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I. Background and Program Summary

The Federal Home Loan Bank of Des Moines (Bank) will offer one competitive Affordable Housing Program (AHP) funding round in 2015. The funds will be provided in the form of subsidized interest rates on advances from the Bank or as direct subsidies for housing projects that meet program eligibility criteria.

Applications may be submitted during an application period to begin on or after May 1, 2015. A calendar with precise dates will be posted to our website after February 1, 2015. During the application period, members may submit applications to the Bank. The Board of Directors is responsible for approving, the highest ranking applications, plus four alternates. Funds will be committed to projects in descending order of rank until all available funds in the round are committed.

The Bank’s Affordable Housing Advisory Council has reviewed and recommended this Implementation Plan, including scoring and district priorities, to the Bank’s Board of Directors. The Board of Directors approved this Implementation Plan on January 29, 2015.

II. Affordable Housing Program

A. Minimum Eligibility Standards

Projects receiving AHP subsidies pursuant to the Bank’s competitive application program must meet the eligibility requirements of this section.

1. Competitive Application Program General Standards

   a) AHP subsidy must be used exclusively for the purchase, construction, or rehabilitation of homeownership or rental housing. At least 20% of the units in a rental housing project must be occupied by and affordable for very low income households at or below 50 percent of the area median income (AMI). Please refer to the definitions of “Homeownership Project” and “Rental Housing” in Section IV.

   b) At the time the application is submitted to the Bank, the applicant must be a member of the Bank.

   c) The application must be complete so the Bank is able to both determine that the proposed AHP project meets the eligibility requirements of this section and can evaluate the application pursuant to the Bank’s adopted project feasibility guidelines in Section II.G. and scoring guidelines in Section II. H.
d) Revolving loan funds and loan pools are not eligible for funding.

2. Timing of AHP Subsidy Use

a) Some or the entire AHP subsidy must likely be drawn down by the project or used by the project to procure other financing commitments within 12 months of the date of approval of the application for AHP subsidy funding the project. The Bank will review all projects at 12 months to determine if the AHP commitment should proceed by considering the following:

- has application been made to other funding sources,
- is it likely AHP funds will be disbursed to the project, and
- will the project be complete within 24 months?

b) The Bank may extend the time for expenditure of AHP funds provided that reasonable progress is being made in obtaining funding or toward completion of the project. The Bank will, in its sole discretion, determine whether to extend the time for expenditure of AHP funds.

c) Generally, to receive an extension beyond 24 months from approval of funding, the Bank will consider issues including but not limited to: (1) the percentage of the project completed to date; (2) the timing of applications and requirements of other funding sources involved in the project; (3) weather-related construction problems; (4) natural disasters or local conditions that cause delay; (5) legal requirements; and (6) community challenges. Any extension granted will be limited to the time period necessary to address the specific project contingency. The Bank shall cancel its approval of the project if an extension is not granted. Project progress will be monitored semi-annually through required progress reports.

3. Prepayment, Cancellation, and Processing Fees

AHP subsidies may not be used to pay for any of the following:

a) Prepayment fees imposed by the Bank on a member for a subsidized advance that is prepaid, unless:

- The project is in financial distress that cannot be remedied through a project modification pursuant to the AHP regulations;
• The prepayment of the subsidized advance is necessary to retain the project’s affordability and income targeting commitments;

• Subsequent to such prepayment, the project will continue to comply with the terms of the approved AHP application and the AHP regulatory requirements for the duration of the original retention period;

• Any unused subsidy is returned to the Bank and made available for other AHP projects; and

• The amount of AHP subsidy used for the prepayment fee may not exceed the amount of the member’s prepayment fee to the Bank.

b) Cancellation fees and penalties imposed by the Bank on a member for a subsidized advance commitment that is canceled.

c) Processing fees charged by members for providing AHP direct subsidies to a project.

4. Counseling Costs/Homebuyer or Homeowner Education/Financial Literacy Programs

AHP 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 AHP-assisted unit; and

• The cost of the counseling has not been covered by another funding source, including the member.

Please refer to the definition of “Financial Literacy Program” and “Homebuyer or Homeowner Education or Counseling” in Section IV: Definitions and Acronyms.

5. Refinancing

A project may use AHP subsidies to refinance an existing single-family or multifamily mortgage loan, provided that the refinancing produces equity proceeds and such equity proceeds up to the amount of the AHP subsidy in the project shall be used only for the purchase, construction, or rehabilitation of housing units meeting the eligibility requirements of the AHP regulations. AHP funds cannot be used to refinance existing projects in cases where no equity is taken out of the project and the refinancing results in a lower debt service cost for the project, as such use of AHP subsidy would not result in the purchase, construction, or rehabilitation of AHP-eligible housing.
6. Calculating Subsidy to Reduce Interest Rate

   a) Lender Loans: Where an AHP direct subsidy is provided to a project to write down the interest rate on a loan extended by a member, sponsor, or other party to a project, the net present value of the interest foregone from making the loan below the lender’s market interest rate must be calculated as of the date the application for AHP subsidy is submitted to the Bank.

   b) Subsidized Advances: Where an AHP subsidized advance is provided to a project, the net present value of the interest revenue foregone from making a subsidized advance at a rate below the Bank’s cost of funds must be determined as of the earlier of the date of disbursement of the subsidized advance or the date prior to disbursement on which the Bank first manages the funding to support the subsidized advance through its asset/liability management system, or otherwise.

7. Retention

   a) Homeownership Projects: The retention period for Homeownership Projects is 5 years from closing of an AHP-assisted unit, or in the case of rehabilitation of a unit currently occupied by the owner where there is no closing, 5 years from the date rehabilitation assistance was provided the owner, as defined in Section IV (see “Retention Period”). The project’s AHP-assisted units are committed to be subject to a retention agreement described in the AHP regulations.

   The Bank or its designee is to be given notice of any sale or refinancing of the unit occurring prior to the end of the retention period. In the case of a sale or refinancing of the unit prior to the end of the retention period, an amount equal to a pro rata share of the AHP subsidy that financed the purchase, construction, or rehabilitation of the unit, reduced for every month the seller owned the unit, shall be repaid to the Bank from any net gain realized upon the sale or refinancing, unless:

   - The unit was assisted with a permanent mortgage loan funded by an AHP subsidized advance;

   - The unit is sold to a very low-, low-, or moderate-income household; or

   - Following a refinancing, the unit continues to be subject to a deed restriction or other legally enforceable retention agreement or mechanism.

   b) Rental Projects: The retention period for Rental Projects is fifteen (15) years from the date of project completion, as defined in Section IV (see “Retention Period” and
“Project Completion Date”). AHP-assisted rental projects are subject to a retention agreement described in the AHP regulations. If there is a sale or refinance of the project prior to the end of the retention period, an amount equal to the full amount of the AHP subsidy shall be repaid to the Bank, unless the project continues to be subject to a deed restriction or other legally enforceable retention agreement or mechanism incorporating the income-eligibility and affordability restrictions committed to in the AHP application for the duration of the retention period.

NOTE: In cases where the AHP funds are structured as a loan from the member or any other party to the project owner, any repayment of the AHP funds made during the 15-year retention period including principal and/or interest payments, must be returned to the Bank.

8. Fair Housing, Anti-Predatory Lending, and Housing Accessibility

a) The project, as proposed, must comply with any applicable federal and state laws on fair housing and housing accessibility, including, but not limited to, the Fair Housing Act, the Rehabilitation Act of 1973, the Americans with Disabilities Act of 1990, and the Architectural Barriers Act of 1969. The project also must demonstrate how it will be affirmatively marketed.

b) The Bank requires that AHP projects comply with applicable 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:

- Requiring the borrower to obtain prepaid, single-premium credit life, credit disability, credit unemployment, or other similar credit insurance;

- Requiring mandatory arbitration provisions with respect to dispute resolution in the loan document; or

- Charging prepayment penalties for the payoff of the loan beyond the early years of such loan.

c) 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.
9. AHP Limits per Project, per Unit, and per Household

The Bank limits each AHP project to a maximum grant request of $500,000, and each AHP project to a maximum AHP subsidy of $30,000 per AHP eligible unit. Applicants may submit more than one AHP application per round; however, each applicant’s grant request must be for distinctly different projects, as determined by the Bank, or the applications will be subject to the maximum limit. Applications from the same sponsor would be characterized as different projects if they were for different project types, had distinctly different features, or served different geographies. Projects that are similar except for income targeting, special needs targeting, or AHP subsidy per unit may not represent different grant requests.

In a Homeownership Project, a household may not receive more than one AHP subsidy award from the same competitive funding round and may not receive a competitive AHP subsidy award in conjunction with a program utilizing funds from AHP Set-Aside awards. Generally, a household previously awarded AHP funds should not be provided additional AHP subsidy award until and unless the retention period has expired on previous awards or previous awards have been recaptured by the Bank.

B. Application Scoring

Applications submitted to the Bank for AHP funding consideration are scored based upon the requirements outlined in Section H of the Implementation Plan. See Section II.H.

C. Median Income Determinations for Projects

Median income standards for use with competitive AHP and homeownership set-aside projects differ depending on the type of project. Based upon project type, the following median income determinations apply:

1. Homeownership Projects

Projects may use, on a household by household basis, the greater of the median income for the area as published annually by HUD and adjusted for household size for each county or MSA, or the NAHASDA Income Guidelines for households that are eligible for assistance from a Tribally Designated Housing Agency. The HUD and NAHASDA income limits for the Bank’s district are available on the Bank’s website.
2. **Rental Projects**

The Bank uses the median income for the area, including the Multifamily Tax Subsidy Projects (MTSP) income limits, as published annually by HUD and adjusted for household size for each county or MSA. In addition, the sponsor/owner may use the greater of HUD income limits or the NAHASDA Income Guidelines for households that are eligible for assistance from a Tribally Designated Housing Agency to determine the income eligibility of tenants.

The HUD and NAHASDA income limits for the Bank’s district are available on the Bank’s [website](#).

**D. Disbursement of AHP Funds**

The member must submit an AHP Subsidy Transfer Request for the disbursement of AHP funds. Prior to AHP disbursement, the Bank must receive supporting documentation (i.e. feasibility workbook, scope of work, retention document, etc.) and all applicable contingency items. The Bank, in its sole discretion, reserves the right to request additional documentation prior to any disbursement of AHP funds.

Projects that have changed from the time of application approval must be reviewed by Bank staff for continued eligibility and feasibility. The revised project must demonstrate the continued need for AHP funds. Projects that have changed may need to be re-scored and modified (please see “Project Modifications” below for more information). A project may not continue to be eligible for funding if it does not demonstrate eligibility, need for subsidy, and feasibility or does not score high enough in the re-score to have been funded in the round in which the original application was funded.

**E. AHP Project Modifications**

Prior to or after final disbursement of funds to a project from all funding sources, the Bank, in its sole discretion, may approve a written modification to the terms of an approved application for AHP subsidy funding the project if there is or will be a change in the project that would change the score that the project application received in the funding period in which it was originally scored and approved, had the changed facts been operative at that time, provided that:

- The project, incorporating any such changes, would meet the eligibility requirements of the AHP regulations;
- The application, as reflective of such changes, continues to score high enough to have been approved in the funding period in which it was originally scored and approved by the Bank; and
F. AHP Project Monitoring

Initial and long-term monitoring requirements for competitive AHP project sponsors/owners, members, and the Bank are described in this section.

1. Initial Monitoring Requirements

   a) Requirements for Project Sponsors/Owners

      1) Homeownership Projects:

         i) During the period of construction or rehabilitation of a project, the project sponsor must:

            • Report to the member and the Bank at least semi-annually on whether reasonable progress is being made toward completion of the project.

            • The project sponsor must maintain household income verification documentation available for review by the Bank.

         ii) Within the first year after the Project Completion Date as defined in Section IV, the project sponsor must also do the following:

            • Certify to the Bank that the AHP subsidies were used for eligible purposes according to the commitments made in the AHP application;

            • Provide a list of actual household income to the Bank and certify that the household income is accurate and in compliance with the targeting commitments made in the AHP application;

            • Demonstrate that the project’s actual costs were reasonable in accordance with the Bank’s project cost guidelines, and the AHP subsidies were necessary for the completion of the project as currently structured;

            • Demonstrate that AHP-assisted Homeownership projects are subject to AHP retention agreements;
• Demonstrate that services and activities committed to in the approved AHP application have been provided in connection with the project.

2) Rental Projects:

i) During the period of construction or rehabilitation of a Rental Project, the project owner must report to the member and the Bank at least semi-annually on whether reasonable progress is being made toward completion of the project.

ii) Within one year and 150 days after the Project Completion Date as defined in Section IV, the project owner must also do the following:

• Certify to the Bank that the AHP subsidies were used for eligible purposes according to the commitments made in the AHP application;

• Provide a list of actual tenant rents and incomes to the Bank and certify that the tenant rents and incomes are accurate and in compliance with the rent and income targeting commitments made in the AHP application;

• Demonstrate that the project’s actual costs were reasonable in accordance with the Bank’s project cost guidelines, and the AHP subsidies were necessary for the completion of the project as currently structured;

• Demonstrate that AHP-assisted rental projects are subject to AHP retention agreements;

• Certify that services and activities committed to in the approved AHP application have been provided in connection with the project.

**NOTE:** The final documentation on development costs and first year rents and operating expenses must demonstrate that the project is feasible and needs AHP funds.

b) Requirements for Members

1) Homeownership Projects

During the period of construction or rehabilitation of a project, the member must take the steps necessary to determine whether reasonable progress is being made toward completion of the project and must report to the Bank at least semi-annually on the status of the project. The member should notify the Bank of project completion.
2) Rental Projects

During the period of construction or rehabilitation of a Rental Project, the member must take the steps necessary to determine whether reasonable progress is being made toward completion of the project and must report to the Bank at least semi-annually on the status of the project. The member should notify the Bank of project completion.

c) Monitoring by the Bank

1) Homeownership Projects

i) The Bank will take the steps necessary to determine, based on a review of the documentation for a sample of units for each project prior to project completion, that satisfactory progress is being made towards completion, in compliance with the commitments made in the approved AHP application, Bank policies, and regulation, and satisfactory progress is being made toward occupancy of the project by eligible households, and;

ii) Within one year of the Project Completion Date as defined in Section IV, the Bank will conduct final monitoring of each project to determine if:

- AHP subsidies were used for eligible purposes according to the commitments made in the AHP application;

- household income is accurate and in compliance with the targeting commitments made in the AHP application;

- the project’s actual costs were reasonable in accordance with the Bank’s project cost guidelines, and the AHP subsidies were necessary for the completion of the project as currently structured;

- AHP-assisted units are subject to deed restrictions or other legally enforceable agreements or mechanisms meeting the requirements of the AHP regulations; and,

- services and activities committed to in the approved AHP application have been provided in connection with the project.
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2) Rental Projects

i) The Bank will take the steps necessary to determine, based on a review of the
documentation for each Rental Project prior to project completion, that
satisfactory progress is being made towards completion, in compliance with the
commitments made in the approved AHP application, Bank policies, and FHFA
regulations, and satisfactory progress is being made toward occupy the project
with eligible households, and;

ii) The Bank will within one year and 150 days of the Project Completion Date as
defined in Section IV determine if:

- The AHP subsidies were used for eligible purposes according to the
  commitments made in the AHP application;

- Household incomes and rents comply with targeting and rent commitments
  made in the approved AHP application;

- The project’s actual costs were reasonable in accordance with the Bank’s
  project cost guidelines, and the AHP subsidies were necessary for the
  completion of the project as currently structured;

- The AHP-assisted project is subject to deed restrictions or other legally
  enforceable agreements or mechanisms meeting the requirements of the AHP
  regulations; and

- The services and activities committed to in the approved AHP application
  have been provided in connection with the project.

NOTE: The final documentation of development costs and rents and operating
expenses for the first full year after the Project Completion Date must demonstrate
that the project is feasible and needs AHP funds.

2. Sampling Plan

Sampling is intended to be a tool to simplify the compliance process. Sampling may
indicate that a project is out of compliance. The Bank, in its sole discretion, may request
and review documentation for additional units.
a) Homeownership Projects

The Bank will review the documentation for a minimum of 10% but not less than two of
the households assisted in the AHP project. The member/sponsor must provide copies of
the following documents upon request: a copy of the filed retention document; a
Calculation of Income Worksheet signed by the member or sponsor listing all sources of
income; third-party documentation verifying the household income, as listed on the
Calculation of Income Worksheet; Feasibility Workbook; the HUD-1, if appropriate; the
appraisal, if appropriate. Each homeowner/homebuyer must certify their household
income, as determined on the Calculation of Income Worksheet, is correct. In addition,
for rehabilitation and purchase with rehabilitation projects, the member/sponsor must
have available a list of repairs made and the total cost of the rehabilitation for each
property. New construction projects will provide appropriate cost certifications.
Additional documentation may also be requested.

b) Rental Projects

The Bank will select Rental Units from the Rental Monitoring Spreadsheet (RMS) that is
completed by the project Owner/Sponsor. The Bank will review third-party income
documentation for a minimum of 10% but not less than two Rental Units in the Rental
Project to ensure the project meets the income targeting and rent commitments approved
in the AHP Application.

NOTE: Annual Adjustment of Targeting Commitments – The HUD area median
income limits, and other applicable limits, are updated annually and made available by
the Bank. For purposes of determining compliance with the targeting commitments in an
AHP application, such commitments shall be considered to adjust annually, according to
the current applicable median income data. A rental unit occupied by a tenant who
qualified under the income targeting restriction of the project at the time the tenant
moved into the unit may continue to count toward meeting the targeting commitment of
an approved AHP application, despite increases in income, as long as the rent remains
affordable for the targeted income level of the unit (i.e., the rent does not exceed 30
percent of the applicable 50, 60, or 80 percent targeted median income level committed to
in the AHP application).

3. Long-term Monitoring Requirements

Where the Bank does not rely on monitoring by the State Low Income Housing Tax
Credit Administrator, the Bank and project owners shall monitor Rental Projects,
according to the following requirements:
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a) Requirements for Project Owners non-Low Income Housing Tax Credit projects:

In the second year after completion of a rental project and annually thereafter until the end of the project’s retention period, the project owner must certify to the Bank that:

- The tenant rents and incomes are in compliance with the rent and income targeting commitments made in the AHP application; and maintain documentation regarding tenant rents and incomes and project habitability available for review by the Bank to support such certifications.

- The project has not been sold or refinanced.

b) Requirements for the Bank:

The Bank will adhere to the following long-term monitoring requirements:

1) The Bank will review the RMS provided by project owners regarding tenant rents and incomes.

2) The Bank will review documentation maintained by the project owner regarding tenant rents and incomes and project habitability to verify compliance with the rent and income targeting commitments in the AHP application and project habitability, according to the following schedule:

- $100,000 and under – For projects receiving $100,000 or less of AHP subsidies, the Bank will review annual certifications by the project owner;

- $100,001 to $250,000 – For projects receiving $100,001 to $250,000 of AHP subsidies, the Bank will review project documentation for a sample of the project’s units at least once every six years;

- $250,001 to $500,000 – For projects receiving $250,001 to $500,000 of AHP subsidies, the Bank will review project documentation for a sample of the project’s units at least once every four years; and

- Over $500,000 – For projects receiving over $500,000 of AHP subsidies, the Bank will review project documentation for a sample of the project’s units at least once every two years.
c) Requirements for Project Owners with Low Income Housing Tax Credit projects:

In the second year after completion of a Rental Project and annually thereafter until the end of the project’s retention period, the project owner must certify annually to the Bank that:

- The tenant rents and incomes are in compliance with the rent and income targeting commitments made in the AHP application; and maintain documentation regarding tenant rents and incomes available for review by the Bank to support such certifications.
- The project has not been notified of a compliance issue by the Low Income Housing Tax Credit Administrator.
- The project has not been sold or refinanced.

4. Sampling Plan for Long-term Monitoring Requirements (Rental Projects)

Sampling is intended to be a tool to simplify the compliance process. Sampling may indicate that a project is out of compliance. The Bank, in its sole discretion, reserves the right to review documentation for additional units.

The Bank will select units from the Rental Monitoring Spreadsheet (RMS) that is completed by the project Owner/Sponsor. The Bank will review third-party income documentation for a minimum of 10% but not less than two Rental Units in the Rental Project to ensure the project meets the income targeting and rent commitments approved in the AHP Application.

5. Homeless Monitoring Requirements

The Bank will monitor all projects that committed to reserve at least 20 percent of the project’s units for homeless households in the approved AHP application for compliance during initial monitoring. When the request for AHP monitoring information is made, documentation must be available demonstrating that at least 20 percent of the project units are occupied by households qualified as homeless or are vacant awaiting occupancy by homeless households. The Bank will review homeless documentation for 25 percent of the total number of units reserved for homeless or two (2) units, whichever is greater. For initial monitoring purposes, a project with existing homeless households at the time of AHP application can use those households who would have met the definition of homelessness when they moved into the project on or after one year prior to the AHP application submission date through the date of the RMS submission.
6. Monitoring by a Contractor

The Bank, in its sole discretion, may contract with a third-party to carry out the Bank’s monitoring obligations set forth in this section.

7. Site Visits

The Bank, in its sole discretion, may conduct site visits for projects to supplement typical monitoring and anti-fraud procedures. Purpose of the site visit is to confirm AHP funds are used in conformance with commitments of the AHP application and Subsidy Agreement and compliance with AHP regulation and monitoring procedures. A site visit may be required to resolve issues arising from:

- Lack of response or evasion: A Sponsor or other entity is not cooperative in providing monitoring information requested by staff or is evasive in providing specific information regarding the project.

- Incomplete or insufficient information regarding the use of AHP funds or targeting: The Sponsor or other entity provides incomplete or insufficient information and is unable or unwilling to provide the specific information requested by Bank staff.

- Misuse of funds or suspicion of fraud: The Bank suspects or has evidence that the Sponsor or other entity may have misused AHP funds, misrepresented factual information, or falsified income verifications or other documentation.

- Complaints: The Bank has received egregious complaints about the Sponsor or another entity’s administration of the AHP project.

The site visit to a project may audit the following information depending upon the compliance issue involved:

- Interview Sponsor or other entity staff as applicable; for example, project contact person or manager, client intake staff, construction or rehabilitation managers, and/or accounting staff. Bank staff should determine sponsor or other entities knowledge of the AHP project requirements and AHP policies and procedures.

- Review of client/project files and supporting documentation as determined by Bank staff. Staff should ensure files are consistent with those submitted at application and in sampling by reviewing some previously sampled, and review some or all of the files not previously sampled, at the Bank’s discretion.
- Visual inspection of units receiving AHP subsidy to determine that the service committed to in the AHP application was provided and/or the property is occupied by the assisted household.

On-site audit documentation will be retained in the project file.

If, based on the audit, Bank staff determines that the project is not operating in compliance with the approved AHP application, Subsidy Agreement, AHP regulation, monitoring procedures, or there has been misuse of funds, staff will take appropriate remedial action which could include modification, deobligation, settlement, and/or Watchlist (if any funding restriction will be placed on the Sponsor or other entity). If there is evidence of fraudulent conduct or fraudulent misuse of funds, staff will report this per Fraud Procedures.

8. Signatures on Compliance and Monitoring Certifications

Certifications submitted to the Bank by a member must be signed by someone authorized to borrow funds from the Bank or the member’s official AHP designee, as listed on the member’s Authorized Personnel Form on file with the Bank. Certifications submitted to members and/or the Bank by owners/sponsors must be signed by a person(s) with the appropriate legal authority.

9. Reuse of Repaid AHP Direct Subsidies in Same Project

AHP direct subsidy, including any interest, repaid to a member or project sponsor under a homeownership set-aside program or the competitive application program, respectively, must be repaid by such parties to the Bank. Retention by a member or project sponsor or owner of repaid AHP direct subsidies for subsequent reuse is prohibited by the Bank.

10. Suspension and Debarment

The Bank may suspend or debar a member, project sponsor, or project owner 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.

G. Feasibility and Need for Subsidy Guidelines

1. General Guidelines

The Bank in its sole discretion will determine reasonableness and feasibility of a project. A project may be ruled infeasible, and therefore ineligible to receive an AHP award,
even if it meets AHP feasibility guidelines if the Bank determines that the project or an appropriate category is not actually justified or reasonable.

a) Sources and Uses of Funds:

The project's estimated sources of funds shall equal its estimated uses of funds, as reflected in the project's development budget. The difference between the project's sources of funds and uses of funds is the project's need for AHP subsidy, which is the maximum amount of AHP subsidy the project may receive.

A project's sources of funds may include conventional financing, funds from other agencies, and donations. It may include the estimated market value of in-kind donations and voluntary professional labor or services (excluding the value of sweat equity), provided that the project's uses of funds also includes or excludes, respectively, the value of such estimates.

b) Reasonableness of Costs:

The Bank will determine if a project's costs, as reflected in the uses of funds, are reasonable, in accordance with the Bank's project cost guidelines, taking into consideration the geographic location of the project, development conditions, and other non-financial household or project characteristics.

c) Reasonableness of Fees:

The Bank has established limits for developer fees, consultant fees, professional fees, and construction management fees that may be charged in competitive projects. For purposes of determining the reasonableness of a developer fee as a percentage of total development costs, the Bank may include estimates of the market value of in-kind donations and volunteer professional labor or services (excluding the value of sweat equity) committed to the project as part of the total development costs.

d) Developmental Feasibility:

The project must be likely to be completed and occupied, based on relevant factors contained in the Bank's project feasibility guidelines, including, but not limited to, the development budget, market analysis, and project sponsor's experience in providing the requested assistance to households.
e) Operational Feasibility of Rental Projects:

A Rental Project must be able to operate in a financially sound manner, in accordance with the Bank's project feasibility guidelines, as projected in the project's operating pro forma. The Bank, in its sole discretion, may rule a project infeasible even if it meets feasibility guidelines if it determines that the project has an unreasonable amount of cash flow and therefore does not reflect a need for the AHP subsidy. For example, if a project has a total cash flow in the first five years that is equal to or above the AHP subsidy request then it will likely be ruled infeasible.

f) Financing Costs:

The rate of interest, points, fees, and any other charges for all loans that are made for the project in conjunction with the AHP subsidy shall not exceed a reasonable market rate of interest, points, fees, and other charges for loans of similar maturity, terms, and risk.

g) Need for Subsidy:

The Bank will deny funds to an application, even if the application’s score was 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, the project does not demonstrate a need for AHP subsidy, or proposed costs are not reasonable and customary in light of industry standards for the location of the project and the long-term financial needs of the project. In addition, the Bank, in its sole discretion, may determine that certain development costs or operating expenses are not eligible for funding. To make these determinations the Bank may request an independent third-party review of any aspect of a project’s feasibility or proposed costs, to be completed at the sponsor’s or owner’s cost.

To demonstrate a need for subsidy, a project, or units in a project, should not be substantially completed, as determined by the Bank, before approval for AHP funds. The Bank would define substantial completion of a new construction or acquisition rehabilitation project as the completion of more than 50% of the construction or rehabilitation work on the units in the project. For a Homeownership Project that includes purchase of an Owner-occupied Unit or an Owner-occupied Rehabilitation project, no home purchase or the rehabilitation of an Owner-occupied Unit can be complete before approval of AHP funds.

The Bank reviews projects that were previously approved for AHP funding at the time of disbursement, modification (if applicable), and initial monitoring in light of the feasibility guidelines in effect at the time of that review, except that tax credit pricing standards for rental projects in effect at the time of AHP application approval are applied if a syndication commitment was in place at the time of AHP application. The Bank, in its
sole discretion, may allow exceptions to the current feasibility guidelines for previously approved projects with adequate explanation and documentation of approval by the applicable State Housing Finance Agency or similar funding agency, such as USDA or HUD.

Any request for additional AHP subsidy, exceeding a previous AHP grant to the same project, must be made through a new AHP application that will be evaluated against the Bank’s current feasibility guidelines in effect at the time of application.

h) Project Feasibility:

In order to analyze the feasibility of a project, the Bank reviews the following areas:

1) The Bank’s experience with the member and sponsor or owner

A project’s sponsor must be qualified and able to perform its responsibilities as committed to in the application for AHP subsidy funding the project. The member and sponsor or owner must have a demonstrated ability to provide timely monitoring information and to complete projects on a timely basis. The Bank reviews performance on AHP projects as an indication of performance on new applications.

2) Sponsor/Owner track record and capacity to perform

The AHP application must show that the sponsor/owner has the ability and capacity to complete the project and manage the compliance monitoring for the retention period. The Bank will review the Homeownership or Rental Sponsor Qualifications Worksheet and the Rental Developer Qualifications Worksheet submitted with the AHP application, as applicable. The Bank, in its sole discretion, may request additional documentation to determine sponsor/owner capacity.

3) The market for the proposed units

The sponsor/owner must establish that a market exists for the units, as proposed, and that a significant number of potential homebuyers or tenants exist in the marketplace for those units.

4) Readiness to proceed

Some or the entire AHP subsidy must likely be drawn down by the project or used by the project to procure other financing commitments within 12 months of
the date of approval of the application for AHP subsidy funding the project. See previous sections for Minimum Eligibility Standards and Timing of Subsidy Use.

Application budgets that contain significant amounts of “other sources” of funding may not be able to demonstrate a readiness to proceed. “Other sources” means items such as unidentified fundraising sources or capital campaigns where commitments are not identified. In these cases, the member, sponsor or owner may be asked to provide information indicating whether it has raised similar amounts of money in the past and to demonstrate it has fundraising capacity. The Bank reserves the right, in its sole discretion, to reject a project if it appears unlikely that funds can be raised in the amounts listed in a timely manner.

5) Acquisition Costs

If the proposed project budget includes the acquisition of vacant land and/or existing buildings, documentation justifying the proposed acquisition price is required prior to the disbursement of any AHP funds. If available at the time of AHP application submission, such documentation must be attached as an applicable exhibit. Acceptable documentation of acquisition costs may consist of one of the following:

- an appraisal of the property’s as-is value completed by an independent, state certified or licensed appraiser within six months prior to the date of application for AHP funds or six months prior to the date of purchase agreement signing,

- verification of the property’s current assessed value, or

- a comparative market analysis completed by an independent, qualified professional

In addition, the acquisition must be an Arm’s Length Transaction. If it is not, the Bank, in its sole discretion, may determine what costs and fees are acceptable and whether or not the project qualifies to receive an AHP subsidy.

6) Disclosure of member institution financing for the project, including:

- Any equity the member is committing to the project prospectively, i.e. as a limited partner in a LIHTC project, with calculations of cents per dollar of tax credit invested and the member’s estimate of the member’s internal rate of return, as applicable.
• The details regarding any debt the member is providing as construction, bridge, or permanent financing and the reasonableness of interest rates, points, fees, and any other charges involved.

7) Cost of Property and Services Provided by a Member Institution

The purchase price of property or services, as reflected in the project’s development budget, sold to the project by a member or a subsidiary of a member, providing AHP subsidy to the project, or in the case of property, upon which such member holds a mortgage or lien, may not exceed the market value of such property or services as of the date upon which the purchase price for the property or services was agreed. In the case of real estate owned property sold to a project by a member providing AHP subsidy to a project, or property sold to the project upon which the member or subsidiary of the 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, as determined by the Bank, and subsequently reflected in an independent appraisal of the property performed by a state certified or licensed appraiser, acceptable to the Bank, performed within six months prior to the date the Bank disburses AHP subsidy to the project.

NOTE: The member is responsible for underwriting the submitted projects and reviewing the readiness of the proposals to use AHP funds. Member underwriting is required whether a subsidized advance or a direct subsidy is requested. The member is expected to review and approve all applications. The Bank’s feasibility analysis is not meant to meet lending underwriting criteria. Therefore, the Bank’s approval of the application should not be relied upon for lending purposes.

NOTE: Pre-application assistance is available to all AHP applicants. The Bank strongly advises all applicants to submit a pre-application to receive technical assistance from Bank staff prior to submitting a final application. Please contact the Community Investment department at 800-544-3452, ext. 1173 for further information.

2. Rental Project Feasibility Guidelines

Rental Projects must provide documentation on how development costs and rents and expenses for the pro forma were determined. Such documentation may consist of comparable data from various databases, requirements of other funding resources in the project, cost studies published by independent sources, comparisons with completed comparable projects in the area, or guidelines of the appropriate State Housing Finance Agency.
Project costs may vary based on the number and size of units. Guidelines will include benchmarks for projects of 24 units or less and for projects over 24 units.

The Bank has included development cost and operating guidelines which may be exceeded with explanations that are reasonable and satisfactory which may be accepted at the Bank’s sole discretion.

AHP funds may not be used to directly or indirectly subsidize supportive services or excessive administrative costs. Although some agencies will accept supportive service costs as a portion of the pro forma, the Bank does not allow supportive service costs to be included in the pro forma. The Bank requires the supportive services costs to be separated from the real estate budget and shown on a separate supportive service budget. Both the support services pro forma and the real estate pro forma must demonstrate that the project is feasible.

Projects that rely on donations for the support of the operating pro forma must be able to demonstrate they have a track record of raising the funds necessary to support the project. It is vital that the owner is able to demonstrate the financial capacity to retain the project as affordable housing for the retention term. Financial capacity is demonstrated by both a track record of raising adequate funds as well as having a balance sheet that reflects good fiscal management. It will be difficult to fund projects in which the owner’s financials demonstrate year-to-year shortfalls in raising adequate funds for operations. The Bank takes into account the security position collateralizing the AHP grant in deciding whether to fund projects.

Projects must be able to provide verifications of tenant income. For “shelters,” the income verification may consist of in-take forms, since little or no third-party verification can be obtained in a timely fashion.

The Bank examines applications that propose limiting occupancy in all units to tenants at or below 50 percent of the AMI, especially in rural areas, to ensure a market exists to support the proposed income targeting levels. The Bank may require additional documentation to justify the market assumptions made in such an application.

NOTE: It is important that the applicant take into account the various income levels of persons that may occupy the housing units at any given time, throughout the entire retention period, when establishing the project’s income targeting in the application.

Projects serving high percentages of very low-income tenants tend to demonstrate above average operating expenses. The Bank recognizes that the ability to reach and adequately serve very low-income populations often results in projects with little or no operating cash flow. These projects often receive virtually all of their funding through government
assistance programs, donations, or both. These funding sources rarely make distinctions between real estate operating expenses and support services. These projects may rarely collect rent from the tenant. The housing expenses will also generally contain expenses for 24-hour staffing and security, which significantly raise the cost of the operating expenses for the housing. The lack of sufficient net income from operations may result in the inability to obtain financing. This lack of borrowing capacity may be enough to establish the need for AHP funding. The Bank reviews this type of project to ensure operating costs are high due only to the cost of serving the targeted tenant population.

3. **Rental Project Development Budget**

   a) **Sources and Uses Statement**

All Rental Projects must provide a sources and uses statement. A complete listing of all the sources of funds, financing terms, and uses of funds must be identified in the statement. The list of sources must reflect all funds to be used in the project, including estimates of funds the sponsor intends to use but that are not yet committed to the project. The list of uses of funds must detail all project costs, including, but not limited to, the following: hard costs, soft costs, developer fees, financing fees, overhead costs, contingency reserves, lease-up reserves, capitalized reserves, and any other costs of the project. Fees and costs should fall within certain ranges described in this document. Sources must equal uses of funds for the project.

   b) **Per Unit Development Cost**

The Bank has established the following per unit development cost guidelines:

<table>
<thead>
<tr>
<th>Bedrooms</th>
<th>AHP Development Cost Per Unit Guidelines</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Acquisition/Rehabilitation</td>
</tr>
<tr>
<td>0</td>
<td>$74,708</td>
</tr>
<tr>
<td>1</td>
<td>$85,639</td>
</tr>
<tr>
<td>2</td>
<td>$104,138</td>
</tr>
<tr>
<td>3</td>
<td>$134,718</td>
</tr>
<tr>
<td>4+</td>
<td>$147,880</td>
</tr>
</tbody>
</table>

The Bank calculates a project’s per unit development cost as follows: total development cost minus the sum of land acquisition, developer/consultant fees, capitalized reserves, and non-housing space costs, divided by the total number of project units. The Bank reviews projects that include rehabilitation costs on a case-by-case basis against the project’s scope of work for cost reasonableness and determination of project viability through at least the 15-year AHP retention period.
For projects with varying bedroom sizes, the following calculation will be made to make sure the project’s per unit development cost does not exceed the proposed AHP maximum limit:

Multiply the AHP per unit cost maximum for the appropriate number of bedrooms by the number of units that size in the project. The summation of the totals from each bedroom size will equal the maximum total project development costs, excluding land acquisition, developer/consultant fees, capitalized reserves and all non-housing related costs. Divide that total by the number of units and that will equal the maximum per unit development cost for that project.

c) Developer’s and Consultant’s Fees

1) Acquisition/Rehabilitation or Adaptive Reuse Projects: Projects may include a combined developer’s fee and consultant’s fee generally no greater than 8 percent of the property acquisition cost plus 15 percent of other development costs excluding acquisition cost, developer’s fees, consultant’s fees and capitalized reserves. Calculated as follows:

\[
\text{Total allowable developer and consultant fees} = 8\% \times \text{property acquisition cost} + 15\% \times (\text{other development costs} - \text{acquisition cost, developer’s fees, consultant’s fees and capitalized reserves})
\]

For acquisitions that are not an Arm’s Length Transaction, the Bank in its sole discretion will determine whether the costs and fees are acceptable, as well as whether the project has a need for the AHP subsidy.

2) New Construction Projects: Projects may include a combined developer’s fee and consultant’s fee no greater than 15 percent of the project’s total development cost, excluding the developer’s fees, consultant’s fees, and capitalized reserves.

3) Because a developer may elect not to take any developer’s fee on a project, the Bank has not set any minimum fee. However, a developer who does not include a developer’s fee in a project’s budget may be asked to justify why a fee will not be taken and to provide evidence that the developer’s financial condition is sufficient that such a fee is not needed.

d) General Requirements and Builder’s Overhead and Profit

Projects that include rehabilitation and/or new construction must provide a cost breakdown. The cost breakdown must itemize in detail all hard costs related to the project, including general requirements and builder’s overhead and profit (see definitions
for “General Requirements”, “Builder’s Overhead”, and “Builder’s Profit” in Section IV). General requirements, builder’s overhead and profit are limited to an aggregate total of 20 percent of the total construction cost for projects including 24 or fewer units and an aggregate total of 16 percent of the total construction cost for projects including more than 24 units, excluding any budgeted contingency. Any project including general requirements above 8 percent, overhead above 2 percent, and/or profit above 6 percent of the project’s total construction cost must provide additional explanation justifying such costs.

e) Contingency

Since unforeseen costs are encountered in virtually all construction or rehabilitation projects, an adequate contingency budget is key to ensuring funds will be available to complete the project. Projects that might justify a smaller or no contingency budget include those where only acquisition or minor rehabilitation will be undertaken. On the other hand, adaptive reuse of historical properties may require a higher contingency budget due to the potential for greater unforeseen costs. The Bank has established the following contingency budget limits: 10 percent maximum for new construction projects, 15 percent maximum for rehabilitation and adaptive reuse projects, and 20 percent maximum for historic rehabilitation projects, to be calculated as a percentage of the project’s total development cost, exclusive of the construction and soft cost contingency budgets, acquisition costs, developer’s and consultant’s fees, and capitalized reserves.

f) Professional Fees

Combined architect, engineer, and attorney fees are limited to a maximum of 12 percent of the project’s total development cost, exclusive of those specific costs. Projects including any individual professional fee line items greater than 4 percent of the project’s total development cost must provide additional explanation justifying the costs.

g) Capitalized Reserves

A project may include capitalized operating and/or replacement reserves in its budget. The Bank has established the following limits for Capitalized Reserves:

<table>
<thead>
<tr>
<th>Reserve Type</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Calculation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lease-up Reserves: Used to cover expenses prior to stabilized occupancy</td>
<td>$0</td>
<td>75%</td>
<td>Total operating expense plus replacement reserves and all debt service less cash flow notes during the</td>
</tr>
</tbody>
</table>
The need for such reserves should be explained in the application. Documentation of reserve requirements placed upon the project by other funding resources, including a tax credit syndicator, must be provided to the Bank if requested.

h) LIHTC Equity

The sale of LIHTC is expected to generate a minimum of $0.75 per dollar in equity proceeds. No maximum has been established. Projects including a below-market price for tax credits will be required to provide justification of the estimates used in their budgets. A LIHTC worksheet, showing the project’s eligible basis and tax credit calculations, must be provided as part of the application for AHP funds.
### Rental Project Development Budget

<table>
<thead>
<tr>
<th>Per Unit Development Cost</th>
<th>AHP Feasibility Guideline</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Maximum Acquisition/Rehabilitation:</td>
</tr>
<tr>
<td></td>
<td>0 Bedroom = $74,708</td>
</tr>
<tr>
<td></td>
<td>1 Bedroom = $85,639</td>
</tr>
<tr>
<td></td>
<td>2 Bedrooms = $104,138</td>
</tr>
<tr>
<td></td>
<td>3 Bedrooms = $134,718</td>
</tr>
<tr>
<td></td>
<td>4+ Bedrooms = $147,880</td>
</tr>
<tr>
<td></td>
<td>Maximum New Construction/Adaptive Reuse:</td>
</tr>
<tr>
<td></td>
<td>0 Bedroom = $114,936</td>
</tr>
<tr>
<td></td>
<td>1 Bedroom = $131,753</td>
</tr>
<tr>
<td></td>
<td>2 Bedrooms = $160,212</td>
</tr>
<tr>
<td></td>
<td>3 Bedrooms = $207,259</td>
</tr>
<tr>
<td></td>
<td>4+ Bedrooms = $227,508</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Developer’s and Consultant’s Fees (combined total)</th>
<th>Maximum:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Acquisition/Rehabilitation or Adaptive Reuse Projects: No greater than 8 percent of the property acquisition cost plus 15 percent of other development costs excluding acquisition cost, developer’s fees, consultant’s fees and capitalized reserves.</td>
</tr>
<tr>
<td></td>
<td>New Construction Projects: No greater than 15 percent of the project’s total development cost, excluding the developer’s consultant’s fees, and capitalized reserves.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>General Requirements and Builder’s Overhead and Profit (combined total)</th>
<th>Maximum:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Projects including 24 or fewer units: 20% of total construction cost (excluding construction contingency)</td>
</tr>
<tr>
<td></td>
<td>Projects including more than 24 units: 16% of total construction cost (excluding construction contingency)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Contingency</th>
<th>Maximum:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>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)</td>
</tr>
<tr>
<td></td>
<td>10% for new construction</td>
</tr>
<tr>
<td></td>
<td>15% for rehabilitation or adaptive reuse</td>
</tr>
<tr>
<td></td>
<td>20% for historic rehabilitation</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Professional Fees Architect, Engineer, and Attorney (combined total)</th>
<th>Maximum:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>12% of total development cost (excluding architect, engineer, and attorney fees)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Capitalized Reserves</th>
<th>Maximums:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Lease-up Reserves: 75% of total operating expenses plus replacement reserves and debt service less cash flow notes.</td>
</tr>
<tr>
<td></td>
<td>Rental Assistance Reserves: 100% of the amount required by the syndicator.</td>
</tr>
<tr>
<td></td>
<td>All other reserves: 12 months of total operating expenses plus replacement reserves and debt service less cash flow notes.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>LIHTC Equity</th>
<th>Minimum:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$.75 per dollar</td>
</tr>
</tbody>
</table>
4. Rental Project Pro forma

The primary information the Bank reviews for the proposed Rental Project’s operation is the pro forma. The pro forma should cover a minimum of 15 years of projected income and expenses. The pro forma must contain sufficient detail indicating the income to be generated by the project, vacancy or collection loss assumptions, and all operating costs of the project, including management fees, real estate taxes, insurance, maintenance costs, mortgage or debt service payments, operating reserves, replacement reserves, partnership fees, and any other disbursements funded from cash flow. All supportive service revenue and expenses should be reported on the Supportive Services Budget and not included on the Pro Forma. The Bank has established the following guidelines as the minimum and maximum ranges for a project’s pro forma:

a) Stabilized Vacancy Rate

The Bank has established a maximum stabilized vacancy rate to begin in year two on the pro forma of 10 percent of gross income. The Bank will require projects with a stabilized vacancy rate over 10 percent of gross income to justify the feasibility of the project. The Bank may also request an explanation for the use of no or a low vacancy rate.

b) Revenue and Expense Escalators

Revenue Escalators and Expense Escalators must be greater than or equal to two percent and less than or equal to four percent. The Expense escalator may not be less than the Revenue Escalator.

c) Property Management Fees

Management fees are limited to the greater of 12 percent of net revenue or $55 per unit per month. The Bank will require projects with management fees greater than 12 percent of net income or $55 per unit per month to justify the fee. The Bank may also ask nonprofit organizations that elect to take no or a minimal management fee to provide sufficient evidence of the organization’s financial condition to document why such a fee is not needed.

d) Replacement Reserve Payments

Replacement reserve deposits are expected to be included in every pro forma in order to ensure the long-term sustainability of the property.

Replacement reserve guidelines are based on the property type and are outlined below:
### Project Type

<table>
<thead>
<tr>
<th>Minimum per Unit per Year</th>
<th>Maximum per Unit per Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>$250</td>
<td>$400</td>
</tr>
<tr>
<td>$300</td>
<td>$500</td>
</tr>
</tbody>
</table>

Projects that will operate on a per bed or per bedroom basis, such as emergency shelters or group homes, must justify the reasonableness of its proposed replacement reserve payments.

Since it may be reasonable for a first year operating statement to reflect a lower or even zero replacement reserve payment, such as when the first year replacement reserve payment is capitalized as part of the development budget or when units are subsidized to breakeven by a guaranteed operating subsidy, first year replacement reserve payments below these guidelines will not constitute an exception to the Bank’s feasibility guidelines if determined reasonable by the Bank.

e) Per Unit Operating Cost

The per unit operating cost of a project is determined as follows: (Total Operating Expenses – Property Taxes – Operating Reserves) ÷ Number of Units. The Bank allows a minimum annual operating cost of $1,250 per unit. While no maximum per unit operating cost has been set, the Bank judges estimated expense levels for reasonableness on a case-by-case basis, based on the type of project and the nature of the population to be served. Whenever possible, a project’s actual operating history should be used to justify proposed operating costs. The Bank recognizes operating expenses may vary based on many factors, including, but not limited to, the geographic location of the project and the nature of the housing to be provided. Projects that anticipate annual per unit operating expenses of less than $1,250 must provide detailed justification for the amount of the projected expenses. Projects including annual per unit operating expenses greater than $4,500 must provide additional explanation justifying such costs.

f) Debt Coverage Ratio/Cash Flow

The debt coverage ratio for a project is calculated as follows: Net Operating Income ÷ Total Debt Service Payments. The Bank examines the debt coverage ratio over the first five years of the pro forma. The Bank will accept a debt coverage ratio up to a maximum of 1.35 or a pro forma where anticipated cash flow does not exceed 10 percent of gross income. Projects in which the debt coverage ratio or cash flow exceeds these limits must provide justification why additional debt cannot be supported.

Although the Bank’s review focuses on the first five years of the pro forma, the entire pro forma is reviewed, at least in part to ensure no front loading of debt or expenses is included in an effort to skew the project’s debt coverage ratio to meet the guidelines.
Cash flow to the owner of a project should be limited to a reasonable return on the owner’s investment in the project or be an amount small enough that substantive additional financing could not be justified. For projects that are anticipated to generate some amount of cash flow, excess funds may be used to pay back debt required to be repaid from available cash flow or placed in the project’s reserve accounts, if adequate justification of the need for such reserves is provided. As noted earlier, a project may be ruled infeasible even if it meets the feasibility guidelines for debt coverage ratio and cash flow as a percentage of gross income if the Bank, in its sole discretion, determines that the cash flow is not reasonable and justified or the project does not show a need for the AHP subsidy. For example, if a project has a total cash flow in the first five years that is equal to or above the AHP subsidy request then it will likely be ruled infeasible.

<table>
<thead>
<tr>
<th>Rental Project Pro forma</th>
<th>AHP Feasibility Guideline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stabilized Vacancy Rate</td>
<td>Maximum: 10% of gross income</td>
</tr>
<tr>
<td>Property Management Fees</td>
<td>Maximum: greater of 12% of net revenue or $55 per unit per month</td>
</tr>
</tbody>
</table>
| Replacement Reserve Payments | Minimum: $250 per unit per year new construction  
$300 per unit per year acquisition rehabilitation  
Projects that will operate on a per bed or per bedroom basis, such as emergency shelters or group homes, must justify the reasonableness of its proposed replacement reserve payments. |
| Per Unit Operating Cost | Minimum: $1,250 per unit per year (excluding property taxes and operating reserve payments). Greater than $4,500 must provide additional explanation. |
| Debt Coverage Ratio/Cash Flow | Maximum: 1.35 or a pro forma where anticipated cash flow does not exceed ten percent of gross income or where the cash flow in the first 5 years is equal to or exceeds the AHP subsidy request. |
5. Homeownership Project Feasibility Guidelines

Homeownership Projects may include; (1) Consumer-Driven Projects including down payment and closing cost assistance for purchase of owner-occupied units or rehabilitation of owner-occupied units; or (2) Sponsor-Driven projects including new construction or acquisition rehabilitation. See the definitions for “Homeownership Project”, Consumer-Driven-Project, and Sponsor-Driven Project” in Section IV: Definitions and Acronyms. Projects that include cooperative ownership of owner-occupied units, or projects that include “lease-to-own” terms of sale, should make application as Rental Housing and comply with rental guidelines.

The Bank’s subsidy should be used to accomplish the objective of providing, maintaining or improving affordable housing defined as housing that is targeted to the low-and-moderate income market. The Bank, in its sole discretion, may deny any subsidy request that is inconsistent with that objective.

a) Sources and Uses of Funds

All applications must provide a statement of sources and uses of funds. A complete listing of all the sources of funds including financing terms, and uses of funds, must be identified in the statement. Sources of funds must equal uses of funds. Sources and uses of funds not associated with the project should not be included in the sources and uses of funds statement. The AHP subsidy for a project, or a specific unit in a project, cannot exceed the total of the uses of funds minus other available funding sources.

The estimated market value of any in-kind donation, including land or buildings, donated professional services, labor or materials or sweat equity, should not be included in the sources or uses of funds.

The sources of funds must include all permanent cash sources of funds to be used in the project, including estimates of funds the sponsor intends to use but that are not yet committed to the project. Sources of funds may include but are not limited to:

- permanent mortgages, such as the homebuyer’s mortgage to purchase an owner-occupied unit
- grant funding from other agencies
- cash donations
- sponsor’s cash contribution
Interim construction financing that will be paid from a permanent funding source should not be included in sources of funds, but information should be provided in the application if these funds are needed to complete the project.

The uses of funds statement must include all cash costs of the project, including, but not limited to, the following: building or land acquisition, construction or rehabilitation costs, developer’s fees and consultant’s fees, professional services and fees, financing costs, soft costs, and homebuyer costs including closing costs and counseling costs. Costs should be those typical of the project type. Costs should fall within certain ranges described herein.

In the case of Homeownership Projects where the sponsor extends permanent financing to the homebuyer, the sources of funds shall include the present value of any purchase note the sponsor holds on the unit. If the note carries an interest rate below the market rate, the present value of the note shall be determined using a market rate, as determined by the Bank, to discount cash flow from debt service. If the note carries a market rate of interest commensurate with the credit quality of the buyer, the present value of the note equals the face value of the note.

A project’s sources and uses of funds should include only owner-occupied units. It should not include rental units or commercial space. If a project includes commercial space, a separate sources and uses of funds may be created and attached to the application.

b) Maximum Development Costs

Development costs may include the cost of building or land acquisition, new construction or rehabilitation costs, developer’s fee and consultant’s fee, professional services and fees, financing costs, and soft costs including marketing and construction financing cost. Homebuyer costs including closing costs and counseling costs are not included in development costs. A project’s costs should be typical of the project type selected. Sufficient information should be provided in the AHP application and in project documentation for the Bank to assess the reasonableness of costs. The Bank, in its sole discretion, will determine if a project’s costs are typical and reasonable.

1) For projects including new construction or acquisition rehabilitation: The Bank generally accepts a project’s construction or rehabilitation costs if supported by major construction cost indices used to analyze and compare historical costs of a base dwelling unit to actual costs, including R.S. Means Residential Cost Data, Marshall & Swift, or other cost data as determined by the Bank.

2) For projects including purchase of an owner-occupied unit: The net purchase price of the owner-occupied unit (the purchase price after pre-purchase subsidies for construction or rehabilitation) should not exceed the applicable State Housing
Finance Agency maximum purchase price limits in non-targeted areas. Limits for the Bank’s District are available on the Bank’s website.

3) For owner-occupied rehabilitation projects: Rehabilitation costs should not exceed local usual and customary costs for the locality. Sponsors should provide explanation of how the per unit cost of the project was determined and relates to the applicable standards for the locality. In addition, rehabilitation agendas (scope of work) should be described in sufficient detail for the Bank to assess the reasonableness of costs and if the work conforms to Bank guidelines for the rehabilitation of affordable housing (see Eligible and Ineligible Rehabilitation guidelines below).

4) For all projects, the Bank may also, with adequate explanation, consider applicable factors impacting the project’s development cost, including but not limited to market conditions, the nature of the project, number of bedrooms, size of units, and/or location in high cost areas in determining the reasonableness of proposed development costs.

c) Minimum Rehabilitation Costs

For acquisition rehabilitation and owner-occupied rehabilitation projects, the rehabilitation cost should be $3,000 or more per unit, not including Developer’s Fee, or other soft costs. This is deemed the minimum cost to accomplish the replacement or repair of at least one principal fixture or component of an existing structure by a qualified contractor. In all cases, the rehabilitation cost should appear reasonable to accomplish the scope of rehabilitation described in the AHP application.

d) Developer’s and Consultant’s Fees

Developer’s Fee is compensation to the sponsor for the cost to develop and/or administer the project. Consultant’s Fees are fees paid to third party providers for services including grant writing and project administration, services normally provided by the developer.

For owner-occupied rehabilitation projects, the compensation of Developer’s and Consultant’s Fees from all funding sources must be included in Sources and Uses of Funds. AHP funds should not be included to pay a Developer’s Fee and Consultant’s Fee if compensation from other sources, together with the amount paid from AHP, would provide compensation in excess of guidelines.
Maximum Developer’s and Consultant’s Fees include:

<table>
<thead>
<tr>
<th>Project Type</th>
<th>Developer Fee Eligible</th>
<th>Developer Fee %</th>
<th>As a % of</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer-driven Down Payment</td>
<td>No</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Consumer-driven Owner-Occupied Rehab</td>
<td>Yes</td>
<td>12%</td>
<td>Total Development Cost minus Developer’s and Consultant’s Fee</td>
</tr>
<tr>
<td>Sponsor-driven New Construction</td>
<td>Yes</td>
<td>15%</td>
<td>Total Development Cost minus Developer’s and Consultant’s Fee</td>
</tr>
<tr>
<td>Sponsor-driven Acquisition Rehab</td>
<td>Yes</td>
<td>12%</td>
<td>Total Development Cost minus Developer’s and Consultant’s Fee</td>
</tr>
</tbody>
</table>

Fee is calculated from the *cash* cost of the project.

Because a sponsor may elect not to take a Developer’s Fee on a project, the Bank has not set a minimum fee. However, the Bank may ask a sponsor that does not include a Developer’s Fee in uses of funds to explain why a fee will not be taken and to provide evidence that the sponsor’s financial condition is sufficient such that a fee is not needed.

e) General Requirements, Builder’s Overhead, and Profit

Projects that include new construction or rehabilitation must provide a cost breakdown. The cost breakdown must itemize in detail all hard costs related to the project, including general requirements and builder’s overhead and profit (see definitions for “General Requirements”, “Builder’s Overhead”, and “Builder’s Profit” in Section IV).

In a Homeownership Project these costs are typically paid to a third party general contractor. If a sponsor acts as their own general contractor they should include their overhead and profit in the Developer’s Fee in the uses of funds; however, they may include general requirements in the construction or rehabilitation cost breakdown.

If sponsors are providing their own construction labor, they may include an overhead charge for labor (the Labor Burden) in the construction or rehabilitation cost (see Construction Labor and Labor Burden below).

Builder’s general requirements, overhead, and profit are limited to an aggregate total of 20 percent of the total construction cost for projects including 24 or fewer units and an
aggregate total of 16 percent of the total construction cost for projects including more than 24 units. Any project including builder overhead in excess of 2 percent, general requirements above 8 percent, and/or profit above 6 percent of the project’s total construction cost must provide additional explanation justifying such costs.

f) Construction Labor Costs and Labor Burden

Projects in which the sponsor provides construction or rehabilitation labor to the project may charge a reasonable amount for labor and labor burden. See the definition of “Labor Burden” in Section IV. The applicant must provide information on the proposed labor cost and the labor burden in the AHP Application, as well as information on local reasonable and customary labor costs. Information required includes the hourly rate for wage and fringe benefit, and hourly rate for labor burden. The Bank will make a determination of the reasonableness of the cost on a case-by-case basis.

Typically, construction labor cost that materially exceeds the prevailing wage under Davis-Bacon or related regulation would not be reasonable without satisfactory justification.

A reasonable charge for labor burden may be added to the construction labor cost. This charge must be related to the cost of labor and not to other general requirements, overhead, or profit. Generally, labor burden in excess of 35% of the cost of construction labor would not be reasonable without explanation satisfactory to the Bank.

The Bank calculates Labor Burden as follows: Labor Burden/ (Construction Labor + Labor Burden).

g) Contingency

Projects that include new construction or rehabilitation costs may estimate a hard cost contingency up to 10 percent of the construction or rehabilitation cost.

The Bank calculates the Contingency Cost percentage as follows: Contingency/ (Total Construction Cost – Contingency).

h) Homebuyer/Homeowner Costs

1) Affordability of Housing Costs

Projects that assist a household with the purchase of an Owner-occupied Unit need to make sure that house payments including principal and interest, tax, insurance, and association dues or fees if applicable, do not exceed the housing cost ratios as
accepted by typical affordable housing programs including such programs as FHA, Fannie Mae, Freddie Mac or USDA.

2) Interest Rate, Points, and Fees

The rate of interest, points, fees and any other charges must not exceed a reasonable market rate of interest, points, fees and other charges for a loan of similar maturity, terms, and risk.

3) Homebuyer/Homeowner Closing Costs

All Closing Costs must be representative, eligible costs, as defined in Section IV: Definitions and Acronyms. Only typical and reasonable Closing Costs of a home purchase or a home rehabilitation transaction may be paid from AHP funds. Filing fees for AHP Retention Agreements (Deed Restriction) may be included in closing costs.

4) Homebuyer Education Costs

Homebuyer Education classes or Financial Literacy Programs are eligible as closing costs for projects that assist a household with the purchase of an Owner-occupied Unit and the cost is not paid from another source. The amount that can be charged to AHP is limited to a maximum of $250 for a course requiring 8 hours or less with a maximum of $450 for a course that is more than 8 hours. See the definitions of “Closing Cost”, “Homebuyer Education or Counseling”, and “Financial Literacy Program” in Section IV: Definitions and Acronyms.

All Homebuyer Education costs paid from AHP must be a part of a project using AHP funds for the purchase, construction, or rehabilitation of an Owner-occupied Unit.

5) Cash Back to Borrower

Projects that assist a household with the purchase of an Owner-occupied Unit may not provide cash back to a household at closing in an amount exceeding $250, excluding reimbursement for eligible items paid outside of closing. Cash back includes payment of any loans or other obligations of the homebuyer’s that are not for the direct purchase of the home. Down payment, deposits, 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 project may use any AHP direct subsidy exceeding $250 that is beyond what is needed at loan closing for down payment and closing costs as a credit to reduce the principal of the mortgage loan.
A project that includes escrow for rehabilitation at the time of the home purchase will not be complete until escrow is closed and funds are paid out, unless it can be demonstrated that the escrow is being paid from a non-AHP source. For those projects requiring additional monitoring of escrow for rehabilitation, the Bank will require documentation including:

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

i) Eligible and Ineligible Owner-Occupied Rehabilitation

The following is eligible and ineligible rehabilitation that may be performed on residences in Consumer-Driven owner-occupied rehabilitation projects. This list is not inclusive of all possible eligible or ineligible rehabilitation. If a project includes rehabilitation that is not included herein or rehabilitation that is typically ineligible, approval must be obtained from the Community Investment Department.

1) Eligible Rehabilitation:

i) Repair directed toward an accumulation of deferred maintenance, and/or needed replacement of principal fixtures and components of existing structures, including but not limited to:

- Roof repair or replacement, including gutters and downspouts. Three tab fiberglass or asphalt shingles for sloped roofs and rolled or rubber membrane roof for flat roofs are acceptable. All other roof materials are at the discretion of the Bank.
- Repair or replacement of mechanical systems (furnace, air conditioning, water heater).
- Upgrade to minimum 100 Ampere electrical service, electrical repairs, and needed replacement of fixtures.
- Upgrade plumbing service, plumbing repairs, and needed replacement of fixtures.
- Structural repairs and reconstruction including foundation or chimney repair and repairs due to termite damage or to treat for termites and other infestations.
- Exterior siding repair or replacement and exterior paint.
- Repair or replacement of entrance doors and windows.
- Repair or replacement of porches and decks to fix code or safety violation.
- Repair or replacement of floor coverings. Basic carpeting or vinyl floor coverings are acceptable. All other floor coverings or flooring materials are at the discretion of the Bank.
- Interior wall and ceiling repair, drywall, interior doors and trim, and paint.
Implementation Plan

- Removal of unsightly blight, dilapidation or deterioration due to deferred maintenance, such as tear down of dilapidated garages or sheds.
- Garage repair.
- Functional landscaping for redirection of water away from foundations, or retaining walls to prevent soil erosion.
- Tree and brush trimming and removal to prevent roof or siding damage, for safety, or to cure blight.
- Sidewalk and driveway repair or replacement.
- Smoke detectors and dead bolt locks for safety and home security.

ii) Improvements to increase the efficient use of energy in structures through such means as installation of storm windows and doors, siding, wall and attic insulation, weather stripping, and conversion, modification, or replacement of heating and cooling equipment;

iii) Connection of residential structures to water distribution lines, local sewer collection lines, or septic system;

iv) Improvements to increase the efficient use of water through such means as water savings faucets and shower heads and repair of water leaks;

v) Inspection and testing for and remediation or abatement of lead based paint, asbestos, or other environmental hazards;

vi) Improvements designed to remove material and architectural barriers that restrict the mobility and accessibility of elderly or severely disabled persons to buildings. This may include remodeling kitchens and bathrooms for wheelchair access, lowering kitchen cabinets, installing wider doors, exterior ramps, and provision for at grade access.

2) Ineligible Rehabilitation:

Costs unrelated to correcting deferred maintenance or a deficiency or to ensure the safety and habitability of the home are typically ineligible unless there is a reasonable demonstrated need consistent with an affordable housing agenda. Materials should always be basic materials, except for eligible improvements including energy or water efficiency. Payment for appliances is typically ineligible. Rehabilitation that includes discretionary repairs, additions, alterations and improvements, and rehabilitation for recreational or commercial use or for rental units is always ineligible. Decks and patios are considered recreational, unless replacement of a deck is required to fix code or safety violation. Payment to the homeowner for rehabilitation labor is ineligible. Payments to friends and relatives of the homeowner
for labor are ineligible unless they are qualified contractors and there is a written bid documenting costs that conform to local conditions. The Bank, in its sole discretion, will determine the eligibility or ineligibility of rehabilitation projects.

H. Scoring Criteria – Point Determinations

AHP regulations require the Bank to allocate 100 points among the nine scoring priorities listed below. Each applicant receives points based on their satisfaction of the nine scoring priorities. Applications are recommended for funding in descending order of score until the total amount of funds available, except for the amount insufficient to fund the next highest scoring application, has been allocated.

Application scoring is based upon the content of the application. Please note that any unanswered questions or undocumented answers in the application for AHP funds may receive zero points for that category.

1. Priority 1 - Use of Donated or Conveyed Government-owned or Other Properties – 5 Points (Variable)

The financing of housing using a significant proportion of land or units donated or conveyed by the federal government or any agency or instrumentality thereof, or any other party, for an amount significantly below the Fair Market Value (FMV) of the property, which reduces the costs of financing such housing.

“Significant proportion” of units or land means a minimum of 20 percent (or more) of the units or land area.

Donated means to convey land or units for a negligible amount, most often one dollar, which may be accompanied by the modest expenses related to the conveyance of the property for use by the project. Long term leases of 15 years or more with a nominal annual rent payment of no more than $100 annually would qualify as donated. The applicant must provide documentation of the donation.

“Significantly below FMV” of the property means a discount of 50% or more of the FMV. The applicant must provide documentation to establish the amount of the conveyance and the FMV.

Rehabilitation only projects that do not involve the acquisition of land or buildings are not eligible to receive points in this category.

All donations or conveyances prior to the AHP application must have occurred within three years of the date of the AHP application, or five years, at the discretion of the Bank, if the property is vacant or abandoned or difficult to develop due to environmental or
other site conditions. See “Vacant or Abandoned” in Section IV: Definitions and Acronyms.

The application will receive point allocation based on the following formula:

\[(B/A) \times 5 = \text{Points(s)}\]

For donated land or units:

\[A = \text{Total number of units or total square feet of land in the project}\]
\[B = \text{Number of units or total square feet of land donated to the project}\]

For land or units conveyed at a discount:

\[A = \text{Fair market value of total units and/or total square feet of land not donated in the project}\]
\[B = \text{Fair market value of total units or total square feet of land not donated in the project, less the total amount of conveyance}\]

For projects with both donated and discounted units and/or land the score will be the sum of the donated and discounted calculations.

The formula must result in a score \(\geq 1.00\) in order for applicants to receive a score in this Priority.

2. **Priority 2 - Sponsorship by a Not-for-profit Organization or Government Entity – 10 Points (Fixed)**

This Priority includes 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. Sponsorship can also include a not-for-profit organization that owns a for-profit entity that is the general partner in the partnership that owns an AHP eligible rental project.

For rental projects, as a threshold issue under the AHP regulations, the nonprofit or government sponsor must have a controlling ownership interest (exceeds 50%) in the corporation, the partnership or, in the case of a limited partnership, a controlling interest in the general partner to receive points. The controlling interest must be for both governance in making decisions as well as the financial interest in any returns provided by the project. In regard to governance, the sponsor must be integrally involved in the project by exercising control over the planning, development or management of the project. Activities may include but are not limited to: (1) developing the project; (2) providing
property management in the project; (3) directly providing empowerment services as identified in the AHP application; or (4) directly providing supportive services to the residents of a permanent supportive housing project. A sponsor must demonstrate its controlling interests to the satisfaction of the Bank.

For homeownership projects, the nonprofit or government sponsor must be integrally involved in the project by exercising control over the planning, development or management of the project, including: (1) managing the construction or rehabilitation of the property; (2) qualifying borrowers and providing or arranging financing for the owners of the units if required; or (3) directly providing empowerment services as identified in the AHP application. A sponsor must play at least two of the three integral roles to be eligible for points in this Priority. At the discretion of the Bank, nonprofit resource development and support organizations for affiliated nonprofits would meet this requirement if they provide fiscal support or funds development, technical assistance or administrative services, and compliance oversight for affiliates that are fulfilling these integral roles.

3. **Priority 3 - Targeting - 20 Points (Variable)**

Targeting reflects the extent to which a project creates housing for very low- and low- or moderate-income households. For purposes of scoring Priority 3, applications for rental and homeownership projects will be scored separately.

a) **Rental Projects**

A minimum of 20% of the units must be occupied by households at or below 50% of the AMI to be eligible for AHP funding.

Projects will be scored using the following scale:

- Percent of units at 50% or less of the AMI multiplied by 20
- Percent of units at 51%-60% of the AMI multiplied by 18
- Percent of units at 61%-80% of the AMI multiplied by 16
- Total score would be sum of 1, 2 and 3 above.

Except that a rental project where 60 percent or more of the units will be occupied by households with incomes at or below 50 percent of the area median income (AMI) will receive 20 points.

**NOTE:** The target you establish in the application for scoring is the permanent target for the project. It is not acceptable to simply market to a target group. The units must be rented to households that meet the target throughout the retention period. For example, if you target ten units to households with incomes at or below 50 percent of the AMI for fifteen years, the monitoring that you provide the Bank must show that ten units have been rented
to households at or below 50 percent of the AMI at the time they moved into the units or at the time of application if the project is currently occupied.

**NOTE:** A manager’s or caretaker’s unit cannot receive AHP funding unless it is income restricted according to the application targeting. If the manager’s or caretaker’s unit will not be income restricted, the unit will be excluded from the total number of AHP-assisted units in the project.

b) Homeownership Projects:

Projects will be scored using the following scale:

- Percent of units at 50% or less of the AMI multiplied by 20
- Percent of units at 51%-60% of the AMI multiplied by 18
- Percent of units at 61%-80% of the AMI multiplied by 16
- Total score would be sum of 1, 2 and 3 above.

**NOTE:** You must adhere to the targeting requirements you propose in the application. Marketing the units to the target group for a certain period of time and then switching to a higher income group is not acceptable. For example, if you apply for funds to target 25 owner-occupied units to households with incomes at or below 50 percent of the AMI, you must provide evidence that 25 units at or below 50 percent of the AMI have been subsidized.

4. **Priority 4 - Housing for Homeless Households - 5 Points (Variable)**

Projects that: (1) include the financing of rental housing, excluding overnight shelters, reserving at least 20 percent of the units for homeless households; (2) create transitional housing for homeless households permitting a minimum of six months occupancy; or (3) create permanent owner-occupied housing reserving at least 20 percent of the units for homeless households. Refer to the definition of “homeless household” in Section IV: Definitions and Acronyms.

A project must reserve units for occupancy by homeless households, not merely market to homeless persons or give priority to the homeless for waiting list purposes.

The pool of tenants a project with existing tenants at the time of AHP application can draw from is limited to those tenants who were homeless when they moved into the project on or after a date one year prior to the AHP application submission date up through the date of Initial Monitoring.
Housing for the homeless will be scored using the following scale:

- At least 20% of the units for homeless = 2 points
- At least 50% of the units for homeless = 3 points
- At least 75% of the units for homeless = 5 points

5. **Priority 5 - Promotion of Empowerment - 5 Points (Fixed)**

Priority 5 includes the provision of housing in combination with programs or services that promote economic empowerment of project residents. Project programs or services that promote residents’ quality of life or personal well-being but not their economic betterment do not qualify.

The Bank awards five points for the applicant committing to make available to all AHP-assisted homebuyers, homeowners, or tenants in a Homeownership or Rental Project at least one of the empowerment program or service from the following list. The proposed program or service must be appropriate for the target population or housing.

- Case management including economic empowerment or self-sufficiency component, welfare-to work initiatives, family-self-sufficiency programs, or Life Skill classes.
- Education GED, Education ESL or Literacy Program.
- Employment Counseling/referral, Employment Training or Job Placement.
- Financial planning, credit counseling or budgeting, independent of homebuyer education or pre-purchase counseling.
- Homebuyer Education (pre-purchase) and/or Homeownership Education (post purchase) that adopt the [National Industry Standards for Homeownership Education and Counseling](#).
- Tenant or Homeowner association or resident involvement in decision making affecting the creation or operation of the project.
- Sweat equity by homeowner or Self Help programs engaging homeowner.
- Vaccination and/or screening programs or Day care services.

6. **Priority 6 - First District Priority - 10 Points (Variable)**

The Bank awards the sum of applicable points to applications in each category up to a maximum of 10 total points.

a) **In- District Projects**

5 points will be awarded to the financing of housing located in Iowa, Minnesota, Missouri, North Dakota or South Dakota.
b) Special needs

Up to 5 points will be awarded for the financing of housing in which at least 20 percent of the units are reserved for occupancy by households with special needs, such as the elderly, mentally or physically disabled persons, persons recovering from physical abuse or alcohol or drug abuse, or persons with AIDS. The individual with the qualifying special needs is not required to be the head of the household. See the definition of “Elderly” and “Disabled” in Section IV: Definitions and Acronyms. Points will be awarded for providing the housing for any combination of the above special needs. Units should not be double-counted if that unit qualifies under more than one special need category. The total for special needs units cannot exceed the total project units.

Special needs will be scored using the following scale:

- At least 20% of the units for special needs = 2 points
- At least 50% of the units for special needs = 3 points
- At least 75% of the units for special needs = 5 points

7. Priority 7 - Second District Priority - 20 Points (Variable)

The Bank awards the sum of applicable points to applications in each category up to a maximum of 20 total points.

a) Native American Housing Projects

10 points will be awarded for Native American Housing Projects. An eligible project must include Tribal Funding in the sources of funding for the proposed project, such as, but not limited to, Indian CDBG, Indian CSBG, Indian Health Service funds or NAHASDA funding, or projects that the Tribal Government, an agency of Tribal Government, a corporation or a limited liability entity incorporated under Tribal Ordinances will be the owner or the sponsor.

b) Preservation of Federally Assisted Housing

10 points will be awarded for the preservation of rental housing currently receiving HUD Section 8 project based rental assistance, Public Housing Authority/Housing and Rehabilitation Authority (PHA) owned units, HUD 202 or 811 projects, or U.S. Department of Agriculture Rural Development (RD) 514, 515 or 516 projects. For additional information on eligible Public Housing Authority/Housing and Rehabilitation Authority (PHA) units see the definition in Section IV: Definitions and Acronyms.
Projects must meet the scoring criteria at the time of the AHP award and at least through the date of Initial Monitoring except that points awarded will not be reduced if Federal appropriations cause the reduction or elimination of the qualifying assistance program and a Federal contract not to be renewed during the period from AHP award to the completion of Initial Monitoring. In addition, USDA RD 514, 515, or 516 projects will not lose the points awarded if the qualifying assistance program is reduced or eliminated by the normal amortization of the USDA RD 514 or 515 loans. The points will be reduced in the case of a pre-payment of the USDA RD 514 or 515 loans prior to the completion of Initial Monitoring. Projects must still be financially feasible after the loss of assistance for the duration of the AHP retention period.

c) Preservation of LIHTC units

5 points will be awarded for the preservation of existing Federal Low Income Housing Tax Credit (LIHTC) units of rental housing. This includes Public Housing Authority/Housing and Rehabilitation Authority (PHA) units being sold to a non-profit and financed with Low Income Housing Tax Credits (LIHTC).

8. Priority 8 - AHP Subsidy per Unit - 10 Points (Variable)

The extent to which a project proposes to use the least amount of AHP subsidy per AHP-targeted unit. In the case of an application for a project financed by a subsidized advance, the total amount of AHP subsidy used by the project shall be estimated based on the Bank’s cost of funds as of the date on which all applications are due for the funding period in which the application is submitted. The project with the lowest subsidy per unit requested will receive 10 points. The project with the highest subsidy per unit requested will receive 0 points. Projects in between will receive points on a sliding scale from 0 to 10 points.

The calculation formula is: =IF (SPU Grant Amount/Units Below 80) < Max SPU then 10-(10*(((SPU Grant Amount/Units Below 80)-Min SPU)/(Max SPU-Min SPU))) Else 0

9. Priority 9 - Community Stability- 15 Points (Variable)

The promotion of community stability by acquiring and rehabilitating properties, rehabilitating vacant or abandoned properties, providing for the adaptive reuse of existing properties, constructing new owner-occupied units or rental units, developing owner-occupied units and providing 0% sponsor financing, or by providing owner-occupied rehabilitation.

For all projects, as a threshold issue under the AHP regulation, sponsors shall not displace low- or moderate-income households, or if such displacement will occur, they will assure that such households will be assisted to minimize the impact of such displacement. A
sponsor must provide information on permanent or temporary displacement and the assistance that will be provided households with the AHP application.

For Homeownership Projects, only Sponsor-Driven projects including new construction or acquisition rehabilitation and Consumer-Driven projects including owner-occupied rehabilitation are eligible for points in this Priority. This would include Sponsor-Driven projects that may be “Vacant or Abandoned” and “Adaptive Reuse” projects. Sponsor eligibility will be determined at the discretion of the Bank. Refer to the definitions of “Sponsor-driven Project” and “Consumer-driven Project” in Section IV: Definitions and Acronyms.

The Bank awards up to a maximum of 15 points to applications promoting community stability on the following basis:

a) 5 points for projects in which 100% of the units are an Adaptive Reuse project. See Section IV: Definitions and Acronyms for “Adaptive Reuse”.

b) 5 points for projects in which 100% of the units are the rehabilitation of vacant or abandoned properties. See Section IV: Definitions and Acronyms for “Vacant or Abandoned”.

c) 5 points for projects in which 100% of the units are new construction. See Section IV: Definitions and Acronyms for “New Construction”.

d) 5 points for projects in which 100% of the units are Acquisition Rehabilitation. This includes projects that are the acquisition and rehabilitation of existing rental units, or Sponsor-Driven projects including acquisition rehabilitation of owner-occupied units. For a project to be eligible there must be a minimum of $3,000 per unit in rehabilitation cost. In addition, the acquisition must be an Arm’s Length Transaction. Sponsor eligibility will be determined at the discretion of the Bank. See Section IV: Definitions and Acronyms for “Acquisition Rehabilitation” and “Arm’s Length Transaction”.

e) 5 points for Sponsor-driven projects including New Construction or Acquisition Rehabilitation of Owner-occupied Units where the sponsor is providing a purchase note for the acquisition of the property at 0% interest. This would apply to 100% of the units in the project. To be eligible an owner-occupant homebuyer must be provided a home purchase by Warranty Deed. Acquisition by Contract for Deed or under a Lease-to-Own contract is not eligible.

f) Up to 5 points for projects in which 100% of the units are Consumer-Driven owner-occupied rehabilitation. Projects will be scored using the following scale:
Rehabilitation cost $\geq 10,000$ but less than $15,000$ per unit $= 3$ points
Rehabilitation cost $\geq 15,000$ per unit $= 5$ points

Rehabilitation cost is the hard cost of rehabilitation and does not include soft costs including but not limited to the developer’s fee, professional fees, or homeowner closing costs. Rehabilitation cost includes only the cash cost of rehabilitation.

I. Income Determination Guidelines for Homeownership Projects

When verifying income it is important to review and analyze income verification documents that best disclose that particular household’s income.

1. Household Income

For purposes of verifying income for homeownership projects, current income from all sources received by all adult household members must be included. This includes income received by adult household members even if the household member does not have title to the property. Income from the employment of children (including foster children) under the age of 18 years is not counted in the calculation of total household income.

Household income should include a projection of future income if there is an anticipated change in household income.

A household should be income qualified as of the enrollment date with the member or sponsor. Unless otherwise instructed in these guidelines, income verification documentation should be no older than six months from the date the household is qualified by the member or sponsor. Please refer to the definition of “Enrollment Date” in Section IV.

2. Types of Income

Income includes, but is not necessarily limited to, the following:

a) Gross wage and salary income, not the net income of the household. Gross income is the income received before pre-tax deductions such as 401K and health savings accounts (referred to as a Social Security wages). Gross income should include salary and wages and compensation for overtime, commissions, tips, and bonuses. Compensation for overtime, commissions, tips, bonuses must always be included unless it can be verified that this income will not continue in the future.

b) Income from self-employment and farm income: For self-employed individuals a minimum of two years of tax returns should be obtained to verify income. Net income from self-employment may be taken from line 12 (Business Income or Loss) of the tax form 1040. Farm income may be taken from line 18 (Farm Income or Loss) of the tax...
form 1040. It is preferred that income is projected from an average of the last two year’s income; however, if there is a net loss in a given year, self-employment income for that year should be included in the calculation as $0 income, rather than shown as a negative amount. If a household has less than two years of self-employment income the household should provide satisfactory financial records in addition to tax returns from which a reasonable income projection can be made.

c) Child support and alimony must be counted. If it is not received regularly, verify the amount received during the last twelve months, and divide by 12 months to calculate an average monthly amount.

d) Interest and dividends may be taken from lines 8 and 9 of the tax form 1040. Include taxable and tax-exempt interest, and ordinary and qualified dividends.

e) Net income from rental real estate, royalties, partnerships, S corporations, and trusts may be taken from line 17 (Rental real estate, etc.) from the tax form 1040. It is preferred that this income is based on an average of the last two year’s income. If there is a net loss from these activities this income should be included as $0 income, rather than shown as a negative amount.

f) Payments for annuities, periodic payments from insurance policies, retirement income from tax deferred accounts such as IRA’s and 401K’s, pensions, periodic benefits for disability or death, Social Security, Social Security Disability Insurance (SSDI), Supplemental Security Income (SSI), or other similar types of periodic payments. All payments should be calculated from the gross amount before deductions.

g) Payments made to the head of household for the support of a minor. For example, Temporary Assistance to Needy Families (TANF), Social Security Disability Insurance (SSDI), and Supplemental Security Income (SSI), or similar programs.

h) Payments in lieu of earnings, such as unemployment and disability compensation, and workmen’s compensation and dismissal wages.

3. Verifying Income when AHP is combined with a repayable loan

All the income of an applicant household must be included in calculation of income even if the income was not used to qualify the applicant household for a repayable loan. There are certain types of income that might not be included when underwriting a loan that must be included as income when determining AHP eligibility. Some examples include:

- irregular income, including unemployment income, or overtime, bonuses and commissions;
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- net income from self-employment of less than 2 years;
- untaxed 401K income deducted from gross pay;
- untaxed pension funds or normal IRA distributions (not “loans” against the borrower’s account).

4. Co-signer(s) income when AHP is used for home purchase

For transactions that include home purchase the income of non-resident co-signers or co-borrowers must be included in the calculation of income to determine eligibility if the purchaser is a student or the co-signers and/or co-borrowers will be included as titleholders to the property.

5. Income Verification Documentation and use of Tax Returns

Appropriate income verification may include: an employer’s verification of employment (VOE); current pay stubs (paystubs within three months of enrollment); a tax return including W-2’s if they are no more than six months old; current benefit letters for Social Security or other government assistance; current pension and annuity statements; court records of child support and alimony payment; and other acceptable written third party verification.

Tax returns are appropriate to verify some forms of income, including income from self-employment, farm income, interest and dividend income, and rents; however, tax returns are typically not acceptable verification of current wage or salary income.

Though tax returns are typically not acceptable verification of current wage income, it is recommended that applicants’ most recent tax return and W-2’s be obtained as a check against the information received on the application and in income verification, and as a check of income calculation.

Self-certification of income by an applicant is not acceptable for verification of income. All stated income sources must be verified. In cases where an adult household member has no income, a zero income certification should be obtained; however, effort should be made to verify the person’s lack of income. A recommended form of verification of zero income would be through an IRS Form 4506-T (Request for Transcript of a Tax Return).

6. Calculation of Income Worksheet

All income verifications must be accompanied by the Bank form, Calculation of Income Worksheet, completed and signed by a member or sponsor as applicable, and by the adult members of the household, to certify that the calculation of income is correct. Income must
be maximized and all sources of income must be included unless further documentation is obtained that demonstrates a lower income calculation is justified. The Calculation of Income Worksheet includes Instructions which may be used together with these Guidelines to verify and calculate income.

If there are questions regarding income determination for AHP please call Bank staff at 1-800-544-3452, extension 1173.
III. Homeownership Set-Aside Program

A. Native American Homeownership Initiative Guidelines

1. Program Summary

Effective January 2, 2015, the Bank will allocate $400,000 of its annual required AHP contribution to provide down payment, closing cost, counseling, or rehabilitation assistance to eligible tribal members of a federally recognized tribe that are purchasing Owner-occupied Units located within the Bank’s district (see Requirements below).

2. Member Eligibility

The applicant must be a member of the Bank at the time the NAHI application is submitted to the Bank. The applicant must be a member of the Bank at the time of the award in order to be eligible to receive program funds. Members receiving an award may not agent, delegate, or assign responsibility for administration of the award to an organization that is not a member of the Federal Home Loan Bank of Des Moines.

3. Allocation of Funds

Funds for the 2015 Native American Homeownership Initiative (NAHI) will be made available on a first-come, first-served basis. Each member may reserve up to $20,000 at a time for up to 90 days beginning January 2, 2015 and ending December 31, 2015. A member may not reserve additional funds until all previously reserved funds are expended. Members with a reservation of any 2014 NAHI funds must expend those funds prior to reserving funds under the 2015 program. Funds reserved but not disbursed by the end of 90 days will be made available to all members for reservation.

The Bank may refuse reimbursement of NAHI funds for loans not closed within the same year as the reservation, or by March 31, 2016 for any 2015 reservation.

4. Time Limits on the Disbursement of Funds and Treatment of Undisbursed Funds

a) All loans must be closed on or before March 31, 2016. Members must request reimbursement from the NAHI fund for closed loans at or prior to the expiration of their reservation of funds. Any funds not requested for reimbursement at or prior to the expiration of a reservation of funds will be made available to all members for reservation. Request for reimbursement should include any loan where the member has escrowed for rehabilitation, even if that work is not completed. Disbursement for loans that include rehabilitation will be deferred until rehabilitation is complete and rehabilitation documentation is submitted to the Bank.
b) For loans closed on or before March 31, 2016, where the member has escrowed funds for rehabilitation, work must be completed and all funds disbursed from the escrow account by March 31, 2017. If a balance remains in the member’s escrow on March 31, 2017, 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. Documentation of expenditure of the entire escrowed amount must be submitted to the Bank for reimbursement. Documentation should include paid receipts and/or lien waivers for rehabilitation, or documentation of payment of unused funds to principal or as a credit toward the borrower’s monthly payment, if applicable. All required documentation must be submitted to the Bank no later than April 30, 2017.

c) Any uncommitted funds, except for amounts escrowed for rehabilitation as described above, remaining as of December 31, 2015 will be used to fund the first alternate from the 2015 AHP competitive round.

d) Any committed but undisbursed funds, except for amounts escrowed for rehabilitation as described above, remaining as of March 31, 2016 will be added to the AHP contribution for the 2016 round of AHP applications.

5. Requirements

a) An eligible household may receive up to $10,000 under this set aside program.

b) At least one of the purchasers of the property in the household must be an enrolled member of a federally recognized tribe.

c) All eligible households that are First-time Homebuyers must complete a Financial Literacy Program prior to closing. See Definitions and Acronyms of the AHP Implementation Plan for definitions of “First-time Homebuyer” and “Financial Literacy Program”.

d) Total household income as of the enrollment date may not exceed 80 percent of the area median income. See the definition of “Enrollment Date” in Definitions and Acronyms of the AHP Implementation Plan.

Eligible households may 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.
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 or requested by calling 1-800-544-3452, extension 1173.

Please refer to the Income Determination Guidelines for Homeownership Projects of the AHP Implementation Plan for advice on eligible income. In addition, for transactions that include home purchase the income of non-resident co-signers or co-borrowers must be included in the calculation of income to determine eligibility if: (i) the purchaser is a student or (ii) the co-signers and/or co-borrowers will be included as titleholders to the property.

e) 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, or the limit of the HUD-184 Native American Housing Program for loans closed under that program. Maximum purchase price limits for the states of Iowa, Minnesota, Missouri, North Dakota, and South Dakota determined by the State Housing Finance Agencies can be found on our website or requested by calling 1-800-544-3452, extension 1173.

f) AHP 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 existing or newly constructed owner-occupied unit, including a condominium or cooperative housing unit or manufactured housing, to be used as the household’s primary residence. See Definitions and Acronyms of the AHP Implementation Plan for definitions of “Owner-occupied Unit” and “Closing Cost”. See paragraph (j) herein for guidelines on rehabilitation.

g) An owner-occupied unit that is purchased under the NAHI must be located within the Bank’s district.

h) A transaction that includes new construction financing is typically not eligible unless approved by the Bank in advance. New construction that includes agendas that are inconsistent with affordable housing agendas are not eligible for reimbursement. The Bank, in its sole discretion, may deny any subsidy request that is inconsistent with this guideline.

i) Eligible rehabilitation should include correction of deferred maintenance and/or replacement of principal fixtures and components of existing buildings, and should not include luxury items and repairs, improvements, replacements, alterations, and additions for recreational or commercial use, or for rental units that are part of owner-occupied units. Payment to the homeowner for rehabilitation labor is ineligible. Payments to friends and relatives of the homeowner for labor are ineligible, unless they are qualified contractors and there is a written bid documenting costs that conform to local conditions. The Bank, in
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its sole discretion, may deny funding of any subsidy request that includes rehabilitation that is not consistent with these guidelines.

j) AHP subsidies may be used to pay for counseling costs of a Financial Literacy Program only where such costs are incurred in connection with counseling of homebuyers who actually purchase a NAHI-assisted unit, and the cost of the counseling has not been covered by another funding source, including the member. Maximum amount that may be charged is $250 for counseling of less than 8 hours duration, and $450 for counseling exceeding 8 hours. Documentation of the provision of this counseling cost will be required if this cost is included in closing costs.

k) Members may not charge a processing fee for providing AHP direct subsidies to a project.

l) Households may be reimbursed eligible closing costs paid outside of closing for which there is supporting documentation. The Bank, in its sole discretion, will determine eligible items paid outside of closing.

m) A member may not provide cash back to a household at closing on the mortgage loan in an amount exceeding $250, except for reimbursement of eligible items paid outside of closing. Cash back would include reimbursement of down payment, deposits, or earnest money. Cash back would also include any loans, collections, judgments, or other financial obligations of the household paid to facilitate the home purchase that is not a typical closing cost. If these costs are included in a settlement, a non-AHP funding source must be identified, to the satisfaction of the Bank. A member may use any subsidy amount or reimbursement of down payment, deposits, or earnest money that would cause the limit of $250 cash back at closing to be exceeded 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.

n) In the case of member owned real estate purchased by a household from a member or a subsidiary of the member, or property purchased by a household upon which the 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 as applicable per terms of the purchase. This value should be determined from a property appraisal performed by a state certified or licensed appraiser, within six months prior to the date of property settlement. Purchase price should not exceed the market value.

o) 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 subsidy must not exceed a reasonable market rate of interest, points, fees, and other charges for loans of similar maturity, terms, and risk.
p) The Bank requires that mortgage loans originated using AHP subsidy comply with applicable federal, state and local anti-predatory lending laws and other similar credit-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.

q) Any residential mortgage will be ineligible to be used with AHP subsidy if it does not comply with all applicable anti-predatory lending laws, including but not limited to:

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, or 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.

r) The member shall ensure that an assisted unit is subject to a 5-year deed restriction or other legally enforceable retention agreement or mechanism, whether or not the member originates the first mortgage. The member or its designee is to be given notice of any sale or refinancing of the unit occurring prior to the end of the retention period. In the case of a sale or refinancing of the unit prior to the end of the retention period, an amount equal to a pro rata share of the subsidy, reduced for every year the seller owned the unit, shall be repaid to the Bank from any net gain realized upon the sale or refinancing, unless:

   1) The unit was assisted with a permanent mortgage loan funded by an AHP subsidized advance;

   2) The unit is sold to a very low-, low-, or moderate-income household; or

   3) Following a refinancing, the unit continues to be subject to a deed restriction or other legally enforceable retention agreement or mechanism.

s) The Bank requires that mortgage loans originated using this AHP subsidy have a term at least equal to the length of the 5-year deed restriction or retention agreement placed on the AHP assisted unit.

t) Funds are advanced on a reimbursement basis. A Certification and Draw Request form signed by the member is required for each subsidy award to a household prior to the disbursement of funds to the member.

Members are required to maintain the following information on all disbursements. In addition, the Bank will verify this information for the first disbursement and randomly selected disbursements on each awarded project. The Bank, in its sole discretion, may request and review this documentation on any disbursement.

   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 Final 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 including all household income signed by the homebuyer(s) and the member;

5) third-party documentation verifying the household income;

6) evidence that one of the homebuyers is an enrolled member of a federally recognized Tribe; and

7) copy of the retention document filed for the transaction.

u) If a transaction includes escrow for rehabilitation to occur after closing, 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.

v) If a member is denied reimbursement of a subsidy award by the Bank, the member will be required to provide the Bank a release of the deed restriction or other retention agreement for the assisted unit entered into with the household.

w) NAHI funds may not be used in conjunction with programs utilizing funds from competitive AHP awards or other Set-Aside down payment assistance programs.

x) 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.
B. **Homeownership Fund Program Guidelines**

1. **Program Summary**

   Effective September 1, 2015, the Bank will allocate to members $2 million of its annual required AHP contribution for down payment, closing cost, counseling, or rehabilitation assistance to eligible homebuyers that are purchasing owner-occupied units (see Requirements below). At least one third of the allocation will be to First-Time Homebuyers. See “First Time Homebuyer” in Section IV: Definitions and Acronyms.

2. **Member Eligibility**

   Any member that was awarded funding from the 2013 and 2014 Homeownership Fund must have no more than $5,000 undisbursed as of July 31, 2015 to be eligible to apply for the 2015 Homeownership Fund. The applicant must be a member of the Bank at the time the Homeownership Fund application is submitted to the Bank. The applicant must be a member of the Bank at the time of awards in order to be eligible to receive program funds. Members receiving an award may not agent, delegate, or assign responsibility for administration of the award to an organization that is not a member of the Federal Home Loan Bank of Des Moines.

3. **Application Period**

   During an application period beginning September 1, 2015 and ending September 30, 2015 an eligible member may apply to reserve from a minimum of $5,000 up to a maximum of $15,000 for the 2015 Homeownership Fund. 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 $2 million, at least $100,000 will be awarded 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 from that state will be randomly selected for award by lottery until the amount is fully reserved. If the last application selected to reach a state minimum would cause the minimum to be exceeded that application will be awarded the full amount of its application. If the total amount of applications in any state is less than $100,000, then all applications from that state will be awarded funds. The amount awarded in the state selection will be subtracted from the total amount available for the program and awarded to the remaining applications through random selection in a second lottery. The last selected application in this lottery may be reduced so as not to exceed total funds available for the program. Any funds remaining unreserved after the second lottery 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 close loans and disburse reserved funds to eligible homebuyers by close of business October 31, 2017. Members must request reimbursement from the 2015 Homeownership Fund by November 30, 2017 for loans closed on or before October 31, 2017.

b) For loans closed on or before October 31, 2017 where funds have been escrowed for rehabilitation, work must be completed and all funds disbursed from the escrow account by October 31, 2018. 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 November 30, 2018 for reimbursement. If a balance remains in the escrow on October 31, 2018 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. Documentation of those transactions must be submitted to the Bank no later than November 30, 2018.

c) If a member has not expended any of its 2015 Homeownership Fund allocation by the one year anniversary of the Subsidy Award (by October 31, 2016) 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, that remain after November 30, 2018 will be added to the AHP contribution for the next round of AHP applications.

5. Requirements

a) An eligible household may receive up to $5,000 under this Set Aside program.

b) All eligible households that are First-Time Homebuyers must complete a Financial Literacy Program prior to closing. See Definitions and Acronyms of the AHP Implementation Plan for definitions of “First-time Homebuyer” and “Financial Literacy Program”.

c) Total household income as of the Enrollment Date may not exceed 80 percent of the area median income. See the definition of “Enrollment Date” in Definitions and Acronyms of the AHP Implementation Plan.

Eligible households may 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.

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 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.

Please refer to the Income Determination Guidelines for Homeownership Projects of the AHP Implementation Plan for advice on eligible income. In addition, for transactions that include home purchase the income of non-resident co-signers or co-borrowers must be included in the calculation of income to determine eligibility if: (i) the purchaser is a student or (ii) the co-signers and/or co-borrowers will be included as titleholders to the property.

d) 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 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.

e) Subsidy may 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. See Definitions and Acronyms of the AHP Implementation Plan for definitions of “Owner-occupied Unit” and “Closing Cost”. See paragraph (h) herein for guidelines on rehabilitation.

f) A transaction that includes new construction financing is typically not eligible unless approved by the Bank in advance. New construction that includes agendas that are inconsistent with affordable housing agendas are not eligible for reimbursement. The Bank, in its sole discretion, may deny any subsidy request that is inconsistent with this guideline.

g) Eligible rehabilitation should include correction of deferred maintenance and/or replacement of principal fixtures and components of existing buildings, and should not include luxury items and repairs, improvements, replacements, alterations, and additions for recreational or commercial use, or for rental units that are part of an owner-occupied unit. Payment to the homeowner for rehabilitation labor is ineligible. Payments to friends and relatives of the homeowner for labor are ineligible, unless they are qualified contractors and there is a written bid documenting costs that conform to local conditions.
The Bank, in its sole discretion, may deny funding of any subsidy request that includes rehabilitation that is inconsistent with these guidelines.

h) AHP subsidies may be used to pay for counseling costs of a Financial Literacy Program only where such costs are incurred in connection with counseling of homebuyers who actually purchase an assisted unit, and the cost of the counseling has not been covered by another funding source, including the member. Maximum amount that may be charged is $250 for counseling of less than 8 hours duration, and $450 for counseling exceeding 8 hours. Documentation of the provision of counseling will be required if this cost is included in closing costs.

i) Members may not charge a processing fee for providing this AHP subsidy to a household.

j) Households may be reimbursed eligible closing costs paid outside of closing for which there is supporting documentation. The Bank, in its sole discretion, will determine eligible items paid outside of closing.

k) A member may not provide cash back to a household at closing on the mortgage loan in an amount exceeding $250, except for reimbursement of eligible items paid outside of closing. Cash back would include reimbursement of down payment, deposits, or earnest money. Cash back would also include any loans, collections, judgments, or other financial obligations of the household paid to facilitate the home purchase that is not a typical closing cost. If these costs are included in a settlement, a non-AHP funding source must be identified, to the satisfaction of the Bank. A member may use any subsidy amount or reimbursement of down payment, deposits, or earnest money that would cause the limit of $250 cash back at closing to be exceeded 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.

l) In the case of member owned real estate purchased by a household from a member or a subsidiary of the member, or property purchased by a household upon which the 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 as applicable per terms of the purchase. This value should be determined from a property appraisal performed by a state certified or licensed appraiser, within six months prior to the date of property settlement. Purchase price should not exceed the market value.

m) 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 subsidy must not exceed a reasonable market rate of interest, points, fees, and other charges for loans of similar maturity, terms, and risk.
n) The Bank requires that mortgage loans originated using AHP subsidy comply with applicable federal, state and local anti-predatory lending laws and other similar credit-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.

o) Any residential mortgage will be ineligible to be used with AHP subsidy if it does not comply with all applicable anti-predatory lending laws, including but not limited to:

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, or 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.

p) The member shall ensure that an assisted unit is subject to a 5-year deed restriction or other legally enforceable retention agreement or mechanism, whether or not the member originates the first mortgage. The member is to be given notice of any sale or refinancing of the unit occurring prior to the end of the retention period. In the case of a sale or refinancing of the unit prior to the end of the retention period, an amount equal to a pro rata share of the subsidy, reduced for every year the seller owned the unit, shall be repaid to the Bank from any net gain realized upon the sale or refinancing, unless:

1) The unit was assisted with a permanent mortgage loan funded by an AHP subsidized advance;

2) The unit is sold to a very low-, low-, or moderate-income household; or

3) Following a refinancing, the unit continues to be subject to a deed restriction or other legally enforceable retention agreement or mechanism.

q) The Bank requires that mortgage loans originated using this AHP subsidy have a term at least equal to the length of the 5-year deed restriction or retention agreement placed on the AHP unit.

r) Funds are advanced on a reimbursement basis. A Certification and Draw Request form signed by the member is required for each subsidy award to a household prior to the disbursement of funds to the member.

Members are required to maintain the following information on all disbursements. The Bank will verify this information for the first disbursement and randomly selected disbursements on each awarded project. The Bank, in its sole discretion, may request and review this documentation on any disbursement.

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 final Truth-In-Lending Disclosure Statement

3) copies of lien waivers or invoices for rehabilitation work performed, if funds are used for rehabilitation;
4) Calculation of Income Worksheet including all household income signed by the homebuyer(s) and the member;

5) third-party documentation verifying household income; and

6) copy of the retention document filed for the transaction.

s) If a transaction includes escrow for rehabilitation to occur after closing, 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.

t) If a member is denied reimbursement of a subsidy award by the Bank, the member will be required to provide the Bank a release of the deed restriction or other retention agreement for the assisted unit entered into with the household.

u) Homeownership Fund Program funds may not be used in conjunction with programs utilizing funds from competitive AHP awards or other Set-Aside down payment assistance programs.

v) 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.
IV. Definitions and Acronyms

**Adaptive Reuse**: The conversion of a building from a non-housing use to a housing use, including the reuse of religious buildings for housing purposes. For example, a warehouse converted to apartments or condominiums, a hotel converted to apartment units other than overnight shelter units, school houses converted to apartments, or convents and monasteries converted to a housing use for the general public.

**Acquisition Rehabilitation**: The acquisition and rehabilitation of property for residential use.

**Affordable**: (1) The rent charged to a household for a unit that is to be reserved for occupancy by a household with an income at or below 80 percent of the median income for the area, does not exceed 30 percent of the income of a household of the maximum income and size expected, under the commitment made in the AHP application, to occupy the unit (assuming occupancy of 1.5 persons per bedroom or 1.0 person per unit without a separate bedroom); or (2) The rent charged to a household, for rental units subsidized with Section 8 assistance under 42 U.S. C. 1437 for subsidized under another assistance program where the rents are charged in the same way as under the Section 8 program, if the rent complied with this § 1291.1 of the AHP regulations at the time of the household’s initial occupancy and the household continues to be assisted through the Section 8 or another assistance program, respectively.

**AHP or Program**: The Affordable Housing Program established pursuant to 12 U.S.C. 1291 and the AHP regulations.

**AHP Project**: A single-family or multifamily housing project for homeownership or rental housing that has been awarded an AHP subsidy under the competitive application program or an award of funds under the set-aside program to a member bank.

**Anti-Predatory Lending Laws**: Applicable federal, state and local anti-predatory lending laws and other similar credit-related consumer protection laws, regulations and orders designed to prevent or regulate abusive and deceptive lending practices and loan terms.

**AMI**: Area Median Income

**Arm’s Length Transaction**: An arm’s length transaction is one in which the buyers and sellers act independently and have no relationship to each other.

**BIA**: Bureau of Indian Affairs

**Bank**: Federal Home Loan Bank of Des Moines
**Builder’s Overhead**: A builder’s allowance for costs associated with a new construction or rehabilitation project that does not include the direct cost of wages or materials. Typical overhead costs may include an allowance for employee benefits and payroll taxes, job-site supervision, tools and equipment, mileage, general liability insurance, and office. See also, “Builder’s Profit” and “General Requirements”.

**Builder’s Profit**: Payment to the builder typically based on the size of the project, the total construction or rehabilitation cost, and the risk associated with the project.

**Cash Back**: Excluding reimbursement for eligible items paid outside of closing, a member may not provide cash back to a household at closing on a purchase money 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.

**CIA**: The Bank’s Community Investment Advance Program.

**CIP**: A Bank’s Community Investment Program established under section 10(i) of the Act, 12 U.S.C. 1430(i).

**Closing Costs**: Includes expenses over and above the price of the property incurred by a homebuyer in purchase of a property, or by a homeowner securing financing for rehabilitation of their property. Representative closing costs include but are not limited to: loan origination fee, loan discount fee, appraisal fee, credit report, mortgage insurance application fee, closing fee, document preparation, attorney fees, title insurance (for mortgagee or owner), judgment search fees, abstracting fees, Title Guaranty fees (in Iowa), recording fees, tax stamp fees, survey fees, plat drawing fees, pre-paid interest for up to 30 days, initial flood insurance premium, two months’ escrow of mortgage insurance, escrow of property tax as appropriate for the jurisdiction in which the property is located, two months escrow of flood insurance, first year’s premium on homeowner’s insurance, first year’s premium for mortgage insurance, property inspection fees.

Homebuyer Education classes or Financial Literacy Programs are an eligible closing cost expense from AHP funds only for homebuyers purchasing an AHP-assisted unit, where the homebuyer is receiving AHP funding greater than that cost of the classes or programs. The amount that can be charged to AHP is limited to $250 for a course requiring 8 hours or less with a maximum of $450 for a course that is more than 8 hours.

The following are not eligible closing costs: single premium or monthly life and/or disability insurance coverage, escrow of principal and interest payments, or payments of personal
obligations of the households including personal loans, judgments, or liens. In addition, processing fees for providing an AHP subsidy is not an eligible closing cost. The Bank, at its discretion, will determine ineligible costs.

Competitive Application Program: A program established by the Bank under which the Bank awards and disburses AHP subsidy through a competitive application scoring process pursuant to the requirements of § 1291.5 of the AHP regulations.

Consumer-Driven Project: Identifies Homeownership Projects including: (1) down payment and closing cost assistance in connection with a homebuyer purchase of an Owner-occupied Unit on the open market; or, (2) projects that include the rehabilitation of Owner-occupied Units.

Cost of Funds: For purposes of a subsidized advance, the estimated cost of issuing Bank System consolidated obligations with maturities comparable to that of the subsidized advance.

Debt Coverage Ratio (DCR): The ratio of a project’s annual net operating income divided by the total annual debt service (principal plus interest).

Deobligation or Deobligated: The process whereby committed AHP funds that were never disbursed to a member or were never disbursed by a member to an AHP project sponsor/owner are returned to the Bank.

Developer's Fee: Typically, the compensation to the developer for the time and risk involved to develop and administer the project. It is typically based on the size of the project, the total development cost and the risk associated with the project.

Direct Subsidy: An AHP subsidy in the form of a direct cash payment.

Disabled: Any person who has a physical or mental impairment that substantially limits one or more major life activities; has a record of such impairment; or is regarded as having such impairment. In general, a physical or mental impairment includes hearing, mobility and visual impairments, chronic alcoholism, chronic mental illness, AIDS, AIDS Related Complex, and mental retardation that substantially limit one or more major life activities. Major life activities include walking, talking, hearing, seeing, breathing, learning, performing manual tasks, and caring for oneself.

Elderly: An elderly person is a household composed of one or more persons at least one of whom is 62 years of age or more. In a rental project, this would include one or more persons at least 62 years of age at the time of initial occupancy.

Eligible Household for a Rental Project: A household must have an income meeting the income targeting commitments in the approved AHP application upon initial occupancy of the rental unit, or for projects involving the purchase or rehabilitation of rental housing that already
is occupied, at the time the application for AHP subsidy is submitted to the Bank for approval. Additionally, the household’s income in at least 20 percent of the units may not exceed 50 percent of the median income for the area.

**Eligible Household for a Homeownership Project under the Competitive Application Program:** A household must have an income meeting the income targeting commitments in the approved AHP application at the time it is qualified by the project sponsor for participation in the project.

**Eligible Household for a Homeownership Project under the Set-aside program(s):** A household must have an income at or below 80 percent of the median income for the area at the time the household is accepted for enrollment by the member in the Bank's Homeownership Set-aside Program, with such time of enrollment by the member defined by the Bank in its AHP Implementation Plan.

**Eligible Project:** A project eligible to receive AHP subsidy pursuant to the requirements of the AHP regulations.

**Enrollment Date:** For purposes of determining a household’s income eligibility under a set-aside program, the date the member receives the loan application or if in conjunction with a program such as, but not limited to, Habitat for Humanity or other empowerment program, the date of application to such program.

**Fair Market Value (FMV):** Generally, 1) the property value established by the city or county assessor’s office; or 2) the market value as established by an independent appraisal of the property performed by a state certified or licensed appraiser as defined in 12 CFR 564.2(j) and (k) within six months prior to the date of the transaction.

**Family Member:** Any individual related to a person by blood, marriage, or adoption.

**FHFA or Finance Agency:** The Federal Housing Finance Agency is the Federal Home Loan Bank System’s regulator located in Washington, DC.

**Federally Assisted Housing:** Any rental housing currently receiving HUD Section 8 project based rental assistance, Public Housing Authority/Housing and Rehabilitation Authority (PHA) units, HUD 202 or 811 operating subsidies, or U.S. Department of Agriculture Rural Development (“RD”) 514, 515 or 516 rental assistance. For Public Housing Authority/Housing and Rehabilitation Authority units:

1) Units owned and operated under the Annual Contributions Contract (ACC) will be considered as Federal Assisted units under this definition.
2) Units being replaced on a one for one basis for existing units being taken out of the PHA inventory where the new units are included in the ACC will be considered Federal Assisted units under this definition.

3) PHA units being sold to a non-profit and financed with Low Income Housing Tax Credits (LIHTC) will not be considered Federal Assisted units but will receive points under the LIHTC preservation criteria.

Financial Literacy Program: An educational program that includes homebuyer education and financial literacy instruction in ways to recognize and avoid predatory lending. This instruction must take place before loan closing in transactions including home purchase and may be in the form of a face-to-face tutorial, a classroom or workshop session, a mortgage insurance company education program or an internet based curriculum as long as each education program includes a homebuyer education course as well as information on recognizing and avoiding predatory lending. Members and sponsors may offer their own in-house programs as long it is conforms to National Industry Standards for Homeownership Education and Counseling.

First-time Homebuyer: An individual or an individual and his or her spouse who have not owned a home during the prior 3-year period except that: (A) any individual who is a displaced homemaker may not be excluded from consideration as a first-time homebuyer under this paragraph on the basis that the individual, while a homemaker, owned a home with his or her spouse or resided in a home owned by the spouse; (B) any individual who is a single parent may not be excluded from consideration as a first-time homebuyer under this paragraph on the basis that the individual, while married, owned a home with his or her spouse or resided in a home owned by a spouse; and (C) an individual shall not be excluded from consideration as a first-time homebuyer under this paragraph on the basis that the individual owns or owned, as a principal residence during such 3-year period, a dwelling unit whose structure is: (a) not in compliance with State, local, or model building codes, or other applicable codes, and cannot be brought into compliance with such codes for less than the cost of constructing a permanent structure; or (b) a mobile home that does not meet the definition of a Manufactured Housing in this Implementation Plan and which is not attached to a permanent foundation, and which is not considered real estate by the state.

In addition, recovering victims of catastrophic loss (e.g., the death of the family’s principal wage earner, a failed self-employment business situation, loss of employment due to factory shutdown or an employer’s reduction in force), victims of domestic violence that are legally separated from their spouses, and households who have purchased a home on a contractual basis but would otherwise qualify are also eligible as first-time homebuyers.

In all cases the household may not own or be an investor in another residence even if that residence is rented.

Foreclosed Property: Property that can be demonstrated to be in a foreclosure process (including deed in lieu of foreclosure) or has been acquired through such process by an
institutional or corporate seller and not by an individual. The foreclosure process would include borrowers that have received a Notice to Cure Default and wish to negotiate a sale. Situations such as a “Short Sale” would be considered a foreclosure process. This would refer to a foreclosure of a note and mortgage or a note and deed of trust. Foreclosure Property would not refer to properties either forfeited through installment contract sale or tax forfeiture.

**Funding Period**: A time period, as determined by the Bank, during which the Bank accepts AHP applications for subsidy.

**General Requirements**: An allowance for the contractor’s on-site overhead expenses, typically including items such as building permits, fencing around the site, temporary storage for materials, construction supervision, the job trailer, and temporary utilities.

**Habitable**: Suitable for occupancy, taking into account local health, safety, and building codes.

**Historic Rehabilitation**: The process of returning a property listed in or eligible for listing in the National Register of Historic Places to a state of utility, through repair or alteration, which makes possible an efficient contemporary use while preserving those portions and features of the property which are significant to its historic, architectural, and cultural values. Such rehabilitation must comply with the Secretary of Interior’s Standards for Rehabilitation.

**Homeless Household**: The targeted population must be recognized as homeless under current HUD statutes, regulations or regulatory interpretations, or as defined by the applicable State Housing Finance Agency (SHFA) or Tribally Designated Housing Entity (TDHE) and as documented by the applicant.

**Homebuyer or Homeowner Education or Counseling**: Pre-purchase or post-purchase homeownership education adopting curriculum and standards of the National Industry Standards for Homeownership Education and Counseling. Homebuyer education or pre-purchase education includes as curriculum: accessing readiness to buy a home, budgeting and credit, financing a home, selecting a home, and maintaining a home and finances. Homeowner education or post-purchase education includes as curriculum community involvement, budgeting for homeownership, maintaining a home and home improvement, financing and sustaining homeownership, and avoiding delinquency and foreclosure. See also Financial Literacy.

**Homeownership Project**: In the AHP competitive program established pursuant to the requirements of § 1291.5 of the AHP regulations, the acquisition, construction, or rehabilitation of an Owner-occupied Unit by or for very low-income or low- or moderate-income households. A household must have an income meeting the income targeting commitments in the approved AHP application at the time it is qualified by the project sponsor for participation in the project. For purposes of the competitive program, a Homeownership Project would include an Owner-occupied Unit in a single-family or multifamily building, including condominiums and manufactured housing. Projects that include cooperative ownership or “lease-to-own” terms of
sale or equivalent terms would be treated as Rental Projects for purpose of competitive application and monitoring.

**Homeownership Set-aside Program:** A program established by the Bank under which the Bank disburses AHP direct subsidy pursuant to the requirements of § 1291.6 of the AHP regulations.

**HUD:** The Department of Housing and Urban Development.

**Infill Housing:** The use of vacant land and property within a built-up area for further construction or development, typically utilizing existing infrastructure, especially as part of a neighborhood preservation program. Locations where the construction of new housing would be considered infill housing may include the following: A) Central City of an MSA and some suburban locations on/in - 1) undeveloped land generally encircled by areas with existing infrastructure that has been in place for at least 10 years prior to the AHP application date or 2) areas with existing infrastructure in place on vacant land or where vacant buildings have been or will be demolished. B) Rural locations on/in - 1) areas with infrastructure in place on vacant land or where vacant buildings have been or will be demolished or 2) subdivisions generally encircled by areas with existing infrastructure that has been in place for at least 10 years prior to the AHP application date.

**Labor Burden:** The cost of a company to have an employee, aside from the salary the employee earns. Labor burden costs include benefits that a company must pay, or chooses to pay, for employees included on their payroll. These costs include but are not limited to payroll taxes, pension costs, health insurance, dental insurance, and any other benefits that a company provides an employee.

**Loan Pool:** A group of mortgage or other loans meeting the requirements of the AHP regulations that are purchased, pooled, and held in trust.

**LIHTC:** (Federal) Low-income Housing Tax Credit program.

**Low- or Moderate-income Household:** A household that has an income of 80 percent or less of the median income for the area, with the income limit adjusted for household size in accordance with the methodology of the applicable median income standard, unless such median income standard has no household size adjustment methodology.

**Low- or Moderate-income Neighborhood:** Any neighborhood in which 51 percent or more of the households have incomes at or below 80 percent of the median income for the area.

**Manufactured Housing:** A manufactured home (formerly known as a mobile home) is built to the Manufactured Home Construction and Safety Standards (HUD Code) and displays a red certification label on the exterior of each transportable section. Manufactured homes are built in
the controlled environment of a manufacturing plant and are transported in one or more sections on a permanent chassis.

**MRB:** Mortgage Revenue Bonds. The MRB median income for the area, adjusted for household size, as periodically published for use under the MRB program by the State Housing Finance Agency for the state in which the retention document will be recorded. If a city has a targeted area or MRB income determination, the Bank will use only the **non-targeted** area incomes.

**NOTE:** The MRB limits published by the state are generally 100 percent or more of median income and, therefore, must be reduced by the appropriate percentage of income targeted.

**Multifamily Building:** A structure with five or more dwelling units.


**NAHASDA Income Limits:** The income limits published annually by HUD's Office of Native American Programs for the purpose of determining eligibility for assistance under programs funded by block grants under NAHASDA.

**Native American Service Area:** The area within which a Native American tribe operates affordable housing programs or the area in which a tribally designated housing entity (as designated for purposes of the Native American Housing Assistance and Self-Determination Act) is authorized by one or more Indian tribes to operate affordable housing programs.

**New Construction:** The construction of entirely new owner-occupied or rental units on sites not previously occupied, or projects that demolish an existing structure and build entirely new owner-occupied or rental units on that site.

**Owner-Occupied Rehabilitation:** Rehabilitation of an Owner-occupied Unit.

**Owner-occupied Unit:** A dwelling unit occupied by the owner of the unit. Housing with two to four dwelling units consisting of one owner-occupied unit and one or more rental units is considered a single owner-occupied unit.

**Permanent Housing:** Rental housing where the tenant household has a renewable lease or similar form of occupancy agreement without limits on a household’s length of tenancy as long as the tenant household abides by the conditions of the lease or occupancy agreement.

**Project Completion Date:** For owner-occupied projects, the project completion date is the date as determined by the Bank that all construction or rehabilitation is complete, all AHP funds are disbursed or unused funds deobligated, and all Retention Agreements are in place. If the project
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included the sale of AHP assisted units to eligible homebuyers, sale of all units must be closed. For Rental projects, the Project Completion Date is the latter of the date a Certificate of Occupancy is issued or the date that AHP funds are disbursed. In areas that do not issue a Certificate of Occupancy, the Project Completion Date shall be the later of the date that the last unit in the project is suitable for occupancy or the date that AHP funds are disbursed.

Public Housing Authority/Housing and Rehabilitation Authority units:

- Units owned and operated under the Annual Contributions Contract (ACC) will be considered as Federal Assisted units under this definition.
- Units being replaced on a one for one basis for existing units being taken out of the PHA inventory where the new units are included in the ACC will be considered Federal Assisted units under this definition.
- PHA units being sold to a non-profit and financed with low Income Housing Tax Credits (LIHTC) will not be considered Federal Assisted units but will receive points under the LIHTC preservation criteria.

Rehabilitation: The labor, materials, and other costs of repairs, improvements, replacements, alterations, and additions to existing buildings. The Bank’s subsidy for rehabilitation should be used to accomplish the objective of maintaining or improving affordable housing, defined as housing that is targeted to the low-and-moderate income markets. Repairs or improvements inconsistent with the objective of maintaining or improving affordable housing are not eligible as a rehabilitation cost. This includes luxury items and repairs, improvements, replacements, alterations, and additions for recreational or commercial use, or for rental units that are part of an owner-occupied unit. The Bank, in its sole discretion, may deny any subsidy request that is inconsistent with that objective.

See Section II.G.5. Feasibility Guidelines for Homeownership Projects for more information in regard eligible and ineligible rehabilitation for owner-occupied rehabilitation projects.

Rental Housing: In the AHP competitive program established pursuant to the requirements of § 1291.5 of the AHP regulations, the purchase, construction, or rehabilitation of a Rental Project, where at least 20 percent of the units in the project are occupied by and affordable for very low-income households at or below 50 percent of area median income (AMI). A household must have an income meeting the income targeting commitments in the approved AHP application upon initial occupancy of the rental unit, or for projects involving the purchase or rehabilitation of rental housing that already is occupied, at the time the application for AHP subsidy is submitted to the Bank for approval.

Rental Project: For purposes of the competitive application program, a project including one or more Rental Units including overnight and emergency shelters, transitional housing for homeless households, single-room occupancy housing, and manufactured housing. Cooperative housing
projects and “lease-to-own” projects would be treated as Rental Projects for purpose of competitive application and monitoring.

**Rental Unit:** A dwelling unit occupied by households that are not owner-occupants. Dwelling units in cooperative housing projects and “lease-to-own” units would be treated as Rental Units for purpose of competitive application and monitoring.

**Retention Period:**

- Five years from closing for an AHP-assisted owner-occupied unit, or in the case of rehabilitation of a unit currently occupied by the owner where there is no closing, five years from the date rehabilitation assistance was provided the owner; and
- Fifteen years from the date of project completion for a rental project.

**Rural:** To be considered rural, housing must be in an area eligible for USDA Rural Development housing programs. USDA property eligibility is provided on the USDA website for owner-occupied (USDA Single Family) and rental (USDA Multi Family) housing: [http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do](http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do)

**Self Help:** A construction or rehabilitation project that includes the skilled onsite supervision of households that will contribute to the construction or rehabilitation of their own homes and the homes of other households in the project. It is a contribution through labor, as opposed to a financial contribution.

**Single-family Building:** A structure with one to four dwelling units.

**Sponsor-Driven Project:** Identifies Homeownership Projects including new construction or acquisition rehabilitation. In a Sponsor-driven Project the sponsor, or the sponsor’s affiliates if the sponsor is a qualified resource development and support organization, must be integrally involved in the project by exercising control over development activities including acquisition of land and/or buildings, the construction or rehabilitation of owner-occupied units, and sale of the completed owner-occupied units to owner-occupant homebuyers. See definitions for Acquisition Rehabilitation and New Construction herein.

**Sponsorship:** The AHP regulations state that for scoring purposes only sponsors who are 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 are considered in awarding points. Other entities, including for-profits, may sponsor an application and receive AHP funding but cannot receive points for such sponsorship. Please refer to the Bank’s Scoring Criteria (Priority 2) in Section II.H.
Subsidized Advance: An advance to a member at an interest rate reduced below the Bank’s cost of funds by use of a subsidy.

Subsidy:

1. A direct subsidy, provided that if a direct subsidy is used to write down the interest rate on a loan extended by a member, sponsor, or other party to a project, the subsidy must equal the net present value of the interest foregone from making the loan below the lender’s market interest rate; or
2. The net present value of the interest revenue foregone from making a subsidized advance at a rate below the Bank’s cost of funds.

Sweat Equity: Value-enhancing improvements made by homeowners themselves to their properties, in a construction or rehabilitation project. It is a contribution through labor, as opposed to a financial contribution.

Urban: To be considered urban, housing must be in an area ineligible for USDA Rural Development housing programs. USDA property eligibility is provided on the USDA website for owner-occupied (USDA Single Family) and rental (USDA Multi Family) housing: http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do

Vacant or Abandoned: A chronically vacant and uninhabitable property, including, but not limited to, a vacant property that because of its poor physical condition is a public nuisance or constitutes a blight on the surrounding area or is in violation of the applicable housing code such that it constitutes a substantial threat to the life, health, or safety of the public. For homeownership projects this would include single family buildings that have been abandoned when mortgage or tax foreclosure proceedings have been initiated for that property, no mortgage or tax payments have been made by the property owner for at least 90 days, and the property has been vacant for at least 90 days.

Very Low-income Household: A household that has an income at or below 50 percent of the median income for the area, with the income limit adjusted for household size in accordance with the methodology of the applicable median income standard, unless such median income standard has no household size adjustment methodology.