FHLBI

Attachment J
Disaster Relief Program (DRP) Guidelines

This section provides a template to be used in the event there is a declaration of a state or federal disaster in the sixth district. *Note: Amounts to be identified per event, as approved by the FHLBI Board, are noted with XX. Other sections such as recipient requirements and rehabilitation requirements may be modified according to the specific circumstances of the declared disaster.*

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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 Council and approval by the FHLBI Board. Funding announcements may be revoked by the Board without notice. FHLBI also reserves the right to reallocate funds between Homeownership Initiatives Programs to meet program demand and to ensure utilization of all funds. The FHLBI 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.

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 https://www.fhlbi.com/

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. *At a minimum, either the primary or secondary contact is required to participate in the training*.

C. Submitting Disbursement Requests:
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 may not be used to pay for fees charged by members or sponsors for providing the subsidy to a homeowner.
- The specific amount of funds available will be determined by the FHLBI in conjunction with the Council and approval by the FHLBI Board.
- 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).

- The Member is responsible for compliance with all applicable laws, regulations and with this Plan.
- Members must enroll each household in an FHLBI Homeownership set Homeownership Initiatives 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 Homeownership Initiatives Program.
- Members must submit a disbursement request to FHLBI within 30 days after enrollment of the household into an FHLBI set Homeownership Initiatives Program.
- Members must ensure that all units are or will be owner-occupied.
- Members are advised to exercise due diligence in qualifying DRP households and obtain the following items for review *prior* to submitting a request to FHLBI to ensure that the funds will be provided to households stable in their financial affairs.
  - Verification that legal title is vested in applicant(s) only
  - A title search, which will provide information on outstanding liens and property tax information to ensure the homeowner is not in default on obligations that could affect home retention
  - Credit reports to provide information on credit obligations that could affect home retention
  - Homeowner's insurance verification to ensure that the home is properly insured
  - Pictures of home or areas to be repaired / replaced prior to commencement of work
- Members must confirm that the recipient owners have owned the property in fee-simple. No additional persons may have been in title to the property other than deceased titleholders, or a former spouse as documented by a finalized divorce decree.
- 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 approved retention language.
- 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.

- Additional due diligence as indicated below.
- Member must certify that the homebuyer(s) and the proposed transaction meet all eligibility requirements for DRP funds.

5: Recipient Requirements

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

- Recipients must 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).
- Homeowner(s) must be owner-occupants of the home to be rehabilitated or purchased (must be primary residence).
- Recipients must have owned the property in fee-simple. No additional persons may have been in title to the property other than deceased titleholders, or a former spouse as documented by a finalized divorce decree.
- Recipient's existing mortgage obligation for the subject property must be current and paid as agreed.
- Use of DRP funds for properties that include home-based business is restricted.
- 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.
- Household's monthly housing expense, including principal, interest, taxes, insurance, and homeowner's dues may not exceed 35% of gross income at closing.
- All properties must be titled as real estate and be permanently affixed to a permanent foundation.
- 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 below in the section 10: *Real Estate Retention Period*.
- Homebuyers may not acquire the property under the terms of a cash purchase. An amortizing mortgage must be transacted to acquire the property and meet the feasibility requirements outlined in *Attachment B, the Feasibility Guidelines*.
- The homebuyer may not purchase the property under a non-arm's length transaction whereby the transaction's parties are related by blood or marriage.
- Recipients must provide all documentation to the member 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.

- 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

If matching funds are required, 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 loans in conjunction with a state or local home improvement loan program.

FHLBI requires all repairs, those to be completed with DRP funds as well as any match monies, be incorporated into the same scope of work or – at a minimum – the bids be obtained in a similar timeframe thus demonstrating the intention of utilizing the additional funding source.

Note: Amounts to be identified per event, as approved by the FHLBI Board, 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
- The total cost of the repair including an itemized description of the 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 HUD-1 Settlement Statement/Closing Disclosure. 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

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 repayment provisions and calculations for repayment or return of subsidy in accordance with the Real Estate Retention Agreement or in the event the subsidy is unused.

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 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/Closing Disclosure for the current sale of the property, to the FHLBI with instructions to FHLBI to withdraw the funds from the member's FHLBI CMS account, assuming funds are owed or unused.

The lien securing the subsidy must be released.

11: Disbursement Process

Disbursements should be submitted following the steps and guidelines below:

1) FHLBI 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.
2) FHLBI Household Qualification Form (in Excel workbook)
3) FHLBI Fund Manager
4) FHLBI Income calculation worksheet and corresponding income documentation as outlined in Attachment D, the Income Guidelines
5) Zero Income Affidavit, if applicable
6) FHLBI certification of cost reasonableness executed by the member. Please note: The certification must be supported by a minimum of two independent, third-party bids/estimates for proposed repairs which must be maintained in the member's file.
7) Other supporting documentation such as, photos, may be required and 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 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.

The member must pass the entire amount of the AHP subsidy to the household.

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) Require all work completed by a licensed/bonded contractor
e) Consider requiring the homeowner to certify that work has been completed satisfactorily prior to issuing payment.
   A form that can be used for this purpose is available on our Grant Tools web page.
f) 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 Settlement Statement/Closing Disclosure 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 the discretion of FHLBI, participating members may be selected for monitoring review. At a minimum, members should maintain in their files the documents described below for every *DRP* recipient.

1) A copy of the disbursement request and all documentation obtained and used to qualify the household at enrollment
2) *Final, fully-executed* Rehabilitation Closing Statement executed by all owners in the legal title
3) A copy of the final HUD-1 Settlement Statement/Closing Disclosure executed by all owners in the legal title
4) A copy of the Household Qualification form
5) A copy of the executed *and* recorded retention document executed by all owners in legal title
6) Cost verification and documentation for rehabilitation work performed on the property using DRP funds as well as the required match funds
7) Evidence of other matched funds
8) First-time Homebuyer affidavit

9) Evidence of due diligence to assess adequate legal title, existing liens and adequate property insurance
10) Income calculation worksheet and corresponding income documentation

Onsite Monitoring

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.