate investment property.

8.19 Temporary Leave Income

Temporary leave from work is generally for a short period of time and for reasons such as maternity or parental leave, short-term medical disability leave, or other temporary leave that is acceptable by law or by the borrower's employer. Borrowers may or may not be paid during their absence from work.

If the borrower will be on temporary leave at the time of closing and the borrower's income is needed to qualify for the loan, the following requirements apply:

- Document a two year history of employment and stable income
- A letter from the borrower confirming their intent to return to work
- Verification from the borrower's employer or third party designee that specifies the duration of the temporary leave or the expected or agreed upon return date.
- Verification of the amount of regular employment income the borrower received prior to the temporary leave.

If the borrower's return to work date is prior to the first mortgage payment date, the borrower's regular employment income will be used for qualifying.

If the borrower will not return to work as of the first mortgage payment date, use the lesser of the borrower's temporary leave income, if any, or the regular employment income.

8.20 Tip Income

A VOE or a recent paystub and IRS W-2 forms covering the most recent two year period is required.

8.21 Unreimbursed Expenses

Unreimbursed expenses must be analyzed for borrowers earning commission income that is 25% or more of their annual employment income. The expenses must be deducted from the commission income regardless of the length of time the borrower has filed the expenses with the IRS.

If the expenses include an auto lease or auto loan payment, further analysis is required to determine if the payment should be treated as a liability or deducted from the income.

8.22 Self-Employment, Corporation, Partnership & S-Corp Income

Average the net income from the prior two years personal and business tax transcripts. If the income for the most recent year shows a substantial decline, the income from that year will be used. A sharp decline in the most recent year will be closely reviewed to determine if the business has the ability to support the borrower's debt obligations.

The lender must perform a written analysis of both the borrower's personal income, including the business income or loss, reported on the borrower's personal income tax returns and the borrower's business income when the borrower is relying solely on the income for qualifying.

Provide Fannie Mae Form 1084 or a comparable cash flow analysis that applies the same principles as Fannie Mae, and Fannie Mae Form 1088 or any other method that provides a comparative income analysis of the business's viability.

The lender is not required to prepare a written evaluation of self-employment income when the borrower is qualified using only salaried income from a primary job and self-employment income is from a separate and secondary source of income.

The forms should be submitted with the Home Improvement Application Package Checklist (Form 1).

8.23 Business Operated at a Loss

Negative cash flow from a business reduces other qualifying income. If the business is operated at a loss, such loss may not be used to offset income generated from other sources when determining compliance with income limits.

9.00 Assets

Verification of assets is a key component in determining that the borrower has sufficient funds to complete the improvement project and close the transaction. This section provides guidance on the acceptable sources and required documentation.

9.01 Depository Accounts

The lender can use the following types of documentation to verify a borrower has sufficient funds for total improvement costs and closing costs.

- The Verification of Deposit (VOD). The VOD must be requested directly from the depository from the lender and contain the following information:
  - The borrower, clearly identified as the account holder
  - Account number
  - Date opened
  - Current balance
  - 2-month average balance
  - Signed and dated by a representative of the depository institution.

- Copies of bank statements. The statements must cover the most recent 2-month period and contain the following information:
  - The borrower, clearly identified as the account holder,
  - Account number,
  - Time period covered by the statement,
  - Transaction history –Deposits, withdrawals, purchases and sales transactions, as applicable
  - Beginning and ending account balances, and
  - Institution name and address

If the lender is the holder of the borrower's account, the lender can provide a printout from its system, but is must contain all of the required data above and be signed by a representative of the lender who is not involved in the transaction.

Funds must be invested in the borrower's account at least 2 months prior to the loan application date.

Large deposits into a depository account or newly opened account may be an indication of borrowed funds. Deposits exceeding 25% of the total monthly qualifying income must be sourced.

Good to Know

Re-occurring non-payroll deposits may indicate additional undisclosed sources of income that may be required to be documented for household income compliance.

9.02 Gifts

A gift can be provided by the following:

- A relative, defined as the borrower's spouse, child, or other dependent, or by any other individual who is related to the borrower by blood, marriage, adoption, or legal guardianship; or
- A fiancé, fiancée, or domestic partner who has lived with the borrower for the last 12 months, and residence has been documented.

Gift funds must be verified and received by the borrower prior to the closing. Provide the following:

- Completed and signed Gift Affidavit Form 11.
- Copy of gift check (or withdrawal documentation) to borrower showing the gift donor as the remitter.
- Copy of borrower's deposit receipt or a bank statement that shows the gift deposit.

Gifts funds are an acceptable source for reserves, if required.

9.03 Retirement Funds

Vested funds from an individual retirement account (IRA/SEP/Keogh accounts) and tax favored retirement savings accounts (401K accounts) are acceptable sources of funds. Proof of liquidation is required.

If the retirement asset is in the form of Stocks, Bonds or Mutual Funds see Section 9.10 Stocks, Bonds and Mutual Funds.

9.04 Cash Value of Life Insurance

Document the cash value of the life insurance and receipt of the funds by one of the following:

- A copy of the check from the insurer, or
- A copy of the payout statement from the insurer.

9.05 Sale of a Personal Asset

Proceeds from the sale of a personal asset (automobile, boat, land,) is acceptable. Provide the following:

- Proof of ownership
- Current fair market value of the asset
- Purchase Agreement/Bill of sale or copy of the transferred title
- Verification of receipt of funds

9.06 Tax Refund

A copy of the borrower's federal and/or State tax returns must be reviewed to determine the anticipated amount of the refund.

Document the receipt of the funds by providing one of the following:

- Copy of the bank statement reflecting the automatic deposit, or
- Copy of the tax refund check and proof of deposit into the borrower's account

9.07 Borrowed Funds

Proceeds from a loan secured by the borrower's own asset is acceptable.

The loan must be fully amortized and repayment must be on a monthly basis. The term of the loan must be reasonable based on the life of the asset.

Document the loan transaction by providing:

- Proof of ownership of the asset
- Current fair market value of the asset
- A copy of the executed Note
- Verification of receipt of funds

9.08 Cash–on-Hand

Cash-on-hand is an acceptable source of funds.

The lender must verify and document the following:

- The borrower customarily uses cash for expenses. The amount of funds saved should be consistent with the borrower's earnings capacity.
- Funds saved have been on deposit with a financial institution no less than 30 days prior to closing.
- The borrower must provide a written explanation disclosing the source of the funds and the borrower must state in the explanation that the funds have not been borrowed.
- The borrower's credit report shows limited or no use of credit cards, personal or mortgage loans and shows a limited or no use of depository accounts with a financial institution.

9.09 Repayment of Debt

Funds received from repayment of loans to family and friends must be verified and reconciled with the borrower's ability to have made such loans.

9.10 Stock, Stock Options, Bonds and Mutual Funds

Stocks, Bonds and Mutual funds are acceptable sources of funds. Proof of liquidation is required.

10.00 Credit

A borrower's credit history is an account of how well the borrower handled credit in the past and it is a good indicator of how the borrower is likely to handle their credit in the future.

10.01 Credit Report

Obtain a single file credit report for all borrowers, including a non-applicant spouse, if applicable.

The credit report must be no more than 90 days old and dated no earlier than 30 days from the application date. If the credit report is stale dated, the lender must provide an updated report.

10.02 Credit Scores

The minimum credit score requirement for each borrower is 620.

The credit report should include one credit score for each borrower.

10.03 Length of Credit History

The lender must review the borrower's credit report to determine whether a borrower has older established credit history or a newly established credit history, and whether there are a significant number of recently opened accounts or is there a mix of older and newer accounts.

Credit histories that include older, established accounts generally represent a lower credit risk, however and older, established credit history that includes a significant number of recently opened accounts may indicate that a borrower may be over extended, and thus represent a higher risk. In the same vein, older established revolving accounts with balance at the maximum limit with newly opened revolving accounts may also represent a higher risk.

Newly established credit history does not automatically represent a higher credit risk, since making payment as agreed on a new accounts represents less of a risk than older established accounts that have not been paid as agreed.

10.04 Analysis of Credit Report

Credit history within the past 12 months will be a strong factor in the underwriting decision. Borrowers must exhibit no late payments, judgments or new collections within the past 12 months. Late payments within 13-24 months will be evaluated on a case-by-case basis.

10.05 Analysis of Mortgage Payment History

The mortgage payment history must reflect 0 x 30 days late within the last 6 months.

10.06 Collections, Judgments, Charge-Offs of Non-Mortgage Accounts, Liens and Garnishments and Charge-Offs

Collections, judgments, charge-offs on non-mortgage accounts such as tax liens, mechanics' liens, and liens that have the potential to the affect the first mortgage lien position or diminish the borrower's equity must be paid-in-full prior to or at closing.

10.07 Bankruptcy and Foreclosure

Significant derogatory credit events dramatically increases the likelihood of a future default and represents a significantly higher level of default risk. Examples of significant derogatory credit events include bankruptcies, foreclosures, deeds-in-lieu of foreclosure, pre-foreclosure sales, short sales, and charge-off of mortgage accounts.

The lender must determine the cause and significance of the derogatory event, verify adequate time as elapsed since the date of the event, and verify that the borrower has re-established an acceptable credit history.

The borrower must reestablish a traditional credit. Nontraditional credit or "thin file" credit profiles are not acceptable.

If the borrower had a previous WHEDA loan that was the subject of a foreclosure, deed-in-lieu, or short sale that resulted in a loss the borrower is not eligible.

BANKRUPTCY (Chapter 7 or Chapter 11)

A four year waiting period is required, measured from the discharge or dismissal date of the bankruptcy action.

Exceptions for Extenuating Circumstances

A two-year waring period is permitted if extenuating circumstances can be documented. It is measured from the discharge or dismissal date of the bankruptcy action.

BANKRUPTCY (Chapter 13)

A distinction is made between Chapter 13 bankruptcies that were discharged and those that were dismissed. The waiting period required for Chapter 13 bankruptcy actions is measured as follows:

- Two years from the discharge date, or
- Four years from the dismissal date.

The shorter waiting period based on the discharge date recognizes that borrowers have already met a portion of the waiting period within the time needed for the successful completion of a Chapter 13 plan and subsequent discharge. A borrower who was unable to complete the Chapter 13 plan and received a dismissal will be held to a four-year waiting period.

Exceptions for Extenuating Circumstances

A two-year waiting period is permitted after a Chapter 13 dismissal, if extenuating circumstances can be documented. There are no exceptions permitted to the two-year waiting period after a Chapter 13 discharge.

Multiple Bankruptcy Filings

For a borrower with more than one bankruptcy filing within the past seven years, a five-year waiting period is required, measured from the most recent dismissal or discharge date.

NOTE: Two or more borrowers with individual bankruptcies are not cumulative, and do not constitute multiple bankruptcies.

Exceptions for Extenuating Circumstances

A three-year waiting period is permitted if extenuating circumstances can be documented, and is measured from the most recent bankruptcy discharge or dismissal date. The most recent bankruptcy filing must have been the result of an extenuating circumstance.

A strong and satisfactory 12-24 month credit history since the derogatory issue is required.

FORECLOSURE

A seven-year waiting period is required, and is measured from the completion date of the foreclosure action as reported on the credit report or other foreclosure documents provided by the borrower.

Exceptions for Extenuating Circumstances

A three-year waiting period is permitted if extenuating circumstances can be documented, and is measured from the completion date of the foreclosure action. The following requirement applies between three and seven years:

- Maximum LTV/CLTV/HCLTV ratio is 90%

Foreclosure and Bankruptcy on the Same Mortgage

If a mortgage debt was discharged through a bankruptcy, the bankruptcy waiting periods may be applied if the lender obtains the appropriate documentation to verify that the mortgage obligation was discharged in the bankruptcy. Otherwise, the greater of the applicable bankruptcy or foreclosure waiting periods must be applied.

Deed-in-Lieu of Foreclosure, Pre-foreclosure Sale, and Charge-Off of a Mortgage Account

These transactions types are completed as alternatives to foreclosure.

A deed-in-lieu of foreclosure is a transaction in which the deed to the real property is transferred back to the servicer. These are typically identified on the credit report through Remarks Codes such "Forfeit deed-in-lieu of foreclosure."

A pre-foreclosure sale or short sale is the sale of a property in lieu of a foreclosure resulting in a payoff of less than the total amount owed, which was pre-approved by the servicer. These are typically identified on the credit report through Remarks Codes such as "Settled for less than full balance."

A charge-off of a mortgage account occurs when a creditor has determined that there is little or no likelihood that the mortgage debt will be collected. A charge-off is typically reported after an account reaches a certain delinquency status, and is identified on the report with a manner of payment (MOP) code of "9".

A four-year waiting period is required from the completion date of the deed-in-lieu of foreclosure, pre-foreclosure sale, or charge-off as reported on the credit report of other documentation provided by the borrower.

Exceptions for Extenuating Circumstances

A two-year waiting period is permitted if extenuating circumstances can be documented.

Deed-in-lieu and pre-foreclosure sales may not be accurately or consistently reported in the same manner by all creditors or credit reporting agencies.

If not clearly identified in the credit report, the lender must obtain copies of appropriate documentation. The documentation must establish the completion date of a previous foreclosure, deed-in-lieu or pre-foreclosure sale, or date of the charge-off of a mortgage account; confirm the bankruptcy discharge or dismissal date; and identify debts that were not satisfied by the bankruptcy. Debts that were not satisfied by a bankruptcy must be paid off or have an acceptable, established repayment schedule.

EXTENUATING CIRCUMSTANCES DOCUMENTION

Extenuating circumstances are nonrecurring events that are beyond a borrower's control that result in a sudden, significant and prolonged reduction in income or a catastrophic increase in financial obligations.

If a borrower claims that the derogatory credit information is the result of an extenuating circumstance, the lender must substantiate the borrower's claim. The following documentation is required, but is not limited to:

Written explanation from the borrower explaining the relevance of the documentation

Documents that confirm the event, such as, a copy of the final divorce decree, medical reports or bills, notice of job layoff, job severance papers; and

Documents that illustrate the factors that contributed to the borrower's inability to resolve the problem that caused the event, such as, a copy of insurance papers or claim settlements, property listing agreements, lease agreements, tax returns covering the periods prior to, during, and after a loss of employment, Fannie Mae underwriting guidelines apply to the waiting period and re-establishment of credit.

If the borrower had a previous WHEDA loan that was the subject of a foreclosure, deed-in-lieu, or short sale that resulted in a loss the borrower is not eligible.

10.08 Inquiries

An explanation and/or documentation will be required for all recent credit inquiries made within the last 90 days of the credit report date.

10.09 30-Day Charge Accounts

Document that the borrower has sufficient funds to cover the unpaid balance of all 30 day charge accounts.

10.10 Undisclosed Debt

Document any discrepancies between the credit report and information disclosed in the application or elsewhere. All debts must be documented and the payments will be included in the debt-to-income ratios.

10.11 Disputed Accounts

Any disputed accounts must be resolved. The borrower will incur the cost of any fees associated with resolving the disputed account. Provide a copy of the updated credit report evidencing resolution of the disputed account.

10.12 Non-Traditional Credit References

Alternative credit references are acceptable when sufficient traditional sources are not available. Each account must have a satisfactory 12-month history of being paid on time.

Examples of alternative credit references are:

- Utility payments (gas, electric)
- Auto insurance premiums paid monthly
- Telephone or cell phone payments
- Cable or satellite payments

No collections or judgments (other than medical) filed within the past 24 months.

Judgments must be paid in full.

Provide 12 months of consecutive cancelled checks or 12 months of bills marked “paid” to reflect the timeliness of the borrower’s payment history.

Bank statements do not by themselves validate payments, but can be used to validate information reported by other sources. Withdrawals and debits on the borrower’s bank statements can provide a secondary confirmation of payment obligations.

Vague statements such as “current,” “satisfactory,” or “pays as agreed” are not acceptable by themselves.

Alternative credit references must include all of the following:

- Creditor's name
- Name of person providing the reference
- Date account was opened
- Amount of highest credit
- Current status of the account
- Required payment amount
- Unpaid balance
- Payment history

Borrower with Disabilities

If a borrower with a disability does not have traditional credit, the lender may use documentations provided by a court appointed guardian or by a Social Security Administration representative payee provided that this party:

- Manages the borrower’s financial transactions, and

- Maintains financial records on the borrower's behalf, and
- Use credit accounts held jointly in the name of the borrower to pay financial obligations with Disabilities

Guardians will be required to document evidence of court approval to enter into a mortgage contract on behalf of the borrower.

11.00 Debt Analysis

The debt-to-income ratio impacts the borrower's ability to repay the mortgage loan. Generally, the lower the borrower's total debt-to-income (DTI) ratio, the lower the risk. As the ratio increases, so does the level of risk.

11.01 Ratios

The maximum total debt-to-income ratio limit is 45%.

11.02 Housing Payment

The monthly housing expense is the sum of the following:

- Principal and interest (P&I)
- Real estate taxes
- Hazard insurance
- Flood Insurance premium, if applicable,
- Private Mortgage Insurance premium, if applicable
- Special Assessments
- Second Mortgages
    - WHEDA Home Improvement Loans
    - Hard Seconds: Home Equity Line of Credit (HELOC)
    - Soft Seconds: Community Seconds as defined by Fannie Mae

If the first mortgage is not a WHEDA loan, the Lender must provide proof of the principal, interest, taxes and insurance (PITI) payment. The mortgage payment reflected on the credit report in itself is not verification of the total PITI amount.

11.03 Revolving Accounts

Revolving charge accounts and unsecured lines of credit are opened ended and must be considered as part of the borrower's recurring monthly debt obligation. Trade lines reflected on the credit report include but are not limited to credit cards such as American Express, VISA, Capital One, etc., department store charge cards such as Walmart, Boston Store, Zales, etc., and personal lines of credit.

If the credit report does not reflect a monthly payment amount use the greater of $10 or 5% of the outstanding balance, unless supplemental documentation is obtained to support a payment of less than $10 or 5%.

Payment in full of revolving debt to a zero balance to obtain satisfactory qualifying ratios is permissible, however, payoff of revolving debt solely to qualify should be carefully evaluated and considered in the overall loan analysis. The borrower's history of credit use should be an important factor in determining whether to include or exclude the liability.

11.04 Installment Debt

Include all installment debt with a remaining term of 10 months or more.

Installment debts with fewer than 10 months remaining are generally excluded. However, debts with less than 10 months must be counted if the amount of the debt significantly affects the borrower's ability to pay his or her monthly credit obligations after closing.

Paying down the principal balance of an installment debt to reduce the remaining term to less than 10 payments is not allowed.

11.05 Lease Payments

Lease payments must always be included as a debt regardless of the number of months remaining on the lease.

11.06 Authorized User Accounts

When a credit account owner permits another person, typically a family member, to have access to use an account, the user is referred to as an authorized user of the account.

Credit report trade lines that list a borrower as an authorized user cannot be considered in the underwriting decision except under the following conditions:

- Another borrower in the loan transaction is the owner of the trade line; or
- A borrower can provide written documentation (e.g. canceled checks, payment receipts, etc.) that they have been the actual and sole payer of the monthly payment on the account for at least 12-months preceding the date of the application.

If written documentation of the borrower's monthly payments on the authorized user trade line is provided, then the payment history, particularly any late payments that are indicted must be considered in the credit analysis and the monthly payment must be included in the total debt-to-income calculation.

If the borrower is an authorized user of a trade line that belongs to a non-applicant spouse the lender must include the monthly payment when calculating the borrower's total debt ratio.

11.07 Non-Applicant Spouse Debt

All open and active accounts will be included in the total debt ratio.

The borrower will not be held responsible for payment of collections incurred by a non-applicant spouse prior to the documented date of the marriage. All judgements must be paid-in-full.

11.08 Alimony and Child Support

When a borrower is required to pay alimony, child support or maintenance payments under a divorce decree, separation agreement or any other legal written agreement, include payments that have a remaining term of 10 months or more. Voluntary payments do not need to be taken into consideration.

11.09 Court-Ordered Assignment of Debt

When a borrower has an outstanding debt reflected on the credit report that was assigned to another party by a court order such as a divorce decree or marital settlement agreement, and the creditor does not release the borrower from liability, the borrower has a contingent liability.

The contingent liability does not need to be included as part of the borrower's monthly debt obligation. The payment history of the account after the effective date of the assignment will not be evaluated, however, the payment history prior to the assignment date will not be disregarded.

11.10 Student Loans (07/01/2016)

For all student loans, whether deferred, in forbearance, or in repayment, a payment must be included as a recurring monthly debt obligation.

The lender is responsible for determining that the payment on the credit report or other documentation provided by the student loan provider or borrower are fully amortizing payments. Income Based Repayment (IBR), Income Contingent Repayment (ICR) and graduated repayments plans are not acceptable.

Lenders must determine the monthly repayment amount using one of the following options:

- 1% of the outstanding balance;
- the actual payment that will fully amortize the loan with no payment adjustment as documented in the credit report, by the student loan creditor, or in documentation provided by the borrower;
- a calculated payment that will fully amortize the loan based on the documented loan repayment terms; or
- <u>if the repayment terms are unknown</u>, a calculated payment that will fully amortize each loan based on the current prevailing student loan interest rate and the allowable repayment period in the table below.
    - If the repayment terms are unknown and the loan type, subsidized and unsubsidized Direct, Direct, Perkins, FFEL etc., and the borrower type, Undergraduate, Graduate, Professional, Parent, are unknown, the lender should use the highest prevailing rate from the applicable chart, Students Loans Disbursed on or after July 1, 2016 and Student Loans Disbursed before July 1, 2016.
    - The "current prevailing student loan interest rate" can be found on a variety of websites.

For example:

U.S. Department of Education Federal Student Aid https://studentaid.ed.gov/sa/types/loans/interest-rates, provides the interest rates for student loans disbursed on or After July 1, 2015 and for student loans disbursed Before July 1, 2015.

Calculating a Student Loan Repayment	
Total outstanding balance of all student loans	**Repayment period**
$1 - $7,499	10 years
$7,500 - $9,999	12 years
$10,000 - $19,999	15 years
$20,000 - $39,999	20 years
$40,000 - $59,999	25 years
$60,000 +	30 years

EXAMPLE:

Total loan balance of all student loans with a first disbursement date after or on July 1, 2016: $17,500

Repayment period: 15 years

Interest Rate: 6.31%

Monthly Amortizing Payment: $150.62

A monthly payment must be included for student loans that will be forgiven, cancelled or discharged for certain teacher and public service jobs or for other reasons allowed by the student loan creditor unless documentation is been provided evidencing the forgiveness, cancellation or discharge of the loan balance is provided directly from the creditor.

11.11 Business Debt in the Borrower's Name

When a self-employed borrower claims that a liability reflected on the credit report is being paid by the borrower's business, obtain 12 months of cancelled checks to verify the obligation was paid out with company funds and that the liability was considered in the cash flow analysis of the borrower's business. If delinquencies have occurred in the past 12 months, include the debt as part of the borrower's individual obligations.

11.12 Co-Signed Loans

When a borrower co-signs for a loan to enable another party (the primary obligor) to obtain credit, the borrower has a contingent liability. The obligation will not considered debt if the borrower can provide copies of cancelled checks for the most recent 12 months verifying the account was paid by the primary debtor and verifying no late payments.

11.13 Home Equity Lines of Credit

When a borrower has a home equity line of credit (HELOC) that provides for a monthly payment of principal and interest or interest only, the payment on the HELOC must be considered as part of the borrower's recurring monthly debt obligations. If the HELOC does not require a payment, then a monthly payment amount will not be considered as a monthly debt obligation.

11.14 Loans secured by a Financial Asset

When a borrower uses a financial asset, life insurance policy, 401(k) account, IRA, Certificate of Deposit (CD), stocks, bonds, etc., as security for a loan, the borrower has a contingent liability.

If documentation is provided that verifies the loan is secured by the borrower's financial asset, a monthly payment is not required to be included as a monthly debt obligation.

11.15 Other Real Estate Owned

When a borrower owns mortgaged real estate, other than the subject property, the lender must document the monthly gross (and net) rental income using the borrower's most recent federal income tax return including schedule E. Copies of a current executed lease agreement may be substituted for the tax return. Refer to Section 8.18 Rental Income from Subject Property or Other Real Estate for additional guidance.

11.16 Unreimbursed Employee Business Expenses

Determine whether the borrower has unreimbursed employee business expenses for the following scenarios:

- When a borrower has commission income that represents 25% or more of the borrower's total annual employment income, or
- When an automobile allowance is included in the borrower's monthly qualifying income.

Determine the borrower's recurring monthly debt obligation by developing a 24-month average of the expenses by using information from the borrower's Federal Income Tax return (IRS Form 1040) and all schedules (Schedule A and IRS Form 2016). Automobile depreciation claimed on IRS Form 2016 should be netted out of the calculation.

For both scenarios, when calculating the total debt-to-income ratio, the monthly average of unreimbursed expenses should be subtracted from the borrower's stable monthly income. Automobile lease or loan payments are not subtracted from the borrower's income; they are always considered part of the borrower's recurring monthly debt obligations.

12.00 Property Eligibility

This Section provides Lenders guidance on the property eligibility requirements for the program.

12.01 Location

The property must be located in Wisconsin.

12.02 Eligible Property Types

- 1-4 unit property
- Condominiums

12.03 Ineligible Property Types

- Commercially used properties
- Time share units
- Single- and double-wide manufactured homes

12.04 Property Use

If a borrower claims a deduction for "Business Use of Home" on their federal income tax return, then no more than 15% of the total square footage of finished space of the home including finished space in the basement can be used for trade or business purposes.

The property cannot be subdivided, farmed, or used commercially.

12.05 Code Requirements

The property must meet state and local code compliance requirements. If code violations are noted, bids must be obtained to correct the violations.

12.06 Property Condition

The property must be in average or better condition.

13.00 Determining Property Value

The borrower has the option to obtain a new appraisal report or a Broker's Price Opinion (BPO) at the borrower's expense. In the event an appraisal report is obtained after a BPO is provided, the "subject to" appraised value will be used to establish the maximum HCLTV and the BPO value will no longer be considered.

13.01 Appraisal Report

The appraisal report should be dated within 60 days of the loan application and should be included in the Loan Application package.

Appraisal requirements are as follows:

- Obtained in compliance with the Appraiser Independence Requirements
- Compliant with Uniform Appraisal Dataset requirements
- An interior & exterior review by a licensed appraiser
- Based on the "as is" value of the property

The following exhibits must accompany the appraisal:

- Exterior building sketch with dimensions
- Street map that shows the location of the property and comparable properties
- Original photographs showing the front, back, and street scene of the subject property and the front of each comparable
- Interior photographs of the kitchen, all bathrooms, main living area, examples of physical deterioration, examples of recent updates

Acceptable Forms

- Uniform Residential Appraisal Report (Form 1004)
- Small Residential Income Property Appraisal Report (Form 1025)
- Condominium Appraisal Report (Form 1073)
- Market Conditions Addendum to the Appraisal Report (Form 1004MC)
- Appraisal Update and/or Completion Report (Form 1004D)

13.02 Brokers Price Opinion (BPO)

A Brokers Price Opinion is the estimated value of a property as determined by a local real estate broker or other qualified individual or firm. A BPO is not the same as an appraisal report.

Determining the Brokers price of the property includes but is not limited to: the characteristics of the dwelling, the value of similar surrounding properties, sales trends in the neighborhood and an estimate of any costs needed for repairs.

An Interior BPO in which the Agent does a walk-through of the property to determine the condition and features of the dwelling is required. Valuation will be established using the "as repaired" or "subject to" value indicated by the BPO.

14.00 Determining Improvement and Repair Costs

Lenders should encourage borrowers to visit the National Association of the Remodeling Industry website (www.nari.org) for important information on remodeling tips.

Best practice is to encourage the borrower to obtain multiple bids from qualified contractors or to research multiple retail stores for the cost of material goods to insure the borrower is obtaining a fair and equitable cost for the improvement.

Provide a copy of the one bid or estimate that the borrower has chosen for completion of each improvement.

Work to be completed by a borrower is prohibited unless documentation can be provided that demonstrates the borrower is qualified and/or licensed to perform the work.

Borrowers are allowed to complete minor improvements such as but not limited to interior painting and staining.

The borrower cannot begin the work prior to loan approval.

14.01 Eligible Improvements/Repairs

Eligible improvements/repairs include but are not limited to:

- Air Conditioner
- Energy Star Appliances
- Floor Covering
- Furnace
- Roof
- Room Remodel
- New Addition
- Siding
- Water Heater
- Windows

14.02 Ineligible Improvements/Repairs

Ineligible improvements/repairs include but are not limited to:

- High-end products and finishes
- Fireplace
- Hot Tub
- Swimming pool

15.00 Disbursement of Home Improvement Funds

WHEDA will disburse the total amount of funds requested to the Lender.

The Lender is responsible for the following:

- Issuing a check to both the borrower and contractor, or
- Issuing a check to both the borrower and the retail store, or
- Executing an Escrow Agreement and setting up an escrow account that is held by the Lender or a Title Company, and
- Monitoring timely completion of the work and disbursement of the repair escrow

Refer to Section 19.00 Funding for additional guidance.

16.00 Completion of Home Improvements

Repairs must be completed and all escrowed funds disbursed within 180 days after closing. Upon completion of improvements/repairs provide the following:

- Proof of satisfactory completion of repairs, such as signed lien waivers and paid invoices from applicable contractors, or
- A Completion Certificate signed by the appraiser, if a “subject to completion” Appraisal was provided
- Evidence of escrow account closure, if applicable.
  - Any remaining amount of funds in the escrow account must be submitted to WHEDA to reduce the mortgage loan’s outstanding principal balance, or
  - Additional improvements can be made with the remaining balance subject to:
    - Receipt of bid(s), and
    - Written approval from WHEDA

17.00 Policy and Procedures

Submit the Home Improvement Application Package Checklist (Form 1) for a WHEDA underwrite.

17.01 Disclosures

The lender is responsible for all regulatory compliance disclosures, including but not limited to the Loan Estimate, Closing Disclosure and Right of Rescission.

17.02 Fees Charged to the Borrower

The following fees may be financed or paid in cash:

- Credit report
- Brokers Price Opinion (BPO)
- Appraisal Report, if applicable
- Appraisal Re-Certification of value, if applicable
- Written title search
- Standard Flood Hazard Determination (FEMA)
- Recording fees
- Permit fees
- $25 purchase review fee

17.03 Rate Lock

Lender must subscribe to the Daily WHEDA Pricing Grids. Refer to the Policy and Procedures Guide Section 4.01 Daily Rates and Pricing for additional guidance.

17.04 File Submission

Submit the Home Improvement Application Package Checklist (Form 1) and include a copy of the cost estimate for all improvements.

17.05 When Work May Begin

Work cannot start until the loan application has been approved.

17.06 Title Search

Obtain a written title search and review the following:

- Title should be held in fee simple and all borrower(s) should be titleholder(s). The borrower(s) must have at least 50% ownership.
- Any outstanding liens or mortgages against the property should have been disclosed in the debt section of the application for consideration in underwriting. Verify actual balances and payment status on the credit report or by the creditor in writing. If previously undisclosed debts are found, verify them in writing and contact WHEDA.
- Verify any judgments against the borrower(s) are satisfied.
- Verify any property taxes due are paid. If the title search does not indicate the status of the prior years' taxes, obtain a copy of the paid tax bill.

17.07 Contract/Bids

Provide a copy of the cost estimate for all improvements.

17.08 Lien Waivers

Lien waivers are recommended but not required.

18.00 Prepare for Closing the Loan

18.01 Note

The lender may use any Note that is legal to use in Wisconsin for home improvement loans. After closing provide the original of the Note endorsed "Pay to the order of WHEDA without recourse".

A late fee of 5% of the unpaid amount or $10.00, whichever is less, will be assessed for any payment not received on or before the 10th day after the due date. There will be no late charge on the final payment.

The minimum loan amount is $1,000 and the maximum loan amount is $15,000.

18.02 Disclosures

It is the responsibility of the Lender to ensure that all regulatory compliance requirements are met.

18.03 Mortgage

The lender may use any Mortgage that is legal to use in Wisconsin for home improvement loans. Record the Mortgage upon expiration of the three-day rescission period.

18.04 Assignment of Mortgage

The lender may use any Assignment of Mortgage that is legal to use in Wisconsin for home improvement loans. Record the Assignment of Mortgage upon expiration of the three-day rescission period. Include the complete legal description as it appears on the title search. List WHEDA's name and address in the "Return To" section.

18.05 Notice of Right of Rescission

All persons listed on title must sign the Notice of Right of Rescission. The three-day rescission period begins the next business day after signing the Mortgage.

18.06 Flood Insurance

Submit the Standard Flood Hazard Determination Form (FEMA). If the property is located in a 100 year flood plain obtain flood insurance.

Verify the Flood Insurance Policy meets the following requirements:

- Premiums are current and in effect
- Deductible should be the lesser of 1% of the principal balance or $1000
- Coverage should be equal to the lesser of:
    - Unpaid principal balance of the mortgage; or
    - 100% of the insurable value of the improvements as established by the property insurer and provides for claims to be settled on a replacement cost basis
- Lender must notify the flood insurer of the servicer's loan number and to send annual renewal premium notices to the servicer
- The mortgagee clause should read:

  WHEDA, Its Successors and/or Assigns

PO Box 1728
Madison, WI 53701-1728

18.07 Hazard Insurance

Verify the Hazard Insurance Policy meets the following requirements:

- Premiums are current and in effect
- Deductible should be the lesser of 1% of the principal balance or $1000
- Coverage should be equal to the lesser of:
    - Unpaid principal balance of the mortgage; or
    - 100% of the insurable value of the improvements as established by the property insurer and provides for claims to be settled on a replacement cost basis
- Lender must notify the flood insurer of the servicer's loan number and to send annual renewal premium notices to the servicer
- The mortgagee clause should read:

WHEDA, Its Successors and/or Assigns
PO Box 1728
Madison, WI 53701-1728

18.08 Subordinations

WHEDA may, on a case-by-case basis, subordinate its lien position in the event of a refinance.

18.09 Lender Warranty

- It is the responsibility of the Lender to ensure:
- All information submitted to WHEDA is true and correct, based on normal and prudent business practices.
- All information submitted to WHEDA is in compliance with the Loan Purchase Agreement.
- The Borrower has executed the Home Improvement Borrower's Affidavit (Form 2)
- All proceeds of the loan have been disbursed jointly to the borrower and the contractor.

18.10 Lender Compensation

WHEDA will pay the lender an origination fee of $250.

18.11 Notice of Right of Rescission

All persons listed on title must sign the Notice of Right of Rescission. The three-day rescission period begins the next business day after signing the Mortgage.

19.00 Funding

Submit the Home Improvement Funding Certificate (Form 1A) to WHEDA. Include a copy of the Note, written title search to evidence real estate taxes are paid in full and the signed loan application.

Requests received by noon the day before the anticipated disbursement date will enable WHEDA to electronically transfer the requested funds on the date of disbursement.

Loan proceeds may be placed in an escrow account or they may be disbursed payable jointly to the borrower(s) and the contractor. The lender is encouraged to advise the borrower to disburse funds when the project is complete.

19.01 Disbursement of Loan Proceeds

All improvements should be completed within 180 days from the funding date. In general, disbursements should be made only upon verification that the work has been completed satisfactorily. All disbursements should be made payable jointly to the borrower and the contractor.

Advise borrowers that if the improvements are not completed within three months, they can submit a written request for an extension. WHEDA may grant one extension on a case-by-case basis. If the improvements are not completed within the allotted period of time, WHEDA may call the Note due and payable.

19.02 Change Orders

Changes in contractors or improvements must be approved in advance by WHEDA. Unused loan proceeds must be returned to WHEDA and will be applied to the principal amount of the loan.

19.03 Closing Documents

Submit the closing package to WHEDA within 15 business days using the Home Improvement Closing Package Checklist (Form 3). Forward the originals of the recorded mortgage and assignments within 90 days of the closing.

19.04 Repurchase

Any loan not meeting compliance underwriting will require repurchase if the exception cannot be remedied within 10 business days. Compliance issues include:

- Loan proceeds not disbursed jointly to the borrower and the contractor
- Failure to notify WHEDA of Change Orders

20.00 Post Close

20.01 Loan Servicing

All Home Improvement Loans will be serviced by WHEDA.

20.02 WHEDA Property Inspection

WHEDA will perform an inspection of the completed improvements.

20.03 Quality Control Audit

All loans are subject to a compliance audit to verify that the Home Improvement loan meets all eligibility requirements.