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Mr. Charles McLean  
Deputy Director  
Office of Supervision  
Federal Housing Finance Board  
1777 F Street, NW  
Washington, DC 20006

Dear Mr. McLean:

Enclosed is a copy of the 2004 Affordable Housing Program Implementation Plan and the 2004 Community Lending Plan for the Federal Home Loan Bank of Boston.

The plans have been reviewed by the Bank's Advisory Council and were adopted by the Bank's Board of Directors on November 21, 2003.

We would appreciate any comments you may have on the elements either of the plans.

Thank you for your assistance.

Sincerely,

A handwritten signature in dark ink, appearing to read "John". The signature is stylized with a large, looped initial "J" and a cursive "ohn".

# Market Analysis and Community Lending Plan - 2004

## Housing and Community Development Needs in New England

A review of the individual state consolidated housing plans, market conditions as reported in the AHP applications, and discussions with members of the Bank's Advisory Council and representatives of New England housing and community-development agencies indicate that acute affordable-housing and community-development needs remain. The stock of affordable housing continues to decline while the cost of producing new units is increasing. In many tight housing markets throughout New England, housing affordability has declined dramatically. The following needs remain the most critical:

- *An increased supply of affordable-housing units, particularly for certain population groups in specific markets.* The lack of affordable housing is consistently noted as a community-development need. Although the dwindling supply of affordable housing is being felt particularly in the New England coastal regions, it is also a problem in all of New England's stronger housing markets. The increasing amount of subsidy funds needed to fill the gap between the cost of housing and what low-income families can afford to pay is frequently cited as a barrier to providing affordable housing. In some New England communities, the all-in-cost of building and rehabilitating standard housing significantly exceeds the appraisal value of the resulting units. It is now broadly recognized that the lack of affordable housing, combined with a tight labor market, is negatively impacting the region's business development.
- *Rehabilitation of existing housing units, particularly in lower-income urban and rural areas.* Although the supply of adequate, safe, and affordable-housing units is a critical issue, in many communities the primary need is often for the rehabilitation of existing units. New England is characterized by an older housing stock often in mixed-use buildings, a significant portion of which is in need of repair.
- *Increased homeownership opportunities.* Increasingly, homeownership is seen as key to community improvement and stability. Although there has been a significant increase in New England's homeownership rates over the last decade, many areas and populations continue to lag behind the national average. Barriers to homeownership are the high cost of available units, high housing-production costs, the perceived inaccessibility of the mortgage process (particularly by minorities), and the difficulty many potential homeowners have in saving sufficient down-payment funds.
- *Funds to support affordable housing development and preservation.* The availability of subsidy funds to support affordable housing development and preservation has declined at all levels: federal subsidy programs have been reduced or been eliminated; state budgets are in crisis, and local communities are facing increased tax burdens.
- *Funds to support economic development and job creation.* There is a perceived lack of loans, grants and equity funds available to smaller and start-up businesses. Often, access to the funds that are available is seen as overly complex. Although unemployment remains relatively low throughout much of New England, low wages and a high cost of living mean

that many residents of the region have difficulty securing adequate housing and other necessities.

- *An active secondary market for affordable-housing and community-development loans.* During the last decade, private financial institutions and a variety of community-development corporations have been active in providing loans for affordable housing and community development. Although, in many cases, these loans have performed quite well, they often include features that preclude their sale into conventional secondary markets. The absence of an active secondary market for such loans will limit the future availability of affordable-housing and community-development resources.
- *Expanded capacity for community-development corporations—* New England benefits from what is probably the largest concentration of sophisticated community-development corporations in the country. Often, community-development corporations play a key role in merging private and public resources to support housing and economic development. However, tight budgets and increasing demands on available resources make it difficult for these organizations to respond to current or newly identified opportunities.
- *Improved infrastructure—* New England's aging infrastructure is seen as an impediment to development. Representatives of rural areas note the absence of public transportation, aging or inadequate water and sewer systems, and outdated public facilities as major barriers.
- *Improved coordination of available resources—* A frequent complaint is that individual regulations and program requirements make the coordinated use of available community-development resources extremely difficult. Over the years, a variety of programs and approaches have been developed to deal with specific problems associated with affordable housing and community development. As developers have moved to a more comprehensive approach to housing and community development, the requirements of these specific programs are often in conflict, leading to an inefficient use of resources.
- *Improved growth management—* Unmanaged growth has put New England in danger of losing the very qualities that have made the region distinctive and attractive. Diminishing open space and chaotic development patterns threaten the region's competitiveness and potential for sustained economic development.
- *Improved education and training resources—* Perhaps the greatest barrier to community development is the sheer complexity of the task. Even the most sophisticated financial institutions and community-development corporations find it nearly impossible to keep abreast of available resources and changes in the field. Mergers and consolidations, changes in staff, and accelerating technological change all contribute to the difficulties. There is a broad recognition of the need for improved education and training in order to use resources effectively.
- *Lack of public and political awareness of the need for affordable housing—*In general, there is a lack of public awareness of the need for additional affordable housing and the social and economic implications of the shortage.

### Community Lending Plan

Specific goals under the Community Lending Plan for 2004 include the following:

- *Continued promotion of the Community Development advance* — The Bank intends to continue its focus on making this resource available to New England communities. The Bank will build upon the success of the new on-line application process and will continue its consultation program with individual members and development agencies on specific proposals to be funded with the advance. The intent is to continue to expand the number of members using the Community Development advance during 2004. Specific numerical goals will be reflected in the Bank's Business Plan for 2004.
- *Continue to effectively administer the AHP* — The AHP continues as an important source of affordable housing funding. Increased proposal approvals and projects currently underway will increase the administrative demands on the Bank. The Bank will continue to pursue increased efficiency through administrative and technological improvements in order to ensure that the AHP continues as a valuable resource for affordable-housing development. The Bank will continually review its database of developments in order to provide models of successful affordable housing development to members and community-development organizations throughout New England. The Bank intends to build upon the success of the Homeownership Set-aside Program (the Equity Builder Program), introduced in 2003.
- *Administer a regional affordable housing development competition* — Students at the region's colleges and universities are a potentially significant resource for the development of affordable housing. A key to meeting the region's affordable housing needs is a reservoir of individuals skilled in the development of housing that is both attractive and financially feasible. In 2001, the Bank in cooperation with Boston area colleges and universities and the Citizens' Housing and Planning Association (CHAPA) introduced the Greater-Boston Affordable Housing Development Competition. The competition was very successful and provided participating students with valuable experience in planning and proposing affordable housing developments. Refinement of the competition continued in 2002 and 2003, with the addition of the Boston Foundation as an additional sponsor. It is expected that the Bank will continue to be the primary sponsor of the competition in 2004, subject to the availability of funding and approval by the Bank's board of directors
- *Expand the use of the Internet as a training tool and as a way to make the use of Bank resources more efficient*—During 2004, the Bank will expand the use of descriptive articles and case studies to illustrate the use of Bank resources in the provision of affordable housing and community economic development. The Bank will also increase the ease and efficiency of its dealings with members and others by providing additional electronic access to forms, applications and reports.
- *Maintain a leadership role in quality design and regional "smart growth"*—The economic growth of New England is critical to the success of the Bank and its member institutions. A key to sustainable economic growth is quality design and a balanced approach to development that preserves the physical character of New England while encouraging a growth in jobs and needed infrastructure. The Bank intends to continue to encourage

discussion and implementation of “smart growth” principles around New England communities.

- *Monitor the development of the New Markets Tax Credit as a financing tool for affordable housing and community economic development*—The New Markets Tax Credit is emerging as a potentially valuable financing tool for affordable housing and community economic development. During 2004 the Bank will monitor the development of the program and consider how best to support its effective use by New England development agencies and member financial institutions.
- *Promote the need for the preservation and development of affordable housing*—During 2004, the Bank will cooperate with other New England housing and development agencies to promote an understanding of the social and economic benefits of affordable housing.
- *Introduce the Project Listing Service*—In 2004 the Bank will implement an internet-based project listing service that will facilitate the financing of New England development projects by member financial institutions.

**Federal Home Loan Bank of Boston**  
**2004 AFFORDABLE HOUSING PROGRAM**  
**IMPLEMENTATION PLAN**

**Background**

On August 4, 1997, the Federal Housing Finance Board (Finance Board) under the authority of 12 U.S.C. 1430 (j) issued final rule 97-44 amending 12 CFR 951 that governs the Affordable Housing Program and has subsequently amended same with the most recent amendment having been published on February 6, 2003. . Section 951.3 (b)(1) of the regulation requires the Federal Home Loan Banks to develop an implementation plan governing portions of the administration of the Affordable Housing Program (AHP). The Bank's board of directors is required to adopt a written implementation plan that addresses the following:

**Plan Elements**

- (i) The applicable median income standards adopted by the Bank consistent with the definition of median income for the area;

Income eligibility for recipient households in both owner-occupied and rental projects shall be based on median income standards for the area, as published annually by HUD, adjusted for family size.

- (ii) The requirements for any homeownership set-aside programs adopted by the Bank;

The Bank's requirements for a homeownership set-aside program are included in this plan as Attachment E.

- (iii) The Bank's project feasibility guidelines for review of project feasibility and need for subsidy covering sources and uses of funds, project cost standards, estimated value of in kind and volunteer donations, appraisal requirements, operational feasibility, and financial ratios;

The Bank has established guidelines for the review of an applicant project's financial feasibility and need for AHP subsidy. These guidelines will be applied at the time of application, prior to funding of approved AHP subsidies, in the course of any requested project modifications, and upon project completion. Application of these guidelines will determine the actual amount of subsidy awarded, funded, and remaining in an approved project. The Bank will consider appropriate exceptions to these guidelines, on a case-by-case basis substantiated by information and documentation justifying need to the satisfaction of the Bank for such exception. Feasibility/need for subsidy guidelines are included in this plan as Attachment A.

(iv) The Bank's schedule for AHP funding periods;

In 2004, the Bank will conduct two competitive application-funding rounds. Each funding round will make available approximately 50 percent of the annual funds available to the program based on applicable net income from the prior year, plus or minus the addition of funds from the cancellation, recapture, or reduction of subsidy from previously approved projects or deduction of funds due to the authorized increase of subsidy to previously approved projects.

**The schedule for funding competitions in 2004 will be:**

Round A

Application deadline: May 3, 2004

Board of Directors, or a committee of directors authorized by the Board, review of recommendations at the June 2004 meetings.

Round B

Application deadline: October 4, 2004

Board of Directors, or a committee of directors authorized by the Board, review of recommendations at the November 2004 meetings.

In years when no amendments are made to the Plan, the Bank's board of directors will approve the dates of any subsequent funding rounds. The Bank's board of directors, or a committee of directors authorized by the Board, will approve applications in descending order, starting with the highest scoring application, until remaining AHP funds are insufficient to fund the next highest scoring application. At least four (4) and up to the next six (6) highest scoring applications may be approved as alternates and may be approved for funding prior to the application deadline for the next competitive offering, if previously committed AHP subsidy funds become available.

(v) Any additional District eligibility requirement adopted by the Bank, i.e. limits on maximum amount of AHP subsidy available per member/project/or unit per year or funding round, limiting out-of-district projects, and/or limiting participation to members that have used a Bank credit product within the previous 12 months;

The Bank has established the following additional eligibility requirements for access to AHP subsidy:

A member may not request more than an aggregate of twenty-five (25) percent of available AHP funds in an individual round of the Affordable Housing Program.

An applicant may not request more than five (5) percent of the AHP funds available in the round, or \$300,000, whichever is greater, for a *direct subsidy* amount for any one application and no more than a maximum of ten (10) percent of total AHP funds in any one round, or \$600,000, whichever is greater. In no case will the Bank be obligated to provide more in subsidy than is required under the broader AHP regulation.

Homeownership applicants may not request more than \$30,000 per unit in AHP subsidy funds for any homeownership unit.

(vi) The Bank's scoring guidelines adopted are consistent with the regulation; The Bank's scoring guidelines are included in this plan as Attachment B.

(vii) The Bank's time limits on use of awarded AHP subsidies and procedures for verifying compliance upon disbursement of funds, including membership and transfer requirements, verification of compliance with feasibility standards and application commitments, and changes in subsidy amount;

(viii) AHP applications submitted by members or sponsors that are involved in previously funded AHP applications that are more than 60 days delinquent in submitting required Semi Annual Project Progress Reports, Annual Compliance Certificates or Periodic Monitoring Reports, may be determined to be ineligible, set aside and not scored.

The Bank will disburse subsidies only to institutions that are members of the Bank at the time a draw down request is received. Alternatively, the Bank may disburse to non-member banks, where the member bank (or its predecessor) was a member at the time of application and if the non-member bank agrees to comply with related AHP agreements.

#### **Time limits on use of AHP subsidies**

AHP subsidies must be drawn down by the project and used by the project to procure other financing commitments within 12 months of the date of approval of the application for subsidy funding the project.

Extensions to the above requirements may be granted on a case-by-case basis, at the Bank's sole discretion, if in the Bank's judgment, sufficient evidence is provided documenting progress toward project completion and funding.

Projects not meeting the above standards or approved extensions are subject to cancellation by the Bank of AHP subsidy commitments.

AHP subsidies must be used by members for approved purposes within 90 days of disbursement by the Bank. A period longer than 90 days may be approved in advance in writing by the Bank where it is deemed necessary to assure the successful completion of an approved project, subject to such terms and conditions as the Bank deems appropriate to assure full and proper use of AHP funds.

#### **Verification of compliance**

Prior to funding initial disbursements of AHP subsidy to approved projects, the Bank will obtain information and pertinent facts and conduct a financial review to verify that the project/program maintains compliance with eligibility and, feasibility standards of the implementation plan and

all scoring items identified as “qualifying characteristics” in the approved application. Applicant members or sponsors are required to provide the Bank with any and all information necessary for the Bank in its sole judgment, compliance prior to funding.

Disbursements occurring after a completed compliance verification for a previous disbursement need only a certification from the sponsor that there is no change in project qualifying characteristics and that no change has been made in the project development or operating budgets.

### **Modifications of applications and changes in subsidy amount prior to or following project completion**

Prior to final disbursement of funds to a project from all funding sources, or after completion of the project, the Bank, in its discretion, may approve in writing a modification to the terms of an approved application for subsidy funding the project if there is or will be a change in the project that would change the score that the project application received in the funding period in which it was originally scored and approved, had the changed facts been operative at that time, provided that:

- (1) The project, incorporating any such changes, would meet the regulatory eligibility requirements;
- (2) The application, as reflective of such changes, continues to score high enough to have been approved in the funding period in which it was originally scored and approved by the Bank; and
- (3) There is good cause for the modification.

In cases where AHP direct subsidy has been approved to reduce prior to closing the principal amount or the interest rate on a loan to a project (and an interest rate assumption was made in determining the amount of subsidy needed at the time of approval), the final amount of subsidy awarded to the project may be subject to change due to interest rate changes.

If the amount of subsidy required to maintain the debt service cost for the loan decreases from the amount of subsidy initially approved by the Bank due to a decrease in applicable market interest rates between the time of approval and the time the lender commits to the interest rate to finance the project, the Bank shall reduce the subsidy amount accordingly.

If within the 12-month period following project approval, market interest rates rise between the time of approval and the time the lender commits to an interest rate to finance the project, the Bank will review the impact of the change and the need for additional subsidy and, if justified, in the sole discretion of the Bank, increase the subsidy amount accordingly.

Modifications involving any other increase in AHP subsidy will be approved or disapproved by the Bank’s board of directors. The authority to approve or disapprove such requests will not be delegated to Bank officers or other Bank employees.

### **Increases**

All increases in AHP subsidies, unless they are due to interest rate adjustments as provided in the AHP regulation, must be submitted through the competitive round process. In the event an AHP award is approved in a competitive round that is an increase in the amount of the subsidy the following must occur:

- (1) The old award must be de-obligated.
- (2) The new award must be for the combined amount of the old award and the increased amount, but shall not exceed the per application subsidy limits in effect in the round in which the new award is made.

The new award must be the effective award in all respect including (but not limited to) the Qualifying Characteristics, file number and reporting and all other aspects of the transaction.

(viii) The Bank's procedures for carrying out its monitoring obligations under sections 951.10 and 951.11 of the AHP regulation.

The Bank's procedures for carrying out its initial and long-term monitoring obligations are included in this plan as Attachment C.

### **The Advisory Council**

The membership of the Advisory Council (Council) will be appointed by the board of directors of the Bank on a yearly basis. In making appointments to the Council consideration will be given to the size of the Bank's District and the community lending needs and activities within the District. Council members will be appointed from persons who reside in the Bank's District and are drawn from community and not-for-profit organizations actively involved in providing or promoting community lending in the District.

The Bank's Advisory Council will consist of up to fifteen (15) members at least two (2) of which will be appointed from each of the six (6) states within the Bank's District and two (2) will be appointed from among the six executive directors of the state housing finance agencies within the Bank's district. Nominations for open Council positions will be solicited from the Bank's board of directors, member institutions, past and present Council members and community lending contacts. Members of the Council will be appointed for staggered three-year terms. Reappointments, not to exceed one additional three-year term, will be at the sole discretion of the Board.

Council members will meet once each quarter with representatives from the Bank's board of directors. Council members will advise the board on ways that the Bank can carry out its community-lending mission. By March 1 of each year, the Council will report to the Finance Board the Council's analysis of the community lending activities of the Bank. Advisory Council members will not receive a fee for serving on the Council. Council members will be reimbursed for travel expenses, including transportation and subsistence, for each day devoted to attending

meetings with representatives of the board of directors of the Bank and meetings requested by the Finance Board.

The members of the Advisory Council will annually elect from among their membership a chair and vice chair. The Council may designate a member or request that a member of the Bank's staff be designated as secretary for the Council.

### **General**

The Bank's board of directors will not delegate to Bank officers or other Bank employees the responsibility for adopting the implementation plan, or any subsequent amendments thereto.

Prior to adoption of the Bank's implementation plan, and any subsequent amendments thereto, the Bank will provide the Advisory Council an opportunity to review the plan and any subsequent amendments and the Advisory Council shall provide its recommendations to the Bank's board of directors.

The Bank will submit amendments of its AHP implementation plan, to the Finance Board within 30 days after the date the Bank's board of director's approves such amendments.

The Bank's AHP implementation plan, and any subsequent amendments, shall be made available to members of the public, upon request.

The Bank will provide such reports and documentation concerning the AHP as the Finance Board may request from time to time.

The Bank has developed (and will continue to develop) Policies and Procedures to both administer this plan and the remaining portions of Section 951 of the Code of Federal Regulations, as amended.

## ATTACHMENT A

### **Federal Home Loan Bank of Boston AFFORDABLE HOUSING PROGRAM IMPLEMENTATION PLAN**

#### **Feasibility Analysis Guidelines**

The Bank's Housing and Community Investment department will evaluate Affordable Housing Program (AHP) applications and requests for the disbursement of AHP subsidy funds using the following guidelines. These guidelines will be used as benchmarks for evaluating applications and disbursement requests and may be used as the basis for rejecting or disqualifying an application or disbursement request or reducing the amount of subsidy requested.

The Bank, following an initial scoring run of all applications, will perform the feasibility analysis only on the applications that score high enough to be awarded funding or alternate status, plus the next ten highest ranked applications and any applications whose score is recalculated in subsequent scoring runs due to clarifications or corrections that make them eligible for funding awards or alternate status. The remaining applications will not be reviewed for feasibility.

The feasibility review will encompass the qualifying characteristics of the application, the financial information contained in the application, the relevant exhibits, and the information submitted to support a disbursement request or to answer a Bank inquiry. The application's initial and subsequent sources and uses information, development budget, operating pro forma, and the need for the requested subsidy will be reviewed. Additionally, the Bank will review the readiness of the project to proceed, the completeness of the project's development program and its financing arrangements.

The experience of the sponsor and its development team to undertake, construct and operate the project will also be considered. As part of that consideration, the Bank will review the previous experience of the member and the sponsor in complying with the requirements of the Bank's AHP. Such experience will be an indication of the performance of the sponsor and member in complying with such requirements on any new application(s) (cf. 951.5(f)(1)).

The Bank reserves the right to review all project costs, related expenses, and fees, whether or not the items are listed as part of these guidelines. Applications or disbursement requests may be rejected or disqualified for unexplained or excessive costs or fees. Projects that vary from the guidelines will be investigated further to establish the reasonableness of the variation.

For all applications and disbursement requests:

<u>Item</u>	<b>Range/Guideline</b>
Market Data	Evidence of the need for the type of development and the units proposed. For rental projects this information will include market rental, occupancy, and absorption data. For homeownership projects this information will include comparable housing prices and occupancy data. For both types of projects this data must relate directly to the affordability targets and demonstrate feasibility.
Capacity of the sponsor and development team	A record of successful similar developments on the part of the sponsor or its related development team. Review of the sponsor’s previous performance and all team members’ participation in previous AHP developments and satisfaction that their AHP projects are in compliance with the regulation and that all required reports have been submitted.
Readiness of project	It is likely that the project/program will be completed, including the use of all AHP funds, within twelve months. Exceptions will be considered, subject to the Bank’s sole discretion.
Calculation errors	Calculations in the application, exhibits and disbursement requests are to be free of errors and consistent throughout. Applications with errors and omissions that result in an incomplete feasibility analysis will not be scored.

For all rental and co-operative ownership applications and disbursement requests:

<b>Item</b>	<b>Range/Guideline</b>																
Per square foot construction cost	Typically, for new construction or substantial rehabilitation initiatives, not to exceed the ranges below (unless an acceptable explanation is provided):																
	<table border="0" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: left;">Type</th> <th style="text-align: left;">Limit</th> <th style="text-align: left;">Area Adjustment*</th> <th style="text-align: left;">Site Adjustment</th> </tr> </thead> <tbody> <tr> <td>Multifamily</td> <td>\$109</td> <td>\$22</td> <td>\$15</td> </tr> <tr> <td>Historic Bldg.</td> <td>\$110</td> <td>\$26</td> <td>N/A</td> </tr> <tr> <td>Single Family</td> <td>\$117</td> <td>\$24</td> <td>\$15</td> </tr> </tbody> </table>	Type	Limit	Area Adjustment*	Site Adjustment	Multifamily	\$109	\$22	\$15	Historic Bldg.	\$110	\$26	N/A	Single Family	\$117	\$24	\$15
Type	Limit	Area Adjustment*	Site Adjustment														
Multifamily	\$109	\$22	\$15														
Historic Bldg.	\$110	\$26	N/A														
Single Family	\$117	\$24	\$15														

\*The area adjustment is for projects located in Metropolitan Boston or Southwestern Connecticut

Item	Range/Guideline
Soft construction cost	Typically, 15-30percent of total development cost
Hard cost contingency	Typically, 5-10% of hard construction cost for new construction 7.5-15 percent of hard construction cost for rehabilitation
Developer fee	Typically, the developer’s fee includes any developer overhead, fee and development consultant costs, the total of which shall not exceed 10 percent of total development cost, net of fee. However, if a primary funding source (such as the Low Income Housing Tax Credit program or HUD) allows a higher fee or requires a lower fee amount, the allowed amount of the developer fee of the AHP shall be the same, net of fee. In such case, any allowed developer fee in excess of 10 percent, net of fee, must be loaned back into the development, treated as equity or paid out of surplus cash flow in reasonably even installments, as available, over the 15 year retention period, at a market rate of interest. In any other case, whenever the amount of developer fee proposed is in excess of 10 percent, net of fee, the developer fee and the requested subsidy amount will be proportionately reduced.
Tax credit sale (LIHTC)	Typically, not less than a 75 cents on the dollar yield to the project
Vacancy rate (residential)	Typically, 3 percent (with Section Eight), up to 10 percent depending on the market
Housing operating cost	Typically, \$3,000 -6,000 per unit per year
Replacement reserve	Typically, \$250-650 per unit per year.
Management fee	Typically, 5-8 percent of rents, net of vacancy reserves, for 50+ unit projects Typically, \$30-\$50 per unit/per month for 1-50 unit projects
Debt service coverage ratio	Typically, 1.0:1 up to 1.25:1 with the replacement reserves being treated as an expense, and the funding of operating reserves being treated as income (but identified separately on the pro formas). The funding of operating reserves should not be reflected in the N.O.I. or in the calculation of the debt service coverage ratio and be set-aside from the cash flow.

Item	Range/Guideline
Net Cash Flow as a percent of Effective Gross Income	Typically, up to 23 percent. This test provides an alternative for projects where the debt service coverage is skewed where the loan to value ratio is less than 50 percent.
Cash flow	Project shows positive cash flow over the retention period
Distribution of net cash flow to sponsor/borrower	Explanation of allocation of any cash flow in excess of 15 percent net operating income
Income to cost test:	All applications submitted that anticipate receiving an operating subsidy, a rental assistance contract or other state or private operating income revenues in addition to tenant rents will be evaluated by an income to test cost. AHP subsidy need for such applications shall be further confirmed by the income to cost test. The initiative's stated operating income will be divided by a capitalization rate (14 percent capitalization rate for group homes, 11 percent for multifamily developments under 200 units and 9 percent for multifamily developments over 200 units) to determine the value based on income (VBI). The VBI will be divided by the total development cost which, if greater, will confirm that the AHP subsidy requested is needed and the initiative is not being over subsidized. These rates will be adjusted from time to time based on the market conditions.
Group homes	A group home sponsor will provide a certification in the application that no other suitable affordable housing is available in the community for such residents targeted to be served other than the housing proposed in the application. A group home is defined as a residence that will house usually no more than 12 unrelated persons and provide shared kitchen and baths that are supported by state agency contracts that provide funding for the housing, medical and social services costs for such residents.

For all ownership housing applications and disbursement requests:

Item	Range/Guideline
New construction	Typically, \$75-\$108 per square foot, net residential, for new construction or substantial rehabilitation of units with basements and normal site conditions. If site conditions are difficult, allowance is made up to \$15 per square foot based on written explanation.

Item	Range/Guideline
Developer fee	Typically, the developer's fee includes any developer overhead, fee and development consultant costs, the total of which shall not exceed 10 percent of total development cost, net of fee. The sponsor of a mortgage financing program may not receive a developer fee, including overhead, fee and development consultant costs in excess of one percent of the proposed total amount of mortgages to be issued in the initiative, net of fee. Whenever the amount of developer fee proposed is in excess hereof, the developer fee and the requested subsidy amount will be proportionately reduced.
Mortgage term	Typically, not less than a 15-year term with a fixed rate.
Low or no interest rate first mortgages, with in-kind donations (Habitat)	The Sources and Uses of funds must equal, without regard to donated material and labor and in the case of a zero percent mortgage after the discounted value of the mortgage is added in as a source of funds.
Multifamily Efficiency Ratio	The living area of the building, excluding the common areas (hallways, lobbies, janitors closets, mechanical rooms etc) must be at least 75 percent of the building, otherwise an explanation is required. Buildings with commercial and program space should have this space excluded from both the gross and net amounts for this calculation. In congregate care and group homes community rooms and cafeterias should be included in the net living area.
Useful Life	The project should be feasible for a useful life that is at least as long as the retention period. The initial development work along with repair and replacement reserves must support the physical asset through the appropriate period.
Zero Interest Rate Financing Programs	The discount used for the calculated discounted value of these mortgage will be determined from time to time based on market conditions. For 2004 this rate is 10.25 percent.

## ATTACHMENT B

### Federal Home Loan Bank of Boston AFFORDABLE HOUSING PROGRAM IMPLEMENTATION PLAN

#### AHP Scoring Guidelines

The Bank will score only those applications that in its judgment meet the AHP eligibility requirements. Points awarded in the various criteria will be either fixed or variable. Variable-point criteria have been determined to have varying degrees to which an application can satisfy the criterion. The application(s) which in the judgment of the Bank best achieve(s) each variable-point criterion shall receive the maximum point score available for that criterion, with the remaining applications scored on a declining scale. An application meeting a fixed-point criterion shall be awarded the total number of points allocated to that criterion.

#### Scoring Criteria

##### 1. *Use of donated government property or other properties*

The creation of housing opportunities using a significant proportion of units, or land donated or conveyed (at least 20 percent) by the federal government or any agency or instrumentality thereof, or any other party. The costs associated with transferring eligible donated property (ies) may include reasonable and documented transfer expenses and costs to clear municipal tax liens on land, providing total tax liens do not exceed twenty percent of the assessed value of the property (ies) being donated.

**5 points**

Variable

Points awarded are based on the percent of total units in the project/program meeting the above criteria. Points will be allocated, where practical, by comparing the total square feet of a development's land area to the square feet in the parcel that is being donated, otherwise points will be allocated based on the ratio of the number of properties in the development to the number of properties that are being donated.

##### 2. *Sponsorship by a not-for-profit organization or government entity*

Project sponsorship by a not-for-profit organization, a state or political subdivision of a state, a state housing agency, a local housing authority, a Native American tribe, an Alaskan Native Village, or the government entity for Native Hawaiian Home Lands. Qualified sponsorship must entail having an ownership interest (including any partnership interest) in a rental project or integral involvement in an owner-occupied project, such as exercising control over the planning, development, or management of the project, or by qualifying borrowers and providing or arranging financing for the owners of the units.

**5 points**

Fixed

##### 3. *Targeting*

The extent to which a project creates housing for very low- and low- or moderate-income households.

**20 points**

Variable

Rental applications

The maximum number of points available under this scoring criterion will be awarded if 60 percent or more of the units in the project are reserved for occupancy by households with incomes at or below 50 percent of the area median income (AMI).

Projects with less than 60 percent of the units reserved for households with incomes at or below 50 percent AMI will be awarded points on a declining scale based on the percentage of units reserved for households with incomes at or below 50 percent AMI and on the percentage of the remaining units reserved for households with incomes at or below 80 percent AMI.

In cases where applicant projects will be monitored for AHP compliance with income targeting standards by a federal, state, or local government entity providing funds or allocating federal Low-Income Housing Tax Credits to the proposed project, the Bank may score such projects according to the targeting commitments made by the project to such entities.

Homeownership applications

Applications for owner-occupied projects and mortgage financing programs will be awarded points on a declining scale based on the percentage of units to be provided to households with incomes at or below 80 percent of the area median income.

The maximum number of points available under this scoring criterion will be awarded if 60 percent or more of the units in the project are reserved for occupancy by households with incomes at or below 50 percent of the area median income (AMI).

Projects with less than 60 percent of the units reserved for households with incomes at or below 50 percent AMI will be awarded points on a declining scale based on the percentage of units reserved for households with incomes at or below 50 percent AMI and on the percentage of the remaining units reserved for households with incomes at or below 80 percent AMI.

4. *Housing for homeless households*

**5 points**

Variable

Points will be awarded for the creation of transition housing, excluding overnight shelters, for homeless households permitting a minimum of six months occupancy, or the creation of rental housing reserving at least 20 percent of the units for homeless households, or the creation of permanent owner-occupied housing reserving at least 20% of the units for homeless households. Points will be awarded to applications with such units that are set aside for and serve homeless persons who can be certified as such by a third-party agency, and that document that sufficient rental, contract or other income is committed to support the homeless units.



***Rural***

**5 points**

Fixed

Projects will be awarded points for the financing of housing located in rural areas.

***Economic diversity***

**5 points**

Fixed

Projects will be awarded points for the creation of housing that is part of a strategy to end isolation of very low-income households by providing economic diversity through mixed-income housing in low- or moderate-income neighborhoods, or providing very low- or low- or moderate-income households with housing opportunities in neighborhoods or cities where the median household income exceeds the median income for the larger surrounding area such — as the city, county, or Primary Metropolitan Statistical Area — in which the neighborhood or city is located. Points will be awarded for a project located in a census tract where the median income is no more than 50 percent of the state-wide median income and in which at least 20 percent of the units are market-rate units, or a project located in a census tract where the median income is at least 120 percent of the state-wide median income and in which at least 20 percent of the units are reserved for very low-income households.

7. *Second District Priority*

**5 points**

Variable

Points will be awarded to the extent that a project is committed to a period of affordability beyond that required by the AHP regulation by a recorded instrument separate from the AHP retention mechanism, with five points awarded to developments with a committed period of affordability of 99 years or greater, and points scaled back proportionately to the mandated periods of affordability (five years for homeownership developments and fifteen years for rental developments).

8. *Subsidy per unit*

**5 points**

Variable

Points will be awarded to the extent that a project uses the least amount of AHP subsidy per AHP-targeted unit. In the case of an application for a project financed by a subsidized advance, the total amount of AHP subsidy used by the project shall be estimated based on the Bank's cost of funds as of the date on which all applications are due for the funding period in which the application is submitted. For purposes of this scoring criterion, applications for owner-occupied and rental projects will be scored separately.

9. *Community Stability*

**15 points**

Variable

Points may be awarded to projects to the extent that they promote community stability through such activities as rehabilitating vacant or abandoned properties, being an integral part of a neighborhood stabilization plan approved by a unit of state or local government, increasing homeownership opportunities for neighborhood residents or the level of homeownership in the area, implementing community-building initiatives, and other activities, and not displacing low- or moderate-income households, or if such displacement will occur, assuring that such households will be assisted to minimize the impact of such displacement.

In the event displacement of residents will occur, the sponsor is required to submit a plan for the temporary or permanent relocation for effected residents that meets applicable federal and/or state laws.

All applicants are required to complete the Bank's *Community Development Analysis*. Specific points will be awarded for housing development that: a) contributes to or benefits from community organizing activities such as crime-watch efforts that will increase the physical security of the neighborhood, or provides citizenship and leadership-development opportunities (three points), b) reuses existing buildings, or is built upon land that was used for housing or commercial or industrial purposes within the last 25 years (three points); c) has access to mass transportation within ½ mile of the development, or has no- or low-cost community transportation services available to all of the residents (three points); d) is developed at a density of at least eight (8) units per acre (three points); e) incorporates high-performance and health-conscious building technologies (three points).

## Community Development Analysis

One of the Federal Home Loan Bank of Boston's goals is to encourage the development of efficient, integrated communities that include a mixture of land uses and diverse housing types that serve people of all economic levels, cultures, and age groups. The following is a list of questions designed to inform local development decisions.

1. Describe how the development responds to the particular needs of the community and its residents. Describe any social services that will be available to residents of the housing and specify those residents who will receive the services.
2. Describe any plans to retain the housing as affordable over time. Describe the time period for which the housing will remain affordable and any legal mechanisms to preserve it as such.
3. Is the development part of a mixed-use community? List the shopping, cultural, recreational, educational, and health resources available within walking distance (1/2 mile) of the proposed housing. List the employment opportunities available within walking distance of the proposed housing.
4. Does the development reuse existing buildings, formerly developed, or formerly contaminated land? If so, describe.
5. Will mass transportation or other transportation services be available to the residents of the development? If so, describe the type of transit available and the distance from the proposed housing development. Does the development allow for reduced parking ratios? Is the development designed to encourage walking, cycling and other alternatives to driving?
6. Does the development create or maintain green spaces? Does the development avoid fragmenting existing green space, especially natural habitats and forests? Does the development avoid converting working lands, such as farms, into development?
7. Does the development design avoid increasing the risk or negative impact of natural disasters?
8. Does the development design protect the natural watershed? Describe the treatment of waste and ground water.
9. Does the development use compact design to minimize the amount of land per dwelling unit? Describe the density of the development in housing units per acre.
10. Describe the energy-efficient elements of the development, including landscaping, and any energy-efficient ratings being sought. Describe any an evaluation of capital, operational, and maintenance costs that has been done. Describe any waste-management and recycling plan for construction and occupancy. Describe any measures to mitigate potential housing-related health issues. Describe the "green building" experience of the development team.
11. Does the housing have high-speed Internet capabilities? If so, what will be the cost to the residents?
12. Describe how the design complements the environmental setting and the surrounding area's architectural features. Describe how the development enhances the desirability of the area within which it is built.
13. Describe how the development is built to last.
14. Describe any distinctive features of the design that will make the development a source of pride.

## ATTACHMENT C

### **Federal Home Loan Bank of Boston AFFORDABLE HOUSING PROGRAM IMPLEMENTATION PLAN**

#### **Procedures for Compliance Monitoring**

The Bank's Housing and Community Investment Department will monitor projects that receive funding under the Affordable Housing Program, in accordance with Bank's Compliance Monitoring Program. The Compliance Monitoring Program will provide reasonable assurance that each funded project is in compliance with respect to the following items:

1. Use of Affordable Housing Program funds;
2. Eligibility of beneficiaries;
3. Compliance with the approved AHP application and Qualifying Characteristics;
4. Compliance with Part 951.1 – 951.16 of the FHFB regulations, and subsequent amendments and interpretive rulings;
5. Compliance with the Bank's AHP Policies and Procedures.

Rental projects must include a legally enforceable agreement (usually a subordinated mortgage) ensuring compliance with the stated income targets for at least 15 years after project completion. Homeownership projects must have similar agreements that extend for at least five years.

#### **Initial Monitoring**

**Prior to and During Construction, Rehabilitation or Implementation of a Financing Program.** The project sponsor or owner shall report to the member bank, and the member bank to the Federal Home Loan Bank (Bank), semiannually regarding project development status. Both ownership and rental projects are subject to this requirement. Semiannual project status reports (SAPR) will be required of all unfunded, partially funded and fully funded projects until project completion occurs. In the case of rental projects, project completion will be achieved at the earlier of the issuance of a certificate of occupancy or when 80 percent of project units are leased. In ownership projects, completion will be achieved when all AHP subsidies are disbursed to eligible households. Disbursement to eligible households will be considered complete upon the transfer of the units to the homebuyers.

Where AHP funds are used to finance the purchase of owner occupied units, the sponsor must maintain household income verification documentation available for review by the member or the Bank. The sponsor and the member must provide annual certification to the Bank until all approved AHP subsidies are disbursed to eligible households. Owner-occupied projects, within one year after disbursement and/or project completion, the member shall review project documentation and certify to the Bank that (1) the AHP subsidy has been used in accordance with the approved AHP application and (2) the AHP-assisted units are subject to a deed restriction or other legally enforceable affordability retention agreement or mechanism meeting the requirements of section 951.13(c) (4) or (d) (1) of the AHP regulation.

If, in the judgment of the Bank, there is lack of material progress in the timely completion of a project the Bank may, at its sole discretion, rescind approval of undisbursed AHP funds and/or require recapture of previously disbursed AHP funds. Any interest accrued on disbursements of AHP funds not used at the time of recapture shall also be recaptured by the Bank and deposited in the AHP pool. Similarly, extensions of funding commitments will be made solely at the discretion of the Bank.

#### Compliance Verification at Subsidy Disbursement

Prior to disbursement of an AHP subsidy, the Bank will review the following items:

1. The executed agreement among the Bank, the member; and the sponsor/owner
2. Applicable deed restrictions or other legally enforceable affordability retention mechanisms;
3. Feasibility analysis, including review of project development sources and uses of funds; project operating budgets; need for subsidy and sponsor/owner capacity to develop and operate the project as specified in the approved AHP application. The review will also verify the project's compliance with eligibility requirements and application commitments.

Disbursements occurring after a completed compliance verification for a previous disbursement need only a certification from the sponsor that there is no change in project qualifying characteristics and that no change has been made in the project development or operating budgets.

#### Compliance Verification at Project Completion

##### **Owner-Occupied Projects**

Within one year after completion and, after receiving the member certification that the AHP subsidy has been used in accordance with the approved AHP application and project completion, the Bank shall complete a compliance close out review. That review will include the evaluation of the documentation for a sample of projects and units to determine the following: (1) the incomes of households that own AHP-assisted units did not exceed the levels committed to in the AHP application at the time the households were qualified by the sponsor to participate in the project, (2) the AHP subsidies were used for eligible purposes, (3) the project's actual costs were reasonable and customary in accordance with the Bank's project feasibility guidelines, (4) the subsidies were necessary for the financial feasibility of the project; and (5) the AHP-assisted units are subject to deed restrictions or other legally enforceable retention agreements or mechanisms meeting the requirements of Section 951.13(c)(4) or (d)(1) of the AHP regulation. An on-site review shall be performed whenever the project has more than \$500,000 in AHP subsidy or significant compliance issues appear to exist.

## **Rental Projects**

Within one year and 120 days after project completion the project owner must (1) certify to the member and the Bank that the services and activities committed to in the AHP application have been provided in connection with the project, (2) provide a list of actual tenant rents and incomes to the member and Bank and certify that they are accurate and in compliance with the rent and income targeting commitments made in the AHP application and that the project is habitable and (3) maintain documentation regarding tenant rents and incomes and project habitability available for review by the member or Bank to support such certifications.

Within one year and 120 days after project completion, the member shall review project documentation and will certify to the Bank that (1) the project is habitable, (2) the project meets its income-targeting commitments, and (3) rents charged for AHP-assisted units do not exceed the maximum levels committed to in the AHP application.

Within one year and 120 days after project completion, the Bank shall complete a final compliance review that will include a review of documentation to determine that (1) the services and activities committed to in the AHP application have been provided in connection with the project, (2) the AHP subsidies were used for eligible purposes, (3) the project's actual costs were reasonable and customary in accordance with the Bank's project feasibility guidelines, and (4) the subsidies were necessary for the financial feasibility of the project. This review may be performed on-site or by reviewing documentation submitted to the Bank by the member and sponsor. An on-site review shall be performed whenever the project has more than \$500,000 in AHP subsidy or significant compliance issues appear to exist.

### Long-Term Compliance Monitoring Requirements for Completed Projects

#### **Owner-Occupied Projects**

Long-term monitoring is not required of ownership projects. However, resale or refinance during the term of the retention period shall be reported to the Bank. It shall be the responsibility of the Bank to determine if a pro rata share of the AHP subsidy must be repaid.

## **Rental Projects**

Long-term monitoring requirements will be determined by the extent of project monitoring performed by a federal, state or local government entity and the amount of AHP subsidy provided to the project. Long-term monitoring requirements to be performed by the Bank's, members and project owners in projects not monitored by an approved government entity are as follows:

*For projects receiving \$50,000 or less in AHP subsidy*

1. Beginning in the second year after project completion, annual compliance certification regarding habitability and rent and income targeting from owner during term of retention period. The owner must maintain supporting documentation that is available for Bank review.
2. Beginning in the second year after project completion, certification from member based on exterior inspection annually during term of retention period that the project appears suitable for occupancy.
3. Bank review of owner and member certifications on household incomes, rents and habitability.

*For projects receiving \$50,001 to \$250,000 in AHP subsidy*

1. Beginning in the second year after project completion, annual compliance certification regarding habitability and rent and income targeting from owner during term of retention period. The owner must maintain supporting documentation that is available for Bank review.
2. Beginning in the second year after project completion, certification from member based on exterior inspection annually during term of retention period that the project appears suitable for occupancy.
3. Bank review of owner and member certifications on household incomes, rents and habitability.
4. Bank review of household income, housing payment and habitability documentation maintained by the owner at least once every six years. A reasonable random sampling plan will be used to develop the project review schedule and to select supporting documentation for review.

*For projects receiving \$250,001 to \$500,000 in AHP subsidy*

1. Beginning in the second year after project completion, annual compliance certification regarding habitability and rent and income targeting from owner during term of retention period. Supporting documentation, available for Bank review, must be maintained by the owner.
2. Beginning in the second year after project completion, certification from member based on exterior inspection annually during term of retention period that the project appears suitable for occupancy.

3. Bank review of owner and member certifications on household incomes, rents and habitability.
4. Bank review of household income, housing payment and habitability documentation maintained by the owner at least once every four years. A reasonable random sampling plan will be used to develop the project review schedule and to select supporting documentation for review.

For projects receiving greater than \$500,000 in AHP subsidy

1. In the second year after project completion, annual compliance certification regarding habitability and rent and income targeting from owner during term of retention period. Supporting documentation, available for Bank review, must be maintained by the owner.
2. Bank review of owner certifications on household incomes, rents and habitability.
3. Biennial, on-site Bank review of household income, housing payment and habitability documentation. A reasonable random sampling plan will be used to select supporting documentation for review.

Monitoring by a Federal, State or Local Government Entity

The Bank may rely on on-going monitoring performed by a federal, state or local government entity in projects that receive funds from, or an allocation of Low Income Housing Tax Credits by, such a government entity, where household income, rents and affordability retention requirements monitored by such entity for purposes of its own programs are equal to or more restrictive than those committed to in the project's approved AHP application. In instances where the government funding entity monitors for household income, rent and retention requirements under its own program that are less restrictive than those committed to in a project's AHP application, the monitoring entity must agree to monitor the income targeting, rent requirements and retention period committed to in the approved AHP application. In either case, the entity must have a demonstrated ability to carry out monitoring under the AHP and under its own program the Bank must not have information that such monitoring is not occurring or is inadequate. The entity also must agree to inform the Bank of all instances of noncompliance.

Monitoring by a Contractor

The Bank reserves the option to retain the services of a qualified contractor to perform the long-term monitoring review ensuring project compliance with the AHP regulation and project characteristics approved in the AHP application.

ATTACHMENT D

**Federal Home Loan Bank of Boston  
AFFORDABLE HOUSING PROGRAM  
IMPLEMENTATION PLAN**

**AHP Application Qualifying Characteristics**

#[project \_number]

APPLICANT:

Rank: #

PROJECT:

Score:

SPONSOR:

Direct Subsidy Request:

Subsidized Advance Request:

Total Subsidy:

Total Number of Units

Very Low-Income Units

**THRESHOLD TESTS**

Owner or Rental Housing?	<u>X</u>	Refinancing	<u>X</u>
Project Feasibility	<u>X</u>	Retention	<u>X</u>
Use within 12 months	<u>X</u>	Sponsor Qualifications	<u>X</u>
Member Creditworthiness	<u>X</u>	Fair Housing	<u>X</u>
Ineligible Use of AHP Funds?	<u>X</u>	Subsidy within Bank Limits	<u>X</u>
AHP Funds for Counseling Costs	<u>X</u>	Project located in-district	<u>X</u>

<b>SCORING PRIORITIES</b>			<b>Points</b>
<b>I</b>	Donated Properties	XX% Properties donated to the project	5.0000
<b>II</b>	Nonprofit Sponsorship	Ownership in a rental project or integral involvement in an ownership project	5.0000
<b>III</b>	Targeting	XX units reserved for households earning below 50 % area median income XX units reserved for households earning between 51 and 60% area median XX units reserved for households earning between 61 and 80% area median	20.0000
<b>IV</b>	Homeless Housing	XX units reserved for homeless households XX units are vacant or new construction	5.0000
<b>V</b>	Empowerment of Poor	List of Rental or Ownership features of empowerment	10.0000
<b>VI</b>	<b>FIRST DISTRICT PRIORITY</b>		
<b>VI A</b>	First-time Home Buyers	XX units reserved for first-time home buyers Pre-purchase ownership counseling Post-purchase ownership counseling	5.0000
<b>VI B</b>	Member financial participation	\$XXX,XXX provided by member to project, excluding AHP subsidies	15.0000
<b>VI C</b>	Rural	Rural areas	5.0000
<b>VI D</b>	Economic Diversity	Low-income housing in a high-income area or Mixed-income housing in a low-income area	5.0000
<b>VII</b>	<b>SECOND DISTRICT PRIORITY</b>		
<b>VII</b>	Second District Priority	Extended affordability period	5.0000
<b>VIII</b>	Community Stability	List of documented actions promoting community stability	15.0000
<b>IX</b>	Effectiveness	Subsidy per unit	5.0000

## ATTACHMENT E

### **Federal Home Loan Bank of Boston AFFORDABLE HOUSING PROGRAM IMPLEMENTATION PLAN**

#### **Homeownership Set-Aside Program**

##### **Program Overview**

**The Federal Home Loan Bank of Boston's homeownership set-aside program allocates up to fifteen percent of the funds designated for the Affordable Housing Program (AHP) on an annual basis to support residential lending by its member financial institutions to low-or moderate-income home buyers. Members must provide homeownership set-aside funds as a grant in an amount up to a maximum of \$15,000 per household.**

Households must use homeownership set-aside funds to pay for down-payment, closing or rehabilitation costs in connection with the household's purchase of an owner-occupied housing unit, including a condominium or cooperative housing unit, to be used as the household's primary residence.

All home buyers must complete a home-buyer or home-owner counseling program provided by a HUD certified or nonprofit organization recognized as experienced in home-buyer or home-owner counseling.

A housing unit purchased using homeownership set-aside funds must be subject to a subsidy retention agreement.

Set-aside funds may be used as part of an Individual Development Account (IDA) or other matched-savings program, where the set-aside funds match a home-buyer's savings in a ratio of at least a dollar saved in a special account for every four dollars granted by the Bank.

##### **Member participation**

The Bank will accept applications for homeownership set-aside funds from members in good standing and may, at its discretion, accept applications from institutions with pending applications for membership in the Bank.

##### **Enrollment Period**

Applications from member institutions for funds under the homeownership set-aside program will be due April 2, 2004. Members making application will be notified of the availability of funds by April 30, 2004

##### **Allocation Criteria**

Separately chartered member institutions may apply for a minimum of \$50,000 in funds, and up to a maximum of the funds available for the program.

At the close of the enrollment period, the Bank will determine the number of eligible applications received from New England member institutions. Each member submitting an eligible application will receive a minimum allocation of \$50,000.

1. If funds available are not adequate to meet the \$50,000 minimum per member, funds will be allocated based upon the member's experience in successfully administering similar homeownership initiatives and upon the quality of the application in responding to the program requirements and local market conditions.
2. If after allocating \$50,000 per member per eligible application, additional funds are available, funds will be allocated on a basis that is proportional to the amount of requested funds in the member application. (No member will receive a larger allocation of funds than requested in the application.)

### **Use of Funds**

Funds must be drawn down and used for eligible purposes with 24 months of application.

### **Eligible Grant Uses**

The homeownership set-aside program will make grants for the following homebuying activities:

1. Down-payment assistance;
2. Payment of closing costs;
3. Payment of rehabilitation costs associated with acquisition;
4. Payment of homeownership counseling costs not covered by another funding source; and,
5. Enhancement of home-buyer savings under an IDA or matched-savings program.

### **Ineligible Grant Uses**

Grants may not be used for the following expenses:

1. To create a principal, interest, taxes, and insurance (PITI) reserve;
2. To pay the costs of prepaid life insurance premiums;
3. To reimburse home buyers for earnest money or deposits; and
4. Cannot be combined with any other AHP subsidy for the same borrower in the same transaction.

**No portion of the grant may be returned to the borrower as cash back at closing.**

### **Retention Requirements**

**Members must ensure that each owner-occupied unit purchased with homeownership set-aside funds is subject to a deed restriction, mortgage or other legally enforceable retention agreement. The retention agreement will require that the Bank be given notice on any sale or refinancing of the unit occurring prior to the end of the five-year retention period. An**

**amount equal to the pro rata share of the set-aside subsidy that financed the purchase, construction, or rehabilitation of the unit, reduced for every year the seller owned the unit, shall be repaid to the Bank from any net gain realized upon the sale of the unit after deduction for sales expenses, unless the purchaser is a low-or moderate-income household, as identified by the program regulations.**

### Monitoring

The Bank may, at its discretion, request documentation to confirm compliance with program requirements. Members should maintain with each household's file all pertinent documentation including, but not limited to, income verification (at the time of enrollment), underwriting worksheets, counseling certification, HUD-1 forms, and other closing documentation evidencing the purchase of a home, including the details of any saving plan, if applicable. The member is required to submit a copy of the mortgage, once it is recorded.

### Refinancing

During the term of the first mortgage, the borrower may exercise the option to refinance the first mortgage executed with the member bank. If the refinance involves only a change in mortgage terms, there will be no recapture obligation. Conversely, if the mortgage is refinanced and the borrower elects to "take equity out" the homebuyer is subject to a recapture obligation and must pay a pro rata portion of the subsidy amount back to the Bank.

### Funding Procedure

Homeownership set-aside funds will be funded to members on a reimbursement basis only. Prior to receiving a disbursement of homeownership set-aside funds, members must certify and provide documentation of the following:

1. Eligible household incomes were at or below 80 percent of the area median income at the time they entered the program;
2. Borrowers completed a homeownership-counseling program conducted by a qualified nonprofit counseling agency;
3. Closing on the home occurred with 24 months of application for funds;
4. The member was the primary mortgage lender;
5. Member incentives, as described in the application, were made available to the borrower; a legal retention agreement was executed; and,
6. The ratio of savings to grant was achieved (if funds were used as a match).

**If homeownership set-aside funds are not drawn down within 24 months and used for eligible purposes, the Bank will cancel the allocation of funds to a member and at its discretion make these funds available either to the homeownership set-aside or the competitive AHP. Any homeownership set-aside funds that remain after enrollment of eligible members will be reallocated back to the AHP pool for the competitive program.**

### General Program Requirements

Members must provide homeownership set-aside funds only to households that:

1. Are low-or moderate-income households with incomes at or below 80 percent of the median income for the area, as published annually by HUD;
2. Complete a home-buyer or home-owner counseling program provided by a nonprofit organization recognized as experienced in home-buyer or home-owner counseling, and,

In addition:

1. Households must use homeownership set-aside funds to pay for down-payment, closing cost, or rehabilitation assistance in connection with the household's purchase of an owner-occupied housing unit, including a condominium or cooperative housing unit, to be used as the household's primary residence;
2. A housing unit purchased or rehabilitated using AHP homeownership set-aside funds must be subject to a subsidy retention agreement;
3. The member must provide financial or other incentives in connection with such mortgage financing, and the rate of interest, points, and any other charges by the member must not exceed a reasonable market rate of interest, points fees, and other charges for a loan of similar maturity, terms, and risk;

Homeownership set-aside funds may be used to pay for counseling costs only where:

1. Such costs are incurred in connection with counseling of home buyers who actually purchase an AHP-assisted unit;
2. The costs of the counseling has not been covered by another funding source, including the member; and,
3. The homeownership set-aside funds are used to pay only for the amount of such reasonable and customary costs that exceed the highest amount the member has spent annually on home-buyer counseling cost with the preceding three years.

### Eligibility Requirements for Members

Members participating in the program must complete the following steps:

1. Certify that all beneficiaries of homeownership set-aside funds are income-eligible at the time they made application to the program;
2. Provide a description of the proposed homeownership counseling program;
3. Include a schedule of estimated closing costs and closing requirements; and,
4. Provide a description of special incentives being provided in connection with the purchase of the home such as reduced points, below market interest rate, reduced fees, and any other charges associated with obtaining mortgage financing. These fees should not exceed a reasonable market rate of interest, points, fees, and other charges for a loan of similar maturity, term, and risk;

5. Describe how the program will respond to local market needs, including any need for subsidy beyond that provided by the Bank; and,
6. Provide a description of the features of any dedicated savings account, if applicable.

Eligibility Requirements for Borrowers

**In order to qualify for homeownership set-aside funds prospective home buyers must meet the following eligibility criteria:**

1. Have a combined annual household income at or below 80 percent of the median income of the area where the property to purchase is located;
2. Complete a home buyer counseling program;
3. Obtain the mortgage financing from the member institution enrolled in the set-aside program;
4. Purchase a home within 24 months of enrollment; and
5. Agree to execute a legal retention agreement to ensure preservation of the subsidy for a minimum of five years.

11/20/03