

As of August 1, 2011 the program was amended to increase the subsidy per household and remove the member limit.

1) What is Downpayment Plus?

Downpayment Plus (“DPP[®]”) is a down payment and closing cost assistance program for low and moderate income home buyers, funded by the Federal Home Loan Bank of Chicago (“FHLBC”). Funds are available to FHLBC member financial institutions in Illinois and Wisconsin. The assistance provided is in the form of a grant paid on behalf of the borrower at the time the borrower closes on mortgage financing with a participating FHLBC member financial institution.

2) Who is eligible to receive a Downpayment Plus grant?

The program is available to homebuyers with a combined annual household income at or below 80% of the median income of the area where the property is located, adjusted for family size. The borrower must contribute \$1,000 toward the purchase of the home. The purchaser(s) must complete a homebuyer or homeowner counseling program prior to receiving grant funds, and sign a certificate of eligibility that certifies household income.

ITIN holders who have filed Federal Income Tax returns for at least the two preceding years, who are able to document consistent earnings and who have met the borrower requirements listed above are eligible to receive assistance from the DPP program. Providing DPP assistance to ITIN holders is at each member’s discretion. ITIN holders whose income is used to qualify the household for the first mortgage financing must meet the FHLBC’s ITIN requirements.

3) What is the maximum grant amount that may be awarded to eligible borrowers?

The maximum grant is \$10,000 per property. DPP may not be used with other AHP subsidies for down payment, closing cost assistance or homeownership counseling costs for the same borrower in the same transaction.

4) How does a FHLBC member financial institution participate in the program?

Any member institution of the FHLBC can participate in the program. Members should enroll with the program administrator for the state in which they are headquartered.

Illinois: Illinois League of Financial Institutions 1-800-237-1936 www.ilfi.org
Wisconsin: Wisconsin Partnership for Housing Development 1-888-318-4486 www.wphd-dpp.org

To participate, member institutions enter into a Program Agreement with the administrator and the FHLBC. Participating members pay an annual \$100 participation fee. One Program Agreement and one annual fee will allow members to participate in both the DPP and the DPP Advantage programs.

Members are also required to pay a non-refundable \$50 reservation fee for each homebuyer for which they submit a DPP reservation request and a \$125 closing fee for each homebuyer that

receives a DPP grant. The DPP reservation and closing fees cannot be passed through to the homebuyer.

A requirement of the DPP program is that the participating member must either originate or fund the homebuyer's first mortgage loan.

The administrators will supply participating institutions with procedures and required documents. After the member disburses grant funds on behalf of the borrower and forwards the required documents to the administrator, the FHLBC will reimburse the member by depositing the funds in the member's DID account. The FHLBC will notify the member and the administrator when funds are disbursed.

5) *Is there a limit on the number of grants one member institution can make?*

In 2011, there will not be a limit on the number of grants one member can make. The funds are made available on a loan-by-loan, first-come/first-served basis until the allocation is exhausted.

6) *Must the FHLBC member hold the DPP recipient's first mortgage in their portfolio?*

The FHLBC member is not required to hold the DPP recipient's first mortgage loan in their portfolio. Members should check with the secondary market investor on their requirements for purchasing first mortgage loans where there is a second lien on the property from a down payment assistance grant.

Though the FHLBC member may elect to have a servicing agent service the DPP lien for them, the member may not transfer the DPP lien to another party without the FHLBC's prior consent.

7) *How does a borrower obtain a grant?*

The Borrower:

- ▶ Applies for first mortgage financing with a participating member financial institution. A list of participating member institutions can be obtained by contacting the administrators (*Refer to Question 4*);
- ▶ Provides an executed purchase contract for the property and evidence of income eligibility;
- ▶ Completes homebuyer counseling; and
- ▶ Makes the required \$1,000 contribution to the purchase transaction.

The FHLBC Member:

- ▶ Determines that the borrower is income-qualified for the program;
- ▶ Makes a grant reservation with the program administrator and receives confirmation from the administrator that the reservation is approved;
- ▶ Ensures that the borrower successfully completes a comprehensive homebuyer counseling program;
- ▶ Ensures that the borrower meets the required \$1,000 contribution to the purchase transaction;
- ▶ Disburses the grant funds at closing when the first mortgage funds are disbursed;
- ▶ Ensures the home is subject to a deed restriction or other legally enforceable retention agreement or mechanism meeting DPP requirements; and
- ▶ Forwards required documentation to the program administrator.

8) What are the eligible uses and ineligible uses of DPP grant funds?

Eligible Uses:

- ▶ Down payment and closing cost assistance
- ▶ Escrow reserves deposited with the lender
- ▶ Eligible rehabilitation costs directly associated with acquisition (*Refer to DPP Eligible Rehabilitation Guidelines*)
- ▶ Homeownership counseling costs if they meet eligibility requirements (*Refer to Question 19*)

Ineligible Uses:

- ▶ More than \$250 cash back to the homebuyer at closing (*Refer to Question 9*)
- ▶ Reimbursement of earnest money, deposits, or costs paid outside of closing (in excess of above-mentioned \$250 cash back)
- ▶ Interest rate write down on mortgage
- ▶ Payment of non-housing related costs. Non-housing related costs include, but are not limited to, debt collections, credit card bills, child support payments and federal or state income taxes
- ▶ Payment of property taxes or utility bills incurred by seller, or other expenses unrelated to the purchase transaction that are owed by the seller
- ▶ Pre-paid life insurance
- ▶ Use with any other AHP subsidy for the same borrower in the same transaction
- ▶ Payment of member required DPP reservation or closing fee
- ▶ Fees for homebuyer counseling provided by the member institution

9) Can the homebuyer receive cash back at closing?

A homebuyer may receive up to \$250 in cash back at closing. Any subsidy exceeding the amount that is needed at closing for closing costs and the approved mortgage amount may be applied as a credit to reduce the principal of the mortgage loan or as a credit toward the household's monthly payments on the mortgage loan. The grant amount will be reduced by any ineligible cash to the borrower at closing. Any cash back over \$250 will be deducted from the member's reimbursement. Any cash back to the homebuyer will be deducted from the homebuyer's contribution amount in determining if the \$1,000 contribution requirement is met.

10) How is household income determined?

Income eligibility is based on the household's projected annual income. Members must use the FHLBC Income Calculation Guidelines posted on the administrator's website to determine a household's annual income. The income of each household member age 18 years and older is included in the household's total income. Please contact the program administrator if you have questions on calculating a household's income.

11) How is household size determined?

Household size is based upon the number of people who will reside in the home being purchased. Divorced or separated borrowers who have joint custody of their children should include the

children in their household count, even though the children may only live in the household on a part-time basis. Borrowers who do not have custody should not include the children in their household count. Full-time students who are considered dependents and are not living at home while attending school should be included in the borrower's household count.

12) If the homebuyer is separated from their spouse, should the spouse be included in the household size and income calculation?

Separated borrowers are not required to include their spouse's income if the separation is legal or if they have been separated for 12 consecutive months or longer. Any financial support provided by the separated spouse to the homebuyer should be included as part of the homebuyer's income. If the borrower is not legally separated and the separation has been less than 12 months, the spouse should be included in the household size and their income included in the household's income. At the FHLBC's discretion, exceptions may be granted based on individual circumstances, e.g. the spouse has moved to another country and is providing no financial support to the household.

13) How should non-occupying co-signers and non-occupying co-borrowers be treated when calculating household income?

A co-signer on a loan agrees to be legally responsible for a debt should the borrower default. They are generally not on title and they do not have an ownership interest in the property. The FHLBC does not require that their income be included in the household income unless they are assisting the borrower in making monthly loan payments or regularly providing funds to the borrower to supplement the borrower's household income.

A co-borrower is on title and is considered to have an ownership interest in the property. The FHLBC requires that a co-borrower's income be included in the household income.

14) Who should be included on the DPP retention agreement?

All borrowers and co-borrowers must be included on the DPP retention agreement or mechanism. Any individual(s) that will be on title to the property, even if not a borrower or a co-borrower on the first mortgage, must be included on the DPP retention agreement and must sign the DPP Disclosure Statement.

15) What types of properties are eligible?

Owner-occupied one- or two-unit properties are eligible for grants. The property must be the borrower/grant recipient's primary residence. The property can be attached, detached or a condominium. Manufactured homes (formerly referred to as mobile homes) are eligible provided the home is located on property that is either owned by the household, or for which the household has a lease or rental agreement for a minimum of one year.

Grant funds may also be used to assist borrowers who convert a contract or contract for deed to a regular mortgage loan.

16) Are properties located outside Illinois or Wisconsin eligible?

A property that is not located in Illinois or Wisconsin is eligible if it is in the primary service area of the FHLBC member. Members issuing grants on properties located outside of Illinois and

Wisconsin should work with their legal counsel to draw up retention documents that meet the laws of the state in which the property is located, in addition to the requirements of the AHP regulations. It is the member's responsibility to ensure that the retention documents are legally enforceable in the state in which the property is located.

17) Are there limitations on the type of first mortgage?

- ▶ Home purchases financed with interest-only first mortgages are not eligible for the program.
- ▶ Lenders may use a wide range of mortgage programs, including conventional fixed or adjustable rate, HUD Section 184, FHA*, VA, or IHDA and WHEDA, provided the loan term is a minimum of 5 years. On adjustable rate mortgages, the initial interest rate lock period must be a minimum of 5 years.
- ▶ The rate of interest, points, fees, and any other charges for all loans made in conjunction with the DPP subsidy shall not exceed a reasonable market rate of interest, points, fees, and other charges for loans of similar maturity, terms, and risk.
- ▶ The grant can be combined with federal, state and local grants or loans, such as HOME funds.

* Borrowers with FHA loans require a special retention agreement; FHLBC must hold the lien, and the member is required to service the lien. Additionally, the member must provide a copy of the recorded retention agreement to the FHLBC. Note: Use of FHLBC grants with an FHA loan is restricted to the DPP Program. AHP Competitive grants are not currently approved by HUD for use with FHA loans.

18) What are the lender requirements for homebuyer counseling?

The lender is required to certify that the borrower has completed a homebuyer counseling program provided by, or based on one provided by, an organization recognized as experienced in homebuyer or homeowner counseling.

Counseling education must include comprehensive financial literacy education, including information that alerts borrowers to potential predatory lending practices. The level of required counseling is based on the homebuyer(s) credit score. Contact the Illinois League of Financial Institutions or the Wisconsin Partnership for Housing Development for details.

If the FHLBC member provides the counseling, a fee cannot be charged for this service. If the member charges a fee, the DPP reimbursement will be reduced accordingly.

19) Under what circumstances can counseling costs be paid by the DPP grant?

Counseling costs may be paid with the DPP grant if:

- ▶ The costs are incurred in connection with counseling provided by an organization other than the member institution to homebuyers who actually purchase a DPP assisted unit; and
- ▶ The cost has not been covered by another funding source, including the member; and
- ▶ The cost to be covered by the DPP grant does not exceed \$600 per household; and
- ▶ The cost is identified on the settlement statement (HUD-1).

20) What is the applicable retention period for the DPP grant?

Grants are subject to a 60-month retention agreement to ensure that the property is retained as affordable housing. The retention period commences on the date the loan is closed. If the grant recipient owns and occupies the home as their primary residence for the full term, the grant is totally forgiven at the conclusion of the retention period. The member is required to record a lien on the property for the amount of the grant. The member is responsible for monitoring the lien and releasing the lien at the end of the 60-month retention period.

21) Can a mortgage securing the promissory note/repayment agreement for a DPP grant be subordinated to a home equity loan at a later date?

A mortgage used to secure the promissory note/repayment agreement for a grant can be subordinated to a home equity loan. The FHLBC member should consider whether subordinating will negatively affect their ability to recover the grant in the case of a sale or refinancing post subordination.

22) What happens to the junior mortgage if the borrower refinances the first mortgage?

The lender has a number of options and can choose one of the following:

- ▶ Agree to subordinate the junior mortgage that secures the grant to the refinanced first mortgage. No subsidy would have to be repaid. The FHLBC member should consider whether subordinating will negatively affect their ability to recover the grant in the case of a sale or refinancing post subordination.
- ▶ Transfer the retention agreements to the new lender on the same terms and timetable. The new lender must be a member of the FHLBC and execute a Program Agreement with the FHLBC to ensure repayment. No subsidy would have to be repaid.
- ▶ Collect the unforgiven portion of the grant when the new loan is closed if neither of the first two options is chosen.

23) Under what circumstances must the DPP grant be repaid?

The borrower must repay a pro-rata portion of the grant in any of the following circumstances:

- ▶ The borrower sells the property prior to the end of the retention period and realizes a net gain on the sale. Net gain will be calculated based on the FHLBC's definition of net gain at the time of sale of the property. Repayment is waived if the borrower realizes no net gain on the sale or if evidence is provided showing that the buyer's household income is at or below 80% of AMI based on the FHLBC's Income Calculation Guidelines in effect at the time of sale of the property.
- ▶ The mortgage is refinanced with a net gain and the retention agreement no longer applies to the property.
- ▶ The borrower is no longer using the property as their primary residence.

A Repayment Worksheet is available on the FHLBC's website at www.fhlbc.com. Click on "Community Investment", "Housing Programs", "Downpayment Plus", and then "Repayment of Subsidy" to access the Repayment Worksheet.

The FHLBC must be given notice of any sale, refinancing, foreclosure, deed in lieu of foreclosure or change in owner-occupied status occurring prior to the end of the retention period. In the case of a foreclosure or conveyance of the property to the first mortgage lender by a deed in lieu of foreclosure, the obligation to repay any subsidy is terminated (*Refer to Question 24*).

24) How is the amount of the DPP grant to be repaid calculated?

The grant is forgiven on a pro-rata basis over a 60 month period. Forgiveness of the grant is based on the number of full months the owner occupied the property as their primary residence. A month is calculated from the exact date of the loan closing to the corresponding date one month later. No forgiveness will be recognized for partial months.

- ▶ In the case of a sale, a pro rata share of the grant shall be repaid to the FHLBC from any net gain (as defined by the FHLBC at the time of sale) realized upon the sale of the unit.
- ▶ In the case of a refinancing, a pro rata share of the grant shall be repaid to the FHLBC unless the unit continues to be subject to a legally enforceable retention agreement.
- ▶ In the case of a foreclosure or conveyance of the property to the first mortgage lender by a deed in lieu of foreclosure, the obligation to repay any subsidy is terminated. Evidence documenting that the foreclosure or deed in lieu of foreclosure is final must be provided to the FHLBC. Any cash out to the borrower must be approved by the FHLBC in advance of the foreclosure or deed in lieu of foreclosure.

For assistance calculating the amount of repayment, please refer to the Repayment Worksheet at www.fhlbc.com. Click on “Community Investment”, “Housing Programs”, “Downpayment Plus”, and then “Repayment of Subsidy” to access the Repayment Worksheet.

Federal Home Loan Bank of Chicago
Community Investment Group
200 East Randolph Drive
Chicago, IL 60601
(312)565-5336
www.fhlbc.com

“Downpayment Plus” and “DPP” are registered trademarks of the Federal Home Loan Bank of Chicago.