



AHP 2010 Implementation Plan Rural Homeownership Fund Program Guidelines

2010 Rural Homeownership Fund Program Guidelines

1. Program Summary

Effective August 2, 2010, 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 the purchase of foreclosed properties. Please refer to the definitions of “owner-occupied unit”, foreclosed property and “rural” in Definitions and Acronyms of the 2010 AHP Implementation Plan.

2. Member Eligibility

Any member that was awarded funding from the 2008 or 2009 Rural Homeownership Fund (RHF) must have no more than \$1,000 undisbursed by the member as of April 30, 2010 to be eligible to apply for the 2010 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 August 2, 2010, 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

- a) Members are required to disburse reserved funds to eligible households by close of business September 30, 2012. Members must request reimbursement from the Rural



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Homeownership Fund by October 31, 2012 for loans closed on or before September 30, 2012.

- b) All loans must be closed on or before September 30, 2012. For loans closed on or before September 30, 2012, where funds have been escrowed for rehabilitation, work must be completed and all funds disbursed from the escrow account by September 30, 2013. 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, 2013 for reimbursement. If a balance remains in the escrow on September 30, 2013, 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, 2013.
- 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, 2012 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 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: Please refer to the Income Determination Guidelines. 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; however, co-signer(s) income



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must be included in the calculation of income worksheet to determine eligibility if the purchaser is a full-time student.

- 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 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) All First-time Homebuyer households must complete a Financial Literacy Program prior to closing. See Definitions and Acronyms of the 2010 AHP Implementation Plan for definitions of First-time Homebuyer and Financial Literacy Program.
- c) 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, or be an investor in, another residence even if that residence is rented
- d) 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.
- e) 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.
- f) In the case of real estate owned property sold to a household by a member providing the AHP subsidy, or a property sold to the household upon which that 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.
- g) The Bank requires that mortgage loans originated using RHF funds comply with applicable federal, state and local anti-predatory lending laws and other similar credit-



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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 Definitions and Acronyms.
- 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 a rehabilitation 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
 - 2) documentation that escrowed funds have been applied to the principal amount of the first mortgage.



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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 Definitions and Acronyms of the 2010 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) The Bank, in its sole discretion, may request and review the above documentation on any applicable disbursement.
- 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.