



Attachment H Neighborhood Stabilization Assistance (NSA) Guidelines

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1: Program description

The Neighborhood Stabilization Assistance (NSA) is part of the Homeownership set-aside program. NSA will match federal Neighborhood Stabilization Program (NSP) assistance for the purpose of providing down payment or closing cost assistance for home purchases to low- or moderate-income homebuyers, defined as 80% or less of the HUD AMI. NSA matches NSP funds to assist in the marketing of NSP-assisted houses and to increase the homebuyer's total source of funds to purchase an NSP-assisted home. Each member shall determine the ratio (not to exceed 3:1) of FHLBI matching funds it will provide to recipients.

The maximum subsidy that can be requested per unit is \$10,000.

NSA 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 also reserves the right to reallocate funds among programs to meet program demand and to ensure utilization of all funds. All funds allocated to the set-aside programs are available on a first-come, first-served basis, with 30% of the funds to be held for release in late summer 2012. **Funding for NSA will not be extended beyond the 2012 program year.**

2: Member participation requirements

Institutions that are current members of and eligible to borrow from the FHLBI may participate in NSA. 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.

A. Registration:

All members must sign and submit a **Homeownership Initiatives Master Agreement and Registration and Certification Form**, which allows it to participate in all FHLBI Homeownership Initiative Programs. Members will be responsible for all terms and conditions contained in the **Homeownership Initiatives Master Agreement and Registration and Certification Form**, including, but not limited to, the requirements outlined in this document.

B. Training:

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.*

C. Upon approval of the **Homeownership Initiatives Master Agreement, Registration and Certification Form** and completion of required training, members will receive a **Starter Kit** with all of the information and forms needed to start requesting disbursements.

3: Funding - use, limits and availability

- Funding for NSA is part of the total Homeownership set-aside allocation. Throughout the program year, the remaining amount of set-aside subsidy available will be published on the FHLBI's website at least bi-weekly.
- Each participating member will be limited to \$300,000 in NSA funds.
- Set-aside funding for the first round will be announced in the spring. At that time, approximately 70% of the funds available will be released and will remain available until all funds are exhausted.
- In late summer, the remaining 30% of available funds plus any recaptured or de-committed funds will be available until all funds are exhausted.
- As required by § 1291.6(c)(7), **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 enroll each household in an FHLBI set-aside program. The enrollment date is defined by the FHLBI as the date on which the member issues a qualification or other such loan commitment or enrolls the household in an FHLBI set-aside program.
- Members must submit a disbursement request to FHLBI within 30 days after enrollment of the household into an FHLBI set-aside program.
- Members must provide subsidy only to homebuyers who meet the income guidelines as described in Attachment D of the current Affordable Housing Program Implementation Plan (Plan).
- Members must provide subsidy only to homebuyers that complete a housing counseling program as required by NSP.
- Members must ensure that NSA-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 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 fees to provide subsidy to any homebuyer.

5: Recipient requirements

- Complete the required counseling/education program prior to the loan closing.
- 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.
- Has 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 FHLBI's website for current charts).
- Contribute a minimum of \$500 of homebuyer's cash funds toward the purchase of the home.

- Be owner-occupants of the home to be purchased (must be primary residence). Transactions that require or involve non-occupying co-borrowers, co-owners, co-signers, or non-occupying loan guarantors are not eligible.
- Lease/purchase arrangements and land contracts are not eligible ownership structures.
- 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 unit(s) is included in the NSA income qualification process. Projected income must be included in household income whether or not homeowner intends to rent the other unit(s). Non-residential investment property is not eligible.
- All individuals in title to the property must occupy the property for which subsidy is being provided and 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 NSA 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:
 - Owner's monthly housing expense, including principal, interest, taxes, insurance, and homeowner's dues may not exceed 35% of gross income at application.
 - 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.
- Applicants may not be students with part-time or no income while in school who ordinarily would have a reasonable prospect for a substantial increase in income exceeding the AHP income eligibility limit upon entering the workforce full-time. In determining an applicant's eligibility, the FHLBI will consider factors including, but not limited to, the applicant's current student status, number of hours currently enrolled, anticipated date of graduation and field of study. Supporting documentation will be required.

6: Match requirements

NSA subsidy will only match NSP funds used to acquire, rehabilitate, construct, or otherwise assist the house to be purchased. Each member shall determine the ratio of the FHLBI matching funds it will provide to recipients not to exceed 3:1.

- For example, a homebuyer receives NSP assistance in the amount \$3,000 and the member uses FHLBI funds to provide a three-to-one match of \$9,000, giving the homebuyer a total of \$12,000 for qualified uses.
- NSA grant funds per household shall be no less than \$1,000 and no more than \$10,000. As stated in the *Recipient Requirements* section, a minimum of \$500 must be from the recipient's own cash funds.

7: Settlement/closing statement

The NSA subsidy for down payment or closing cost assistance must be reflected as a line item on the current HUD approved HUD-1 settlement statement. The appropriate subsidy amount received from the FHLBI must be clearly identified. Other guidelines are as follows:

- The contribution from the homebuyer, which should be at least \$500, should be clearly reflected on the HUD-1. Part or all of the \$500 can be met through deposit or earnest money, cash brought to closing and/or expenses paid outside of closing (such as insurance, appraisals, etc.). If this is the case, please document it in the homebuyer's file and on the HUD-1. The FHLBI, in its sole discretion, will determine eligible items paid outside of closing.
- Homebuyers may not receive more than \$250 in cash back at closing. Any 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: Real Estate Retention period guide

All subsidies to be repaid or returned must be calculated using the **Retention Agreement Guide and Repayment Worksheet (Worksheet)**, which can be found on FHLBI's website. The Worksheet outlines specific scenarios, requirements and calculations for repayment or return of subsidy.

A household must repay a pro-rated amount of the funds if it sells or refinances the unit during the five-year retention period unless one of the following exceptions applies:

- In the case of a sale, the purchaser is low or moderate income;
- In the case of a refinancing, the household agrees to continue a retention agreement after the refinancing for the balance of the original retention period; or
- The household had obtained a permanent mortgage funded by an AHP subsidized advance and not a direct subsidy.

The household only repays the subsidy from the net gain from either a sale or a refinancing. If there is no net gain, the household does not repay any subsidy. If the net gain is greater than the pro-rated amount of the subsidy, the household must repay the pro-rated amount of the subsidy. If the net gain is less than the pro-rated amount of the subsidy, then the household must repay only the net gain amount.

These terms also apply to any future, subsequent refinancing(s) during the retention period unless the Retention Agreement has otherwise terminated.

The net gain is defined as the sales price of the home, or the amount of the new first mortgage after the refinancing of the home, minus the original purchase price, purchase-related closing costs and the costs associated with the sale (including seller concessions) or refinancing of the home. If the household made substantive improvements to the property, which add to the property's basis, then the costs of those improvements must also be deducted. This information is included in the Worksheet.

In the event the subsidy has been provided to the member, is unused, and is not provided to the household, FHLBI does not consider the subsidy disbursed to the household and the subsidy must be returned.

Once the Worksheet has been completed, it should be printed and returned along with the HUD-1 settlement statement for the current sale of the property, to the FHLBI with a check payable to the FHLBI (or with instructions to FHLBI to withdraw the funds from the member's FHLBI CMS account).

The lien securing the subsidy must be released.

9: Disbursement process

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

- a) 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.
- b) Household Qualification Form (in Excel workbook)
- c) Income Calculation Worksheet and corresponding income documentation
- d) Evidence of secured Neighborhood Stabilization Program funding in the form of an approval from the funding entity or a loan/grant agreement

Previously closed loans must have closed within 60 days of submission of the disbursement request to the FHLBI.

During times of normal volume, disbursement requests should be reviewed and/or approved within ten business days. Upon approval, the funds will be credited to the member's FHLBI CMS account.

10: Post disbursement documentation requirements

All loans must be closed within 30 days of the disbursement. Immediately following the closing, following documents must be submitted to FHLBI:

- Final Executed HUD-1 with all transactional funds identified and
- Household qualification Form completed with the post closing mortgage information
- Extensions will be reviewed on a case-by-case basis. No substitutions of households will be allowed.

11: Monitoring, reporting, documentation

At a minimum, members should maintain (in their files) the documents described below for every NSA recipient. Please note that not all documents require submission to the FHLBI.

- a) A copy of the final HUD-1 executed by all owners on the legal title.
- b) A copy of the Household Qualification form.
- c) A copy of the fully executed *and* recorded retention document.
- d) Evidence of completion of housing counseling prior to the loan closing.
- e) Evidence of required recipient's \$500 cash contribution.
- f) Evidence of NSP matched funds.
- g) Income Calculation Worksheet and corresponding income documentation.

Quarterly Monitoring

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 the particular household, subject to funding availability.

Onsite Monitoring

At the discretion of FHLBI, 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 NSA and a sampling of the grant recipient files. The FHLBI reserves the right to review all files if sampling indicates compliance issues.

12: Income Guidelines (see Attachment D)

All members must use the Income Guidelines as outlined in Attachment D of the current 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.