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November 5, 2008

Directive 2008-24

MEMORANDUM: ALL PARTICIPATING LENDERS

SUBJECT: Lifeline and Homesaver Refinance Mortgage Programs loans now being funded with tax-exempt mortgage revenue bonds

The purpose of this Directive is to inform you that Lifeline and Homesaver Refinance Mortgage Program loans **reserved** on or after 5pm, on November 5, 2008, will only be funded with tax-exempt mortgage revenue bond funds.

This is a result of new federal legislation, Section 3021(b) of the 2008 Housing Act, which provides temporary authority to refinance "qualified subprime loans" with tax-exempt mortgage revenue bonds. In this context, a "qualified subprime loan" is defined as an adjustable rate single-family residential mortgage loan made after December 31, 2001 and before January 1, 2008 that CDA determines would be reasonably likely to cause financial hardship to the borrower if not refinanced. One of the following criteria must exist for consideration of a financial hardship for refinancing eligibility:

- Borrower's housing expense to income ratio based on the current payment or next anticipated rate adjustment will be greater than 31% of current income; or
- Borrower's housing expense to income ratio based on the lifetime capped interest rate (fully indexed) will be greater than 35% of current income; or
- The lifetime capped interest rate exceeds the rate offered by CDA by more than 2%; or
- An involuntary reduction of household income of at least 5% or increase in expenditures related to the death of the borrower or co-borrower, permanent disability or serious illness or injury.

The following documents will be required for each loan originated under these programs:

- **Copies of the Note and Deed of Trust for borrower's existing mortgage:** to be included in the Pre-Closing Compliance Submission; these documents will be reviewed to determine if the borrower's existing mortgage meets the definition of a "qualified subprime loan".

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- **Buyer's Affidavit to Refinance a Subprime Loan (10/17/08):** new document enclosed; to be completed and then signed and dated by the borrower(s) and included in the Pre-Closing Compliance Submission;
- **Notice to Borrowers (10/24/08):** new document enclosed; to be signed and dated by the borrower(s) and included in the Pre-Closing Compliance Submission;
- **Recapture Tax Instructions for Refinancing Subprime Mortgage Loans (10/17/08):** new document enclosed; to be attached to the top of the Notice to Borrower with Information for Calculating Potential Recapture Tax (10/17/08) and included in the Post-Closing Compliance and Purchase Submission;
- **Notice to Borrower with Information for Calculating Potential Recapture Tax (10/17/08):** new document enclosed; with the Recapture Tax Instructions attached to the top of the Notice, this document is to be signed and dated by the borrower(s) and included in the Post-Closing Compliance and Purchase Submission; and
- **Tax-Exempt Financing Rider (11/27/06):** must be properly completed and then signed by the borrowers (and then witnessed) at the closing and attached to the Deed of Trust for the first mortgage and then recorded.

Please note: borrowers now applying for a loan under the Lifeline or Homesaver Refinance Mortgage Program may not have any ownership interests in certain types of property. Property prohibited from ownership at the time of loan closing includes:

- Any mobile home;
- Raw land;
- A building lot;
- Any residence other than principal residence;
- A vacation home;
- A rental property;
- An inherited property;
- Commercial property;
- Any jointly held property;
- A cooperative; and
- Any other real property.

In order to be eligible for a mortgage loan under either of these programs, any borrower who has an ownership interest in any type of property listed above must either:

- Provide a contract of sale for the property at the time of application and submit documentation, for example, settlement sheet, title for a mobile home, verifying the sale of the property prior to closing of the Program loan; or
- Provide a copy of a deed showing that the borrower has divested ownership in the property.

Please see Directive 2008-25 for instructions on what you have to do to participate in either one of these programs.

The new documents, this Directive, a revised Lender's Manual (dated 11/5/08), revised fact sheets (revised 11/5/08) and revised Attachments K and L (dated 11/5/08) will be uploaded to the website and Lender On-line.

As always, we appreciate your continued participation in MMP. If you have any questions concerning this Directive or suggestions for improving our Program, please contact me directly at (410) 514-7508 or 1-800-638-7781 or by e-mail at manahan@mdhousing.org.

Sincerely,

William J. Manahan

William J. Manahan
Assistant Director
Single Family Housing

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