



Attachment G Homeownership Opportunities Program (HOP) Guidelines

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1: Program description

The Homeownership Opportunities Program (HOP) funds will only match funds for the purpose of providing down payment or closing cost assistance and up to \$150 toward housing counseling for home purchases (existing or new construction) to low- or moderate-income **first-time** homebuyers, defined as 80% or less of the HUD AMI. HOP matches other funds to increase a homebuyer's total source of funds to purchase a home. See the *Match Requirements* section of this document for more information. Each member shall determine the ratio (not to exceed 3:1) of the FHLBI matching funds it will provide to recipients.

HOP may be amended at any time with input from the FHLBI Affordable Housing Advisory Council and approval by the FHLBI Board of Directors. Funding announcements may be revoked by the Board without notice. FHLBI reserves the right to allocate funds among programs to meet program demand and to ensure utilization of all funds but is not making an allocation at this time. All funds allocated to the set asides are available on a first-come, first-served basis, with 30% of the funds to be held for release in August 2010.

2: Member participation and registration

Institutions that are current members of and eligible to borrow from the FHLBI may participate in HOP. The FHLBI does not accept applications from institutions with pending applications for membership in the FHLBI. A list of eligible members may be obtained from a directory at www.fhlbi.com/about/mbrdirsp.asp.

- Each member must sign and submit a **Homeownership Initiatives Master Agreement and Registration Form** which allows it to participate in all FHLBI Homeownership Initiative Programs. Each member will be responsible for all terms and conditions contained in the Agreement and Registration Form, including, but not limited to, the requirements outlined in this document.
- **All members will be required to participate in training** that will provide information and instructions on program guidelines, disbursements and documentation requirements. *Either the member's Primary or Secondary contact is required to participate in the training.*
- Upon approval of the Homeownership Initiatives Agreement and Registration Form, members will receive a **Starter Kit** with all of the information and forms needed to start requesting disbursements. *Disbursement requests will not be accepted, however, until training has been completed by appropriate personnel.*

3: Funding - use, limits and availability

- Funding for HOP is part of the total set-aside allocation. The amount of set-aside funds available will be published on the FHLBI's web site at least bi-weekly.
- Each participating member will be limited to \$300,000 in HOP funds.
- Set-aside funding for the first round will be announced in March 2010. At that time, approximately 70% of funds available will be released and will remain available until all funds are exhausted.
- In August 2010, the remaining 30% of available funds plus any recaptured or decommitted funds will be available until all funds are exhausted.

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 subsidy shall not exceed a reasonable market rate of interest, points, fees, and other charges for loans of similar maturity, terms and risk.

4: Member requirements

- Members must provide funds only to homebuyers who meet the income guidelines as described in Attachment D of the current Affordable Housing Program Implementation Plan (Plan).
- Certify that recipients meet the match and other requirements as outlined in these guidelines, the AHP Implementation Plan, the Homeownership Initiatives Master Agreement and Registration Form.
- Provide funds only to homebuyers that complete a housing counseling program as described in these guidelines.
- Members must ensure that HOP-assisted units are subject to retention documents provided by the FHLBI that meet requirements of §1291.9 of the Regulation. See Attachment E of the AHP Implementation Plan for sample retention language. If a member desires to use its own retention agreement, it must be substantially in the form of the retention agreement provided by the FHLBI and must be approved by the FHLBI prior to participating in the program.
- Members must comply with FHLBI requirements to provide copies of retention agreements, settlement statements and other documentation as described in this document.
- Members must maintain project files with all applicable information for all grant recipients. FHLBI may conduct on-site compliance reviews.
- Members cannot charge a processing fee to provide subsidy to any homeowner.

5: Recipient requirements

Recipients of HOP funds must meet all of the following requirements:

- HOP funds may only be made available to a first-time homebuyer. The member must maintain a first-time homebuyer affidavit in the project file. In order to be considered a first-time homebuyer, a homebuyer must be in one or more of the following categories.
 - 1) An individual and his or her spouse who has had no ownership in a principal residence during a three-year period ending on the date of the purchase of the property.
 - 2) An individual who is a displaced homemaker and has only owned a home with a spouse.
 - 3) A single parent who has only owned a home with a former spouse while married.
 - 4) An individual who has only owned a principal residence not permanently affixed to a permanent foundation in accordance with applicable regulations.
 - 5) An individual who has only owned a property that was 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.

- Complete a counseling/education program prior to receiving HOP funds (see *Housing Counseling Program* section of this document).
- Cannot receive, for the same property, more than one FHLBI grant of any kind, or more than one grant from any Federal Home Loan Bank.
- Have household income that is equal to or less than 80% of the area median income (AMI) adjusted for family size as published annually by HUD (see our web site for current charts).
- Contribute a minimum of \$500 of their own cash funds toward the purchase of the home.
- Be owner-occupants of the home to be purchased (must be primary residence). Duplexes are eligible as long as the homeowner will occupy one-half as the primary residence and 75% of the projected income generated from the other half is included in the HOP income qualification process.
- Lease/purchase arrangements and land contracts are not allowed.
- All individuals in title to the property for which subsidy is being provided must sign retention documents as described above.
- Provide all documentation to the member bank as required for participation in the program.
- Homebuyers may not receive more than \$250 cash back at closing. Any HOP funds in excess of the approved mortgage amount, closing costs and cash back to the homebuyer shall be used as a credit to reduce the principal of the mortgage or as a credit toward the household's monthly payments on the mortgage loan.
- Homeowners' debt to income ratios must meet the following requirements and the member is responsible for ensuring maximum ratios are not exceeded:
 - o Owner's monthly housing expense, including principal, interest, taxes, insurance, and homeowner's dues may not exceed 35% of gross income at application
 - o Owner's total monthly expenses, including housing costs (principal, interest, taxes, insurance, and homeowner's dues) plus all other installment debt may not exceed 45% of gross income at application.

6: Match requirements

HOP funds will only match funds for the purpose of providing down payment or closing cost assistance for home purchases (existing or new construction) for first-time homebuyers. Each member shall determine the ratio of the FHLBI matching funds it will provide to recipients not to exceed 3:1.

- The three-to-one matching rate shall not exceed three times the recipient's contribution. For example, a homebuyer saves or receives assistance of \$2,000 and the member uses FHLBI funds to provide a three-to-one match of \$6,000, giving the homebuyer a total of \$8,000 for qualified uses. If a member decides to only provide a one-to-one match, a homebuyer with \$1,000 would receive a \$1,000 HOP grant for a total down payment of \$2,000.
- HOP funds per household shall be no less than \$1,000 and no more than \$7,500. Requests that do not fall within this range will not be processed.
- As stated in the *Recipient Requirements* section, a minimum of \$500 of the matched funds must be from the recipient's own cash funds. The remaining matched funds can come from grants (i.e., CDBG, HOME or USDA funds), gifts, forgivable loans, expenses paid outside closing by the homebuyer or sweat equity by homebuyer valued at the current rate as published on www.independentsector.org.
- **Seller contributions or paid closing costs are not an eligible source of match.**

7: Settlement/closing statement

Down payment or closing cost assistance received from the FHLBI should be reflected as a line item on a settlement or closing statement (preferably a HUD-1). Please make sure that the appropriate grant amount received from the FHLBI is clearly identified. Other guidelines are as follows:

- The contribution from the homebuyer, which should be at least \$500, should be clearly reflected on the statement. Part or all of the \$500 can be met through expenses paid outside of closing (like insurance, appraisals, etc.). If this is the case, please document it in the homebuyer's file and on the statement. The FHLBI, in its sole discretion, will determine eligible items paid outside of closing.
- Matching funds from other sources, like additional grants, should be clearly reflected on the statement.
- Homebuyers may not receive more than \$250 of in cash back at closing. Any HOP funds in excess of the approved mortgage amount, closing costs and cash back to the homebuyer shall be used as a credit to reduce the principal of the mortgage or as a credit toward the household's monthly payments on the mortgage loan.

8: Refinance of property/returning funds

Returning funds

If disbursed HOP funds are not used or if a home is sold prior to the end of the five-year retention period, funds need to be returned to the FHLBI. All funds should be returned using the **Funds Return** form (Excel worksheet) which can be found on our web site. The amount to be returned, also called the payoff, is automatically calculated by the form once original grant amount, original closing date and payoff date are entered. The payoff is based on a monthly pro rata formula. If a home is refinanced before the end of the retention period, please follow the refinance guidelines below to determine if funds should be returned to the FHLBI.

- Once the Funds Return form has been completed, it should be printed and returned to the FHLBI with a check payable to the FHLBI (or without a check if the member has requested the withdrawal of the funds from its FHLBI CMS account).

Refinance

The question of whether members can or should subordinate an FHLBI lien (soft second mortgage) in the event of a refinance is a frequently asked question. The HOP Retention Agreement should be carefully reviewed by each member to determine if additional rules need to be implemented to comply with the member's policies.

Below are a few options members may want to consider when deciding whether or not to subordinate. *The member, not the FHLBI, is responsible for releasing the retention lien.*

- The contribution of a HOP grant allows a homeowner to have greater equity in their home. Homeowners refinance for different reasons prior to the end of the five-year retention period. If, in the process of refinancing, they receive any funds (cash, debt consolidation

monies, etc.), they are taking equity out of the home. Members can require homeowners to repay the balance of the grant and then release the lien.

- If the homeowner will not receive funds as part of a refinance, equity gained from the benefit of the grant remains in the home. In this case, members can stipulate that the balance of the HOP grant does not have to be repaid. If the new mortgage is not being financed by the member, however, the member decides if it is willing to subordinate the FHLBI lien so that the new loan will have priority. If the member decides not to subordinate, the remaining grant must be repaid.

9: Disbursement process

To request funds, members must submit the following for each household:

- Disbursement Authorization form (in Excel workbook). The Disbursement Authorization Form must be signed by an FHLBI authorized signatory and must accompany each disbursement. If members require assistance identifying an authorized signatory, please call 1-800-688-6697. Because original signatures are required, we cannot accept requests via facsimile.
- Household Qualification form (in Excel workbook)
- Income Calculation Worksheet and corresponding income documentation
- Fund Manager (in Excel workbook)

Funds should not be requested earlier than 60 days prior to the estimated closing date. Upon approval, the funds should be credited to your institution's FHLBI CMS account within ten business days of receiving the request. Extensions will be reviewed on a case-by-case basis. No substitutions of households will be allowed.

10. Post Disbursement documentation requirements

All loans must be closed within 60 days of the disbursement. Immediately following the loan closing, following documents must be submitted to FHLBI:

- Final Executed HUD-1 with all transactional funds identified *and*
- Household Qualification Form completed with Uses of Funds and Mortgage Information

11: Monitoring, reporting, documentation

At a minimum, members should maintain (in their files) the documents described below for every HOP recipient.

- A copy of the final HUD-1 executed by all owners on the legal title.
- A copy of the Household Qualification form.
- A copy of the fully executed *and* recorded retention document
- Evidence of completion of housing counseling.
- Evidence of required recipient's \$500 cash contribution.
- Evidence of other matched funds.
- Income Calculation Worksheet and corresponding income documentation.

At the discretion of FHLBI, a percentage of participating members may be selected for monitoring review. During reviews, which are held at the member's place of business, the FHLBI reviews the

member's policies and procedures for administering HOP and a sampling of the grant recipient files. The FHLBI reserves the right to review all files if sampling indicates compliance issues.

While the previously described items should be maintained in the member's files, not all require submission to the FHLBI. Please fulfill reporting/documentation requirements according to the following.

- Quarterly, the FHLBI will request documentation for a selected sample of households. The documentation requested can include any of the documents that members are required to maintain in their files. Members have 30 days to submit the requested documentation. If documentation is not received within 30 days, the FHLBI reserves the right to automatically debit the member's CMS account for the appropriate amount. The member will then need to reapply for funding for that particular unit, subject to funding availability.

12: Housing counseling requirements

Housing counseling must be provided by an organization certified and recognized as experienced in housing counseling by HUD or a state agency. HOP funds may be used to pay up to \$150 for housing counseling.

- Counseling must take place before closing and not more than one year earlier. The FHLBI requires the counseling be in the form of a face-to-face tutorial, classroom or workshop session. Hardship exceptions to these requirements will be considered on a case-by-case basis.
- To help prevent grant recipients from later becoming targets of predatory lending, the FHLBI recommends that financial literacy and predatory lending be given emphasis as part of the training. Sources for HUD or state-certified housing counselors, as well as training content and material can be found in a **Counseling Resource Guide** on our web site.

13: Income Guidelines (see Attachment D)

All members must use the Income Guidelines as outlined in Attachment D of the current Affordable Housing Program Implementation Plan. Households must have incomes at or below 80% of the median income for the area at the time the household is accepted for enrollment by the member.

"Time of enrollment" by the member is defined by the FHLBI as the date on which the member issues a pre-qualification or other such loan commitment or enrolls the household in a member set-aside program. Members must submit a disbursement request to FHLBI within three months after enrollment of the household into the program.