First Mortgage Loan to
Purchase/Rehab or Refinance/Rehab

1. Eligible borrowers will be those who are purchasing or refinancing a house on a target block in a Healthy Neighborhoods community who intend to be or are owner occupants and who are undertaking a rehabilitation project in the property. Target houses may include foreclosed vacant properties throughout the neighborhoods as approved by Healthy Neighborhoods.

2. An eligible property may contain 1-4 properly zoned residential units.

3. Borrowers may be referred to the bank by a participating neighborhood organization, or Healthy Neighborhoods, Inc., Borrower is responsible for the upfront cost of a credit report if one cannot be provided at no cost.

4. Borrowers will be underwritten and approved by M&T Bank. Borrowers must meet Fannie Mae standard underwriting guidelines. Housing expense, including principal, interest, taxes and insurance, should not exceed 30% of borrower's income. Total long term debt payments should not exceed 40% of borrower's income. A minimum credit score of 620 is required. Borrower may not have any open derogatory credit items.

5. Maximum aggregate loan amount secured by the property (including any settlement expense loans) shall not exceed 110% of after-rehabilitation loan to value, as established by appraisal. Loans to borrowers will be limited to a maximum loan amount of $295,000. There will be no private mortgage insurance premium required.

6. Construction terms will be 12 months or longer if mutually agreeable to M&T Bank and the borrower. Maximum permanent loan term is 30 years.

7. New purchasers must invest at least 3% of the purchase price plus rehab amount from their own funds. Gifts may be counted toward meeting this requirement; however, government or philanthropic grants and settlement expense loans will not count toward meeting the investment requirement. Borrowers are responsible for closing costs of any subordinate debt.

8. The loan interest rate during rehab will be fixed on the date of application until home renovations and the construction term are complete, at which time the loan must be refinanced to permanent status at the current program loan rate.

9. The program discounted permanent interest rate will be 100 basis points below the 60 day Fannie Mae Rate as published in the Wall Street Journal, but in no event less than 4%, set at time of rate lock. Rate will be locked in when the home renovations and construction term are complete and fixed for 30 years.

10. The loans will constitute a first mortgage on the property payable in fixed monthly payments. The borrower will make interest-only payments on funds advanced during the construction period. Upon completion of construction and distribution of all loan proceeds, the loan must be refinanced and borrower's payments will consist of principal, interest and escrow payments.

11. Borrower will pay 2.25 points as a loan origination charge to M&T Bank, a one-time 0.26 point pool insurance fee to the Maryland Housing Fund plus all customary loan closing costs. These fees and closing costs may be included in the loan if borrower has met the required cash contribution and loan amount does not exceed maximum program loan to value.

12. For any loans available under the terms of this loan pool, borrowers will hire a MHIC licensed, insured general contractor. A construction contract between borrower/s and contractor, including scope of work and rehab costs, must be approved by Healthy Neighborhoods, Inc. prior to formal loan application with M&T Bank. The contract should specify that it is contingent upon borrower obtaining sufficient financing for the scope of work. Improvements will be completed in full by a general contractor unless a waiver is provided by Healthy Neighborhoods, Inc. Borrowers may request to self-manage a series of licensed subcontractors to complete specific tasks or do the work themselves. Based upon the complexity of the rehab and the experience of the homeowner, Healthy Neighborhoods and/or M&T Bank in its sole discretion may reject a homeowner's request to undertake work themselves or to manage a series of subcontractors. In the case of owner-made improvements, only the cost of materials in place, inspected and evidenced by receipts can be reimbursed from the loan. A fully executed Contractor's Performance Agreement and title bring downs before each advance will be required for rehabilitation amounts of $100,000 or more. Borrower's acceptance of a contractor's proposal should specify the intended construction period and that the borrower's acceptance is contingent upon borrower obtaining sufficient financing for the scope of the work described.

    a. Loans are available to finance acquisitions or refinances of homes with sales prices or mortgage balances no greater than $170,000, which are in habitable condition (as determined by the appraisal report) if the owner agrees to make a minimum of $5,000 for improvements including to the exterior of the property, within the construction term and borrows the rehab funds along with the acquisition or refinance loan. Borrowers may borrow more for interior and exterior rehab under the program. Ratios and loan to values must meet the program guidelines. The loans will remain at M&T Bank's rehab rate until work and the construction term are completed.

    b. Loans are available to finance acquisitions or refinances of homes with sales prices or mortgage balances greater than $170,000 on target blocks which are in habitable condition (as determined by the appraisal report) if the owner agrees to make repairs equal to at least 10% of the acquisition price of the house including to the exterior of the property, within the construction term and borrows the funds along with the acquisition or refinance loan. For homes with sales prices of $200,000 or more, the borrower must commit to making at least $20,000 of improvements. Borrowers may borrow more for interior and exterior rehab under the program. Ratios and home values must meet the program guidelines. The loans will remain at M&T Banks rehab rate until work and the construction term are completed.

c. Loans are available to finance acquisitions or refinances of properties which are not in habitable condition (as determined by the appraisal reports) if the owner agrees to make repairs to bring the property to habitable code condition including to the exterior of the property within the construction term and borrows the rehab funds along with the acquisition or refinance loan. Borrowers may borrow more for interior and exterior rehab under the program. Ratios and loan to values must meet the program guidelines. The loans will remain at M&T Bank's rehab rate until work and the construction term are completed.

13. Upon loan settlement, the Bank will advance the lesser of 20% of the rehab cost or $8,000 if a contractor is being utilized. The remainder of the rehab portion of the loan will be held for disbursement by the bank and funds will be released during construction upon satisfactory inspection of the work in place by bank's approved construction inspector. Work carried out by the owner or anyone other than a licensed contractor will only receive reimbursement for materials in place, after inspection and evidenced by receipts. Customary loan inspection fees will be charged.

14. If Borrower fails to begin renovations within the required rehab term, the loan must be refinanced to the permanent mortgage at the non-discounted prevailing 60 day Fannie Mae Rate as published in the Wall Street Journal and sold to the fund without rehab. The unused renovation funds may be frozen and the permanent loan amount will equal the amount disbursed.

15. If Borrower begins renovations, but is unable to complete renovations within the required rehab term, the renovation term may be modified and extended. An extension fee may be charged. Upon completion the loan must be refinanced to a permanent mortgage at 100 basis points below the 60 day Fannie Mae Rate as published in the Wall Street Journal, and sold to the fund.

16. An application disclosure must be signed by all borrowers prior to loan commitment.

17. The borrower agrees that any payment delinquency or default may be reported by the lender to the referring neighborhood organization, to Healthy Neighborhoods, Inc., and to any loan pool guarantor, insurer or Healthy Neighborhoods neighborhood partner.

18. In the Midtown Belvedere and Mount Vernon neighborhoods, financing will only be offered for properties whose renovations will meet the standards of the Maryland Historic Tax Credit.

19. The Healthy Neighborhoods Loan Pool will finance up to 97% of appraised value to purchasers of formerly vacant developer rehabilitated houses on target blocks or NSP2 financed properties in eligible neighborhoods who meet the other underwriting criteria of the program. Developers must be pre-approved and pay a 1% fee to Healthy Neighborhoods. (See *Healthy Neighborhoods First Mortgage Loan: Special Program for Purchasers of Homes from Developers Pre-Approved by Healthy Neighborhoods, Inc.* for additional terms.)

20. Borrowers who own residential rental property are not eligible for financing under this program.