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TITLE 825 - HOUSING AND MORTGAGE FINANCE CORPORATION

CHAPTER 20 - RULES RELATIVE TO SINGLE FAMILY LOAN PROGRAMS

SUBCHAPTER 00 - N/A

PART 1 – Mortgage Finance Programs.

1.1 CONSTRUCTION OF RULES AND REGULATIONS

Construction with Act. Unless otherwise defined herein or unless a different meaning is required from the context in which they are used herein or is required by the Tax Act, all words and terms used in this Part are as defined in the Act.

1.2 DEFINITIONS

- A. "Act" means the Housing and Mortgage Corporation Act set forth in R.I. Gen. Laws Chapter 42-55, as amended.
- B. "Aggregate Family Income" means the aggregate total of the family income, as defined by the Tax Act, of anyone required by the Tax Act to be taken into account for purposes of determining eligibility under a Program.
- C. "Board of Commissioners" means the Board of Commissioners of the Corporation.
- D. "Bond Proceeds" means proceeds from bonds issued pursuant to a Program.
- E. "Borrower" means persons satisfying the Eligibility Criteria set forth in § 1.4 of this Part and party to a Mortgage Loan. The term "Borrower" shall include cooperative housing corporations organized under the laws of the State of Rhode Island that are eligible to receive financing from Bond Proceeds. The term "Borrower" shall also include governmental units or 501(c)(3) organizations to the extent permitted by the Act, the Tax Act and the Corporation.
- F. "Closing of the Mortgage Loan" means the date the Mortgage Loan documents are executed by a Borrower or on its behalf.
- G. "Corporation" means Rhode Island Housing and Mortgage Finance Corporation, a public corporation organized and existing under the Act.
- H. "Fair Market Value" means
 - 1. with respect to a New Dwelling or existing dwelling, the lower of

- a. the value of a dwelling as determined by a qualified appraiser acceptable to the Corporation, or
 - b. the sale price plus the cost of any improvements to be financed by the Mortgage Loan; and
 2. with respect to a rehabilitated dwelling, the sale price, plus the cost of any improvements to be financed by the Mortgage Loan.
- I. "FHLMC" means the Federal Home Loan Mortgage Corporation, a corporation organized and existing under the laws of the United States of America.
- J. "FNMA" means the Federal National Mortgage Association, an agency of the United States government.
- K. "Mortgage Lender" means an institution engaged in the business of lending which:
1. meets the qualifications of the Program as set forth in this Part.
 2. has executed a Mortgage Purchase Agreement with the Corporation and
 3. submits or has heretofore submitted a proposal for making Qualified Mortgages which proposal is or has previously been accepted by the Corporation.
- L. The term "Mortgage Lender" shall also include governmental units or 501(c)(3) organizations to the extent permitted by the Act, the Tax Act and the Corporation.
- M. "Mortgage Loan" means a loan to a Borrower evidenced by a promissory note and secured by a mortgage deed or other instrument constituting a lien on improvements and real property in fee simple. For purposes of this Part:
1. a loan to a qualified Borrower secured by a share certificate or membership certificate in a cooperative housing corporation and/or a proprietary lease,
 2. a loan by a lessor with an option to purchase secured by an assignment of the option or
 3. an installment sale contract secured by an assignment of the sales contract shall constitute a Mortgage Loan.
- N. "Mortgage Purchase Agreement" means a mortgage purchase agreement between the Corporation and a Mortgage Lender by which the Mortgage Lender agrees to originate, sell, transfer and assign Qualified Mortgages to the Corporation from time to time upon certain terms and conditions.

- O. "New Dwelling" means a one to four family residential dwelling unit which, on the date the Corporation or a Mortgage Lender makes a Qualified Mortgage with respect thereto, has not been previously occupied. A One Unit New Dwelling may be a single condominium or cooperative unit.
- P. "One, Two, Three or Four Unit Existing Family Dwelling" means real estate upon which is located or to be located a structure or structures consisting of dwelling units for one (1), two (2), three (3) or four (4) families, respectively, all of which shall be used primarily for residential purposes only. A One Unit Existing Family Dwelling may be a single condominium or cooperative unit. The term "Dwelling" shall be deemed to refer collectively to One, and to the extent permitted by the Act, the Tax Act and resolutions of the Board of Commissioners, Two, Three and Four Unit Existing Family Dwellings including Dwellings to be rehabilitated and units in a condominium or a cooperative housing corporation development.
- Q. "Program" means any one of the Corporation's programs of purchasing or making Qualified Mortgages with Bond Proceeds and with other funds available for such purpose or any program of the Corporation involving the making of direct loans to qualified Borrowers. The term "Program" shall be broadly construed to include any program of providing financing for the lease, acquisition and/or rehabilitation of housing by persons and families of low and moderate income which the Corporation is authorized to engage in under the Act and the Tax Act, which Program the Corporation establishes by Program Bulletin.
- R. "Program Bulletin" means a bulletin issued by the Corporation implementing a Program or resolving any ambiguity in this Part, with respect to a Program or Programs. Program Manuals, Mortgage Lender's Manuals and similar documents issued by the Corporation shall constitute Program Bulletins for purposes of this Part. Copies of all Program Bulletins shall be maintained by the Corporation at its principal office, and shall be available for inspection and copying between the hours of 9:00 a.m. and 5:00 p.m. on Mondays through Fridays, except holidays.
- S. "Qualified Mortgage" means a Mortgage Loan endorsed for insurance or guaranty by the Federal Housing Administration, Farmers' Home Administration, Veterans Administration, under a program of self-insurance established by the Corporation or through any subsidiary of the Corporation, or a Mortgage Loan otherwise eligible to be originated or financed for purchase by the Corporation pursuant to this Part.
- T. "Registration" means a reservation for available funds submitted by a Mortgage Lender. Registrations may be submitted by fax or mail as the case may be.
- U. "Residential Use" means used primarily as the principal residence by the owner, owners or occupants thereof, as well as any incidental use of a Dwelling consistent with the Tax Act.

- V. "Servicer" means any bank, credit union, loan and investment company, trust company, savings bank, national banking association, savings and loan association, building-loan association, life insurance company, mortgage banking company or other entity authorized to transact business in the State, which satisfies the Corporation's requirements under this Part and which shall execute a Servicing Agreement. The term "Servicer" shall also include governmental units or 501(c)(3) organizations to the extent permitted by the Act, the Tax Act and the Corporation.
- W. "Servicing Agreement" means a contractual arrangement of the Corporation with a Servicer for the servicing of Qualified Mortgages, including the collection and deposit of payments, accounting for interest and principal payments and proper applications of escrow payments and containing such other terms and conditions as the Corporation may deem appropriate.
- X. "State" means the State of Rhode Island and Providence Plantations.
- Y. "Tax Act" means the Internal Revenue Code of 1986, as amended, the rules and regulations promulgated or deemed to be promulgated thereunder as now in effect or as may be promulgated and from time to time amended, and any corresponding provision of prior or future federal tax laws that apply to a Program.

1.3 PURPOSE AND PROCEDURE

- A. Scope of this Part. This Part is intended to provide the public with the criteria used by the Corporation in determining which persons will benefit from its Programs and in selecting, where appropriate, Mortgage Lenders and other third parties to assist the Corporation in the implementation of its Programs. The Corporation's Programs are structured to make home ownership more affordable for low and moderate income residents of the State and to stimulate the production of housing, including cooperative housing, within the State.
- B. General Procedures for Purchase of Mortgage Loans.
 - 1. The Corporation generally secures funds to purchase Mortgage Loans by issuing tax-exempt bonds. Proceeds of these bonds may be made available directly or may become available as a result of investment earnings or because of the advance payment or other termination of Mortgage Loans previously purchased. Since the enactment of the Tax Act, certain specific requirements concerning the eligibility of Borrowers and the Dwellings being financed with the proceeds of tax-exempt bonds have been adopted by the Corporation and must be adhered to by the Corporation in connection with certain of its Programs. However, the Corporation may remove certain of such requirements with respect to Mortgage Loans to be purchased from funds which are not subject to such

requirements and to add certain requirements under the Program as are necessary to effect compliance with the Tax Act.

2. The Corporation will from time to time notify all of its Mortgage Lenders of funds for set aside for Mortgage Loans in Targeted Areas or for new construction, rehabilitation, or other particular types of eligible properties under § 1.4 of this Part or for lower income Borrowers. All Mortgage Lenders will be given the opportunity to register Mortgage Loans for purchase by the Corporation on forms provided by the Corporation. The Corporation may, at any time it deems necessary or advisable, suspend the acceptance of reservations from any or all Mortgage Lenders.
3. Under the Tax Act, certain funds must be set aside for a one (1) year period from the date such funds are initially available to make loans in Targeted Areas as defined in the Tax Act. In addition, funds may be set aside for loans generally or for particular types of loans including, without limitation, second mortgage loans and loans for Borrowers having certain income or other characteristics, it being intended hereby to provide flexibility to the Corporation to carry out the purposes of the Act. The Corporation will establish limitations on the period of time during which funds will be reserved for a particular loan from amounts set aside by the Corporation generally or for a particular purpose. In the sole discretion of the Corporation, such time limitations may be extended because of circumstances beyond the control of the Borrower. Purchases will be made only pursuant to the Mortgage Purchase Agreement.
4. The Corporation may from time to time by Program Bulletin notify Mortgage Lenders of new Programs and will periodically notify them of rate changes and other changes in the terms and conditions of Programs.
5. The Corporation will accept Registrations from Mortgage Lenders only upon or subject to the availability of funds. Registrations will be accepted from Mortgage Lenders on a first come, first serve basis. Registrations and related information issued by the Corporation are commitments solely to reserve funds for Mortgage Loan purchases on terms and conditions set forth in the Regulations and are not commitments to purchase the Mortgage Loans. The Corporation reserves the right to impose additional requirements on Mortgage Lenders prior to permitting participation in any Program in order to further the objectives of the Act and this Part.
6. Registrations must be submitted to the Corporation for confirmation within a business day after a Mortgage from applicant is received by a Mortgage Lender. The Corporation will confirm such registration in writing. The Corporation may require Mortgage Lenders to provide periodic reports concerning the status of applications, commitments, loan closings and Mortgage Loans submitted for purchase. The Corporation at its sole discretion may reduce or otherwise limit the Registrations by a Mortgage

Lender and reallocate such amounts in accordance with its normal procedures.

7. In addition, where circumstances beyond the control of the individual Mortgage Lenders make it appropriate, the expiration dates for Registrations may be extended for all Mortgage Lenders.
- C. General Procedures for Direct Originations. In addition to purchasing Mortgage Loans pursuant to the provisions herein contained, the Corporation may directly originate Mortgage Loans pursuant to this Part and the Act. The terms and conditions of such direct origination shall be determined by Program Bulletin. Such direct originations of Mortgage Loans shall be made after a determination by the Corporation that such loans to be directly originated are not otherwise available wholly or in part from private lenders upon reasonably equivalent terms and conditions. To the extent that the Corporation does not fund such loan with the proceeds of tax-exempt bonds, the Corporation may remove certain specific requirements of the Tax Act with respect to such loans and may exempt such loans from other requirements of this Part as may be appropriate. Applicants shall apply for such Mortgage Loans on forms provided by the Corporation.

1.4 ELIGIBILITY CRITERIA

1.4.1 Qualifications of Borrowers

- A. Tax Act and Program Requirements. A condition to continued eligibility in the Program is the continued use of the Dwelling as a primary permanent residence. Borrowers and occupants of cooperative housing corporations, as applicable, shall be required to execute an affidavit evidencing an intent to continue to use and occupy the Dwelling as a primary permanent residence throughout the term of the Mortgage Loan and such other affidavits and certifications as may be required by the Corporation in order to provide evidence of compliance with the Tax Act and the requirements of the Program.
- B. Income Limitations. For each Program, the Corporation shall by Program Bulletin establish limitations with respect to the Aggregate Family Income of Borrowers and occupants of cooperative housing developments. For Mortgage Loans to be financed with tax-exempt Bond Proceeds, the limitations shall be based on percentages of the median family income for the Providence, Rhode Island metropolitan statistical area as established by the Department of Housing and Urban Development or such other limitations as may be permitted under the Tax Act. For all other Mortgage Loans, the limitation shall, at the option of the Corporation, be the higher of:
1. the income limitation established for Mortgage Loans set forth above or
 2. the limitations based on the average family or household income for the State of Rhode Island as determined annually by the Corporation.

- C. Program Extension; Reallocation of Set Asides. Notwithstanding any other provision herein contained, if the Corporation has Bond Proceeds or other funds remaining after the expiration of the term of any set aside originally made from such proceeds or funds, the Corporation may, in its sole discretion, cause the Program to be made available to such persons as the Corporation may from time to time determine by Program Bulletin. Funds set aside for Targeted Areas (as defined in the Tax Act) may be reallocated by the Corporation after the expiration of one (1) year from the date such funds are initially available.
- D. Asset Test. The Corporation may from time to time by Program Bulletin include an asset test as an additional condition to eligibility for receipt of a Mortgage Loan, Special Housing Assistance (as defined in § 1.7(H) of this Part) or for any other type of assistance provided hereunder to a Borrower or any class of Borrowers.

1.4.2 Eligible Properties

- A. Dwellings. To be eligible under the Program, the Dwelling must be located in the State of Rhode Island, and must be structurally sound and functionally adequate. The Corporation may from time to time impose additional requirements by Program Bulletin with respect to any Dwelling.
- B. Acquisition Cost Limitations. The acquisition cost of Dwellings may not exceed the Acquisition Cost Limits set forth in the Tax Act. The Corporation shall establish Acquisition Cost Limits by Program Bulletin for each Program.
- C. Hazard Insurance. All Dwelling improvements shall be covered by a valid and subsisting policy of standard hazard insurance providing fire and extended coverage to an amount equal to the greater of:
 - 1. eighty percent (80%) of the Fair Market Value of real estate or
 - 2. an amount sufficient to protect the Corporation's interest in such Mortgage Loan.
- D. Credit Terms. Each Borrower shall be subject to credit review by the Corporation or by a Mortgage Lender or private mortgage insurer. The Corporation may rely on the expertise of the Mortgage Lender and private mortgage insurer and, in the making of direct loans shall employ customary credit verification standards applicable to mortgage loans sold in the secondary mortgage market. It shall be a condition of financing by the Corporation that the Borrower obtain credit approval by the Mortgage Lender, private mortgage insurer or the Corporation's underwriting department, as the case may be.

1.5 TARGETED AREAS

Targeted Areas. The Corporation shall from time to time designate Targeted Areas for special set asides of Bond Proceeds as required by the Tax Act.

Targeted Areas shall include census tracts in the State in which at least seventy percent (70%) of the families have an Aggregate Family Income which is eighty percent (80%) or less of the statewide median family income and any "Areas of Chronic Economic Distress" which may hereafter be designated for the State in accordance with criteria set forth in the Tax Act. The designation of Targeted Areas will be established by the Corporation's Board of Commissioners at a regular or special meeting from time to time. Areas removed from Targeted Area designation shall also be similarly determined.

1.6 PARTICIPATION BY MORTGAGE LENDERS, SERVICERS AND OTHER THIRD PARTIES

- A. Application by Mortgage Lender. To request to participate in a Program, a lending institution shall submit an application which may be obtained by writing or telephoning the Corporation at its principal office located at 44 Washington Street, Providence, Rhode Island 02903.
- B. Qualifications. To qualify as a Mortgage Lender, an institution must make residential mortgage loans in the regular, usual and ordinary course of business and must be an approved FNMA or FHLMC seller/servicer or otherwise be approved by the Corporation as having the capability and experience necessary to originate loans responsibly in furtherance of the purposes of the Program.
- C. Mortgage Purchase Agreement. If the application is accepted, the Mortgage Lender shall enter into a Mortgage Purchase Agreement in form prescribed by the Corporation which shall set forth the manner and terms of sale of Mortgage Loans. The Mortgage Purchase Agreement shall contain, in addition to such other terms and conditions as the Corporation may establish:
 - 1. penalty provisions in the event a Mortgage Lender fails to originate Mortgage Loans in accordance with the rules and regulations of the applicable Program and
 - 2. provisions respecting the repurchase of non-qualifying Mortgage Loans by Mortgage Lenders. Mortgage Lenders will be required to carry out the Mortgage Purchase Agreement in accordance with the procedures established by the Corporation.
- D. Commitments to Borrowers; Extensions. No Mortgage Lender shall give a commitment to a Borrower to make a Qualified Mortgage prior to the date on which the Corporation notifies the Mortgage Lender that a Registration has been confirmed and the Corporation has committed to the Mortgage Lender that it will purchase the Loan. The Corporation may extend the time period in which it will accept Qualified Mortgages from any or all Mortgage Lenders upon such terms and conditions as are set forth in the Mortgage Purchase Agreement; provided, however, that in no event shall the total time period for delivery of Qualified Mortgages for any Mortgage Lender, as extended, exceed thirty-six (36) months

from the date of the Mortgage Purchase Agreement or such other person as may be required by the Tax Act. The Corporation may terminate commitment in accordance with the terms of the Mortgage Purchase Agreement.

E. Mortgage Lender's Reserve Account.

1. Each Mortgage Lender that retains servicing on Mortgage Loans purchased by the Corporation shall establish a non-interest bearing escrow account in the name of and under the exclusive control of the Corporation which shall be known as the "Mortgage Lender's Reserve Account. Such Mortgage Lender shall be required to deposit therein an amount equal to one and one-half percent (1.5%) of the purchase price (or such other amount as the Corporation may from time to time establish by Program Bulletin) of those Qualified Mortgages purchased by the Corporation from such Mortgage Lender for which such Mortgage Lenders retained servicing rights. The amounts so deposited shall be paid out of the Mortgage Lender's Reserve Account to the Mortgage Lender in accordance with the terms of the Mortgage Purchase Agreement; provided, however, that the Corporation may from time to time withdraw from the Mortgage Lender's Reserve Account, in the event of the foreclosure or other disposition for default thereunder of any Qualified Mortgage purchased from such Mortgage Lender, the amount of the deficiency, if any, of the proceeds of such foreclosure or other disposition received by the Corporation below the amount due the Corporation upon such default.
2. Upon payment in full or other disposition of the Qualified Mortgages purchased by the Corporation from a Mortgage Lender, amounts remaining in such Mortgage Lender's Reserve Account shall be paid over to such Mortgage Lender.

F. Fee. Each Mortgage Lender shall be permitted to collect a fee upon the Closing of the Mortgage Loan, which fee shall be retained by the Mortgage Lender as an origination fee. The amount of the fee shall be as set forth in the Mortgage Purchase Agreement and as may be modified from time to time by Program Bulletin. No other fees or other remuneration shall be directly or indirectly received by the Mortgage Lender in making any Qualified Mortgage unless specifically approved by the Corporation.

G. Servicing. A Mortgage Lender that is an approved FNMA or FHLMC servicer for residential mortgage loans that elects to originate Qualified Mortgages on a servicing retained basis will normally be selected by the Corporation as the approved Servicer for loans originated by it pursuant to the Program; provided, however, that Mortgage Lenders shall, with the written consent of the Corporation, have the right to assign servicing to another approved Servicer; and, provided, further, that in all events the Corporation may either service the loan or may contract with any other FHLMC approved servicer or servicers to

service any Mortgage Loan and the Mortgage Lender shall consent to such assignment. Each approved Servicer shall be required to enter into an agreement with the Corporation undertaking to service loans for the Corporation in accordance with the Corporation's established procedures for all approved Servicers. Such agreement shall contain provisions relating to servicing compensation, required hazard and private mortgage insurance, escrows, auditing and rights of termination, among other things.

- H. Third-Party Participation. Subject to the provisions of applicable law the appraisers, credit reference services, title attorneys and hazard and title insurers employed in the origination of a Mortgage Loan to be purchased by the Corporation pursuant to the Program are to be selected by the Mortgage Lender in accordance with its normal practices in conjunction with loans originated in the State for sale to the FNMA or the FHLMC. In order to provide protection against risks and to enhance the marketability of its obligations, the Corporation may from time to time in its sole discretion contract for bond insurance, including coverage against special hazards. The provider(s) of such insurance will be selected by the Corporation on the basis of the nature, extent and cost of the insurance and the degree of operational support provided by the insurer.

1.7 QUALIFIED MORTGAGE LOANS

- A. Mortgage Loan Terms. Mortgage Loans purchased by the Corporation shall comply with the terms of the Mortgage Purchase Agreement and any requirements set forth in any Program Bulletin. The Mortgage Purchase Agreement may contain provisions concerning the security for the loan, insurance, escrow payments, late charges, prepayment penalties, if any, deficiencies, defaults, priority of liens, maintenance of the Dwelling and such other terms and conditions as are customary to protect the interests of institutions engaged in making residential mortgage loans and as the Corporation may deem prudent to ensure compliance with the Act, the Tax Act and this Part. In addition, Mortgage Lenders shall comply with truth-in-lending, equal opportunity and other applicable state and federal laws and regulations. In order to ensure that the benefits of the Program are limited to eligible Borrowers, the Corporation may, in Mortgage Loan documents, establish limitations on the assumability of Mortgage Loans, prevent the assumption of Mortgage Loans, provide for acceleration in the event the Borrower ceases to use the Dwelling as a primary permanent residence, restrict the transfer of shares or membership certificates owned by members of a cooperative housing corporation and/or of real estate owned by a cooperative housing corporation receiving financing under this Part and require the recording of charges and restrictions on real estate securing a Mortgage Loan.
- B. Right to Demand Explanation. Any person who is refused a Mortgage Loan by a Mortgage Lender may, in writing, demand a written explanation from the Mortgage Lender as to the specific reasons for the refusal. The Mortgage

Lender shall comply with such demand within thirty (30) days after the date of receipt of such demand.

C. Interest Rate.

1. The interest rate on Qualified Mortgages for each Program shall be determined from time to time by the Board of Commissioners taking into consideration the cost of funds, prevailing market conditions, the need to provide funds to subsidize the interest rates for particular Mortgage Loans and the ability of Borrowers to make payments on Mortgage Loans applied for. The Corporation may also offer write-downs from the established interest rate for Qualified Mortgages made in Targeted Areas or to otherwise carry out the purposes of the Act.
2. In accordance with the terms of the Qualified Mortgage loan documents, where the Corporation has written down the interest rate on a Qualified Mortgage, the Corporation may require a Borrower to reimburse the Corporation for the difference between the write-down and the prevailing Program interest rate if the Dwelling is sold, conveyed or otherwise transferred within four (4) years after the Closing of the Mortgage Loan.

D. Amortization Period. Except to the extent provided in § 1.7(C) of this Part, each Qualified Mortgage shall amortize over such period of time or times as shall be determined by the Board of Commissioners.

E. Maximum Loan to Value Ratio. For each Program, the maximum principal amount of each Qualified Mortgage shall not exceed such percentages of the Fair Market Value of the improvements and real property securing the same as may be established by the Board of Commissioners and made available by Program bulletin.

F. Private Mortgage Insurance. The Corporation may require that Qualified Mortgages be the subject of a mortgage insurance policy issued by a private mortgage insurance company qualified to do business in the State and to provide insurance on mortgages purchased by the FNMA or the FHLMC. The required amount of private mortgage insurance coverage will be established by the Corporation from time to time in accordance with the requirements of its financial guarantees and as the Corporation determines prudent to protect its financial soundness. If required to protect the credit standing of the Corporation's obligations, the Corporation will establish a specific list of approved mortgage insurance companies. Alternatively, the Corporation may establish by itself or through any subsidiary or affiliated entity a program of self insurance on such terms and conditions as the Corporation may from time to time determine.

G. Pool and Portfolio Insurance. Depending upon the needs of its financial guarantees and the agencies rating the bonds of the Corporation issued pursuant to a Program, the Corporation may require that a Mortgage Loan be the subject

of insurance pursuant to a mortgage pool insurance policy. Alternatively, the Corporation may by itself or through any subsidiary or affiliated entity insure its portfolio or use funds maintained in the Mortgage Lender's Reserve Account against risk of loss

- H. Special Housing Assistance. The Corporation may in its discretion loan or grant to Borrowers in such amounts and on such terms and conditions as it shall determine, funds to be used by the Borrower for down payment assistance, legal expenses, recording fees, document preparation fees, origination or commitment fees, and title examination fees and title insurance.