

1) What is Downpayment Plus Advantage?

Downpayment Plus Advantage (“DPP Advantage®”) is a down payment and closing cost assistance program, funded by the Federal Home Loan Bank of Chicago (“FHLBC”), for low and moderate income home buyers participating in homeownership programs offered by non-profit organizations that provide mortgage financing directly to the homebuyer, such as Habitat for Humanity. DPP Advantage funds are available through FHLBC member financial institutions. 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 non-profit organization.

2) How is the DPP Advantage Program different from the DPP® Program?

The DPP Advantage Program is the same as the DPP Program with the following exceptions:

- ▶ A FHLBC member must provide the first mortgage financing for homebuyers participating in the DPP program. The DPP Advantage Program is designed to assist households participating in homeownership programs offered by non-profit organizations where the non-profit is providing the first mortgage financing.
- ▶ Homebuyers participating in the DPP Program are required to contribute \$750 of their own funds to the purchase transaction. This requirement is waived for homebuyers participating in the DPP Advantage Program.
- ▶ FHLBC members must pay a \$150 closing fee per loan for each homebuyer that receives a DPP grant. This fee is waived for grants made to DPP Advantage participants.

3) Who is eligible to receive a DPP Advantage 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 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 Advantage program. Providing DPP Advantage 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.

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

The maximum grant is \$4,000 per property. DPP Advantage 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.

5) How does a FHLBC member institution participate in DPP Advantage?

Any member institution of the FHLBC can participate in the program by enrolling through 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.org

To participate, members sign a Subsidy Agreement with the administrator and pay an annual \$100 participation fee. One subsidy agreement and one annual fee will allow members to participate in both the DPP and the DPP Advantage programs.

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.

6) How does a non-profit organization participate in DPP Advantage?

Non-profit organizations in Illinois or Wisconsin that provide first mortgage financing directly to a homebuyer can participate in the program. The non-profit organization must partner with a FHLBC member financial institution to access DPP Advantage funds. A list of participating member institutions can be obtained by contacting the program administrators (*refer to question 5.*)

7) How does a borrower obtain a DPP Advantage grant?

The Borrower:

- ▶ Contacts a non-profit organization that provides first mortgage financing and applies for a mortgage;
- ▶ Provides evidence of income eligibility; and
- ▶ Completes homebuyer counseling.

The non-profit organization:

- ▶ Contacts a participating FHLBC member approximately 90 days prior to closing. A list of participating member institutions can be obtained by contacting the program administrators; and
- ▶ Provides an executed purchase contract for the property, evidence of income eligibility for the homebuyer and certification of homebuyer counseling to the FHLBC member.

The FHLBC member:

- ▶ Verifies that the organization is a non-profit and will be making a first mortgage directly to the homebuyer;
- ▶ Verifies that the homebuyer 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;

- ▶ Verifies that the borrower has successfully completed a comprehensive homebuyer counseling program;
- ▶ Verifies that the HUD-1 settlement statement is properly completed;
- ▶ Disburses grant funds when the borrower closes on the first mortgage;
- ▶ Ensures the home is subject to a legally enforceable deed restriction meeting DPP Advantage requirements; and
- ▶ Forwards required documentation to the program administrator.

8) Is there a limit on the number of DPP Advantage grants a member can make?

There is no limit to the number of DPP Advantage grants a member can make. The funds are made available on a loan-by-loan, first-come/first-served basis. Funds accessed under this program will not be applied toward the \$60,000 member maximum for the 2010 DPP program.

9) What are the eligible uses and ineligible uses of 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 10*)
- ▶ 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
- ▶ Fees for homebuyer counseling provided by the member institution

10) 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.

11) 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.

12) 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.

13) 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.

14) 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.

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.

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 manufactured 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 land 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, 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 Advantage 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.

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 Advantage reimbursement will be reduced accordingly.

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

Counseling costs may be paid with the DPP Advantage 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 Advantage 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 Advantage 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 Advantage 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 Advantage grant be subordinated to a home equity loan at a later date?

A mortgage used to secure the promissory note/repayment agreement for a DPP Advantage grant can be subordinated to a home equity loan. The FHLBC member should consider whether subordinating will negatively affect their ability to recover the DPP Advantage 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 FHLBC member can choose one of the following options:

- ▶ 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.
- ▶ Collect the unforgiven portion of the subsidy when the new loan is closed.

23) Under what circumstances must the DPP Advantage 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 or change in owner-occupied status occurring prior to the end of the retention period. In the case of a foreclosure, the obligation to repay any subsidy is terminated after foreclosure.

24) How is the amount of the DPP Advantage 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, the obligation to repay any subsidy is terminated after foreclosure; documentation of the actual foreclosure must be provided to the FHLBC.

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.

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