



Attachment C. Monitoring Procedures

These procedures set forth the process that the FHLBank Indianapolis follows in monitoring its Affordable Housing Program (AHP) competitive application projects in accordance with § 1291.50(a) of the Affordable Housing Program Regulations (12 C.F.R. §1291) (the “Regulation”).

- The Bank provides the project sponsor or project owner and Member with a copy of the Bank’s monitoring guidelines, which sets forth their respective monitoring obligations.
- The Bank notifies the project sponsor, project owner, or Member prior to the due date of any certifications required to be submitted to the Bank as part of the project sponsor’s, project owners, or Member’s monitoring obligations.

The AHP Monitoring Program will have as its primary focus three stages of review. The three stages are presented and discussed below:

- STAGE 1 - Semi-Annual Monitoring Review
- STAGE 2 - Initial Monitoring Review
- STAGE 3 - Long-Term Monitoring Review

On-Site Reviews

During the application or post award construction phase, a site visit may be performed by the Bank in its discretion and typically will be performed if significant changes in scope of the project, modification, or other materially significant factors deviate from the approved application. Projects that involve rehabilitation of existing housing may be identified for an on-site observation of the scope of the proposed renovations and condition of the structure. The Bank may, at its discretion, remove a project from award consideration if the building, its condition, or its location present sustainability or market concerns.

The initial monitoring and long-term monitoring reviews are generally parallel in scope and approach. Factors considered during these reviews focus on evidence of fulfillment of scoring initiatives, targeting, income documentation reviews, capital needs including general property conditions, marketing and occupancy history, review of profit/loss statements, audited financial statements, insurance losses, code violations, or other citations that would indicate habitability/occupancy standards are at risk.

Site visits may be conducted at any time during project monitoring. The Bank at its discretion, may elect to conduct an independent household file review, inclusive of household income and supporting documentation maintained by the sponsor/owner and rents charged on-site. Review of project specific documentation relevant to validate fulfillment of scoring initiatives and the overall property condition may be considered in the scope any on-site visit conducted by the Bank. Further, consultants or professionals with knowledge of affordable housing restrictions and requirements may be engaged on behalf of the Bank to conduct such reviews. The Bank may rely on monitoring reports conducted by other delegates or professionals engaged by other stakeholders pursuant to the Long-Term Monitoring policy.

STAGE 1 – Semi-Annual Monitoring Review

Overview

A Stage 1 review is conducted during the project’s incomplete or development stage. This review is conducted every six months and includes analysis of the Semi-Annual Progress Report and supporting documentation. The Semi-Annual Progress Report includes certifications made by the sponsor/owner and Member institution.

Procedures

A Semi-Annual Progress Report (SA Report) must be completed in FHLBI.GIVES by a Member institution whose AHP project has received approval. The SA Report will be submitted every six months during the period of construction or rehabilitation until the project is identified as complete. The project Sponsor/Owner and Member will certify to the project's overall status, progress being made, and that the sponsor/owner has satisfied the reporting requirements of 12 C.F.R. § 1291.50(a)(1)(i).

SA Reports will be reviewed to determine the project's progress, estimated completion date, change in funding status, and compliance with the approved application. Updated financial information such as the sources and uses statement and pro-forma may be required with the SA Report. A project that indicates progress has stalled or is not moving forward may be subject to de-commitment or an action plan that results in project progress using an extension and/or modification options.

STAGE 2 – Initial Monitoring

Overview

A Stage 2 review is defined as Initial Monitoring of the project and is conducted within one year after project completion. This encompasses a review of the project to determine the level of the project's compliance with the approved application, approved modifications(s), if any, law, regulation, policy, and procedures as required by 12 C.F.R. § 1291.50. This review may start earlier if there is sufficient indication of non-compliance.

Owner-occupied Project Procedures

Owner-occupied projects will be scheduled for Initial Monitoring review within a reasonable time period of receiving from the Member financial institution the certification required by 12 C.F.R. § 1291.50(a)(2).

A Member financial institution must, within six months after disbursement of all AHP funds to a project, certify to the Bank the AHP funds were used in accordance with the approved application and the AHP units are subject to deed restrictions or other legally enforceable Retention Agreements or mechanisms meeting the requirements of 12 C.F.R. § 1291.15(a)(7).

When an owner-occupied project is subject to Initial Monitoring, the following will be determined by the Bank:

- Level of compliance with the approved application;
- Level of compliance with 12 C.F.R. § 1291;
- Level of compliance with the Bank's AHP policies and procedures; and
- Whether the AHP subsidy was used for eligible purposes, the project's actual costs were reasonable and customary in accordance with the Bank's project feasibility guidelines, and the subsidy was necessary for the financial feasibility of the project.

Documentation to be analyzed for owner-occupied projects in Initial Monitoring, includes, but is not limited to, the following:

- Original/final comparative statement of sources and uses;

- A list of unit resident names and addresses, annual household income at the date of qualification, household size, AMI percent, and closing dates;
- Completion report, which certifies that:
 - As committed in the application or as adjusted by a Bank-approved modification, all units of the project are complete as of the date of the last homeownership unit in the project closed or the last unit is rehabilitated.
 - All reports and documentation required by Regulation, the Bank, or the Federal Housing Finance Agency are current and complete.
 - The project complies with the applicable federal and state laws on fair housing, housing accessibility, and other local building codes, and the project has been affirmatively marketed under law. If certification cannot be made, a corrective action plan must be attached.
 - All approved AHP subsidies have been provided to income-eligible households, using the income ranges committed to in the AHP application (or as modified). Total subsidy for the project may be reduced by the remaining unused subsidy in the project at its completion.
 - The certification is supported by household income verification documentation;
- Cost validation, as required;
- Validation of funding sources, as required;
- Other information, as required; and
- The AHP-assisted units are subject to deed restrictions or other recorded, legally enforceable Retention Agreements or mechanisms meeting the requirements of § 1291.15(a)(7) and 1291.15(a)(8). Sample Real Estate Retention Agreements can be found in *Attachment E* of this document. NOTE: please contact the Bank for the most recent versions of the Retention Agreements.

Rental Project Procedures

Rental projects will be scheduled for Initial Monitoring review within a reasonable time period of receiving the certification required by 12 C.F.R. § 1291.50(a)(2) from the Member financial institution.

The Initial Monitoring Review will begin when the Bank receives the project completion report through FHLBI.GIVES documenting the project is complete. Projects have one year from the date the project is certified complete to submit certain documentation. Failure to provide such documentation may result in sanctions or suspension relating to future applications, and recapture of some or the entire AHP subsidy disbursed pursuant to remedial actions for non-compliance as required by 12 C.F.R. §§ 1291.60 and 1291.61.

When a rental project is subject to Initial Monitoring, the following will be determined by the Bank.

- Level of compliance with the approved application;
- Level of compliance with 12 C.F.R. § 1291;
- Level of compliance with the Bank's AHP policies and procedures; and

- Whether the AHP subsidy was used for eligible purposes, the project's actual costs were reasonable and customary in accordance with the Bank's project feasibility guidelines, and the subsidy was necessary for the financial feasibility of the project.

Documentation of rental projects to be analyzed in Initial Monitoring includes, but is not limited to, the following:

- Final updated project financials including the sources, uses, and 15-year operating proforma projections (construction contingencies indicated in the budget must be zero at completion or funds may be de-committed or recaptured);
- A list of tenant names and addresses, annual household income at the date of move-in, household size, AMI percent, move-in date, current monthly rent, the amount of any utility allowances or rent subsidies, and number of bedrooms in the unit;
- Income/asset and rent documentation for a sampling of units generated through FHLBI.GIVES and in accordance with the FHLBank Indianapolis Sampling Plan in effect at the time of project completion;
- Completion report which certifies that:
 - As committed in the application or as adjusted by a Bank-approved modification, all units of this project are complete as of the date the last rental unit had certificate of occupancy or equivalent issued, or where such certificates are not issued, the date the last unit in the project is suitable for occupancy.
 - All reports and documentation required by Regulation, the Bank, or the Finance Agency are current and complete.
 - The project complies with the applicable federal and state laws on fair housing, housing accessibility, and other local building codes, and the project has been affirmatively marketed under law. If this certification cannot be made, please attach a corrective action plan.
 - Validation of scoring commitments not verified previously at application, through the disbursement process, or semi-annual progress report reviews;
 - Services and activities committed to in the AHP application have been provided in connection with the project [§ 1291.50(a)(2)(v)];
 - The tenant rents and incomes provided in the list of actual tenant rents and incomes are accurate and in compliance with the rent and income targeting commitments made in the AHP application (or as modified) as supported by household income verification documentation maintained for review by the Member or FHLBank Indianapolis;
- Cost validation may be requested on all projects. Projects with low-income housing tax credits must submit an accountant's cost certification, final low-income housing tax credit application, IRS 8609, or other such documentation verifying costs;
- Validation of funding sources, as required;
- Other information, as required; and
- The AHP-assisted units are subject to deed restrictions or other recorded, legally enforceable Retention Agreements or mechanisms meeting the requirements of §

1291.15(a)(7) and § 1291.15(a)(8). Sample Real Estate Retention Agreements can be found in *Attachment E* of this document. NOTE: Please contact the Bank for the most recent versions of the Retention Agreements.

Homeless and Special Needs Monitoring Requirements

The Bank will monitor, for compliance during the Initial Monitoring Review per the sampling plan outlined, all projects that committed in the approved AHP application to reserve at least 20% of the project's units for homeless or special needs households. When the request for AHP monitoring is made, documentation must be available demonstrating that at least 20% of the units are occupied by households qualified as homeless or special needs or are vacant awaiting occupancy by homeless or special needs households.

Documentation standards for units reserved for homeless households shall follow the HUD Recordkeeping requirements:

https://files.hudexchange.info/resources/documents/HomelessDefinition_RecordkeepingRequirementsandCriteria.pdf

STAGE 3 – Long-Term Monitoring Review Overview

A Stage 3 Long-Term Monitoring Review is conducted solely for rental projects and in accordance with 12 C.F.R. §1291.50(c).

- *Homeownership Projects* - The Bank does not require submission of any information or documentation after initial monitoring except in connection with the sale or refinancing of a unit. The Bank requires that a project sponsor or Member provide notice to the Bank in the event of a resale or refinance of a unit during the five (5) year retention period of that unit.
- *Rental Projects* - Rent and income compliance monitoring including reliance on other governmental monitoring for certain rental projects.

Immediate Notification Requirements:

Owners must immediately notify the Bank and the Member in writing if any unit(s) or building(s) in the project are anticipated to be unavailable for occupancy either permanently or temporarily for a period of time anticipated to exceed 30 calendar days due to casualty loss, damage, or any other reason. Insurance losses and other acts of nature which render any part of the property uninhabitable for a period of time will require the owners to report at least quarterly on efforts to restore the property to a state of habitability within a reasonable amount of time commensurate with the size of loss and time of the year of said loss.

Owners must immediately notify the Bank and Member in writing if the project also received LIHTC and the project is in material and unresolved noncompliance with the LIHTC income targeting or rent requirements at any time during the AHP 15-year retention period.

Owners must immediately notify the Bank and Member in writing of any legal action(s) that is pending or anticipated for which the property associated with the AHP project, or its owner, is a subject or party, or has overtly had legal action threatened.

Monitoring by a Federal, State, or Local Government Entity

For rental projects that are allocated federal low-income housing tax credits, or funding from USDA's 515 program or HUD's 202/811 programs, the Bank will rely on monitoring (including on-site reviews) by the respective monitoring authority of compliance of the income targeting and rent requirements applicable under these programs. Under the Regulation, the Bank does not have to obtain rent rolls or income documentation in Stage 3 Long Term Monitoring from such agency or otherwise monitor the project's long-term AHP compliance provided.

LTM Monitoring Process & Requirements:

- 1) The income targeting requirements, rent requirements, and retention period monitored by the entity for purposes of its own program are substantively equivalent to the AHP commitments.
- 2) The entity must have demonstrated ability to carry out the AHP monitoring requirements and must agree to inform the Bank of all instances of non-compliance.
- 3) Compliance reports issued by other interested parties/stakeholders for purposes of assessing the general property condition/habitability and household income compliance including notifications of non-compliance, curative actions to be addressed may be requested annually or at any other time as may be indicated by the circumstance/condition presented.

In cases where there is *NOT* reliance on such monitoring by a federal, state, or local government entity, the Bank shall monitor completed rental projects, commencing in the second year after project completion through the AHP 15-year retention period, to verify adherence of the income targeting and rent requirements as set forth in the application or as approved by modification. Such compliance monitoring shall consist of review of the back-up project documentation regarding household incomes and rents, including the rent rolls maintained by the project sponsor or owner and review of other project documentation in the Bank's discretion.

Project Annual Certification

All rental projects regardless of AHP subsidy amount, are required to submit a Project Annual Owner Certification form that is completed and certified by the Sponsor/Owner.:

- As committed in the application or as adjusted by a Bank-approved modification, the tenant rents and incomes are compliant with the rent and income targeting commitments, adjusted annually according to the current applicable median income data. A rental unit may continue to count toward meeting the targeting commitment if the rent charged to a household remains affordable for the household occupying the unit (30% of the AMI).
- Documentation regarding tenant rents and incomes and project habitability are being maintained and available for review by the Bank upon request.
- The project complies with the applicable federal and state laws on fair housing, housing accessibility, and other local building codes. If this certification cannot be made, a corrective action plan is required.
- Disclosure of sale or conveyance of any of the units comprising the project. The Closing Disclosure statement or similar documents must be provided in any whole or partial transfer of ownership.
- The project is financially viable and is not delinquent on property taxes, loan payments, vacancy rates are not in excess of 20% of the total units in the project; and retains compliance with commitments extended to other funding sources. If debt restructuring or refinance of permanent debt obligations has occurred during the reporting period, the Closing Disclosure statement and any other documentation from the transaction including a narrative detailing the objective of the transactions and use of any proceeds received from the refinance/restructure is required.

Long Term Monitoring - Risk Based Approach

Generally, projects that have attained construction completion on or before Jan. 1, 2023, will be monitored in accordance with this schedule unless elevated at the Bank's discretion based upon material indicators that prompt a higher level of monitoring and oversight. Such material factors may include but are not limited to: a) amount of AHP subsidy in the project including the percentage of AHP to the total development costs of the project; b) type of project and population housed; c) size and location of the project including vacancy and contributing market factors; d) sponsor experience and performance; and e) any monitoring of the project provided by the Member financial institution, lenders, independent asset managers, federal, state, or local government entities.

The risk-based monitoring and sampling schedule is based on any level of compliance by the sponsor, Member, or by project performance. On-site monitoring reviews may be reinitiated should risk indicators be present to justify a higher level of oversight at FHLBank Indianapolis' discretion at any time during the 15-year retention period.

- 1) Projects receiving \$50,000 to \$600,000 in AHP subsidy that were financed with Low-Income Housing Tax Credits, USDA 515 loans, or HUD 202/811 programs and are monitored by the respective federal, state, or local government entities, the Bank shall rely on the monitoring by such entities of the income targeting and rent requirements applicable under their programs provided:
 - a) No outstanding compliance issues relating to the project and reported by state Housing Finance Authority, HUD, or USDA.
 - b) Bank reviews Project Annual Certification from project Sponsor/Owner for 15 years.
 - c) Sponsor/Owner provides evidence of the monitoring entities monitoring and oversight by providing reports with the Annual Certification.

- 2) Projects receiving \$50,000 to \$600,000 in AHP subsidy that are financed with sources OTHER than Low Income Housing Tax Credits, USDA 515 loans, or HUD 202/811 programs, the Bank shall conduct a complete monitoring review every four (4) years commencing in the second year following the construction completion of the project. Such review shall monitor compliance with rent and income commitments set forth in the application, including a sample of tenant income documentation as follows:
 - a) No outstanding compliance issues relating to the project and reported by Sponsor/Owner, Member, or other qualified entity.
 - b) Bank reviews Project Annual Certification from project Sponsor/Owner for 15 years.
 - c) Bank requests a list showing tenant rents and income documentation sample from project sponsor and conducts a review of a sample of income documentation, in accordance with the Bank Sampling Plan below.
 - d) Shelter type projects with transient tenants such as homeless or domestic violence survivors whose stay is less than one year are not required to provide income verification documentation during the Stage 3 Long-Term monitoring period.

- 3) All projects with outstanding significant compliance issues, or where AHP is the only income restricted original source of development financing, or there are operating performance concerns (as determined by the Bank) regardless of amount of AHP subsidy received, in addition to the applicable monitoring procedures set forth in 1-4 above; may be monitored on-site by the Bank staff as deemed appropriate. On-site reviews will continue until such time the non-compliance issue is resolved through a curative action plan or the sustainability of the housing concern is resolved. Upon resolution, the applicable monitoring cycle may be resumed. See remedial actions.

Note: See “Monitoring by a Federal, State, or Local Government Entity” for a possible monitoring exception for rental projects that are allocated federal low-income housing tax credits.

FHLBank Indianapolis Sampling Plan

For projects completed Jan. 1, 2023, through Dec. 31, 2023, sampling of income documentation and retention mechanisms will be performed as follows.

- Homeownership Projects

Income documentation and retention mechanisms will be obtained for every AHP-assisted household and property.

- Rental Projects

The retention mechanism will be obtained for each AHP rental project including the attachment of the corresponding legal description(s) of all real estate parcels making up the project.

During the Stage 2 Initial Monitoring Review and Stage 3 Long-Term Monitoring Review, income documentation will be sampled based on the schedule in the table below. Sampling of income documentation is not required in the Stage 3 Long-Term Monitoring phase if the AHP subsidy disbursed is less than \$50,000, regardless of the number of AHP units involved.

For projects with more than \$50,000 in AHP subsidy in the Stage 3 Long-Term Monitoring phase, income documentation will be reviewed using the sampling plan in the chart based upon the monitoring requirements set forth in #1-4 Annual Certifications. For small projects (<25 units) wherein the tenant population is stable with little or no turnover, income verification sampling will be limited to only those tenants that are in residency on the date the rent roll is created since the last sampling report. Sponsors/owners must still retain tenant income data on site but are not required to submit current year documentation as a part of long-term monitoring.

Table 7. Income Documentation and Retention Mechanisms – Rentals

Number of AHP Units in the Project	Percent of Income Documentation and Retention Mechanism to Sample
1 to 15	100%
16 to 80	20%
81 to 100	15%
101 and Higher	10%

Note: If sampling appears to indicate that a project is out of compliance, the Bank reserves the right to review documentation for additional units or to perform an on-site project review.

Note: For annual adjustment of targeting commitments, the HUD area median income listings are updated annually and made available by the Bank. For purposes of determining compliance with the targeting commitments in an AHP application, such commitments shall be considered to adjust annually, according to the current applicable median income data. A rental unit occupied by a tenant who qualified under the income targeting restrictions of the project at the time the tenant moved into the unit may continue to count toward meeting the targeting commitment of an approved AHP application, despite increases in income, as long as the rent remains affordable for the targeted income level of the unit (i.e., the rent does not exceed

30% of the applicable 50, 60, 70, or 80% targeted median income level committed to in the AHP application, adjusted for bedroom size). In those cases where 100% of the units require sampling, and there has been little tenant turnover, and the household income has undergone a previous Bank sampling review, the sample size will be limited to those households that qualified and moved in since the last sampling occurred.

Remedial Actions for Non-Compliance

If an issue of non-compliance is noted due to a) material and outstanding compliance items, b) project type, size, or location issues; or c) sponsor experience or capacity issues, the Bank in conjunction with the Member and sponsor institutions, will develop an action plan to achieve a remedy for the non-compliance. This plan may include additional monitoring requirements as determined appropriate based on the nature of the non-compliance issue.

Settlements

In cases for which a settlement is indicated as a cure option, approval by the Board is required, with the exception of projects for which the AHP subsidy is \$50,000 or less and the remainder of the retention period is three years or less. In such cases, FHLBank Indianapolis management may approve a settlement amount less than the AHP subsidy without Board approval. Such settlements shall be reported to the Board at the next meeting. Projects with more than \$50,000 in AHP subsidy or more than three years remaining on the retention period, any proposed settlement of an amount less than the total AHP subsidy funded requires Board approval.