



2008 Rural Homeownership Fund Program Guidelines

1. Program Summary

Effective June 2, 2008, the Bank will allocate \$1 million of its annual required AHP contribution to provide down payment, closing cost, counseling, or rehabilitation assistance to eligible households purchasing owner-occupied units in rural locations. Please refer to the definitions of “*Owner-occupied unit*” and “*Rural*” in ***Definitions and Acronyms***.

2. Member Eligibility

The applicant must be a member of the Bank at the time the RHF application is submitted to the Bank. Any member that was awarded funding from the 2006 or 2007 Rural Homeownership Fund (RHF) must have no more than \$1,000 undisbursed by the Bank as of April 30, 2008 to be eligible to apply for the 2008 RHF.

3. Application Period

During a 30-day application period beginning June 2, 2008, an eligible member may apply to reserve from a minimum of \$5,000 up to a maximum of \$25,000 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

- ◆ Members are required to disburse reserved funds to eligible households by close of business September 30, 2010. Members must request reimbursement from the Rural Homeownership Fund by October 29, 2010 for loans closed on or before September 30, 2010.
- ◆ All loans must be closed on or before September 30, 2010. For loans closed on or before September 30, 2010, where funds have been escrowed for rehabilitation, work must be completed and all funds disbursed from the escrow account by September 30, 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 October 31, 2011 for reimbursement. If a balance remains in the escrow on September 30, 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 October 31, 2011.
- ◆ 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.
- ◆ Any undisbursed funds, except for amounts escrowed for rehabilitation as described above, remaining on October 30, 2010 will be added to the AHP contribution for the next round of AHP applications.

5. Requirements

- ◆ An owner-occupied unit that is purchased under the RHF must be in a rural location as defined in *Definitions and Acronyms*.
- ◆ No eligible household shall receive more than a \$5,000 subsidy under this program.
- ◆ 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 and HUD income

guidelines for Iowa, Minnesota, Missouri, North Dakota, and South Dakota, and the NAHASDA income limits can be found at http://www.fhlbdm.com/ci_ahp_RHF.htm 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.

- ◆ All First-time Homebuyer households must complete a Financial Literacy Program prior to closing. See *Definitions and Acronyms* for definitions of “*First-time Homebuyer*” and “*Financial Literacy Program*”.
- ◆ 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.
- ◆ 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. See “*Retention Period*” definition in *Definitions and Acronyms*.

The member providing the grant is responsible for filing and monitoring a deed restriction, “soft” second mortgage, or other legally enforceable retention agreement or mechanism conforming with Federal Home bank guidelines whether or not the member originates the first mortgage. See Owner-occupied *Sample Deed Restriction* on the Affordable Housing Program Grant Recipient Forms page in the Community Investment pages of the Bank’s web site (http://www.fhlbdm.com/ci_ahp_RHF.htm).

- ◆ 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.

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

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

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

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

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

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

- ◆ Excluding reimbursement for eligible items paid outside of closing, a member may not provide cash back to a household at closing on the mortgage loan in an amount exceeding \$250. 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.
- ◆ RHF may not be used in conjunction with programs utilizing funds from competitive AHP awards.