

Advancing Your Success

A PUBLICATION OF THE HOME LOAN BANK OF DES MOINES

Bank Makes Substantial Changes to 2006 AHP Implementation Plan Scoring, Feasibility and Application Process Affected

Each year, the Federal Home Loan Bank of Des Moines' Affordable Housing Advisory Council and Board of Directors review the Banks Affordable Housing Program (AHP) Implementation Plan. Changes are made to the plan in order to improve the program and comply with the applicable regulations. In the 2006 Implementation Plan, changes were made to scoring methodology and feasibility criteria which have led to changes in the application.

We are publishing this special issue of *Advancing Your Success* to give you the new information for 2006 as early as possible. One of the big changes for 2006 is that there will be only one AHP application and scoring period. The round opens March 1, 2006 with a final application deadline of May 1, 2006. The AHP grant recipients will be announced in August.

Scoring Methodology

Application scoring provides the basis for the content of the AHP application. In an effort to achieve a better balance between funding rental and homeownership and urban and rural projects, changes were made to the 2006 scoring criteria. The following priority descriptions are reflective of those changes.

(Variable (V) means no points up to the maximum stated for the priority while Fixed (F) means all of the points or no points)

1. Use of Donated or Conveyed Government-Owned or Other Properties – 5V

This criterion requires that points be awarded for the creation 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 of the property.

2. Sponsorship by a Non-profit Organization or Government – 10F

This criterion requires 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.

3. Targeting (rental and homeownership scored separately) – 20V

This criterion reflects the extent to which a project creates housing for very low- and low- or moderate-income households. For purposes of this scoring priority, applications for owner-occupied and rental projects are scored separately.

4. Housing for Homeless Households – 5F

This criterion requires the creation 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.

Pre-Application

Pre-application assistance is available to all AHP applicants. The pre-application deadline is April 7, 2006. The Bank strongly advises all applicants, but particularly those seeking more than \$250,000 in funding, to submit a pre-application to receive technical assistance from Bank staff prior to submitting a final application.



continued on page 2...

CONTENTS

Bank Makes Substantial Changes to 2006 Implementation Plan Scoring, Feasibility and Application Process Affected	1
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Rental and Homeownership Project Feasibility	3
Dates to Remember	4

Webinars	4
Federal Housing Finance Board	4

2006 AHP Implementation Plan Scoring Scoring, Feasibility and Application Process Affected

continued from page 1...

5. Promotion of Empowerment – 5F

This criterion requires 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

6. First District Priorities: Rural Projects/Urban Projects – 15V

The regulation allows the Bank to choose from among one or more of 12 identified criteria. The Bank has chosen the following two of the 12 criteria:

a. Rural Projects

This criterion requires the financing of housing located in rural areas. The Bank awards 15 points to applications in which 100 percent of the units will be located in rural areas. The Bank scores all other

applications by multiplying 15 points by the percentage of rural units included in the application.

b. Urban Projects

This criterion requires the financing of urban infill or urban rehabilitation housing. The Bank awards 15 points to applications in which 100 percent of the units will be located in urban areas and provide for infill construction or rehabilitation. The Bank scores all other applications by multiplying 15 points by the percentage of urban infill or urban rehabilitation units included in the application.

7. Second District Priority: Homeownership at/below 60% Area Median Income – 15V

The regulation permits the Bank to identify any housing need in its district that the AHAC defines and recommends. The Bank chose to define this criterion as projects that preserve or create homeownership for households with incomes at or below 60% of the area median income.

8. AHP Subsidy per Unit – 20V

This criterion awards points to the extent to which a project proposes to use the least amount of AHP subsidy per AHP-targeted unit. Projects requesting an AHP subsidy of more than \$30,000 per unit are not eligible to be scored. All applications requesting \$30,000 or less per unit in AHP subsidy are ranked against one another based upon the relationship of the grant amount requested to the range of subsidies per unit requested by all eligible applicants. The lowest subsidy per

unit requested will receive 20 points. For purposes of this scoring priority, applications for owner-occupied projects and rental projects will be scored separately.

9. Community Stability – 5F

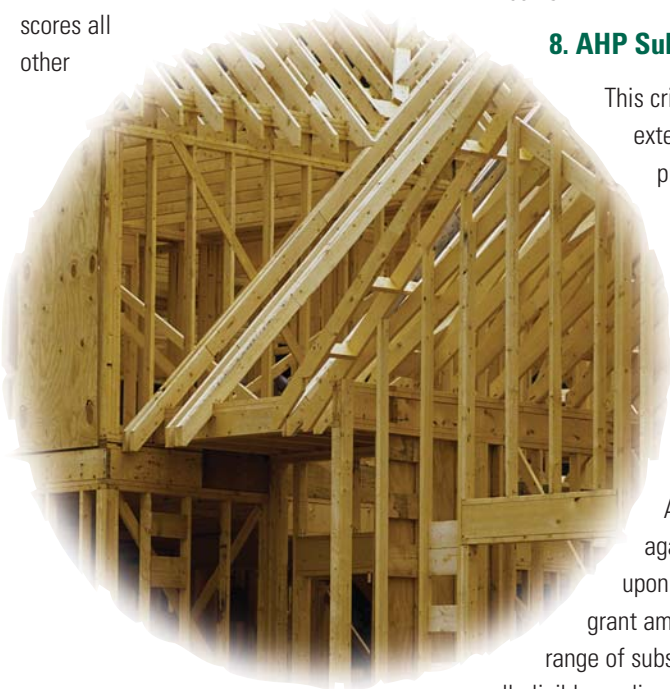
This criterion requires the promotion of community stability, such as by rehabilitating vacant or abandoned properties, providing for the adaptive reuse of existing properties, or not permanently displacing low-or moderate-income households, or if such displacement will occur, assuring that such households will be assisted to minimize the impact of such displacement.

Feasibility Criteria

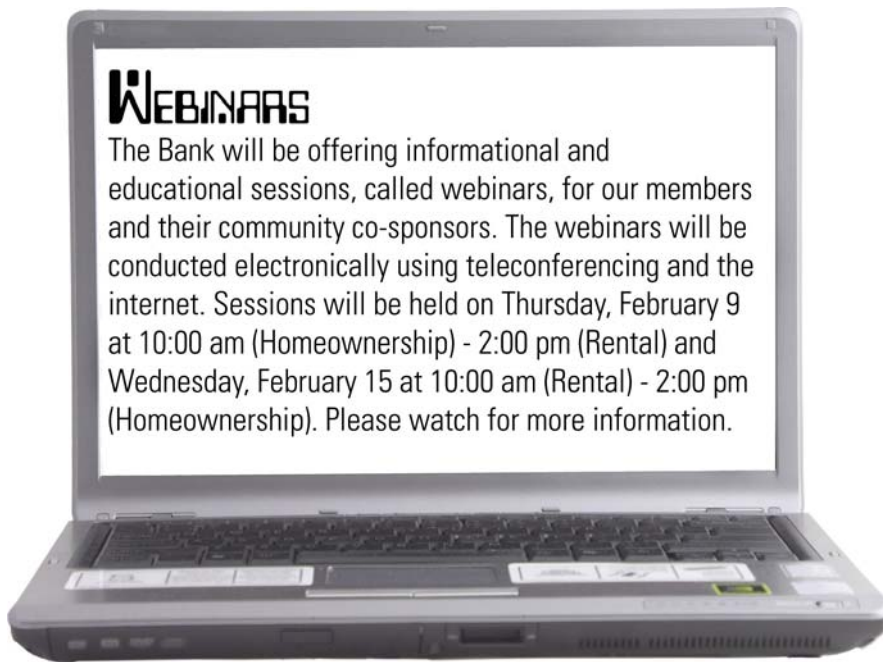
The Bank has implemented stricter feasibility guidelines which must be met before an AHP application will be considered or approved for funding. AHP applications that do not meet the Bank's feasibility guidelines will be considered ineligible for scoring. The Bank reviews every project to determine if project costs, as reflected in the project's development budget, are reasonable and customary and in accordance with the Bank's feasibility guidelines. The Bank will deny funds to an application, even if the application's score is high enough to be funded, if the Bank, in its sole discretion, determines that the project does not meet the Bank's established feasibility guidelines or proposed costs are not reasonable and customary.

The charts on the opposite page reflect the feasibility guidelines for both rental and homeownership projects.

The 2006 AHP Implementation Plan can be viewed on the Bank's website at www.fhlbdc.com/ci_ahp.htm. If you have any questions, please contact the Bank's Community Investment Department at 800.544.3452, ext. 1173.



RENTAL PROJECT FEASIBILITY		
RENTAL PROJECT DEVELOPMENT BUDGET	AHP FEASIBILITY GUIDELINE	
Per Unit Development Cost	Maximum: 0 Bedroom = \$124,921 3 Bedrooms = \$225,261	1 Bedroom = \$143,197 4+ Bedrooms = \$247,269 2 Bedrooms = \$174,128
Developer's and Consultant's Fees (combined total)	Maximum: 15% of total development cost (excluding developer's fee, consultant's fee and capitalized reserves).	
General Requirements and Builder's Overhead and Profit (combined total)	Maximum: Projects including 24 or fewer units: 20% of total construction cost (excluding construction contingency). Projects including more than 24 units: 16% of total construction cost (excluding construction contingency).	
Contingency	Maximum: As a percentage of total development cost (excluding construction and soft cost contingency budgets, acquisition costs, developer's and consultant's fees and capitalized reserves). 10% for new constructions 15% for rehabilitation or adaptive reuse 20% for historic rehabilitation	
Professional Fees Architect, Engineer and Attorney (combined total)	Maximum: 12% of total development cost (excluding architect, engineer and attorney fees).	
Capitalized Reserves	No minimum or maximum guideline, but need for any capitalized reserves should be explained in the AHP application.	
LIHTC Equity	Minimum: \$0.70 per dollar	
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, must justify on a case-by-case basis the reasonableness of proposed replacement reserve payments.	
Per Unit Operating Cost	Minimum: \$1,250 per unit per year (excluding property taxes and operating reserve payments).	
Debt Coverage Ratio/Cash Flow	Maximum: 1.35 or a pro forma where anticipated cash flow does not exceed ten percent of gross income.	
HOMEOWNERSHIP PROJECT FEASIBILITY		
DEVELOPMENT BUDGET	MINIMUM	MAXIMUM
Developer's Fee for new construction and owner-occupied acquisition/rehabilitation projects	\$0	15% of the development cost, less the developer's fee.
Project Costs for purchase with rehabilitation, owner-occupied acquisition/rehabilitation and new construction projects	\$0	State Housing Finance Agency, USDA, HUD or FHA Standards for the locality.
Project Costs for owner-occupied rehabilitation projects	\$0	Local usual and customary costs as demonstrated by actual costs.
Construction Labor Costs	\$0	Projects in which the sponsor provides labor to the project may charge a reasonable charge for that labor plus overhead and profit. The Bank considers other costs on a case-by-case basis. The costs must be typical of general contracting and not of the administration of the sponsor organization.
Construction Management Fee for specifications and inspections for projects with minor rehabilitation (less than \$10,000 total rehabilitation)	\$0	\$300 as a flat fee, any additional amounts must come from a non-AHP source.
Construction Management Fee for specifications and inspections for projects with substantial rehabilitation (\$10,000 or more total rehabilitation)	\$0	\$500 as a flat fee, any additional amounts must come from a non-AHP source.
Contingency	\$0	10% of total project costs.
PROJECT DESIGN	MINIMUM	MAXIMUM
Affordability of Housing Costs	0%	Total payments cannot exceed the housing cost and/or housing cost plus debt ratios as accepted by typical affordable housing programs including such programs as FHA, Fannie Mae, Freddie Mac or USDA.
Interest Rate	0%	Cannot exceed market rate for the type of loan made.
Closing Costs	\$0	No maximum, but all costs must be eligible or paid from non-AHP funds.



Dates to Remember

Changes have been made to many of the application dates for the Bank's 2006 Affordable Housing programs. Mark your calendar to include the following:

Affordable Housing Program

Round opens: March 1, 2006

Pre-application deadline: April 7, 2006

Final application deadline: May 1, 2006

Announcements made: August

Native American Homeownership Initiative

Enrollment begins January 20, 2006.

Funds available first come first serve basis for a 90-day period beginning February 1, 2006.

Rural Homeownership Fund

Application period begins: June 1, 2006

Applications accepted during an initial 30-day period.



FEDERAL HOUSING FINANCE BOARD

The Federal Housing Finance Board, the Federal Home Loan Bank's regulator, recently approved a proposed rule containing a number of changes designed to improve oversight and effectiveness of the Affordable Housing Program. The proposed changes remove overly prescriptive requirements, clarify certain operational requirements and streamline and reorganize the regulation. The proposal was published in the Federal Register on December 28, 2005 and will be open for public comment for 120 days.



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