



## **2007 Rural Homeownership Fund Offering - Guidelines**

### **A. Program Summary**

Effective June 1, 2007 the Bank will be accepting applications for the 2007 Rural Homeownership Funds (RHF). Applications are available (June 1<sup>st</sup> through July 2<sup>nd</sup>, 2007) only through the Bank's "member only" internet banking service eAdvantage. 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 one-to-four owner-occupied units in rural locations.

### **B. Member Eligibility**

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

### **C. Application Period**

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

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

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

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

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

All loans must be closed on or before September 30, 2009. For loans closed on or before September 30, 2009, where funds have been escrowed for rehabilitation, work must be completed and all funds disbursed from the escrow account by September 30, 2010. Documentation of expenditure of the entire escrowed amount in the form of paid receipts and/or lien waivers must be submitted to the Bank by no later than October 29, 2010 for reimbursement. If a balance remains in the escrow on September 30, 2010, the entire escrow balance remaining must be applied to the principal of the first mortgage or as a credit toward the household's monthly payment on the mortgage loan and all required documentation must be submitted to the Bank by no later than October 29, 2010.

If a member has not expended any of its RHF allocation by the one year anniversary of the RHF subsidy agreement effective date and has no loans closed or applications pending demonstrating progress toward disbursement, the funds will be deobligated and added to the AHP contribution for the next round of AHP applications.

Any undisbursed funds, except for amounts escrowed for rehabilitation as described above, remaining on October 30, 2009 will be added to the AHP contribution for the next round of AHP applications.

#### **E. Requirements**

- Eligible households will be determined using the area median income as periodically published for use under the Mortgage Revenue Bond (MRB) by the State Housing Finance Agency for the state in which the retention document will be recorded. Total household income may not exceed 80 percent of the MRB median income standard for the county or MSA where the property being purchased is located. The MRB income guidelines for 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 income limits for any other state and for requesting approval of the limits from the Bank prior to disbursing any grant funds. Incomes of co-signer(s) will not be included in household income, provided the co-signer(s) is (are) not titleholder(s) and will not reside in the home being purchased.
- Eligible households must be either a First-time Homebuyer or a Non First-time Homebuyer as defined in Attachment A.
- All eligible households must complete a Financial Literacy Program, as defined in Attachment A, prior to closing.

- RHF subsidies must be used to pay for down payment, closing cost, counseling, or rehabilitation assistance in connection with the eligible household's purchase of an owner-occupied unit, including a condominium or cooperative housing unit or manufactured housing, to be used as the household's primary residence.
- ω RHF subsidies may be used to pay for counseling costs only where such costs are incurred in connection with counseling of homebuyers who actually purchase an RHF-assisted unit and the cost of the counseling has not been covered by another funding source, including the member.

Mortgage financing may be obtained from the financial institution of the homebuyer's choice, or the member may restrict the funds to mortgages obtained through the member. The rate of interest, points, fees, and any other charges for all loans made in conjunction with the RHF subsidy must not exceed a reasonable market rate of interest, points, fees, and other charges for loans of similar maturity, terms, and risk. If a member is providing mortgage financing to a participating household, the member must provide financial or other concessions in connection with such mortgage financing. Financial or other concessions include lower (or foregone) origination fees, other discounted fees, reduced interest rates, lower down payment requirements, reductions in other closing costs, originating loans for the State Housing Finance Agency, loans that are matched with USDA guarantees, USDA's direct loan program, the HUD 184 Loan Program or other types of concessions may also be acceptable if approved by the Bank. Any fee reduction must be a minimum of \$50 in order to qualify as a concession. Please note that free checking is not an eligible concession under this definition. Loans originated by the member to be sold into the secondary market, other than State Housing Finance Agency or USDA guaranteed loans or HUD 184 Loans, must provide a concession.

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

Any project including a loan that does not comply with all applicable Anti-Predatory Lending Laws will be ineligible for AHP assistance. Additionally, the Bank will not provide AHP assistance to any project in which a loan exceeds the annual percentage rate or points and fees thresholds of the Home Ownership and Equity Protection Act of 1994 and its implementing regulations (Federal Reserve

Board Regulation Z). Members, sponsors, and owners are responsible for avoiding all unlawful practices and terms prohibited by applicable Anti-Predatory Lending Laws, regardless of whether they originate or purchase the loan in connection with an AHP project.

The owner-occupied unit being purchased must be subject to a 5-year deed restriction, “soft” second mortgage, or other legally enforceable retention agreement or mechanism meeting the requirement of the AHP regulations.

- ω 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.
  - ω An owner-occupied unit that is purchased under the RHF must be in a rural location as defined in Attachment A.
- Monitoring of the Rural Homeownership Fund program will be as stated in the AHP regulation with a retention period of five years. Members will be required to provide a certification once all their awarded funds have been disbursed. AHP direct subsidy agreements will be signed at the time of the award and a signed Certification and Draw Request form is required for each recipient prior to the disbursement of funds to the member.

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

- a. signed HUD-1;
- b. copies of lien waivers or invoices for work performed totaling the amount of assistance, if the funds are used for rehabilitation;
- c. Calculation of Income Worksheet for each household member;
- d. third-party documentation verifying the household income; and
- e. copy of the retention document to be filed for the transaction.

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

- f. paid receipts or lien waivers for the entire escrowed amount; or
- g. 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.

- Subsidy Limit per Homebuyer

Excluding reimbursement for eligible items paid outside of closing, a member may not provide cash back to a household at closing on the mortgage loan in an amount exceeding \$250. Down payment and earnest money do not qualify as eligible items paid outside of closing. The Bank, in its sole discretion, will determine eligible items paid outside of closing. A member must use any AHP direct subsidy exceeding \$250 that is beyond what is needed at closing for closing costs and the approved mortgage amount as a credit to reduce the principal of the mortgage loan or as a credit toward the household's monthly payment on the mortgage loan.

No individual homebuyer shall receive more than \$5,000 under this set-aside program. RHF may not be used in conjunction with programs utilizing funds from competitive AHP awards.