



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 towards 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.

- 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 Primary or Secondary member contact is required to participate in the training. If training has been completed for any other set-aside program within the required timeframe, new training will not be required. Special trainings may be set up by the FHLBI to accommodate members not currently enrolled for use of set-aside programs.
- 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

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 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 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.
- 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 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 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 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 our web site 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.
- 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 half is included in the DRP income qualification process.
- 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

Funding homeowner rehabilitation projects can present challenges. Below are guidelines for properly administering DRP.

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:
 - o Easier accessibility for the handicapped - includes remodeling kitchens and bathrooms for wheelchair access, lowering kitchen cabinets, installing wider doors and exterior ramps, etc.
 - o 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:
 - o Roof
 - o Gutters
 - o Siding
 - o HVAC (heater, air conditioner, water heater)
 - o Exterior paint
 - o Insulation
 - o Drywall and interior paint necessary because of other repairs
 - o Windows
 - o Exterior doors
 - o 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 half is included in the income qualification process. Lease/purchase arrangements and land contracts are not allowed.
- Homebuyers may not receive more than \$250 cash back at closing. Any DRP 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 funds for rehabilitation purposes. The form is available on our web site. 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, like additional grants, should be clearly reflected on the statement.

10: Refinance of property/returning funds

Returning funds

If disbursed DRP 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 the 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 DRP 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. *The member, not the FHLBI, is responsible for releasing the retention lien.*

11: Disbursement process

Disbursements should be submitted following the steps and guidelines below:

- 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.
- Household Qualification Form (in Excel workbook)
- Income calculation worksheet and corresponding income documentation
- 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).
- 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 executed for rehabilitation grants. Upon approval, the funds will be credited to your institution's FHLBI CMS account within ten business days of receiving the request. No substitutions of households will be allowed. Extensions will be reviewed on a case-by-case basis.

Disbursement recommendations for rehabilitation

- Consider establishing an escrow account to disburse funds as the work is completed.
- Request that the homeowner provide invoices and make checks jointly payable to the contractor or other service provider and the homeowner.
- If time permits, consider doing property inspections.
- 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.
- 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 signed and executed for rehabilitation grants.
- For purchase transactions, immediately following the closing, submit the Final Executed HUD-1 with all transactional funds identified *and* Household Qualification Form completed with Uses of Funds and Mortgage Information.

13: Monitoring, reporting, documentation

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

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

“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. In the case of rehabilitation, the date the household is enrolled in the program by member. Members must submit a disbursement request to FHLBI within three months after enrollment of the household into the program.