

TABLE OF CONTENTS

CHAPTERS

Chapter 1	Nonprofit Owner-Builder Housing Provider Procedures, Roles and Responsibilities
Chapter 2	Program Eligibility Guidelines
Chapter 3	Underwriting and Document Guidelines
Chapter 4	Property Guidelines and Related Issues
Chapter 5	Application Process, Requirements and Submission
Chapter 6	Communication
Chapter 7	Regulatory Compliance
Chapter 8	Glossary

EXHIBITS

<http://www.tdhca.state.tx.us/oci/forms.jsp>

Exhibit 1	Program Legislation, subchapter FF, Chapter 2306
Exhibit 2	Texas Bootstrap Loan Program Rules, Title 10, Chapter 2, Texas Administrative Government Code
Exhibit 3	Housing Trust Fund Rules, Title 10, Chapter 51, Texas Administrative Government Code
Exhibit 6	Applicable Median Family Income (AMFI) Table
Exhibit 7	Construction Requirements
Exhibit 8	Owner-Builder Education Requirements
Exhibit 9	Application / Compliance Package Requirements for NOHP I & NOHP II
Exhibit 10	Ineligible Improvements
Exhibit 11	Applicant Eligibility Letter
Exhibit 12	Applicant Suspense Notification Letter
Exhibit 13	Applicant Deemed Ineligible Letter

FORMS

<http://www.tdhca.state.tx.us/oci/forms.jsp>

Form 3	TDHCA Loan Submission Form
Form 4	Fannie Mae (1003) Application
Form 5	Affidavit of Owner-Builder applicant
Form 6	Information Disclosure Authorization
Form 7	Income Tax Affidavit
Form 8	Verification of Employment
Form 9	Verification of Rent/Mortgage
Form 10	Property Inspection (Rehabilitation only)
Form 11	Surveyor Checklist
Form 12	Plan Review and Inspection Process
Form 14	SAMPLE - Self-Help Agreement
Form 15	SAMPLE – Work write-ups
Form 16	SAMPLE - Sales Contract

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS OFFICE OF COLONIA INITIATIVES
TEXAS BOOTSTRAP LOAN PROGRAM MANUAL**

Form 17	Breakdown of Construction Development
Form 18	SAMPLE - Homebuyer Education Certification
Form 19	Quarterly Report
Form 20	Interim Construction Funding Checklist
Form 21	Residential Construction Funding Checklist
Form 22	Purchase Money Funding Checklist
Form 23	Funding Request Form
Form 24	Worksheet
Form 25	Sweat Equity Affidavit
Form 26	SAMPLE – Timesheets
Form 27	Initial Loan Contact Information
Form 28	Application Identification Document
Form 29	Affidavit of Occupancy
Form 30	Purchase of Mortgage Loans Funding Checklist

**THIS MANUAL SUPERSEDES ANY PREVIOUS MANUALS AND ALL UPDATED POLICIES
AND GUIDELINES MUST BE ADHERED TO.**

TEXAS BOOTSTRAP LOAN
PROGRAM MANUAL

The Texas Department of Housing and Community Affairs (TDHCA) provides this Program Manual as a supplement to the Texas Bootstrap Loan Program Rules and Loan Origination Agreement in order to expand on various topics, and as a point of reference when questions arise regarding this Program. Should there be any inconsistency or conflict between this Program Manual and the Texas Bootstrap Loan Program Rules and the Loan Origination Agreement, the terms and conditions of the Texas Bootstrap Loan Program Rules and Loan Origination Agreement shall supersede.

This Program Manual is subject to change from time to time. Notification of changes will be conducted via written communication (through e-mail and/or hard copy) to Nonprofit Owner-Builder Housing Providers (NOHP). TDHCA will provide a written notice of change at least ten (10) days prior to the effective date of any change; however, such change will be effective on the date set forth in the notice, regardless of whether ten days prior notice is given.

TDHCA invites calls, questions and suggestions regarding this manual. **(Refer to Chapter 6 for Communication details).**

**CHAPTER 1:
NONPROFIT OWNER-BUILDER HOUSING PROVIDER (NOHP) PROCEDURES, ROLES
AND RESPONSIBILITIES**

AT NO TIME MAY THE NOHP (OR ITS AGENT) REPRESENT THAT IT IS ACTING AS AN AGENT FOR OR ON BEHALF OF THE TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (TDHCA) OR THE STATE OF TEXAS, OR USE ITS RELATIONSHIP WITH TDHCA IN ITS WRITTEN OR VERBAL MARKETING EFFORTS.

Any such representation by the NOHP or its agents may result in revocation of its approved NOHP Certification.

PROCEDURES FOR ADMINISTERING THE PROGRAM SHOULD BE COMPLETED SEQUENTIALLY AS FOLLOWS:

Read, sign, and return the original Loan Origination Agreement and the following accompanying documents before beginning the administration of the Program:

1. Nonprofit Owner-Builder Housing Provider (NOHP)-In order to originate loans under the Texas Bootstrap Loan Program the nonprofit organization must first be certified as an NOHP by TDHCA and must execute a Loan Origination Agreement. For more information please visit our website at www.tdhca.state.tx.us/oci/bootstrap.
2. Loan Origination Agreement – Upon obtaining the NOHP certification the authorized representative of the NOHP signs the original agreement, it should be immediately returned to TDHCA – Office of Colonia Initiatives (OCI) for final execution. The Loan Origination Agreement is not legally binding until both parties have signed it. A copy of the executed agreement will be provided to the NOHP.

NONPROFIT OWNER-BUILDER HOUSING PROVIDER (NOHP) DESIGNATION

In addition to the roles and responsibilities under Section 1.3 of the Loan Origination Agreement, an NOHP I is required to perform the following:

1. Market the Program;
2. Perform application intake;
3. Assist with the collection and completion of loan processing documents; and
4. Provide, or cause to be provided, Owner-Builder homeownership education to Owner-Builder applicants prior to the closing of the loan.

In addition to the roles and responsibilities under Section 1.3 of the Loan Origination Agreement, an NOHP II is required to perform the following:

1. Process loan applications to include NOHP I roles and responsibilities under Section 1.1 hereinabove;
2. Review the initial loan application to determine if the loan application is both complete and accurate;
3. Pre-qualify the Owner-Builder applicant;
4. Pre-approve all aspects of the loan;
5. Provide, or cause to be provided, Owner-Builder homeownership education to Owner-Builder applicants prior to the closing of the Program Loan;
6. Provide necessary RESPA Disclosures to borrower; and
7. Prepare loan documentation (purchase money loan only) submit a sample copy of the initial closing package (filled out and ready to close) to TDHCA for review and approval prior to closing. NOHP must allow TDHCA up to 30 days from the date of receipt to review and approve loan documentation.

Both NOHP I and NOHP II are required to perform the following:

1. The NOHP shall identify and qualify potential Owner-Builders for loans under the Program. The NOHP agrees to be available to Owner-Builder applicants to answer questions and assist with:
 - The loan application;
 - Collecting backup documentation;
 - Loan documents;
 - Timely delivery of all documentation required by TDHCA; and
 - Any other matter related to the origination, processing closing and funding of the Program Loans.
2. As a state-certified Nonprofit Owner-Builder Provider, the NOHP shall offer Owner-Builder homebuyer education classes to potential Owner-Builders. A class must provide information on:
 - The financial responsibilities of an Owner-Builder including the consequences of an Owner-Builder's failure to meet those responsibilities;
 - The building of housing by Owner-Builders;
 - Resources for low-cost building materials available to Owner-Builders; and
 - Resources for building assistance available to Owner-Builders.
3. The NOHP shall provide the Owner-Builder homebuyer education to prospective Owner-Builder applicants prior to the closing of the Program Loan and will provide a certificate to all attendees

who successfully complete the homebuyer education course. A copy of the certificate shall be provided to TDHCA prior to funding.

4. The NOHP shall assist Owner-Builder in building new housing or to improve existing residential housing.
5. The NOHP shall maintain records of all applications for approved and closed Program Loans and evidence of actions taken with respect thereto for a minimum of five (5) years after the Agreement Period and shall furnish such records at TDHCA's expense to TDHCA upon request. Prior to destruction of the records, the NOHP will contact TDHCA. At TDHCA's option, the NOHP may either destroy the records, or, at TDHCA's expense, (i) forward all original records to TDHCA or (ii) reproduce and forward copies of the records to TDHCA.
6. In addition, if Program funds are being utilized for interim or residential construction, the NOHP shall comply with the *Construction Compliance for Single Family Affordable Housing* under Section 2306.514 of the Texas Government Code. If adopted by TDHCA, the NOHP shall also comply with the energy efficiency standards established by Section 2306.187 of the Texas Government Code for new construction and rehabilitation, the International Residential Code and the building and rehabilitation codes required by Subchapter G, Chapter 214, Local Government Code, the applicable building and performance standards established pursuant to the Residential Construction Commission Act.

LOAN SERVICING AGREEMENT

A Nonprofit Owner-Builder Housing Provider who executes a Loan Origination Agreement may request to enter into a Loan Servicing Agreement with TDHCA. TDHCA may grant the request upon reviewing the Nonprofit Owner-Builder Housing Provider's capacity to implement those specific functions.

DEFECTIVE MORTGAGE LOANS

The NOHP in its capacity under this Program warrants that it shall comply with any law, Program Rules or policy developed by TDHCA regarding this Program. TDHCA may at any time during the Loan Origination Agreement period and term of the Program loan, up to and including after completion, review any forms, applications or other documents, including but not limited to mortgage documents. If in TDHCA's judgment, such forms are defective or inaccurate in any material respect, or if the NOHP is in breach or violation of any representation, warranty, or covenant of the mortgage loans purchased hereunder, the NOHP shall cure the defect:

- a) on or before the thirtieth (30) day from the date NOHP is aware, or should have been aware, of such defect,
- b) within such a shorter period as is required by other law, or
- c) a time period agreed upon in writing by TDHCA and NOHP necessary to effect such a cure.

Nothing in (c) above shall be intended or construed to act as an admission of fault or create a waiver or claim of laches against either party.

ADMINISTRATIVE FEE

The NOHP will be given a six percent (6%) administration fee upon completion of the house and closing of each mortgage loan.

Note: Administrative Fee must be requested at the same time of the final draw.

NOTIFICATION OF CHANGES RELATED TO PROVIDER'S BUSINESS

It is imperative that the NOHP notify TDHCA-OCI immediately of any changes in the NOHP's business. Changes, such as, but not limited to, addresses, telephone numbers, revised wiring instructions, contact must be communicated in writing to TDHCA.

QUALITY CONTROL

As part of its internal quality control program, TDHCA reviews all of the loans it funds under this Program to ensure they meet Program Rules and guidelines. In addition, all loans that have early payment defaults are reviewed.

Loans determined to be fraudulent are subject to immediate repurchase and constitute cause for termination of the NOHP relationship in accordance to TDHCA's Rules.

MONITORING AND COMPLIANCE

TDHCA will monitor participating NOHPs for compliance with Program Rules and guidelines. Program compliance may be assessed through periodic desk review, site visits and/or inspections by TDHCA-OCI Staff. TDHCA will provide NOHPs with an Implementation Manual detailing requirements for compliance with Program Rules and guidelines.

NOHP will cooperate with TDHCA in arranging for inspections by representatives of TDHCA to determine the progress of the services provided under the Program in accordance to with the Program Rules and Program Manual from time to time and will promptly comply with TDHCA's requirements or satisfy any objections regarding this project or the progress thereof. At the completion of construction, if

any, and before the release of retainage funds, if any, all construction must pass final inspection. All inspections conducted by the TDHCA are solely for the benefit of TDHCA.

CONFLICT OF INTEREST

The NOHP may not accept an application from any of its officers or employees nor any spouse or person related within the third degree of affinity (marriage) or consanguinity (blood) to any officer or employee of the NOHP.

FIRST YEAR CONSULTATION AGREEMENT

NOHP agrees that if notified by TDHCA that Owner-Builder (Mortgagor) has failed to make a scheduled payment due under the Program loan, or other payments due under the Program loan within the first twelve (12) months of funding, the NOHP will be required to meet with Owner-Builder and provide counseling and assistance until the payments are made current.

After consultation and in the event that TDHCA and NOHP are not able to reach a consensus about the NOHP's effort to bring the Program loan current as required under this Agreement, TDHCA in accordance with its Administrative Rules may apply appropriate graduated sanctions leading up to, but not limited to deobligation of funds and future debarment from participation in the Program.

REVIEW OF NOHP'S PERFORMANCE.

TDHCA may periodically visit or conduct a desk review of the NOHP to review and evaluate its performance. If TDHCA determines that the NOHP is not performing in accordance with the Program Rules and Loan Origination Agreement, TDHCA shall notify the NOHP of such deficiency. If, in TDHCA's sole discretion, such deficiency warrants termination of the Loan Origination Agreement and the obligation to fund any pending Reservations, then TDHCA shall notify the NOHP of its determination. The date on which such termination shall be effective shall be at least thirty (30) days from the date of the notice. The aforementioned is subject to the cure provisions outlined in the Loan Origination Agreement and Program Rules, if TDHCA reasonably determines that the deficiency is curable.

TERMINATION OF LOAN ORIGINATION AGREEMENT

Involuntary Termination of the NOHP. TDHCA in accordance with its Administrative Rules may apply appropriate graduated sanctions leading up to, but not limited to deobligation of funds and future debarment from participation in the Program in the following situations:

- (a) If any representation or warranty of the NOHP to TDHCA contained in any of the Program documents is false or misleading in any material respect, except with respect to the information provided by the applicant for a Program loan, any qualified appraiser or inspector, or public records;
- (b) If the NOHP violates or breaches or fails to perform any material covenant, condition or term of the Loan Origination Agreement or the Program Rules and Program documents and the NOHP fails to cure said violation, breach or failure to perform within thirty (30) days following the notification to the NOHP by TDHCA of such violation, breach or failure of performance. In the event the violation, breach or failure to perform cannot be corrected within the thirty (30) day cure period, TDHCA may consent to an extension of the curative period if, in TDHCA's sole determination, the NOHP has commenced corrective action and is diligently pursuing said action before the end of the thirty (30) days.
- (c) The filing of a bankruptcy petition, either voluntary or involuntary, by or on behalf of the NOHP.
- (d) If the NOHP is in default under any of the Program Rules and Program documents and fails to cure such default within thirty (30) days after notice of the default or if the NOHP is in default under any other TDHCA program.
- (e) If the NOHP has any unresolved compliance issues on existing or prior contracts, agreements or Reservations with TDHCA.
- (f) If the NOHP fails to set-up programs/projects or expend funds as outlined in the Loan Origination Agreement and/or Program Rules and Program Manual.
- (g) If the NOHP defaults on any agreement by and between TDHCA.
- (h) If the NOHP misrepresented any facts to TDHCA during the Program application process or administration of any TDHCA contract and/or agreement.
- (i) If the NOHP demonstrates the inability to provide adequate financial support to administer this Program.

NOHP's Excused Non-Performance. The failure by TDHCA to duly observe or perform any covenant, condition, or term required by it under the Loan Origination Agreement or Program Rules shall not give rise to an involuntary termination of the NOHP's participation in the Program.

No Liability for Removal, Termination of NOHP. TDHCA shall not be liable in any respect to the NOHP for termination of the Loan Origination Agreement in accordance with the terms, except for the completion and funding of transactions approved prior to the date of the termination.

DISBURSEMENT OF FUNDS

Request for Funds and Disbursements. All requests for funds must be made in accordance with the Performance Statement attached to the Loan Origination Agreement as Exhibit A and as noted in the Program Rules and Program Manual.

Refund. NOHP shall refund to TDHCA any money which has been paid by TDHCA which TDHCA determines has resulted in overpayment to the NOHP, or has not been spent strictly in accordance with the terms of the Loan Origination Agreement, Program Rules, Program Manual or Program documents, within ten (10) working days after such refund is requested by TDHCA in writing.

RECORDS AND REPORTING REQUIREMENTS

Reporting and Timetable. NOHP shall provide any and all reports to TDHCA as required by and in accordance with the Performance Statement attached to the Loan Origination Agreement as Exhibit A, and the Performance Timetable attached as Exhibit B, the Program Rules and Program Manual. TDHCA may use any reports, information, and/or products submitted to TDHCA by NOHP to measure accomplishments in achieving objectives stated herein.

Report Requirements

- (a) NOHP will be required to provide the Quarterly Report (Form 19) to TDHCA it's achieved performance benchmarks outlined in the Loan Origination Agreement. This report is due on the 10th of the month following the end of each calendar quarter. The following information must be provided:
- Under Owner-Builder applicant-The NOHP inputs the name of applicant;
 - Under Date Deemed Eligible-The NOHP inputs the date of the Applicant Eligibility Letter, once the NOHP inputs the date, the dates for the 90/180/270/One Year benchmarks will be automatically populated;
 - Under Type of Loan-The NOHP needs to input whether it is a Purchase Loan, Residential Construction Loan or Interim Construction Loan;
 - Under 90/180/270/One Year Status-The NOHP needs to refer to the performance benchmarks outlined in the Loan Origination Agreement and in this Program Manual and they must input the date that benchmark were completed. If the benchmark has not been completed and the benchmark date has passed the NOHP must provide an explanation. The NOHP may request a one-time 45 day extension to meet the benchmark. If the benchmark cannot be met the Reservation will be cancelled.

Retention and Accessibility of Records. All records pertinent to the Program such as project costs and certification work papers shall be retained by NOHP for five years following the date of termination of the Loan Origination Agreement or of submission of the Notice of Completion, whichever is later. NOHP agrees that TDHCA or any of its duly authorized representatives shall have the right to access and to examine all books, accounts, records, reports, files, and other property belonging to or in use by NOHP pertaining to the Program. Such rights to access shall continue as long as the records are retained by NOHP. NOHP agrees to maintain such records in an accessible location.

Open Records. NOHP acknowledges that TDHCA is subject to the Texas Public Information Act and must provide citizens, public agencies, and other interested parties with reasonable access to all records pertaining to the Program subject to and in accordance with the Laws. NOHP agrees to cooperate with TDHCA, as applicable, in this regard.

Certification Regarding Undocumented Workers. By execution of the Loan Origination Agreement, NOHP hereby certifies that the NOHP, or a branch, division or department of NOHP does not and will not knowingly employ an undocumented worker, where “undocumented worker” means an individual who, at the time of employment, is not lawfully admitted for permanent residence to the United States or authorized under law to be employed in that manner in the United States. If, after receiving a public subsidy, NOHP, or a branch, division, or department of NOHP is convicted of a violation under 8 U.S.C. Section 1324a(f), NOHP shall repay the amount of the public subsidy with interest, at the rate and according to the other terms provided by an agreement under Texas Government Code Section 2264.053, not later than the 120th day after the date TDHCA notifies NOHP of the violation.

PARTICIPATION IN RESERVATION PROGRAM

Nonprofit Owner-Builder Housing Provider. Is a Colonia Self-Help Center established under Chapter 2306, Subchapter Z, of the Texas Government Code or a nonprofit organization certified by TDHCA as an NOHP. As a condition to participate in the Program the NOHP must have also executed a Loan Origination Agreement.

Reservation Procedures for First-Come, First-Served Program. Funds are available to the NOHP on first-come, first-serve basis. In all cases the NOHP must register each Owner-Builder applicant on the Texas Bootstrap Loan Program Reservation system via the TDHCA website.

A Reservation of funds with respect to a Program loan application may be subject to cancellation if all documents listed on the Application/Compliance Checklist (Exhibit 9) are not submitted to TDHCA within ten (10) business days of the date the registration was entered into the system or if the Performance Timeline benchmarks outlined in the Program Rules are not adhered to. Registration of an Owner-Builder applicant does not guarantee funding.

Prior to issuing an Applicant Eligibility Letter the TDHCA may decline to fund any Reservation entered into the Reservation system if the proposed housing activities do not, in TDHCA's sole determination, represent a prudent use of TDHCA's funds. TDHCA is not obligated to proceed with any action pertaining to any Reservation which are entered, and may decide it is in TDHCA's best interest to refrain from committing the funds. If TDHCA has issued an Applicant Eligibility Letter to the Owner-Builder applicant, but the NOHP and/or Owner-Builder applicant has not complied with all the Program Rules and guidelines, TDHCA may suspend funding until the NOHP and/or Owner-Builder applicant has satisfied all requirements of the Program. If the NOHP is unable to cure any deficiencies within fifteen (15) days, TDHCA may provide a one-time fifteen (15) day extension or decline to fund the Reservation.

Modification of Loan Reservation. After a Reservation has been secured, the NOHP must notify TDHCA of any changes to the Program loan application, such as a cancellation, change in the sales price or change in the loan amount. NOHP will not be permitted to change the names, social security numbers or data pertaining to the Owner-Builder applicant once the loan has been registered, unless construction has commenced and of the following events has occurred: death, illness, divorce, loss of income, non-performance by Owner-Builder applicant or for other acceptable reason as approved by TDHCA where the Owner-Builder applicant is unable to perform.

Once a Reservation has been awarded, TDHCA may choose to provide a one-time 45-day extension due to extenuating circumstances that were beyond the Owner-Builder's and/or the NOHP's control. If the

NOHP cannot meet the required benchmarks after the 45-day extension, the Reservation will be cancelled. In order to receive another Reservation on the same Owner-Builder applicant the NOHP must submit an updated application to ensure the Owner-Builder applicant still meets all guidelines and requirements under Texas Bootstrap Loan Program Rules, Program Manual and Program documents.

Origination Procedures and Standards. The NOHP shall originate all mortgage loans under this Program in accordance with the Program Rules, Program Manual and Loan Origination Agreement.

Mortgage Loan Terms

Each mortgage loan:

- shall be made to an eligible Owner-Builder applicant to provide financing for a single-family dwelling;
- shall be evidenced by a mortgage lien note and secured by a mortgage creating either a first lien on second lien on such residence, subject to permitted encumbrances. (TDHCA may accept a subordinate lien position if the leveraged loan is at least \$1,000 or greater than TDHCA's loan. However liens related to other subsidized funds provided in the form of grants and nonamortizing loans, such as deferred payment or forgivable loans, must be subordinated to TDHCA's loan.);
- shall for purchase money loans, provide for payments to be due and payable on the first day of each month and for an initial principal payment not later than the first day of the second month following the closing date;
- shall for residential construction loans, provide for payments to be due and payable on the first day of each month beginning not later than the first day of the 12th month following the closing date of mortgage loan.

**CHAPTER 2:
PROGRAM ELIGIBILITY GUIDELINES**

This chapter describes TDHCA's loan Program eligibility guidelines.

Program eligibility restrictions are dictated by legislative mandate and Program Rules with which TDHCA will purchase or fund the loans. The Program is funded by the Housing Trust Fund (**Refer to Exhibit 3**).

NOTE: Owner-Builders with an income of less than \$17,500 annually shall be given priority for loans under this Program. (Refer to Exhibit 1).

LOAN PROGRAM GUIDELINES

TDHCA will fund or purchase loans that conform to the lending parameters and the specific loan Program requirements delineated herein.

Annual household income: The Owner-Builder applicant(s) total household income may not exceed 60% of the Area Median Family Income (AMFI) for the area in which the property is located as determined by TDHCA of the greater of the state or local median family income. (Exhibit 6), when combined with the income of any person who resides with the Owner-Builder applicant(s).

Applicant Eligibility Letter: TDHCA will issue an Applicant Eligibility Letter (approval letter/Exhibit 11) which reserves the funds (up to \$45,000 per Reservation) for 12 months from the Reservation date. Owner-Builder applicant will not be required to re-qualify for the Program if the Owner-Builder applicant closes on the loan on or before the expiration date stated on the Applicant Eligibility Letter issued by TDHCA. If the Owner-Builder fails to close on the loan on or before the expiration date stated on the Applicant Eligibility Letter, the Owner-Builder applicant will be required to re-qualify for the Program; regardless if an extension has been granted.

Application Fee: An application fee is prohibited in relation to the origination of a loan under the Texas Bootstrap Loan Program, but may be charged as an allowable cost by a third party lender for the origination of all other loans originated in connection with a loan under the Texas Bootstrap Loan Program.

Appraisal Report: An appraisal report will be required on all loans purchased and/or originated by TDHCA. An appraisal is an opinion by a licensed real estate appraiser about the fair market value of a home. The NOHP must examine the outstanding liens on the residence and compare those to the value of the residence and take into consideration the sweat equity of the Owner-Builder. NOHP should ensure that the value represents adequate security for the amount of the loan and the sweat equity.

Builder's Risk Insurance: TDHCA requires that Builder's Risk Insurance be provided on all Interim and Residential Construction Loans. Builders Risk insurance is a form of property insurance that covers property owners and builders for projects under construction, renovation or repair. This insurance is similar to Building and Personal Property coverage, the difference being, this coverage is use to cover buildings during the course of construction. The policy must be in effect for one year from the date of closing.

Closing Costs: Eligible closing costs include, but are not limited to title and transfer costs, title insurance, survey, recording costs, escrow fees, and other similar settlement or fees to the extent that the amount of the fee(s) does not exceed the amount customarily charged in the area, tax and insurance reserves.

Other eligible miscellaneous costs which might be associated with closing a real estate transaction include: attorney fees, appraisals, credit reports, prepaid interest, homeowner's insurance, and reserves the lender collects for future taxes and insurance.

Colonia Self-Help Center (CSHC): As defined under Subchapter Z, Chapter 2306 of the Texas Government Code.

Combined Loan to Value (CLTV) Ratio: The combined loan-to-value (CLTV) ratio expresses the amount of all mortgage liens as a percentage of the total appraised value of real property. The CLTV may not exceed 100%. The lien amounts of forgivable loans will be included in the combined loan to value ratio.

Construction Contract: A Construction Contract is required on all Residential Construction Loans originated and/or purchased by TDHCA. An agreement between a general contractor and an Owner-Builder applicant which sets forth the terms and conditions under which building shall occur on a parcel of real estate, and provisions for the owner's payment to the general contractor for such building.

Credit report: The NOHP may submit a copy of the Owner-Builder applicant(s) credit report; however TDHCA will obtain a tri-merge credit report at the time an Application/Compliance Package is received.

A credit bureau report must show an Owner-Builder applicant's history of payments made on previous debts. Several companies issue credit reports, but the three largest are Trans Union Corp., Equifax and Experian.

Discount Fee: A discount fee is prohibited in relation to the origination of a Texas Bootstrap Loan Program loan, but may be charged as an allowable cost by a third party lender for the origination of all other loans originated in connection with a Texas Bootstrap Loan Program loan.

Escrow Account-- If the Department is in a first lien position and servicing the loan an account to which the borrower contributes monthly payments to cover the anticipated costs of real estate taxes, hazard and flood insurance premiums, and other related costs will be required. The Department may require that up to two (2) months of reserves for hazard and/or flood insurance and property taxes to be collected at the time of closing and these funds must be deposited with the Department. In addition, the Department may also require that the property taxes be prorated at the time of closing and those funds be deposited with the Department. The Owner-Builders will be required to deposit monthly funds to an escrow account with the mortgage loan servicer in order to pay the taxes and insurance. This will ensure that funds are available to pay for the cost of real estate taxes, insurance premiums, and other assessments when they come due. These funds are included in the Owner-Builders monthly payment to the Department. The Department will establish and administer the escrow accounts in accordance with the Real Estate Settlement and Procedures Act of 1974 (RESPA).

Grant: Financial assistance that is awarded in the form of money to a housing sponsor for a specific purpose and that is not required to be repaid. For purposes of this Program, a Grant includes a forgivable loan.

Hazard Insurance: Casualty (fire and other damage) insurance placed on improvements (structures) on a parcel of real property. Also referred to as "homeowners insurance". TDHCA requires that the Owner-Builder applicant acquire at the time of closing Hazard Insurance and list TDHCA as mortgagee on the Policy. Hazard insurance protects the homeowner against property damages caused by a fire or a severe storm. If you live in an area that's prone to natural disasters, like earthquakes and floods, you might need a separate policy. TDHCA requires that the Owner-Builder Application pay for the first year of hazard insurance on the closing date. TDHCA also requires that the Owner-Builder applicant deposit 2 months of premiums into an escrow account.

Home Ownership Education Class: Owner-Builder must successfully complete an Owner-Builder home ownership education class prior to loan closing (refer to Exhibit 8). The charge for the Owner-Builder home ownership education class may not exceed \$50.

HUD 1: A closing document required by HUD that itemizes the settlement costs of a loan. The closing agent generally prepares the document and the buyer must sign at closing. TDHCA must review all HUD 1 prior to closing.

Interest Rate: 0%

Leveraged Loans: When additional loans are utilized under this Program, lenders are expected to charge reasonable and customary interest rates and fees. The Nonprofit Owner-Builder Housing Provider may be able to help the applicant negotiate favorable terms.

Projects utilizing non-TDHCA resources will be required to provide information identifying the sources of these additional funds and information about their rates and terms. This information must be provided to TDHCA on the Loan Submission Form (Form 3) at the time of application. In addition a copy of the Note and Deed of Trust for all lien holders will be required to be submitted to TDHCA prior to loan closing.

Lien Position: A loan made by TDHCA shall be secured by a first lien on the real property if TDHCA's loan is the largest amortized, repayable loan secured by the real property; or

TDHCA may accept parity lien position if the original principal amount of the leveraged loan is equal to or greater than TDHCA's loan; or

TDHCA may accept a subordinate lien position if the original principal amount of the leveraged loan is at least \$1,000 or greater than TDHCA's loan. However liens related to other subsidized funds provided in the form of grants and nonamortizing loans, such as deferred payment or forgivable loans, must be subordinate to TDHCA's loan.

Loan Assumption: A Program loan is assumable if TDHCA determines that the buyer complies with all Program restrictions in effect at the time of the assumption.

Loan Prepayment: Prepayment is permitted in whole or in part, at any time without penalty.

Loan Processing Fee: A loan processing fee is prohibited in relation to the origination of a Texas Bootstrap Loan Program loan, but may be charged as an allowable cost by a third party lender for the origination of all other loans originated in connection with a Texas Bootstrap Loan Program loan.

Loan Terms: Maximum loan term: 30 years;

Minimum loan term: 5 years;

Loan to Value (LTV) Ratio: The loan-to-value (LTV) ratio expresses the amount of all repayable amortized mortgage liens as a percentage of the total appraised value of real property. The LTV may not exceed 95%. The lien amounts of forgivable loans are not included in the loan to value ratio; however, the lien amounts of forgivable loans are included in the CLTV.

Maximum Loan Amount: Per household assistance from TDHCA for any Texas Bootstrap Loan Program loans may not exceed \$45,000 per household pursuant to Section 2306.754(b) of the Texas Government Code. The Owner-Builder must obtain the amount necessary that exceeds \$45,000 from other sources of funds including other Department funds with the exception of funds being utilized to implement the Texas Bootstrap Loan Program. The total amount of amortized repayable loans made by TDHCA and other entities to an Owner-Builder under the Program may not exceed \$90,000 pursuant to Section 2306.754(b) of the Texas Government Code.

TDHCA may originate mortgage loans from the Housing Trust Fund, Federal Block Grants and Owner-Builder revolving loan fund which can receive funds from the HOME Investment Partnership Program in accordance with Section 2306.7581 of the Texas Government Code combined funds cannot exceed \$45,000 of total TDHCA's funds;

Other TDHCA funds not listed in Section 2306.7581 of the Texas Government Code such as First-Time Homebuyer Bond funds may be leveraged with the Texas Bootstrap Loan Program funds for amounts needed above \$45,000.

Minimum Loan amount: \$1,000;

Mortgagee's title insurance policy: A mortgagee's title insurance is required on all loans originated and/or purchased by TDHCA. This is a policy that protects the lender from future claims to ownership of the mortgaged property

Occupancy Requirement: The Owner-Builder applicant must occupy the home as their primary residence within 30 days of the latter of: the end of the construction period or the closing of the loan. Any additional habitable structures must be removed prior to closing. Owner-Builder applicant will be required to sign at closing an Affidavit of Occupancy (Form 29).

Origination Fee: An origination fee is prohibited in relation to the origination of a Texas Bootstrap Loan Program loan, but may be charged as an allowable cost by a third party lender for the origination of all other loans originated in connection with a Texas Bootstrap Loan Program loan.

Property Taxes: TDHCA requires that all property taxes be current at the time of closing. TDHCA also requires that the Owner-Builder applicant deposit up to two months of reserves into an escrow account. Funds from the Program may not be used to pay delinquent property taxes.

Residency Requirement: Owner-Builder applicant must have resided in this State for the preceding six months.

Sales Contract: A Sales Contract is required on all loans originated and/or purchased by TDHCA. This is an agreement between the buyer and seller on the purchase price, terms, and conditions necessary to both parties to convey the title to the buyer. TDHCA requires that the sales contract be signed by both the Owner-Builder applicant and seller. The sales contract must outline all details of the property transaction.

Sweat Equity: The Owner-Builder applicant must execute a Self-Help Agreement committing to provide through personal labor at least 65% of the labor necessary to build or rehabilitate the proposed housing working through a state-certified NOHP; or provide an amount of labor equivalent to 65% in connection with building or rehabilitating housing for others through a state certified NOHP; provide through the non-contract labor of friends, family, or volunteers and through personal labor at least 65% of the labor necessary to build or rehabilitate the proposed housing by working through a state certified NOHP or if due to a documented disability or other limiting circumstances the Owner-Builder cannot provide the amount of personal labor otherwise required, provide through the non-contract labor of friends, family or volunteers at least 65% of the labor necessary to build or rehabilitate the proposed housing by working through a state certified NOHP. Time sheets (**Refer to Form 26**) must be kept for each Owner-Builder and an affidavit of sweat equity (**Refer to Form 25**) will be required to be executed at closing.

Title to Property: Owner-Builder must own or be purchasing a piece of real property through a warranty deed or contract for deed. (When refinancing a contract for deed TDHCA will not disburse any portion of the TDHCA loan until the Owner-Builder receives a deed to the property;).

Total Debt-to-Income Ratio: Shall not exceed 45%

Underwriter Fee: Is prohibited in relation to the origination of a Texas Bootstrap Loan Program loan, but may be charged as an allowable cost by a third party lender for the origination of all other loans originated in connection with a Texas Bootstrap Loan Program loan.

Uniform Residential Loan Application (URLA-Form 1003): A Uniform Residential Loan Application is required on all loans originated and/or purchased by TDHCA. TDHCA will not accept a loan application other than the URLA Form 1003. The loan application shall not be more than ninety (90) days old at the time the Application/Compliance Package is submitted to TDHCA for underwriting review.

All applicable sections of the application must be completed. The application must be consistent with other information in the loan file, i.e. names, property address, and legal description of the property. The Details of Transaction section must be completed.

Government Monitoring. The Equal Credit Opportunity Act requires that a lender request the Owner-Builder applicant's race, national origin, sex, marital status, and age. While the disclosure of this information is voluntary on the part of the Owner-Builder applicant(s), it is the NOHP's responsibility to complete the Government Monitoring Section of the application by visual observation if the Owner-Builder applicant(s) does not volunteer the information.

“White out” is not allowed. Any corrections made on any application, application documents and loan documents are to be lined out and the correct information inserted. All corrections must be initialed by all Owner-Builder applicants.

TYPES OF ELIGIBLE ACTIVITIES

Contract For Deed Conversions: Program funds may be used to convert a contract for deed to a traditional Note and Deed of Trust and facilitate new construction, reconstruction or rehabilitation, provided that the maximum mortgage loan amount does not exceed \$90,000 in accordance to the Program Rules.

Lot Acquisition: Program funds may be used to acquire land to build a new home.

New Construction: Funds may be used for the development of new single family housing.

Rehabilitation: Funds may be used to improve existing residential housing.

NOTE: Improvements on manufactured homes are not permitted.

NOTE: See Exhibit 10 for a list of ineligible improvements.

TYPES OF FUNDING TRANSACTIONS

All mortgage loans funded by TDHCA will be evidenced by a promissory note and will be secured by a lien on the subject property. The following transaction types are permitted by TDHCA under the Program.

Purchase Money: In a purchase money transaction, all proceeds are used to finance the purchase of a single-family dwelling unit and/or a piece of real property, which will be the Owner-Builders primary residence within 30 days of closing the loan. In this instance, a permanent loan is made and the Owner-Builder's repayment obligation begins immediately. Loan funds are disbursed in accordance to the "Purchase Money Checklist" (**Refer to Form 22**). In certain situations, eligible closing costs may be financed by the loan proceeds.

Residential Construction (One Time Closing with Owner-Builder applicant): This transaction is treated as a purchase, because it is a one-time closing with the Owner-Builder. Residential construction loan funding is restricted up to 3 draws and a maximum construction period of 12 months. Loan funds are disbursed in accordance to the "Residential Construction Checklist" (**Refer to Form 21**). A Construction Loan Agreement must be signed by all parties, the term of the agreement shall not exceed 12 months or the term of the Reservation. Builder's Risk Insurance is required to be provided effective from the date of closing for the term of the Construction Loan Agreement.

NOTE: NOHP IS RESPONSIBLE FOR ENSURING THAT ALL NECESSARY DOCUMENTS HAVE BEEN FILED OF RECORD BEFORE ANY WORK HAS STARTED AND ANY MATERIALS HAVE BEEN DELIVERED TO THE WORK-SITE. NO MATERIALS CAN BE DELIVERED NOR CAN CONSTRUCTION BEGIN UNTIL THE FOURTH BUSINESS DAY AFTER CLOSING.

The NOHP must make certain that TDHCA has completed its required inspections before each draw to support the draw request, except for the 1st draw, which is advanced to start construction.

TDHCA retains ten percent (10%) to comply with statutory requirements to avoid liens by subcontractors. The 10% retainage is released 31 days after the Affidavit of Completion has been filed of record in the county's real property records.

Interim Construction (Closing with NOHP): Interim Construction is a commercial transaction between the NOHP and TDHCA. Loan funding is restricted up to 3 draws and a maximum construction period of 12 months. Loan funds are disbursed in accordance to the "Interim Construction Checklist"

(Refer to Form 20). A Construction Loan Agreement must be signed by all parties, the term of the agreement may not exceed 12 months or the term of the Reservation. Builder's Risk Insurance is required to be provided effective from the date of closing for the term of the Construction Loan Agreement.

Once construction is completed the loan between the Owner-Builder applicant and TDHCA must still be completed. Please refer the Purchase Money Checklist (Form 22). If TDHCA will be preparing the closing documents for closing between the Owner-Builder applicant and TDHCA an improvement survey and an updated title commitment along with copies of covenants, restrictions and easements listed on the title commitment must be provided in order for TDHCA's Legal Department to prepare loan documents.

NOTE: NOHP IS RESPONSIBLE FOR ENSURING THAT ALL NECESSARY DOCUMENTS HAVE BEEN FILED OF RECORD BEFORE ANY WORK HAS STARTED AND ANY MATERIALS HAVE BEEN DELIVERED TO THE WORK-SITE. NO MATERIALS CAN BE DELIVERED NOR CAN CONSTRUCTION BEGIN UNTIL THE FOURTH BUSINESS DAY AFTER CLOSING.

The NOHP must make certain that inspections are conducted before each draw to support the draw request, except for the 1st draw, which is advanced to start construction.

TDHCA retains ten percent (10%) to comply with statutory requirements to avoid liens by subcontractors. In the event of subordinate lien financing by TDHCA, funding may take place after construction is completed. The 10% retainage is released 31 days after the Affidavit of Completion has been filed of record in the county's real property records.

Purchase of Mortgage Loans. TDHCA may purchase and take assignments from mortgage lenders of notes and other obligations evidencing loans or interest in loans for purchase money transaction and residential construction transactions.

Please note that if the NOHP will be building or rehabilitating a home on a lot owned by the Owner-Builder applicant the NOHP must ensure that all appropriate lien documents have been filed of record prior to any work being started and any materials have been delivered to the work-site. TDHCA will not fund a loan where a valid lien was not secured by the NOHP.

OTHER DOCUMENTS

Blueprints: If NOHPs activity is interim or residential construction, NOHP must provide an original copy of the proposed blueprints to be approved by the Department prior to accepting applications. Blueprints must include the required construction requirements pursuant to §2306.514 of the Texas Government Code. All blueprints submitted for approval must be prepared and executed by an architect or engineer licensed by the state of Texas or any state of the United States.

Work Write-up: The NOHP must submit a work write-up for all rehabilitation projects. Work write-ups must be reviewed and approved by the Department, before rehabilitation is started. (Refer to Form 15)

Other Contracts: For Purchases, new construction or rehabilitation under the Program the applicable contract should include all addenda and amendments thereto, and be fully signed and dated by all parties. The stated closing date should not have expired at the time of the loan closing (Refer to Form 16).

CHAPTER 3: UNDERWRITING AND DOCUMENT GUIDELINES

This chapter provides an overview of TDHCA's underwriting and document requirements. **TDHCA's underwriting philosophy is to attempt to determine the ability and willingness of the Owner-Builder applicant to service the proposed debt, as evidenced by the Owner-Builder applicant's income, credit worthiness, assets, and the quality and present value of the property in relation to the loan amount requested.**

Bank Statements: Owner-Builder applicant must submit the most recent bank statements for the previous two months. If any non-sufficient funds are noted in the bank statements, Owner-Builder applicant may be required to submit a written explanation.

Co-signers: TDHCA does not allow co-signers.

Credit Qualifications: Owner-Builder applicants must have a credit history that indicates reasonable ability and willingness to meet debt obligations. In order for TDHCA to make a reasonable determination, TDHCA will obtain a tri-merge credit report on all Owner-Builder applicants including any non-purchasing spouse submitted to TDHCA for approval.

Indicators of unacceptable credit include, but are not limited to the following:

- Payments on any open consumer, retail and/or installment account (i.e. auto loans, signature loans, payday loans, credit cards or any other type of retail and/or installment loan) which has been delinquent for more than thirty (30) days on three (3) or more occasions within the last twelve (12) months, unless the Owner-Builder applicant has been current for the four (4) months immediately preceding the application date and must submit to the Department a written explanation of the cause for the previous delinquency, which is acceptable to the Department. For purposes of this subparagraph, the credit history of an Owner-Builder who is a Domestic Farm Laborer and receives a substantial portion of his/her income from the production or handling of agriculture or aquacultural products will not apply. However, Owner-Builder must still demonstrate the ability and willingness to meet debt obligations.
- A foreclosure which has been completed within the last twelve (12) months prior to the date of application.
- An outstanding Internal Revenue Service tax lien or any other outstanding tax liens where Owner-Builder applicant has made no satisfactory payment arrangements for at least six (6) months prior to the date of application.
- A court-created or court-affirmed obligation or judgment caused by nonpayment that is currently outstanding must be paid off. The Department may consider this account in good standing if the Owner-Builder applicant has made formal payment arrangements and has a satisfactory payment arrangement history for at least six (6) months prior to the date of application.
- Any account (with the exception of a medical account) that has been placed for "collection," "profit and loss" or "charged off" within the last twelve (12) months prior to the date of application, unless the account has been or will be paid in full within two (2) weeks of receiving notice from the Department. If there are other, unpaid or unresolved accounts that were placed for "collection", "profit and loss" or "charged off" prior to the last twelve (12) months prior to the date of application then. Owner-Builder applicant must also have re-established at least one line of credit that must be in good standing with no delinquencies for at least six (6) months prior

to the date of application. Type of debts that will be taken into consideration may include, but are not limited to the following: rental history, cell phone, utility, child care, auto insurance, etc.

- Any delinquency on any government debt unless the Owner-Builder applicant has made formal and satisfactory payment arrangements for at least six (6) months prior to the date of application.
- A bankruptcy that has been filed within the past twelve (12) months prior to the date of application.
- Any delinquency on child support unless the Owner-Builder applicant has made formal and satisfactory payment arrangements for at least six (6) months prior to the date of application.

The following will not be considered indicators of unacceptable credit:

- A bankruptcy in which debts were discharged more than twelve (12) months prior to the date of application. Owner-Builder applicant must also have re-established at least one line of credit that must be in good standing with no delinquencies for at least six (6) months prior to the date of application. In addition the Owner-Builder applicant must submit to the Department a letter of explanation regarding the circumstances that led to the bankruptcy which is acceptable to the Department.
- Where an Owner-Builder applicant has successfully completed a debt restructuring plan and has demonstrated a willingness to meet obligations when due for the six (6) months prior to the date of application. If an Owner-Builder applicant is currently participating in a debt management plan, the trustee or assignee must provide a letter to the Department stating that they are aware and agree with the Owner-Builder applicant applying for a mortgage loan. In addition Owner-Builder applicant must have successfully completed at least six (6) months of the debt management plan with no delinquent payments.
- Medical accounts that are delinquent or that have been placed for collection.

Gifts: Gifts are an acceptable source of funds if they are received from a family member or church, municipality or nonprofit organization. Owner-Builder applicants must have the minimum cash requirement in their own funds verified in addition to the gift.

Documentation: A letter from the donor stating the donor's relationship to Owner-Builder applicant, the amount of the gift and that no repayment is expected. Evidence of the donor's ability to give the funds, and evidence of the transfer of the gift funds from the donor's account to the Owner-Builder applicant. If the funds have already been transferred to the Owner-Builder applicant, evidence of transfer is sufficient; verification of the donor's source is not required. Examples of acceptable evidence of transfer include a canceled check or wire transfer confirmation. If the funds are transferred directly to the title company agent, a copy of the check or the wire advice is acceptable.

Legal Age: All Owner-Builder applicants must have reached the age of 18 at which a Note and Deed of Trust can be legally enforced in the State of Texas.

Liabilities: The Owner-Builder applicant's liabilities include all revolving charge accounts, real estate loans, alimony, child support, installment loans, and all other debts of a continuing nature with more than 10 monthly payments remaining.

Debts for which the Owner-Builder applicant is a co-signer will be included in the total monthly obligations unless the other party to the debt provides evidence showing that the Owner-Builder applicant has not been making payments on the co-signed loans for the previous 12 months. There may be no late payments within the past 12 months or the debt will be included.

Payments on installment debts which are paid off prior to funding are not included for qualification purposes. Payments on all revolving debts (i.e. credit cards, payday loans, lines of credit, unsecured loans) and certain types of installment loans that appear to be recurring in nature will be included in debt ratio calculation, even if the Owner-Builder applicant intends to pay off the accounts, since the Owner-Builder applicant can reuse those credit sources, unless the account is paid off and closed.

Any bankruptcy must have been discharged or dismissed in addition TDHCA will require that the Owner-Builder applicant to submit a letter of explanation regarding the circumstances that led to the bankruptcy.

Section 403.055 of the Texas Government Code and Section 231.006-7 of the Texas Family Code prohibits issuing state funds or granting state loans to persons who are delinquent in paying child support or other debt owed to the state, such as taxes or a guaranteed student loan.

If any party to the proposed transaction is subject to these provisions, the loan may not be completed until the delinquent amounts have been paid or the appropriate arrangements have been made. This prohibition extends to any business entity in which the delinquent debtor has at least a 25 % interest.

When calculating the debt-to-income ratio NOHP must include all proposed mortgage payments, mortgage insurance (if applicable) property taxes and property and/or flood insurance.

Cash Asset Restriction: Owner-Builder applicants must not have cash assets in excess of \$25,000. Funds in deferred tax accounts such as IRA's, 401K's, etc. will not be considered cash Assets. Cash assets sufficient to pay for any required down payment, closing costs and cash reserves must be verified. All funds must have a legal source. NOHP must submit a verification of deposit or copies of bank statements for the previous two months.

Maximum Household Income: The Owner-Builder applicant(s) total household income may not exceed 60% of the AMFI for the area in which the property is located as determined by TDHCA of the greater of the state or local median family income (Exhibit 6), when combined with the income of any person who resides with the Owner-Builder applicant(s). For Program eligibility purposes, the income of a non-applicant spouse or any household member living in the home must be included in the calculation of the household income. Tax Returns, W2's and recent pay check stubs, or verification of employment must be submitted to document household income.

Loan-to-Value Ratio: Shall not exceed 95%, the lien amounts of forgivable loans and/or grants will not be included in the loan-to-value calculation

Combined Loan to Value Ratio: Shall not exceed 100% of all lien amounts including the lien amounts of forgivable loans will be included in the combined loan to value calculation.

Non-Purchasing Spouse: An Owner-Builder applicant's spouse who does not apply for the loan will be required to execute the Information Disclosure Authorization Form (Form 6) and the Deed of Trust as a "non-purchasing" spouse; however, the "non-purchasing" spouse will not be required to execute the note.

For credit underwriting purposes the non-purchasing spouse's debts and obligations will be considered in the Owner-Builder total debt-to-income ratio. The Owner-Builder applicant will be qualified using obligations for which the Owner-Builder applicant and non-purchasing spouse are personally or jointly liable. Only the income of the Owner-Builder applicant will be used in determining the total debt to

income ratio. For Program eligibility purposes, the income of a non-applicant spouse must be included in the calculation of family income. Tax Returns, W2's and recent pay check stubs, or Verification of Employment must be submitted to document household income.

Required Payments: Equal monthly payments of principal to amortize the loan are required and due to the mortgage servicer on the 1st of the month. Monthly escrow payments of taxes and insurance are also required and will be collected by the mortgage servicer.

Tax Returns: Owner-Builder applicant(s) is required to submit copies of tax returns for the previous two years. Tax returns must include all schedules and W-2 Forms.

Total Debt-to-Income Ratio: Maximum of 45% (unless otherwise dictated by the mortgage insurer, if any). When calculating the debt-to-income ratio NOHP must include the proposed mortgage payment, taxes and insurance.

Unacceptable Sources of Funds: Unsecured borrowed funds, such as personal lines of credit, signature loans and overdraft protection are unacceptable sources of funds for closing costs and/or down payment.

INCOME AND EMPLOYMENT

Verification of Employment: Employment history must cover a two (2) year history. Any employment gaps of more than thirty (30) days require an explanation signed by the Owner-Builder applicant.

Two current consecutive pay stubs showing year-to-date (YTD) gross earnings are required to be submitted with Application/Compliance Package.

Note: if the pay stubs do not show YTD gross earnings, a Verification of Employment (VOE) showing YTD gross earnings and "paid through" date may be used.

Verification of Employment (Fannie Mae form 1005 or alternative documentation) must contain and/or provide the following information: **(Refer to Form 8)**

Date of employment;

Current position;

Base salary and how it is paid;

Year-To-Date and past year's earnings;

Probability of continued employment;

Likelihood of continued overtime and/or bonuses, if available;

If the employee is paid on an hourly basis, the number of hours worked weekly.

Income Stability: In addition to verifying current earnings, consideration must be given to the Owner-Builder applicant's employment and earnings history, and the likelihood of income continuation in the future. Frequent job changes, which demonstrate advancement in the same line of work, can be considered favorably. However, depending on the type of employment, frequent job changes without advancement may be an indication of instability. On the other hand, if the type of job makes it necessary for the Owner-Builder applicant to frequently change jobs, the Owner-Builder applicant has maintained a steady income stream and has been in the same line of work for two years, the job changes should not be viewed unfavorably.

Income must be derived from a legal and verifiable source and must have a U.S. source. Caution should be exercised if income appears to be declining.

Salaried Owner-Builder applicants:

Documentation: ☐ W2s for the preceding 2 year period and payroll earnings statements covering the most recent 30 day period or a fully completed Verification of Employment (Form 9).

Bonus, Overtime and Shift Differential: Overtime and bonus income can be used for qualification if the Owner-Builder applicant has received this type of income for the most recent two years, the bonus or overtime earnings trend is stable or increasing and the employer indicates that the bonus or overtime earnings are likely to continue. A two-year average of bonus or overtime income is used for underwriting.

Shift differential can be considered part of base income if it is normal for the Owner-Builder applicant's field of employment and a pattern of this type of earnings can be established.

Documentation: ☐ W2s for the preceding 2 year period and payroll earnings statements covering the most recent 30 day period or a fully completed Verification of Employment (Fannie Mae form 1005) (Form 8).

If the bonus or overtime income represent 25% or more of Owner-Builder applicant's income, 2 years' signed federal tax returns with all schedules are required.

Commission or Quota Income: Commission or quota income can be used for qualification if the Owner-Builder applicant has received this type of income for the most recent two years and the commission/quota earnings trend is stable or increasing.

Frequently, individuals receiving commission income incur business expenses. Commission income should be reduced by the amount of business expenses.

A 2-year average of adjusted commission or quota income is used for underwriting.

Documentation ☐ 2 years signed federal income tax returns with all schedules or a fully completed Verification of Employment (Fannie Mae form 1005)(Form 8).

Part-Time and Second Jobs: Part-time and second job income is acceptable if the Owner-Builder applicant has a one-year history of this type of employment, the earnings level has been stable, and a strong likelihood of its continuation can be established.

Documentation: ☐ W2s for the preceding year period and payroll earnings statements covering the most recent 30 day period or a fully completed Verification of Employment (Fannie Mae form 1005) (Form 8).

Seasonal Income (including Farm Labor): Seasonal income may be used for qualification if the Owner-Builder applicant has a 2 year employment history and the employer verifies a likelihood of continued seasonal employment. A 2 year average is used for underwriting.

Documentation ☐ W2s for the preceding 2 year period and payroll earnings statements covering the most recent 30 day period or a fully completed Verification of Employment (Fannie Mae form 1005) (Form 8).

Unemployment Compensation: Unemployment compensation may be used for qualification **only** if the Owner-Builder applicant is seasonally employed, has a history of receiving unemployment compensation, and periods of employment and unemployment can be reasonably predicted.

Documentation ☐ 2 years' signed federal tax returns with all schedules and letters or exhibits from paying agencies to verify amount, frequency and duration of payments.

Employment by a Relative or Interested Third Party: Additional income documentation is required if the Owner-Builder applicant is employed by a relative, closely held family business, the seller, the real estate agent, escrow company, or any other interested third party.

Documentation ☐ 2 years' signed federal tax returns with all schedules

Self-Employed Owner-Builder applicants: Self-employed Owner-Builder applicants must have a two-year history evidenced by federal tax returns. The income should be an average of the past 2 years tax returns and year-to-date profit and loss statement; unless the Owner-Builder applicant's previous employment was in the same line of work . Income must not indicate a declining pattern.

Documentation ☐ 2 years signed federal tax returns with all schedules;
Year-To-Date Profit and Loss Statement (not older than 90 days)
Fannie Mae's Self-Employed Income Analysis form

Income Tax Affidavit: In accordance with the provisions of Section 6012 of the Internal Revenue Code an Income Tax Affidavit must be provided when an Owner-Builder applicant was not required to file a tax return based upon gross income (Refer to Form 7).

OTHER INCOME SOURCES

Alimony and Child Support: Alimony and child support income may be used for underwriting purposes if disclosed by the Owner-Builder applicant on the loan application and appropriately verified. Payments should have been received on a regular basis for the previous 12 months.

Documentation ☐ Divorce documents or separation agreement specifying the amount and duration of the award. Copies of canceled checks, bank statements or court confirmation to verify receipt.

Retirement and Social Security Income: Retirement and social security income can be used.

Documentation ☐ Award letter or 12 months' bank statements, or most recent signed federal tax returns.

Disability and VA Benefits: Disability and most VA benefits are acceptable income. Short-term disability payments can be considered if the Owner-Builder applicant has a scheduled return-to-work date

and will continue to receive the same salary earned prior to the disability. VA educational benefits cannot be considered because they offset expenses.

Documentation □ Letter or distribution form from the Veteran's Administration.

Welfare and Public Assistance: Welfare and public assistance income may be considered as long as the purchase of real property will not disqualify the Owner-Builder applicant from future payments. In addition the Owner-Builder applicant must provide proof from provide of the probability of continuance.

Documentation □ Recent entitlement letter.

Unacceptable Income Sources:

- Automobile allowance (except to offset an auto payment; offset may not exceed 100% of the auto loan payment)
- Expense account benefits
- VA education benefits
- Retained earnings in a corporation
- Any source of income that is illegal or cannot be verified
- Income from outside the United States that is not paid by a U.S. based company in U.S. dollars
- Food Stamps
- Earned Income Credit

Documentation

Alternative documentation may be used for all transactions PROVIDED that the use of the specific alternative documentation is approved by TDHCA. Copies of alternative documentation should be certified as true copies by the NOHP. An employee of the NOHP must certify each copy. The originals should not contain alterations, erasures, or whiteouts. Both the front and back of each canceled check must be included if provided as verification.

Third Party Verifications: Verifications provided by third parties must be certified by NOHP. Any alterations must be initialed by the individual providing the verification.

Expired Documents: Verification documents must be no more than **ninety days (90)** old on the date of submission to TDHCA.

CHAPTER 4: PROPERTY GUIDELINES AND RELATED ISSUES

This chapter provides an overview of the TDHCA's property standards and insurance requirements under the Program.

PROPERTY STANDARDS

The home being built or rehabilitated must be a single-family residence or property located within the State of Texas. Manufactured homes are not eligible. Program funds may not be used to pay delinquent property taxes.

The residence must be occupied as the principal residence of the Owner-Builder within thirty (30) days of the later of the end of the construction period or the closing of the loan. Any additional habitable structures must be removed from the property prior to closing. Portion of the former structure may be utilized as storage upon TDHCA's written approval prior to closing.

If the Nonprofit Owner-Builder Housing Provider is utilizing Program funds to construct the home they must conform to Section 2306.514 of the Texas Government Code (Exhibit 7) regardless if the property is located within an incorporated area or not.

PROPERTY INSPECTIONS

If the property is located within an incorporated area where certain building codes must be met, the Department will require a copy of the certificate of occupancy. If no certificate of occupancy is available from an incorporated area the NOHP must obtain a document from the local government entity showing that the home has passed all required building codes. A copy of the certificate of occupancy or any other document received from the local governing entity must be submitted to the Department upon completion of construction. If the property is located outside an incorporated area inspections will be required to be completed by a professional inspector licensed by the Texas Real Estate Commission. For all housing rehabilitation projects an initial and final inspection will be required. An initial inspection will be required for all reconstruction projects to determine that it is not cost effective for rehabilitation and therefore needs to be reconstructed. If the property is located in an incorporated area a certificate of occupancy will be required for all completed reconstruction and new construction projects. If the property is located outside an incorporated area a final inspection will be required for reconstruction and new construction projects.

The initial inspection for rehabilitation must identify and prioritize areas in need of repair. A copy of the initial inspection reports must be provided to the Department and the homeowner.

The final inspections for housing rehabilitation must ensure that the construction on the house is complete, that the home is safe, sound and sanitary. A copy of the final inspection report must be provided to the Department and the homeowner.

All final inspections must ensure that the construction on the house is complete and that the home is safe. In both instances any deficiencies noted on the certificate of occupancy or the third party inspector's report must be corrected prior to closing. Cosmetic issues such as paint, wall texture, etc. will not be required to be corrected since this is a self-help construction Program. A copy of the final inspection report must be provided to the Department and the Owner-Builder applicant.

The NOHP and/or the Owner-Builder applicant will be responsible for the selection and/or the fee of a licensed inspector.

APPRAISAL REQUIREMENTS

Appraisal Reports will be required by TDHCA on each loan prior to funding.

SURVEY REQUIREMENTS

Surveys are required. Improvement surveys will be required to be submitted. (Form 11 should be utilized when ordering surveys). When TDHCA is preparing its own closing documents an improvement survey must be submitted to TDHCA in order for TDHCA's Legal Department to prepare the closing documents.

TDHCA requires that it be furnished an improvement survey based upon a ground survey prepared by a Registered Professional Land Surveyor that bears the Surveyor's Seal and Signature. In addition to other items required herein, all information required in the metes and bounds description and all matters pertaining to easements and access must be reflected on the survey plat.

INSURANCE REQUIREMENTS

TITLE INSURANCE

Title Commitment: A copy of the preliminary title report including complete legal description, and copies of covenants, conditions and restrictions, easements, and any supplements thereto are required. The effective date of the preliminary title report should not be more than sixty (60) days old at the time the Request for Real Estate Loan Document package is submitted to TDHCA's Legal Department or no more than ninety (90) days old at the time the Funding Request is submitted to TDHCA.

Title Policy Insurance: It's insurance against loss from defects in title to real property and from the invalidity or unenforceability of mortgage liens. It is meant to protect an owner's or lender's financial interest in real property against loss due to title defects, liens or other matters.

Required endorsements include:

- T-36 Environmental Endorsement for 1st lien loans made by TDHCA.

The title insurance must be written by a title insurer licensed to do business in the jurisdiction where the mortgaged property is located.

Interim Construction Title Binders: Are required by TDHCA on Residential and Interim Construction Loans. TDHCA will accept a title binder during the construction period and will then require a mortgagee title policy upon conversion to the permanent loan.

Mortgagee's Policy: TDHCA requires a Mortgagee's policy of title insurance in the amount of the loan, showing TDHCA as a proposed insured.

PROPERTY INSURANCE

Hazard Insurance: Hazard insurance protects the homeowner against property damages caused by a fire or a severe storm. TDHCA requires hazard insurance for protection against loss or damage from the

following perils: fire, windstorm, hail, explosion, and riot, and civil commotion, damage by aircraft, vehicles or smoke.

Homeowner's policies or package policies that provide property and liability coverage are acceptable. All risk policies are also acceptable.

In the case of a construction/permanent loan, builder's risk coverage is required for the construction period, provided that the premium for a 12 month homeowner's policy is collected at closing for the purchase of a homeowner's policy at the end of construction.

Amount of Required Coverage: The amount of hazard insurance coverage at the time the loan is originated must be no less than the following:

- 100% of the current insurable value of the improvements.

Insurance Document Requirements: Evidence of insurance must be obtained prior to loan funding. Insurance premiums for at least 12 months must be paid in advance.

TDHCA must be named as loss payee (or the policy must be endorsed to TDHCA), showing the following address:

Texas Department of Housing and Community Affairs, Its Successors and/or Assigns
Loan #
P.O. Box 13941
Austin, Texas 78711-3941

Flood Insurance: Flood insurance will be required for all structures located in special flood hazard areas where the U.S. Federal Emergency Management Agency (FEMA) has mandated flood insurance coverage. TDHCA requires a life of loan flood certification on all loans. All homes must be built above the flood plain.

Flood insurance will not be required if:

- The NOHP or Owner-Builder applicant obtains a Letter or Map Amendment from FEMA stating that the area is no longer classified as a special flood hazard area. The letter must include a map illustrating the amended flood hazard area.

An Owner-Builder applicant may elect to obtain flood insurance even though flood insurance is not required. However, the Owner-Builder applicant may not be coerced in obtaining flood insurance unless it is required in accordance with this section.

Life-of-loan Flood Certifications: Life-of-loan flood certifications are required to be obtained. Life-of-Loan Certificate is a guaranteed certification at origination and monitoring for FEMA flood map revisions and community participation status changes for the term of the loan. Life-of-Loan certifications are transferable and help to ensure compliance with federal regulations.

The Life of Loan Flood Certification must be part of the Funding Package.

Builder's Risk Policies: A builder's risk policy is acceptable while the dwelling is under construction as long as it meets TDHCA's requirements. An acceptable policy either: (1) names the borrower as the

insured; or (2) contains a builder's risk endorsement for a policy issued to the borrower. A policy issued only to a contractor is not an acceptable substitute for the property insurance a borrower is required to provide. A builder's risk policy should automatically convert to full coverage when the dwelling is

completed. Otherwise, acceptable insurance must be obtained to coincide with the expiration of the builder's risk provisions of the policy.

CHAPTER 5

APPLICATION PROCESS, REQUIREMENTS AND SUBMISSION

This chapter describes the requirements of accepting and processing applications submitted by the NOHPs in accordance with the guidelines of this Program Manual, up to the point where the Owner-Builder is deemed eligible.

APPLICATION PROCESS AND REQUIREMENTS

After being certified as an NOHP and executing a Loan Origination Agreement, the nonprofit organization may begin to submit loan applications on behalf of the Owner-Builder applicant. If more than one Owner-Builder application is submitted they will be processed in the order entered into the Reservation system.

All Application/Compliance Packages (Exhibit 9) will be reviewed on a first-come, first-serve basis based on the date/time the Reservation is accepted into the Reservation system. There will be no expedited applications except for an Owner-Builder applicant with an annual income of less than \$17,500 and Reservations to Owner-Builders who will reside in counties and municipalities that agree in writing to waive the capital recovery fees, building permit fee or other fees related to the building of the houses to be built with the loan proceeds.

After the Loan Origination Agreement is executed, the NOHP must register each individual Owner-Builder applicant into the TDHCA Texas Bootstrap Loan Program Reservation system using the TDHCA website. After registering the Owner-Builder applicant, TDHCA must receive all the documents listed on the Application/Compliance Package (Exhibit 9) within ten (10) business days of the date the registration was entered into the system.

TDHCA Office of Colonia Initiatives (OCI) staff will review the Application/Compliance Package to ensure that the Owner-Builder applicant meets all Program Rules and guidelines. Within three business days from the date the Application/Compliance Package was received OCI staff must prepare and mail to the Owner-Builder applicant the necessary RESPA disclosures. Within ten (10) business days from the date the Application/Compliance Package was fully received, the NOHP will be notified in writing of TDHCA's determination.

If the Owner-Builder applicant has been deemed eligible, the funds will be reserved for one year from the date of issuance of an Applicant Eligibility Letter (Exhibit 11). OCI staff will notify Financial Administration Staff in writing of all Owner-Builder applicants that have been deemed eligible so funds may be designated and set-aside for the Owner-Builder applicant. If the Owner-Builder fails to close on the loan on or before the expiration date stated on the Applicant Eligibility Letter, the Owner-Builder applicant will be required to re-qualify for the Program; regardless if an extension has been granted.

If TDHCA staff is unable to deem the Owner-Builder applicant eligible, OCI staff will prepare and mail an Applicant Deemed Ineligible Letter (Exhibit 13) to the NOHP within ten (10) business days from the date the Application/Compliance Package was received.

Incomplete Application/Compliance Packages will not be accepted. All incomplete Application/Compliance Packages will be returned to the NOHP and the Reservation will be cancelled.

The NOHP must resubmit a new Reservation and the Application/Compliance Package to TDHCA in order to be reconsidered for funding.

Maximum Reservations allowed for an NOHP participating in the two-third set-aside as noted in §2306.753(d) of the Texas Government Code may not exceed \$900,000 in total loan Reservation at any given time.

Maximum Reservation allowed for an NOHP participating outside the two-third set-aside may not exceed \$450,000 in total loan Reservations at any given time.

Performance Benchmarks:

In an effort to expedite expenditures, the NOHP will be required to meet specific performance benchmarks on that home within 12 months of the Reservation. If the NOHP fails to meet the required benchmarks, the Reservation will be subject to cancellation in accordance with the Loan Origination Agreement. TDHCA may choose to provide one 45-day extension due to extenuating circumstances that were beyond the Owner-Builder's and/or the NOHP's control. If the NOHP cannot meet the required benchmarks after the 45-day extension, the Reservation will be cancelled. In order to receive another Reservation on the same Owner-Builder applicant the NOHP will be instructed to submit an updated application to ensure that the Owner-Builder applicant still meets all Texas Bootstrap Loan Program Rules and guidelines.

Purchase Money Loan:

- Within 90 days of the respective Reservation date the NOHP must have initiated the preconstruction process, which includes the homeownership education and counseling programs of the organization.
- Within 180 days of the respective Reservation date construction must have started on the unit; and
- Within one year of the respective Reservation date the unit must be 100% complete and the purchase money loan must have closed with the Owner-Builder applicant.

Interim and Residential Construction Loans:

- Within 90 days of the respective Reservation date, the loan must close and construction must have started on the unit;
- Within 180 days of the respective Reservation date, the unit must be at 40% completion;
- Within 270 days of the respective Reservation date, the unit must be at 80% completion; and
- Within one year of the respective Reservation date, the unit must be 100% complete and the purchase money loan must have closed with the Owner-Builder applicant.

NOHP I Requirements

The role of the NOHP I is to identify and assist Owner-Builder applicants in submitting complete application packages to TDHCA. The NOHP I is required to submit the following package to TDHCA:

Application / Compliance Package (Refer to Exhibit 9):

Purpose: The Application/Compliance Packages must be delivered to TDHCA so that TDHCA can begin processing the loan applications (Exhibit 9).

Delivery: The Application/Compliance Packages may be submitted to TDHCA Border Field Representative or Austin headquarters by overnight mail or regular mail delivery, or hand delivered.

Timing: TDHCA will make every attempt to reach an underwriting decision within ten (10) business days of its receipt of a completed Application/Compliance Package. The local OCI representative will review the Application/Compliance Package. After the local OCI representative completes its review the application will be submitted to headquarters for underwriting approval. Once the loan has been approved the local OCI representative will be notified in writing. (For an Application/Compliance Package to be complete, the property being purchased must be identified.).

- Application/Compliance Packages must be submitted to TDHCA for approval. TDHCA will determine if the application complies with the Owner-Builder qualifications.
- Once TDHCA approves the applicant it will issue an Owner-Builder an Applicant Eligibility Letter (Exhibit 11) to the NOHP. The NOHP may proceed to collect additional documentation listed under the Application/Compliance Checklist and the Applicant Eligibility Letter to begin preparation of the loan documents.

However, if there are deficiencies in the package submitted, TDHCA will generate a Suspense Notification Letter (Exhibit 12) to the NOHP. If the loan file is suspended, the NOHP will be sent a Suspense Notification Letter (Exhibit 12) explaining all conditions. Documents returned to TDHCA to clear these conditions must be submitted with a copy of the Suspense Notification Letter and marked with the condition number the document is satisfying. All conditions must be received by TDHCA within ten (10) business days from the date the Suspense Notification Letter was mailed/faxed or the loan will be considered withdrawn.

Incomplete Application/Compliance Packages will not be accepted. All incomplete packages will be returned to the NOHP and the Reservation will be cancelled. The NOHP must resubmit a new Reservation and the Application/Compliance Package to TDHCA in order to be reconsidered for funding.

- TDHCA will provide Real Estate Settlement Procedures Act (RESPA) Disclosures. These documents must be signed and original(s) returned to TDHCA prior to funding the loan.

Note: *The NOHP must inform TDHCA that it is ready to proceed to closing. An improvement survey along with an updated title commitment and copies of covenants, conditions and restrictions, easements and any supplements thereto in listed in the title commitment, tax certificates and copies of the Note and Deed of Trust for all lien holders are required to be submitted to TDHCA in order for the TDHCA Legal Department to prepare the loan closing documents. In addition all deficiencies listed in the Owner-Builder applicant Eligibility Letter must have been satisfied in order for TDHCA-OCI staff to prepare a request for real estate loan documents and forward the file to TDHCA Legal Department. Please allow up to 30 days from the date the file is forwarded to TDHCA's Legal Department for TDHCA to prepare the necessary closing documents.*

The NOHP must ensure that proof of either Builder's Risk and/or Hazard Insurance will be provided at the time of closing. Both Builder's Risk and/or Hazard Insurance must be effective for 12 months from the date of closing.

Funding Package

Once the loan is closed and ready to be funded by TDHCA, it is important to submit the documents listed on the appropriate funding checklist (Form 20, 21, 22 or 30). The closing agent will be instructed in the closing letter to return all closing documents to the Direct Lending Officer in Austin. The Direct Lending Officer will notify the Border Field Office of any missing documents or corrections that are needed in order to fund the loan. The Direct Lending Officer will also forward the closing documents for review and approval to the TDHCA's Legal Department. After TDHCA's Legal Department approves the closing documents and all other documents listed on the funding checklist (Form 20, 21, 22 or 30) the file will be forwarded to the Texas Home Ownership Program Division for funding.

Purchase Money transaction please refer to Form 22.

For an Interim Construction transaction please refer for Form 20.

- Initial Draw Request (may be up to 90% of the construction cost up front to commence construction) must be submitted after the Construction Loan Agreement (CLA) and the loan closing documents have been executed in order for the loan to be funded by TDHCA. Once the executed CLA and the closing documents are submitted by the title company to TDHCA, funds will be wired. The NOHP must contact TDHCA to schedule inspections at 40% (before interior walls are covered) and 80% completion.
- Final Draw Request may be submitted when construction is complete. All documents requested in the Interim/Residential Construction Funding Checklist (Form 20/Form 21) must be submitted along with the final draw request. **TDHCA is not able to disburse the final draw until 31 days after the Affidavit of Completion has been filed of record in the county's real property records.**

Once construction is completed the transaction between the Owner-Builder applicant and TDHCA must still be completed. Please refer to the Purchase Money Checklist (Form 22). If THDCA will be preparing the closing documents an improvement survey, tax certificates and an updated title commitment along with copies of any covenants, restrictions, and easements listed on the title commitment must be included in the request to legal.

For Residential transactions please refer to Form 21.

- Initial Draw Request (may be up to 90% of the construction cost up front to commence construction) must be submitted after the Construction Loan Agreement (CLA) and the loan closing documents have been executed in order for the loan to be funded by TDHCA. Once the executed CLA and the closing documents are submitted by the title company to TDHCA, funds will be wired directly to the title company for disbursement. The NOHP must contact TDHCA to schedule inspections at 40% (before interior walls are covered) and 80% completion.
- Final Draw Request may be submitted when construction is complete. All documents requested in the Residential Construction Checklist (Refer to Form 21) must be submitted along with the final draw request. **TDHCA is not able to disburse the final draw until 31 days after the Affidavit of Completion has been filed of record in the county's real property records.**

NOHP II Requirements

The role of a NOHP II is to identify Owner-Builder applicants, to process, and pre-qualify and pre-approve loans and/or close the subject loans. The NOHP II must submit all of the following packages to TDHCA:

Application / Compliance Package (Exhibit 9)

Purpose: The Application/Compliance Packages must be delivered to TDHCA so that TDHCA can begin processing the loan applications (Exhibit 9).

Delivery: The Application/Compliance Packages may be submitted to TDHCA Border Field Representative or Austin headquarters by overnight mail or regular mail delivery, or hand delivered.

Timing: TDHCA will make every attempt to reach an underwriting decision within ten (10) business days of its receipt of a completed Application/Compliance Package. The local OCI representative will review the Application/Compliance Package. After the local OCI representative completes its review the file will be submitted to headquarters for underwriting approval. Once the loan has been approved the local OCI representative will be notified in writing. (For an Application/Compliance Package to be complete, the property being purchased must be identified.)

- Application/Compliance Packages must be submitted to TDHCA for review. TDHCA will determine if the Application/Compliance Package complies with the Program Rules and Manual.
- Upon request TDHCA will provide the NOHP II a complete set of closing documents that TDHCA requires the Owner-Builder applicant and the NOHP to execute at closing. These closing documents must be prepared by an attorney. Prior to closing the NOHP II must submit a completed set of closing documents utilized for the Program to TDHCA's Legal Department for review and approval. In addition to the TDHCA closing documents, the NOHP II must also submit a copy of the Warranty Deed, Note and Deed of Trust for all other lien holders. Please allow 30 days for TDHCA's Legal Department to review and approve the closing documents.
- Once TDHCA approves the Owner-Builder applicant it will issue an Applicant Eligibility Letter (Exhibit 11) to the NOHP. The NOHP may proceed to collect additional documentation listed under the Application/Compliance Checklist and the Applicant Eligibility Letter to begin preparation of the loan documents. All conditions must be received by TDHCA within ten (10) business days from the date of the Applicant Eligibility Letter.

However, if there are deficiencies in the Application/Compliance Package submitted, TDHCA will generate a Suspense Notification Letter (Exhibit 12) to the NOHP. If the loan file is suspended, the NOHP will be sent a Suspense Notification Letter (Exhibit 12) explaining all conditions. Documents returned to TDHCA to clear these conditions must be submitted with a copy of the Suspense Notification Letter and marked with the condition number the document is satisfying. All conditions must be received by TDHCA within ten (10) business days from the date the Suspense Notification Letter was faxed or the loan will be considered withdrawn.

Incomplete Application/Compliance Packages will not be accepted. All incomplete packages will be returned to the NOHP and the Reservation will be cancelled. The NOHP must resubmit a

new Reservation and the Application/Compliance Package to TDHCA in order to be reconsidered for funding.

- TDHCA will provide Real Estate Settlement Procedures Act (RESPA) Disclosures. These documents must be signed and original(s) returned to TDHCA prior to funding the loan.
- The NOHP and Owner-Builder may proceed to close the loan.

The NOHP must ensure that proof of either Builder's Risk and/or Hazard Insurance will be provided at the time of closing. Both Builder's Risk and/or Hazard Insurance must be effective for 12 months from the date of closing.

Ineligible Applications: TDHCA will generate a Deemed Ineligible Letter (Exhibit 13) to notify the NOHP if a loan is deemed ineligible. Files that are deemed ineligible due to excessive income or assets may not be resubmitted for consideration.

Funding Package

Once the loan is closed and ready to be funded by TDHCA, it is important to submit the documents listed on the appropriate funding checklist (Form 20, 21, 22 or 30). The closing agent will be instructed in the closing letter to return all closing documents to the Direct Lending Officer in Austin. The Direct Lending Officer will notify the Border Field Office of any missing documents or corrections that are needed in order to fund the loan. The Direct Lending Officer will also forward the closing documents for review and approval to the TDHCA's Legal Department. After TDHCA's Legal Department approves the closing documents and all other documents listed on the funding checklist (Form 20, 21, 22 or 30) the file will be forwarded to the Texas Home Ownership Program Division for funding.

For a Purchase Money transaction please refer to Form 22.

For an Interim Construction transactions please refer for Form 20.

- Initial Draw Request (may be up to 90% of the construction cost up front to commence construction) must be submitted after the Construction Loan Agreement (CLA) and the loan closing documents have been executed in order for the loan to be funded by TDHCA. Once the executed CLA and the closing documents are submitted by the title company to TDHCA, funds will be wired directly to the title company for disbursement. The NOHP must contact TDHCA to schedule inspections at 40% (before interior walls are covered) and 80% completion.
- Final Draw Request may be submitted when construction is complete. All documents requested in the Interim/Residential Construction Funding Checklist (Refer to Form 20/Form 21) must be submitted along with the final draw request. **TDHCA is not able to disburse the final draw until 31 days after the Affidavit of Completion has been filed of record in the county real property records.**

Once construction is completed the transaction between the Owner-Builder applicant and TDHCA must still be completed. Please refer to the Purchase Money Checklist (Form 22). If THDCA will be preparing the closing documents an improvement survey and an update title commitment along with copies of any covenants, restrictions and easements listed on the title commitment must be included in the request to legal.

For Residential Construction transactions please refers to Form 21.

- Initial Draw Request (may be up to 90% of the construction cost up front to commence construction) must be submitted after the Construction Loan Agreement (CLA) and the loan closing documents have been executed in order for the loan to be funded by TDHCA. Once the executed CLA and the closing documents are submitted by the title company to TDHCA, funds will be wired directly to the title company for disbursement. The NOHP must contact TDHCA to schedule inspections at 40% (before interior walls are covered) and 80% completion.
- Final Draw Request may be submitted when construction is complete. All documents requested in the Residential Construction Funding Checklist (Refer to Form 21) must be submitted along with the final draw request. **TDHCA is not able to disburse the final draw until 31 days after the Affidavit of Completion has been filed of record in the county real property records.**

LOAN DOCUMENTS

The TDHCA Legal Department will prepare Program loan documents for NOHP I. Upon request TDHCA will provide an NOHP II a complete sample set of TDHCA closing documents that are required to be executed at closing. The NOHP must ensure that the closing documents are prepared by an attorney and submitted to TDHCA for approval prior to closing any loans. In addition to the TDHCA closing documents, the NOHP II must also submit a copy of the Warranty Deed, Note and Deed of Trust for all other lien holders. Please allow 30 days for the TDHCA Legal Department to review and approve closing documents.

**CHAPTER 6:
COMMUNICATION**

MAILING ADDRESSES

All packages should be sent, as applicable, to the appropriate addresses shown below:

Application Packages:

Non-Border: Texas Department of Housing and Community Affairs
ATTN: Raul Gonzales – Direct Lending Officer
P. O. Box 13941
Austin, Texas 78711-3941
Phone: (512) 475-1473
Fax: (512) 475-2365

Border: Texas Department of Housing and Community Affairs
ATTN: Yesenia Ayala Perez
2723 W. University, Suite B
Edinburg, Texas 78539
Phone: (956) 383-3404
Fax: (956) 383-4045

Texas Department of Housing and Community Affairs
ATTN: Albert Alvidrez
401 E. Franklin, Suite 550-A
El Paso, Texas 79901
Phone: (915) 834-4925
Fax: (915) 834-4926

Texas Department of Housing and Community Affairs
ATTN: Valerie Rivera-Soto
1200 Washington Street
Laredo, Texas 78042
Phone: (956) 523-4668
Fax: (956) 523-5021

Application/Compliance & Funding Packages:

Designated OCI Staff (See Above)
Texas Department of Housing and Community Affairs

Underwriters:

Texas Department of Housing and Community Affairs
ATTN: Raul Gonzales – Direct Lending Officer
P. O. Box 13941
Austin, Texas 78711-3941
Phone: (512) 475-1473
Fax: (512) 475-2365

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS OFFICE OF COLONIA INITIATIVES
TEXAS BOOTSTRAP LOAN PROGRAM MANUAL**

Texas Department of Housing and Community Affairs
ATTN: Homero V. Cabello, Director – Office of Colonia Initiatives
P. O. Box 13941
Austin, Texas 78711-3941
Phone: (512) 475-1473
Fax: (512) 475-2365

Loan Servicing:

Texas Department of Housing and Community Affairs
Attn: Melissa M. Whitehead, Single Family Loan Servicing Department
P.O. Box 13941
Austin, Texas 78711-3941
Phone: (512) 475-3349

TELEPHONE NUMBERS

Submission Packages	Contact	Telephone	FAX Number
Application / Compliance Review	Designated OCI Staff	See Page 37 under mailing addresses	See Page 38 under mailing addresses
Underwriting	Designated OCI Staff	See Page 37 & 38 under mailing addresses	See Page 38 & 39 under mailing addresses
Loan Servicing	Melissa M. Whitehead Gracie Garcia	512-475-3349 512-475-1225	512-472-7500
Funding	Martha Sudderth	512-475-3444	512-475-4798

CHAPTER 7:

REGULATORY COMPLIANCE *NOTE: Under this section NOHP II are referred as “lenders”.

EQUAL CREDIT OPPORTUNITY ACT (REGULATION B)

Acceptance of Applications

Regulation B prohibits a lender (NOHP) from discouraging a potential Owner-Builder applicant from submitting an application on the basis of race, age, sex, marital status, color, religion, national origin, the fact that the Owner-Builder applicant receives public assistance income, or the fact that the Owner-Builder applicant has in good faith exercised rights under the Consumer Credit Protection Act.

Lender may communicate the general guidelines under which an application for credit may be approved. Since Regulation B does not distinguish between oral and written applications, a lender must be careful not to discourage Owner-Builder applicants on the telephone, in person or in writing. All individuals requesting credit must be given the opportunity to apply for a loan.

Government Monitoring Information

The lender is required to gather information on the sex, age, marital status, and race or national origin of Owner-Builder applicants. This information is collected by the government to monitor lenders' compliance with equal credit and fair housing laws. TDHCA requires that this information be complete when a lender submits a loan application.

If Owner-Builder applicants decline to provide this information, they must be asked to initial the government monitoring information section of the loan application and be told that the information will be determined by visual observation and/or surname and entered on the application by the loan officer.

Equal Treatment

Each Owner-Builder application must be evaluated on the basis of the creditworthiness of the Owner-Builder applicant.

Age should be considered only to determine that the Owner-Builder applicant is old enough to enter into a valid, enforceable contract.

Marital status should be considered only to determine:

- the debts for which the Owner-Builder applicant may be liable
- the income the Owner-Builder applicant can rely on to repay the loan, and
- the signatures needed on various documents according to state law.

Notification of Action Taken

Regulation B requires that a lender must act quickly to gather the documentation needed to make a credit decision. The Owner-Builder applicant must be notified in writing of the credit decision within 30 days of receipt of a completed credit Owner-Builder application.

If the loan request is declined, TDHCA mails a Deemed Ineligible Letter to the NOHP. The letter includes the specific reason why the application was declined.

Either the Owner-Builder applicants or the lender may withdraw a loan application. An application may also be considered withdrawn if the Owner-Builder applicants fail to contact the NOHP within 30 days of submitting a completed loan application. If the Owner-Builder applicants fail to respond within 30 days

to a written request for additional information, the application may be withdrawn as an incomplete application or it may be considered withdrawn.

FEDERAL TRUTH IN LENDING (REGULATION Z)

Early Disclosure

The disclosure of the loan details, including the APR, finance charges, amount financed, schedule of payments, and other items, must be mailed to the Owner-Builder applicant by the third (3rd) business day after the request for credit is received by the lender or its agent. Business days are Monday through Friday, excluding legal holidays.

It is the policy of TDHCA to provide early disclosures when it receives a completed loan application. The Application/Compliance Package(s) must be completed in all respects and identify the specific property intended to be purchased by the Owner-Builder applicant.

Final Disclosure

Similar disclosures are also provided to the Owner-Builder applicant at the time closing documents are executed. On a purchase money transaction, only one copy of the disclosures must be provided and can be given to anyone who is primarily liable for a loan.

REAL ESTATE SETTLEMENT PROCEDURES ACT (RESPA)

Covered Transactions

RESPA requires the lender to notify Owner-Builder applicants of the costs of settlement for certain loans secured by residential real property and to notify Owner-Builder applicants regarding the transfer of loan servicing.

RESPA prohibits payments or other compensation in return for the referral of loan business, if there are kickbacks or unearned fees. Any payments made to lenders, mortgage brokers, title insurance companies, or real estate brokers must be disclosed.

Settlement Cost Disclosures

The lender must provide a Good Faith Estimate (GFE) of the costs of settlement services connected with the requested loan. It must be based on the usual charges in the area in question, or the actual charges if known, and provided to the Owner-Builder applicants not later than the third (3rd) business day after the application is received by the lender. Business days are Monday through Friday, excluding legal holidays. If a lender selects a particular settlement service provider and requires the Owner-Builder applicants to pay all or a portion of the costs of those services, the lender must provide a statement as part of the Good Faith Estimate which must contain the name, address and telephone number of the designated provider and the services to be rendered, the fact that the lender's estimate is based on charges of the designated provider, a statement as to whether each such provider has a business relationship with the lender, and a description of the nature of the relationship between such provider and the lender.

The Owner-Builder applicant must also be provided with a copy of the "Buying Your Home" booklet at the time of written application, but no later than three business days after the application is received. The lender must also provide disclosure concerning its ability and intent to service its real estate loans. This disclosure is provided to all Owner-Builder applicants at the time the application is received. Loans cannot be funded until the lender has received copies of this notice signed by all Owner-Builder applicants. RESPA also requires a description of the items that are required to be paid into an escrow or impound account.

Uniform Settlement Statement (HUD-1)

A HUD-1 must be completed by the person conducting the settlement and must be conspicuously and clearly itemize all charges imposed upon the Owner-Builder applicants and the seller in connection with the settlement. It must also indicate whether any title insurance premium included in such charges covers or insures the lender's interest in the property, the Owner-Builder applicant's interest or both. The charges would include all other specific requirements and breakdown of the loan (i.e. selling price, down payment, closing costs). Charges required by the lender but paid outside of closing by the Owner-Builder applicant or seller should be disclosed on the HUD-1 settlement statement, but marked "P.O.C." for "paid outside closing."

One Day Advance Inspection of the HUD-1

Upon request by the Owner-Builder applicant, the HUD-1 must be completed and made available for inspection during the business day immediately proceeding the day of settlement, setting forth those items that are known at the time by the person conducting the settlement.

Delivery

The completed HUD-1 should be delivered at or before settlement to the Owner-Builder applicant and seller or their agents. If the Owner-Builder applicant or seller waives delivery then it may be mailed.

Fair Housing Act

The federal Fair Housing Act forbids a lender to discriminate in its lending practices on the basis of the race, religion, sex, or national origin of either the Owner-Builder applicant or anyone associated with the Owner-Builder applicant, including the seller or tenants of the property. Discrimination on the basis of handicap or family status is also forbidden.

Flood Disaster Protection Act

The National Flood Insurance Act of 1968 makes federally subsidized insurance available to property owners in flood-prone area if the local community encompassing the hazard area participates in the National Flood Insurance Program ("NFIP").

The Flood Disaster Protection Act of 1973 has made flood insurance mandatory for loans secured by improved real property in Special Flood Hazard Areas. The program is administered by the Federal Emergency Management Agency ("FEMA"). Flood insurance is required if all the following conditions are present:

- A Flood Hazard Boundary Area ("FHBM") or a Flood Insurance Rate Map ("FIRM") has been published for the community in which the property is located. For zones that require insurance, see Chapter, Insurance Requirements.
- The structure in question is located in a Special Flood Hazard Area as shown on the FHBM or FIRM.
- The community in which the property is located participates in the NFIP.

If the property is in a Special Flood Hazard Area and flood insurance is available, TDHCA must notify the Owner-Builder applicant in writing at least 10 days prior to closing; if there are fewer than 10 days

between the approvals and closing, the notice should be sent on the date of approval. In addition, the lender must obtain from the Owner-Builder applicant(s) prior to closing, a written acknowledgment that

the property securing the loan is, or will be, located in a Special Flood Hazard area and that the Owner-Builder applicant(s) has received the mandatory notice regarding federal disaster relief assistance.

If the property is in a flood hazard area but federal assistance is not available because the community is not participating in the program, the application will be declined unless the Owner-Builder applicant(s) can find a satisfactory insurance company that will issue an acceptable flood insurance policy.

The property owner must maintain the flood insurance for the entire term of the loan.

The National Flood Insurance Reform Act of 1994 added the following additional requirements:

- Requires that lenders monitor properties during the life of the loans they service;
- Allows lenders to charge for determining when a property is remapped;
- Mandates that lenders require flood insurance during the life of the loan, if the property securing the loan is remapped into a special flood hazard area. (The Owner-Builder applicant can be asked to obtain flood insurance at a time other than settlement and that the Owner-Builder applicant and the loan may be charged for flood insurance if he fails to obtain the insurance within a certain period of time);
- Requires that escrow payments for flood insurance may be required and imposed during the life of a loan if a lender finds that the property securing the loan is in a special flood hazard area;
- Mandates the use of a standard form for documenting the flood zone of a property.

The effect of these additional requirements is that loan documents (specifically, the Deed of Trust) must contain language to the effect that flood insurance may be required at any time during the life of the loan and that the premiums for such insurance may be required to be collected in addition to other escrow payment components. Life of loan flood certifications are required so that TDHCA will be notified if a property securing a loan is found to be in a flood zone after closing.

CHAPTER 8
GLOSSARY

<i>Acquisition Cost</i>	<p>The cost to an Owner-Builder of acquiring a property from the seller as a completed residential unit.</p> <p>Included in the calculation of acquisition cost are (i) all amounts paid (in cash or in kind) by, or on behalf of, the Owner-Builder to, or on behalf of, the seller as consideration for the residence, and (ii) the reasonable cost (irrespective of the source of funding) of completing an incomplete residential unit.</p> <p>Excluded from the calculation of acquisition cost are (i) the usual and reasonable settlement costs paid by the buyer, including title and transfer costs, title insurance, survey fees and other similar costs and (ii) the usual and reasonable financing costs paid by the Owner-Builder, including credit reference fees, legal fees, appraisal expenses, “points” paid by the purchasers and other financing costs.</p> <p>The Program restricts the total amount of loans made by the TDHCA and other entities to a maximum of \$90,000 of repayable loans.</p>
<i>Administrative Fees</i>	<p>A fee not to exceed six percent (6%) of the loan amount for qualified loans under the Loan Origination Agreement between TDHCA and the NOHP for the administration of the Program.</p>
<i>Alternative Documentation</i>	<p>Verification documentation, which is provided directly by the Owner-Builder, such as W2s and pay stubs and bank statements, in lieu of verifications, received from third parties.</p>
<i>AMFI</i>	<p>“AMFI” is the area median family income in effect in the statistical area in which the property is located. (See AMFI Table Exhibit 6)</p>
<i>Asset</i>	<p>Items of value owned by an individual. Assets that can be quickly converted into cash are considered "liquid assets." These include bank accounts, stocks, bonds, mutual funds, and so on. Other assets include real estate, personal property, and debts owed to an individual by others.</p>
<i>Closing</i>	<p>The conclusion of the sales transaction when the seller transfers title to the buyer in exchange for consideration. In Texas, these proceedings are usually held at a title company.</p>
<i>Closing Costs</i>	<p>Costs the buyer must pay at the time of the closing in addition to the down payment which may include points, title charges, credit report fee, document preparation fee, mortgage insurance premium, inspections, appraisals, prepayments for property taxes, deed recording fee, and homeowners insurance. Closing costs can vary considerably from one financial institution to another.</p>

<i>Colonia Self-Help Center</i>	As defined under Subchapter Z, Chapter 2306 of the Texas Government Code.
<i>Construction Loan Agreement</i>	An interim loan covering construction and development costs, secured by a mortgage on the property financed. Funds are advanced at specific stages of construction, in so-called progress payments, with a portion held back until completion of the project. Construction financing is paid off from the proceeds of a permanent mortgage loan.
<i>Credit Report</i>	An account of the Owner-Builders credit history, prepared by a credit bureau. A credit report will contain both credit history, such as what the applicant owes to whom and whether they make the payments on time, as well as personal history, such as former addresses, employment record and lawsuits in which they may have been involved. An estimated 50% of all credit reports contain errors, such as accounts that don't belong to an applicant, an incorrect account status or information reported that is older than seven years (ten years in the case of a bankruptcy).
<i>Debt to income ratio</i>	The measurement of debt payments to gross household income which may include, in addition to the main wage earner's salary, salaries of other wage earners, commissions, bonuses, overtime, etc.
<i>Deed of Trust</i>	An interest in real property providing security for the performance of an obligation, usually evidenced by a note. On default, the mortgage or deed of trust may be foreclosed, the property may be sold, and the proceeds applied for the mortgagee's benefit. While a mortgage is a two-party instrument between a mortgagor and mortgagee, a deed of trust is a conveyance to a trustee for the benefit of the mortgagee and, in Texas, gives the trustee the power of nonjudicial foreclosure and sale. The general practice in Texas is to use a deed of trust; however, lenders and attorneys commonly use the terms "mortgage" and "deed of trust" interchangeably. The secured creditor under a deed of trust is often identified as the "beneficiary" or "mortgagee," the debtor is often identified as the "borrower," "grantor," or "mortgagor," and the party having the power of nonjudicial foreclosure and sale in the event of default is identified as the "trustee.
<i>Family/Household Income</i>	<p>Family Income means the annualized gross income of an Owner-Builder applicant, and any other person who is expected to live in the residence being financed with the proceeds of the loan.</p> <p>Annualized gross income is derived by multiplying the monthly gross income by twelve (12). Gross monthly income is the sum of monthly gross pay, any additional income from overtime, part-time employment, bonuses, dividends, interest, royalties, pensions, Veteran's Administration compensation, net rental income, etc. and other income such as alimony, child support, public assistance, sick pay, social security benefits, unemployment compensation, income received from trusts, and income received from business activities or investments. Information received with respect to gross monthly income may be</p>

obtained from available loan documents executed during the four-month period prior to the closing of the loan, provided that any gross monthly income not included on such loan documents be included in the calculation of gross monthly income.

Fee Simple Estate

The most complete form of ownership of real property; absolute ownership. Commonly used to denote a property where the owner has undivided title to the land on which the property is situated.

First Mortgage

A mortgage that is in first lien position, taking priority over all other liens (which are financial encumbrances).

Fixed Rate Loan

A loan on which the interest rate is set for the entire term of the loan.

Flood Insurance

A special and separate type of homeowner's insurance that provides coverage for damages resulting from flooding. Flood insurance is required by most lenders only if the property is located within a designated flood plain. The cost of the policy is related to the associated flooding risk. If a property has a small section of land located within a flood plain, but away from the residential improvements (house), the lender will still require a policy, but its cost will be much lower.

Likewise, flood insurance policies for properties not located within any floodplain, are fairly inexpensive.

General Warranty Deed

A deed in which the grantor fully warrants good and clear title to the property. A general warranty deed offers the most protection of any deed.

Gross Income

For qualifying purposes, the income of the borrower before taxes or expenses are deducted.

Homeowner's Insurance

A type of insurance policy designed to protect homeowners from financial losses related the ownership of real property. In addition to covering losses due to vandalism, fire, hail, etc. (hazard insurance), most policies also provide theft and liability coverage. Flood related damage requires a separate *flood insurance* policy or rider.

Homestead

The house in which a family lives, plus any adjoining land and other buildings on that land. Land, and the improvements thereon, designated by the owner as his homestead and, therefore, protected by state law from forced sale by certain creditors of the owner. Texas offers homestead protection for a single residential property. In addition, Texas mandates a minimum \$15,000 school district property tax exemption on the appraised value of a homestead property. Other taxing authorities, such as cities and counties, may offer additional property tax exemptions on homesteads.

***HUD - 1
Settlement Statement-***

The HUD-1 is a form used by the settlement agent (also called the closing agent) to itemize all charges imposed upon a borrower and seller

for a real estate transaction. It gives each party a complete list of their incoming and outgoing funds.

Fees associated with the transaction but paid prior to closing are also included on the HUD. They are normally marked "POC," for Paid Outside of Closing.

All funding sources must be listed on the HUD-1.

Interim Construction

This transaction is between the NOHP and TDHCA and loan funding is restricted to 3 draws and a maximum construction period of 12 months.

Joint Tenancy

A way for two or more people to share ownership of real estate or other property. When two or more people own property as joint tenants and one owner dies, the other owners automatically own the deceased owner's share. For example, if a parent and child own a house as joint tenants and the parent dies, the child automatically becomes full owner. Because of this right of survivorship, no will is required to transfer the property; it goes directly to the surviving joint tenants without the delay and costs of probate.

Life Estate

An interest in property only for the duration of someone's life.

Life Tenant

One who has a life estate in real property.

***Mechanics' and
Materialmen's Lien***

A contract granting a lien for improvements on real property is commonly made separately from a mortgage or deed of trust in order to address special requirements relating to the placement of liens on homesteads. For a lien contract validly to impose a lien on homestead property, it must be executed before any labor is performed or material furnished, must be filed for record in the county clerk's office, and must meet certain other requirements.

Mechanic Lien Affidavit

Creates a lien against the retainage by subcontractor's sending property owner timely lien notice.

Mortgage

An obligation, including a mortgage, mortgage deed, bond, note, deed of trust, or other instrument, that is a lien on real property; or on leasehold under a lease having a remaining term that, at the time the lien is acquired, does not expire until after the maturity date of the obligation secured by the lien.

Mortgage Loan

An obligation secured by a mortgage.

Mortgagee

The lender in a mortgage loan transaction.

Mortgagee Title Insurance

Protection for lenders or homeowners against financial loss resulting from legal defects in the title.

Mortgagor

The borrower in a mortgage loan transaction

***Nonprofit Owner-Builder
Housing Provider (NOHP)***

TDHCA may certify a tax-exempt organizations listed under Section 501(c)(3), Internal Revenue Code of 1986, to qualify potential Owner-Builders for loan under this Program, provide Owner-Builder education classes, assist Owner-Builders in building housing and originate or service loans made under this Program.

Owner-Builder

A person, other than a person who owns or operates a construction business and who owns or purchases a piece of real property through a warranty deed and deed of trust; or is purchasing a piece of real property under a contract for deed entered into before January 1, 1999; and who undertakes to make improvements to that property.

Principal Residence

The principal residence is a single family unit that is the Owner-Builder applicant's primary residence. A person can have only one principal residence.

Purchase Money

Proceeds under this transaction are used to finance the purchase of a single-family dwelling unit and/or a piece of real property which will be the Owner-Builders primary residence within 30 days of closing the loan or completion of the construction whichever is later.

***Real Estate Settlement
Procedures Act (RESPA):***

A federal law designed to make sellers and buyers aware of settlement fees and other transaction-related costs. RESPA also outlaws kickbacks in the real estate business.

Rehabilitation Standards

Rehabilitated properties must meet either Colonia Housing Standards (CHS) or Housing Trust Fund Housing Quality Standards. (HTF-HQS) At a minimum, properties located in a colonia, financed by TDHCA must meet Colonia Housing Standards ("CHS") if no additional financing options are available. Properties located in all other areas must meet Housing Trust Fund Housing Quality Standards ("HTF-HQS").

Residential Construction

This type of transaction is treated as a purchase. Residential construction loan funding is restricted up to three draws and a maximum construction period of 12 months. Loan funds are disbursed in accordance to the "Residential Construction" Checklist.

Self-Employed Owner-builder

Any Owner-Builder applicant who has a 25% or greater ownership interest in a business is considered self-employed.

Servicing a Loan

The ongoing process of collecting your monthly mortgage payment, including accounting for and payment of your yearly tax and/or homeowners insurance bills.

Special Warranty Deed

A warranty deed which, instead of warranting the title from sovereignty of the soil to the last grantee, merely warrants the title against every

person whomsoever lawfully claiming or to claim the same, or any part thereof, by, through or under the grantor.

Subcontractor

One who is awarded a portion of an existing contract by a contractor, especially a general contractor. For example, a contractor who builds houses typically retains subcontractors to perform specialty work such as installing plumbing, laying carpet, making cabinetry, and landscaping- each subcontractor is paid a somewhat lesser sum than the contractor receives for the work.

Subordinate Financing

The act of a party acknowledging, by written recorded instrument, that a debt is inferior to the interest of another in the same property.

Tax and Insurance Reserves

Tax and insurance reserves are deposits paid by Owner-Builder applicants along with the monthly mortgage payment to pay for property taxes, special assessments, hazard insurance, flood insurance and mortgage insurance premiums, as applicable. (Also, called impound or escrow account).

Tenancy In Common

A type of ownership in which two or more people have an undivided interest in property, without the right of survivorship. Upon death of one of the owners, his/her interest passes to his/her heirs or devisees.

Vendor's Lien

A lien in favor of the seller of real property to secure payment of the unpaid purchase price. The usual practice in Texas is to expressly reserve a vendor's lien in the deed so that, when the deed is recorded, third parties will have notice of the lien. Even if the lien is not reserved in the deed, an express vendor's lien may be created by acknowledging the lien in the purchase money note.

Warranty Deed

A type of deed that contains express assurances about the legal validity of the title being transferred.