

# Flex Lending Next Step

**Guideline Manual**

**Updated as of Nov. 1, 2024**



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## SECTION 1 – INTRODUCTION

### 1.1 Forward

The Flex Lending Program approved lenders must also be approved with the Department’s Servicer in order to participate in the Program. It is our expectation that Mortgage Loans originated by approved lenders under the Department Mortgage Loan programs are Underwritten and approved using prudent and sound rationalization. The Department does not wish to purchase Mortgage Loans that may cause a financial hardship to borrowers or that may result in default.

### 1.2 Mortgage Loan Requirements

As a prerequisite for delivering Mortgage Loans to the Department, the Credit and Underwriting requirements of the Department’s Servicer must be met. Additionally, all Mortgage Loans must meet the requirements established by the Department set forth in this manual.

## SECTION 2 – BORROWER ELIGIBILITY

### 2.1 Eligible Borrower

A borrower is eligible to receive a mortgage loan under the program if, on the dates of application and closing:

1. Income – The annual gross income of all borrowers listed on the loan application does not exceed \$125,000.
2. The person:
  - a. Is a resident or intends to be a resident of Oregon;
  - b. In good faith intends to occupy the property as a permanent principal residence;
  - c. Possesses the legal capacity to incur the obligations of the program loan;
  - d. Has a credit standing acceptable to the Department;
  - e. Does not own any other residential property.

### 2.2 First-time Homeowner Requirement

Borrowers do not have to be first-time homebuyers.

### 2.3 Homebuyer Education

Homebuyer Education is required for all first-time homebuyers. Homebuyers must complete Homebuyer Education through an OHCS homeownership center. See below link for list of participating homeownership centers.

<https://www.oregon.gov/ohcs/homeownership/homebuyers/Pages/housing-counseling.aspx>

Lender must retain a copy of the certificate of course or counseling completion in the loan file.

In the event Homebuyer Education cannot be completed with an OHCS homeownership center, Homebuyer Education may be completed using Finally Home, which is available at <https://www.finallyhome.org/>

### 2.4 Occupancy

**Principal Residence Requirement** – The Borrower must occupy the residence as their Principal Residence not to exceed 60 days from Mortgage Loan Closing. Borrower must maintain the residence as their Principal Residence for a minimum of 12 months from Date of Closing.

**Year-Round Occupancy** – Any property that is not suitable for year-round occupancy regardless of where it is located is not eligible for purchase by the Department.

**Ineligible Occupancy Types** – The following types of residences are NOT eligible for any loan products offered in this program:

- Homes used as investment properties
- Recreational, vacation, or “second” homes

**Usage of Residence in a Trade or Business** – Follow the Department’s Servicer’s guidelines for the loan product used in connection with the Mortgage Loan.

## 2.5 Income Limits

The Borrower's qualifying income must not exceed Program Income Limits. The Borrower's Gross Annual Income may not exceed \$125,000 based on qualifying income as determined by the underwriters. Additional income tiers based on county AMI limits are available in Appendix A of our Policies and Procedures.

- a. For purposes of meeting the eligibility criteria associated with the Income Limits, only the loan qualifying income of the occupying borrower(s) will be considered.
- b. The qualifying borrower's income will fall between one of the income tiers below:

80% and below
80% – 120% AMI
120% AMI to \$125K

- c. Lenders must ensure that the income meets the guidelines.

## 2.6 Penalties for Misstatement

If any person makes a material misstatement in any affidavit or certification made in connection with the Mortgage Loan application and such misstatement is due to negligence of that person or to fraud, that person may be liable under applicable civil or criminal law.

## 2.7 Ownership Interest and Title

Borrowers who occupy the residence may NOT own other properties at time of Closing. Non-occupant co-borrowers and non-occupant co-signers may own other property.

## 2.8 Co-Signers and Non-Occupying Co-Borrowers

Non-occupant co-borrowers and non-occupant co-signers are eligible under the Program Guidelines by following the guidelines of Department's Servicer.

# SECTION 3 – PROPERTY ELIGIBILITY

## 3.1 Eligible Loan Area

Only real estate located in the State of Oregon is eligible for this Program.

## 3.2 Property Requirements – All Products

All loans must comply with the requirements of the department's servicer

- Eligible properties include single family dwellings used as primary residence property
  - 1-Unit
  - Condominiums
  - Townhomes
  - PUDs
  - Manufactured Homes
- No multiplexes (duplex, etc.) allowed.

## 3.3 Purchase Price or Appraised Value Limitation

Follow first mortgage guidelines of the department's Servicer as it relates to purchase price or appraised value limits for this program.

**Note:** DPA may not be used to pay the difference between the sales price and appraised value if the sales price is higher (gap financing).

## 3.4 Targeted Area Census Tract

Currently there are no applicable targeted areas for this program.

**SECTION 4 – MORTGAGE LOAN UNDERWRITING**

Lenders are responsible for all underwriting decisions for all mortgages originated under the program. Mortgage Loans must be underwritten to the standards of the applicable loan type.

**4.1 Loan Types**

The following first mortgage loan types are eligible provided they meet the Department’s Servicer’s guidelines.

- FHA Loans
  - 203(b), Single-family Residences
  - 234(c), Condominiums.
  - Section 184 Indian Home Loan Guarantee Program
- VA Loans
- USDA Rural Housing Service (RHS) Loans
- Conventional Loans
  - Fannie Mae (FNMA) HFA Preferred / Freddie Mac (FHLMC) HFA Advantage – up to 97% LTV.
  - CLTV not to exceed 105%.

**4.2 Seller Contributions**

First Mortgage Loan Seller Contribution Limitations

- FHA, VA & USDA-RHS loans have a maximum seller contribution of 6%.
- Fannie HFA Preferred and FHLMC HFA Advantage loans have a maximum seller contribution of:
  - 3% with CLTVs greater than 90%.
  - 6% with CLTVs less than or equal to 90%.
  - May be used for closing costs and/or single or split mortgage insurance (“MI”) premiums.
- Lender-Paid Mortgage Insurance may not be paid with seller contributions.

**4.3 Mortgage Insurance**

Conventional mortgage loans that require mortgage insurance (MI) must acquire the policy from one of the following mortgage insurance providers.

- Arch
- Enact
- Essent
- MGIC
- National MI
- Radian

**Coverage Requirements for Fannie Mae HFA Preferred and Freddie Mac HFA Advantage:**

LTV Range	Coverage Amount	
	Under 80% AMI	Over 80% AMI
>95% and < = 97%	18%	35%
>90% and < = 95%	16%	30%
>85% and < = 90%	12%	25%
>80% and < = 85%	6%	12%

Payment Options:

- Borrower Paid – monthly with annual renewal
- Split Premium
- Single Premium

Lender is responsible for activating any MI policy and remitting any MI payments due to the mortgage insurer prior to the sale of the Mortgage Loan to the Department’s Servicer. The lender is also responsible for transferring the MI policy to the Department’s Servicer after the sale of the Mortgage Loan.

#### **4.4 Credit Scores**

All borrowers are required to have a minimum credit score of 620 for Mortgage Loans underwritten using AUS (Automated Underwriting Systems). Manually underwritten Mortgage Loans require a minimum credit score of 640. See Manual Underwriting Section 4.5 for available loan types.

#### **4.5 Manual Underwriting**

Manual Underwriting is permitted for FHA, VA, USDA, Section 184 Mortgage Loan types, provided all borrowers have a credit score of 640.

#### **4.6 Debt to Income Ratio (DTI)**

Borrowers' maximum DTI may not exceed 50%.

### **SECTION 5 – FOCUSED DEMOGRAPHICS**

In an effort to address disparities in homeownership, the department has developed a Focused Demographics DPA option providing increased DPA and more favorable terms to borrowers who apply for and meet the Focused Demographics criteria.

#### **5.1 Focused Demographics Criteria**

To be eligible for Focused Demographics borrowers must apply for and meet the Flex Lending NextStep Product Guidelines and two of four demographic criteria below:

- Household of four or more people.
- A household member with a disability
  - Disability is defined under ORS 456.515 (9). "Person with a disability" means a person who has a physical or mental impairment that substantially limits one or more major life activities.
- Front-End Debt Ratio of 28% or higher
- Sole Head of Household (household includes only one adult that is not an eligible dependent) with at least one eligible dependent residing in the household who are:
  - Under 18;
  - A household member with a disability
  - Age 62 or older

#### **5.2 Focused Demographics DPA**

Our Focused Demographics DPA is 5%.

#### **5.3 Focused Demographics DPA Terms**

- Silent Second. For borrowers whose income is at or below 80% of AMI, DPA is in the form of a silent second mortgage loan bearing 0% interest and no payments. Terms are below in 6.3.
- Amortizing Second. For borrowers whose income is above 80% and up to 120% of AMI, DPA is in the form of a 30-year amortizing second mortgage loan with an interest rate 1% above the interest rate of the first mortgage.

### **SECTION 6 – DOWN PAYMENT ASSISTANCE (DPA)**

The Flex Lending NextStep product offers down payment assistance to qualified applicants.

#### **6.1 DPA Options**

Flex Lending NextStep's Standard DPA is 4% and our Focused Demographics DPA is 5%.

## 6.2 DPA Types

DPA is calculated as a percentage of the first Mortgage Loan note amount. Terms are income based using Fannie Mae's AMI limits.

- Silent Second. For borrowers at or below 80% of AMI, DPA is in the form of a silent second mortgage loan bearing 0% interest and no payments. Terms are below in 6.3.
- Amortizing Second. For borrowers above 80% of AMI, DPA is in the form of an amortizing second mortgage loan with an interest rate 1% above the interest rate of the first mortgage loan. Terms are below in 6.4.

## 6.3 Silent Second Terms & Repayment

The silent second mortgage loan is a second mortgage loan that has no monthly payments and no interest accruing.

- Standard DPA – 4% of the first Mortgage Loan note amount.
- Focused Demographics DPA – 5% of the first Mortgage Loan Note amount.
- Repayment – Any outstanding balance is repayable as follows:
  - Sale or Transfer – If all or any part of the property, or any interest in the property (including a beneficial interest), is sold, conveyed, or transferred, whether voluntary, involuntary or by operation of law.
  - Refinance or Payoff – Refinancing or paying off the first mortgage loan.
  - Rental of Property – If borrower rents or leases (whether by written or oral agreement) the property or any portion of the property.
  - Failure to Occupy Property as Principal Residence – If borrower fails to occupy the property as the borrower's principal residence within sixty (60) days following the first mortgage loan closing.
  - Default or Acceleration – Upon default or acceleration of the first Mortgage Loan for any reason.

## 6.4 Amortizing Second Terms

Amortizing second mortgage loans are provided to qualifying borrowers with income greater than 80% AMI at an interest rate 1% over the first mortgage loan interest rate.

- Standard DPA of 4%
  - Income >80% of AMI up to 120% of AMI – 240-month fully amortizing term.
  - Income >120% of AMI – 120-month fully amortizing term.
- Focused Demographics DPA of 5%
  - Income >80% of AMI up to 120% of AMI – 360-month fully amortizing term.

## 6.5 Use of DPA Funds

DPA funds may be used for up to 100% of the Borrower's cash requirement to close, including down payment, closing costs, pre-paid items, upfront borrower paid mortgage insurance and other related mortgage loan fees and expenses. The borrower may not receive cash back at close with exception of earnest money deposit and prepaid items. Any unused DPA funds must be applied to the loan principal.

## 6.6 Additional Funds

Additional subsidy programs may be used in conjunction with the DPA provided they meet requirements of Department and Department's Servicer. Second mortgage DPA must be in second lien position.



## SECTION 7 – FEES AND CHARGES

### 7.1 Servicer Fees

The following fees, which may be passed onto the borrower, will be charged by the Servicer, and deducted from the Mortgage Loan Purchase Price:

Fee	Amount	Payor/Payee
Loan Acquisition Fee	\$200	Lender Fee to the Servicer
Tax Service	\$85	Lender Fee to the Servicer
Flood Cert	\$18	Lender Fee to the Servicer

### 7.2 Program Administrator Fees

The following fee, which may be passed onto the borrower, will be charged by the Program Administrator, Hilltop Securities.

Fee	Amount	Payor/Payee
Code Compliance Review Fee	\$225	Lender Fee to the Program Administrator

### 7.3 Mortgage Loan Purchase Price and Lender Compensation

Mortgage Loans originated under the Flex Lending NextStep Product will be purchased by the Servicer.

- Total Lender compensation for Mortgage Loans originated in the program will be as follows:
  - 1.25% SRP for each FHA, USDA-RD, VA, or Conventional Loan
  - Lenders may collect and retain origination fees as allowed by the Servicer's guidelines from the buyer or seller.

Lenders may collect all reasonable and customary fees and closing costs, provided all fees are fully disclosed in accordance with federal, state, and local regulations. Ancillary fees collected may not exceed the amount collected on the lenders' similar non-Program loans.

### 7.4 Extension Fees

Lenders must close, fund, and deliver Mortgage Loans to the Servicer within sixty (60) calendar days of the date the Mortgage Loan is reserved on the Lender Portal. It is highly recommended that lenders provide the borrower with a forty-five (45) day lock. Adequate time should be allowed for the Servicer to perform a compliance review of the credit loan package to cure any conditions prior to their approval to purchase the loan.

Mortgage Loans not purchased within such sixty (60) day period, require an extension. The lender may request a one-time extension at the following cost. These fees will be netted out upon loan purchase.

Extension Term	Cost
7 days	0.0625%
15 days	0.1250%
22 days	0.1875%
30 days	0.2500%

## **SECTION 8 – LOAN RESERVATION**

### **8.1 Reservation Hours**

The reservation window is open on business days, Monday through Friday between 9 a.m. and 4 p.m. (Pacific Time) and will be unavailable on Saturdays, Sundays, Oregon State Holidays, and when the financial markets are closed.

### **8.2 Lender Portal**

The Lender Portal is used by approved lenders to:

- Reserve funds & manage reservations
- Submit pre- and post-closing compliance packages
- Check status of compliance conditions
- Run reports

### **8.3 Reserving Funds**

The lender commits to accept applications in all its lending offices within the Eligible Loan Area. Funds will be issued on a first-come, first-served basis, irrespective of the Borrower's race, color, religion, national origin, age, or gender. There will be no restrictions as to the total number of reservations issued to any lender.

Lenders must have taken the mortgage loan application and pre-qualified the borrowers and must have a fully executed purchase contract at the time the loan/interest rate is locked.

Reservations may not be transferred from one borrower to another or from one lender to another. In the event another lender tries to make a reservation for a currently reserved loan, we will need a cancellation confirmation from the original lender before allowing a new lender to relock. This will only be allowed one time.

### **8.4 Reservation Changes**

- Changes in Current Income – Income eligibility is based upon the current income of the borrower(s). The Commitment is issued based on verified income as of the date the Commitment is issued.
- Changes: If there are changes in purchase price, loan amount, or address, the lender must submit the following documents through the Lender Portal and notify the Program Administrator via phone or email:
  - Copy of revised checklist
  - Copy of revised 1003
  - Copy of revised 92900LT or 1008
  - LE/CD
  - Second lien documents
  - Copy of property sales contract addendum (purchase price & address changes only)

The Program Administrator will revise the loan to reflect the changes requested and will notify the lender when the revision(s) are completed and available via the Lender Portal.

### **8.4 Cancellation and Commitment Expirations**

The lender is responsible for canceling all Mortgage Loans subject to a reservation if the Mortgage Loan will not be delivered under the Program by contacting the Program Administrator. Canceled reservations may not make another reservation for that Borrower for a period of 60 days or unless otherwise authorized by the Program Administrator.

- In a case where the Borrower cancels or withdraws the Borrower's application, the reservation of funds must be canceled by contacting the Program Administrator.
- In a case where the Commitment expires, the Lender must request an extension using the Extension Request Form available through the Lender Portal and provide the new estimated closing date.

In all cases, the expiration of the Commitment without the required action by the lender may result in the lender being placed on “Inactive Status,” meaning the lender may submit no new reservations until the problem is resolved. Failure to comply with this provision may result in the lender’s expulsion from the Program.

## **SECTION 9 – LOAN COMPLIANCE, FUNDING, DELIVERY & PURCHASE**

### **9.1 Mortgage Loan Delivery Timeframes**

Lenders must submit:

1. Pre-Closing Compliance Package – The Pre-Closing Compliance Package should be submitted to the Program Administrator (through the Lender Portal) three to five (3-5) calendar days prior to loan closing.
2. Post-Closing Compliance Package – The Post-Closing Compliance Package should be submitted to the Program Administrator (through the Lender Portal) within ten (10) calendar days following the closing date of the mortgage loan, but in no event after the Commitment Expiration Date.
3. Closed Mortgage Loan Package – The closed Mortgage Loan must be delivered and purchased by the Servicer within sixty (60) calendar days of loan reservation (the “Commitment Expiration Date”) unless an extension is purchased to cover the amount of time required to purchase the mortgage loan.

### **9.2 Pre-Closing Compliance**

The Pre-Closing Compliance Package submitted to the Program Administrator (through the Lender Portal) will contain the following documentation:

- Pre-Closing Compliance Checklist
- Executed Underwriter’s Certification (Form 92900, 1008, etc.)
- Most current loan applications (1003)
- Unsigned second lien DOT and Mortgage Note
- Executed Purchase Contract
- Homebuyer Education Certificate (if borrower(s) are first-time homebuyers)

The down payment assistance documents will be made available after the pre-closing compliance approval.

### **9.3 Post-Closing Compliance**

The Post-Closing Compliance Package submitted to the Program Administrator (through the Lender Portal) within will contain the following documentation:

- Compliance Checklist Final
- Executed Closing Disclosure
- Executed Borrower’s Acknowledgement Letter
- Executed DOT and Mortgage Note
- Final Executed 1003

### **9.4 Delivery of the Closed Mortgage Loan Package**

The closed Mortgage Loan must be delivered and purchased by the Servicer within sixty (60) calendar days of loan reservation (the “Commitment Expiration Date”) unless an extension is purchased to cover the amount of time required to purchase the mortgage loan and include:

- Lender Delivery Checklist
- Compliance Review – All loans must be compliance approved pre-closing to ensure the program criteria have been met, as well as post-closing to receive final, executed documents.
- Executed Final Closing Disclosure
- Executed Final URLAs – Lender, Borrower, and any addendums
- Executed Second Mortgage Subordinate Deed of Trust
- Executed Second Mortgage Note
- Executed Borrower’s Acknowledgement Letter
- All documents required by the Servicer

**9.5 Purchase of Down Payment Assistance Mortgage Loan**

In conjunction with the purchase of the first Mortgage Loan, the Servicer will reimburse the lender the amount of the Down Payment Assistance Mortgage Loan advanced at closing.

If the servicer cannot purchase the first Mortgage Loan, the lender may request the Department reimburse the lender for the Down Payment Assistance Mortgage Loan if the first Mortgage Loan meets the agency requirements. Reimbursements are at the discretion of the Department. An administrative fee may be charged to the lender not to exceed the amount of the Down Payment Assistance Mortgage Loan.

**9.6 Delinquent Closing Documentation**

If the Post-Closing Compliance Package is not submitted through the Lender Portal within ten (10) days of loan closing, the Program Administrator may contact the lender to request the status of the Mortgage Loan. If the lender fails to provide to the Program Administrator the required closing documentation timely, the corresponding reservation will automatically be considered delinquent and the reservation subject to cancellation. Such action may result in the lender being suspended or terminated from the Program until the problem is remedied.