

\$100,000,000.00
INDEPENDENT CITIES FINANCE AUTHORITY
LEASE PURCHASE HOMEOWNERSHIP INITIATIVE
SERIES 2015

ORIGINATION GUIDELINES

Overview	This mortgage lending initiative provides prospective borrowers with limited financial resources the opportunity to establish or improve their personal finances and their credit reputation while residing in the single family property of their choice and becoming eligible to acquire the property through qualifying loan assumption. Participating mortgage lenders determine eligibility and originate FHA-insured loans in accordance with applicable HUD guidelines to finance the acquisition of the property at lease inception by the Independent Cities Finance Authority, as Program Sponsor. Eligible prospective borrowers reside in the property per the terms of a twenty-four month lease agreement while actively participating in mandatory financial literacy, credit management, and housing counseling curriculum to meet stated income and credit requirements and to become eligible to acquire the property by qualifying to assume the FHA-insured mortgage loan originated at lease inception by the Program Sponsor.
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Loan Parameters

Available Funding	\$100,000,000.00 is available to originate First-Lien Mortgage Loans as described in the Program Sponsor Agreement and herein.
Mortgage Loan Origination Period	The First-Lien Mortgage Loan Note must be dated on or after October 01, 2015 but no later than, October 31, 2017. The last day to deliver Mortgage Loan files is December 31, 2017.
First-Lien Mortgage Loan	Daily-Priced, Thirty-Year, Fixed-Rate, Fully-Amortizing, First-Lien Mortgage Loans insured by the Federal Housing Administration (FHA), including those Mortgage Loans originated per Section 203(b) and 234(c).
Minimum Required Investment	Per HUD Mortgagee Letter 1994-02, the Program Sponsor, as an instrumentality of government, may provide as much as 100% of the minimum required investment.
Other Subordinate Financing	Other subordinate loan products and grant programs are permitted in accordance with FHA guidelines, subject to Combined Loan-to-Value limits. Any such loan or grant must take a second-lien position behind the FHA-insured First Lien Mortgage Loan.
Maximum FHA Loan Amount	Per HUD Mortgagee Letter 2014-25, the Acquisition Cost Limit is \$355,350 through December 31, 2015, subject to annual review and adjustment thereafter.
Program Sponsor/ Initial Mortgagor of Record	<p>Independent Cities Finance Authority, a nonprofit instrumentality of the government created by and acting on behalf of its Public Agency members pursuant to Articles 1 and 2, Chapter 5, Division 7, Title 1 of the California Government Code (Section 6500 et seq.), is the Program Sponsor.</p> <p>As such, per HUD Handbook 4000.1 II.A.1... (p.73), which reads “(m)ortgage applications for Governmental Entities and HUD-approved Nonprofits that provide assistance to low or moderate income families may be solely in the Corporation’s name”, First-Lien Mortgage Loan applications and all related documents will be in the name of ‘Independent Cities Finance Authority’ as initial Mortgagor of Record.</p> <p>In keeping, per HUD Handbook 4000.1 (p. 94), Independent Cities Finance Authority, as a local government agency involved in the provision of housing, may obtain FHA-insured financing and has provided evidence from legal counsel that the agency has the authority to become the borrower, the particular state or local government is not in bankruptcy, and there is no legal prohibition that would prevent the Lender from obtaining a deficiency judgement (if permitted by state law for other types of borrowers) on FHA’s behalf in the event of foreclosure or deed-in-lieu of foreclosure.</p>
Buy-ups/ Buy-downs	Not permitted, whether temporary or permanent.
Seller Contributions	Per HUD Handbook 4000.1 (p. 255), 6.00% maximum Seller Contribution whether granted directly to Program Sponsor as Mortgagor of Record or to pay required closing costs and program fees of

	the FHA-insured Mortgage Loan.
Mortgage Insurance Premium(s)	Per HUD Mortgagee Letter 2015-01, the annual rate of the Mortgage Insurance Premium (MIP) is as follows: - Factor is .85% paid annually (upfront mortgage insurance premium also required)
Mortgage Instruments	First-Lien Mortgage Loans to be originated per HUD 4155.2 REV-5, Lender's Guide to the Single Family Mortgage Insurance Process, Chapter 12, Section A, Mortgage and Note Form Exhibits. In addition, each mortgage must also include the following riders, executed by the Program Sponsor as Mortgagor of Record: - Non-Owner Occupancy Rider - Condominium Rider, if applicable - Planned Unit Development Rider, if applicable

Participant Qualifications

Occupancy	Persons whose income is used to qualify for participation in the Initiative as Prospective Mortgagor(s) must intend to reside in the property as their principal residence.										
Ratios	Per HUD Handbook 4000.1 (p. 274), Maximum Qualifying Ratio of 37%/47% based upon minimal increase in housing payment. Include all debt obligations, including debt repayment plans.										
Income Limitation	140% of Statewide Area Median Income in 2015 of \$68,100.00, based upon number of people in the household, and subject to annual review and adjustment, as described below: <table style="margin-left: auto; margin-right: auto;"> <tr> <td style="text-align: center;"><u>four or fewer</u></td> <td style="text-align: center;"><u>five</u></td> <td style="text-align: center;"><u>six</u></td> <td style="text-align: center;"><u>seven</u></td> <td style="text-align: center;"><u>eight or more</u></td> </tr> <tr> <td style="text-align: center;">\$95,340.00</td> <td style="text-align: center;">102,900.00</td> <td style="text-align: center;">\$110,600.00</td> <td style="text-align: center;">\$118,160.00</td> <td style="text-align: center;">\$125,860.00</td> </tr> </table> <p>The annualized gross income of the Prospective Mortgagor(s) and any other person who is expected both to live in the Home and be secondarily liable on the Note is not to exceed 140% of the Applicable Median Family Income, which is such persons' gross monthly income multiplied by twelve (12). Gross monthly income is the sum of monthly gross pay; any additional income from sources including but not limited to overtime, part-time employment, bonuses, dividends, interest, royalties, pensions, Veterans Administration compensation and net rental income; and other income (such as alimony, child support, public assistance, sick pay, social security benefits, unemployment compensation, income received from trusts, and income received from business activities or investments).</p>	<u>four or fewer</u>	<u>five</u>	<u>six</u>	<u>seven</u>	<u>eight or more</u>	\$95,340.00	102,900.00	\$110,600.00	\$118,160.00	\$125,860.00
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Participation Fee	Prospective Mortgagor(s) are required to pay a non-refundable Participation Fee in an amount equal to 1.00% of the purchase price of the selected property. The Participation Fee is non-refundable in the event that the loan fails to close.										
Income Stability	Income must be stable and durable. Lender must not have any reason to believe that income will not continue for at least 3 years. Income may be full-time, part-time or self-employed. Underwriters should evaluate Prospective Borrower's income pursuant to HUD Handbook 4000.1, FHA Single Family Housing Policy Handbook.										
FICO Minimum	500 FICO Score Minimum: In addition, Prospective Mortgagor(s) must meet one of the following: - Evidence of timely payment of housing expense for 12 months prior to application, (defined as no more than one 30+ delinquency and no 60+ delinquencies in the prior 12 month period) - note: timely payment of housing expense may be documented with canceled checks, money orders, bank statements or computer-generated rental histories from reputable management companies. Hand-written or verbal VOR and hand-generated receipts, by themselves, are not acceptable. - or - - Evidence of no fewer than 3 open trade lines with no derogs for a period not less than 6 months prior to closing and whose payments are due at least quarterly.										
Prior Bankruptcy/Foreclosure	Allowed if evidence of bky/fcl due to circumstances not related to financial mis-management or re-established credit can be evidenced for a period of at least 12 months since the bky/fcl, ending date of application. Re-established credit is defined as having no derogs since bky/fcl, no more than one 30-day late payment to a creditor and at least three new positive payment references, (one being a trade line if a trade line was discharged in the bky). Prospective Mortgagor(s) may use Noncredit Payment References to document re-established credit.										
Unpaid Collection	Acceptable, subject to one of the following:										

Accounts	<ol style="list-style-type: none"> 1. Prospective Mortgagor(s) can evidence that the collection account is in error or not accurately reflected on their credit report. 2. The collection account is greater than 3 years old and in an amount less than \$500. 3. The Prospective Mortgagor can pay accounts in full at or prior to Close of Escrow. 4. Evidence, in writing, of a negotiated repayment plan directly with the creditor 5. Evidence, in writing, of a negotiated repayment** plan established by Springboard Nonprofit Consumer Credit Management, Inc. with a creditor, on behalf of the Prospective Mortgagor. <p>** negotiated repayment plans must be taken into account in determining the Prospective Mortgagor's 'back-end' ratio.</p>
Homebuyer Education	<p>Required of the Prospective Mortgagor(s) whose income is used to qualify to participate in the Initiative. Level of education is based on the representative Credit Score for the Mortgage(CSM) per HUD Handbook 4000.1, FHA Single Family Housing Policy Handbook and is determined as follows:</p> <ul style="list-style-type: none"> - If CSM is => 620, Basic Education is required. Basic Education is defined as any Homebuyer Education program that meets the terms of Homebuyer Education pursuant to HUD Housing Counseling Program Handbook 7610.1. - If CSM is < 620, Comprehensive Education is required. Comprehensive Education is defined as any program approved, in writing, by HUD for the program. Approved providers will be referenced in the Program Summary.
Other Properties	At the time of application, Prospective Mortgagor(s) may not have ownership interest in any other real property.
HUD Guidelines	Prospective Mortgagor(s) must meet all other credit reputation provisions of HUD Handbook 4000.1, FHA Single Family Housing Policy Handbook.

Property Qualifications

Program Area	Properties must be located within the California counties of San Bernardino (MSA Code 40140), San Diego (MSA Code 41740), and San Mateo (MSA Code 41860), and the Cities of Alhambra, Apple Valley, Azusa, Baldwin Park, Barstow, Brea, Bell, Bellflower, Capitola, Carpinteria, Carson, Chino, Claremont, Colton, Commerce, Compton, Covina, Downey, Duarte, El Monte, Fairfield, Fontana, Fresno, Gardena, Garden Grove, Glendale, Glendora, Hawaiian Gardens, Hawthorne, Huntington Park, Indio, Inglewood, La Habra, La Puente, Lakewood, Lancaster, Lawndale, Long Beach, Los Angeles, Lynwood, Monrovia, Montclair, Montebello, Monterey Park, Morgan Hill, Norwalk, Oceanside, Palm Springs, Palmdale, Paramount, Pico Rivera, Planada CSD, Pomona, Rancho Cucamonga, Rialto, Riverside, Rohnert Park, Salinas, San Bernardino, San Fernando, San Juan Capistrano, San Marcos, Santa Clarita, Santa Rosa, Signal Hill, South Gate, Vernon, Vista, West Covina, Whittier, and Yucaipa.
Eligible Types	One-Unit, Single-Family Properties, Condos, and Planned Unit Developments. Manufactured Homes are not eligible. No Mobile Homes or Cooperatives.
Hazard Insurance	<p>The Program Sponsor has a pre-established policy in place for Hazard Insurance coverage that insures the Program Sponsor, as Mortgagor of Record, during the lease term. Calculation factors are as follows:</p> <ul style="list-style-type: none"> - Single Family Homes - 1.13% annual premium - Condominiums - 1.13% annual premium <p><i>note:</i> The policy will not cover personal belongings of Prospective Mortgagor(s) who are advised to secure a "Renter's Policy" to protect personal belongings .</p>
Property Inspections	All properties must be inspected prior to acquisition by HomeStar Property Management, LLC.
Home Warranty	Each property must be covered by a Home Warranty, the provider of which is HomeStar Property Management, LLC.

The Lease

Calculation of Lease Payment	<p>Monthly lease payment of the Prospective Mortgagor(s) is the sum of the following:</p> <ul style="list-style-type: none"> - monthly principal and interest per the terms of the First Lien Mortgage Loan - monthly installment for usury tax - monthly mortgage insurance premium
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	<ul style="list-style-type: none"> - monthly all-risk hazard insurance premium - monthly payment of homeowner association dues, if applicable - monthly property management fee equal to 10.00% of monthly payment - monthly credit management and housing counseling fee <p><i>note:</i> The amount of the lease payment will never be less than the amount of PITI required to satisfy the terms of the FHA-insured First Lien Mortgage Loan.</p>
Lease Term	All lease agreements must have a term of thirty-six (36) months.
Extension of Lease Term	Should the Prospective Mortgagor(s) be unable and/or unwilling to acquire the property through qualifying loan assumption as of the Lease Expiration Date, the Program Sponsor shall remain as Mortgagor and may choose to extend the lease term, in its sole discretion.
Substituting Participants	Should the Prospective Mortgagor(s) vacate the property for any reason prior to becoming eligible to acquire it through qualifying loan assumption, the Program Sponsor may enter into a lease agreement with a substitute Prospective Mortgagor, such lease agreement having a term of not less than 24 months. The substitute Prospective Mortgagor(s) must meet the same requirements as the original Prospective Mortgagor(s) and must be underwritten by the Participating Lender.
The Lease Servicer	During the lease term, HomeStar Property Management, LLC, as property manager, shall be responsible for the collection of lease payments.

Assumption

First-Lien Mortgage Loan Credit Qualifying Assumption	<p>Prospective Mortgagor(s) who meet the criteria included immediately below are eligible to apply for approval to acquire the property through qualifying loan assumption per HUD Handbook 4000.1, FHA Single Family Housing Policy Handbook:</p> <ul style="list-style-type: none"> - current primary resident of the property; - compliance with the term of the lease agreement; - property occupancy for at least twenty-four (24) months; - completion of the required Homebuyer Education Course; and, - minimum 580 FICO Score, no rental delinquency during prior twelve (12) months; or, - 620 FICO Score, no more than one (1) 30-day rental delinquency in the prior twenty-four (24) months, and meet the terms of credit in accordance with HUD Handbook 4000.1, FHA Single Family Housing Policy Handbook. <p>In addition, any Prospective Mortgagor overcoming prior bankruptcy, foreclosure, or consumer credit counseling must have re-established good credit as follows:</p> <ul style="list-style-type: none"> - three years after foreclosure or deed-in-lieu of foreclosure (subject to certain criteria further described in HUD Handbook 4000.1); - two years since the date of discharge of Chapter 7 Bankruptcy (subject to certain criteria further described in HUD Handbook 4000.1); - two years since the date of discharge of Chapter 13 Bankruptcy and after one year of the pay-out period has elapsed (subject to certain criteria further described in HUD Handbook 4000.1); - after one year of the pay-out plan has elapsed (subject to certain criteria further described in HUD Handbook 4000.1).
First Lien Mortgage Loan Assumption Fees	Per HUD 4330.1 REV-5 Chapter 4-4, Assumptions, Prospective Mortgagor(s) must pay the normal and customary FHA allowable fee of \$500.00, or the fee in effect on the assumption date, for Assumption With A Release of Liability, in addition to fees or charges for credit reports and verification(s) of employment.
Closing Costs	Prospective Mortgagor(s) is/are responsible for the payment of all closing costs related to the assumption including adjustments for real estate taxes, hazard insurance premiums, mortgage insurance premiums and fees required by the Participating Lender.
Early Assumption	Prospective Mortgagor(s) may assume property from Program Sponsor no earlier than twelve (12) months from the commencement date of the lease agreement. In addition, assumptions may only occur on the first date of a given month.
Failure of Assumption	If Prospective Mortgagor(s) do(es) not qualify for assumption at the conclusion of the lease term, the Program Sponsor, in its sole discretion, may extend the lease to the existing Prospective Mortgagor(s) or substitute replacement Prospective Mortgagor(s).

Fees

Program Fees	<ul style="list-style-type: none"> - Home Warranty Fee paid by the Seller - \$485.00/year - Home Inspection Fee - \$125.00 - Escrow Fee - Title Fee paid by Seller - <i>note:</i> all fees may be paid by any combination of Mortgagor sources or Seller Contribution (subject to 6.00% maximum).
Loan Servicing Fees	<ul style="list-style-type: none"> - \$73.00 Tax Service Fee - \$9.00 Life of Loan Flood Monitoring Fee
Allowable Lender Fees	<ul style="list-style-type: none"> - 2.00% Origination Fee. - Actual appraisal and credit reporting fees. - Normal and customary fees, including doc prep, processing, tax-service, flood certification, underwriting, wire transfer, and courier fees, not to exceed \$800.00.

Other

Program Support Obligations of the Program Sponsor	<p>During the lease term, the Prospective Mortgagor(s) also agree(s) to cooperate with the Program Sponsor in the following activities:</p> <ul style="list-style-type: none"> - quarterly walk-through inspection of the property; - active participation and completion of mandatory financial literacy, homebuyer education, and credit management curriculum; - periodic review of Prospective Mortgagor's credit standing and mortgage readiness including any on-going debt and/or credit management payments. - review of Prospective Mortgagor's credit report 6, 12, 18, and 24 months after closing. <p>Any other action appropriate to ensure Prospective Mortgagor(s) will meet credit qualifying mortgage assumption requirements by expiration of lease term.</p>
Lender Obligations Regarding Mortgage Loans	<p>Except for Early Payment Default obligations, the Lender will not be required to repurchase the Mortgage Loan because of subsequent payment defaults. However, if the Mortgage Loan is found to be fraudulent, defective, or does not meet Initiative or applicable FHA or GNMA requirements, the Mortgage Loan is subject to repurchase.</p>
RESPA and TIL Exception	<p>Because the Mortgagor of Record on the loan is the Program Sponsor, an instrumentality of government, and not an individual, the Lender is exempted from providing documentation of Truth-in-Lending Disclosures, Good Faith Estimates, and Servicing Transfer Disclosures. Other documents required by these statutes may also be exempted.</p>