



**2009**

**Affordable Housing Program  
Implementation Plan**

**Amended  
February 26, 2009**



# AHP 2009 Implementation Plan

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## **I. Background and Program Summary**

The Federal Home Loan Bank of Des Moines (Bank) will offer one competitive Affordable Housing Program (AHP) funding round in 2009. The funds 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 only 2009 application period begins May 1, 2009 and ends June 30, 2009. During this time period, members may submit applications to the Bank. The Business Operations and Housing Committee (BOHC) 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) 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 Section IV.
- b) At the time the application is submitted to the Bank, the applicant must be a member of the Bank.
- c) The application must be complete so the Bank is able to both determine that the proposed AHP project meets the eligibility requirements of this section and can evaluate the application pursuant to the Bank's adopted scoring guidelines in Section II. H.
- d) Revolving loan funds and loan pools are not eligible for funding.

#### 2. Timing of AHP Subsidy Use

- a) Some or all of the AHP subsidy must likely 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 by considering the following:
  - 1) has application been made to other funding sources,
  - 2) is it likely AHP funds will be disbursed to the project, and
  - 3) will the project be complete within 24 months?
- 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, in its sole discretion, determine whether to extend the time for expenditure of AHP funds.



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- c) Generally, to receive an extension beyond 24 months (36 months when the AHP subsidy is a direct match for Individual Development Accounts or 100% of the project consists of foreclosed properties as defined in this plan) 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 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.

### **3. 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:

The project is in financial distress that cannot be remedied through a project modification pursuant to the AHP regulations;

- 1) The prepayment of the subsidized advance is necessary to retain the project's affordability and income targeting commitments;
  - 2) 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;
  - 3) Any unused subsidy is returned to the Bank and made available for other AHP projects; and
  - 4) 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.



#### **4. Counseling Costs/Homebuyer or Homeowner Education/Financial Literacy Programs**

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” also known as Counseling Costs, Homebuyer or Homeowner Education in Section IV.

#### **5. 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.

#### **6. Calculating Subsidy to Reduce Interest Rate**

- a) Lender Loans: 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.
- b) Subsidized Advances: 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.



## 7. 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 Section IV. The project's AHP-assisted units are committed to be subject to a retention agreement described in the AHP regulations.

The Bank or its designee is to be given notice of any sale or refinancing of the unit occurring prior to the end of the retention period. In the case of a sale or refinancing of the unit prior to the end of the retention period, an amount equal to a pro rata share of the AHP subsidy that financed the purchase, construction, or rehabilitation of the unit, reduced for every month the seller owned the unit, shall be repaid to the Bank from any net gain realized upon the sale or refinancing, unless:

- 1) The unit was assisted with a permanent mortgage loan funded by an AHP subsidized advance;
  - 2) The unit is sold to a very low-, low-, or moderate-income household; or
  - 3) Following a refinancing, the unit continues to be subject to a deed restriction or other legally enforceable retention agreement or mechanism.
- b) **Rental Projects:** The retention period for rental projects is fifteen (15) years from the date of project completion, as defined in Section IV. AHP-assisted rental projects are 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.

## 8. Fair Housing, Anti-Predatory Lending, and Housing Accessibility

- a) 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



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- the Architectural Barriers Act of 1969. The project also must demonstrate how it will be affirmatively marketed.
- b) The Bank requires that AHP projects comply with applicable 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:
    - 1) Requiring the borrower to obtain prepaid, single-premium credit life, credit disability, credit unemployment, or other similar credit insurance;
    - 2) Requiring mandatory arbitration provisions with respect to dispute resolution in the loan document; or
    - 3) Charging prepayment penalties for the payoff of the loan beyond the early years of such loan.
  - c) 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.

## **9. 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 AHP eligible unit in a single funding period.

### **B. Application Scoring**

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

### **C. Median Income Determinations for Projects**

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



## 1. Owner-occupied Projects

Projects may use, on a household by household basis, the greater of the following adjusted median income guidelines:

- 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;
- median income for the area as published annually by HUD and adjusted for household size for each county or MSA, or:
- the NAHASDA Income Guidelines may be used for households that are eligible for assistance from a Tribally Designated Housing Agency.

These median income guidelines would also apply to all existing approved but not completed projects including both competitive and set aside projects.

**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.fhlbmdm.com](http://www.fhlbmdm.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. In addition, the sponsor/owner may use the greater of HUD income limits or the NAHASDA Income Guidelines for households that are eligible for assistance from a Tribally Designated Housing Agency to determine the income eligibility of tenants. The HUD income limits for the Bank's district are available on the Bank's website at [www.fhlbmdm.com](http://www.fhlbmdm.com).

## D. 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.fhlbmdm.com](http://www.fhlbmdm.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). A project may not continue to be eligible for funding if it does not demonstrate eligibility, need for subsidy, and feasibility or does not score high enough in the re-score to have been funded in the round in which the original application was funded.

## **E. AHP 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:

- The project, incorporating any such changes, would meet the eligibility requirements of the AHP regulations;
- 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
- 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.

## **F. AHP Project Monitoring**

Initial and long-term monitoring requirements for competitive AHP 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:**



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- i) During the period of construction or rehabilitation of an owner-occupied project, the project sponsor must:
    - Report to the member and the Bank 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 Bank.
  - ii) Within the first year after project completion the project sponsor must also do the following:
    - Certify to the Bank that the AHP subsidies were used for eligible purposes according to the commitments made in the AHP application;
    - Provide a list of actual household income to the Bank and certify that the household income is accurate and in compliance with the targeting commitments made in the AHP application;
    - Demonstrate that the project's actual costs were reasonable in accordance with the Bank's project cost guidelines, and the AHP subsidies were necessary for the completion of the project as currently structured;
    - Demonstrate that each AHP-assisted unit is subject to AHP retention agreements;
    - Demonstrate that services and activities committed to in the approved AHP application have been provided in connection with the project.
- 2) Rental Projects:
- i) During the period of construction or rehabilitation of a rental project, the project owner must report to the member and the Bank at least semi-annually on whether reasonable progress is being made toward completion of the project.
  - ii) Within the first year after project completion, the project owner must also do the following:
    - Certify to the Bank that the AHP subsidies were used for eligible purposes according to the commitments made in the AHP application;



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- Provide a list of actual tenant rents and incomes to the Bank and certify that the tenant rents and incomes are accurate and in compliance with the rent and income targeting commitments made in the AHP application;
- Demonstrate that the project's actual costs were reasonable in accordance with the Bank's project cost guidelines, and the AHP subsidies were necessary for the completion of the project as currently structured;
- Demonstrate that each AHP-assisted unit of the rental project is subject to AHP retention agreements;
- Certify that services and activities committed to in the approved AHP application have been provided in connection with the project.

**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.

## b) Requirements for Members

### 1) Owner-occupied Projects

- i) 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. The member should notify the Bank of project completion.

### 2) Rental Projects

- i) 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. The member should notify the Bank of project completion.

## c) Monitoring by the Bank

### 1) Owner-occupied Projects

- i) The Bank will take the steps necessary to determine, based on a review of the documentation for a sample of units for each project prior to project completion, that satisfactory process is being made towards completion, in



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compliance with the commitments made in the approved AHP application, Bank policies, and regulation, and satisfactory progress is being made to occupancy of the project by eligible households, and;

- ii) Within one year of being notified of project completion the sponsor will demonstrate that:
- AHP subsidies were used for eligible purposes according to the commitments made in the AHP application;
  - Provide a list of actual household income to the Bank and certify that the household income is accurate and in compliance with the targeting commitments made in the AHP application;
  - The project's actual costs were reasonable in accordance with the Bank's project cost guidelines, and the AHP subsidies were necessary for the completion of the project as currently structured;
  - AHP-assisted units are subject to deed restrictions or other legally enforceable agreements or mechanisms meeting the requirements of the AHP regulations; and
  - Certify that the services and activities committed to in the approved AHP application have been provided in connection with the project.

## 2) Rental Projects

- i) The Bank will take the steps necessary to determine, based on a review of the documentation for each project prior to project completion, that satisfactory progress is being made towards completion, in compliance with the commitments made in the approved AHP application, Bank policies, and FHFB regulations, and satisfactory progress is being made to occupancy of the project by eligible households, and;
- ii) The owner/sponsor will within one year and 150 days of being notified of project completion demonstrate to the Bank that:
- The AHP subsidies were used for eligible purposes according to the commitments made in the AHP application;
  - Household incomes and rents comply with targeting and rent commitments made in the approved AHP application;



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- The project's actual costs were reasonable in accordance with the Bank's project cost guidelines, and the AHP subsidies were necessary for the completion of the project as currently structured;
- The AHP-assisted project is subject to deed restrictions or other legally enforceable agreements or mechanisms meeting the requirements of the AHP regulations;
- The services and activities committed to in the approved AHP application have been provided in connection with the project.

## 2. Sampling Plan

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.

### a) Owner-occupied Projects

The Bank will review the documentation for a minimum of 10 percent or two 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; 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.

### b) 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: 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 the State Low Income Housing Tax Credit Administrator, the Bank and project owners shall monitor rental projects, according to the following requirements:

a) Requirements for Project Owners non-Low Income Housing Tax Credit projects:

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 certify to the Bank that:

- 1) The tenant rents and incomes are in compliance with the rent and income targeting commitments made in the AHP application; and maintain documentation regarding tenant rents and incomes and project habitability available for review by the Bank to support such certifications.
- 2) The project has not been sold or refinanced.

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 regarding tenant rents and incomes.
- 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:
  - i) \$100,000 and under – For projects receiving \$100,000 or less of AHP subsidies, the Bank will review annual certifications by the project owner;



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- ii) \$100,001 to \$250,000 – For projects receiving \$100,001 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;
- iii) \$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
- iv) Over \$500,000 – For projects receiving over \$500,000 of AHP subsidies, the Bank will review project documentation for a sample of the project's units at least once every two years.

c) Requirements for Project Owners with Low Income Housing Tax Credit projects:

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 certify annually to the Bank that:

- 1) The tenant rents and incomes are in compliance with the rent and income targeting commitments made in the AHP application; and maintain documentation regarding tenant rents and incomes available for review by the Bank to support such certifications.
- 2) The project has not been notified of a compliance issue by the Low Income Housing Tax Credit Administrator.
- 3) The project has not been sold or refinanced.

#### **4. Sampling Plan for Long-term Monitoring Requirements (Rental Projects)**

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.

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.

#### **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 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 would have met the definition of homelessness when they moved into the project on or after a date one year prior to the AHP application submission date 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.

## **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.



## G. Project Feasibility and Need for Subsidy Guidelines

### 1. General Guidelines

#### a) Sources and Uses of Funds:

The project's estimated sources of funds shall 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.

A project's sources of funds may include conventional financing, funds from other agencies, and donations. It may include the estimated market value of in-kind donations and voluntary professional labor or services (excluding the value of sweat equity), provided that the project's uses of funds also includes or excludes, respectively, the value of such estimates.

The Bank will determine if a project's costs, as reflected in the uses of funds, are reasonable, in accordance with the Bank's project cost guidelines, taking into consideration the geographic location of the project, development conditions, and other non-financial household or project characteristics,

#### b) Reasonableness of Fees:

The Bank has established reasonable limits for developer fees, consultant fees, professional fees, and construction management fees that may be charged in competitive projects. For purposes of determining the reasonableness of a developer fee as a percentage of total development costs, the Bank may include estimates of the market value of in-kind donations and volunteer professional labor or services (excluding the value of sweat equity) committed to the project as part of the total development costs.

#### c) Developmental Feasibility:

The project must be likely to be completed and occupied, based on relevant factors contained in the Bank's project feasibility guidelines, including, but not limited to, the development budget, market analysis, and project sponsor's experience in providing the requested assistance to households.



d) Operational Feasibility of Rental Projects:

A rental project must be able to operate in a financially sound manner, in accordance with the Bank's project feasibility guidelines, as projected in the project's operating pro forma.

e) 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 shall not exceed a reasonable market rate of interest, points, fees, and other charges for loans of similar maturity, terms, and risk.

f) Need for Subsidy:

A project may not need the AHP subsidy even if the project has demonstrated feasibility. The Bank may, in its sole discretion, determine that certain development costs or operating expenses are not eligible for funding.

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, the project does not demonstrate a need for AHP subsidy, 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 that 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.



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**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 800-544-3452, ext. 1173 for further information.

g) Project Feasibility:

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

1) 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.

2) 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.

3) 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.



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### 4) Readiness to proceed

Some or all of the AHP subsidy must likely 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.

### 5) Acquisition Costs

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.

### 6) Disclosure of member institution financing for the project

- i) 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.
- ii) 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.



## 7) 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.

## 2. 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. Project costs may vary based on the number and size of units. Guidelines will include benchmarks for projects of 24 units or less and for projects over 24 units.

The Bank has included development cost and operating guidelines which may be exceeded with explanations that are reasonable and satisfactory which may be accepted at the Bank's sole discretion.

**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.

### **3. 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 document.



**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 guidelines:

Bedrooms	AHP Cost Per Unit Development Guidelines	
	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

- 1) Acquisition/Rehabilitation or Adaptive Reuse Projects: Projects may include a combined developer's fee and consultant's fee generally no greater than 8 percent of the property acquisition cost plus 15 percent of other development costs excluding acquisition cost, developer's fees, consultant's fees and capitalized reserves. Calculated as follows:



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Total allowable developer and consultant fees = 8% x property acquisition cost + 15% x (other development costs - acquisition cost, developer's fees, consultant's fees and capitalized reserves)

- 2) New Construction Projects: 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 fees, consultant's fees, and capitalized reserves.
  - 3) 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 Section IV for definitions). General requirements, builder's overhead and profit 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 the 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. Documentation of reserve requirements placed upon the project by other funding resources, including a tax credit syndicator, must be provided to the Bank if requested.

h) LIHTC Equity

The sale of LIHTC is expected to generate a minimum of \$.70 per dollar in equity proceeds. No maximum has been established. Projects including a below-market price for tax credits will 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	<p><b>Maximum Acquisition/Rehabilitation:</b>            0 Bedroom = \$74,708            1 Bedroom = \$85,639            2 Bedrooms = \$104,138            3 Bedrooms = \$134,718            4+ Bedrooms = \$147,880</p> <p><b>Maximum New Construction/Adaptive Reuse:</b>            0 Bedroom = \$114,936            1 Bedroom = \$131,753            2 Bedrooms = \$160,212            3 Bedrooms = \$207,259            4+ Bedrooms = \$227,508</p>
Developer's and Consultant's Fees (combined total)	<p><b>Maximum:</b>  <b>Acquisition/Rehabilitation or Adaptive Reuse Projects:</b>            No greater than 8 percent of the property acquisition cost plus 15 percent of other development costs excluding acquisition cost, developer's fees, consultant's fees and capitalized reserves.</p> <p><b>New Construction Projects:</b>            No greater than 15 percent of the project's total development cost, excluding the developer's consultant's fees, and capitalized reserves.            (See Developer And Consultant Fees section above)</p>
General Requirements and Builder's Overhead and Profit (combined total)	<p><b>Maximum:</b>            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)</p>
Contingency	<p><b>Maximum:</b>            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</p>
Professional Fees Architect, Engineer, and Attorney (combined total)	<p><b>Maximum:</b>            12% of total development cost (excluding architect, engineer, and attorney fees)</p>
Capitalized Reserves	<p>No minimum or maximum guideline but need for any capitalized reserves should be explained in the AHP application.</p>
LIHTC Equity	<p><b>Minimum:</b> \$.70 per dollar</p>



## 4. 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 10 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 nonprofit 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.

### 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 10 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 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). Greater than \$4,500 must provide additional explanation.
Debt Coverage Ratio/Cash Flow	Maximum: 1.35 or a pro forma where anticipated cash flow does not exceed ten percent of gross income



## 5. 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 Section IV.

### a) Development Budget

#### 1) 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.

- i) 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.
- ii) The 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.
- iii) A project's sources of funds may include the estimated market value of in-kind donations and voluntary professional labor or services (excluding the value of sweat equity), provided that the project's uses of funds also includes or excludes, respectively, the value of such estimates.

The AHP subsidy for a specific house cannot exceed the total of the development costs minus: 1) any hard mortgages; 2) grant funding from other agencies; 3) sponsor’s cash contribution; and 4) 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. 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 cash flows (using Exhibit I-B of the AHP Homeownership Application Workbook). If the note carries a market rate of



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interest commensurate with the credit quality of the buyer, the present value of the note equals the face value of the note.

Development costs are defined as the sum of the following: the cost of building and land acquisition, the hard costs of material and labor for new construction or rehabilitation, a reasonable development fee, and reasonable soft costs.

The Bank generally accepts a project's development costs 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](http://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.

### b) Developer's and Consultant's Fees

Development projects including new construction and acquisition with rehabilitation 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 development and consulting fee should not exceed 15 percent of the cash cost of the project in self help projects or projects with donated labor and materials.

Owner-occupied rehabilitation projects may include a combined developer's fee and consultant's fee no greater than 10 percent of the project's total development cost, excluding the developer's and consultant's fees, unless there is a demonstrated need for a larger fee. Exceptions may be allowed at the discretion of the Bank if the sponsor can demonstrate a need for a larger fee based on a project's development characteristics or location. Projects involving minor rehabilitation, particularly hard-to-develop projects such as widely scattered-site developments or projects in difficult-to-develop areas, may justify a larger development fee.

No developer's and consultant's fees should be charged on projects that provide only down payment and closing cost assistance.



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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

Development projects including acquisition with rehabilitation and owner occupied rehabilitation projects 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.



For development projects including acquisition with rehabilitation, no construction management fee should be charged if the sponsor is taking a developer's fee, unless the fee is paid to a third party provider, or is paid from a non-AHP funding source, to be identified in the application.

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.

**NOTE:** If any cost or fee is paid from AHP funds, it must be included in the deed restriction amount.

## 6. 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, Points, and Fees

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

All costs must be eligible, as defined in Section IV (Definitions and Acronyms), or paid from a non-AHP funding source identified in the application.



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<b>HOMEOWNERSHIP PROJECT FEASIBILITY</b>		
<b>DEVELOPMENT BUDGET</b>	<b>MINIMUM</b>	<b>MAXIMUM</b>
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 for new construction and acquisition with rehabilitation for resale; or 10% for owner occupied rehabilitation projects unless there is demonstrated need for a higher fee. Further limits for projects with donated labor or materials may apply. See above discussion.
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. Further limits for development projects may apply. See above discussion.
Construction Management Fee for specifications and inspections for projects with substantial rehabilitation (\$10,000 or more total rehabilitation)	\$0	\$500 as a flat fee. Further limits for development projects may apply. See above discussion.
Contingency	\$0	10% of total project costs.
<b>PROJECT DESIGN</b>	<b>MINIMUM</b>	<b>MAXIMUM</b>
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, Points, and Fees	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 Section IV) or paid from non-AHP funding source.



## H. 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 may receive zero points for that category.

### 1. Priority 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 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.

**NOTE:** “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.

The application will receive point allocation based on the following criteria:

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.

## **2. Priority 2 - Sponsorship by a Not-for-profit Organization or Government Entity 10 Points (Fixed)**

This Priority includes 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. Sponsorship can also include 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 nonprofit or government sponsor must have a controlling ownership interest in the corporation, the partnership or, in the case of a limited partnership, a controlling interest in the general partner to receive points. Additionally, a for-profit entity in which a nonprofit or government sponsor is the controlling owner of the for-profit may also receive points.

For owner-occupied projects, the nonprofit or government sponsor must be integrally involved in the owner-occupied project, 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.

## **3. Priority 3 - 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 rental and owner-occupied projects will be scored separately.

### **a) Rental Projects**

A minimum of 20% of the units must be reserved for units at or below 50% of the AMI to be eligible for scoring.

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 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.

The calculation formula is:

If the percent of Units below 50 percent of the AMI to Total Units is  $\geq 60\%$  then 20 Points  
If the percent of Units below 50 percent of the AMI to Total Units is  $< 20\%$  then 0 Points (Ineligible)  
If the percent of Units below 50 percent of the AMI to Total Units is  $= 20\%$  then 1 Point  
Otherwise:  
$$= 1 + (19 * (((\text{Units below 31} + \text{Units 31-50}) / \text{Total Units}) + ((\text{Units below 31} + \text{Units 31-50}) / \text{Total Units}) / 0.6 * (\text{Units 51-80} / \text{Total Units}))) - 0.2) / 0.8$$

**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.

**NOTE:** 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:

Projects will be scored using the following scale:

Percent of units at 50% or less of the AMI multiplied by 20  
Percent of units at 51%-60% of the AMI multiplied by 17  
Percent of units at 61%-80% of the AMI multiplied by 14  
Total score would be sum of 1, 2 and 3 above.

**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.

#### **4. Priority 4 - Housing for Homeless Households 5 Points Fixed**

Priority 4 includes 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 Section IV.

#### **5. Priority 5 - Promotion of Empowerment 5 Points (Fixed)**

Priority 5 includes 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 five points for the applicant committing to make available to all\_AHP-assisted homebuyers, homeowners, or tenants in an owner-occupied or rental project at least two of the empowerment items from the following list: education GED; education ESL or literacy programs; employment counseling or referral; employment training; job placement; homebuyer education, homeownership education; home employment training; training for daycare providers; vaccination and screening programs; 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; and/or resident involvement in decision making affecting the creation or operation of the project.



## **6. Priority 6 - First District Priority 20 Points (Variable)**

The Bank awards the sum of applicable points to applications in each category up to a maximum of 20 total points.

### a) Rural Projects

The financing of housing located in rural areas. Please refer to the definition of “rural” in Section IV.

5 points will be awarded to applications in which 100 percent of the units will be located in rural areas. The Bank scores all other applications by multiplying 5 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 2 points (5 points x .40 = 2 points).

### b) In- District Projects

7 points will be awarded to the financing of housing located in Iowa, Minnesota, Missouri, North Dakota or South Dakota

### c) Special needs

8 points will be awarded for the financing of housing in which at least 20 percent of the units are reserved for occupancy by households with special needs, such as the elderly, mentally or physically disabled persons, persons recovering from physical abuse or alcohol or drug abuse, or persons with AIDS. Points will be awarded for providing the housing for any combination of the above special needs. Units should not be double-counted if that unit qualifies under more than one special need category. The total for special needs units cannot exceed the total project units.

## **7. Priority 7 - Second District Priority 15 Points (Fixed)**

15 points will be awarded for Native American Rental Housing:

Households to be served by the AHP grant must be eligible for housing assisted with funding provided under Tribal programs pursuant to a policy adopted by a tribe or tribally designated housing entity; or projects must include Tribal Funding in the sources of funding for the proposed project, such as, but not limited to, Indian CDBG, Indian CSBG, Indian Health Service funds or NAHASDA funding, or projects that the Tribal



Government, an agency of Tribal Government, a corporation or a limited liability entity incorporated under Tribal Ordinances will be the owner or the sponsor.

## **8. Priority 8 - 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.

## **9. Priority 9 - Community Stability 10 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 Section IV.

The Bank awards up to a maximum of 10 points to applications promoting community stability on the following basis:

- a) 5 points for adaptive reuse. See Section IV: Definitions and Acronyms
- b) 5 points for rehabilitation of vacant or abandoned properties. See Section IV: Definitions and Acronyms
- c) 5 points for projects that are 100% new construction
- d) 5 points for projects that are 100% owner-occupied rehabilitation.
- e) 2 points awarded 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.



## I. Income Determination Guidelines for Owner-occupied Projects

### 1. General Guidelines

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

#### a) 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 Section IV.

#### b) Types of Income

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

- 1) 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 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.
- 2) 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.
- 3) Interest, dividends, and net income from real or personal property.
- 4) Annuities, periodic payments for insurance policies, retirement income, pensions, periodic benefits for disability or death, or other similar types of periodic payments.



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- 5) 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.
  - 6) Payments in lieu of earnings, such as unemployment and disability compensations, social security benefits, workmen's compensation and dismissal wages.
- c) 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:

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

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



## **2. 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.



## III. Set-Aside Grant Programs

### A. 2009 Rural Homeownership Fund Program Guidelines

#### 1. Program Summary

Effective June 1, 2009, 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 including purchase of foreclosed properties. Please refer to the definitions of “owner-occupied unit”, foreclosed property and “rural” in Section IV.

#### 2. Member Eligibility

Any member that was awarded funding from the 2007 or 2008 Rural Homeownership Fund (RHF) must have no more than \$1,000 undisbursed by the Bank as of April 30, 2009 to be eligible to apply for the 2009 RHF. The applicant must be a member of the Bank at the time the RHF application is submitted to the Bank.

#### 3. Application Period

During a 30-day application period beginning June 1, 2009, an eligible member may apply to reserve from a minimum of \$5,000 up to a maximum of \$50,000 of RHF. Members will be notified in writing of the disposition of their application, typically within 30 days of the end of the application period.

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.



#### **4. Time Limits on the Disbursement of Funds and Treatment of Undisbursed Funds**

- a) Members are required to disburse reserved funds to eligible households by close of business September 30, 2011. Members must request reimbursement from the Rural Homeownership Fund by October 29, 2011 for loans closed on or before September 30, 2011.
- b) All loans must be closed on or before September 30, 2011. For loans closed on or before September 30, 2011, where funds have been escrowed for rehabilitation, work must be completed and all funds disbursed from the escrow account by September 28, 2012. Documentation of expenditure of the entire escrowed amount in the form of paid receipts and/or lien waivers must be submitted to the Bank no later than October 31, 2012 for reimbursement. If a balance remains in the escrow on September 30, 2012, 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 no later than October 31, 2012.
- c) If a member has not expended any of its RHF allocation by the one year anniversary of the RHF subsidy agreement 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.
- d) Any undisbursed funds, except for amounts escrowed for rehabilitation as described above, remaining on October 31, 2011 will be added to the AHP contribution for the next round of AHP applications.

#### **5. Requirements**

- a) Eligible households will be determined using the greater of the area median income: 1) as periodically published for use under the MRB median income for the state in which the retention document will be recorded; 2) the median income for the area as published annually by HUD and adjusted for household size for each county, or MSA; or 3) the applicable median income for purposes of NAHASDA income limits for eligible Native American households.

Total household income as of the enrollment date may not exceed the greater of 80 percent of the area median income as determined above. The HUD and MRB income guidelines for Iowa, Minnesota, Missouri, North Dakota, and South Dakota and the NAHASDA income limits can be found on our website at



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[www.fhlbdm.com](http://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.

**NOTE:** 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.

- b) Acquisition cost of all properties purchased by eligible households must be at or below the maximum purchase price limit for the locality established by the applicable State Housing Finance Agency. These maximum purchase price limits for the states of Iowa, Minnesota, Missouri, North Dakota, and South Dakota can be found on our website at [www.fhlbdm.com](http://www.fhlbdm.com) or requested by calling 1-800-544-3452, extension 1173. The member is responsible for obtaining maximum purchase price limits for any other state and for requesting approval of the limits from the Bank prior to disbursing any grant funds.
- c) All First-time Homebuyer households must complete a Financial Literacy Program prior to closing. See Section IV Definitions and Acronyms of the 2009 AHP Implementation Plan for definitions of First-time Homebuyer and Financial Literacy Program.
- d) 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, cooperative housing unit or manufactured housing, to be used as the household's primary residence. In all cases the household may not own another residence even if that residence is rented.
- e) 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.
- f) 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.
- g) The Bank requires that mortgage loans originated using RHF funds comply with applicable federal, state and local anti-predatory lending laws and other



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similar credit-related consumer protection laws, regulations and orders designed to prevent or regulate abusive and deceptive lending practices and loan terms (collectively, 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:

- 1) Requiring the borrower to obtain prepaid, single-premium credit life, credit disability, credit unemployment, or other similar credit insurance;
  - 2) Requiring mandatory arbitration provisions with respect to dispute resolution in the loan documents; or
  - 3) Charging prepayment penalties for the payoff of the loan beyond the early years of such loan.
- h) Any residential mortgage that does not comply with all applicable anti-predatory lending laws will be ineligible to be used with a RHF grant if:
- 1) The annual interest rate and/or points and fees charged for the loan exceed the thresholds of the Home Ownership and Equity Protection Act of 1994 and its implementing regulations (Federal Reserve Board Regulation Z);
  - 2) The loan has been identified by a member's primary federal regulator as possessing predatory characteristics;
  - 3) The loan includes prepaid, single premium credit insurance;
  - 4) The loan is subject to state and/or local laws where one or more of the major credit-rating agencies (Standard and Poor's, Moody's Investors Service, and/or Fitch Ratings) will not rate a security (or securities) in which the underlying collateral pool contains such a loan;
  - 5) The loan is defined as a High Cost Loan, Covered Loan, or Home Loan as categorized under one or more federal, state, or local predatory lending laws as having certain potentially predatory characteristics;
  - 6) The loan includes penalties in connection with the prepayment of the mortgage beyond the early years of the loan, to the extent that such penalties are prohibited or limited by applicable anti-predatory lending laws; or
  - 7) The loan requires mandatory arbitration with respect to dispute resolution, to the extent that such requirements are prohibited or limited by applicable anti-predatory lending laws.



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- i) 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.
- j) 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.
- k) An owner-occupied unit that is purchased under the RHF must be in a rural location as defined in Section IV.
- l) 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.
- m) Monitoring of the Rural Homeownership Fund program will be as stated in the AHP regulations with a retention period of five years. In addition, the Bank will verify the following information for the first disbursement and randomly selected disbursements on each awarded project, and members are required to maintain the following on all disbursements.
  - 1) signed HUD-1 or, in the case of a sale of a manufactured home closing documents for the transaction that includes purchase price, loan amount, and any other costs associated with the transaction;
  - 2) signed Truth-In-Lending Disclosure Statement
  - 3) copies of lien waivers or invoices for work performed totaling the amount of assistance, if the funds are used for rehabilitation;
  - 4) Calculation of Income Worksheet for each household member;
  - 5) third-party documentation verifying the household income; and
  - 6) copy of the retention document to be filed for the transaction.
- n) If an escrow has been established, the Bank will only disburse funds to the member after receipt of the following:
  - 1) paid receipts or lien waivers for the entire escrowed amount; or



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- 2) 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.

- o) 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. Cash back includes any loans or other obligations paid from loan and/or grant proceeds that are not for the direct purchase of the home. 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.
- p) An eligible household may receive up to \$5,000 under this set aside program.
- q) An eligible household may receive up to \$10,000 under this set aside program if the home being purchased meets the Bank's definition of foreclosed property (see Section IV: Definitions and Acronyms of the 2009 AHP Implementation Plan), and the foreclosure occurred after January 1, 2007.

For member banks electing to provide a subsidy for purchase of a household's purchase of a foreclosed property, there will be additional monitoring requirements. For the first disbursement on each applicable project the Bank will verify the following information and members are required to maintain the following on all applicable disbursements:

- 1) Evidence that the property was foreclosed after January 1, 2007;
- 2) In the case of real estate owned property sold to a project by a member providing AHP subsidy to the project, or property sold to the project upon which 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. That value shall be reflected in an independent appraisal of the property performed by a state certified or licensed appraiser, within 6 months prior to the date the member disburses AHP subsidy to the project.

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



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- r) RHF may not be used in conjunction with programs utilizing funds from competitive AHP awards.
- s) The Bank may suspend or debar a member 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.



## **B. 2009 Native American Homeownership Initiative Guidelines**

### **1. Program Summary**

Effective January 02, 2009, 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 Section IV.

### **2. Allocation of Funds**

Funds for the 2009 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 January 2, 2009 and ending December 31, 2009. A member may not reserve additional funds until all 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 2009 NAHI by March 31, 2010, regardless of the 90-day reservation period.

### **3. Time Limits on the Disbursement of Funds and Treatment of Undisbursed Funds**

- a. All loans must be closed on or before March 31, 2010. For loans closed on or before March 31, 2010, where funds have been escrowed for rehabilitation, work must be completed and all funds disbursed from the escrow account by March 31, 2011. Documentation of expenditure of the entire escrowed amount in the form of paid receipts and/or lien waivers must be submitted to the Bank no later than April 29, 2011 for reimbursement. If a balance remains in the escrow on March 31, 2011, 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 no later than April 29, 2011 for reimbursement.
- b. Any undisbursed funds, except for amounts escrowed for rehabilitation as described above, remaining as of March 31, 2010 will be added to the AHP contribution for the next round of AHP applications.



## 4. 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.

- a) Loans utilizing the HUD Section 184 loan program for the purchase of a home are eligible for NAHI assistance in any location. All HUD Section 184 loans are subject to requirements of the NAHI program except eligible households do not need to be eligible for housing assisted with grants provided under NAHASDA pursuant to a policy adopted by a tribe or tribally designated housing entity.
- b) Eligible households will be determined using the greater of the area median income: 1) as periodically published for use under the MRB median income for the state in which the retention document will be recorded; 2) the median income for the area as published annually by HUD and adjusted for household size for each county, or MSA; or 3) 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 the area median income as determined above. 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](http://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.

**NOTE:** 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.

- c) Acquisition cost of all properties purchased by eligible households must be at or below the maximum purchase price limit for the locality established by the applicable State Housing Finance Agency. These maximum purchase price limits for the states of Iowa, Minnesota, Missouri, North Dakota, and South Dakota can be found on our website at [www.fhlbdm.com](http://www.fhlbdm.com) or requested by calling 1-800-544-3452, extension 1173. The member is responsible for obtaining maximum purchase price limits for any other state and for requesting approval of the limits from the Bank prior to disbursing any grant funds



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- d) All First-time Homebuyer households must complete a Financial Literacy Program prior to closing. See Section IV for definitions of First-time Homebuyer and Financial Literacy Program.
- e) 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. In all cases the household may not own another residence even if that residence is rented
- f) 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.
- g) 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.
- h) In the case of real estate owned property sold to a project by a member providing AHP subsidy to the project, or property sold to the project upon which 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. That value shall be reflected in an independent appraisal of the property performed by a state certified or licensed appraiser, within 6 months prior to the date the member disburses AHP subsidy to the project. The Bank, in its sole discretion, may request and review the above documentation on any applicable disbursement.
- i) The Bank requires that mortgage loans originated using NAHI funds comply with 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 (collectively, 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:
  - 1) Requiring the borrower to obtain prepaid, single-premium credit life, credit disability, credit unemployment, or other similar credit insurance;



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- 2) Requiring mandatory arbitration provisions with respect to dispute resolution in the loan documents; or
  - 3) Charging prepayment penalties for the payoff of the loan beyond the early years of such loan.
- j) Any residential mortgage that does not comply with all applicable anti-predatory lending laws will be ineligible to be used with a NAHI grant if:
- 1) The annual interest rate and/or points and fees charged for the loan exceed the thresholds of the Home Ownership and Equity Protection Act of 1994 and its implementing regulations (Federal Reserve Board Regulation Z);
  - 2) The loan has been identified by a member's primary federal regulator as possessing predatory characteristics;
  - 3) The loan includes prepaid, single premium credit insurance;
  - 4) The loan is subject to state and/or local laws where one or more of the major credit-rating agencies (Standard and Poor's, Moody's Investors Service, and/or Fitch Ratings) will not rate a security (or securities) in which the underlying collateral pool contains such a loan;
  - 5) The loan is defined as a High Cost Loan, Covered Loan, or Home Loan as categorized under one or more federal, state, or local predatory lending laws as having certain potentially predatory characteristics;
  - 6) The loan includes penalties in connection with the prepayment of the mortgage beyond the early years of the loan, to the extent that such penalties are prohibited or limited by applicable anti-predatory lending laws; or
  - 7) The loan requires mandatory arbitration with respect to dispute resolution, to the extent that such requirements are prohibited or limited by applicable anti-predatory lending laws.
- k) 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.
- l) An owner-occupied unit that is purchased under the NAHI must be in a Native American Service Area as defined in Section IV.



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- m) 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.
- n) 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.
- o) Monitoring of the NAHI program will be as stated in the AHP regulations with a retention period of five years.

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

- 1) signed HUD-1 or, in the case of a sale of a manufactured home closing documents for the transaction that includes purchase price, loan amount, and any other costs associated with the transaction
  - 2) signed Final Truth-In-Lending Disclosure Statement
  - 3) copies of lien waivers or invoices for work performed totaling the amount of assistance, if the funds are used for rehabilitation;
  - 4) Calculation of Income Worksheet for each household member;
  - 5) third-party documentation verifying the household income; and
  - 6) copy of the retention document to be filed for the transaction.
- p) If an escrow has been established, the Bank only disburses funds to the member after receipt of the following:
- 1) paid receipts or lien waivers for the entire escrowed amount; or
  - 2) 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.



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- q) 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. Cash back includes any loans or other obligations paid from loan and/or grant proceeds that are not for the direct purchase of the home. 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.
- r) No individual homebuyer shall receive more than \$10,000 under this set-aside program.
- s) NAHI funds may not be used in conjunction with programs utilizing funds from competitive AHP awards.
- t) The Bank may suspend or debar a member 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.



## C. 2009 Urban First-time Homebuyer Fund Program Guidelines

### 1. Program Summary

Effective March 2, 2009, 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 including foreclosed properties. Please refer to the definitions of “owner-occupied unit”, foreclosed properties and “urban” in Section IV.

### 2. Member Eligibility

The applicant must be a member of the Bank at the time the UFT application is submitted to the Bank.

### 3. Application Period

During a 30-day application period beginning March 2, 2009, an eligible member may apply to reserve from a minimum of \$5,000 up to a maximum of \$50,000 of UFT. Members will be notified in writing of the disposition of their application, typically within 30 days of the end of the application period.

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.

### 4. Time Limits on the Disbursement of Funds and Treatment of Undisbursed Funds

- a) Members are required to disburse reserved funds to eligible first-time homebuyers by close of business September 30, 2011. Members must request reimbursement from the UFT by October 31, 2011 for loans closed on or before September 30, 2011
- b) For loans closed on or before September 30, 2011, where funds have been escrowed for rehabilitation, work must be completed and all funds disbursed from the escrow account by September 30, 2012. Documentation of expenditure of the entire escrowed amount in the form of paid receipts and/or lien waivers must be submitted to the Bank no later than October 31, 2012 for reimbursement. If a balance remains in the escrow on September 30, 2012 the entire escrow balance remaining must be applied to the principal of the first mortgage or as a credit



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toward the household's monthly payment on the mortgage loan and all required documentation must be submitted to the Bank no later than October 31, 2012.

- c) If a member has not expended any of its UFT allocation by the one year anniversary of the UFT subsidy agreement 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.
- d) Any undisbursed funds, except for amounts escrowed for rehabilitation as described above, that remain on October 31, 2011 will be added to the AHP contribution for the next round of AHP applications.

## 5. Requirements

- a) Acquisition cost of all properties purchased by eligible households must be at or below the maximum purchase price limit for the locality established by the applicable State Housing Finance Agency. These maximum purchase price limits for the states of Iowa, Minnesota, Missouri, North Dakota, and South Dakota can be found on our website at [www.fhlbdm.com](http://www.fhlbdm.com) or requested by calling 1-800-544-3452, extension 1173. The member is responsible for obtaining maximum purchase price limits for any other state and for requesting approval of the limits from the Bank prior to disbursing any grant funds.
- b) Eligible households will be determined using the greater of the area median income: 1) as periodically published for use under the MRB median income for the state in which the retention document will be recorded; 2) the median income for the area as published annually by HUD and adjusted for household size for each county, or MSA; or 3) the applicable median income for purposes of NAHASDA income limits for eligible Native American households.

Total household income as of the enrollment date may not exceed the greater of 80 percent of the area median income as determined above. The HUD and 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](http://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.

**NOTE:** 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.



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- c) Eligible households must be a First-time Homebuyer as defined in Section IV Definitions and Acronyms of the 2009 AHP Implementation Plan.
- d) All eligible households must complete a Financial Literacy Program, as defined in Section IV, prior to closing.
- e) 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.
- f) 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 assisted unit under the UFT and the cost of the counseling has not been covered by another funding source, including the member.
- g) 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.
- h) The Bank requires that mortgage loans originated using UFT funds comply with 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 (collectively, 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:
  - 1) Requiring the borrower to obtain prepaid, single-premium credit life, credit disability, credit unemployment, or other similar credit insurance;
  - 2) Requiring mandatory arbitration provisions with respect to dispute resolution in the loan documents; or
  - 3) Charging prepayment penalties for the payoff of the loan beyond the early years of such loan.
- i) Any residential mortgage that does not comply with all applicable anti-predatory lending laws will be ineligible to be used with a UFT grant if:



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- 1) The annual interest rate and/or points and fees charged for the loan exceed the thresholds of the Home Ownership and Equity Protection Act of 1994 and its implementing regulations (Federal Reserve Board Regulation Z);
  - 2) The loan has been identified by a member's primary federal regulator as possessing predatory characteristics;
  - 3) The loan includes prepaid, single premium credit insurance;
  - 4) The loan is subject to state and/or local laws where one or more of the major credit-rating agencies (Standard and Poor's, Moody's Investors Service, and/or Fitch Ratings) will not rate a security (or securities) in which the underlying collateral pool contains such a loan;
  - 5) The loan is defined as a High Cost Loan, Covered Loan, or Home Loan as categorized under one or more federal, state, or local predatory lending laws as having certain potentially predatory characteristics;
  - 6) The loan includes penalties in connection with the prepayment of the mortgage beyond the early years of the loan, to the extent that such penalties are prohibited or limited by applicable anti-predatory lending laws; or
  - 7) The loan requires mandatory arbitration with respect to dispute resolution, to the extent that such requirements are prohibited or limited by applicable anti-predatory lending laws.
- j) 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.
- k) 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.
- l) An owner-occupied unit that is purchased under the UFT must be in an urban location as defined in Section IV of the Implementation Plan.
- m) Monitoring of the UFT program will be as stated in the AHP regulations with a retention period of five years. A signed Certification and Draw Request form is required for each recipient prior to the disbursement of funds to the member.



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- 1) In addition, the Bank will verify the following information for the first disbursement and randomly selected disbursements on each awarded project, and members are required to maintain the following on all disbursements.
  - i) signed HUD-1 or, in the case of a sale of a manufactured home closing documents for the transaction that includes purchase price, loan amount, and any other costs associated with the
  - ii) signed final Truth-In-Lending Disclosure Statement
  - iii) copies of lien waivers or invoices for work performed totaling the amount of assistance, if the funds are used for rehabilitation;
  - iv) Calculation of Income Worksheet for each household member;
  - v) third-party documentation verifying the household income; and
  - vi) copy of the retention document to be filed for the transaction.
- 2) If an escrow has been established, the Bank will only disburse funds to the member after receipt of the following:
  - i) paid receipts or lien waivers for the entire escrowed amount; or
  - ii) 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.

- n) 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. Cash back includes any loans or other obligations paid from loan and/or grant proceeds that are not for the direct purchase of the home. 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.
- o) An eligible household may receive up to \$5,000 under this set aside program.



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- p) An eligible household may receive up to \$10,000 under this set aside program if the home being purchased meets the Bank's definition of foreclosed property (see Section IV: Definitions and Acronyms of the 2009 AHP Implementation Plan), and the foreclosure occurred after January 1, 2007.

For member banks electing to provide a subsidy for purchase of a household's purchase of a foreclosed property, there will be additional monitoring requirements. For the first disbursement on each applicable project the Bank will verify the following information and members are required to maintain the following on all applicable disbursements:

- 1) Evidence that the property was foreclosed after January 1, 2007;
- 2) In the case of real estate owned property sold to a project by a member or a subsidiary of the member, providing AHP subsidy to the project, or property sold to the project upon which 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. That value shall be reflected in an independent appraisal of the property performed by a state certified or licensed appraiser, within 6 months prior to the date the member disburses AHP subsidy to the project.

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

- q) UFT funds may not be used in conjunction with programs utilizing funds from competitive AHP awards.
- r) The Bank may suspend or debar a member 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.



## IV. 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:** Area Median Income

**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 for a Rental Project:** 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.



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Additionally, the household's income in at least 20 percent of the units may not exceed 50 percent of the median income for the area.

**Eligible Household for an Owner-occupied Project under the Competitive Application**

**Program:** 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.

**Eligible Household for an Owner-occupied project under the Set-aside program(s):** A household must have an income at or below 80 percent of the median income for the area at the time the household is accepted for enrollment by the member in the Bank's homeownership set-aside program, with such time of enrollment by the member defined by the Bank in its AHP Implementation Plan.

**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 a set-aside program, 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 to 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 Federal Housing Finance Board is the Federal Home Loan Bank System's regulator located in Washington, DC.

**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



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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 – (a) 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; or (b) a mobile home that does not meet the definition of a Manufactured Housing in this Implementation Plan and which is not attached to a permanent foundation, and which is not considered real estate by the state.

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.

In all cases the household may not own another residence even if that residence is rented.

**Foreclosed Property:** Property that can be demonstrated to be in a foreclosure process (including deed in lieu of foreclosure) or has been acquired through such process by an institutional or corporate seller and not by an individual. The foreclosure process would include borrowers that have received a Notice to Cure Default and wish to negotiate a sale. Situations such as a “Short Sale” would be considered a foreclosure process. This would refer to a foreclosure of a note and mortgage or a note and deed of trust. Foreclosure Property would not refer to properties either forfeited through installment contract sale or tax forfeiture.

**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



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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.

- i. **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.



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**Manufactured Housing:** A manufactured home (formerly known as a mobile home) is built to the Manufactured Home Construction and Safety Standards (HUD Code) and displays a red certification label on the exterior of each transportable section. Manufactured homes are built in the controlled environment of a manufacturing plant and are transported in one or more sections on a permanent chassis.

**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.

**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.

**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.



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**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.

**Permanent Housing:** Rental housing where the tenant household has a renewable 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 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, 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, single-room occupancy housing, and manufactured housing.

## **Retention Period:**

1. Five 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
  - ii.
2. Fifteen years from the date of project completion for a rental project.

**Rural:** To be considered rural, housing must meet one of the following criteria: (1) Housing must be located in an unincorporated area outside of a Metropolitan Statistical Area (MSA); (2) housing must be located outside of an MSA in a municipality where the population is 25,000 or less; or (3) housing may be located in an MSA but must be eligible for USDA Rural Housing



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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.

NOTE: For purposes of this definition a unit of county government is not considered a municipality.

USDA eligibility information is provided on the USDA web site (use single family eligibility on the web page): <http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do>

**Single-family Building:** A structure with one to four dwelling 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 Scoring Criteria (Priority 2) in Section II.H.

**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, housing must meet one of the following criteria: (1) Housing located in a Metropolitan Statistical Area (MSA) that is not eligible for USDA Rural Housing Service Programs; (2) housing located outside of an MSA in a municipality where the population is over 25,000. 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.

NOTE: For purposes of this definition a unit of county government is not considered a municipality.



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USDA eligibility information is provided on the USDA web site (use single family eligibility on the web page): <http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do>

**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.

**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.