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March 31, 2005

Directive 2005-2

MEMORANDUM: ALL PARTICIPATING LENDERS

SUBJECT: NEW PROGRAMS, INCREASED MAXIMUM FEE & UPDATES TO PROGRAM

The purpose of this Directive is to inform you of the opening of two new programs on Monday, April 4, 2005 – the 5/30 Mortgage Program and the Premium Bond Program (Zero Point with 2% Grant). In addition, we are also increasing the maximum fee paid to lenders from 1.75% to 2.00% for loans reserved on or after Monday, April 4, 2005. The new Fee Schedule is on page 49 of the Lender's Manual for the Maryland Mortgage Program (MMP) dated March 30, 2005. Updates to the manual along with some reminders are also listed.

### **The 5/30 Mortgage Program**

This program provides borrowers with interest-only payments for the first five years followed by a fully amortizing loan for the remaining 30 years. The interest rate is fixed for the entire 35 year term.

- Borrowers are qualified at the interest-only payment which gives them up to 25% more home buying power.
- Only privately-insured (conventional) loans are eligible.
- There is no prepayment penalty. Partial prepayments made during the first 57 months of the interest-only period will decrease the monthly payment of principal and interest due in years 6-35. If partial prepayments are made after the 57<sup>th</sup> month, the principal balance of the loan will decrease and the loan will be paid off prior to the maturity date of the loan but the monthly payment of principal and interest will not decrease.
- Interest rates are the same as the regular MMP Statewide interest rates.
- Other eligibility requirements, such as the Income Limits, Maximum Acquisition Costs, first-time homebuyer requirements, are the same as the regular MMP Statewide.
- A new CDA document, the [“5/30 Mortgage Program” Note](#), must be used for this program.
- In addition, all borrowers requesting a loan under this program, must be given the CDA document entitled [Important Borrower Information](#).

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## **Premium Bond Program (Zero Point with a 2% Grant)**

This program provides borrowers with a 2% closing cost assistance grant on a Zero Point loan. The grant is 2% of the loan amount.

- FHA-insured, privately-insured (conventional), USDA/RD (RHS)-guaranteed, and VA-guaranteed loans are eligible.
- Lender is responsible for ensuring that the grant is being applied consistently with the requirements of the mortgage insurer or guarantor for the grantee's loan.
- For FHA-insured loans (refer to Section 3, item 1-9 J. on pages 1-17 and 1-18 of the 4155.1 REV-5 Handbook for additional detail):
  - The proceeds from the 2% grant may ***not*** be used to fund any portion of the borrower's 3% Statutory Investment Requirement;

Example: \$185,000 Sales Price and a \$183,549 Loan Amount (FHA-insured loan)

Amount of 2% grant =	\$3,670.98 (A) [\$183,549 X 2%]
3% Statutory Investment Requirement =	\$5,550.00 (B) [\$185,000 X 3%]
Total Cash to Close from Line 12g of MCAW =	\$13,140.00 (C)
\$13,140.00 (C)	\$7,590.00
- 5,550.00 (B)	-3,670.98 (A)
\$ 7,590.00	\$3,919.02 + \$5,550.00 (B) or \$9,469.02 = funds needed from borrower

- The grant must be disclosed on the Good Faith Estimate and the HUD -1 Settlement Statement; and
- The principal balance of the loan must be reduced by the amount that the grant exceeds actual costs.
- The interest rate for this program when it opens on Monday, April 4, 2005 will be **5.95%**. Please note that this rate is subject to change. The interest rate for this program will apply to both the regular MMP Statewide as well as the new 5/30 Mortgage Program. The interest rate will be uploaded to our website as well as Lender On-Line.
- Other eligibility requirements, such as the Income Limits, Maximum Acquisition Costs, first-time homebuyer requirements, are the same as the regular MMP Statewide.
- A new CDA document, the [Closing Assistance Grant Agreement \(030905\)](#), must be signed by the borrowers (as Grantees) if they are receiving a 2% grant under this program. The original of this document is to be included in the Post Closing Compliance and Purchase Submission
- CDA will not reimburse a lender for funds advanced for the grant if the accompanying loan is not eligible for purchase. In addition, the lender may not seek reimbursement from the borrower. In the case of a repurchase, the amount of the grant will be included in the repurchase amount.

## **Maximum Fee to Lenders**

The maximum fee to lenders is increasing from 1.75% to 2.00% for loans reserved on or after April 4, 2005. The maximum fee is the only fee that is changing. The maximum fee is the fee earned on loans that are approved for purchase within 90 days of reservation on existing homes and within 150 days of reservation on newly constructed homes. Please refer to the Fee Schedule on page 49 of the [Lender's Manual for the Maryland Mortgage Program dated March 30, 2005](#) for the other fees.

## **Updates to Lender's Manual, Attachments & Loan Documents**

Underwriting ratios are no longer restricted by the Program. If an insurer/guarantor will insure or guarantee a loan we will purchase the loan subject to the loan meeting the applicable federal, State and program eligibility requirements.

The remaining economic life must be equal to or greater than the mortgage term.

A satisfactory well certification is required if the property does not have public water.

A septic certification is required if the property is not connected to public sewer.

Loans with open escrows for the completion of weather-related items will be purchased, with the Lender assuming the responsibility for assuring the work is completed after purchase.

The term of the 5/30 Mortgage Program, 35 years, is an exception to the requirement that the mortgage term may not exceed 30 years.

### **Important: For loans reserved on or after Monday, April 4, 2005:**

- **If the first mortgage amount is less than or equal to \$150,000, a borrower may receive closing cost assistance from *either* a DSELP loan or a 2% closing cost assistance grant under the Premium Bond Program, *but not from both sources*.**
- **If the first mortgage amount is greater than \$150,000, a borrower may receive closing cost assistance only from a 2% closing cost assistance grant under the Premium Bond Program.**

Revisions were made to [Attachments K](#), [Attachment L](#) and [Attachment P](#). Refer to documents for specific changes. The changes are shaded.

The following new documents were added to Program Loan Documents: [Closing Assistance Grant Agreement \(030905\)](#) and the ["5/30 Mortgage Program" Note](#).

### **Reminders**

- 35% coverage is required on all conventional loans, *regardless of the LTV ratio*.
- An unborn child can be treated as an "individual" (household member) when the birth of the child will change the household size and result in an increase in the applicable Income Limit. A ["Certification of Pregnancy" \(Attachment T\)](#) must be completed and executed by the pregnant borrower's physician.

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@dhcd.state.md.us](mailto:manahan@dhcd.state.md.us).

Sincerely,

William J. Manahan  
Sr. Manager  
Single Family Housing