



Attachment I
Neighborhood Impact Program (NIP) Guidelines

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1: Program description

The Neighborhood Impact Program (NIP) provides rehabilitation assistance to low- or moderate-income homeowners. NIP matches other funds to increase a homebuyer's total source of funds to rehabilitate a home. See the *Match Requirements* section of this document for more information. Each member shall determine the ratio (not to exceed 4:1) of the FHLBI matching funds it will provide to recipients.

NIP 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 but is not making an allocation at this time.

- **NIP:** Funds are available on a first-come, first-served basis. In order to participate in the program, FHLBI member financial institutions submit a registration form and agreement, and upon approval, request funds as needed until funds are exhausted.

2: Member participation and registration

Institutions that are current members of and eligible to borrow from the FHLBI may participate in NIP. 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 at appropriate personnel.*

3: Funding - use, limits, and availability

- NIP will be available as part of the offering of 2010 set-aside funding. The balance of set-aside funds available will be published on the FHLBI's web site at least bi-weekly.
- Funding for the first round of set-aside funding will be in March 2010. At that time, approximately 70% of the set-aside funds available will be released and will remain available until all funds are used.
- In August 2010, the remaining 30% of available set-aside funds plus any recaptured funds will be available until all funds are used.
- Each participating member will be limited to \$300,000 in annual NIP funds.

- NIP funds cannot be used to pay for processing fees charged by members or sponsors for providing direct subsidy to a homeowner.

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).

- Members must ensure that all units are 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 NIP-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, rehabilitation closing 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.
- Member processing fees to provide subsidy to any homeowner are not allowed.
- Additional due diligence as indicated below.

The FHLBI suggests that the following items be reviewed *prior* to approving a NIP grant to ensure that the funds will not be provided to households in volatile circumstances.

- Title search to verify legal title. This also provides information on outstanding liens and property tax information to ensure the homeowner is not in default on obligations which could affect home retention. A limited scope title search is typically sufficient to meet this requirement.
- Credit reports to provide information on credit obligations which could affect home retention.
- Homeowners insurance verification to ensure that the home is properly insured.

5: Recipient requirements

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

- 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, unless prior grants have been repaid or retention period has expired.
- 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 (must be primary residence) and have resided in the home, as a primary residence, for at least six months prior to 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 NIP 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. Eligible repairs must address quality of life and/or safety issues with the house. Funds may only be used for repairs to the home, unless a health or safety hazard exists to a detached structure on the property. Below are guidelines for properly administering NIP.

Eligible improvements

The following types of repairs are permitted.

- Structural alterations and reconstruction - repair or replacement of structural damage such as chimney or foundation repair and repairs due to termite damage and/or to treat for termites and other infestations.
- Elimination of health and safety hazards such as lead-based paint remediation and mold and mildew removal and/or remediation.
- Removal of unsightly blight, dilapidation or deterioration due to deferred maintenance. When considering whether or not to allow aesthetic repairs, the member should practice prudent decision making and consult with FHLBI for guidance.
- Recondition or replacement of heating, ventilation, air conditioning, electrical or plumbing - includes connection to public water/sewer systems and installation of new plumbing fixtures.
- Energy conservation improvements - includes installation of windows, siding, roofing, gutters, downspouts, caulking, exterior doors and weather stripping, attic and wall insulation, etc.
- Improvements for easier accessibility to the handicapped - includes remodeling kitchens and bathrooms for wheelchair access, lowering kitchen cabinets, installing wider doors and exterior ramps, etc.

Ineligible improvements

In general, improvements in functionality/modernization, changes for elimination of obsolescence, luxury items, improvements that do not become a permanent part of the property, and installation or repair of items listed below are not eligible improvements. The list is not an all-inclusive list and the FHLBI suggests that members use prudent decision making when approving requested improvements. **Any exceptions should be pre-approved by the FHLBI.**

- Additions or alterations for commercial use

- Screened porches, detached garages, etc.
- The finishing of attics, basements, etc.
- Furniture and appliances
- Landscaping or tree work
- Fences
- Room additions
- Driveways and sidewalks
- Awnings and shutters

7: Match requirements

NIP funds will only match funds for the purpose of providing rehabilitation assistance for homeowners. Each member shall determine the ratio of the FHLBI matching funds it will provide to recipients. The matching rate shall not exceed four times the recipient's contribution (4:1) and the matching amount shall be as follows.

- **NIP:** The maximum NIP amount per household is \$10,000 and must be no less than \$1,000. For example, a homebuyer saves \$1,500 and the member uses FHLBI funds to provide a four-to-one match of \$6,000, giving the homeowner a total of \$7,500 for qualified uses.
- Matched funds can come from grants (i.e., CDBG, HOME or USDA funds), 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 does not qualify.
- Match funds must be documented.
- 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.

Settlement/closing statement

The FHLBI requires that its **Rehabilitation Closing Statement** be used in lieu of a settlement statement upon disbursement of NIP funds. 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 (additional grants, expended cash from the homeowner, home equity loan, etc.)
- Itemized description of home improvements *and* amounts associated with each improvement

Members are required to sign this document.

8: Refinance of property/returning funds

Returning funds

If disbursed NIP 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 NIP 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 NIP 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 NIP 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

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. 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)
- Draft Rehabilitation Closing Statement (invoices, bids and other supporting documentation must be available for review by the FHLBI upon request).

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 should 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

- Consider establishing an escrow account to disburse funds as the work is completed.
- Request that the homeowner provide you with 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.

10: Post disbursement documentation requirements

- Closing dates must be submitted to the FHLBI via the Fund Manager (Excel spreadsheet) for every unit disbursed. The closing date is the date the Retention Agreement is signed and executed for rehabilitation grants.

11: Monitoring, reporting, documentation

At a minimum, members should maintain in their files the documents described below for every NIP recipient. Annually, the FHLBI selects a percentage of participating members for reviews.

During reviews, which are held at the member's place of business, the FHLBI reviews the member's policies and procedures for administering NIP and a sampling of the grant recipient files. The FHLBI reserves the right to review all files if sampling indicates compliance issues.

- *Final, fully-executed* Rehabilitation Closing Statement executed by all owners in the legal title and signed by the member.
- Executed *and* recorded retention document executed by all owners in the legal title.
- Cost verification and documentation for rehabilitation work performed on the property using NIP funds as well as required match funds.
- Evidence of other matched funds.
- Income calculation worksheet and corresponding income documentation.
- Counseling certification, if applicable.

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 randomly 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: 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. 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.