



2006 Rural Homeownership Fund Program Guidelines amended December 13, 2006

A. Program Summary

Effective June 1, 2006, the Bank will allocate \$1.5 million of its annual required AHP contribution to provide 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 Rural Locations.

B. Member Eligibility

Any member that has not expended any of its 2004 Rural Homeownership Fund (RHF) allocation will not be eligible to receive funds in 2006. Any member that was awarded funds for the 2005 RHF will also be ineligible to receive 2006 RHF funding.

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 \$1.5 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

All loans must be closed on or before September 30, 2008. For loans closed on or before September 30, 2008, where funds have been escrowed for rehabilitation, work must be completed and all funds disbursed from the escrow account by September 30, 2009. 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 30, 2009 for reimbursement. If a balance remains in the escrow on September 30, 2009, 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 30, 2009.

Any undisbursed funds, except for amounts escrowed for rehabilitation as described above, that remain on October 31, 2008 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 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 first-time homebuyer households must complete a Financial Literacy Program, as defined in Attachment A, prior to closing.
- ⊖ 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. "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, and the rate of interest, points, fees, and any other charges by the member must not exceed a reasonable market rate of interest, points, fees, and other charges for a loan of similar maturity, terms and, risk." 12 CFR § 951.5(a)(6). 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 Credit 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 to be sold into the secondary market, other than State Housing Credit Agency or USDA guaranteed loans or HUD 184 Loans, must provide a concession.

- ω 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.

- ω The property being purchased must be subject to a deed restriction, “soft” second mortgage, or other legally enforceable retention agreement or mechanism meeting the requirement of 12 CFR § 951.13(d)(1).
- 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 The home that is purchased must be in a Rural Location as defined in Attachment A.
- ω 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 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) if a balance remains in the escrow, documentation that the remaining balance was applied to the principal of the first mortgage or as a credit towards the household's monthly payment on the 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. 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.
- ⊖ Subsidy Limit per Homebuyer
 - No individual homebuyer shall receive more than \$5,000 under this program.
- ⊖ Rural Homeownership Funds may not be used in conjunction with programs utilizing funds from other competitive AHP award.