IHCDA HOMEOWNERSHIP

PROGRAM GUIDE

ihcda

Homebuyer

down payment assistance programs

EQUAL HOUSING OPPORTUNITY

IHCDA appreciates your interest in the Homeownership Programs we offer. The following pages will assist you in originating IHCDA mortgage loan programs. IHCDA has been serving the homebuyers in the State of Indiana since 1978 and looks forward to continuing in an ever-changing environment.

If you are not yet an IHCDA approved lender and wish to apply, please send an email requesting information to mosa@ihcda.in.gov. If you are already an approved IHCDA participating lender, please remember that a new Mortgage Origination and Sale Agreement (MOSA) is required annually and along with the annual MOSA fee. For more information on the annual MOSA renewal, please send an email to mosa@ihcda.in.gov.

The guidelines contained herein are subject to change without notice. If there are no stated IHCDA overlays/guidelines, participating lenders should follow Agency (FHA, FHLMC, FNMA) and Master Servicer guidelines. Please mindful of regular posted notices in DMS Online and IHCDA Homeownership Bulletins that can be found in the Bulletins tab in Authority DMS.

Should you need clarification or should questions arise regarding information in this program guide, please email the Homeownership Department's general email address at homeownership@ihcda.in.gov.

If your application is under review and has been assigned to an Underwriter, please contact the underwriter directly with any questions you may have.

You can reach a qualified homeownership staff member by emailing homeownership@ihcda.in.gov.

U.S. Bank HFA Division acts as the Master Servicer for IHCDA's Homeownership Department and can be reached at either 800-562-5165, option 1 or hfa.programs@usbank.com.

Thank you for partnering with IHCDA and offering IHCDA Homeownership programs.

Indiana Housing and Community Development Authority
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Indiana Housing and Community Development Authority
Homeownership Programs
Preamble

The Indiana Housing and Community Development Authority (IHCDA) Homeownership Department (HOD) offers mortgage programs to assist individuals who are wanting to purchase a home in one of Indiana's 92 counties.

IHCDA Homeownership Programs

The IHCDA Homeownership Department (HOD) offers a variety of mortgage programs to first-time and repeat homebuyers. All HOD programs are subject to income and acquisition limits, which can be located at this **link**. Furthermore, HOD programs are available statewide in all 92 Indiana counties.

Currently, the following HOD programs are available (program availability is subject to change without notice):

1. **First Step Program (Bond Funding)**– this program is for first-time home buyers; unless the subject property is in a HUD designated target census tract, or an applicant has verifiable military status. The program provides five percent (5%) of non-forgivable down payment assistance (DPA) using FHA, FHLMC, FNMA 30-year fixed rate financing. The amount of DPA received is based on the property purchase price The DPA is being offered by a non-forgivable second mortgage with IHCDA holding title as evidence. Upon termination of the first mortgage or the property no longer being used as a primary residence, the full amount of DPA must be repaid in full. Additionally, the mortgagor is subject to IRS recapture tax if the required thresholds are not met.

2. **Step Down Program (Bond Funding)**– this program is for first-time home buyers; unless the subject property is in a HUD designated target census tract, or an applicant has verifiable military status. The program provides an affordable interest rate using FHA, FHLMC, FNMA 30-year fixed rate financing. Additionally, the mortgagor is subject to IRS recapture tax if the required thresholds are not met.

3. **Next Home Program (TBA Funding)** – this program is for first-time and repeat home buyers that provides up to three and one half percent (3.50%) non-forgivable down payment assistance (DPA) using FHA, FHLMC, FNMA 30-year fixed rate financing. The amount of DPA received is based on the percentage of the property purchase price or appraised value, whichever is less. The DPA is being offered by a non-forgivable second mortgage with IHCDA holding title as evidence. Upon termination of the first mortgage or the property no longer being used as a primary residence, the full amount of DPA must be repaid in full. **Property eligibility exception reviews available for this product on a case-by-case basis.*

4. **Next Step Program (Bond Funding)**– this program is specifically for individuals who are currently participating in either the First Place (ended 12/31/2023), First Step, or the Step Down program and would like to refinance their first mortgage being held by IHCDA. The program provides an affordable interest rate using FHA, FHLMC, FNMA 30-year fixed financing. If the mortgagor currently has either a First Place Program mortgage or a Step Down Program mortgagor with IHCDA, the mortgagor can apply for a new DPA second mortgage matching their current IHCDA lien amount. The DPA is being offered by IHCDA as a non-forgivable second mortgage with IHCDA holding title as evidence. Upon termination of the first mortgage or the property no longer being used as a primary residence, the full amount of DPA must be repaid in full.

The IHCDA Program Matrix can be found here.

IHCDA Employee loans

Employees of IHCDA are eligible for IHCDA mortgage programs. To prevent any appearance of impropriety, IHCDA must be notified prior to any mortgage loan being reserved for an IHCDA employee prior to reservation.

Basic Steps

1. Participating Lender pre-screens the mortgagor/co-mortgagor.
2. Participating Lender commits to the interest rate and type of financing by reserving the mortgage loan in DMS Online
3. Mortgagor or Participating Lender pays the non-refundable $250 HOD reservation fee.
4. Participating Lender uploads, at minimum, the required documents (see section 6) signed and dated into DMS Online, which is where HOD documents can be generated (front-end docs).
5. HOD underwriter reviews the uploaded application documents for tax code compliance.
6. HOD underwriter will either:
    a. Conditions the mortgage application for a deficiency; or
    b. Provides an approval for the mortgage loan to closing.
7. IHCDA provides the Federal Recapture Notice to the mortgagor. when final approval is issued.
8. Participating Lender funds the first and second mortgage loans for closing.
9. Participating Lender closes the mortgage.
10. Participating Lender uploads, at minimum, the required closing documents (see section 7) signed and dated (back-end docs).
11. Participating Lender's sends the complete closed file to U.S. Bank HFA Division via Doc Velocity and forwards all original collateral documents to U.S. Bank HFA Division.
12. HOD underwriter reviews the uploaded closing documents for tax code compliance.
13. HOD underwriter will either:
    a. Conditions the mortgage application for a deficiency; or
    b. Provides an approval for the mortgage loan to be purchased by U.S. Bank
14. U.S. Bank purchases the first mortgage loan from the Participating Lender
15. U.S. Bank reimburses the Participating Lender for the DPA second mortgage loan, if applicable.
16. IHCDA purchases the first and second (if applicable) mortgage loans from U.S. Bank.
17. Participating Lender is responsible for servicing both the first and second mortgage loans until purchased by U.S. Bank.
18. IHCDA either retains (MRB programs) or sells (MBS programs) the first mortgage loan.

Pre-Screening for IHCDA Compliance

A Mortgagor applying for a IHCDA HOD program must meet the following eligibility requirements, which can change without notice:

1. Mortgagor must be a first-time homebuyer.
    a. -OR- applicant has verifiable military status
    b. -OR- subject property is located in a qualified census tract
2. Mortgagor must be income eligible.
3. Mortgagor must meet residency (alien) status.
4. Subject property must be under the current acquisition limits.
5. Subject property must meet property eligibility guidelines.
6. Mortgage financing must meet GSE financing requirements.

All mortgage applications must be reviewed by the Participating Lender for IHCDA compliance as well as creditworthiness in accordance with Agency (FHA, FHLMC, FNMA) regulations and guidelines. Furthermore, all mortgage applications must comply with U.S. Bank HFA Division guidelines and federal regulatory guidelines including, but not limited to, CFPB, Dodd-Frank, OFAC check, TRID.

The Participating Lender should be mindful that the IHCDA reservation fee of $250.00 is non-refundable and the importance of the pre-screening applicant for qualification.

Further details of the elements of the pre-screening can be found throughout this document.

Reserving and Committing the Mortgage Loan Application

In order to commit/reserve funds for any of the IHCDA HOD mortgage program, the Participating Lender must lock the loan using HOD's online loan origination portal "DMS Online". The potential buyer(s) must have a valid real estate contract in place prior to registration/commitment and have a valid signed URLA 1003.

All mortgages must close at the interest rate reserved in DMS Online, which is confirmed by the lock confirmation. Once the mortgage is locked, the mortgagor cannot relock a new mortgage loan application for a minimum of 60 calendar days.

Please see Appendix A for the HOD Lock Policy, applies to any loan locked in any IHCDA LOS. IHCDA is under no obligation to purchase a loan that is not saleable in secondary; including reimbursement of any IHCDA Down Payment Assistance (DPA) used.

Please Note: For the Access Programs the Lender will be responsible for any amount that they reserve in error over the allowed assistance amount.

Tax Code Compliance Review

Tax Code Compliance Underwriting Review is required for all IHCDA HOD mortgage programs, and the participating lender must perform this review. The participating lender must sign the IHCDA Homeownership Affidavit attesting to the compliance with the tax code.

Tax Code Compliance Underwriting Review consists of documenting three (3) basic determinations:

1. Is the mortgagor/co-mortgagor a first-time homebuyer or exempt from this requirement? Or is the mortgagor/co-mortgagor a non-first-time homebuyer meeting income, purchase price and all other IHCDA HOD mortgage program restrictions?
2. Is the mortgagor/co-mortgagor total Qualifying Income with the allowable limits for the Indiana County they intend to reside?
3. Is the subject property a Qualified Dwelling where the purchase price is under the acquisition limits for the Indiana County which the subject property is located in?

First-Time Homebuyers/Exempt (point #1)

The participating lender must certify each mortgagor (first-time or non-first time) on the IHCDA Homeownership Affidavit if the mortgagor has had an ownership interest in a principal place of residence in the last three (3) years.

Non-occupying co-signers of the mortgagor are allowed, except for loans having a loan to value (LTV) greater than 95%. IHCDA does not include the co-signer's income in the total household income. The Participating Lender should exclude the co-signer's information from the application package that is being submitted to IHCDA.

See Section 6 of this document for more information.

Qualifying Income (point #2)

All income coming into the household for the mortgagor and, if applicable, the co-mortgagors(s). The borrower(s) must have a total Qualifying Income that does not exceed the applicable limit (see Appendix D) in effect at the time of loan closing.

Qualifying Income is as follows, the total income of the mortgagor who is expected to a) live in the Qualified Dwelling; and b) be liable, or secondary liable, on the Note. This includes, but is not limited to, any income from self-employment, W-2s, or SSI/SSDI. If there is a change in income/job between the time of making the reservation and closing the loan, the Participating Lender must recalculate the Qualifying Income to ensure the mortgage application is still within compliance of the IHCDA income limits.

The term "mortgagor" includes the mortgagor and the co-mortgagor(s). Any mortgagor liable on the note, or secondarily liable on the note, which does not earn or receive income from any source, must complete a "Zero Income Affidavit"

IHCDA Income Limits are available on the IHCDA website.

See Section Appendix B of this document for more information.

Purchase Price Limit and Qualified Dwelling (point #3)

The subject property being financed must be a Qualified Dwelling and the total purchase price must be under the applicable acquisition limit for the area (county) in which the property is located. See Section 4 of this document for more information.

Indiana Housing and Community Development Authority
Homeownership Programs
Executive Summary

1. IHCDA reserves the right to request any additional documentation needed to make an accurate determination before or after the mortgage closes.

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 and 5:00 p.m. (EST).

4. A rate sheet will appear in the IHCDA Online reservations portal when a Participating Lender reserves a loan. Rate buy-downs are not allowed.

5. 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).

6. All reservations must be for either FHA or Conventional Fannie Mae or Freddie Mac, thirty (30) year fixed rate mortgages.

7. All mortgages must be underwritten to and meet insurer FHA, Fannie Mae, Freddie Mac, IHCDA and the Master Servicer guidelines.

8. The Mortgagor(s) must be a first-time home buyer unless purchasing in a designated Targeted Area or an Eligible Veteran.

9. The Mortgagor(s) must not have had an ownership interest in a principal residence within the past three (3) years. This restriction is waived for a Mortgagor who purchases in targeted areas or when the Mortgagor is an Eligible Veteran.

10. 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 co-habitate in the residence.

11. The Mortgagor(s) must meet income guidelines set forth in Section 2 of this Program Guide. Furthermore, income limits vary by county and are dependent on family size.

12. Applicant 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), AUS finding results, and the required supplement thereto, if any.

13. 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.

14. 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.

15. The Subject Property must be a Single-Family Dwelling. See Section 4 for eligible property types.

16. The Auxiliary Unit Affidavit will be included on any application for additional separate living quarters or additional structures on the Subject Property excluding structures like garages or sheds. The Auxiliary Unit Affidavit may also be requested for properties located on more than one parcel or located on more than one acre of land.

17. The home must be used as the Mortgagor's principal residence for life of the mortgage loan.

18. 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 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).

19. An IHCDA Mortgage Rider is required for bond loans. This is attached to the lenders first mortgage for recording.

20. Federal Recapture Tax may apply for bond loans.

21. Mortgagor and Co-Mortgagor Federal tax transcripts are not required unless needed for further underwriting determination approval by IHCDA.

22. The purchase price of the property cannot exceed the fair market value for bond loans (appraised value).

23. If originating a Fannie Mae loan, Desktop Underwriter (DU) must be used.

24. If originating a Freddie Mac loan, Loan Product Advisor (LPA) must be used.

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 must be verified with the Master Servicer.

26. The maximum debt to income ratio (DTI) must meet the requirements set forth by IHCDA and/or the Master Servicer. Verification of the current DTI must be verified with the Master Servicer.

27. DPA may be used for down payment, closing costs, pre-paid items and/or realtor compensation.

28. A Mortgagor may contribute additional cash resources for down payment and closing costs.

29. 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.

30. A Mortgagor using DPA funds will require a Second Mortgage and second promissory note.

31. The master servicer, US Bank, will reimburse the Participating Lender the amount of DPA provided at the time of the first mortgage being purchased.

32. 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.

33. The maximum amount that can be charged on each bond funded 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.

34. 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. Repayment also applies to a home equity line of credit (HELOC).

35. 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. The Participating Lender should exclude the Co-signer's information from all IHCDA documentation.
    A. Co-signer(s) may not be listed or sign any IHCDA documentation.
    B. Co-signer(s) may not take title at closing.

36. Only 1003 applicants that will occupy the property may sign IHCDA documents and take title at closing. Non-applicant person(s), including spouse, may not take title at closing.

37. Repair escrows are allowed (must follow guidelines issued by the Master Servicer).

38. 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.

39. Final Approval from IHCDA must occur by the Commitment Expiration Date, which is sixty (60) days from lock date, or be subject to an extension fee.

41. If there are any conflicts between the FHA or GSE 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.

42. 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.

43. IHCDA strongly encourages Participating Lenders to print this program guide from IHCDA: Programs

Indiana Housing and Community Development Authority

Homeownership Programs
Down Payment Assistance – Section 1

Down Payment Assistance (DPA)

IHCDA offers DPA in the form of a loan secured by a Second Mortgage to certain qualified Mortgagors (the "Second Mortgage"). Remember the following guidelines in relation to DPA:

1. The DPA is not to exceed the property purchase price (Bond DPA products); or the appraised value (Next Home product).
2. If the Mortgagor(s) terminates the First Mortgage, the Second Mortgage is due and payable in full immediately.
3. The DPA can be used for down payment, closing costs, pre-paid items and Realtor compensation.
4. The DPA is governed by the IHCDA Second Mortgage and the IHCDA Second Mortgage Promissory Note.
5. 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.

Second Mortgage Information

The Second Mortgage is due upon maturity. Maturity is defined as the first to occur of the following occurrences:

1. 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.
2. If Mortgagor sells or refinances the property (other than a refinancing using a current or future IHCDA program), uses a Home Equity Line of Credit (HELOC) during the full thirty (30) years set forth by the First Mortgage.
3. 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.
4. 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.
5. There is no proration associated with the IHCDA DPA loan.
6. If it becomes evident to IHCDA that any representation or warranty made by the Mortgagor at the time it applied for the loan was false, misleading, or fraudulent.

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.

IHCDA 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 IHCDA refinance program. Furthermore, the Participating Lender is expected to explain this to the Mortgagor.

Layering with Other Assistance Programs

IHCDA allows layering with other assistance programs if:

1. The file meets the program guidelines of the non-IHCDA grant/assistance
2. U.S. Bank 1st remains in 1st lien position
3. IHCDA DPA remains in 2nd lien position
4. The additional funding takes 3rd lien position (if it requires a lien and is not a true grant)
5. The file meets Agency guidelines/AUS approval and is compliant to all applicable IHCDA guidelines

Targeted Areas

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".

Targeted Areas are either:

1. Qualified Census Tract is where 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. Indiana Qualified Census Tracts can be found **here**.

2. 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.

Refer to Appendix B for additional information.

Must be a First-Time Home buyer

A "First-Time Home buyer" 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 Home buyer requirement.

Prior ownership of a Mobile Home does not disqualify a mortgagor as a first-time home buyer as long as the participating lender provides adequate documentation to confirm the following facts:

1. Components, which operate only during the transportation (hitch and axels), have not been removed.
2. The mobile home can be legally transported on state highways without disassembling into sections.
    a. Prior ownership (with three years) of a double=wide mobile home will disqualify the mortgagor
3. The mobile home does not have any permanent structures added.
    a. Examples include affixed decks, room additions, ect.

Note: Photographs are the best documentation the participating lender can provide.

Unless documentation supports the mortgagor residing in a timeshare as their primary residence, the mortgagor is defined as a first-time homebuyer.

An expectancy to inherit property does not constitute an ownership interest in the subject property. However, if the mortgagor occupies the inherited property after acquiring a vested title interest, the mortgagor is no longer a first-time homebuyer.

A mortgagor who has divorced or a displaced spouse or otherwise separated within the last three (3) years and had an ownership interest in another residence can still qualify as a first-time homebuyer, if the mortgagor resided in another property for the three (3) years prior to the closing of the IHCDA loan. Please consult the Divorce Decree/Property Settlement for ownership interest status (must be stated to be a non-marital property) and provide supporting documentation, such as a lease, with a signed statement from the mortgagor attesting to primary residence status if the borrower's principal residence for the most recent three (3) years was another property.

Refer to Appendix C for additional information.

Must be Income Eligible

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.

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. IHCDA and/or the Participating Lender can request any additional information needed to make this determination. All sources of income must be included on the URLA Form 1003, and the required supplement thereto, if any.

Refer to Appendix D for additional information.

Qualified Dwelling

In order for a property to be considered a Qualified Dwelling:

1. The mortgagor must acquire a fee simple interest in the real property.
2. The subject property must be (become) mortgagor's principal place of residence with 60 days after the closing of the IHCDA mortgage.
3. The subject property must be maintained as owner occupied for the life of the mortgage.
4. The subject property must be in the State of Indiana.
5. Designed for residential use as a single-family dwelling.
6. The purchase price cannot exceed the appraised value.
7. No more than ten percent (10.0%) of the subject property can be reasonably used as:
    a. The principal place of business for, or connected with, any trade or business on an exclusive or regular basis.
    b. A place where inventory is held for use in the trade or business of the selling of products at wholesale or retail.
    c. A place used on a regular basis in a trade or business.
8. A residence intended for use as an investment property, rental property or a recreational home would not qualify as a principal residence. The subject property must be the mortgager's primary residence and not intended for any other use.

Types of Properties Allowed

1. Single-family detached home
2. Townhome
3. Manufactured Home: must be HUD plated, double-wide, permanently affixed (U.S. Bank, FHA/HUD, Fnanie Mae or Freddie Mac approved)
4. Planned Unit Development (PUD)
5. Condominium unit (U.S. Bank, FHA/HUD, Fannie Mae or Freddie Mac approved) must be warrant-able/approved.

Properties with Acreage

Federal regulations prohibit IHCDA from financing a residence located on land in excess of that which is needed to "reasonably maintain basic livability". This has been interpreted to mean one (1) acre. Any property over 1 acre will require zoning ordinance or appraiser comment attesting to livability.

Acquisition Cost

The "Acquisition Cost" of the subject property must not exceed the applicable Program acquisition cost limits for bond programs only. 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:

1. 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.
2. 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.
3. 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).
4. Property taxes, if not prorated between ownership by Mortgagor and seller (e.g., Mortgagor pays next installment due).
5. 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.

Acquisition cost does not include:

1. Usual and reasonable settlement and financing costs including:
    a. Title and transfer costs.
    b. Title insurance.
    c. Survey fees and other similar costs.
    d. Credit reference fees.
    e. Legal fees.
    f. Appraisal expenses.
    g. Usual and reasonable financing points paid by the Mortgagor.
    h. Structural and systems or pest inspections
    i. Other related costs of financing the residence.
2. Land owned by the Mortgagor for more than two (2) years prior to construction.
3. The imputed value of "sweat equity" performed by the Mortgagor or members of the Mortgagor's immediate family.

Additional Eligibility Requirements

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.

Mortgage Financing Eligibility

The Participating Lender is responsible for performing the credit underwriting. However, IHCDA does have some specific program requirements. Remember that applicable Agency (FHA, FNMA, FHLMC) credit underwriting requirements and regulations apply to the first mortgage loan along with all U.S. Bank overlays. Furthermore, U.S. Bank HFA Division will not purchase any mortgage without IHCDA's approval. The IHCDA Program Matrix provides an overview of some of the credit overlays.

The IHCDA Program Matrix can be found here.

The mortgagor may only have one IHCDA mortgage loan at the time of closing.

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

The proceeds of the mortgage loans secured under the Program must be used to acquire the principal residence of the mortgagor.

IHCDA cannot finance the following:

1. Acquisition of personal property.
2. Land not appurtenant to the residence.
3. Land appurtenant to the residence that is greater than one parcel, 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, for bond programs.
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.

IHCDA 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 IHCDA loan refinance program.

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

No assumptions will be allowed on any IHCDA loans.

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.

Notes regarding Mortgage Financing: The Participating Lender should remember to ensure that the Mortgagor qualifies for the Program before beginning the financing process.

Reservation Application

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

Submission: The Participating Lender is responsible for performing a thorough inquiry to determine whether both the Mortgagor and the Subject Property meet Program requirements.

To obtain preliminary approval needed to close the loan, The non-forgivable Reservation Fee must be received by IHCDA and IHCDA's documents cannot be dated prior to the date of the reservation.

The following documents must also but uploaded into IHCDA Online and approved.

1. IHCDA Homeownership Affidavit, signed and dated
2. Appraisal
3. Initial 1003, signed and dated by all parties
4. Tri-Merge Credit Report (First Step and Step Down products)
5. Homebuyer Education (Fannie Mae's HomeView and Freddie Mac's Credit Wise are the only acceptable course certificates)

Pre-approval:

All files will be reviewed in the order that they are received, and the reservation fees have been applied.

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.

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.

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 all properties.

The Participating Lender must have sold the 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.

Pre-Approval Upload (Incomplete):

If IHCDA 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 IHCDA Online.

The Participating Lender is responsible for reviewing any open items and uploading documentation to resolve such issues causing the "Incomplete" status in IHCDA Online.

IHCDA will review the application conditions within a reasonable amount of time from the date the application conditions are uploaded.

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

Due Date:

After closing the loan secured by the First Mortgage, the Participating Lender shall forward to US Bank the executed closing package which must be received by US Bank 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 IHCDA for extension requests.

Closing Package submission to IHCDA:

After the loan closing, the Participating Lender shall upload the following executed documents , which consists of the following:

a. Final Signed 1003
b. Final Signed IHCDA Informational Certificate
c. Final Signed Note
d. Final Signed IHCDA Second Mortgage
e. Final Signed IHCDA Promissory Note
f. Final Signed IHCDA Gift Letter
g. Signed Closing Disclosure, First Mortgage
h. Page 1 of First Mortgage

Bond Products Only:

i. Final Signed IHCDA Mortgage Rider
j. Final AUS

IHCDA documents cannot be dated prior to the date of closing.

The Uniform Residential Loan Application (URLA Form 1003) can be dated prior to the date of the closing date.

E-signatures are not permitted on IHCDA produced documents.

Closing Package Submission

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

IHCDA will underwrite all files within a reasonable amount of time from the date that the file is received.

Participating Lenders are required to check IHCDA Online regularly for the status of any submitted closing packages.

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.

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).

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.

Closing Package Upload (Incomplete)

If IHCDA needs additional information or if there are incomplete documents, the status will be considered "incomplete" and show as such in IHCDA Online.

IHCDA will review the closing conditions within a reasonable amount of time from the date the conditions are uploaded into IHCDA Online.

Appendix A - Lock Policy

All first mortgage loans locked with the Indiana Housing and Community Development Authority's (IHCDA) Homeownership Department (HOD) and subsequently being purchased by HOD, or any master servicer working on their behalf, shall be locked for 60 days with payment at the full Service Release Premium (SRP) of one and three quarters percent (1.75%), as indicated in Appendix B. Any loan that is set to be purchased after the initial 60-day lock period is still eligible for purchase at the same interest rate, but at a reduced SRP as indicated in Appendix B.

Re-Pricing between Programs and/or Loan Types

If the Participating Lender needs to change the program, property and/or loan type before the mortgage closes:

1. Contact the Homeownership team, since all changes must be made on the HOD side in DMS Online.
2. The homeownership team will terminate the reservation and issue an exception code for the Participating Lender to lock a new mortgage reservation.

If the Participating Lender needs to change the program and/or loan type after the mortgage closes:

1. Contact the assigned HOD underwriter, since all changes must be made on the HOD side in DMS Online.
2. If the loan type changes, a five hundred dollar ($500) fee will be charged to the lender.

Lock Extensions

IHCDA request that you, the participating lender, send notification to homeownership@ihcda.in.gov when a loan is set to exceed the 60-day lock period, to ensure the loan remains active in our system. If a mortgage has not been purchased by the 90th day, IHCDA is under no obligation to purchase the mortgage if it is not salable on Secondary Market.

Cancellation and Relocking

After a mortgage loan is cancelled, IHCDA will not allow a new reservation/lock for the same subject property address within sixty days of cancellation date list in DMS Online. After the sixty days have passed, the mortgage can be locked in DMS Online at the new rate. Please remember the lock follows the subject property and the mortgagor's social security number can only be associated with one (1) mortgage reservation.

Loan Reinstatement

If a lock was cancelled or withdrawn in error, the Participating Lender can email homeownership@ihcda.in.gov or the assigned underwriter to have the loan reinstated. All information on the lock, including the rate, lock date and program will remain unchanged.

Appendix B – Targeted Counties

Targeted Counties 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

Targeted Areas also include the following 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 census tract to be designated as a Targeted Area.

Review targeted census tract list **here**.

2014 IRS SECTION 42(d)(5)(B) QUALIFIED CENSUS TRACTS

Appendix C – First-Time Homebuyer

A mortgagor cannot have held an ownership interest, which can include, but is not limited to:

1. A fee simple interest;
2. A joint tenancy, a tenancy in common, or a tenancy by the entirety;
3. The interest of a tenant shareholder in a cooperative;
4. A life estate;
5. 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);
6. 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
7. Ownership of a factory-made home permanently affixed to real property and taxed as real estate.

Interests that do not constitute ownership interest include:

1. A remainder interest;
2. A lease;
3. A mere expectancy to inherit an interest in a principal residence;
4. The interest that a purchaser of a residence acquires upon the execution of a purchase contract;
5. An interest in other than a principal residence during the previous three (3) years; or
6. Ownership of a factory-made home not permanently affixed to real property and taxed as personal property.

Appendix D – All Sources of Income

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

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:

1. 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);.
2. Periodic payments for trust, annuities, inheritances, insurance policies, pensions, retirement funds and lotteries.
3. 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.
4. Interest and dividends.
5. Payments in lieu of earnings, including social security, unemployment benefits, worker's compensation, severance pay, disability or death benefits.
6. Income from partnerships.
7. Rental income from property owned.
8. Recurring monetary contributions or gifts regularly received from a person not living in the residence.
9. 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.

Appendix E – Definitions

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

"Accessory Unit" is typically an additional living area independent of the primary Single-Family Dwelling that may have been added to, created within, or detached from Single-Family Dwelling, and such accessory unit must provide for living, sleeping, cooking, and bathroom facilities and be on the same parcel as the primary Single-Family Dwelling.

"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.

"Conventional financing" means financing provided through either the Federal National Mortgage Association ("Fannie Mae") home loan program or the Federal Home Loan Mortgage Corporation ("Freddie Mac") home loan program

"Credit Wise" is referencing Freddie Mac's home buyer education certificate course.

"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 Appendix F 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".

“Home buyer Education Certificate" is referencing the home buyer education course required for all occupying applicants on Conventional DPA products

"Home View" is referencing Fannie Mae's home buyer education certificate course

"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 Homebuyer Program.

“Program Guide” means Universal 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 Appendix B of this Program Guide.

“Recapture Amount” has the meaning set forth in Appendix F 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 1of 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 to be purchased by a Mortgagor that will constitute the Mortgagor’s primary residence.

“Targeted Area” has the meaning set forth in Appendix B of this Program Guide.

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

"URLA" Uniform Residential Loan Application (Freddie Mac form 65/Fannie Mae form 1003), also referenced as "1003".

Appendix F – IRS Recapture Tax

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, 2025

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/Appl 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

1. **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