



Attachment J Disaster Relief Program (DRP) Guidelines

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1: Program description

The Disaster Relief Program (DRP) provides rehabilitation or down payment assistance to low- or moderate-income homeowners. DRP matches other funds to increase a homeowner's total source of funds to rehabilitate a home damaged by, or purchase a home when displaced by, a state or federally declared disaster up to a total of \$XX per household based on demonstrated need. See the *Match Requirements* section of this document for more information. Each member shall determine the ratio (not to exceed XX:XX) of the FHLBI matching funds it will provide to recipients.

DRP may be instituted at any time following the declaration of a state or federal disaster in the sixth district 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 between set-aside programs to meet program demand and to ensure utilization of all funds. The Bank may allot to its current year's Program from its annual required AHP contribution for the subsequent year, an amount up to the greater of \$2 million or 20% of its annual required AHP contribution for the current year.

Funds used in conjunction with a DRP will not be counted toward the total per member limit as specified in the current Implementation Plan. Funds will be available for use until XX/XX/XXXX.

Note: Amounts to be identified per event, as approved by the FHLBI board of directors, are noted with XX.

2: Member participation and registration

Institutions that are current members of and eligible to borrow from the FHLBI may participate in DRP. Institutions with pending applications for membership in the FHLBI are not eligible to participate in DRP. 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

In order to participate in DRP, recipients must be located within the disaster area and have applied for and received notification of all other available recovery funds.

- DRP funds cannot be used to pay for processing fees charged by members or sponsors for providing direct subsidy to a homeowner.
- The specific amount of funds available will be determined by the FHLBI in conjunction with the Affordable Housing Advisory Council and approval by the FHLBI Board of Directors.

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.

4: Member requirements

Members must provide funds only to homeowners who meet the income guidelines as described in Attachment D of the current Affordable Housing Program Implementation Plan (Plan).

- 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 ensure that all units are or will be owner-occupied.
- Members must ensure that rehabilitation work performed meets the requirements outlined in the *Rehabilitation Requirements* section of this document.
- Members must ensure that DRP-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 use.
- Members must comply with FHLBI requirements to provide copies of retention agreements, rehabilitation closing statements, 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.
- Processing fees to provide subsidy to any homeowner/homebuyer are not allowed.
- Additional due diligence as indicated below.

5: Recipient requirements

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

- 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 FHLBI's website for current AMI charts).
- Be owner-occupants of the home to be rehabilitated or purchased (must be primary residence). If rehabilitating applicant must have resided in the home, as a primary residence, for at least 6 months prior to making application with the member institution. Non-residential investment property is not eligible. Non-residential investment property is not eligible.
- Transactions that require or involve non-occupying co-borrowers, co-owners, co-signers, guarantors are not eligible for DRP.
- 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.
- Duplexes are eligible as long as the homeowner occupies one-half as the primary residence and 75% of the projected income generated from the other unit(s) is included in the DRP income qualification process.
- 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.
- Lease/purchase arrangements and land contracts are not eligible ownership structures.
- All individuals in title to the property for which subsidy is being provided must sign retention documents described above.
- Provide all documentation to the member bank as required for participation in the program.

6: Rehabilitation requirements

Eligible improvements are intended to restore the pre-disaster conditions. Only the following types of repairs are permitted.

- Structural alterations and reconstruction - repair or replacement of structural damage such as chimney or foundation repair

- Changes for aesthetic appeal - includes such items as new exterior siding or doors. These changes must be in conjunction with disaster related damage. When considering whether or not to allow other aesthetic changes, the member should use reasonable business judgment. *Please consult FHLBI prior to approving anything considered to be aesthetic.*
- The following improvements may be done in conjunction with disaster related repairs:
 - Easier accessibility for the handicapped - includes remodeling kitchens and bathrooms for wheelchair access, lowering kitchen cabinets, installing wider doors and exterior ramps, etc.
 - Energy conservation improvements – such as installation of double-pane windows, caulking, insulated exterior doors and weather stripping, attic and wall insulation, etc.
- Recondition or replacement of heating, ventilation, air conditioning, electrical or plumbing - includes connection to public water/sewer systems and installation of new plumbing fixtures for disaster related damage
- Eligible disaster related rehabilitation includes the repair or replacement of the following:
 - Roof
 - Gutters
 - Siding
 - HVAC (heater, air conditioner, water heater)
 - Exterior paint
 - Insulation
 - Drywall and interior paint necessary because of other repairs
 - Windows
 - Exterior doors
 - Plumbing and electrical work needed for habitability or code compliance

7: Down payment assistance requirements

- Homebuyers must be displaced due to disaster related circumstances
- 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 income qualification process. Projected income must be included in household income whether or not homeowner intends to rent the other unit(s). Lease/purchase arrangements and land contracts are not allowed.
- Homebuyers may not receive more than \$250 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.
- Housing counseling is required (exceptions may be considered for existing displaced homeowners). For more details and resources on housing counseling see Attachment G of the current Implementation Plan - Homeownership Opportunities Program (HOP) Guidelines.

8: Match requirements

DRP funds will only match funds for the purpose of providing rehabilitation assistance or down payment/closing cost assistance for homeowners/homebuyers affected by the disaster. Each member shall determine the ratio of the FHLBI matching funds it will provide to recipients. The minimum match is \$XX and shall not exceed XX times the recipient's contribution (X:1).

Matched funds can come from grants (i.e., CDBG, HOME or USDA funds), insurance proceeds, expended cash from the homebuyer, gifts, forgivable or deferred loans at 0% interest and home equity loans made by the participating member or any eligible state or local home improvement loan program. For member home equity loans, only the portion of funds used for rehabilitation can be matched.

- Prior work done to a property not related to storm damage does not qualify.
- Match funds must be documented.

Note: Amounts to be identified per event, as approved by the FHLBI board of directors, are noted with XX.

9: Settlement/closing statement

The FHLBI requires that its **Rehabilitation Closing Statement** be used in lieu of a settlement statement when utilizing DRP subsidy for rehabilitation purposes. The form is available on FHLBI's website. Members must ensure that the appropriate grant amount received from the FHLBI is clearly identified. Other items that should be clearly reflected on the statement are as follows.

- All sources of matching funds (insurance, additional grants, expended cash from the homeowner, home equity loan, etc.)
- Itemized description of home improvements *and* amounts associated with each improvement.

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. Matching funds from other sources, such as additional grants, should be clearly reflected on the statement.

10: Real Estate Retention period guide

All funds 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 funds.

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 **Retention Agreement Guide and Repayment 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.

11: Disbursement process

Disbursements should be submitted following the steps and guidelines below:

- a) Disbursement Authorization Form (in Excel workbook). The Disbursement Authorization Form must be signed by an FHLBI authorized signatory and must accompany each disbursement (to identify a signatory call 1-800-688-6697). Because original signatures are required, we cannot accept requests via fax.
- b) Household Qualification Form (in Excel workbook)
- c) Income calculation worksheet and corresponding income documentation
- d) Draft copy of the Rehabilitation Closing Statement if using DRP subsidy for rehabilitation purposes (invoices, bids and other supporting documentation must be available for review by the FHLBI upon request).
- e) Fund Manager (in Excel workbook)

Funds should not be requested earlier than 60 days prior to the estimated closing date, which is the date the Retention Agreement will be signed and recorded for rehabilitation grants. 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.

Disbursement recommendations for rehabilitation

- a) Consider establishing an escrow account to disburse funds as the work is completed.
- b) Request that the homeowner provide invoices and make checks jointly payable to the contractor or other service provider and the homeowner.
- c) If time permits, consider doing property inspections.
- d) Consider requiring the homeowner to certify that work has been completed satisfactorily. A form that can be used for this purpose is available on our Grant Tools web page.
- e) Have the homeowner sign the retention agreement prior to the start of the rehab work.

12: Post disbursement documentation requirements

- For rehabilitation transactions, upon closing the transaction, the Fund Manager must be updated with the closing date and submitted to FHLBI. The closing date is the date the Retention Agreement is recorded.
- For purchase transactions, immediately following the closing, submit the 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.

13: Monitoring, reporting, documentation

At a minimum, members should maintain in their files the documents described below for every *DRP* recipient.

- a) *Final, fully-executed* Rehabilitation Closing Statement executed by all **owners in the legal title**.
- b) A copy of the final HUD-1 executed by all owners in the legal title.
- c) A copy of the Household Qualification form.
- d) A copy of the executed *and* recorded retention document executed by all owners in legal title.
- e) Cost verification and documentation for rehabilitation work performed on the property using *DRP* funds as well as the required match funds.
- f) Evidence of other matched funds.
- g) Evidence of due diligence to assess adequate legal title, existing liens and adequate property insurance.
- h) Income calculation worksheet and corresponding income documentation.

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 *DRP* 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.

14: Guidelines for determining income eligibility (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.