

INDIANA HOUSING AND COMMUNITY DEVELOPMENT AUTHORITY

FIRST STEP FHA PROGRAM GUIDE



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FIRST STEP FHA PROGRAM
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**INDIANA HOUSING AND COMMUNITY DEVELOPMENT AUTHORITY
FIRST STEP FHA PROGRAM
PREAMBLE**

The First Step FHA Program (the “Program”) is a first-time homebuyer program that provides down payment assistance (“DPA”) using FHA financing.

The Program allows for DPA in an amount not to exceed six percent (6%) of the lower of the purchase price or appraised value of the Subject Property. The DPA being offered by IHCDA is evidenced by a non-forgivable Second Mortgage. There are no monthly principal or interest payments associated with the Second Mortgage evidencing the DPA loan. Therefore, upon termination of the First Mortgage, the full amount of DPA must be repaid unless the First Mortgage is refinanced using any IHCDA program.

These loans associated with the Program must meet the requirements set forth in this Program Guide along with the requirements of the Master Servicer and the United States Department of Housing and Urban Development including Ginnie Mae. This program may not be combined or coupled with any other IHCDA program.

Additional information about the Program, including the eligibility requirements and application requirements, are contained in this Program Guide.

INDIANA HOUSING AND COMMUNITY DEVELOPMENT AUTHORITY FIRST STEP FHA PROGRAM DEFINITIONS

“Acquisition Cost” shall have the meaning set forth in Section 3 of this Program Guide.

“AMI” is the Area Median Income and the program being utilized by the Mortgagors determines which AMI to review for compliance.

“AUS” means Automated Underwriting System.

“Commitment Expiration Date” means the date on which IHCDA’s commitment under the Program expires.

“Co-Mortgagor” means any additional individual, in addition to the primary Mortgagor, meeting the qualifications of the Program, who is individually and jointly responsible for any primary and secondary liability associated with the Subject Property and who otherwise shares an ownership interest in the Subject Property.

“Co-Signer” means any individual who is individually and jointly responsible for any primary and secondary liability associated with the Subject Property who does not otherwise share any ownership in the Subject Property nor reside in the Subject Property as its primary residence.

“CreditSmart” is a homebuyer educational class that is accepted by Freddie Mac, Fannie Mae and Ginnie Mae.

“Date of Closing” is the closing date listed on the Closing Disclosure signed by the borrower(s) at closing.

“DPA” means the down payment assistance loan as evidenced by the Second Mortgage.

“DTI” is the debt-to-income ratio of the Mortgagor or debt/income.

“Eligible Veteran” means a person that has served in the active military, naval or air service or the Indiana national guard that didn’t receive a dishonorable discharge or a person that is otherwise eligible for health benefits provided by the United States Department of Veteran Affairs as verified by form DD214.

“Federal Recapture Tax” has the meaning set forth in Section 5 of this Program Guide.

“FHA Financing” means financing provided through the Federal Housing Administration of the United States Department of Housing and Urban Development (“FHA”) home loan program.

“First Mortgage” means the interest in the Subject Property creating a first lien thereon and providing security for the mortgage loan.

“First-Time Homebuyer” is an individual who has not, at any time during the three (3) years preceding the date of the loan closing, had a present ownership interest in his or her principal residence.

“GSE” means Government Sponsored Enterprise, there are three separate and distinct GSE’s, which are “Ginnie Mae”, “Fannie Mae” and “Freddie Mac”.

“HomeView” is a homebuyer educational class that is accepted by Fannie Mae, Freddie Mac and Ginnie Mae.

“IHCDA” means Indiana Housing and Community Development Authority.

“IHCDA Online” means the online system used by IHCDA and participating lenders to access, manage and verify the program being utilized.

“Master Servicer” means U.S. Bank National Association

“Mortgagor” means any individual(s) meeting the qualifications of the Program, who is responsible for any primary and secondary liability associated with the Subject Property and includes any Co-Mortgagors but does not include any Co-Signer.

“MOSA” means Mortgage Origination and Sale Agreement.

“Participating Lender” means a lender that has signed the MOSA.

“Program” means the First Step FHA Program.

“Program Guide” means this IHCDA First Step FHA Program Guide.

“Purchase Agreement” means an agreement to purchase real property between, at a minimum, the seller of such property and the Mortgagor.

“Qualified Census Tract” has the meaning set forth in Section 1 of this Program Guide.

“Recapture Amount” has the meaning set forth in Section 5 of this Program Guide.

“Relock” means that the interest rate of a loan will need to be re-established at the higher of the current interest rate and the original interest rate.

“Second Mortgage” has the meaning set forth in Section 10 of this Program Guide.

“Single-Family Dwelling” is a structure designed for residential use by one family, or a unit so designed, whose owner owns, directly or through a non-profit cooperative housing organization, an undivided interest in the underlying real estate, including property owned in common with.

“Subject Property” is the real property, including a Single-Family Dwelling consisting of one (1) to four (4) units, to be purchased by a Mortgagor that will constitute the Mortgagor’s primary residence.

“Targeted Area” has the meaning set forth in Section 1 of this Program Guide.

“Tri-Merge Credit Report” is a credit report combining information from all three credit bureaus, Equifax, Experian, and TransUnion.

INDIANA HOUSING AND COMMUNITY DEVELOPMENT AUTHORITY

FIRST STEP FHA PROGRAM

EXECUTIVE SUMMARY

What a Participating Lender should know about a Mortgagor and their home:

1. Both IHCDA and the Participating Lender reserve their rights to request any additional documentation needed to make an accurate determination on any given file.
2. IHCDA cannot email, fax or mail any document, including any mortgage documents provided by the Participating Lender containing the Mortgagor's Social Security Number pursuant to I.C. 4-1-10 and certain other personally identifiable information.
3. Reservations for loans will only be taken Monday through Friday between the time the rates are set and published, which is generally 10:00 a.m. and 5:00 p.m. (EDT).
4. A rate sheet will appear in IHCDA Online when a Participating Lender reserves a loan.
5. All reservations must be for FHA thirty (30) year fixed rate mortgages.
6. All loans must be underwritten to and meet FHA, IHCDA and the Master Servicer guidelines.
7. IHCDA requires that each occupying Mortgagor complete Fannie Mae or Freddie Mac's Homebuyer Education Course. The course is not required to be loan type specific.
8. The Mortgagor(s) must be a first-time homebuyer unless purchasing in a designated Targeted Area or in certain situations concerning an Eligible Veteran.
9. A Mortgagor must not have had an ownership interest in his or her principal residence within the past three (3) years. This restriction is waived for a Mortgagor who purchase in targeted areas and when the Mortgagor is an Eligible Veteran.
10. The "CreditSmart" homeownership education online training is required by IHCDA for all Freddie Mac, Fannie Mae and Ginne Mae loans, which can be found at <https://sf.freddiemac.com/working-with-us/creditsmart/overview>
11. The "HomeView" homeownership education online training is required by IHCDA for all Freddie Mac, Fannie Mae and Ginnie Mae loans, which can be found at <https://www.fanniemae.com/education>.
12. Household size will be determined by the number of Mortgagor(s), along with dependents listed on the Uniform Residential Loan Application (URLA Form 1003) and any/all individuals expected to cohabitate in the residence.
13. The Mortgagor(s) must meet special income guidelines set forth in Section 2 of this Program Guide. Furthermore, income limits vary by county and are dependent on family size.
14. Household income will be determined for Mortgagor and Co-Mortgagor(s) only based off qualifying Gross Annual Income provided by the Participating Lender on the Uniform Residential Loan Application (URLA Form 1003) and the required supplement thereto, if any.
15. Participating Lender must disclose all forms of qualifying income for Mortgagor and Co-Mortgagor(s) on the Uniform Residential Loan Application (URLA Form 1003), including any required supplement, thereto and as described in Section 2 of this program guide.

16. The cost of purchasing the home must fall under the federally determined acquisition limits and such limits vary by county. The acquisition limits can be found [here](#).
17. The Subject Property must be a Single-Family Dwelling.
18. The Auxiliary Unit Affidavit is to be used when an in-law quarters or an additional living unit is included within the Subject Property.
19. The home must be used as the Mortgagor's principal residence.
20. If a Mortgagor is purchasing a property that he or she is renting or has rented previously, the Participating Lender must supply a current lease agreement, purchase agreement, appraisal and a thirty-six (36) month chain of title with the IHCDA Affidavit. If there is no current lease agreement, then a submission of a signed buyer/seller agreement encompassing all terms of the rental agreement is required. The buyer/seller agreement may be submitted in lieu of the lease agreement, from the time the buyer has occupied the rental. In addition, no amount of the rent paid can be applied towards the lowering of the purchase price and/or cannot be used towards the purchase of the property in any fashion; provided however, that the foregoing shall not prevent the financing of a land contract (as described herein).
21. An IHCDA Mortgage Rider is required.
22. Federal Recapture Tax may apply.
23. Mortgagor and Co-Mortgagor Federal tax transcripts are not required unless needed for further underwriting determination approval by IHCDA.
24. The purchase price of the property cannot exceed the fair market value (appraised value).
25. The Mortgagor(s) must have a minimum FICO credit score that meets the requirement set forth by IHCDA and/or the Master Servicer. Verification of current FICO credit scores, for FHA financing, must be verified with the Master Servicer.
26. The maximum debt to income ratio (DTI) must meet the requirements set forth by the Master Servicer. Verification of the current DTI, for FHA financing, must be verified with the Master Servicer.
27. DPA may be used for down payment assistance, closing costs, and pre-paid items.
28. The amount of DPA cannot exceed six percent (6%) of the lower of the purchase price or appraised value.
29. A Mortgagor may contribute additional cash resources for down payment and closing costs.
30. A Mortgagor using DPA funds is not eligible to receive any cash back at closing, except what can be documented as an investment made by the Mortgagor.
31. A Mortgagor using DPA funds will require a Second Mortgage and second promissory note.
32. The DPA funds will be funded directly by IHCDA once the loan has reached the stage of Committed "Approved". The Participating Lender is required to input the Title Insurance Company's ACH/routing information into IHCDA Online when the loan has reached the Committed "Approved" stage. The funds will be ACH/wired to the Title Company closing the loan. Please allow forty-eight (48) business hours for wire disbursements (one (1) day for disbursement and an additional day to verify funds being received by the Title Company). Wires are processed once, daily.

33. If the loan related to the First Mortgage does not close within three (3) business days of the original closing date, the Participating Lender must return the funds associated with the DPA loan secured by the Second Mortgage to IHCDA. In addition, if the Master Servicer is unable to purchase the loan related to the First Mortgage, the Participating Lender must return the funds associated with the DPA loan secured by the Second Mortgage to IHCDA within thirty (30) days after receiving notification from the Master Servicer that it is unable to purchase the loan.
34. The Participating Lender is not allowed to fund the DPA at the time of closing. A refund of the DPA from IHCDA to the Participating Lender is not allowed. If the Participating Lender funds the DPA, the loan is out of compliance and the Participating Lender must return the DPA funds provide by IHCDA to IHCDA, if sent, and the Participating Lender will be assigned the Second Mortgage and the loan will be terminated.
35. The First Mortgage may not be closed prior to the Committed “Approved” date shown in IHCDA Online. If there is a violation of the foregoing, the originating Participating Lender shall retain the First Mortgage. If the First Mortgage is not purchased by the Master Servicer or sub-servicer, for any reason, the originating Participating Lender shall retain the First Mortgage.
36. The maximum amount that can be charged on each loan as an origination fee is limited to one percent (1%) irrespective of the party that is providing funds to pay such origination fee. In addition, the maximum amount a lender may charge in lender fees will be limited to one thousand six hundred dollars (\$1,600), irrespective of the party that is providing funds to pay such origination fee.
37. If a Subject Property is sold or the loan secured by a First Mortgage related to a Subject Property is refinanced or foreclosed upon, the loan secured by the Second Mortgage is immediately due and payable in full unless the refinancing of such loan evidenced by a First Mortgage is refinanced through an existing or future IHCDA refinance program.
38. The reservation fee (the “Reservation Fee”) for reserving a loan through the Program is a flat fee of two hundred and fifty dollars \$(250.00).
39. A Co-signer or multiple Co-signers are allowed as long as GSE guidelines are met. IHCDA does not include Co-signer income in the calculation of total household income but will include the income of all Mortgagors including Co-Mortgagors. The Participating Lender should exclude the Co-signer’s information from the IHCDA affidavit that is being submitted to IHCDA.
40. IHCDA documentation can only be signed by the IHCDA Mortgagors.
41. Repair escrows are allowed (must follow guidelines issued by the Master Servicer).
42. An FHA case number must be assigned to each loan.
43. In accordance with FHA Mortgagee Letters 2004-04 and 2005-01 and US Department of Housing and Urban Development (HUD) 4000.1, FHA Single Family Housing Policy Handbook, Participating Lender must advise each Mortgagor of the importance of obtaining an independent home inspection for any home it plans to purchase.
44. Final Approval from IHCDA must occur by the Commitment Expiration Date which is sixty (60) days for all Subject Properties.
45. If there are any conflicts between the FHA guidelines and the Program guidelines, please contact IHCDA. IHCDA will also address all questions regarding tax compliance prior to the closing date. All other questions should be directed to the Master Servicer.

46. Any employee, agent, or associate of the Participating Lender caught forging or altering documentation or otherwise misrepresenting information will be suspended from this Program and all other IHCDA programs and the pertinent information will be turned over to the proper state and local authorities.
47. IHCDA strongly encourages Participating Lenders to print this program guide from <https://www.in.gov/ihcda/4117.htm>

**INDIANA HOUSING AND COMMUNITY DEVELOPMENT AUTHORITY
FIRST STEP FHA PROGRAM
GEOGRAPHIC ELIGIBILITY
SECTION 1**

Certain geographic areas in Indiana have been designated as “Targeted Areas”. Areas in the State not designated as Targeted Areas are referred to as “Non-Targeted Areas”.

1. Targeted Areas are either:
 - a. A Qualified Census Tract: seventy percent (70%) or more of the families have an income which is eighty percent (80%) or less of the statewide median family income. Targeted Areas also include census tracts within counties that themselves are not Targeted Areas. The property appraiser must note the qualifying census tract information on the appraisal for a property to be designated within a Targeted Area The Indiana Qualified Census Tract can be found [here](#).
 - b. An “Area of Chronic Economic Distress” as designated by the State and approved by the Secretary of the United States Department of Treasury and the Secretary of the United States Department of Housing and Urban Development. Each Area of Chronic Economic Distress in Indiana can be found [here](#).

2. Targeted Areas, as of the date of this Program Guide, include the following counties in the State of Indiana:

Brown	Clinton	Crawford	Daviess	Dearborn	Decatur
Fayette	Franklin	Fulton	Greene	Jackson	Jasper
Jefferson	Knox	Lawrence	Miami	Ohio	Orange
Owen	Parke	Perry	Pike	Rush	Scott
Shelby	Spencer	Vermillion	Vigo	Washington	Wayne

**INDIANA HOUSING AND COMMUNITY DEVELOPMENT AUTHORITY
FIRST STEP FHA PROGRAM
MORTGAGOR ELIGIBILITY
SECTION 2**

A Mortgagor applying for this Program must meet the following eligibility requirements:

1. Must be a first-time homebuyer:
 - a. A “First-Time Homebuyer” is someone who has not, at any time during the three (3) years preceding the date of the loan closing, had a present ownership interest in his or her principal residence. This requirement does not apply to all members of the household only to those persons executing the loan documents and intended to occupy the property. However, Mortgagors acquiring residences in Targeted Areas and Eligible Veterans are exempt from the First-Time Homebuyer requirement.
2. Hold an ownership interest:
 - a. An ownership interest includes:
 - i. A fee simple interest;
 - ii. A joint tenancy, a tenancy in common, or a tenancy by the entirety;
 - iii. The interest of a tenant shareholder in a cooperative;
 - iv. A life estate;
 - v. A land contract (i.e. a contract under which possession and the benefits and burdens of ownership are transferred although legal title is not transferred until some later time);
 - vi. An interest held in trust for the Mortgagor (whether or not created by the Mortgagor) that would constitute a present ownership interest if held directly by the Mortgagor;
or
 - vii. Ownership of a factory-made home permanently affixed to real property and taxed as real estate.
 - b. Interests that do not constitute ownership interest include:
 - i. A remainder interest;
 - ii. A lease;
 - iii. A mere expectancy to inherit an interest in a principal residence;
 - iv. The interest that a purchaser of a residence acquires upon the execution of a purchase contract;
 - v. An interest in other than a principal residence during the previous three (3) years; or
 - vi. Ownership of a factory-made home not permanently affixed to real property and taxed as

personal property.

3. Must be income eligible:

- a. Mortgagors applying for financing through the Program must meet income limits for the Program, which are based on the income limits of the county in which the residence to be purchased is located. The county-by-county income limits can be found [here](#).
- b. Income will be determined for Mortgagors using qualifying Gross Annual Income, provided on the Uniform Residential Loan Application (URLA Form 1003), as described below, and the required supplement thereto, if any. IHCD and/or the Participating Lender can request any additional information needed to make this determination.

NOTE: All sources of income shown below must be included on the URLA Form 1003, and the required supplement thereto, if any.

- c. Gross Annual Income includes gross wages and salaries from employment, including any part-time, seasonal, or sporadic income, shift differentials, overtime pay, commissions, fees, tips, and bonuses. Gross Annual Income also includes:
 - i. Child support, alimony and separate maintenance payments in which the mortgagor(s) is responsible of informing the lender if this income is received, which amounts must be disclosed on a supplement to the signed Uniform Residential Loan Application (URLA Form 1003);
 - ii. Periodic payments for trust, annuities, inheritances, insurance policies, pensions, retirement funds and lotteries;
 - iii. All public assistance payments (excluding Medicaid and food stamps) including any amount by which educational grants, scholarships, and/or Veteran Administration educational benefits exceed expenses for tuition, fees, books, and equipment and reasonable rent and utility costs for a student living away from home;
 - iv. Interest and dividends;
 - v. Payments in lieu of earnings, including social security, unemployment benefits, worker's compensation, severance pay, disability or death benefits;
 - vi. Income from partnerships;
 - vii. Rental income from property owned;
 - viii. Recurring monetary contributions or gifts regularly received from a person not living in the residence; and
 - ix. All regular pay, special pay, and allowances of a member of the Armed Forces except special pay to a family member serving in the Armed Forces who is

exposed to hostile fire.

4. Must have a sufficient residency status under the GSE guidelines, as applicable:
 - a. The Participating Lender is required to determine the Mortgagor's residency status, in accordance with Ginnie Mae guidelines (as applicable) or the Master Servicer's guidelines.

**INDIANA HOUSING AND COMMUNITY DEVELOPMENT AUTHORITY
FIRST STEP FHA PROGRAM
SUBJECT PROPERTY ELIGIBILITY
SECTION 3**

The Subject Property must meet the following eligibility requirements:

1. Types of Properties allowed:
 - a. Property standards are determined by the type of financing the Mortgagor is using.
 - b. The proceeds of the loans must be used to acquire the principal residence of the Mortgagor.
 - c. The residence must meet the following requirements:
 - i. The property must be located in the State of Indiana.
 - ii. The property must be maintained as owner occupied for the life of the loan.
 - d. The property must be:
 - i. A Single-Family Dwelling that is a Subject Property; or
 - ii. A condominium must be in accordance with Fannie Mae, Ginnie Mae or the Master Servicer's guidelines; or
 - iii. A townhome following the specific product guide; or
 - iv. A planned unit development; or
 - v. A manufactured home permanently affixed to a permanent foundation.
2. Acquisition Cost:
 - a. The "Acquisition Cost" of the residence must not exceed the applicable Program acquisition cost limits. The acquisition cost limits can be found [here](#). The term "Acquisition Cost" means the cost of acquiring a residence from the seller(s) as a completed residential unit. The Acquisition Cost includes:
 - i. All amounts paid, either in cash or in kind, by the Mortgagor (or a related party for the benefit of the Mortgagor) to the seller(s) (or a related party of the seller(s)) as consideration for the residence;
 - ii. If the residence is incomplete, the reasonable cost of completing the residence whether or not financed by a loan pursuant to this Program. For example, if the residence is in need of repair and the repairs are necessary to make the residence habitable, to meet local building codes, or to meet Program requirements, the reasonable cost of making the repairs whether or not financed by a loan pursuant to this Program;

- iii. Settlement and financing costs in excess of amounts which are usual and reasonable (e.g. points paid by the Mortgagor for the purpose of “buying down” the interest rate);
- iv. Property taxes, if not prorated between ownership by Mortgagor and seller (e.g., Mortgagor pays next installment due); and
- v. The cost of the land, or if a gift, the appraised value, is to be added to the Acquisition Cost if the Mortgagor has owned the land for less than two (2) years prior to construction of residence.

b. Acquisition cost does not include:

i. Usual and reasonable settlement and financing costs including:

- 1. Title and transfer costs;
- 2. Title insurance;
- 3. Survey fees and other similar costs;
- 4. Credit reference fees;
- 5. Legal fees;
- 6. Appraisal expenses;
- 7. Usual and reasonable financing points paid by the Mortgagor;
- 8. Structural and systems or pest inspections; and
- 9. Other related costs of financing the residence.

ii. Land owned by the Mortgagor for more than two (2) years prior to construction.

iii. The imputed value of “sweat equity” performed by the Mortgagor or members of the Mortgagor’s immediate family.

3. Additional Eligibility Requirements:

a. No more than ten percent (10%) of the total area of the residence can reasonably be used as:

- i. The principal place of business for, or connected with, any trade or business on an exclusive or regular basis; or
- ii. A place where inventory is held for use in the trade or business of the selling of products at wholesale or retail, unless the residence is the sole fixed location of such trade or business; or

- iii. A place used on a regular basis in a trade or business.
- b. A residence used as an investment property, rental property or a recreational home would not qualify as a principal residence.
- c. All FHA appraisals must be conducted by a licensed appraiser in accordance with the US Department of Housing and Urban Development (HUD) 4000.1, FHA Single Family Housing Policy Handbook.

**INDIANA HOUSING AND COMMUNITY DEVELOPMENT AUTHORITY
FIRST STEP FHA PROGRAM
MORTGAGE FINANCING ELIGIBILITY
SECTION 4**

1. Mortgage Financing Eligibility:

a. The proceeds of the loans secured under the Program must be used to acquire the principal residence of the Mortgagor. The mortgage financing must meet the following requirements:

i. IHCDCA cannot finance the following:

1. Acquisition of personal property;
2. Land not appurtenant to the residence;
3. Land appurtenant to the residence, but not necessary to maintain the basic livability of the residence or which provides, other than incidentally, a source of income to the Mortgagor;
4. Land which is greater than 1 acre will be presumed to be in excess of what is necessary to maintain the basic livability of the residence and will require specific findings by the surveyor and/or appraiser to rebut such presumption;
5. Settlement and financing costs that are in excess of that considered usual and reasonable;
6. Land identified as buildable;
7. Land that could be used as a source of income.

ii. IHCDCA funds under this Program cannot refinance an existing loan or replace existing financing on the property. A loan made under this Program may be refinanced through a current or future IHCDCA loan refinance program.

iii. Land sale contracts and leases with the option to purchase will be considered existing financing, regardless of whether or not they have been recorded.

iv. No assumptions will be allowed on any IHCDCA loans.

v. None of the interest of the FHA mortgage loan underwritten pursuant to the Program can be paid to a member of the Mortgagor's immediate family.

2. Notes regarding Mortgage Financing:

a. The Participating Lender should remember to ensure that the Mortgagor qualifies for the Program before beginning the financing process.

**INDIANA HOUSING AND COMMUNITY DEVELOPMENT AUTHORITY
FIRST STEP FHA PROGRAM
THE FEDERAL RECAPTURE TAX
SECTION 5**

Congress enacted legislation in 1988, subsequently amended in October 1990, to recapture, under certain circumstances, some or the entire subsidy from homebuyers who receive qualified mortgage bond assistance after January 1, 1991 (the “Federal Recapture Tax”). THE FOLLOWING DOES NOT CONSTITUTE TAX OR LEGAL ADVICE AND EACH MORTGAGOR IS ADVISED TO CONSULT WITH A TAX SPECIALIST TO DETERMINE WHETHER HE OR SHE IS RESPONSIBLE FOR PAYING THE FEDERAL RECAPTURE TAX.

The law mandates a “recapture” of some of the benefit of the program if a Mortgagor meets all three (3) of the following criteria: (1) the property ceases to be the principal residence in the first full nine (9) years after the date that the mortgage loan is closed; (2) there is a profit on the sale of the home, and (3) the household income is more than that year’s adjusted qualifying income for Mortgagor’s family size that year.

If Federal Recapture Tax is owed, it is computed and paid to the IRS for the tax year in which the Subject Property is sold. If Federal Recapture Tax must be repaid, it will never exceed the lesser of 6.25% of the original loan amount or one-half (1/2) of the gain on the sale of the home.

When a Mortgagor sells his or her home is as important as the amount a Mortgagor receives for the sale of his or her home and his or her income at the time of the sale. The actual Federal Recapture Tax, if any, can only be determined when the Mortgagor sells his or her home.

Remember:

- If a Mortgagor sells his or her home after nine (9) years from the date of purchasing it, there is no Federal Recapture Tax due;
- If he or she does not receive a gain (net profit) on the sale of his or her home, there is no Federal Recapture Tax due, or
- If the household income is not more than that year’s adjusted qualifying income for Mortgagor’s family size that year, there is no Federal Recapture Tax due.

A Mortgagor is not subject to the Federal Recapture Tax if:

- The Subject Property is disposed of by reason of death.
- A Mortgagor transfers his or her home to his or her spouse or his or her former spouse incident to a divorce and a Mortgagor has no gain or loss included in his or her income as a result of the transfer.
- A Mortgagor refinances his or her home (unless Mortgagor later meets the recapture rules).
- Mortgagor’s home is destroyed by fire, storm, flood or other casualty if home is replaced on its original site within two (2) years after the end of the tax year when the casualty happened.

However, if a Mortgagor transfers a Subject Property less than fair market value (other than incident to a divorce), Federal Recapture Tax amounts may need to be calculated as if the home was sold at fair market value at the time of disposition.

Income Increase:

If a Mortgagor sold his or her home and made a net profit, then a Mortgagor may have to pay Federal Recapture Tax, depending on whether his or her income has increased above the maximum allowable amount. Within ninety (90) days from the date of the Final Approval, IHCDA will send to each Mortgagor

a *Notice to Mortgagor of Maximum Recapture Tax and of Method to Compute Recapture Tax on Disposition of Home*. A sample of this notice is included on the following pages. Mortgagor should keep this notice for future reference in calculating the Federal Recapture Tax.

How much do I owe?

The amount a Mortgagor owes will be the lesser of fifty percent (50%) of the gain realized from the sale of his or her home OR the amount resulting from a calculation that uses:

- The income percentage (consider the amount by which his or her income exceeds the limit in the year that a Mortgagor sells. If the amount is \$5,000.00 or more, then his or her income percentage is one hundred percent (100%). If less than \$5,000.00 then divide the amount by which his or her income exceeds the limit by \$5,000.00 and round to the nearest whole percentage.)
- The maximum Federal Recapture Tax or federally subsidized amount (this is .0625 x the highest principal amount of his or her loan).
- The holding period percentage as shown on the chart below:

Disposition Within # Months of Closing	Holding Period Percentage
1 - 12	20%
13 - 24	40%
25 - 36	60%
37 - 48	80%
49 - 60	100%
61 - 72	80%
73 - 84	60%
85 - 96	40%
97 - 108	20%
109 or More	No Recapture Tax

Again, a Mortgagor should consult with a tax advisor to determine whether he or she owes Federal Recapture Tax.

For more information, contact the IRS and request Form 8828 and the instructions for Form 8828 (both available on the IRS Website: <http://www.irs.gov>).

SAMPLE LETTER

**INDIANA HOUSING AND COMMUNITY DEVELOPMENT AUTHORITY
30 SOUTH MERIDIAN STREET, SUITE 900
INDIANAPOLIS, INDIANA 46204-3413**

April 01, 2023

Series:	First Step FHA Program
Orig :	(Code) Bank Name (Code)
SF #:	Number
Loan Amount:	\$00,000.00
Term:	xx Months
Property:	Street Address
City/Zip:	City, zip
County:	County name
Reserv/Apl Date:	00-00-00
Commitment Date:	00-00-00
Closing Date:	00-00-00
Loan Purchase:	00-00-00

Notice to Mortgagor(s) of Maximum Recapture Tax and of Method to Compute Recapture on Dispositions of Home

In accordance with Section 143 (m) of the Internal Revenue Code, the maximum Federal Recapture Tax that you may be required to pay upon disposition of this property is \$XXXX.XX. This amount is the lesser of (a) 6.25% of the highest principal amount of the above-referenced mortgage loan or (b) 50% of the gain on sale of the Subject Property, and is your federally subsidized indebtedness with respect to the loan.

Below numbers are examples only

Disposition Within Months of Closing	Holding Period Percentage	Adjusted Qualifying Income On date of Disposition, for Family Size	
		2 or Less	3 or More
1 - 12	20%	enter adjusted qualifying income	
13 - 24	40%		
25 - 36	60%		
37 - 48	80%		
49 - 60	100%		
61 - 72	80%		
73 - 84	60%		
85 - 96	40%		
97 - 108	20%		
109 or More	No Recapture Tax		

Introduction

- General.** When you sell your home you may have to pay a Federal Recapture Tax as calculated below. The Federal Recapture Tax may also apply if you dispose of your home in some other way. Any reference in this notice to the “sale” of your home also includes other ways of disposing of your home.

2. **Exceptions.** In the following situations, no recapture tax is due:
 - a. You dispose of your home later than nine (9) years after you close your mortgage loan;
 - b. Your home is disposed of as a result of your death;
 - c. You transfer your home either to your spouse or to your former spouse incident to divorce and you have no gain or loss included in your income under Section 1041 of the Internal Revenue Code; or
 - d. You dispose of your home at a loss.
3. **Maximum Recapture Tax.** The maximum recapture tax amount is the lesser of (a) 6.25% of the highest principal amount of your mortgage loan which is the federally-subsidized amount with respect to the indebtedness or (b) 50% of the gain on the sale of the residence.
4. **Actual Recapture Tax.** The actual recapture tax, if any, can only be determined when you sell your home, and is the lesser of (1) fifty (50%) of your gain on the sale of your home, regardless of whether you have to include that gain in your income for federal income tax purposes, or (2) your Recapture Amount determined by multiplying the following three (3) numbers:
 - a. The federally-subsidized amount with respect to the indebtedness;
 - b. The holding period percentage, as listed in Column one (1) in the table; and
 - c. The income percentage, as described in Paragraph five (5) below.
5. **Income Percentage.** You calculate the income percentage as follows:
 - a. Subtract the applicable adjusted qualifying income in the taxable year in which you sell your home, as listed in column two (2) of the table on page one (1) of this letter, from your modified adjusted gross income in the taxable year in which you sell your home.
 - b. Your modified adjusted gross income means your adjusted gross income shown on your federal income tax return for the taxable year in which you sell your home, with the following two adjustments:
 - i. Your adjusted gross income must be increased by the amount of any interest that you receive or acquire in the taxable year from tax-exempt bonds that is excluded from your gross income (under Section 103 of the Internal Revenue Code); and
 - ii. (b) your adjusted gross income must be decreased by the amount of any gain included in your gross income by the reason of the sale of your home.
 - c. If the amount calculated in (a) above is zero (0) or less, you owe no Federal Recapture Tax and do not need to make any more calculations. If the amount calculated in (a) above is \$5000.00 or more, your income percentage is one hundred percent (100%). If it is greater than zero (0) but less than \$5000.00, it must be divided by \$5000.00. This fraction, expressed as a percentage, represents your income percentage. For example, if the fraction is \$1000.00/\$5000.00, your income percentage is twenty percent (20%).

6. Limitations and Special Rules on Recapture Tax

- a. If you give away your home (other than to your spouse or ex-spouse incident to divorce), you must determine your actual recapture tax as if you had sold your home for its fair market value.
- b. If your home is destroyed by fire, storm, flood, or other casualty, there generally is no recapture tax if, within two (2) years, you purchase additional property for use as your principal residence or construct a new home on the site of the home financed with your original subsidized mortgage loan.
- c. In general, except as provided in future regulations, if two (2) or more persons own a home and are jointly liable for the subsidized mortgage loan, the actual recapture tax is determined separately for each individual based on each individual's interests in the home.
- d. If you repay your loan in full during the nine (9) year recapture period and you sell your home during this period, your holding period percentage may be reduced under the special rule in Section 143(m)(4)(c)(ii) of the Internal Revenue Code.
- e. Other special rules may apply in particular circumstances. You may wish to consult with a tax advisor or the local office of the Internal Revenue Service when you sell or otherwise dispose of your home to determine the amount, if any, of your actual recapture tax. See Section 143(m) of the Internal Revenue Code generally.

Sincerely,

Authorized Officer

**INDIANA HOUSING AND COMMUNITY DEVELOPMENT AUTHORITY
FIRST STEP FHA PROGRAM
INTEREST RATE CHANGES
SECTION 6**

1. Interest Rate Change:
 - a. The interest rate may change throughout the day, based on fluctuations in the market interest rate.

2. Notification of Rate Change:
 - a. A rate sheet will appear in IHCDA Online when the Participating Lender accesses IHCDA Online to reserve a loan.
 - b. The Participating Lender should refer to the reservation confirmation prior to submitting the IHCDA Affidavit to confirm the correct interest rate for the loan.
 - c. It is the Participating Lender's responsibility to check IHCDA Online to determine the current interest rate prior to applying for a loan on behalf of a Mortgagor.
 - d. If you're unable to access IHCDA Online, contact your internal system administrator.

3. Relock may be required in certain instances where more than a reasonable amount of time has lapsed since initial rate lock.

**INDIANA HOUSING AND COMMUNITY DEVELOPMENT AUTHORITY
FIRST STEP FHA PROGRAM
FEE SCHEDULE
SECTION 7**

The following are the fees associated with this Program:

1. Reservation Fees:
 - a. Flat non-refundable Reservation Fee.
 - b. The Reservation Fee must be received prior to IHCDA reviewing the loan for approval.
 - c. IHCDA offers a reservation portal where the Mortgagor is to pay the non-refundable Reservation Fee. The portal can be found [here](#).
 - d. The Participating Lender may ACH wire the Reservation Fee to IHCDA. IHCDA will forward the ACH wire information to the Participating Lender once IHCDA receives and approves a signed MOSA. The Participating Lender may submit as many Reservation Fees per ACH wire as the Participating Lender desires.
 - e. The Participating Lender must provide the IHCDA reservation number as an identifier for each ACH Reservation Fee submitted. The Participating Lender must have a reservation number from the IHCDA Online before submitting fees.
 - f. IHCDA does not accept cash, coins or personal checks from the Mortgagor.
2. Reinstatement Fees:
 - a. A reinstatement fee will be assessed on a case-by-case basis at the discretion of IHCDA for any pre- or post-closing modification resulting from a modification caused by the Participating Lender or Mortgagor at the sole determination of IHCDA.
 - b. The minimum reinstatement fee is five hundred dollars (\$500).
 - c. Such reinstatement fee may be assessed by reducing any amount owed to the Participating Lender from IHCDA or the Master Servicer.
3. Extension Fees:
 - a. Commitment Extension:

i. 15 days	.12500%
ii. 30 days	.25000%
4. Reinstatement fees cannot be passed on to any other parties. Extension fees can be paid by any party and are non-refundable.
5. The Participating Lender shall be compensated one and three quarters percent (1.75%) of the mortgage amount, which is payable upon the sale of the loan to the Master Servicer.

6. Origination Fees and Allowable Participating Lender Fees:

- a. The maximum amount that can be charged on each loan with respect to Origination fees will be limited to one percent (1%) irrespective of the party that is providing funds to pay such origination fee.
- b. The maximum amount a lender may charge in lender fees will be limited to sixteen hundred dollars (\$1,600), irrespective of the party that is providing funds to pay such lender fee.

**INDIANA HOUSING AND COMMUNITY DEVELOPMENT AUTHORITY
FIRST STEP FHA PROGRAM
RESERVATION PROCEDURES
SECTION 8**

1. Preliminary Eligibility Review
 - a. Before making a reservation request for a loan to be acquired pursuant to this Program, the Participating Lender is required to:
 - i. Receive a fully executed Purchase Agreement;
 - ii. Receive a fully executed Appraisal Report;
 - iii. Determine whether the home is located in a Qualified Census Tract (refer to Section 1, of this Program Guide);
 - iv. Determine that the Mortgagor meets all other Program eligibility requirements; and
 - v. Determine that the Subject Property meets all Program eligibility requirements.
 - b. The Participating Lender cannot reserve a loan that it cannot close in its own name.
 - c. The Mortgagor cannot execute IHCDA documents without an IHCDA reservation number.
2. Reservation Request
 - a. The Participating Lender must make reservation requests using the IHCDA Online. All reservations will be accepted on a first-come, first-served basis and are always subject to availability of funds. IHCDA Online will confirm the reservation number immediately.
3. Modifications
 - a. A Participating Lender must request any change to a Mortgagor's reservation, subject to the following conditions:
 - i. Increases in Mortgage Amount
 1. Requests for increases in loan amounts will be subject to the availability of funds. Participating Lenders should include the purchase price and loan amount (original and revised) via email.
 - ii. Change of Address
 1. The Participating Lender should contact the IHCDA Homeownership Department, and the appropriate changes will be made at that time. In this case the commitment expiration date will start over. If the file has already been underwritten by IHCDA the Participating Lender will need to contact the appropriate IHCDA Homeownership Department underwriter.

4. Transfer of Reservation (Mortgagor)

- a. IHEDA will not allow the transfer of a reservation from one Mortgagor to another Mortgagor.

5. Transfer of Reservation (Participating Lender)

- a. IHEDA will allow a transfer of a reservation from one Participating Lender to another.
 - i. The original Participating Lender must submit an e-mail stating that the reservation and the Reservation Fees are to be transferred to the new Participating Lender.
 - ii. The new Lender must be a Participating Lender with the Program and submit an e-mail requesting an exception code to re-reserve a new loan.
 - iii. The original reservation will be canceled allowing the new Participating Lender to reserve the loan.
 - iv. The Mortgagor will receive the current interest rate for the day when the new reservation is locked.
 - v. The Reservation Fee will be transferred to the new reservation number, if applicable.
 - vi. The new Participating Lender must upload an IHEDA Affidavit to IHEDA for review.
 - vii. The new Participating Lender cannot close the loan without receiving approval from IHEDA with the new Participating Lender's name specified on the documents.

6. Cancellation of a Reservation

- a. If the Participating Lender determines that it will not close a loan for which it has received a reservation number, the Participating Lender should notify the IHEDA Homeownership Department as soon as possible.

**INDIANA HOUSING AND COMMUNITY DEVELOPMENT AUTHORITY
FIRST STEP FHA PROGRAM
PRE-APPROVAL UPLOAD
SECTION 9**

Participating Lenders are encouraged to pre-qualify Mortgagors for credit eligibility prior to reservation.

1. Submission

- a. The Participating Lender is responsible for performing a thorough inquiry to determine whether both the Mortgagor and the Subject Property meet Program requirements.
- b. To obtain preliminary approval needed to close the loan:
 - i. The non-forgivable Reservation Fee must be received by IHCDA;
 - ii. IHCDA's documents cannot be dated prior to the date of the reservation;
 - iii. The following documentation uploaded and approved:
 1. IHCDA Homeownership Affidavit, signed and dated
 2. Appraisal
 3. 2nd Mortgage Loan Estimate (LE), signed and dated
 4. Initial 1003
 5. Tri-Merge Credit Report
 6. The homebuyer education certificate of completion:
 - a. "HomeView" certificate for Fannie Mae, Freddie Mac, or Ginne Mae loans.
 - b. "CreditSmart" certificate for Freddie Mac loans, Fannie Mae, or Ginne Mae loans.

2. Pre-Approval Upload (Approval)

- a. All files will be reviewed in the order that they are received, and the reservation fees have been applied.
- b. IHCDA will underwrite all files within a reasonable amount of time from the date that the file is uploaded into IHCDA Online. Participating Lenders are encouraged to check IHCDA Online regularly for the status of the mortgage application.
- c. When IHCDA determines that all required documentation is complete, signed, and in compliance with Program requirements, IHCDA will change the status to reflect Closing Upload in IHCDA Online.

- d. IHCD Online will show a date that the loan expires, which is known as the Commitment Expiration Date, (sixty (60) days after the date of reservation on all properties).
 - e. The Participating Lender must have sold the mortgage of the Subject Property to the Master Servicer and purchased by IHCD Online on or before the Commitment Expiration Date, as shown in IHCD Online.
3. Pre-Approval Upload (Incomplete)
- a. If IHCD Online needs additional information, if the Reservation Fee is unpaid or if any of the required documentation is otherwise incomplete, the status will show "Incomplete" in IHCD Online.
 - b. The Participating Lender is responsible for reviewing any open items and uploading documentation to resolve such issues causing the "Incomplete" status in IHCD Online.
 - c. The Participating Lender must ensure that document box in IHCD Online is properly checked.
 - d. IHCD Online will review the application conditions within a reasonable amount of time from the date the application conditions are uploaded.

**INDIANA HOUSING AND COMMUNITY DEVELOPMENT AUTHORITY
FIRST STEP FHA PROGRAM
DOWN PAYMENT ASSISTANCE
SECTION 10**

1. Second Mortgage

- a. The Program offer DPA in the form of a loan secured by a Second Mortgage to certain qualified Mortgagors (the “Second Mortgage”).
- b. The Program offers DPA to certain qualified Mortgagors not to exceed six percent (6%) of the lower of the purchase price or the appraised value.
- c. If the Mortgagor(s) terminates the First Mortgage, the Second Mortgage is due and payable in full immediately.
- d. IHCDA must provide the funds to make the DPA loan secured by the Second Mortgage.
- e. The funds may be used for down payment, closing costs and pre-paid items.
- f. The DPA is governed by the IHCDA Second Mortgage and the IHCDA Second Mortgage Promissory Note.
- g. Neither the First nor the Second Mortgages may be closed prior to the Committed Approval Date shown in IHCDA Online. If there is a violation of the foregoing, the originating Participating Lender shall retain the First and Second Mortgages. If the first mortgage is not purchased by the Master Servicer or sub-servicer, for any reason, the originating Participating Lender shall retain the First Mortgage and Second Mortgage. The Participating Lender will also be required to reimburse IHCDA the full amount of the second mortgage and any associated expense within thirty (30) days of termination.

2. Second Mortgage Execution Information

- a. The Second Mortgage is due upon maturity. Maturity is defined as the first to occur of the following occurrences:
 - i. If Mortgagor does not continue to utilize the property as its principal residence throughout the full thirty (30) years set forth by the First Mortgage and the IHCDA Mortgage Rider;
 - ii. If Mortgagor sells or refinances the property (other than a refinancing using a current or future IHCDA program) during the full thirty (30) years set forth by the First Mortgage;
 - iii. If the Mortgagor violates any other terms and conditions contained in the second note, the Second Mortgage, or any other agreement made between IHCDA and Mortgagor related to the loan;
 - iv. If Mortgagor is in default under the terms of its first mortgage on the property and foreclosure proceedings have been initiated during the thirty (30) years set forth by the First Mortgage;

- v. There is no proration associated with and IHCD A DPA loan;
 - vi. If it becomes evident to IHCD A that any representation or warranty made by the Mortgagor at the time it applied for the loan was false, misleading, or fraudulent.
- b. The Participating Lender or Mortgagor must contact the Master Servicer at 1-800-365-7772 directly in the case of a payoff on the First Mortgage and the Second Mortgage.
 - c. Forgiveness, if any, of the debt secured by the Second Mortgage is covered in the promissory note related to the Second Mortgage loan.
 - d. IHCD A will not allow the Second Mortgage to be subordinated at any time to any claim except to the original First Mortgage or any First Mortgage delivered in conjunction with a refinancing of the original First Mortgage pursuant to a current or future IHCD A refinance program.
 - i. The Participating Lender is expected to explain this to the Mortgagor.

3. Requesting DPA Funds

- a. The DPA will be funded directly by IHCD A once the loan has reached the stage of Committed "Approved". The Participating Lender is required to input the Title Insurance Company's ACH/routing information into IHCD A Online when the loan has reached the Committed "Approved" stage. The funds will be ACH/wired to the Title Company closing the loan. Please allow forty-eight (48) business hours for wire disbursements (one (1) day for disbursement and an additional day to verify funds being received by the Title Company). Wires are processed once a day.
- b. The Participating Lender is not allowed to fund the DPA at the time of closing. A refund of the DPA from IHCD A to the Participating Lender is not allowed. If the Participating Lender funds the DPA, the loan is out of compliance and the Participating Lender must return the DPA funds IHCD A has provided, if sent.
- c. If the loan evidenced by the First Mortgage does not close within three (3) business days of the original closing date, the Participating Lender must return the funds associated with the DPA loan to IHCD A. In addition, if the Master Servicer is unable to purchase the First Mortgage, the Participating Lender must return the funds associated with the Second Mortgage to IHCD A within thirty (30) days after receiving notification from the Master Servicer that it is unable to purchase the loan.

4. Intermediary Disbursements

- a. The IHCD A Online System is not set up to enter more than one (1) financial institution. If there is an intermediary bank involved, please contact the IHCD A Homeownership Department.

INDIANA HOUSING AND COMMUNITY DEVELOPMENT AUTHORITY
FIRST STEP FHA PROGRAM
CLOSING PACKAGE UPLOAD

SECTION 11

Participating Lenders are encouraged to review all documentation prior to uploading into IHCD Online.

1. Due Date

- a. After closing the loan secured by the First Mortgage, the Participating Lender shall forward to IHCD the executed closing package which must be received by IHCD within 30 days of closing. The “Commitment Expiration Date” is sixty (60) days after the date of reservation on all properties. Extensions may be granted. Contact IHCD for extension requests.

2. Submission

- a. After the loan closing, the Participating Lender shall upload the executed closing package, which consists of the following:
 - i. Final Loan Originator Signed 1003
 - ii. Final Signed IHCD Informational Statement
 - iii. Final Signed Note
 - iv. Final Signed IHCD Second Mortgage
 - v. Final Signed IHCD Promissory Note
 - vi. Final Signed IHCD Gift Letter
 - vii. Final Signed IHCD Mortgage Rider
 - viii. Final AUS Findings
 - ix. Signed Closing Disclosure, First Mortgage
 - x. Signed Closing Disclosure, Second Mortgage
- b. IHCD documents cannot be dated prior to the date of closing.
- c. The Uniform Residential Loan Application (URLA Form 1003) can be dated prior to the date of the purchase agreement.
- d. E-signatures are not permitted on IHCD produced documents.

3. Closing Package Submission (Approval)

- a. All files will be reviewed in the order that they are received.

- b. IHCDA will underwrite all files within a reasonable amount of time from the date that the file is received.
 - c. Participating Lenders are required to check IHCDA Online regularly for the status of any submitted closing packages.
 - d. When IHCDA determines that the closing package is complete and in compliance with Program requirements, IHCDA will change the status to reflect Closing Package Review “Approved” in IHCDA Online.
 - e. IHCDA Online will show a date that the loan expires, which is known as the Commitment Expiration Date (sixty (60) days after the date of reservation on any Subject Property).
 - f. The Participating Lender must have sold the First Mortgage of the Subject Property to the Master Servicer and purchased by IHCDA on or before the Commitment Expiration Date, as shown in IHCDA Online.
4. Closing Package Upload (Incomplete)
- a. If IHCDA needs additional information or if there are incomplete documents, the status will be considered “incomplete” and show as such in IHCDA Online.
 - b. The Participating Lender is to ensure that document box in IHCDA Online is properly checked.
 - c. IHCDA will review the closing conditions within a reasonable amount of time from the date the conditions are uploaded into IHCDA Online.

**INDIANA HOUSING AND COMMUNITY DEVELOPMENT AUTHORITY
FIRST STEP FHA PROGRAM
CANCELLED/REJECTED/TERMINATED FILES
SECTION 12**

1. Cancellation

- a. If the Participating Lender fails to receive final approval from IHCDA by the Commitment Expiration Date (sixty (60) days for all subject properties), IHCDA reserves the right to terminate the reservation. If the reservation is terminated by IHCDA, the Participating Lender may request reinstatement of the reservation. Reinstatements will be approved at IHCDA's sole discretion, and subject to the availability of funds. The Participating Lender has thirty (30) days to reinstate the reservation.

2. Denied Reservation

- a. IHCDA may post a "Rejected" status in IHCDA Online if the information included indicates that either the Mortgagor or the property or both do not meet Program requirements. IHCDA will terminate rejected loans thirty (30) days after the date it is given a "Rejected" status in IHCDA Online. Any funds previously allocated to the property shall be made available for other loan applications.

3. Permanent Termination Policy

- a. Once a reservation shows a status of "Terminated" in IHCDA Online, a Participating Lender cannot reinstate the loan. The decision concerning whether or not a permanently terminated loan can be reinstated will be based on the following factors: the availability of funds, IHCDA's receipt of all outstanding conditions, IHCDA's receipt of the Reinstatement fee, IHCDA's receipt of the Reservation fee and IHCDA's sole discretion.