Handling Community Lending Programs and Products

Procedure

TABLE OF CONTENTS

Document Information

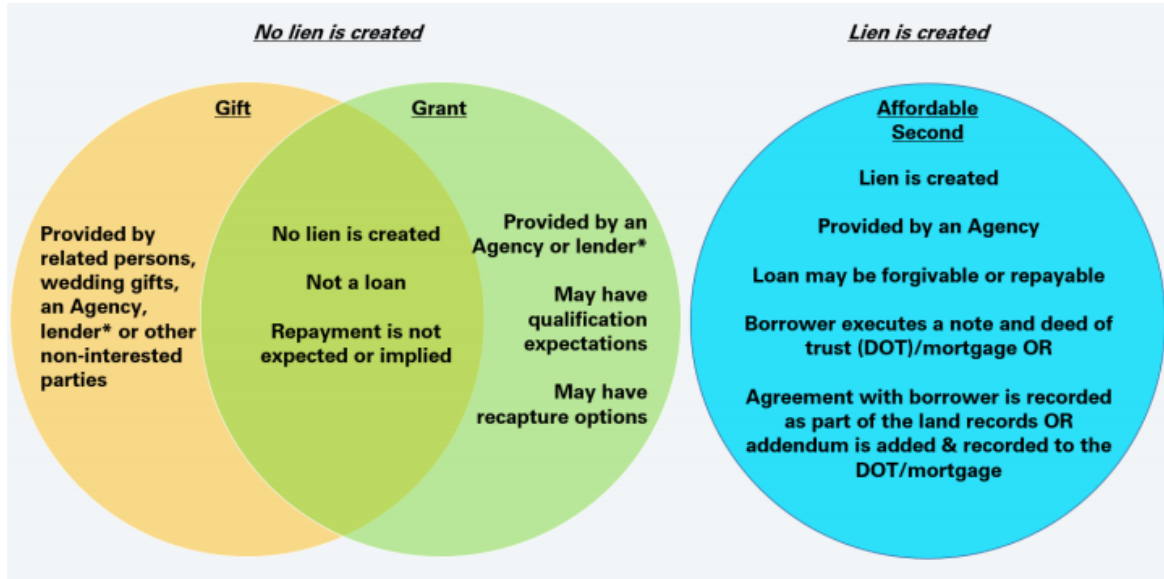| Scope	**Production** Loan Officer, Production Manager, Retail Market Leader, Retail Divisional Leader
Governing Policy	Company	Retail Lock Policy
Tools and Systems	Octane

Overview

Cardinal Financial Company, Limited Partnership ("Cardinal") permits approved Housing Authority programs that provide grants, community loans, and mortgage credit certificates. Cardinal separates its support of these programs into Cardinal-funded (also known as lender-funded) and agency-funded programs.

The Product Development Program must approve all community lending, grants, or mortgage credit certificate programs. Currently, they are listed on Cardinal's list of supported programs as either lender-funded or agency-funded, which delineates between the level of support and lender participation required. Cardinal requires approval for all grants, community lending providers, and mortgage credit certificate providers, as significant legal documentation, tax keeping, and other critical steps are required regardless of the entity's requirements for lender approval.

See the Product Development Portfolio - Matrix for an active list of supported investors and community lending products and programs. Cardinal's Coming Soon and community lending products help identify any products, programs, or community lending offers that are approved and pending rollout. The Products page of the Hub provides status updates and an estimated date that the program will be offered.

What are gifts, grants and Affordable Seconds

Recognizing there are various terms used in the industry, the information provided below is a high-level overview of the defined terms used in this resource when gifts, grants and or Affordable Seconds are used to assist with down payment and closing costs.

No lien is created

Gift
Provided by related persons, wedding gifts, an Agency, lender* or other non-interested parties

No lien is created

Not a loan

Repayment is not expected or implied

Grant
Provided by an Agency or lender*

May have qualification expectations

May have recapture options

Lien is created

Affordable Second

Lien is created

Provided by an Agency

Loan may be forgivable or repayable

Borrower executes a note and deed of trust (DOT)/mortgage OR

Agreement with borrower is recorded as part of the land records OR addendum is added & recorded to the DOT/mortgage

*_Home Possible_ mortgages only

Find the Affordable Seconds job aid here.

For definitions of "Affordable Seconds" and "Agency" access Freddie Mac glossary.

Although Community Lending Programs lower the amount a borrower must bring to the closing by covering a portion of the sales price, the gift, grant, or second lien is not applied directly to the borrower's closing costs within Octane.

New Product Requests

Branch managers can submit a request for a new product through their Executive Leader. Retail Finance meets with the Retail division managers to determine the business needs and motivation for offering the new product and the proposed urgency of the product offering. Each submission requires a justification and volume projections.

The submission form is only available to executive leaders and can be accessed from the Executive Resources page on The Hub.

An executive or authorized delegate must submit the request to ensure senior management has all the information to make an informed decision.

The requester should have details on the following data points:

- New banked investor

- New brokered investor

- New product offering from a current investor

- New community lending product

- New Mortgage Credit Certificate

- A description of the product

- The business rationale including the estimated volume

- Additional product details including the program website, contact information, EIN, guidelines, and other supporting documentation

- A note stating whether this product is for a niche market or not

Requests are reviewed and prioritized based on the volume and income the product generates for Cardinal and the importance of the product to the originator's referral base.

The purpose of this procedure is to provide instructions on how to correctly input key pieces of information and use Octane features available to support approved community lending programs, including concurrent financing provided by another entity, a second lien provided by a community lending entity, or state program, a community-provided grant/gift, or a community lending Mortgage Credit Certificate.

The liability type is critical to obtaining accurate requirements, product offerings, and automated underwriting findings. Octane differentiates concurrent seconds obtained from another financial institution,

community second programs that provide down payment assistance ("DPA") in the form of a loan that must be repaid or will be forgiven, and a DPA program that assists in the form of a grant.

Community Second funds must be provided by a federal agency, a municipality, a state, a county, a local housing finance agency, a non-profit organization, a regional Federal Home Loan Bank under one of its affordable housing programs, or an employer.

Repayment of the Community Seconds mortgage can be structured in any number of ways, such as:

- Requiring fully amortizing, monthly payments

- Deferring payments for some period before changing to fully amortizing, monthly payments

- Deferring payments over the entire term unless the mortgage is paid off or the property is sold before the maturity date of the mortgage

- Forgiving the debt over time

Users must ensure that they are combining assistance types and completing all steps that apply for each assistance type or amount.

Cardinal's policy is not to offer counterparties, investors, or products that compete with products we offer as banked products internally.

- **Example:** If a Housing Finance Authority offers a product with no down payment assistance, Cardinal will not support the "no assistance product" option without an additional benefit to the borrower.

Important: Once the structure for a Standalone product is disclosed, a piggyback loan cannot be used, and a new loan must be started. Cardinal cannot support canceling locks with existing community lending providers. Once a loan is disclosed or locked with a piggyback, the loan structure cannot change to remove the piggyback, and a new loan must be started.

Getting Started

The performer must have access to Octane and the Community Lending Overview to perform the steps in this procedure.

1. Access and sign in to Octane.

2. Review the registration process for the product or program within the Retail or Consumer Direct overview, if applicable.

3. Review the overview to determine if there are any prerequisite steps before adding the product.

Identifying and Selecting the Liability Type

Down payment assistance can be agency or lender-funded. Refer to the Product Development Portfolio - Matrix or review the Assistance Type listed on the Community Lending Overview to verify whether the program is lender or agency-funded.

Depending on the result, use the below table to determine the next steps.

If	Then
The program is funded by the community lending agency	• The funds are supplied at the time of closing. • The program does not require a product code. • The program is added in Octane as a new Community Second liability on the **Credit** screen. **Note**: Refer to Adding Agency-Funded Programs for more information.
The funds are supplied by Cardinal	• Cardinal is reimbursed by the investor upon the purchase of the loan. • The program is added to the loan by selecting the specified product terms. **Note**: Refer to Applying for Lender-Funded Programs for loan setup steps.

Users must complete the process for Adding Agency-Funded Programs or Applying for Lender-Funded Programs, not both.

Adding Agency-Funded Programs

1. From the left menu in Octane, navigate to the **Credit** screen.

2. Select the **Liabilities** tab.

3. Click **Add Liability**.

4. Complete the following fields:

   - **Liability Type**: Select **Community Second**.

   - **Lien**: Select **2nd**.

   - **Property**: Select the **Subject Property**.

     a. Enter the **City**, **State**, and **ZIP code**.

   - **Disposition**: Use the drop-down menu to select **New**.

   - **Third-Party Community Second Program**: Click **Choose** and select the applicable program.

     Note: If no programs are listed in the Third-Party Community Second Program menu, then the main program selected for the loan does not support a Community Second. Contact Support for further assistance.

   - **Balance & Credit Limit**: Enter the assistance amount to create the new loan or liability.

     a. Place the assistance amount in the **Balance** field.

5. From the left menu, navigate to the **Assets** screen.

6. Select the **Funds for Closing** tab.

7. Allocate the **assistance amount** in the correct column for the **Community Second**.

   - Ensure the assistance amount populates in the applicable column.

   - Ensure the **Deficiency** is **$0**.

Applying for Lender-Funded Programs

All program parameters must be set to obtain accurate pricing. Refer to the community lending overview, including the product snapshot within the overview for more information about the correct loan structure and pricing.

1. From the left menu in Octane, navigate to the **Terms** screen.

2. Select the **Terms** tab.

3. In the **General** section, locate the **Structure** field.

   a. Use the drop-down menu to select **Piggyback**.

4. In the **1st Loan Terms** section, enter the **Base Loan Amount**.

5. In the **2nd Loan Terms** section, enter the **Base Loan Amount**.

6. Click **Save**.

7. Click **Get Rates**.

8. Complete the following fields for the 1st Loan Terms.

- Type

- Term

- Amortization

- Payment

- MI Payment Payer

    ○ If the program offers a **No MI** option, select **Not Applicable**.

    Note: Do not select **Lender - Single Premium**.

- Doc Category

- Doc Level

9. Complete the following fields for the 2nd Loan Terms.

    a. In the **Term** field, select all applicable terms.

    b. Toggle the **Community Second field** boolean to **Yes** to display all community lending options.

10. Click **Find Rates**.

11. Choose the appropriate **Loan Pricing** for the first and second lien.

    Note: Both first and second mortgage products must be selected.
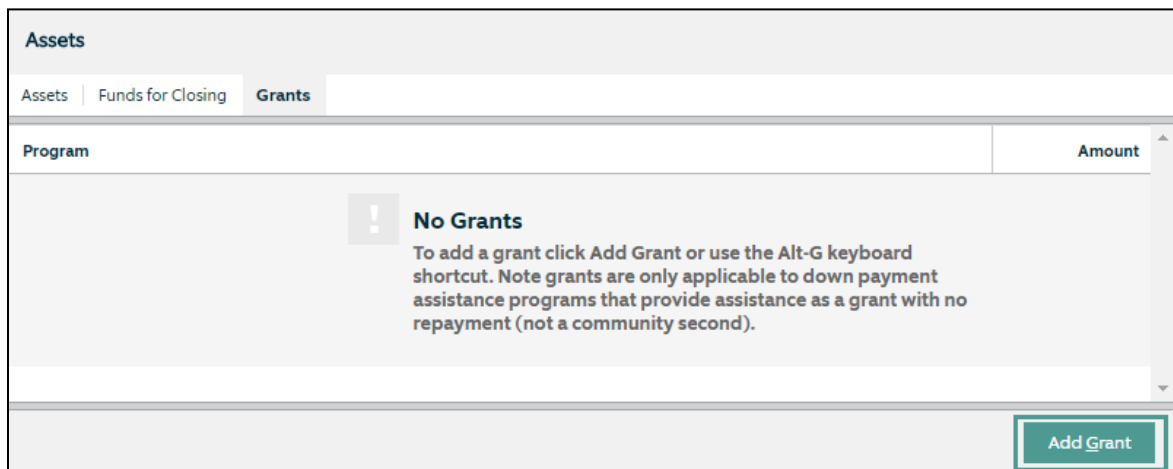
12. Click **Choose Selected**.

Adding Grants

The Automated Underwriting System ("AUS") calculates the grant as a gift; however, it will not be subtracted from the funds required for closing. When reviewing AUS for the assets required for closing, users must ensure they subtract the grant amount. Octane appropriately accounts for the Grant Funds—there is a difference in the grant amount between AUS funds required for closing and Octane's Cash to/from the Borrower.

The user must use the following steps to ensure AUS runs properly and Cardinal can sell the loan to the applicable agency.

1. From the left menu in Octane, navigate to the **Assets** screen.

2. Select the **Grants** tab.

3. Click **Add Grant**.

4. In the **Program** field, use the drop-down menu to select the applicable grant program.

5. In the **Grant Amount** field, enter the grant amount provided by the Housing Authority.
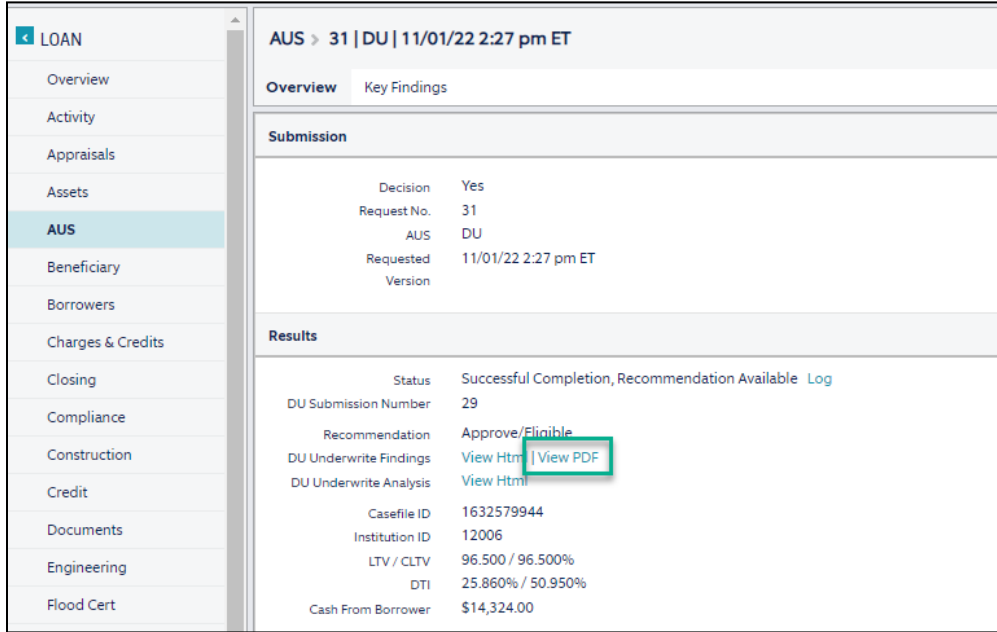
6. Click **Save**.

Understanding a Grant Fund - Example

For this example, the borrower receives $5,852.04 from the Texas State Affordable Housing Corporation ("TSAHC"). AUS states the required funds for closing are $7,368.00; therefore, the borrower owes $1,516.02 at closing in Octane.

1. From the left menu in the loan, navigate to the **AUS** screen.

2. In the **Track/Submit** tab, select the most recent **AUS Decision** (indicated by a green checkmark).

3. Select the **Overview** tab.

4. In the **Results** section, click **View PDF** to access the AUS findings.

5. Locate the **Required** funds in AUS.
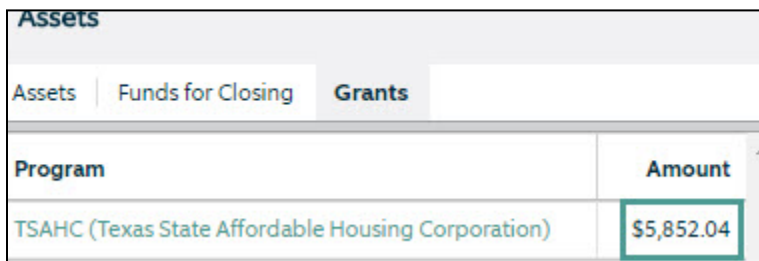
6. From the **Assets** screen in Octane, select the **Grants** tab.

7. Locate the **Amount** for the applicable **Program**.

8. Use the following equation to determine the amount of cash due.

   $7,368 – $5,852.04 = $1,515.96

   Note: The amount will be roughly $1 off as AUS rounds.

9. Verify the amount of cash due in Octane by reviewing the **Cash from Bor** field in the loan ribbon.

Handling Mortgage Credit Certificates

A Mortgage Credit Certificate ("MCC") is a certificate issued by a certain state or local government that allows a taxpayer to claim a tax credit for some portion of the mortgage interest paid during a given tax year.

As a holder of the MCC, borrowers receive the credit each year as the mortgage loan is paid off. MCCs increase a family's annual income by providing larger tax benefits. Actual savings experienced by a homeowner depend upon the mortgage interest paid on the home loan.

Follow the below steps to add the eligible MCC to the loan, which serves as a qualifying household income.

1. From the left menu in Octane, navigate to the **Income** screen.

2. Click **Add Income**.

3. Click **Other Income**.

4. Click **Create**.

5. Enter the following information into the appropriate fields.

   a. In the **Income Type** field, use the drop-down menu to select **Mortgage Credit Certificate (MCC)**.

b.   In the **Source Name** and **Housing Authority** fields, use the drop-down menu to select **MCC Issuer**.

6.   Click **Save**. The Lock Desk manually reserves the MCCs.

Note: Once the MCCs are reserved, the appropriate department enters the reservation and commitment numbers:

- For Community Second Programs, the Lock Desk enters the information.

- For MCCs added to standalone first lien programs, the Underwriter enters the information

Completing the Lock Process

Locks are requested through Octane and then processed by the lock desk, where they are registered and locked with the entity.

1.   From the left menu in Octane, navigate to the **Terms** screen.

2.   Click **Get Rates**.

3.   Choose the appropriate program information you or the borrower would like to see.

4.   Click **Find Rates**. All available rates populate.

5. Search for the Community Lending rates, including the first and second, if applicable. The Housing Authority's name is listed under the Program ID.

Note: If the second lien or grant was added correctly, the loan ribbon shows the Housing Authority Program.

Note: The Lock Desk registers the loan and reserves the funds with the Housing Authority when they receive the request to lock the loan.

References

Reference List
Consumer Direct - Products - The Hub
Executive Resources - The Hub
Loan	Assets
Loan	Terms
Loan Product Request
Product Development Portfolio - Matrix
Retail - Products - The Hub

The Hub

Revision History

Revision History is to be used as a reference only and will only provide a summary of document changes. For complete versioning, refer to the Google Docs versioning functionality, which is the system of record. Versioning has been captured as of 10.1.20.

Date	Version	Description	Approver
12.11.23	V7	Document Certification • Added new screenshots and steps throughout the document to ensure workflow accuracy. • Provided grammatical and formatting updates to fit P&P standards. • Deleted the **Reservation of Funds** section.	Leticia Dalton Erica Price
8.14.23	V6	Off-cycle request. • Added a new paragraph to the end of the **Overview** section. • Made minor grammatical and formatting updates throughout the document	Leticia Dalton Erica Price
12.13.22	V5	Off-cycle request. Grammatical and Formatting updates were made along with other immaterial changes.	Ellen Clayson Erica Price
7.22.22	V4	Immaterial change removing the link to the New Loan Product Request Form, as it no longer exists.	Marlo Taylor
2.2.22	V3	Off-cycle update: Added sentence about Cardinal being unable to change a standalone lien to a piggyback lien after the file has been disclosed. Updated Octane screenshots.	Erica Price
10.20.21	V2	Updated the process for submitting new product requests and clarified verbiage throughout the document.	Erica Price
9.28.21	V1	Off-cycle update - Retail Committee added as approver for new product requests	Erica Price
2.4.20	-	See Google Version History for previous updates	Erica Price