

**FEDERAL HOME LOAN BANK OF INDIANAPOLIS**

*Building Partnerships. Serving Communities.*

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# **Maximizing Your County's Ability for Growth**

**Michigan Association of  
County Treasurers**

**February 1, 2010**



### What is FHLBI?

- Federal Home Loan Bank System started in 1932 by Congress to help nation and savings and loan industry to provide liquidity for housing
- FHLBI is one of 12 FHLBanks
- FHLBI members are federally insured financial institutions (banks, thrifts, credit unions, and insurance companies) chartered in Indiana or Michigan
- Regulated by the Federal Housing Finance Agency (FHFA)



### **FHLBI Mission**

- Help families afford housing by partnering with member financial institutions located in Indiana and Michigan
- Meet member funding needs for liquidity, residential mortgage loans, and loans to support the economic growth of their communities
- Provide grants for building and rehabilitating affordable housing
- Deliver a market return on members' equity investment



### **FHLBI is not your typical GSE...**

- Cooperative structure
- Contributes funding annually to affordable housing
- 20 years of delivering a “community dividend”



### The “Community Dividend” We Deliver

- FHLBI annually reinvests at least 10 percent of our net earnings into affordable housing in partnership with our members
- Like every “dividend”, this contribution is predicated on earnings
- FHLB’s Affordable Housing Program (AHP) constitutes the largest single source of private “capital” for affordable housing in the country
- No other provider of liquidity pays this dividend



### **FHLBI's Community Investment Programs**

- Private funds that provide public benefits
- Technical assistance available for application process and ongoing reporting and program usage
- Allows members to leverage public sector and other capital to produce housing, jobs, and tax base in their communities



### **20 Years of AHP – The Community Dividend**

- Over \$160 million in AHP awards to support 22,500 affordable housing units
- Billions in low cost advances to support community and economic development initiatives



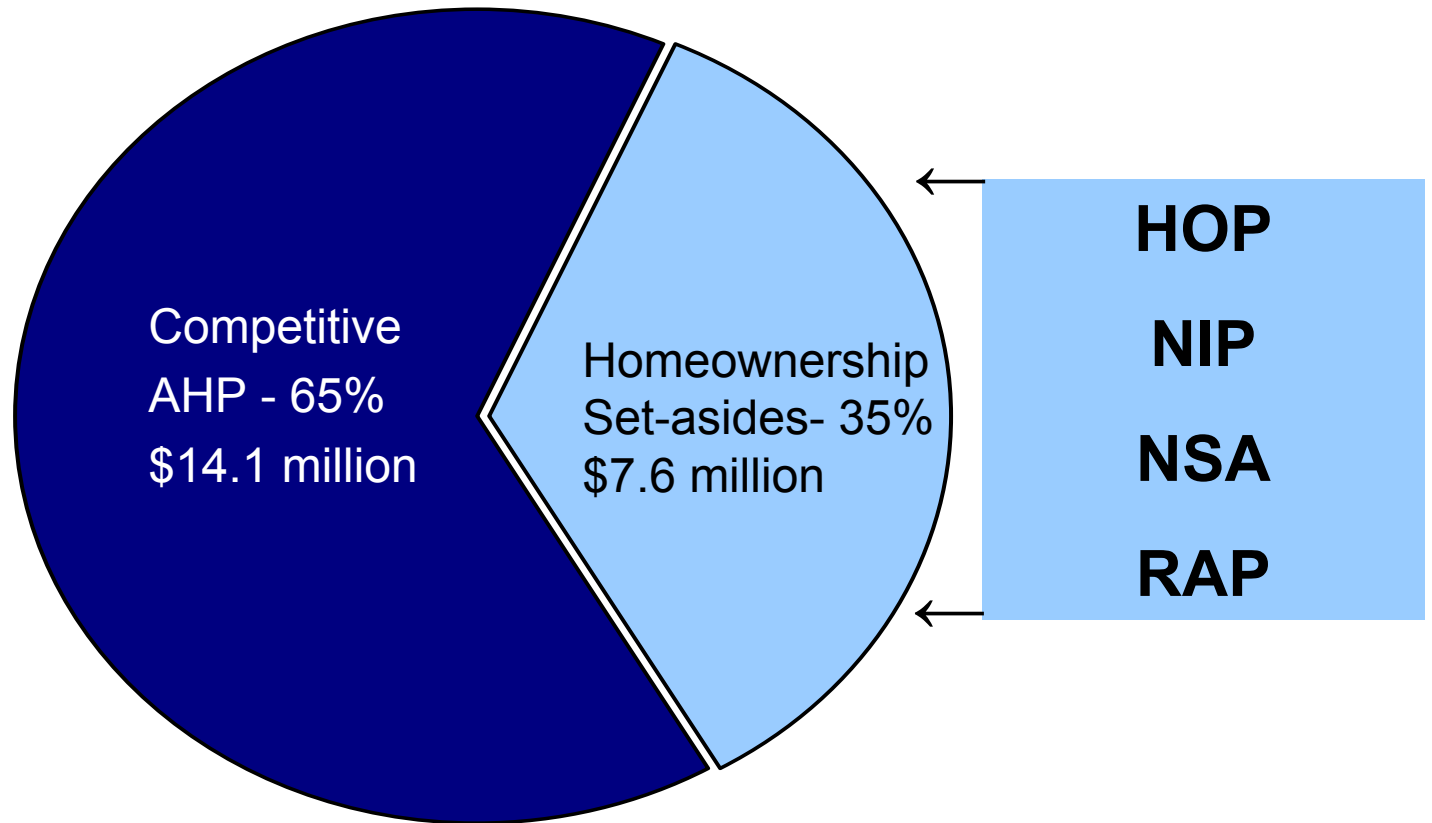
# FHLBI Community Investment Programs

- **Affordable Housing Program (AHP)** – grant funding to create rental and homeownership opportunities for low and moderate income households
- **Homeownership Set-asides (HOP, NIP, NSA, RAP)** – down payment and closing cost assistance, homeowner rehabilitation, and refinance assistance grants to income eligible households
- **Community Investment Program (CIP) Advances and Letters of Credit** – discounted advances and letters of credit to support targeted housing and economic development





# 2009 Funding Allocation





### Using AHP to Create and Preserve Housing

- Existing rental stock in Michigan is in need of rehabilitation
- More people in your community qualify for and need affordable housing
- AHP is aligned with the goals of Michigan State Housing Development Authority (MSHDA) encouraging development of supportive housing and rehabilitation of existing housing
- Green construction/rehabilitation focus assures long-term sustainability
- Local housing developers partner with FHLBI members willing to participate in AHP on their behalf



### **Affordable Housing Program (AHP)**

- Provides a direct subsidy (grant) for acquisition, rehabilitation or construction of affordable housing of various types
- Only FHLBI members may apply for AHP funding
- Sponsors are non-profit or for-profit housing developers who partner with FHLBI member



### **Affordable Housing Program (AHP)**

- Two funding rounds per year
- Competitive application process
- Maximum grant \$500,000 per project, per round
- Grants - direct subsidies
- No limit on how many AHP projects a member can apply for or be awarded per round



### **Eligible AHP Uses**

- Land or building acquisition
- Down payment and closing costs for homebuyers
- Construction or rehabilitation costs
- Owner-occupied rehabilitation
- “Some” soft costs (developer fee, architectural, legal, survey, engineering)



### **Ineligible AHP Uses**

- Operating or administrative costs of sponsor
- Infrastructure costs
- Processing fees charged to administer AHP
- Replacement or operating reserves including investor service fee reserves



### **AHP – Typical Projects**

- **Multifamily Rental Projects**

- Senior (not assisted living, hospice or nursing homes)
- Family
- Scattered site homeownership, lease purchase or rental
- Domestic Violence Shelters
- Permanent Supportive Housing
- Emergency/Transitional Housing

- **Habitat for Humanity Projects**

- **Neighborhood Redevelopment Projects**

- **Homeless Shelters**



### **AHP Definition of Affordable:**

- 80% of area median income for homeowner projects
- 50% of area median for rental projects  
(at least 20% of units must be affordable to households at 50% of area median income)
- Mixed income rental projects are allowed





### **AHP Affordability, continued**

#### **Rental:**

- Rent does not exceed 30% of household income

#### **Homebuyer:**

- Mortgage payments which do not exceed 35% of borrower's monthly income. The borrower's total debt must be less than 45%.



### Implementation Plan



Your roadmap to a successful application:

- Defines competitive scoring for AHP
- Establishes feasibility guidelines
- District eligibility
- Time limits on use of subsidies
- Retention agreement requirements
- Defines “affordable” income limits
- Monitoring procedures and guidelines
- 2010 Plan posted to FHLBI website in February



### Scoring of AHP Applications

- Scoring categories are mandated pursuant to Federal Regulation
- Fixed point and variable point scoring criteria
- 100 points required
- Income Targeting must be allocated 20 points
  - ✓ (homeownership and rental projects scored separately)
- Remaining criteria must be allocated at least five points each (either fixed points or variable)



### **Scoring of AHP Applications, continued**

#### **Remaining Point Categories**

- Donated Property – 5 points
- Non-profit sponsorship – 7 points
- Housing for Homeless – 5 points
- Promotion of Empowerment – 5 points
- Special Needs – 5 points
- Member Involvement – 10 points
- Small Projects (less than 50 units) – 5 points
- Development/Design Characteristics – 8 points
- Quality of Life/Accessibility – 3 points
- Subsidy per unit – 12 points
- Community Stability – 15 points



### **Project Thresholds:**

- Project sponsor must have the capacity and experience to develop or preserve the housing project or partner with an experienced party
- Project readiness must be demonstrated by site control, zoning and the commitment of critical financing (at least 70% of the project funds must be applied for or committed by the AHP application deadline)
- Projects must comply with state and federal fair housing and accessibility laws and regulations
- AHP applications must demonstrate project feasibility and need for AHP subsidy (determined by analysis of sources and uses of funds, development budgets, 15-year operating budgets, and market demand)



### Retention Requirement

- Legal mechanism recorded to ensure property is used for affordable housing during retention period
- 15 years for rental, 5 years for homeownership
- Generally a deed restriction, second mortgage, 'soft' second
- Specific language is required to be included in the retention mechanism



### Member Role

- Conduct usual and customary loan due diligence prior to application submission (FHLBI underwriting of a project should not be relied upon by the Member or any other funder for lending purposes)
- Review and approve applications, any necessary award modifications or project extensions, project progress reports, disbursements, initial and long term project monitoring reviews
- Sign AHP Tri-party Agreement (if awarded funding)
- Review all disbursement requests
- Ensure a legally enforceable retention agreement or mechanism is in place



### **Sponsor Role:**

- Contact FHLBI Member well in advance of AHP application round to ensure willingness to participate and understand Member expectations
- Review FHLBI Implementation Plan and participate in AHP application Webinars
- Submit Notice of Intent for potential projects per deadline
- Thoroughly review and submit AHP application to Member per Member's deadline
- Respond promptly to any requests for additional information during application review period
- Sign AHP Tri-party Agreement (if application is awarded)
- Meet AHP Compliance requirements, including preparation of disbursement requests and progress and monitoring reports





### Retention Responsibilities

- If a **rental** project fails to provide targeted housing anytime in during the 15 year retention period it is subject to full recapture. The **Member** must be able to demonstrate best efforts to collect the AHP subsidy, including all collection actions up to and including foreclosure
- Retention for a **homeownership** project is 5 years from the home purchase or completion of rehabilitation and is subject to recapture on a pro rata basis over the 5 year period
- FHLBI subsidy may be forgiven if proper retention documentation exists, best efforts to maintain housing are demonstrated, and there are inadequate proceeds from sale or disposition



### **AHP Monitoring**

Sponsor prepares reports and submits to Member semi-annually during development phase. Member submits reports to FHLBI.

- Semi-Annual Progress Report is due June 1 and December 1 each year
- When project is reported complete on the Semi-Annual Progress Report, a Completion Packet is sent to Sponsor and Member to obtain remaining monitoring information



### **Initial Monitoring**

#### **Activities required to document project completion and qualification:**

- Income/Targeting Worksheets/Rent Rolls
- Income Documentation sampling
- Services, Activities, Setaside Questionnaire
- Cost validation/accountant's cost certification
- Rent calculations
- Updated proforma for rental projects



## **Long-term Monitoring**

**None required for Homeownership Activities!**

**Rental** - Project sponsor/owners certify annually that:

- rents and incomes are in compliance with the rent and income targeting commitments made in the application, and
- project is habitable

**Documentation must be maintained to support the certification**



### **AHP Succeeds for Three Reasons**

- Flexibility and funding for housing initiatives
- Members' local knowledge and relationships with local housing developers
- Member involvement in the AHP project through review and reporting



### **Homeownership Set-asides (HOP, NSA, NIP, RAP and DRP)**

- Funding is non-competitive and easier to administer than AHP
- Great for programs where subsidy need is  $\leq$ \$10,000 per unit
- Leverage federal Neighborhood Stabilization Program funding in response to foreclosures in district
- Refinance assistance available through July 30, 2010 (unless extended by regulation)



### Homeownership Set-aside Similarities

- Income limit of 80% or less of AMI
- FHLBI provides \$3-4 per \$1 of matching funds
- If counseling is required, it must be face-to-face with state or HUD-certified counselor
- Member cap of \$300,000 per program
- 5 year retention required, prorated recapture over the 5 years
- Funding on a first come – first served basis
- Available balance posted on FHLBI Website and updated regularly



### Who uses Homeownership Set-asides?

Member institutions - often used for their own mortgage business

Members often partner with non-profit or government sponsors:

- ✓ Non-profit partners who provide required homeownership counseling or manage owner-occupied rehabilitation programs
- ✓ Municipalities with NSP/HOME/CDBG or other local funds





## **Homeownership Set-asides Training**

- Member must participate in required web-based training
- This training is available and recommended for anyone planning to use Homeownership Set-aside funding
- Member institution must complete and submit Master Agreement and Registration Form (covers HOP, NIP, NSA, RAP and DRP)
- Registered Members contact information posted on FHLBI Website



## **Homeownership Set-asides Funding**

**70% of funds released in March 2010, balance in August 2010**

### **Member role:**

- ✓ Verify accuracy of disbursement requests
- ✓ Proper file documentation
- ✓ Assure retention agreements are recorded



### Homeownership Opportunities Program (HOP)

- Provides up to \$7,500 in down payment and/or closing cost assistance for low-to-moderate income **first-time** homebuyers
- Up to a 3-to-1 match allowed
- Up to \$150 may be used for required homeowner counseling

**First time homebuyer generally means not having owned a home in past three years, but other exceptions apply.**



### HOP Requirements

- \$500 cash contribution from homebuyer
- Homebuyer counseling
- No more than \$250 cash back to buyer at closing
- 5-year retention by owner



### **Neighborhood Stabilization Assistance (NSA)**

- Provides up to \$10,000 for down payment and/or closing costs for low-to-moderate income homebuyers
  - ✓ First time homebuyer requirement waived
- Match of 3-to-1 must be NSP funds
- FHLBI does not stipulate how NSP funding is used - may be for such purposes as acquisition, rehabilitation, demolition or redevelopment
- Counseling and Cash requirements same as HOP



### **Neighborhood Impact Program (NIP)**

- Provides up to \$10,000 in matching funds for income-qualified, owner-occupied rehabilitation
- Up to a 4 to 1 match allowed
- Counseling is encouraged, but not required
- 5-year retention by owner
- No cash contribution by homeowner required
- Counseling costs for existing homeowner cannot be funded by FHLBI



### **NIP Eligible Improvements**

**Improvements and repairs impacting the homeowner's quality of life such as:**

*Roofs, windows, furnaces, handicap, accessibility features, plumbing and electrical work for habitability or code compliance, health and safety hazards*

**Ineligible:** *Improvements such as room additions, basement refinishing, detached garages and appliances are generally not acceptable*



## **Refinance Assistance Program (RAP)**

- Provides up to \$5,000 to assist in refinancing primary residence first mortgage for income qualified homeowners
- Limited to certain federal or state refinancing programs
- RAP funds limited to reasonable principal reduction and closing costs incurred in conjunction with refinancing
- Counseling required and cannot be funded by FHLBI
- Regulatory authorization expires on July 30, 2010





### **Disaster Relief Program (DRP)**

- Provides assistance specifically designed for local housing needs resulting from state or federally declared disaster
- Authorized by FHLBI Board in situations where Homeownership Initiative parameters are not sufficient to respond to specific needs of particular disaster
- Requirements specific to each disaster



### **What are CIP Advances?**

Special purpose advances for housing or community economic development purposes available at FHLBI's cost of funds, plus a nominal administrative fee (Non-competitive)



### **CIP Advances**

- FHLBI's lowest-cost funding for economic development, affordable housing, and mixed-use initiatives
- Broad eligibility for both residential and commercial purposes
- Always available
- Flexible terms/schedule and use of funds
- No ongoing reporting
- Create housing, improve business districts, and strengthen neighborhoods



# CIP Advances for Bridge Loans for Housing and Community Development

Traditional bridge loan financing can be expensive for community projects - Members can use low cost CIP advances for housing and community development bridge loan financing in the following ways:

- Construction financing.
- Financing to bridge the pay-in of the equity investment during the construction period. This may include Low Income Housing Tax Credits as well as other tax credits or equity investments such as state or federal historic tax credits.
- Financing to bridge the pay-in of other state or federal grant funding
- Financing to bridge the pay-in of permanent financing



### Why use CIP for Bridge Financing?

- Provides a lower cost of funds to important community projects, while maintaining a profitable spread to your institution
- Assists non-profits in attracting needed investors
- Can assist cities, towns and non-profits by providing low cost financing as a bridge to grant and government-timed payments



### Other Eligible CIP Financing

Use CIP to provide financing for predevelopment, purchase, construction, rehabilitation, or refinance:

- Housing (residential)
- Economic Development (nonresidential)
- Mixed Use (combination of residential & nonresidential)

Or to fund:

- Future originations
- Originations up to three months prior
- Loan refinancing
- Entities that make loans for eligible housing or economic development initiatives



### **CIP Residential Eligibility - Ownership Units**

Individual or multi-family owner-occupied (All units must serve households with incomes at or below 115% of area median income.)

- Part of a separate residential mortgage program designed to increase homeownership, such as a first-time home-buyer program, and are identifiable separately from applicants standard loan portfolio
- Multiple units of single-family, owner-occupied housing, such as a subdivision or neighborhood development

### **CIP Residential Eligibility - Rental Units**

- ✓ At least 51% units will be owned by “income-eligible” families <115% AMI
- ✓ At least 51% units occupied by income-eligible families
- ✓ Rents for >51% units at <30% of income



# CIP Eligibility for Economic Development Initiatives

Eligibility for economic development initiatives are determined by one of following:

- ✓ Geographically Defined Beneficiaries
- ✓ Individual Beneficiaries
- ✓ Activity Beneficiaries





### **Economic Development Eligibility**

CIP financing can be used to support a wide range of nonresidential initiatives including:

- ✓ small businesses
- ✓ social-service
- ✓ public-facility initiatives
- ✓ infrastructure improvements
- ✓ industrial initiatives
- ✓ manufacturing initiatives



### **CIP Eligibility, continued**

- SBA Concern/SBA Loan
- Located in a census tract <115% AMI (rural) or <100% AMI (urban)
- >51% beneficiaries <115% AMI (rural) or < 100% AMI (urban)
- >51% beneficiaries <115% AMI (rural) or < 100% AMI (urban)
- Other Tests



# What Types of Nonresidential Loans Qualify for CIP?

## Initiative type:

- ✓ Commercial initiatives, such as shopping centers, office buildings, hotels, and retail stores
- ✓ Industrial and manufacturing initiatives, such as factories, bakeries, warehouses, and assembly plants
- ✓ Public-facility initiatives, such as buildings and vehicles for police and fire departments
- ✓ Social-service initiatives, such as office space for nonprofits, program facilities, day-care centers, hospitals, and nursing homes
- ✓ Infrastructure projects, such as roads, sidewalks, utilities, and sewers



### **Mixed Use Eligibility**

CIP financing can be used to support a wide range of mixed use initiatives (target property contains both residential & nonresidential space) including:

- small businesses
- social-service
- public-facility initiatives



### **FHLBank Standby Letters of Credit**

- Issued on behalf of FHLBI member institutions
- Cost effective way to improve credit rating of transaction and/or to provide credit enhancement
- On July 30, 2008, Housing and Economic Recovery Act of 2008 (HERA) signed into law permitting FHLBanks to issue LCs to back tax-exempt, non-housing bonds
- LC legislation championed by Rep. Sander Levin (D-MI)
- This expanded authority set to expire on December 31, 2010

**More information available through FHLBI's Credit Department,  
Mark Pascarella at 317.465.0457 or [mpascarella@fhlbi.com](mailto:mpascarella@fhlbi.com)**



### **Benefits for Communities**

Builds new credit relationships with members

Leverages resources

Creates community assets

Strengthens developers' financial capacity

**FHLBI wants to be your partner!**



**2010 Outreach Workshops (for members, potential project sponsors, and interested persons)**

- |                 |  |
|-----------------|--|
| <b>March 3</b>  | <b>Grand Traverse Resort, Acme</b>               |
| <b>March 4</b>  | <b>Amway Grand Plaza Hotel, Grand Rapids</b>     |
| <b>March 9</b>  | <b>East Lansing Marriott at University Place</b> |
| <b>March 10</b> | <b>Marriott Hotel, Troy</b>                      |

**Register to participate on FHLBI Events calendar at  
[www.FHLBI.com](http://www.FHLBI.com)**



## Community Investment Programs

*Building Partnerships. Serving Communities.*

### Questions?

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