



Texas Refinance Policy

Updated March 15, 2010

Texas Home Equity Restrictions

Primary Residences (Homesteads): Transactions are defined by and subject to Article XVI Section 50 (a)(6) of the Texas Constitution, which permits homeowners to borrow against the equity in their primary residence.

Once a loan is originated as a "Texas (a)(6)" cash-out loan, it is always classified as a Texas (a)(6) loan, even if no cash is taken out from the subsequent refinance transaction. Therefore, a no-cash-out refinance of a Texas (a)(6) loan is always considered a cash-out refinance under Texas (a)(6) law and is not eligible for delivery under rate and term refinance guidelines.

Any Texas Section 50(a)(6) loan (first or second) is always restricted to the provisions of Texas 50(a)(6) for all subsequent refinances of that loan. The title policy will reference Texas 50(a)(6).

There can be only one outstanding Texas 50(a)(6) loan on a property at any given time. If the borrower has an existing Texas 50(a)(6) second that lien must be paid off.

Closing costs (excluding prepaids) cannot exceed 3% of the principal amount of the loan. Discount points used for reduction in interest rate do not need to be included in the 3%. If closing costs are greater than 3%, fees must be reduced prior to closing. **Refunds to the borrower are not permitted.**

Loans are considered Texas Section 50(a)(6) when:

- The new loan is originated for the purpose of taking equity out (cash out refinance)
- Loan proceeds are used to pay off an existing Texas Section 50(a)(6) loan
- Loan proceeds are used to pay off federal tax debt liens
- Loan proceeds are used to pay property tax liens on the property securing the new loan

Owner Occupied rate and term refinance transactions that are not considered to be Section 50(a)(6) are limited to:

- Purchase money loans.
 - File must contain a copy of the HUD-1 from the purchase of the property evidencing all liens were used as purchase money
- Current taxes due on the property securing the loan
Note: Liens for delinquent property taxes on the property securing the new loan may not be included
- When a prepayment penalty fee is assessed on an existing non-(a)(6) loan and is included in the payoff amount, the new loan may be a rate-and-term if the title company agrees and issues a new title policy for the full loan amount (including prepayment penalty fees).
- HOA dues may be paid off if the title company requires them to be paid. If the title company does not require them to be paid, the borrower must pay the dues outside of closing, and they must not be included in the loan amount.
- Standard closing costs and fees (including discount points and prepaids)

- Borrower may not receive any incidental cash back at closing. Any excess proceeds must be applied to the principal balance at closing. HUD-1 must reflect the principal reduction.

Reunion Mortgage does not allow the following items to be included in a rate/term refinance:

- Loans to buy out equity (“owelty”) pursuant to court order or agreement of the parties; usually in a divorce proceeding or a lawsuit requesting partition of the property among the owners
Note: Although this is allowed by both Fannie Mae and Texas guidelines, this is not allowed, as it requires manual underwriting. Reunion Mortgage requires all conforming loans received DU Approval.
- Home improvement junior liens.
Note: Texas allows this to be included in a non 50(a)(6) rate/term refinance, however Fannie Mae does not

Underwriting Requirements

- Minimum loan amount is \$130,000
- Maximum LTV 80%
- No subordinate financing allowed
- Property:
 - Loans secured by properties in declining market areas are limited to the existing balance rounded to the next \$100
 - Borrower will have to cover closing costs with their own funds or premium pricing
 - No cash out to borrower
 - File must contain an appraisal with an interior inspection in accordance with guideline requirements. Property Inspections Waivers or Exterior Only Appraisals are not allowed.
 - 1-unit, owner occupied only, condos and PUDs are ok. In-law units are not allowed
 - Maximum 10 acres
 - Rural Properties are not allowed
 - The property must be located within one of the following areas:
 - Municipal boundaries
 - Its extraterritorial jurisdiction
 - A platted subdivision
 - Leasehold Properties are not allowed
 - The property must be served by police protection, paid or volunteer fire protection, with at least three of the following services provided by a municipality or under contract to a municipality:
 - electric
 - natural gas
 - sewer
 - storm sewer
 - water
 - Dwelling should be within reasonable distance to place of employment.
 - No escrow holdbacks allowed. Property must be complete
 - Properties with agricultural use or zoning are not allowed
 - Copy of tax certification must be in the file and reviewed to ensure property does not have agricultural exemption or contain evidence of recent conversion
 - A survey is required for every loan.
- Borrower Eligibility
 - All borrowers must occupy and have occupied for major portion of the year
 - Borrower must reside and be employed in the U.S. (if not a U.S. Citizen)

- 12-month seasoning for any Texas Section 50(a)(6) loan (first or second).
 - If borrower refinanced with in the last 12 months the following documentation is required to verify the prior transaction was not a Section 50(a)(6):
 - HUD-1 from last refinance
 - Copy of recorded Deed(s) of Trust for current lien(s) being paid off
- Ownership Interest
 - Ownership must be as Fee Simple
 - Borrower's ownership interest may not be based on:
 - Contract for deed
 - Community property interest
 - Homestead interest
- Copy of subject property tax record must be in the file to evidence borrowers primary residence
- If borrower owns more than one property, an Affidavit of Non-Homestead is required.
- Borrowers may payoff debt at closing, but this can not be a requirement of loan approval or qualifying. Borrower must provide a written statement indicating these payments were voluntary.
- Eligible borrowers include U.S. Citizens and Permanent Resident Aliens.
- Non-permanent resident aliens not permitted
 - Must be a legal resident of the U.S. as evidenced by social security number (Tax ID # is not acceptable)
 - Borrower must be employed in the U.S.
- Property vested in Trust is not permitted
- Only one Texas 50(a)(6) loan may close in any 12-month period. Review of the title report is required to ensure all mortgage liens are properly seasoned
- Interested party contributions are not allowed
- Fees and Charges paid by the borrower may not exceed 3% of the loan amount. See State High Cost Worksheet for included fees.
- Special Features Code 304 Texas Refinance must be entered in DataTrac

Approved Closing Attorney

Black, Mann and Graham, L.L.P., Attorneys at Law
 9575 Katy Freeway, Suite 300
 Houston, TX 77024
 (713)871-0005

Closing Requirements

- Loan documents must be drawn by approved attorney
- Closing must be completed by approved attorney
- There cannot be more than one Texas Section 50(a)(6) loan secured by a property at any time. Reunion Mortgage will not close any loan if the title indicates that more than one Texas Section 50(a)(6) loan was securing the property at the same time, even if the new loan is paying off both liens.
- Texas Home Equity Disclosure is required on all loans:
 - The form must be fully-executed by all parties with an interest in the property, including non-borrowing spouse(s)
 - The form must be signed and dated by all parties at least 12 calendar days prior to the execution of the closing documents

- The form must be provided in the language consistent with the interview between the lender and borrower. Example: If the lender's interview was in Spanish, the 12-day disclosure must be provided in Spanish.
- Loan may not close with a Power of Attorney
- First payment can be no later than 60 days after closing
- Endorsements: Texas Mortgagees Policy (T-2) with Equity Loan Mortgage Endorsement (T-42), and Supplemental Coverage Equity Loan Mortgage Endorsement (T-42.1) are required.
- Loan must close by an approved attorney on a normal business day for the approved attorney. No notary closings
- Loan may not close until the borrower has been given at least one (1) day advance notice of all final fees. Borrower to review HUD-1. If any changes to fees are made after review of the HUD-1, re-disclosure must take place and re-open one (1) day waiting period
- Both spouses must execute the mortgage. However, both spouses are not required to be parties to the promissory note. All individuals on title and their spouses must sign all Texas Cash Out documents.
- The following Texas Home Equity documents must be signed at closing along with all standard required loan documents:
 - Affidavit of Fair Market Value with a copy of the appraisal attached. ****NOTE**** This document must be fully complete and signed by lender prior to borrower(s) signing the document
 - Texas Equity Notes: FNMA 3244.1
 - Texas Equity Security Instrument. FNMA 3044.1
 - Texas Equity Condo Rider, if applicable. FNMA 3140.44
 - Texas Equity PUD Rider, if applicable. FNMA 3150.44
 - Texas Equity Affidavit and Agreement. FNMA 3185 (*Recorded document*)
 - Acknowledgement of receipt of a copy of all closing documents
 - Affidavit of Homestead
 - Rescission Notice

Eligible Programs

- Conforming Fixed: (C10, C15, C20, C30)
- Cash-Out Refinance
 - All borrowers must have held title (ownership) to the subject property for a minimum of six months.
 - Loan proceeds cannot be used to pay off secured debt or unsecured debt (other than mortgages secured by the subject property)
 - All Texas 50(a)(6) loans must be underwritten and priced as a Cash-Out Refinance
 - Even if no cash is taken from the transaction, a refinance of any Texas (a)(6) loan may not be identified as a rate-and-term refinance.

Program Compliance

- All loans must be documented and comply with all requirements listed in this policy.
- All loans must comply with the requirements of the Texas constitution.
- All notifications from any borrower that Reunion Mortgage failed to comply with the provisions of the law must be immediately sent to the Compliance Department at: compliance@reunionmortgage.com
 - Black, Mann and Graham is to be consulted to determine the correct action needed to comply with one of the authorized means
 - Reunion Mortgage must make corrective action within 60 days of borrower notification