

Homeownership Set-Aside Program

The Homeownership Set-Aside Program uses a portion of an FHLB's Affordable Housing Program funds for down payment and closing costs, and/or rehabilitation cost assistance to low- and moderate-income households purchasing a home.

BACKGROUND AND PURPOSE

Homeownership set-aside grant funds are distributed through a non-competitive process and allocated to members on a first-come, first-served basis. These programs offer grants for the purposes of increasing homeownership opportunities for low- and moderate-income (LMI) households. Members obtain the AHP set-aside funds from the FHLB and then provide these funds as grants to eligible households.

Set-aside funds may be used for down payment or closing cost assistance, housing counseling, or rehabilitation costs in connection with a household's purchase or rehabilitation of an owner-occupied unit. Up to 35 percent of the Federal Home Loan Banks' Affordable Housing Program funding may be set aside for non-competitive awards to support these homeownership activities. Individual FHLBs determine the amounts that go to each fund and distribution priorities.⁷

Funds are available to all current FHLB members in good standing. Members apply on a unit-by-unit, first-come, first-served basis, for borrowers whose loans are in the process of closing or to reimburse funds advanced to borrowers. The entire amount of the subsidy must be passed on to the homebuyer, and some FHLBs require members to offer additional assistance, such as reduced fees or mortgage rates in order to encourage low- and moderate-income homeownership.

The maximum award per homebuyer varies by FHLB from \$5,000 to \$15,000. FHLBs also generally cap the total amount of funds that each member may reserve each year or at any one time. Total annual maximum allocations per member range from \$100,000 to \$1,000,000.

Bank Eligibility and Grant Application Process

Participation in the Homeownership Set-Aside Program is designed to be simple for members that are already originating mortgage loans. As for all FHLB programs, the member must be compliant with Community Support Regulations.⁸ Each FHLB publishes an annual Affordable Housing Program Implementation Plan that outlines the program guidelines and application process for the year. Generally, these can be found under the Affordable Housing Program section of the FHLBs' websites (see Resources).

There is a one-time setup process where a member employee is designated to manage the program. This program manager executes all required documentation and has the final approval authority for Homeownership Set-Aside Program applications. He or she acts as a liaison to communicate and receive information and data and respond to inquiries from the FHLB. Program managers are encouraged to attend annual training and education sessions regarding the Homeownership Set-Aside Program. However, submission and approval roles must be separated in order to protect the truthfulness and accuracy of all information and documents submitted to the FHLB.

⁷ Some FHLBs choose to distribute their Homeownership Set-Aside Program dollars through specific government and nonprofit community partners rather than distribute the funds directly to members to better leverage their community development impact and encourage regional planning.

⁸ <http://www.ecfr.gov/cgi-bin/text-idx?SID=a4384a1fd746c400b19fa3a0fde6b123&node=12:10.0.2.5.46&rgn=div5>

Under this program, the homebuyer applies for funding through the member. The member submits an application to its FHLB. Upon approval, the FHLB issues a conditional commitment, committing and reserving funds to the transaction, contingent upon the borrower and member meeting all documentation and other procedural program requirements. The period for the transaction to be finalized after approval by the FHLB varies from 30 days to two years depending on the structure of the program. Purchases supported by a matched savings account are given a longer window.

Upon approval of required conditional commitment and pre-funding documents, the FHLB credits funds to the member's account. While funding is generally provided at the time of the mortgage transaction, an FHLB may operate the program with different timing, such as reimbursing a member for down-payment assistance. The member disburses funds to the borrower at the time of closing for a purchase product, or after work is completed for a rehabilitation product.

A typical application might require a member to submit and retain on file a request for a conditional commitment, a request for disbursement, documentation of the household's income, and a HUD-1 form (see Resources) documenting the sales transaction. In addition, each FHLB has a list of documents that the member must retain on file but not submit to the FHLB, such as evidence of housing counseling or matching funds.

Training

Each FHLB offers training opportunities for members to learn more about FHLB products and business-related opportunities. See the individual FHLB summary for training information offered.

Borrower Eligibility

Income Limits: At the time of application, the homeowner's income must be below 80 percent of the area median income.

Owner occupant: The homeowner/buyer must be the owner occupant of the home purchased or rehabilitated with Homeownership Set-Aside Program funds.

Homeownership counseling: Homebuyers must complete the sponsoring FHLB's prescribed homebuyer counseling, debt management planning, and default prevention program.

First-time homebuyer: One-third of total funding is reserved for first-time homebuyers, generally defined as an individual who has not owned a home within the past three years or a single parent or displaced homemaker who has only owned a home with a previous spouse.

POTENTIAL BENEFITS

Set-aside funds can help members reach new customer markets including first-time homebuyers, veterans, elderly, and special needs customers.

Set-aside funds can help members achieve Community Reinvestment Act goals.

There is minimal paperwork required for set-aside programs.

POTENTIAL CHALLENGES

Members must pass the entire amount of the subsidy on to their borrowers.

Eligible properties: Owner-occupied, one- to four-unit family properties, townhouses, condominiums, cooperatives, manufactured, and mobile housing are allowed.

Minimum down payment/subsidy match: Varies by FHLB. See your individual FHLB summary for specific programs and requirements.

Loan Criteria and Subsidy Recapture

All loans, interest rates, fees, points, and any other charges for loans made in conjunction or in association with the FHLB's Homeownership Set-Aside Program must comply with all applicable state and federal regulations and may not exceed a reasonable market rate for loans of similar maturity, terms, and risk.

Fixed-rate mortgages are eligible. Adjustable rate mortgages are eligible within certain parameters. The member qualifies customers based on the maximum applicable interest rate (to avoid payment shock if there has been a significant increase in interest rates between origination and rate reset). Loans must be fully amortizing. No negative amortization loans are allowed. No interest only or pay options are allowed. The loan term must not be less than five years, with an amortization of any period equal to or greater than the loan term.

In the event a unit is sold or refinanced in the first five years from the date of closing, a pro-rata share of the subsidy, reduced for every year the seller owned the unit, must be repaid to the FHLB from any net gain on the sale of the unit, unless the unit is resold to a very low-, low-, or moderate-income household. Repayment of subsidy is not necessary in the event of foreclosure. Members must ensure that there is a deed restriction or other legally enforceable retention mechanism to ensure compliance.

RESOURCES

HUD-1 Form

http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/forms/hud1

Atlanta Federal Home Loan Bank Affordable Housing Programs

<http://corp.fhlbatl.com/services/affordable-housing-programs/>

Boston Federal Home Loan Bank Affordable Housing Programs

<http://www.fhlbboston.com/communitydevelopment/ahp/index.jsp>

Chicago Federal Home Loan Bank Affordable Housing Programs

<http://www.fhlbc.com/ProductsandServices/CommunityInvestmentsandAffordableHousingPrograms/GrantPrograms/Pages/federal-home-loan-bank-chicago-community-investment-downpayment-plus-program-DPP.aspx>

Cincinnati Federal Home Loan Bank Affordable Housing Programs

<https://web.fhlbcin.com/Housing/Programs/AffordableHousingProgram/Pages/AffordableHousingProgram.aspx>

Dallas Federal Home Loan Bank Affordable Housing Programs

<https://www.fhlb.com/community/Pages/Affordable-Housing-Program.aspx>

Des Moines Federal Home Loan Bank Affordable Housing Programs

<http://www.fhlbdm.com/strong-communities-fund/housing-programs/>

Indianapolis Federal Home Loan Bank Affordable Housing Programs

<https://www.fhlbi.com/products-services/communities-and-housing>

New York Federal Home Loan Bank Affordable Housing Programs

<http://www.fhlbny.com/community/housing-programs/fhc/fhc-information-for-hlb-member-community-lenders.aspx>

Pittsburgh Federal Home Loan Bank Affordable Housing Programs

<http://www.fhlb-pgh.com/housing-and-community/programs/first-front-door.html>

San Francisco Federal Home Loan Bank Affordable Housing Programs

<http://www.fhlbsf.com/community/grant/ahp.aspx>

Topeka Federal Home Loan Bank Affordable Housing Programs

<https://www.fhlbtopeka.com/ahp>