



2007
Affordable Housing Program
Implementation Plan



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I. Background and Program Summary

The Bank will offer two competitive Affordable Housing Program (AHP) funding rounds in 2007. This money will be provided in the form of subsidized interest rates on advances from the Bank or as direct subsidies for housing projects that meet program eligibility criteria.

The first application period begins January 2, 2007 and ends March 2, 2007. The second application period begins July 9, 2007 and ends September 7, 2007. During these time periods, members may submit applications to the Bank. The Housing and Economic Development Committee of the Board of Directors is responsible for approving the highest ranking applications, plus four alternates. Funds will be committed to projects in descending order of rank until all available funds in the round are committed.

In addition to the competitive application program, the Bank will also offer grants through its homeownership set-aside programs. The Bank's Affordable Housing Advisory Council has reviewed and recommended this Implementation Plan, including scoring and district priorities, to the Bank's Board of Directors.



II. Affordable Housing Program

A. Minimum Eligibility Standards

Projects receiving AHP subsidies pursuant to the Bank's competitive application program must meet the eligibility requirements of this section.

1. Competitive Application Program General Standards

- a) The AHP subsidy must be used exclusively for owner-occupied or rental housing. Please refer to the definitions of "owner-occupied housing" and "rental housing" in Attachment A.
- b) The applicant must be a member of the Bank at the time the application is submitted to the Bank.
- c) The application must be complete such that the Bank is able to both determine that the proposed AHP project meets the eligibility requirements of this section and evaluate the application pursuant to the Bank's adopted scoring guidelines in Attachment D.
- d) Revolving loan funds and loan pools are not eligible for funding. Please refer to the definitions of "revolving loan fund" and "loan pool" in Attachment A.
- e) Please refer to Attachment B for the Bank's complete feasibility guidelines. In general, the project's estimated uses of funds must equal its estimated sources of funds; project costs, as reflected in the project's development budget, must be reasonable, in accordance with the Bank's cost guidelines; and the project must be operationally feasible, in accordance with the Bank's feasibility guidelines.

2. Need for Subsidy

- a) The project's estimated sources of funds must equal its estimated uses of funds, as reflected in the project's development budget. The difference between the project's sources of funds and uses of funds is the project's need for AHP subsidy, which is the maximum amount of AHP subsidy the project may receive. The project's sources of funds may either include or exclude the estimated market value of in-kind donations and voluntary professional labor or services provided that the project's uses of funds also include or exclude, respectively, the value of such estimates.



b) A project's cash sources of funds must include any cash contributions by the sponsor, any cash from sources other than the sponsor, and estimates of funds the project sponsor intends to obtain from other sources but which have not yet been committed to the project. In the case of homeownership projects where the sponsor extends permanent financing to the homebuyer, the sponsor's cash contribution shall include the present value of any payments the sponsor is to receive from the buyer, which shall include any cash down payment from the buyer, plus the present value of any purchase note the sponsor holds on the unit. If the note carries a market interest rate commensurate with the credit quality of the buyer, the present value of the note equals the face value of the note. If the note carries an interest rate below the market rate, the present value of the note shall be determined using the market rate to discount the cash flows.

c) A project's cash uses are the actual outlay of cash needed to pay for materials, labor, and acquisition or other costs of completing the project. Cash costs do not include in-kind donations, voluntary professional labor or services, or sweat equity.

3. Project Costs

Taking into consideration the geographic location of the project, development conditions, and other non-financial household or project characteristics, the Bank must determine that the project's costs, as reflected in the development budget, are reasonable, in accordance with the Bank's project cost guidelines. Please refer to Attachment B for the Bank's complete feasibility guidelines.

4. Financing Costs

The rate of interest, points, fees, and any other charges for all loans that are made for the project in conjunction with the AHP subsidy must not exceed a reasonable market rate of interest, points, fees, and other charges for loans of similar maturity, terms, and risk.

5. Timing of AHP Subsidy Use

a) Some or all of the AHP subsidy must be likely to be drawn down by the project or used by the project to procure other financing commitments within 12 months of the date of approval of the application for AHP subsidy funding the project. The Bank will review all projects at 12 months to determine if the AHP commitment should proceed through consideration of the following: 1) Has application been made to other funding sources? and 2) Is it likely AHP funds will be disbursed to the project and the project will be complete within 24 months?



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b) The Bank may extend the time for expenditure of AHP funds provided that reasonable progress is being made in obtaining funding or toward completion of the project. The Bank will review requests for extensions beginning 24 months after approval of the application for funding. The Bank will, in its sole discretion, determine whether to extend the time for expenditure of AHP funds.

Generally, to receive an extension beyond 24 months (36 months when the AHP subsidy is a direct match for Individual Development Accounts) from approval of funding, the Bank will consider issues including but not limited to: 1) the percentage of the project completed to date; 2) the timing of applications and other requirements of other funding sources involved in the project; 3) weather-related construction problems; 4) natural disasters or local conditions that cause delay; 5) legal requirements; and 6) community challenges. Any extension granted will be limited to the time period necessary to address the specific project contingency. The Bank shall cancel its approval of the project and make the funds available to other eligible projects if an extension is not granted. Project progress will be monitored semi-annually through required progress reports.

6. Prepayment, Cancellation, and Processing Fees

AHP subsidies may not be used to pay for any of the following:

a) Prepayment fees imposed by the Bank on a member for a subsidized advance that is prepaid, unless:

- (1) The project is in financial distress that cannot be remedied through a project modification pursuant to the AHP regulations;
- (2) The prepayment of the subsidized advance is necessary to retain the project's affordability and income targeting commitments;
- (3) Subsequent to such prepayment, the project will continue to comply with the terms of the approved AHP application and the AHP regulatory requirements for the duration of the original retention period;
- (4) Any unused subsidy is returned to the Bank and made available for other AHP projects; and



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(5) The amount of AHP subsidy used for the prepayment fee may not exceed the amount of the member's prepayment fee to the Bank.

b) Cancellation fees and penalties imposed by the Bank on a member for a subsidized advance commitment that is canceled.

c) Processing fees charged by members for providing AHP direct subsidies to a project.

7. Counseling Costs (also referred to as homebuyer or homeowner education or financial literacy programs for purposes of purchasing a home)

AHP subsidies may be used to pay for counseling costs only where:

a) Such costs are incurred in connection with counseling of homebuyers who actually purchase an AHP-assisted unit; and

b) The cost of the counseling has not been covered by another funding source, including the member.

Please refer to the definition of "Financial Literacy Program" in Attachment A.

8. Refinancing

A project may use AHP subsidies to refinance an existing single-family or multifamily mortgage loan, provided that the refinancing produces equity proceeds and such equity proceeds up to the amount of the AHP subsidy in the project shall be used only for the purchase, construction, or rehabilitation of housing units meeting the eligibility requirements of the AHP regulations. AHP funds cannot be used to refinance existing projects in cases where no equity is taken out of the project and the refinancing results in a lower debt service cost for the project, as such use of AHP subsidy would not result in the purchase, construction, or rehabilitation of AHP-eligible housing.

9. Retention

a) Owner-occupied Projects: The retention period for owner-occupied projects is 5 years from closing, or in the case of rehabilitation of a unit currently occupied by the owner where there is no closing, 5 years from the date of project completion, as defined in Attachment A. The project's AHP-assisted units are or are committed to be subject to a retention agreement described in the AHP regulations. If there is a sale or refinance of the unit prior to the



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end of the retention period, the subsidy will be forgiven on a prorated basis monthly over the five year period, unless the unit is sold to an income qualified household and the unit continues to be subject to a deed restriction or other legally enforceable retention agreement or mechanism for the duration of the retention period.

b) Rental Projects: The retention period for rental projects is fifteen (15) years from the date of project completion, as defined in Attachment A. AHP-assisted rental projects are or are committed to be subject to a retention agreement described in the AHP regulations. If there is a sale or refinance of the project prior to the end of the retention period, an amount equal to the full amount of the AHP subsidy shall be repaid to the Bank, unless the project continues to be subject to a deed restriction or other legally enforceable retention agreement or mechanism incorporating the income-eligibility and affordability restrictions committed to in the AHP application for the duration of the retention period.

NOTE: In cases where the AHP funds are structured as a loan from the member or any other party to the project owner, any repayment of the AHP funds made during the 15-year retention period, including principal and/or interest payments, must be returned to the Bank.

10. Project Sponsor Qualifications

A project's sponsor must be qualified and able to perform its responsibilities as committed to in the application for AHP subsidy funding the project. The Bank reserves the right to request and review financial statements of the sponsor as well as to review the sponsor's track record in developing and managing real estate projects.

11. Fair Housing, Anti-Predatory Lending, and Housing Accessibility

The project, as proposed, must comply with any applicable federal and state laws on fair housing and housing accessibility, including, but not limited to, the Fair Housing Act, the Rehabilitation Act of 1973, the Americans with Disabilities Act of 1990, and the Architectural Barriers Act of 1969. The project also must demonstrate how it will be affirmatively marketed.

The Bank requires that AHP projects comply with anti-predatory lending laws. For example, anti-predatory lending laws may prohibit or limit certain practices and characteristics, including, but not limited to the following:



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- a) Requiring the borrower to obtain prepaid, single-premium credit life, credit disability, credit unemployment, or other similar credit insurance;
- b) Requiring mandatory arbitration provisions with respect to dispute resolution in the loan document; or
- c) Charging prepayment penalties for the payoff of the loan beyond the early years of such loan.

Any project including a loan that does not comply with all applicable anti-predatory lending laws will be ineligible for AHP assistance. Additionally, the Bank will not provide AHP assistance to any project in which a loan exceeds the annual percentage rate or points and fees thresholds of the Home Ownership and Equity Protection Act of 1994 and its implementing regulations (Federal Reserve Board Regulation Z). Members, sponsors, and owners are responsible for avoiding all unlawful practices and terms prohibited by applicable anti-predatory lending laws, regardless of whether they originate or purchase the loan in connection with an AHP project.

12. Calculation of AHP Subsidy

Where an AHP direct subsidy is provided to a project to write down the interest rate on a loan extended by a member, sponsor, or other party to a project, the net present value of the interest foregone from making the loan below the lender's market interest rate must be calculated as of the date the application for AHP subsidy is submitted to the Bank and subject to adjustment under the AHP regulations. Where an AHP subsidized advance is provided to a project, the net present value of the interest revenue foregone from making a subsidized advance at a rate below the Bank's cost of funds must be determined as of the earlier of the date of disbursement of the subsidized advance or the date prior to disbursement on which the Bank first manages the funding to support the subsidized advance through its asset/liability management system, or otherwise.

13. AHP Limits per Project and per Unit

The Bank limits each AHP project to a maximum grant request of \$500,000 and limits each AHP project to a maximum AHP subsidy of \$30,000 per unit in a single funding period.

14. Homebuyer Counseling

All eligible First-time Homebuyer households must complete a Financial Literacy Program, as defined in Attachment A, prior to closing.



NOTE: Pre-application assistance is available to all AHP applicants. The Bank strongly advises all applicants to submit a pre-application to receive technical assistance from Bank staff prior to submitting a final application. Please contact the Community Investment department at 800-544-3454, ext. 1173 for further information.

B. Application Scoring

Applications submitted to the Bank for AHP funding consideration are scored based upon the requirements outlined in Attachment E of the Implementation Plan.

C. Homeownership Set-aside Program

Please see Attachment C of the Implementation Plan for the Rural Homeownership Fund guidelines, Attachment D for the Native American Homeownership Initiative guidelines, and Attachment G for the Urban First-time Homebuyer Fund guidelines.

D. Median Income Determinations for Projects

Median income standards for use with competitive and homeownership set-aside AHP projects differ depending on the type of project. Based upon project type, the following median income determinations apply:

1. Owner-occupied Projects

The Bank utilizes median income for the area, adjusted for household size, as periodically published for use under the Mortgage Revenue Bond (MRB) program by the State Housing Finance Agency for the state in which the retention document will be recorded. The Bank uses the income limits for non-targeted areas. If a city has a targeted area for MRB income determination, the Bank will use the non-targeted area incomes.

NOTE: The MRB limits published by the state are generally 100 percent or more of median income and, therefore, must be reduced by the appropriate percentage of income targeted. The MRB income limits for the Bank's district are available on the Bank's website at www.fhlbdm.com.

2. Rental Projects

The Bank uses the median income for the area as published annually by HUD and adjusted for household size for each county or MSA. The HUD income limits for the Bank's district are available on the Bank's website at www.fhlbdm.com.



3. Projects located in a Native American Service Area

a) Owner-occupied Projects: The Bank uses the NAHASDA Income Guidelines or MRB income guidelines for owner-occupied projects. The sponsor or member must choose either the MRB Income Guideline or the NAHASDA Income Guideline.

b) Rental Projects: The Bank uses the median income for the area as published annually by HUD and adjusted for household size for each county, which includes NAHASDA Income Guidelines. The sponsor/owner must choose either the HUD Income Guideline or the NAHASDA Income Guideline.

E. Procedures for Disbursement of AHP Funds

The member must submit a fully executed AHP Subsidy Transfer Request Form to request disbursement of AHP funds for a project. This form is available on the Bank's website at www.fhlbdm.com and must be submitted to the Bank with each request for AHP funds. Prior to AHP disbursement, the Bank must receive and review the documents listed on the applicable Member's AHP Disbursement Checklist attached to the AHP Subsidy Transfer Request Form. The Bank, in its sole discretion, reserves the right to request additional documentation prior to any disbursement of AHP funds.

Projects that have changed from the time of application approval must be reviewed by Bank staff for continued eligibility and feasibility. The revised project must demonstrate the continued need for AHP funds. Projects that have changed may need to be re-scored and modified (please see "Project Modifications" below for more information).

F. Project Modifications

Prior to or after final disbursement of funds to a project from all funding sources, the Bank, in its sole discretion, may approve a written modification to the terms of an approved application for AHP subsidy funding the project if there is or will be a change in the project that would change the score that the project application received in the funding period in which it was originally scored and approved, had the changed facts been operative at that time, provided that:

- a) The project, incorporating any such changes, would meet the eligibility requirements of the AHP regulations;
- b) The application, as reflective of such changes, continues to score high enough to have been approved in the funding period in which it was originally scored and approved by the Bank; and



- c) There is good cause for the modification, and the analysis and justification for the modification are documented by the Bank in writing.

Modifications involving an increase in AHP subsidy must be approved or disapproved by the Bank's Board of Directors.

G. Project Monitoring

Initial and long-term monitoring requirements for project sponsors/owners, members, and the Bank are described in this section.

1. Initial Monitoring Requirements

a) Requirements for Project Sponsors/Owners

(1) Owner-occupied Projects:

During the period of construction or rehabilitation of an owner-occupied project, the project sponsor must report to the member at least semi-annually on whether reasonable progress is being made toward completion of the project. The project sponsor must maintain household income verification documentation available for review by the member and the Bank.

(2) Rental Projects:

During the period of construction or rehabilitation of a rental project, the project owner must report to the member at least semi-annually on whether reasonable progress is being made toward completion of the project.

Within the first year after project completion, the project owner must also do the following:

- (a) Certify to the member and the Bank that the services and activities committed to in the AHP application have been provided in connection with the project;

- (b) Provide a list of actual tenant rents and incomes to the member and the Bank and certify that:

- (i) The tenant rents and incomes are accurate and in compliance with the rent and income targeting commitments made in the AHP application; and



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(ii) The project is habitable;

(c) Attach to the certification a copy of any “final cost certifications” provided to other funding entities – for example, final cost certifications prepared in compliance with the LIHTC program, cost documentation required by other funding agencies, AIA draw forms, lien waivers, and/or receipts. The owner must provide a final sources and uses of funds statement for the completed project; and

(d) Maintain documentation regarding tenant rents and incomes and project habitability, available for review by the member or the Bank, to support such certifications.

NOTE: The final documentation on development costs and first year rents and operating expenses must demonstrate that the project is feasible and needs AHP funds to be feasible.

b) Requirements for Members

(1) Owner-occupied Projects

During the period of construction or rehabilitation of an owner-occupied project, the member must take the steps necessary to determine whether reasonable progress is being made toward completion of the project and must report to the Bank at least semi-annually on the status of the project. Within one year after disbursement to a project of all approved AHP subsidies, the member must review the project documentation and certify to the Bank that:

(a) The AHP subsidies have been used according to the commitments made in the AHP application; and

(b) The AHP-assisted units are subject to deed restrictions or other legally enforceable retention agreements or mechanisms meeting the requirements of the AHP regulations.

(2) Rental Projects

During the period of construction or rehabilitation of a rental project, the member must take the steps necessary to determine whether reasonable progress is being made toward completion of



the project and must report to the Bank at least semi-annually on the status of the project.

c) Monitoring by the Bank

(1) Owner-occupied Projects

The Bank will take the steps necessary to determine, based on a review of the documentation for a sample of units for each project within one year of receiving the completion certifications from the member, that:

(a) Satisfactory progress is being made towards occupancy of the project by eligible households;

(b) The household incomes comply with the income targeting commitments made in the approved AHP application;

(c) The AHP subsidies were used for eligible purposes according to the commitments made in the approved AHP application, the project's actual costs were reasonable in accordance with the Bank's project feasibility guidelines, and the subsidies were necessary for the completion of the project as currently structured;

(d) The AHP-assisted units are subject to deed restrictions or other legally enforceable retention agreements or mechanisms meeting the requirements of the AHP regulations; and

(d) The services and activities committed to in the approved AHP application have been provided in connection with the project.

(2) Rental Projects

The Bank must take the steps necessary to determine that based on a review of the documentation described in sponsor/owner initial monitoring requirements above within one year and 150 days after completion of a rental project:

(a) Satisfactory progress is being made towards occupancy of the project by eligible households;



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(b) The household incomes and rents comply with the income targeting and rent commitments made in the approved AHP application;

(c) The AHP subsidies were used for eligible purposes according to the commitments made in the approved AHP application, the project's actual costs were reasonable in accordance with the Bank's project feasibility guidelines, and the subsidies were necessary for the completion of the project as currently structured;

(d) Each AHP-assisted unit is subject to AHP retention agreements that meet the requirements of the AHP regulations; and

(e) The services and activities committed to in the AHP application have been provided in connection with the project.

2. Sampling Plan

a) Owner-occupied Projects

The Bank will review the documentation for a minimum of ten percent of the homes included in the AHP project. The member/sponsor must provide copies of the following documents upon request: a copy of the filed retention document; a Calculation of Income Worksheet signed by the member or sponsor listing all sources of income; third-party documentation verifying the household income, as listed on the Calculation of Income Worksheet; the HUD-1, if appropriate; and the photo page of the appraisal, if appropriate. Each homeowner/homebuyer must certify their household income, as determined on the Calculation of Income Worksheet, is correct. In addition, for rehabilitation and purchase with rehabilitation projects, the member/sponsor must have available a list of repairs made and the total cost of the rehabilitation for each property. New construction projects will provide appropriate cost certifications. Additional documentation may also be requested.

NOTE: Sampling is intended to be a tool to simplify the compliance process. Sampling may indicate that a project is out of compliance. The Bank, in its sole discretion, may request and review documentation for additional units.

b) Rental Projects



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The Bank will review certifications and back-up documentation, including third-party income verifications. The Bank will select units for review based on the Bank's sampling requirements. During monitoring, the Bank will notify each project of its specific sampling requirements through the request for monitoring information.

NOTE: Sampling is intended to be a tool to simplify the compliance process. Sampling may indicate that a project is out of compliance. The Bank, in its sole discretion, may request and review documentation for additional units.

NOTE: Annual Adjustment of Targeting Commitments – The HUD area median income listings are updated annually and made available by the Bank. For purposes of determining compliance with the targeting commitments in an AHP application, such commitments shall be considered to adjust annually, according to the current applicable median income data. A rental unit occupied by a tenant who qualified under the income targeting restrictions of the project at the time the tenant moved into the unit may continue to count toward meeting the targeting commitment of an approved AHP application, despite increases in income, as long as the rent remains affordable for the targeted income level of the unit (i.e., the rent does not exceed 30 percent of the applicable 50, 60, or 80 percent targeted median income level committed to in the AHP application).

3. Long-term Monitoring Requirements

Where the Bank does not rely on monitoring by a federal, state, or local government entity, the Bank, members, and project owners shall monitor rental projects, according to the following requirements:

a) Requirements for Project Owners

In the second year after completion of a rental project and annually thereafter until the end of the project's retention period, the project owner must do the following:

(1) Certify to the member and the Bank that:

(a) The tenant rents and incomes are in compliance with the rent and income targeting commitments made in the AHP application; and

(b) The project is habitable;



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(2) Maintain documentation regarding tenant rents and incomes and project habitability available for review by the Bank to support such certifications.

b) Requirements for the Bank

The Bank will adhere to the following long-term monitoring requirements:

(1) The Bank will review certifications provided by project owners and members regarding tenant rents and incomes and project habitability.

(2) The Bank will review documentation maintained by the project owner regarding tenant rents and incomes and project habitability to verify compliance with the rent and income targeting commitments in the AHP application and project habitability, according to the following schedule:

(a) \$50,000 and under – For projects receiving \$50,000 or less of AHP subsidies, the Bank will review certifications by the project owner and member;

(b) \$50,001 to \$250,000 – For projects receiving \$50,001 to \$250,000 of AHP subsidies, the Bank will review project documentation for a sample of the project's units at least once every six years;

(c) \$250,001 to \$500,000 – For projects receiving \$250,001 to \$500,000 of AHP subsidies, the Bank will review project documentation for a sample of the project's units at least once every four years; and

(d) Over \$500,000 – For projects receiving over \$500,000 of AHP subsidies, the Bank will perform an on-site review of project documentation for a sample of the project's units at least once every two years.

4. Sampling Plan for Long-term Monitoring Requirements

a) Rental Projects

The Bank will review certifications and back-up documentation, including third-party income verifications. The Bank will select units for review based on the Bank's sampling requirements. During monitoring, the Bank



will notify each project of its specific sampling requirements through the request for monitoring information.

NOTE: Sampling is intended to be a tool to simplify the compliance process. Sampling may indicate that a project is out of compliance. The Bank, in its sole discretion, reserves the right to review documentation for additional units.

5. Homeless Monitoring Requirements

The Bank will monitor all projects that committed in the approved AHP application to reserve at least 20 percent of the project's units for homeless households for compliance during initial and long-term monitoring. When the request for AHP monitoring information is made, documentation must be available that at least 20 percent of the project units are occupied by households qualified as homeless or are vacant awaiting occupancy by homeless households. The Bank will review homeless documentation based on the Bank's sampling requirements. During monitoring, the Bank will notify each project of its specific sampling requirements through the request for monitoring information. For initial monitoring purposes, the pool of tenants a project with existing tenants at the time of AHP application can draw from is limited to those tenants who were homeless when they moved into the project on or after a date one year prior to the AHP application submission date (up through the date of Rental Monitoring Spreadsheet submission).

6. Monitoring by a Contractor

The Bank, in its sole discretion, may contract with a third-party to carry out the Bank's monitoring obligations set forth in this section. For long-term monitoring of rental projects, the Bank may rely on monitoring by the state-designated housing credit agency administering the LIHTC of the income targeting and rent requirements applicable under the LIHTC.

7. Site Visits

The Bank, in its sole discretion, may conduct site visits for projects that are determined to have potential compliance issues.



8. Signatures on Compliance and Monitoring Certifications

Certifications submitted to the Bank by a member must be signed by someone authorized to borrow funds from the Bank or the member's official AHP designee, as listed on the member's Authorized Personnel Form on file with the Bank. Certifications submitted to members and/or the Bank by owners/sponsors must be signed by a person(s) with the appropriate legal authority.

9. Reuse of Repaid AHP Direct Subsidies in Same Project

AHP direct subsidy, including any interest, repaid to a member or project sponsor under a homeownership set-aside program or the competitive application program, respectively, must be repaid by such parties to the Bank. Retention by a member or project sponsor or owner of repaid AHP direct subsidies for subsequent reuse is prohibited by the Bank.

10. Suspension and Debarment

The Bank may suspend or debar a member, project sponsor, or project owner from participation in the Program if such party shows a pattern of noncompliance, or engages in a single instance of flagrant noncompliance, with the terms of an approved application for AHP subsidy or the requirements of the AHP regulations.



III. Attachment A

Definitions and Acronyms

Adaptive Reuse: The conversion of a building from a non-housing use to a housing use, including the reuse of religious buildings for housing purposes. For example, a warehouse converted to apartments or condominiums, a hotel converted to apartment units other than overnight shelter units, school houses converted to apartments, or convents and monasteries converted to a housing use for the general public.

Affordable: (1) The rent charged to a household for a unit that is to be reserved for occupancy by a household with an income at or below 80 percent of the median income for the area, does not exceed 30 percent of the income of a household of the maximum income and size expected, under the commitment made in the AHP application, to occupy the unit (assuming occupancy of 1.5 persons per bedroom or 1.0 person per unit without a separate bedroom); or (2) The rent charged to a household, for rental units subsidized with Section 8 assistance under 42 U.S. C. 1437f or subsidized under another assistance program where the rents are charged in the same way as under the Section 8 program, if the rent complied with this § 951.1 of the AHP regulations at the time of the household's initial occupancy and the household continues to be assisted through the Section 8 or another assistance program, respectively.

AHP or Program: The Affordable Housing Program established pursuant to 12 U.S.C. 1430(j) and the AHP regulations.

AHP Project: A single-family or multifamily housing project for owner-occupied or rental housing that has been awarded or has received AHP subsidy under the competitive application program.

Anti-Predatory Lending Laws: Applicable federal, state and local anti-predatory lending laws and other similar credit-related consumer protection laws, regulations and orders designed to prevent or regulate abusive and deceptive lending practices and loan terms.

AMI (also referred to as Median Income for the Area): Area Median Income, see the definition of "Median Income for the Area"

BIA: Bureau of Indian Affairs

Bank: Federal Home Loan Bank of Des Moines

Builder's Overhead: An allowance for the portion of the builder's off-site (home office) overhead that is attributable to the project.

Builder's Profit: Payment to the builder typically based on the size of the project, the total development cost, and the risk associated with the project.



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CIA: The Bank's Community Investment Advance Program.

CIP: A Bank's Community Investment Program established under section 10(i) of the Act, 12 U.S.C. 1430(i).

Closing Costs: Includes expenses over and above the price of the property incurred by the buyer when transferring ownership of the property. Representative closing costs include, but are not limited to, loan origination fee, loan discount fee, appraisal fee, credit report, mortgage insurance application fee, closing fee, document preparation, attorney fees, title insurance (for mortgagee or owner), judgment search fees, abstracting fees, Title Guaranty fees (in Iowa), recording fees, tax stamp fees, survey fees, plat drawing fees, pre-paid interest for up to 30 days, initial flood insurance premium, two months' escrow of mortgage insurance, escrow of property tax as appropriate for the jurisdiction in which the property is located, two months escrow of flood insurance, first year's premium on homeowner's insurance, first year's premium for mortgage insurance, property inspection fees. Homebuyer education classes or Financial Literacy Programs are an eligible closing cost expense from AHP funds only for buyers receiving AHP funding greater than that cost of the classes or programs. The amount that can be charged to AHP is limited to \$150 for a course requiring 8 hours or less (the typical Mortgage Insurance short course or in-house type of training) with a maximum of \$350 for a course that is more than 8 hours. The following are not eligible closing costs: single premium or monthly life and/or disability insurance coverage and escrow of principal and interest payments.

Competitive Application Program: A program established by the Bank under which the Bank awards and disburses AHP subsidy through a competitive application scoring process pursuant to the requirements of § 951.5 of the AHP regulations.

Cost of Funds: For purposes of a subsidized advance, the estimated cost of issuing Bank System consolidated obligations with maturities comparable to that of the subsidized advance.

Debt Coverage Ratio (DCR): The ratio of a project's annual net operating income divided by the total annual debt service (principal plus interest).

Deobligation or Deobligated: The process whereby committed AHP funds that were never disbursed to a member or were never disbursed by a member to an AHP project sponsor/owner are returned to the Bank.

Direct Subsidy: An AHP subsidy in the form of a direct cash payment.

Eligible Household: A household that meets the income limits and other requirements specified by the Bank for its competitive application program and homeownership set-aside programs, provided that, as a minimum threshold for eligibility for AHP subsidy: (1) In the case of owner-occupied and rental housing, the household's income may not exceed 80 percent of the median income for the area; and (2) In the case of rental housing, the household's income in at least 20 percent of the units may not exceed 50 percent of the median income for the area.



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Eligible Project: A project eligible to receive AHP subsidy pursuant to the requirements of the AHP regulations.

Enrollment Date: For purposes of determining a household's income eligibility under an owner-occupied project, the date the member receives the loan application or if in conjunction with a program such as, but not limited to, Habitat for Humanity or other empowerment program, the date of application in such program.

Fair Market Value (FMV): Generally, 1) the property value established by the city or county assessor's office; or 2) the market value as established by an independent appraisal of the property performed by a state certified or licensed appraiser as defined in 12 CFR 564.2(j) and (k) within six months prior to the date of the AHP application.

Family Member: Any individual related to a person by blood, marriage, or adoption.

Funding Period: A time period, as determined by the Bank, during which the Bank accepts AHP applications for subsidy.

FHFB or Finance Board: The agency established as the Federal Housing Finance Board.

Financial Literacy Program (also referred to as Homebuyer or Homeowner Education or Counseling Costs): An educational program that includes homebuyer or homeowner education and financial literacy instruction in ways to recognize and avoid predatory lending. This educational instruction must take place before loan closing and may be in the form of a face-to-face tutorial, a classroom or workshop session, a mortgage insurance company education program or an internet based curriculum as long as each education program includes a homebuyer education course as well as information on recognizing and avoiding predatory lending. Members are encouraged to offer their own in-house programs as long as there is trained staff.

First-time Homebuyer: An individual or an individual and his or her spouse who have not owned a home during the prior 3-year period except that – (A) any individual who is a displaced homemaker may not be excluded from consideration as a first-time homebuyer under this paragraph on the basis that the individual, while a homemaker, owned a home with his or her spouse or resided in a home owned by the spouse; (B) any individual who is a single parent may not be excluded from consideration as a first-time homebuyer under this paragraph on the basis that the individual, while married, owned a home with his or her spouse or resided in a home owned by a spouse; and (C) an individual shall not be excluded from consideration as a first-time homebuyer under this paragraph on the basis that the individual owns or owned, as a principal residence during such 3-year period, a dwelling unit whose structure is – (i) not on a permanent foundation in accordance with local or other applicable regulations, or (ii) not in compliance with State, local, or model building codes, or other applicable codes, and cannot be brought into compliance with such codes for less than the cost of constructing a permanent structure. (iii) a mobile home, not attached to a permanent foundation, and which is not considered real estate by the state. The household may not own another residence even if that residence is rented.



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In addition, recovering victims of catastrophic loss (e.g., the death of the family's principal wage earner, a failed self-employment business situation, loss of employment due to factory shutdown or an employer's reduction in force), victims of domestic violence that are legally separated from their spouses, and households who have purchased a home on a contractual basis but would otherwise qualify are also eligible as first-time homebuyers.

General Requirements: An allowance for the contractor's on-site overhead expenses, typically including items such as building permits, fencing around the site, temporary storage for materials, construction supervision, the job trailer, and temporary utilities.

Habitable: Suitable for occupancy, taking into account local health, safety, and building codes.

Historic Rehabilitation: The process of returning a property listed in or eligible for listing in the National Register of Historic Places to a state of utility, through repair or alteration, which makes possible an efficient contemporary use while preserving those portions and features of the property which are significant to its historic, architectural, and cultural values. Such rehabilitation must comply with the Secretary of Interior's Standards for Rehabilitation.

Homeless Household: The targeted population must be recognized as homeless under current HUD statutes, regulations or regulatory interpretations, or as defined by the State Housing Finance Agency, as documented by the applicant. For initial monitoring purposes, the pool of tenants a project with existing tenants at the time of AHP application can draw from is limited to those tenants who were homeless when they moved into the project on or after a date one year prior to the AHP application submission date (up through the date of Rental Monitoring Spreadsheet submission).

Homeownership Set-aside Program: A program established by the Bank under which the Bank disburses AHP direct subsidy pursuant to the requirements of § 951.6 of the AHP regulations.

HUD: The Department of Housing and Urban Development.

Infill Housing: The use of vacant land and property within a built-up area for further construction or development, typically utilizing existing infrastructure, especially as part of a neighborhood preservation program. Locations where the construction of new housing would be considered infill housing may include the following: A) Central City of an MSA and some suburban locations on/in - 1) undeveloped land generally encircled by areas with existing infrastructure that has been in place for at least 10 years prior to the AHP application date or 2) areas with existing infrastructure in place on vacant land or where vacant buildings have been or will be demolished. B) Rural locations on/in - 1) areas with infrastructure in place on vacant land or where vacant buildings have been or will be demolished or 2) subdivisions generally encircled by areas with existing infrastructure that has been in place for at least 10 years prior to the AHP application date.



Loan Pool: A group of mortgage or other loans meeting the requirements of the AHP regulations that are purchased, pooled, and held in trust.

LIHTC: (Federal) Low-income Housing Tax Credit program.

Low- or Moderate-income Household: A household that has an income of 80 percent or less of the median income for the area, with the income limit adjusted for household size in accordance with the methodology of the applicable median income standard, unless such median income standard has no household size adjustment methodology.

Low- or Moderate-income Neighborhood: Any neighborhood in which 51 percent or more of the households have incomes at or below 80 percent of the median income for the area.

Median Income for the Area:

1. Rental Projects: The median income for the area, as published annually by HUD;
2. Owner-occupied Projects: The applicable median family income, as determined under 26 U.S.C. 143(f) (Mortgage Revenue Bonds) and published by a state agency or instrumentality;
3. Native American Service Area Projects:
 - a. Owner-occupied Projects: The applicable NAHASDA Income Guidelines or MRB income guidelines for owner-occupied projects. The sponsor or member must choose either the MRB Income Guideline or the NAHASDA Income Guideline.
 - b. Rental Projects: The median income for the area as published annually by HUD and adjusted for household size for each county, which includes NAHASDA Income Guidelines. The sponsor/owner must choose either the HUD Income Guideline or the NAHASDA Income Guideline.

MRB: Mortgage Revenue Bonds. The MRB median income for the area, adjusted for household size, as periodically published for use under the MRB program by the State Housing Finance Agency for the state in which the retention document will be recorded. If a city has a targeted area or MRB income determination, the Bank will use only the non-targeted area incomes.

NOTE: The MRB numbers published by the state are generally 100 percent or more of median income and, therefore, must be reduced by the appropriate percentage of income targeted.

Multifamily Building: A structure with five or more dwelling units.



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NAHASDA: Native American Housing Assistance and Self-Determination Act. Pub. L. 104-330, Oct. 26, 1996, 110 Stat. 4017, as amended, 25 U.S.C. §§ 4101 et seq.

NAHASDA Income Limits: The income limits published annually by HUD's Office of Native American Programs for the purpose of determining eligibility for assistance under programs funded by block grants under NAHASDA.

Native American Service Area: The area within which a Native American tribe operates affordable housing programs or the area in which a tribally designated housing entity (as designated for purposes of the Native American Housing Assistance and Self-Determination Act) is authorized by one or more Indian tribes to operate affordable housing programs.

Non First-time Homebuyer: An individual, or an individual and his or her spouse, who have owned a home during the prior 3-year period. Funds will not be made available to households that already own a home. Households must complete the sale of any existing residence prior to or simultaneously with receiving AHP Funds. Funding will not be allowed for second or vacation homes.

Owner-occupied Acquisition/Rehabilitation: The purchase, rehabilitation, and resale of an owner-occupied unit by a project sponsor.

Owner-occupied Housing: The purchase, construction, or rehabilitation of an owner-occupied project by or for very low-income or low- or moderate-income households. A household must have an income meeting the income targeting commitments in the approved AHP application at the time it is qualified by the project sponsor for participation in the project.

Owner-occupied Project: For purposes of the competitive application program, one or more owner-occupied units in a single-family or multifamily building, including condominiums, cooperative housing, and manufactured housing.

Owner-occupied Unit: A dwelling unit occupied by the owner of the unit. Housing with two to four dwelling units consisting of one owner-occupied unit and one or more rental units is considered a single owner-occupied unit.

Ownership Interest: For purposes of the competitive application program, any amount of ownership interest, including any partnership interest, in a rental project. Ownership interest includes a not-for-profit organization or public entity that owns a for-profit entity that is a partner/member in the partnership/limited liability company that owns a rental project.

Permanent Housing: Owner-occupied housing and long-term rental housing where the tenant household has a lease or similar form of occupancy agreement without limits on a household's length of tenancy as long as the tenant household abides by the conditions of the lease or occupancy agreement.

Project Completion: The date when all necessary title transfer requirements have been performed; all construction work is substantially complete; and all AHP funds have been



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disbursed to the project. In the case of rehabilitation of a unit currently occupied by the owner where there is no closing, commonly referred to as owner-occupied rehabilitation, project completion is defined as the date the AHP retention documents are executed by the homeowner.

Purchase with Rehabilitation: The rehabilitation of an owner-occupied unit as part of the homebuyer's purchase of that unit.

Rehabilitation: The labor, materials, tools, and other costs of improving existing buildings.

Rental Housing: The purchase, construction, or rehabilitation of a rental project, where at least 20 percent of the units in the project are occupied by and affordable for very low-income households. A household must have an income meeting the income targeting commitments in the approved AHP application upon initial occupancy of the rental unit, or for projects involving the purchase or rehabilitation of rental housing that already is occupied, at the time the application for AHP subsidy is submitted to the Bank for approval.

Rental Project: For purposes of the competitive application program, one or more dwelling units for occupancy by households that are not owner-occupants, including overnight and emergency shelters, transitional housing for homeless households, mutual housing, single-room occupancy housing, and manufactured housing.

Retention Period:

1. 5 years from closing for an AHP-assisted owner-occupied unit, or in the case of rehabilitation of a unit currently occupied by the owner where there is no closing, five years from the date of project completion; and
2. 15 years from the date of project completion for a rental project.

Revolving Loan Fund: A capital fund established to make mortgage or other loans whereby loan principal is repaid into the fund and re-lent to other borrowers.

Rural: To be considered rural, a project must meet one of the following criteria – (1) Any housing located outside of a Metropolitan Statistical Area (MSA) where the population is 25,000 or less or (2) Any housing located in an area eligible for USDA Rural Housing Service programs. At the time an application for funds is submitted, the Bank will use the most current U.S. Census Bureau estimate of population, as published on the U.S. Census Bureau's web site.

Single-family Building: A structure with one to four dwelling units.

Sponsor: A not-for-profit or for-profit organization or public entity that:

1. Has an ownership interest (including any partnership interest) in a rental project; or



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2. Is integrally involved in an owner-occupied project, such as by exercising control over the planning, development, or management of the project or by qualifying borrowers and providing or arranging financing for the owners of the units.

Sponsorship: The AHP regulations state that for scoring purposes only sponsors who are a not-for-profit organization, a state or political subdivision of a state, a state housing agency, a local housing authority, a Native American Tribe, an Alaskan Native Village, or the government entity for Native Hawaiian Home Lands are considered in awarding points. Other entities, including for-profits, may sponsor an application and receive AHP funding but cannot receive points for such sponsorship. Please refer to the Bank's Priority 2 scoring criteria in Attachment E.

State: A state of the United States, the District of Columbia, Guam, Puerto Rico, or the U.S. Virgin Islands.

Subsidized Advance: An advance to a member at an interest rate reduced below the Bank's cost of funds by use of a subsidy.

Subsidy:

1. A direct subsidy, provided that if a direct subsidy is used to write down the interest rate on a loan extended by a member, sponsor, or other party to a project, the subsidy must equal the net present value of the interest foregone from making the loan below the lender's market interest rate; or
2. The net present value of the interest revenue foregone from making a subsidized advance at a rate below the Bank's cost of funds.

Urban: To be considered urban, a project must meet one of the following criteria – (1) Any housing located in a unit of general local government where the population is more than 25,000 or (2) Any housing located in an area that is not eligible for USDA Rural Housing Service programs. At the time an application for funds is submitted, the Bank will use the most current U.S. Census Bureau estimate of population, as published on the U.S. Census Bureau's web site.

Vacant or Abandoned: A chronically vacant and uninhabitable property, including, but not limited to, a vacant property that because of its poor physical condition is a public nuisance or constitutes a blight on the surrounding area or is in violation of the applicable housing code such that it constitutes a substantial threat to the life, health, or safety of the public.

Very Low-income Household: A household that has an income at or below 50 percent of the median income for the area, with the income limit adjusted for household size in accordance with the methodology of the applicable median income standard, unless such median income standard has no household size adjustment methodology.



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Visitable: In either owner-occupied or rental housing, at least one entrance is at grade (no steps) and approached by an accessible route such as a sidewalk, and the entrance door and all interior passage doors are at least 2 feet, 10 inches wide, offering 32 inches of clear passage space.

Workforce Housing: The purchase of owner-occupied housing for households with incomes between 50 and 80 percent of the median income for the area.



IV. Attachment B

Project Feasibility Guidelines

A. General Guidelines

The Bank reviews every project to determine if project costs, as reflected in the project's development budget, are reasonable and customary, in accordance with the Bank's feasibility guidelines, in light of industry standards for the location of the project and the long-term financial needs of the project. The Bank will deny funds to an application, even if the application's score was high enough to be funded, if the Bank, in its sole discretion, determines that the project does not meet the Bank's established feasibility guidelines or proposed costs are not reasonable and customary in light of industry standards for the location of the project and the long-term financial needs of the project. The Bank may request an independent third-party review of any aspect of a project's feasibility, to be completed at the sponsor's or owner's cost.

The Bank reviews projects that were previously approved for AHP funding at the time of disbursement, modification (if applicable), and initial monitoring in light of the feasibility guidelines in effect at the time of that review. Except tax credit pricing standards for rental projects in effect at the time of AHP application approval are applied if a syndication commitment was in place at the time of AHP application. The Bank, in its sole discretion, may allow exceptions to the current feasibility guidelines for previously approved projects with adequate explanation and documentation of approval by the applicable State Housing Finance Agency or similar funding agency, such as USDA or HUD, and approval by the Bank's President or the Bank President's designee. Any request for additional AHP subsidy, over and above a previous AHP grant to the same project, must be made through a new AHP application or modification request, as applicable, that will be evaluated against the Bank's current feasibility guidelines in effect at the time of application or modification review.

NOTE: The member is responsible for underwriting the submitted projects and reviewing the readiness of the proposals to use AHP funds. Member underwriting is required whether a subsidized advance or a direct subsidy is requested. The member is expected to review and approve all applications. The Bank's feasibility analysis is not meant to meet lending underwriting criteria. Therefore, the Bank's approval of the application should not be relied upon for lending purposes.

NOTE: Pre-application assistance is available to all AHP applicants. The Bank strongly advises all applicants to submit a pre-application to receive technical assistance from Bank staff prior to submitting a final application. Please contact the Community Investment department at 800-544-3454, ext. 1173 for further information.

In order to analyze the feasibility of a project, the Bank reviews the following areas:



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- ◆ The Bank's previous experience with the member and sponsor or owner

A project's sponsor must be qualified and able to perform its responsibilities as committed to in the application for AHP subsidy funding the project. The member and sponsor or owner must have a demonstrated ability to provide timely monitoring information and to complete projects on a timely basis. The Bank reviews performance on past AHP projects as an indication of performance on new applications.

- ◆ Sponsor/Owner track record and capacity to perform

The AHP application must show that the sponsor/owner has the ability and capacity to complete the project and manage the compliance monitoring for the retention period. The Bank will review the Homeownership or Rental Sponsor Qualifications Worksheet and the Rental Developer Qualifications Worksheet submitted with the AHP application, as applicable. The Bank, in its sole discretion, may request additional documentation to determine sponsor/owner capacity.

- ◆ The market for the proposed units

The sponsor/owner must establish that a market exists for the units, as proposed, and that a significant number of potential homebuyers or tenants exist in the marketplace for those units.

- ◆ Readiness to proceed

Some or all of the AHP subsidy must be likely to be drawn down by the project or used by the project to procure other financing commitments within 12 months of the date of approval of the application for AHP subsidy funding the project. See previous sections for Minimum Eligibility Standards and Timing of Subsidy Use.

Application budgets that contain significant amounts of "other sources" of funding may not be able to demonstrate a readiness to proceed. "Other sources" means items such as unidentified fundraising sources or capital campaigns where commitments are not identified. In these cases, the member, sponsor or owner may be asked to provide information indicating whether it has raised similar amounts of money in the past and to demonstrate it has fundraising capacity. The Bank reserves the right, in its sole discretion, to reject a project if it appears unlikely that funds can be raised in the amounts listed in a timely manner.

- ◆ Acquisition Costs



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If the proposed project budget includes the acquisition of vacant land and/or existing buildings, documentation justifying the proposed acquisition price is required prior to the disbursement of any AHP funds. If available at the time of AHP application submission, such documentation must be attached as an applicable exhibit. Acceptable documentation of acquisition costs may consist of an appraisal of the property's as-is value completed by an independent, state certified or licensed appraiser within six months prior to the date of application for AHP funds or six months prior to the date of purchase agreement signing, verification of the property's current assessed value, or a comparative market analysis completed by an independent, qualified professional.

- ◆ Disclosure of member institution financing for the project
 - 1) Any equity the member is committing to the project prospectively, i.e. as a limited partner in a LIHTC project, with calculations of cents per dollar of tax credit invested and the member's estimate of the member's internal rate of return, as applicable.
 - 2) The details regarding any debt the member is providing as construction, bridge, or permanent financing and the reasonableness of interest rates, points, fees, and any other charges involved.
- ◆ Cost of Property and Services Provided by a Member Institution

The purchase price of property or services, as reflected in the project's development budget, sold to the project by a member or a subsidiary of a member, providing AHP subsidy to the project, or in the case of property, upon which such member holds a mortgage or lien, may not exceed the market value of such property or services as of the date upon which the purchase price for the property or services was agreed. In the case of real estate owned property sold to a project by a member providing AHP subsidy to a project, or property sold to the project upon which the member or subsidiary of the member holds a mortgage or lien, the market value of such property is deemed to be the "as-is" or "as-rehabilitated" value of the property, whichever is appropriate, as determined by the Bank, and subsequently reflected in an independent appraisal of the property performed by a state certified or licensed appraiser, acceptable to the Bank, performed within six months prior to the date the Bank disburses AHP subsidy to the project.

B. Rental Project Feasibility

Projects must provide documentation on how development costs and rents and expenses for the pro forma were determined. Such documentation may consist of comparable data from various databases, requirements of other funding resources in the project, cost studies published by independent sources, comparisons with completed comparable projects in the area, or guidelines of the appropriate State Housing Finance Agency.



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NOTE: AHP funds may not be used to directly or indirectly subsidize supportive services or excessive administrative costs. Some agencies will accept support services costs as a portion of the pro forma. The Bank requires the support services budget to be separated from the real estate budget. Both the support services pro forma and the real estate pro forma must demonstrate that the project is feasible.

Projects that rely on donations for the support of the operating pro forma must be able to demonstrate they have a track record of raising the funds necessary to support the project. It is vital that the owner is able to demonstrate the financial capacity to retain the project as affordable housing for the retention term. Financial capacity is demonstrated by both a track record of raising adequate funds as well as having a balance sheet that reflects good fiscal management. It will be difficult to fund projects in which the owner's financials demonstrate year-to-year shortfalls in raising adequate funds for operations. The Bank takes into account the security position collateralizing the AHP grant in deciding whether to fund projects.

Projects charging little or no rent or operating as "shelters" must be able to provide verifications of tenant income. For "shelters," the income verification may consist of intake forms, since little or no third-party verification can be obtained in a timely fashion.

The Bank examines applications that propose limiting occupancy in all units to tenants at or below 50 percent of the AMI, especially in rural areas, to ensure a market exists to support the proposed income targeting levels. The Bank may require additional documentation to justify the market assumptions made in such an application.

NOTE: It is important that the applicant take into account the various income levels of persons that may occupy the housing units at any given time, throughout the entire retention period, when establishing the project's income targeting in the application.

Projects serving high percentages of very low-income tenants tend to demonstrate above average operating expenses. The Bank recognizes that the ability to reach and adequately serve very low-income populations often results in projects with little or no operating cash flow. These projects often receive virtually all of their funding through government assistance programs, donations, or both. These funding sources rarely make distinctions between real estate operating expenses and support services. These projects may rarely collect rent from the tenant. The housing expenses will also generally contain expenses for 24-hour staffing and security, which significantly raise the cost of the operating expenses for the housing. The lack of sufficient net income from operations may result in the inability to obtain financing. This lack of borrowing capacity may be enough to establish the need for AHP funding. The Bank reviews this type of project to ensure operating costs are high due only to the cost of serving the targeted tenant population.

1. Development Budget



a) Sources and Uses Statement

All projects must provide a sources and uses statement. A complete listing of all the sources of funds, financing terms, and uses of funds must be identified in the statement. The list of sources must reflect all funds to be used in the project, including estimates of funds the sponsor intends to use but that are not yet committed to the project. The sources and uses of funds statement must detail all project costs, including, but not limited to, the following: hard costs, soft costs, developer fees, financing fees, overhead costs, contingency reserves, lease-up reserves, capitalized reserves, and any other costs of the project. Fees and costs should fall within certain ranges described in this attachment.

NOTE: Sources must equal uses of funds for the project.

b) Per Unit Development Cost

The Bank has established the following per unit development cost limits:

| Bedrooms | AHP Maximum Per Unit Development Cost | |
|----------|---------------------------------------|---------------------------------|
| | Acquisition/Rehabilitation | New Construction/Adaptive Reuse |
| 0 | \$74,708 | \$114,936 |
| 1 | \$85,639 | \$131,753 |
| 2 | \$104,138 | \$160,212 |
| 3 | \$134,718 | \$207,259 |
| 4+ | \$147,880 | \$227,508 |

The Bank calculates a project's per unit development cost as follows: total development cost minus the sum of land acquisition, developer/consultant fees, capitalized reserves, and non-housing space costs, divided by the total number of project units. The Bank reviews projects that include rehabilitation costs on a case-by-case basis against the project's scope of work for cost reasonableness and determination of project viability through at least the 15-year AHP retention period.

For projects with varying bedroom sizes, the following calculation will be made to make sure the project's per unit development cost does not exceed the proposed AHP maximum limit:

Multiply the AHP per unit cost maximum for the appropriate number of bedrooms by the number of units that size in the project. The summation of the totals from each bedroom size will equal the maximum total project development costs, excluding land acquisition, developer/consultant fees, capitalized reserves and all non-housing related costs. Divide that total by the number of units

and that will equal the maximum per unit development cost for that project.

c) Developer's and Consultant's Fees

Projects may include a combined developer's fee and consultant's fee no greater than 15 percent of the project's total development cost, excluding the developer's and consultant's fees and capitalized reserves. The Bank calculates the developer's and consultant's fees percentage as follows: $(\text{Developer's Fee} + \text{Consultant's Fee}) \div (\text{Total Development Cost} - \text{Developer's Fee} - \text{Consultant's Fee} - \text{Capitalized Reserves})$. Because a developer may elect not to take any developer's fee on a project, the Bank has not set any minimum fee. However, a developer who does not include a development fee in a project's budget may be asked to justify why a fee will not be taken and to provide evidence that the developer's financial condition is sufficient that such a fee is not needed.

d) General Requirements and Builder's Overhead and Profit

Projects that include rehabilitation and/or new construction must provide a cost breakdown. The cost breakdown must itemize in detail all hard costs related to the project, including general requirements and builder's overhead and profit (see Attachment A for definitions). General requirements and builder's overhead and profit costs are limited to an aggregate total of 20 percent of the total construction cost for projects including 24 or fewer units and an aggregate total of 16 percent of the total construction cost for projects including more than 24 units, excluding any budgeted contingency. Any project including general requirements above 8 percent, overhead above 2 percent, and/or profit above 6 percent of the project's total construction cost must provide additional explanation justifying such costs.

e) Contingency

Since unforeseen costs are encountered in virtually all construction or rehabilitation projects, an adequate contingency budget is key to ensuring funds will be available to complete the project. Projects that might justify a smaller or no contingency budget include those where only acquisition or minor rehabilitation will be undertaken. On the other hand, adaptive reuse of historical properties may require a higher contingency budget due to the potential for greater unforeseen costs. The Bank has established the following contingency budget limits: 10 percent maximum for new construction projects, 15 percent maximum for rehabilitation and adaptive reuse projects, and 20 percent maximum for historic rehabilitation projects, to be calculated as a percentage of the project's total



development cost, exclusive of the construction and soft cost contingency budgets, acquisition costs, developer's and consultant's fees, and capitalized reserves.

f) Professional Fees

Combined architect, engineer, and attorney fees are limited to a maximum of 12 percent of the project's total development cost, exclusive of those specific costs. Projects including any individual professional fee line items greater than 4 percent of the project's total development cost must provide additional explanation justifying such costs.

g) Capitalized Reserves

A project may include capitalized operating and/or replacement reserves in its budget, although the Bank does not require any minimum amount. However, the need for such reserves should be explained in the application. Upon request, documentation of reserve requirements placed upon the project by other funding resources, including tax credit syndicators, must be provided to the Bank.

h) LIHTC Equity

The sale of LIHTCs is expected to generate a minimum of \$.70 per dollar in equity proceeds, without exception. No maximum has been established. Projects including a below-market price for tax credits may be required to provide justification of the estimates used in their budgets. A LIHTC worksheet, showing the project's eligible basis and tax credit calculations, must be provided as part of the application for AHP funds.



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| Rental Project Development Budget | AHP Feasibility Guideline |
|---|---|
| Per Unit Development Cost | Maximum Acquisition/Rehabilitation: 0 Bedroom = \$74,708 1 Bedroom = \$85,639 2 Bedrooms = \$104,138 3 Bedrooms = \$134,718 4+ Bedrooms = \$147,880 Maximum New Construction/Adaptive Reuse: 0 Bedroom = \$114,936 1 Bedroom = \$131,753 2 Bedrooms = \$160,212 3 Bedrooms = \$207,259 4+ Bedrooms = \$227,508 |
| Developer's and Consultant's Fees (combined total) | Maximum: 15% of total development cost (excluding developer's fee, consultant's fee, and capitalized reserves) |
| General Requirements and Builder's Overhead and Profit (combined total) | Maximum: Projects including 24 or fewer units: 20% of total construction cost (excluding construction contingency) Projects including more than 24 units: 16% of total construction cost (excluding construction contingency) |
| Contingency | Maximum: As a percentage of total development cost (excluding construction and soft cost contingency budgets, acquisition costs, developer's and consultant's fees, and capitalized reserves) 10% for new construction 15% for rehabilitation or adaptive reuse 20% for historic rehabilitation |
| Professional Fees Architect, Engineer, and Attorney (combined total) | Maximum: 12% of total development cost (excluding architect, engineer, and attorney fees) |
| Capitalized Reserves | No minimum or maximum guideline but need for any capitalized reserves should be explained in the AHP application. |
| LIHTC Equity | Minimum: \$.70 per dollar |



2. Pro forma

The primary information the Bank reviews for the proposed project operation is the pro forma. The pro forma should cover a minimum of 15 years of projected income and expenses. The pro forma must contain sufficient detail indicating the income to be generated by the project, vacancy or collection loss assumptions, and all operating costs of the project, including management fees, real estate taxes, insurance, maintenance costs, mortgage or debt service payments, operating reserves, replacement reserves, partnership fees, and any other disbursements funded from cash flow. The Bank has established the following guidelines as the minimum and maximum ranges for a project's pro forma:

a) Stabilized Vacancy Rate

The Bank has established a maximum stabilized vacancy rate to begin in year two on the pro forma of ten percent of gross income. The Bank may request an explanation for the use of no or a low vacancy rate.

b) Property Management Fees

Management fees are limited to the greater of 12 percent of net revenue or \$55 per unit per month. The Bank may ask non-profit organizations that elect to take no or a minimal management fee to provide sufficient evidence of the organization's financial condition to document why such a fee is not needed.

c) Operating Reserve Payments

Operating reserve payments may be included in the pro forma. An explanation must be provided to justify the need for operating reserves for the project.

d) Replacement Reserve Payments

Replacement reserve payments are expected to be included in every pro forma. At a minimum, replacement reserve payments in the pro forma should total \$150 per unit per year. Projects that will operate on a per bed or per bedroom basis, such as emergency shelters or group homes, must justify the reasonableness of its proposed replacement reserve payments. Since it may be reasonable for a first year operating statement to reflect a lower or even zero replacement reserve payment, such as when the first year replacement reserve payment is capitalized as part of the development budget or when units are subsidized to breakeven by a



guaranteed operating subsidy, first year replacement reserve payments below \$150 will not constitute an exception to the Bank's feasibility guidelines if determined reasonable by the Bank.

e) Per Unit Operating Cost

The per unit operating cost of a project is determined as follows: $(\text{Total Operating Expenses} - \text{Property Taxes} - \text{Operating Reserves}) \div \text{Number of Units}$. The Bank allows a minimum annual operating cost of \$1,250 per unit. While no maximum per unit operating cost has been set, the Bank judges estimated expense levels for reasonableness on a case-by-case basis, based on the type of project and the nature of the population to be served. Whenever possible, a project's actual operating history should be used to justify proposed operating costs. The Bank recognizes operating expenses may vary based on many factors, including, but not limited to, the geographic location of the project and the nature of the housing to be provided. Projects that anticipate annual per unit operating expenses of less than \$1,250 must provide detailed justification for the amount of the projected expenses. Projects including annual per unit operating expenses greater than \$4,500 must provide additional explanation justifying such costs.

f) Debt Coverage Ratio/Cash Flow

The debt coverage ratio for a project is calculated as follows: $\text{Net Operating Income} \div \text{Total Debt Service Payments}$. The Bank examines the debt coverage ratio over the first five years of the pro forma. The Bank will accept a debt coverage ratio up to a maximum of 1.35 or a pro forma where anticipated cash flow does not exceed ten percent of gross income. Projects in which the debt coverage ratio or cash flow exceeds these limits must provide justification why additional debt cannot be supported.

Although the Bank's review focuses on the first five years of the pro forma, the entire pro forma is reviewed, at least in part to ensure no front loading of debt or expenses is included in an effort to skew the project's debt coverage ratio to meet the guidelines. Cash flow to the owner of a project should be limited to a reasonable return on the owner's investment in the project or be an amount small enough that substantive additional financing could not be justified. For projects that are anticipated to generate some amount of cash flow, excess funds may be used to pay back debt required to be repaid from available cash flow or placed in the



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project's reserve accounts, if adequate justification of the need for such reserves is provided.



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| Rental Project Pro forma | AHP Feasibility Guideline |
|-------------------------------|---|
| Stabilized Vacancy Rate | Maximum: 10% of gross income |
| Property Management Fees | Maximum: greater of 12% of net revenue or \$55 per unit per month |
| Operating Reserve Payments | Not required but inclusion of operating reserve payments in the pro forma should be justified |
| Replacement Reserve Payments | Minimum: \$150 per unit per year Projects operated on a per bed or per bedroom basis, such as emergency shelters or group homes, and first year payments below the \$150 minimum must justify on a case-by-case basis the reasonableness of proposed/actual replacement reserve payments. |
| Per Unit Operating Cost | Minimum: \$1,250 per unit per year (excluding property taxes and operating reserve payments) |
| Debt Coverage Ratio/Cash Flow | Maximum: 1.35 or a pro forma where anticipated cash flow does not exceed ten percent of gross income |



C. Feasibility Guidelines for Owner-occupied Projects

Funds may be used for down payment and closing costs, purchase and/or rehabilitation costs or new construction, including land acquisition. Please review the definition of “closing costs” in Attachment A.

1. Development Budget

a) Sources and Uses of Funds

All projects must provide a statement of sources and uses. A complete listing of all the sources of funds, financing terms, and uses of funds must be identified in the statement. The list of sources must reflect all funds to be used in the project, including estimates of funds the sponsor intends to use but that are not yet committed to the project. The sources and uses of funds statement must detail all project costs, including, but not limited to, the following: hard costs, soft costs, developer fees, financing fees, overhead costs, contingency reserves, and any other costs of the project. Fees and costs should fall within certain ranges described in this attachment.

The Bank generally accepts a project’s development budget if approved by or within the guidelines of a State Housing Finance Agency or similar funding agencies such as USDA, HUD or FHA for the state where the project will be located as sufficient evidence that the project’s per unit cost is warranted. The State Housing Finance Agency maximum purchase price limits for the Bank’s five-state District are available on the Bank’s website at www.fhlbdm.com. The Bank may also, with adequate explanation, consider applicable factors impacting the project’s development cost, including, but not limited to, market conditions, the nature of the project, number of bedrooms, size of units, and/or location in high cost areas in determining the reasonableness of proposed development costs.

The development budget should include the typical costs of construction but also may include estimates of the market value of in-kind donations and volunteer professional labor or services committed to the project but not the value of sweat-equity. The AHP subsidy for a specific house cannot exceed the total of the development cost minus 1) any hard mortgages and 2) any donated professional labor or donated materials, if such items have been included in the total development cost. In the case of homeownership projects where the sponsor extends permanent financing to the homebuyer, the sponsor’s cash contribution shall include



the present value of any payments the sponsor is to receive from the buyer, which shall include any cash down payment from the buyer, plus the present value of any purchase note the sponsor holds on the unit (Exhibit I-B of the AHP application). Development costs are defined as the sum of the following: the hard costs of material and labor, a reasonable development fee, and reasonable soft costs.

b) Developer's and Consultant's Fees

Projects may include a combined developer's fee and consultant's fee no greater than 15 percent of the project's total development cost, excluding the developer's and consultant's fees. The Bank calculates the developer's and consultant's fees percentage as follows: $(\text{Developer's Fee} + \text{Consultant's Fee}) \div (\text{Total Development Cost} - \text{Developer's Fee} - \text{Consultant's Fee})$. Because a developer may elect not to take any developer's fee on a project, the Bank has not set any minimum fee. However, the Bank may ask a developer who does not include a development fee in a project's budget to justify why a fee will not be taken and to provide evidence that the developer's financial condition is sufficient that such a fee is not needed.

c) Project Costs

(1) Single-family purchase with rehabilitation, owner-occupied acquisition/rehabilitation, and new construction costs should generally not exceed the maximums set by the State Housing Finance Agency or similar funding agencies such as USDA, HUD or FHA for the state where the project will be located or

(2) Owner-occupied rehabilitation costs should not exceed local usual and customary costs as demonstrated by actual costs.

d) Construction Labor Costs

Projects in which the sponsor provides labor to the project may charge a reasonable amount for that labor plus overhead and profit. The Bank considers other costs on a case-by-case basis. The costs must be typical of general contracting and not of the administration of the sponsor organization. The applicant must provide information on proposed costs at the time of the AHP Application. For example, a community action agency may charge a reasonable fee for a construction crew for rehabilitation projects.



e) Construction Management Fees

The sponsor may charge a construction management fee for writing construction specifications and performing inspections. The construction management fee cannot exceed \$300 for projects with minor rehabilitation. Minor rehabilitation includes projects where the cost of rehabilitation is less than \$10,000. The construction management fee cannot exceed \$500 for projects with substantial rehabilitation. Substantial rehabilitation includes projects where the cost of rehabilitation is \$10,000 or more. If the fee is to be paid from AHP funds, it must be included in the deed restriction amount.

f) Contingency

The contingency budget for a project is generally expected to be between zero percent and 10 percent of the construction budget, unless the applicant can demonstrate that costs are unlikely to change from those proposed. Since unforeseen costs are encountered in virtually all construction or rehabilitation projects, an adequate contingency budget is key to ensuring funds will be available to complete the project. Projects that might justify a smaller or no contingency budget include those where only acquisition or minor rehabilitation will be undertaken.

2. Project Design

a) Affordability of Housing Costs

Projects that include loans to the household need to make sure that the total house payments do not exceed the housing cost and/or housing cost plus debt ratios as accepted by typical affordable housing programs including such programs as FHA, Fannie Mae, Freddie Mac or USDA. If the households have not been identified at the time the AHP Application is submitted, the household income is defined as the MRB income limit that is used for project targeting.

b) Interest Rate

The rate of interest, points, fees and any other charges must not exceed a reasonable market rate of interest, points, fees and other charges for a loan of similar maturity, terms, and risk.

c) Closing Costs, as outlined in Attachment A



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| HOMEOWNERSHIP PROJECT FEASIBILITY | | |
|--|----------------|---|
| DEVELOPMENT BUDGET | MINIMUM | MAXIMUM |
| Developer's Fee for new construction and owner-occupied acquisition/rehabilitation projects | \$0 | 15% of the development cost, less the developer's and consultant's fees. |
| Project Costs for purchase with rehabilitation, owner- occupied acquisition/rehabilitation, and new construction projects | \$0 | State Housing Finance Agency, USDA, HUD or FHA Standards for the locality. |
| Project Costs for owner-occupied rehabilitation projects | \$0 | Local usual and customary costs as demonstrated by actual costs. |
| Construction Labor Costs | \$0 | Projects in which the sponsor provides labor to the project may charge a reasonable charge for that labor plus overhead and profit. The Bank considers other costs on a case-by-case basis. The costs must be typical of general contracting and not of the administration of the sponsor organization. |
| Construction Management Fee for specifications and inspections for projects with minor rehabilitation (less than \$10,000 total rehabilitation) | \$0 | \$300 as a flat fee, any additional amounts must come from a non-AHP source. |
| Construction Management Fee for specifications and inspections for projects with substantial rehabilitation (\$10,000 or more total rehabilitation) | \$0 | \$500 as a flat fee, any additional amounts must come from a non-AHP source. |
| Contingency | \$0 | 10% of total project costs. |
| PROJECT DESIGN | MINIMUM | MAXIMUM |
| Affordability of Housing Costs | 0% | Total payments cannot exceed the housing cost and/or housing cost plus debt ratios as accepted by typical affordable housing programs including such programs as FHA, Fannie Mae, Freddie Mac or USDA. |
| Interest Rate | 0% | Cannot exceed market rate for the type of loan made. |
| Closing Costs | \$0 | No maximum, but all costs must be eligible (see definitions in Attachment A) or paid from non-AHP funds. |



V. Attachment C

2007 Rural Homeownership Fund Program Guidelines

A. Program Summary

Effective June 1, 2007, the Bank will allocate \$1 million of its annual required AHP contribution to provide down payment, closing cost, counseling, or rehabilitation assistance to eligible households purchasing owner-occupied units in rural locations. Please refer to the definitions of “owner-occupied unit” and “rural” in Attachment A.

B. Member Eligibility

Any member that was awarded funding from the 2005 or 2006 Rural Homeownership Fund (RHF) must have expended all of its 2005 or 2006 allocation, as applicable, by April 30, 2007 to be eligible to apply for the 2007 RHF. The applicant must be a member of the Bank at the time the RHF application is submitted to the Bank.

C. Application Period

During an initial 30-day application period, an eligible member may apply to reserve from a minimum of \$5,000 up to a maximum of the following: the lesser of \$25,000 or the amount equal to the number of loans for the purchase of a home that the member originated in the preceding two calendar years in rural locations multiplied by \$5,000.

Of the available \$1 million, at least \$100,000 will be made available to members located in each of the states in the Bank’s district: Iowa, Minnesota, Missouri, North Dakota and South Dakota. If the total amount of funds applied for from any state exceeds \$100,000, applications will be randomly selected by a lottery until the amount is fully reserved. If the total amount of applications in any state is less than \$100,000, then the funds not applied for shall be placed in the lottery for the remaining funds as described below.

The remaining funds not used by members through the state allocation will be distributed to applicants randomly selected by a lottery until the remaining funds are fully reserved. Any funds remaining unreserved will be allocated to the next round of competitive AHP applications.

D. Time Limits on the Disbursement of Funds and Treatment of Undisbursed Funds

- ◆ Members are required to disburse reserved funds to eligible households by close of business September 30, 2009. Members must request reimbursement from the Rural Homeownership Fund by October 30, 2009 for loans closed on or before September 30, 2009.



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- ◆ All loans must be closed on or before September 30, 2009. For loans closed on or before September 30, 2009, where funds have been escrowed for rehabilitation, work must be completed and all funds disbursed from the escrow account by September 30, 2010. Documentation of expenditure of the entire escrowed amount in the form of paid receipts and/or lien waivers must be submitted to the Bank by no later than October 29, 2010 for reimbursement. If a balance remains in the escrow on September 30, 2010, the entire escrow balance remaining must be applied to the principal of the first mortgage or as a credit toward the household's monthly payment on the mortgage loan and all required documentation must be submitted to the Bank by no later than October 29, 2010.
- ◆ If a member has not expended any of its RHF allocation by the one year anniversary of the RHF subsidy agreement effective date and has no loans closed or applications pending demonstrating progress toward disbursement, the funds will be deobligated and added to the AHP contribution for the next round of AHP applications.
- ◆ Any undisbursed funds, except for amounts escrowed for rehabilitation as described above, remaining on October 30, 2009 will be added to the AHP contribution for the next round of AHP applications.

E. Requirements

- ◆ Eligible households will be determined using the area median income as periodically published for use under the Mortgage Revenue Bond (MRB) by the State Housing Finance Agency for the state in which the retention document will be recorded. Total household income as of the enrollment date may not exceed 80 percent of the MRB median income standard for the county or MSA where the property being purchased is located. Please refer to the definition of "enrollment date for set-aside" in Attachment A. The MRB income guidelines for Iowa, Minnesota, Missouri, North Dakota, and South Dakota can be found on our website at www.fhlbdm.com or requested by calling 1-800-544-3452, extension 1173. The member is responsible for obtaining income limits for any other state and for requesting approval of the limits from the Bank prior to disbursing any grant funds. Incomes of co-signer(s) will not be included in household income, provided the co-signer(s) is (are) not titleholder(s) and will not reside in the home being purchased.
- ◆ Eligible households must be either a First-time Homebuyer or a Non First-time Homebuyer as defined in Attachment A.



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- ◆ All eligible First-time Homebuyer households must complete a Financial Literacy Program, as defined in Attachment A, prior to closing.
- ◆ RHF subsidies must be used to pay for down payment, closing cost, counseling, or rehabilitation assistance in connection with the eligible household's purchase of an owner-occupied unit, including a condominium or cooperative housing unit or manufactured housing, to be used as the household's primary residence.
- ◆ RHF subsidies may be used to pay for counseling costs only where such costs are incurred in connection with counseling of homebuyers who actually purchase an RHF-assisted unit and the cost of the counseling has not been covered by another funding source, including the member.
- ◆ Mortgage financing may be obtained from the financial institution of the homebuyer's choice, or the member may restrict the funds to mortgages obtained through the member. The rate of interest, points, fees, and any other charges for all loans made in conjunction with the RHF subsidy must not exceed a reasonable market rate of interest, points, fees, and other charges for loans of similar maturity, terms, and risk. If a member is providing mortgage financing to a participating household, the member must provide financial or other concessions in connection with such mortgage financing. Financial or other concessions include lower (or foregone) origination fees, other discounted fees, reduced interest rates, lower down payment requirements, reductions in other closing costs, originating loans for the State Housing Finance Agency, loans that are matched with USDA guarantees, USDA's direct loan program, the HUD 184 Loan Program or other types of concessions may also be acceptable if approved by the Bank. Any fee reduction must be a minimum of \$50 in order to qualify as a concession. Please note that free checking is not an eligible concession under this definition. Loans originated by the member to be sold into the secondary market, other than State Housing Finance Agency or USDA guaranteed loans or HUD 184 Loans, must provide a concession.
- ◆ The Bank requires that AHP projects comply with anti-predatory lending laws. For example, anti-predatory lending laws may prohibit or limit certain practices and characteristics, including, but not limited to the following:
 - a) Requiring the borrower to obtain prepaid, single-premium credit life, credit disability, credit unemployment, or other similar credit insurance;
 - b) Requiring mandatory arbitration provisions with respect to dispute resolution in the loan document; or



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- c) Charging prepayment penalties for the payoff of the loan beyond the early years of such loan.

Any project including a loan that does not comply with all applicable anti-predatory lending laws will be ineligible for AHP assistance. Additionally, the Bank will not provide AHP assistance to any project in which a loan exceeds the annual percentage rate or points and fees thresholds of the Home Ownership and Equity Protection Act of 1994 and its implementing regulations (Federal Reserve Board Regulation Z). Members, sponsors, and owners are responsible for avoiding all unlawful practices and terms prohibited by applicable anti-predatory lending laws, regardless of whether they originate or purchase the loan in connection with an AHP project.

- ◆ The owner-occupied unit being purchased must be subject to a 5-year deed restriction, “soft” second mortgage, or other legally enforceable retention agreement or mechanism meeting the requirement of the AHP regulations.
- ◆ The member providing the grant is responsible for filing and monitoring the deed restriction, “soft” second mortgage, or other legally enforceable retention agreement or mechanism, whether or not the member originates the first mortgage.
- ◆ An owner-occupied unit that is purchased under the RHF must be in a rural location as defined in Attachment A.
- ◆ Monitoring of the Rural Homeownership Fund program will be as stated in the AHP regulations with a retention period of five years. Members will be required to provide a certification once all their awarded funds have been disbursed. AHP direct subsidy agreements will be signed at the time of the award and a signed Certification and Draw Request form is required for each recipient prior to the disbursement of funds to the member.

In addition, the Bank verifies the following information for the first disbursement on each awarded project and members are required to maintain the following on all disbursements:

- a) signed HUD-1 or closing documents for the sale of a manufactured home that includes purchase price, loan amount, and any other costs associated with the transaction;
- b) copies of lien waivers or invoices for work performed totaling the amount of assistance, if the funds are used for rehabilitation;



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- c) Calculation of Income Worksheet for each household member;
- d) third-party documentation verifying the household income; and
- e) copy of the retention document to be filed for the transaction.

If an escrow has been established, the Bank will only disburse funds to the member after receipt of the following:

- a) paid receipts or lien waivers for the entire escrowed amount; or
- b) documentation that escrowed funds have been applied to the principal amount of the first mortgage.

The Bank, in its sole discretion, may request and review the above documentation on any disbursement.

- ◆ Excluding reimbursement for eligible items paid outside of closing, a member may not provide cash back to a household at closing on the mortgage loan in an amount exceeding \$250. Down payment and earnest money do not qualify as eligible items paid outside of closing. The Bank, in its sole discretion, will determine eligible items paid outside of closing. A member must use any AHP direct subsidy exceeding \$250 that is beyond what is needed at closing for closing costs and the approved mortgage amount as a credit to reduce the principal of the mortgage loan or as a credit toward the household's monthly payment on the mortgage loan.
- ◆ No individual homebuyer shall receive more than \$5,000 under this set-aside program.
- ◆ RHF may not be used in conjunction with programs utilizing funds from competitive AHP awards.



VI. Attachment D

2007 Native American Homeownership Initiative Guidelines

A. Program Summary

Effective January 22, 2007, the Bank will allocate \$1 million of its annual required AHP contribution to provide down payment, closing cost, counseling, or rehabilitation assistance to eligible households that are purchasing owner-occupied units located in a Native American Service Area. Please refer to the definitions of “owner-occupied unit” and “Native American Service Area” in Attachment A.

B. Allocation of Funds

Funds for the 2007 Native American Homeownership Initiative (NAHI) will be made available on a first-come, first-served basis. The applicant must be a member of the Bank at the time the NAHI application is submitted to the Bank. Each member may reserve up to \$50,000 at a time for up to 90 days beginning February 1, 2007 and ending December 31, 2007. A member may not reserve additional funds until any previously reserved funds in excess of \$5,000 per commitment are expended. A member’s combined NAHI commitment amount may not exceed \$50,000. Members with an allocation of any prior year’s NAHI funds must expend those funds prior to reserving funds under the current year’s program. Funds not disbursed by the end of 90 days will be made available to all members for reservation. Members must request reimbursement from the 2007 NAHI by March 31, 2008, regardless of the 90-day reservation period.

C. Treatment of Undisbursed Funds

- ◆ All loans must be closed on or before March 31, 2008. For loans closed on or before March 31, 2008, where funds have been escrowed for rehabilitation, work must be completed and all funds disbursed from the escrow account by March 31, 2009. Documentation of expenditure of the entire escrowed amount in the form of paid receipts and/or lien waivers must be submitted to the Bank by no later than April 30, 2009 for reimbursement. If a balance remains in the escrow on March 31, 2009, the entire escrow balance remaining must be applied to the principal of the first mortgage or as a credit toward the household’s monthly payment on the mortgage loan and all required documentation must be submitted to the Bank by no later than April 30, 2009 for reimbursement.
- ◆ Any undisbursed funds, except for amounts escrowed for rehabilitation as described above, remaining as of March 31, 2008 will be added to the AHP contribution for the next round of AHP applications.



D. Requirements

- ◆ Eligible households must be eligible for housing assisted with grants provided under NAHASDA pursuant to a policy adopted by a tribe or tribally designated housing entity.
- ◆ Eligible households will be determined using the greater of the area median income as periodically published for use under the MRB median income for the state in which the retention document will be recorded or the applicable median income for purposes of NAHASDA income limits. Total household income as of the enrollment date may not exceed the greater of 80 percent of (i) the MRB median income standard for the county or MSA where the property being purchased is located or (ii) the applicable NAHASDA income limits. The MRB income guidelines for Iowa, Minnesota, Missouri, North Dakota, and South Dakota and the NAHASDA income limits can be found on our website at www.fhlbdm.com or requested by calling 1-800-544-3452, extension 1173. The member is responsible for obtaining income limits for any other state and for requesting approval of the limits from the Bank prior to disbursing any grant funds. Incomes of co-signer(s) will not be included in household income, provided that the co-signer(s) is (are) not titleholder(s) and will not reside in the home being purchased.
- ◆ All eligible First-time Homebuyer households must complete a Financial Literacy Program, as defined in Attachment A, prior to closing.
- ◆ NAHI subsidies must be used to pay for down payment, closing cost, counseling, or rehabilitation assistance in connection with the eligible household's purchase of an owner-occupied unit, including a condominium or cooperative housing unit or manufactured housing, to be used as the household's primary residence.
- ◆ NAHI subsidies may be used to pay for counseling costs only where such costs are incurred in connection with counseling of homebuyers who actually purchase a NAHI-assisted unit and the cost of the counseling has not been covered by another funding source, including the member.
- ◆ Mortgage financing may be obtained from the financial institution of the homebuyer's choice, or the member may restrict the funds to mortgages obtained through the member. The rate of interest, points, fees, and any other charges for all loans made in conjunction with the NAHI subsidy must not exceed a reasonable market rate of interest, points, fees, and other charges for loans of similar maturity, terms, and risk. If a member is providing mortgage financing to a participating household, the member must provide financial or other concessions in connection with such mortgage financing. Financial or other concessions include lower (or foregone) origination fees, other discounted fees, reduced interest rates, lower down



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payment requirements, reductions in other closing costs, originating loans for the State Housing Finance Agency, loans that are matched with USDA guarantees, USDA's direct loan program, the HUD 184 loan program or other types of concessions may also be acceptable if approved by the Bank. Any fee reduction must be a minimum of \$50 in order to qualify as a concession. Please note that free checking is not an eligible concession under this definition. Loans originated to be sold into the secondary market, other than State Housing Finance Agency or USDA guaranteed loans or HUD 184 loans, must provide a concession.

- ◆ The Bank requires that AHP projects comply with anti-predatory lending laws. For example, anti-predatory lending laws may prohibit or limit certain practices and characteristics, including, but not limited to the following:
 - a) Requiring the borrower to obtain prepaid, single-premium credit life, credit disability, credit unemployment, or other similar credit insurance;
 - b) Requiring mandatory arbitration provisions with respect to dispute resolution in the loan document; or
 - c) Charging prepayment penalties for the payoff of the loan beyond the early years of such loan.

Any project including a loan that does not comply with all applicable anti-predatory lending laws will be ineligible for AHP assistance. Additionally, the Bank will not provide AHP assistance to any project in which a loan exceeds the annual percentage rate or points and fees thresholds of the Home Ownership and Equity Protection Act of 1994 and its implementing regulations (Federal Reserve Board Regulation Z). Members, sponsors, and owners are responsible for avoiding all unlawful practices and terms prohibited by applicable anti-predatory lending laws, regardless of whether they originate or purchase the loan in connection with an AHP project.

- ◆ The owner-occupied unit being purchased must be subject to a 5-year deed restriction, "soft" second mortgage, or other legally enforceable retention agreement or mechanism meeting the requirement of the AHP regulations.
- ◆ Eligible households must be either a First-time Homebuyer or a Non First-time Homebuyer as defined in Attachment A.
- ◆ An owner-occupied unit that is purchased under the NAHI must be in a Native American Service Area as defined in Attachment A.



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- ◆ The member providing the grant is responsible for filing and monitoring the deed restriction, “soft” second mortgage, or other legally enforceable retention agreement or mechanism, whether or not the member originates the first mortgage.
- ◆ Monitoring of the NAHI program will be as stated in the AHP regulations with a retention period of five years. Members will be required to provide a certification once all their awarded funds have been disbursed. AHP direct subsidy agreements are signed at the time of the award and a signed Certification and Draw Request form is required on each recipient prior to the disbursement of funds to the member.

In addition, the Bank will verify the following information for the first disbursement on each awarded project and members are required to maintain the following on all disbursements:

- a) signed HUD-1 or closing documents for the sale of a manufactured home that includes purchase price, loan amount, and any other costs associated with the transaction;
- b) copies of lien waivers or invoices for work performed totaling the amount of assistance, if the funds are used for rehabilitation;
- c) Calculation of Income Worksheet for each household member;
- d) third-party documentation verifying the household income; and
- e) copy of the retention document to be filed for the transaction.

If an escrow has been established, the Bank only disburses funds to the member after receipt of the following:

- a) paid receipts or lien waivers for the entire escrowed amount; or
- b) documentation that escrowed funds have been applied to the principal amount of the first mortgage.

The Bank, in its sole discretion, may request and review the above documentation on any disbursement.

- ◆ Excluding reimbursement for eligible items paid outside of closing, a member may not provide cash back to a household at closing on the mortgage loan in an amount exceeding \$250. Down payment and earnest money do not qualify as eligible items paid outside of closing. The Bank, in its sole discretion, will determine eligible items paid outside of closing. A member must use any AHP direct subsidy exceeding \$250



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that is beyond what is needed at closing for closing costs and the approved mortgage amount as a credit to reduce the principal of the mortgage loan or as a credit toward the household's monthly payment on the mortgage loan.

- ◆ No individual homebuyer shall receive more than \$10,000 under this set-aside program.
- ◆ NAHI funds may not be used in conjunction with programs utilizing funds from competitive AHP awards.



VII. Attachment E

Scoring Criteria – Point Determinations

AHP regulations require the Bank to allocate 100 points among the nine scoring priorities listed below. Each applicant receives points based on their satisfaction of the nine scoring priorities. Applications are recommended for funding in descending order of score until the total amount of funds available, except for the amount insufficient to fund the next highest scoring application, has been allocated.

Application scoring is based upon the content of the application. Please note that any unanswered questions or undocumented answers in the application for AHP funds will receive zero points for that category.

Applicants who are awarded grants are required to complete and maintain projects as stated in the original application for AHP funding. If a grant recipient fails to do so, deobligation or recapture of the AHP award may occur.

A. Priority 1

1. Use of Donated or Conveyed Government-owned or Other Properties – 5 Points (Variable)

The financing of housing using a significant proportion of

- a) land or units donated or conveyed by the Federal government or any agency or instrumentality thereof; or

- b) land or units donated or conveyed by any other party for an amount significantly below the Fair Market Value (FMV) of the property, which reduces the costs of financing such housing.

NOTE: “Significant proportion” of units or land means a minimum of 20 percent (or more) of the units or land area. Donated means to convey land or units for a small, or negligible amount, most often one dollar, which may be accompanied by the modest expenses related to the conveyance of the property for use by the project.

“Significantly below FMV” of the property means a discount of 50% or more of the FMV. The applicant must provide documentation to establish the FMV.

5 points awarded if 100% of the units or land is donated by any entity.

4 points awarded if less than 100%, but at least 20%, of the units or land is donated by any entity.



3 points awarded if 100% of the units or land conveyed by any entity into the project is at a significant amount below FMV.

2 points awarded if less than 100%, but at least 20%, of the units or land conveyed by any entity into the project is at a significant amount below FMV.

1 point for units or land conveyed at a market value by the Federal government or any agency or instrumentality thereof.

B. Priority 2

1. Sponsorship by a Not-for-profit Organization or Government Entity – 5 Points (Fixed)

Project sponsorship by a not-for-profit organization, a state or political subdivision of a state, a state housing agency, a local housing authority, a Native American Tribe, an Alaskan Native Village, or the government entity for Native Hawaiian Home Lands. Sponsor includes a not-for-profit organization that owns a for-profit entity that is the general partner in the partnership that owns an AHP eligible rental project.

For rental projects, as a threshold issue under the AHP regulations, the non-profit or government sponsor must have some level of ownership interest, including any partnership interest, in the project to receive points. For owner-occupied projects, the non-profit or government sponsor must be integrally involved in the owner-occupied project, such as by exercising control over the planning, development, or management of the project, or by qualifying borrowers and providing or arranging financing for the owners of the units.

C. Priority 3

1. Targeting – 20 Points (Variable)

Targeting reflects the extent to which a project creates housing for very low- and low- or moderate-income households. For purposes of scoring Priority 3, applications for owner-occupied and rental projects will be scored separately.

a) Rental Projects

An application for a rental project shall be awarded the maximum number of points available under this scoring criterion if 60 percent or more of the units in the project are reserved for occupancy by households with incomes at or below 50 percent of the area median income (AMI). Applications for projects with less than 60 percent of the units reserved for occupancy by households with incomes



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at or below 50 percent of the AMI shall be awarded points on a declining scale based on the percentage of units in a project that are reserved for households with incomes at or below 50 percent of the AMI and on the percentage of the remaining units reserved for households with incomes at or below 80 percent of the AMI. A mathematical formula will be used to calculate the score for projects with less than 60 percent of the units reserved for occupancy by households with incomes at or below 50 percent of the AMI.

NOTE: The target you establish in the application for scoring is the permanent target for the project. It is not acceptable to simply “market to” a target group. The units must be rented to households that meet the target throughout the retention period. For example, if you target ten units to households with incomes at or below 50 percent of the AMI for fifteen years, the monitoring that you provide the Bank must show that ten units have been rented to households at or below 50 percent of the AMI at the time they moved into the units or at the time of application if the project is currently occupied.

Also, please remember that a manager’s or caretaker’s unit cannot receive AHP funding unless it is income restricted according to the application targeting. If the manager’s or caretaker’s unit will not be income restricted, the unit will be excluded from the total number of AHP-assisted units in the project.

b) Owner-occupied Projects

Applications for owner-occupied projects shall be awarded points based on the percentage of units in the project to be provided to households with incomes at or below 50 percent of the AMI. The Bank awards 20 points to owner-occupied applications in which 100 percent of the units will be targeted to households with incomes at or below 50 percent of the AMI. The Bank scores all other applications by multiplying 20 points by the percentage of units targeted at or below 50 percent of the AMI in the application. For example, if 70 percent of an application’s total owner-occupied units will be targeted at or below 50 percent of the AMI, the application’s targeting score would be 14 points (20 points x .70 = 14 points).

NOTE: You must adhere to the targeting requirements you propose in the application. Marketing the units to the target group for a certain period of time and then switching to a higher income group is not acceptable. For example, if you apply for funds to target 25 owner-occupied units to households with incomes at or below 50 percent of the AMI, you must provide evidence that 25 units at or below 50 percent of the AMI have been subsidized.



D. Priority 4

1. Housing for Homeless Households – 10 Points (Fixed)

The financing of rental housing, excluding overnight shelters, reserving at least 20 percent of the units for homeless households, the creation of transitional housing for homeless households permitting a minimum of six months occupancy, or the creation of permanent owner-occupied housing reserving at least 20 percent of the units for homeless households. A project must reserve units for occupancy by homeless households, not merely market to homeless persons or give priority to the homeless for waiting list purposes. Please refer to the definition of “homeless household” in Attachment A.

E. Priority 5

1. Promotion of Empowerment – 10 Points (Variable)

The provision of housing in combination with a program offering employment; education; training; homebuyer, homeownership, or tenant counseling; daycare services; resident involvement in decision making affecting the creation or operation of the project; or other services that assist residents to move toward better economic opportunities, such as welfare to work initiatives. Only programs or services that promote economic empowerment of project residents qualify for scoring points under this scoring criterion. Project programs or services that promote residents’ quality of life or personal well being but not their economic betterment do not qualify.

The Bank awards 2 points, up to a maximum of 10 points, for each empowerment item from the following list that the applicant commits to make available to all AHP-assisted homebuyers, homeowners, or tenants in an owner-occupied or rental project: education GED; education ESL or literacy programs; employment counseling or referral; employment training; job placement; homebuyer, homeownership, or tenant counseling; daycare services (youth or adult) that allow residents to pursue economic opportunity; youth or after-school programs that serve as a substitute for childcare, enabling the youth’s parents or guardians to find or sustain employment; home employment training; training for daycare providers; on-site primary health care services, vaccination and screening programs, or on-site health care management programs that support residents’ ability to find or sustain employment or be self-sufficient; financial planning, credit counseling, or budgeting; micro-business lending programs, training, or incubators; sweat equity; self-help programs; homeowners association; welfare to work initiatives; family self-sufficiency programs; case management including an economic empowerment or self-sufficiency component from the list under this priority; life skills classes; transportation provided by the project and tied to residents’ economic empowerment; and/or resident involvement in decision making affecting the creation or operation of the project.



F. Priority 6

1. First District Priority – 10 Points (Variable)

a) Rural Projects

Rural: the financing of housing located in rural areas. Please refer to the definition of “rural” in Attachment A.

The Bank awards 10 points to applications in which 100 percent of the units will be located in rural areas. The Bank scores all other applications by multiplying 10 points by the percentage of rural units included in the application. For example, if 40 percent of an application’s total units will be located in rural areas, the application’s First District Priority Rural score would be 4 points (10 points x .40 = 4 points).

b) Urban Projects

Urban: the financing of urban infill or urban rehabilitation housing. Please refer to the definitions of “urban,” “infill,” and “rehabilitation” in Attachment A.

The Bank awards 5 points to applications in which 100 percent of the units will be located in urban areas and provide for infill construction or rehabilitation. The Bank scores all other applications by multiplying 5 points by the percentage of urban infill or urban rehabilitation units included in the application. For example, if 60 percent of an application’s total units will be urban infill or urban rehabilitation, the application’s First District Priority Urban score would be 3 points (5 points x .60 = 3 points).

The Bank awards the sum of applicable rural and urban points to applications in which a combination of rural and urban infill or urban rehabilitation units is proposed, up to a maximum of 10 total points.

G. Priority 7

1. Second District Priority – 15 Points (Fixed)

Defined Housing Need in the District: Projects that preserve or create permanent housing for distressed populations.



a) Permanent Housing for Distressed Populations: The Bank awards 15 points to applications in which at least 50 percent of the units will preserve or create permanent housing for one or more of the following distressed populations:

- ◆ Persons with mental and/or physical disabilities
- ◆ Persons with mental illness
- ◆ Persons diagnosed with chemical dependency or substance abuse issues
- ◆ Persons living with HIV/AIDS
- ◆ Persons in need of assistance with activities of daily living provided in a licensed assisted living facility
- ◆ Single heads of households and their children
- ◆ Veterans
- ◆ Farm or migrant workers
- ◆ Youth aging out of foster care or other unaccompanied youth
- ◆ Victims of domestic violence

Please refer to the definition of “permanent housing” in Attachment A.

H. Priority 8

1. AHP Subsidy per Unit – 10 Points (Variable)

The extent to which a project proposes to use the least amount of AHP subsidy per AHP-targeted unit. In the case of an application for a project financed by a subsidized advance, the total amount of AHP subsidy used by the project shall be estimated based on the Bank’s cost of funds as of the date on which all applications are due for the funding period in which the application is submitted. The lowest subsidy per unit requested will receive 10 points.

For purposes of scoring Priority 8, applications for owner-occupied projects and rental projects will be scored separately.

I. Priority 9

1. Community Stability – 15 Points (Variable)

The promotion of community stability by rehabilitating vacant or abandoned properties, providing for the adaptive reuse of existing properties, or not permanently displacing low- or moderate-income households, or if such displacement will occur, assuring that such households will be assisted to minimize the impact of such displacement. Please refer to the definitions of “vacant or abandoned” and “adaptive reuse” in Attachment A.



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The Bank awards up to a maximum of 15 points to applications promoting community stability on the following basis:

- a) 15 points for adaptive reuse.
- b) 15 points for rehabilitation of vacant or abandoned properties.
- c) Up to 10 points awarded on a sliding scale basis for rehabilitation of existing properties as follows (exclusive of any acquisition cost):

10 points for \$25,000 per unit or greater rehabilitation

9 points for \$20,000 per unit or greater rehabilitation

8 points for \$15,000 per unit or greater rehabilitation

7 points for \$10,000 per unit or greater rehabilitation

6 points for \$5,000 per unit or greater rehabilitation

5 points for \$2,500 per unit or greater rehabilitation

- d) 10 points for rental projects preserving units with an existing contract for project-based rental assistance. The exact number of points to be awarded will be based upon the percentage of units to be retained with project-based rental assistance on a sliding-scale basis determined by the number of units to be covered through the project-based rental assistance contract upon AHP project completion as a percentage of the total number of project units under the original contract. For example, if the project will rehabilitate an existing rental property with 20 units under a project-based rental assistance contract and all 20 units will remain under that contract after AHP project completion, the Bank awards 10 points to that application $[(20/20) \times 10 \text{ points} = 10 \text{ points}]$. If a project will acquire and rehabilitate an existing rental property with 100 units under a project-based rental assistance contract and only 60 units will be under contract after AHP project completion, the Bank awards 6 points to that application $[(60/100) \times 10 \text{ points} = 6 \text{ points}]$. Sources of project-based rental assistance may include, but are not necessarily limited to, the following: HUD Section 8, Section 202, Section 811, Shelter Plus Care, or NAHASDA programs or USDA Rural Housing Service Section 515 program. Regardless of its source, the rental assistance must be project-based, not tenant-based, in order to qualify for scoring consideration. Newly created project-based rental assistance units do not qualify for scoring under this criterion.



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- e) 2 points for not permanently displacing low- or moderate-income households who are subject to displacement as a result of the project, or if such displacement will occur, assuring that such households will be assisted to minimize the impact of such displacement.

Applications receiving points under any of the last three categories (c, d, and/or e) are eligible to receive a combination of points under these categories (c, d, and/or e), as applicable, up to a maximum of 15 points. All other point categories are mutually exclusive.



VIII. Attachment F

Income Determination Guidelines for Owner-occupied Projects

A. General Guidelines

When verifying income it is important to review and analyze the income verification documents that best disclose that particular household's income.

1. Household Income

For purposes of verifying income for owner-occupied projects, current income from all sources received by all household members must be included. This includes income received by adult household members even if the household member is not on the forgivable deed restriction or does not have title to the property. Income from the employment of children (including foster children) under the age of 18 years is not counted in the calculation of total household income. A household may be income qualified as of the enrollment date with the member or sponsor provided that the income verification documentation is no older than six months from the date the household is qualified by the member or sponsor. Please refer to the definition of "enrollment date" in Attachment A.

2. Types of Income

Income includes, but is not necessarily limited to, the following:

- a) Gross income, not the net income of the household. Gross income is the income received before pre-tax deductions such as 401K and health savings accounts. Gross income includes compensation for overtime, commissions, tips, bonuses; and net income from self, employment. For self-employed individuals, a minimum of two years of tax returns with W-2 forms and relevant schedules must be obtained to verify the self-employed portion of the income. Net income from self-employment is lines 12 and/or 18 from the tax return plus depreciation.
- b) Child support and alimony must be counted. If it is not received regularly, verify the amount received during the last twelve months, and divide by 12 months to calculate an average monthly amount.
- c) Interest, dividends, and net income from real or personal property.
- d) Annuities, periodic payments for insurance policies, retirement income, pensions, periodic benefits for disability or death, or other similar types of periodic payments.



- e) Payments made to the head of household for the support of a minor. For example, Temporary Assistance to Needy Families (TANF), Social Security Disability Insurance (SSDI), and Supplemental Security Income (SSI), or similar programs.
 - f) Payments in lieu of earnings, such as unemployment and disability compensations, social security benefits, workmen's compensation and dismissal wages.
3. Verifying Income when AHP is combined with a re-payable loan

Lenders should include all sources of income that can be considered when underwriting a loan – even if the income was not used to qualify the applicant for the repayable loan. There are certain types of income that may not be included when underwriting a loan. However, these sources must be included as income when determining AHP eligibility. Some examples include:

- ◆ untaxed 401K income deducted from gross pay.
- ◆ irregular income such as, overtime, bonuses and commissions.
- ◆ untaxed pension funds or normal IRA distributions (not “loans” against the borrower's account).
- ◆ net income from self employment.

4. Tax Returns

The Bank recommends that you collect the applicants' most recent tax return as a check against the information received on the loan application and verifications. However, tax returns are not acceptable verification of current wage income. When using a W-2 to determine income, typically use Box 3 (Social Security wages) instead of Box 1 (Wages, tips and salaries), unless there are earnings such as tips or commissions which are reported in a separate box.

5. Calculation of Income Worksheet

All income verifications must be accompanied by a Calculation of Income Worksheet signed by the member or sponsor. Each homeowner/homebuyer must certify their household income, as determined on the Calculation of Income Worksheet, is correct. In situations where it is appropriate to use only a tax return as verification of income (self-employment), the Calculation of Income Worksheet signed by the member or



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sponsor must demonstrate that any non-taxable income has been calculated into the total qualifying income.

B. Low Document Processing/Underwriting

Bank staff is aware that many institutions use low doc procedures for secondary market outlets or use low doc in their portfolio underwriting, and the Bank wishes to accommodate those systems. If low doc underwriting is utilized, it is important the income be properly determined. The income must be maximized unless further documentation is obtained that demonstrates a lower income calculation. A Calculation of Income Worksheet signed by the member or sponsor must demonstrate that income has been maximized and that any non-taxable income has been calculated into the total qualifying income. Each homeowner/homebuyer must certify their household income, as determined on the Calculation of Income Worksheet, is correct.

If you have any further questions regarding income determination for AHP, please call Bank staff at 1-800-544-3452, extension 1173.



IX. Attachment G

2007 Urban First-time Homebuyer Fund Program Guidelines

A. Program Summary

Effective September 4, 2007, the Bank will allocate \$1 million of its annual required AHP contribution to provide down payment, closing cost, counseling, or rehabilitation assistance to eligible first-time homebuyers that are purchasing owner-occupied units in urban locations. Please refer to the definitions of “owner-occupied unit” and “urban” in Attachment A.

B. Member Eligibility

Any member that received funding in the 2006 Urban First-time Homebuyer Fund (UFT) is ineligible to apply unless all previously awarded funds are expended by April 30, 2007.

C. Application Period

During an initial 30-day application period, an eligible member may apply to reserve from a minimum of \$5,000 up to a maximum of the following: the lesser of \$50,000 or the amount equal to the number of loans for the purchase of a home that the member originated in the preceding two calendar years in urban locations multiplied by \$5,000.

Funds will be allocated to members who apply by a lottery until the funds are fully reserved or all members in the lottery have been allocated funds. Any funds remaining unreserved will be allocated to the next round of competitive AHP applications.

D. Time Limits on the Disbursement of Funds and Treatment of Undisbursed Funds

- ◆ Members are required to disburse reserved funds to eligible first-time homebuyers by close of business September 30, 2009. Members must request reimbursement from the UFT by October 30, 2009 for loans closed on or before September 30, 2009.
- ◆ All loans must be closed on or before September 30, 2009. For loans closed on or before September 30, 2009, where funds have been escrowed for rehabilitation, work must be completed and all funds disbursed from the escrow account by September 30, 2010. Documentation of expenditure of the entire escrowed amount in the form of paid receipts and/or lien waivers must be submitted to the Bank by no later than October 29, 2010 for reimbursement. If a balance remains in the escrow on September 30, 2010, the entire escrow balance remaining must be applied to the principal of the first mortgage or as a credit toward the



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household's monthly payment on the mortgage loan and all required documentation must be submitted to the Bank by no later than October 29, 2010.

- ◆ If a member has not expended any of its UFT allocation by the one year anniversary of the UFT subsidy agreement effective date and has no loans closed or applications pending demonstrating progress toward disbursement, the funds will be deobligated and added to the AHP contribution for the next round of AHP applications.
- ◆ Any undisbursed funds, except for amounts escrowed for rehabilitation as described above, that remain on October 30, 2009 will be added to the AHP contribution for the next round of AHP applications.

E. Requirements

- ◆ Eligible households will be determined using the area median income as periodically published for use under the Mortgage Revenue Bond (MRB) by the State Housing Finance Agency for the state in which the retention document will be recorded. Total household income as of the enrollment date may not exceed 80 percent of the MRB median income standard for the county or MSA where the property being purchased is located. Please refer to the definition of "enrollment date for set-aside" in Attachment A. The MRB income guidelines for Iowa, Minnesota, Missouri, North Dakota, and South Dakota can be found on our website at www.fhlbdm.com or requested by calling 1-800-544-3452, extension 1173. The member is responsible for obtaining income limits for any other state and for requesting approval of the limits from the Bank prior to disbursing any grant funds. Incomes of co-signer(s) will not be included in household income, provided the co-signer(s) is (are) not titleholder(s) and will not reside in the home being purchased.
- ◆ Eligible households must be a First-time Homebuyer as defined in Attachment A.
- ◆ All eligible households must complete a Financial Literacy Program, as defined in Attachment A, prior to closing.
- ◆ UFT subsidies must be used to pay for down payment, closing cost, counseling, or rehabilitation assistance in connection with the eligible household's purchase of an owner-occupied unit, including a condominium or cooperative housing unit or manufactured housing, to be used as the household's primary residence.
- ◆ UFT subsidies may be used to pay for counseling costs only where such costs are incurred in connection with counseling of homebuyers who actually purchase an



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assisted unit under the UFT and the cost of the counseling has not been covered by another funding source, including the member.

- ◆ Mortgage financing may be obtained from the financial institution of the homebuyer's choice, or the member may restrict the funds to mortgages obtained through the member. The rate of interest, points, fees, and any other charges for all loans made in conjunction with the UFT subsidy must not exceed a reasonable market rate of interest, points, fees, and other charges for loans of similar maturity, terms, and risk. If a member is providing mortgage financing to a participating household, the member must provide financial or other concessions in connection with such mortgage financing. Financial or other concessions include lower (or foregone) origination fees, other discounted fees, reduced interest rates, lower down payment requirements, reductions in other closing costs, originating loans for the State Housing Finance Agency, the HUD 184 Loan Program or other types of concessions may also be acceptable if approved by the Bank. Any fee reduction must be a minimum of \$50 in order to qualify as a concession. Please note that free checking is not an eligible concession under this definition. Loans originated by the member to be sold into the secondary market, other than State Housing Finance Agency or HUD 184 Loans, must provide a concession.
- ◆ The Bank requires that AHP projects comply with anti-predatory lending laws. For example, anti-predatory lending laws may prohibit or limit certain practices and characteristics, including, but not limited to the following:
 - a) Requiring the borrower to obtain prepaid, single-premium credit life, credit disability, credit unemployment, or other similar credit insurance;
 - b) Requiring mandatory arbitration provisions with respect to dispute resolution in the loan document; or
 - c) Charging prepayment penalties for the payoff of the loan beyond the early years of such loan.

Any project including a loan that does not comply with all applicable anti-predatory lending laws will be ineligible for AHP assistance. Additionally, the Bank will not provide AHP assistance to any project in which a loan exceeds the annual percentage rate or points and fees thresholds of the Home Ownership and Equity Protection Act of 1994 and its implementing regulations (Federal Reserve Board Regulation Z). Members, sponsors, and owners are responsible for avoiding all unlawful practices and terms prohibited by applicable anti-predatory



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lending laws, regardless of whether they originate or purchase the loan in connection with an AHP project.

- ◆ The owner-occupied unit being purchased must be subject to a 5-year deed restriction, “soft” second mortgage, or other legally enforceable retention agreement or mechanism meeting the requirement of the AHP regulations.
- ◆ The member providing the grant is responsible for filing and monitoring the deed restriction, “soft” second mortgage, or other legally enforceable retention agreement or mechanism, whether or not the member originates the first mortgage.
- ◆ An owner-occupied unit that is purchased under the UFT must be in an urban location as defined in Attachment A.
- ◆ Monitoring of the UFT program will be as stated in the AHP regulations with a retention period of five years. Members will be required to provide a certification once all their awarded funds have been disbursed. AHP direct subsidy agreements will be signed at the time of the award and a signed Certification and Draw Request form is required for each recipient prior to the disbursement of funds to the member.

In addition, the Bank verifies the following information for the first disbursement on each awarded project and members are required to maintain the following on all disbursements:

- a) signed HUD-1 or closing documents for the sale of a manufactured home that includes purchase price, loan amount, and any other costs associated with the transaction;
- b) copies of lien waivers or invoices for work performed totaling the amount of assistance, if the funds are used for rehabilitation;
- c) Calculation of Income Worksheet for each household member;
- d) third-party documentation verifying the household income; and
- e) copy of the retention document to be filed for the transaction.

If an escrow has been established, the Bank will only disburse funds to the member after receipt of the following:

- a) paid receipts or lien waivers for the entire escrowed amount; or



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b) documentation that escrowed funds have been applied to the principal amount of the first mortgage.

The Bank, in its sole discretion, may request and review the above documentation on any disbursement.

- ◆ Excluding reimbursement for eligible items paid outside of closing, a member may not provide cash back to a household at closing on the mortgage loan in an amount exceeding \$250. Down payment and earnest money do not qualify as eligible items paid outside of closing. The Bank, in its sole discretion, will determine eligible items paid outside of closing. A member must use any AHP direct subsidy exceeding \$250 that is beyond what is needed at closing for closing costs and the approved mortgage amount as a credit to reduce the principal of the mortgage loan or as a credit toward the household's monthly payment on the mortgage loan.
- ◆ No individual homebuyer shall receive more than \$5,000 under this set-aside program.
- ◆ UFT may not be used in conjunction with programs utilizing funds from competitive AHP awards.