HOME$TART AND HOME$TART PLUS MEMBER POLICIES & PROCEDURES

2013 Program Year (April 1, 2013 – March 31, 2014)

APRIL 2013

FEDERAL HOME
LOAN BANK
OF SEATTLE

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SEATTLE BANK DISCRETION

H$P enrollments or disbursements may be denied at any time if it is determined by the Seattle Bank, at its sole discretion, that: (a) the homebuyer does not meet the letter or intent of the AHP regulation or H$P policies; or, (b) the member has not maintained an acceptable level of compliance with H$P requirements.

HOME$TART ALLOCATION STRATEGY

On April 1, 2013, $2.0 million will be accessible on a first-come, first-served basis to all members that have properly executed a *2013 Home$tart and Home$tart Plus Regulatory Agreement*.

The following maximum grant amounts have been approved:

A. Home$tart - The maximum grant is $5,000 and the account balance requirement is 3:1.
B. Home$tart Plus - The maximum grant is $10,000 and the account balance requirement is 2:1; Home$tart Plus is for homebuyers receiving public housing assistance at the time of enrollment.
C. Home$tart Special Initiatives - The Seattle Bank may provide grants up to $15,000 to eligible homebuyers and may not require account balance documentation.

Funding Limits: Each member is limited to receiving no more than $200,000 in H$P funding over the course of the program year. Additional funds beyond this $200,000 per member cap may be awarded on a case by case basis.

Time limits: Members will have one year from the time they enroll a qualified homebuyer to request disbursement of the H$P grant. With approximately two months remaining in the enrollment period, if the member has not requested disbursement of the grant, the member will be notified via email that the grant will soon expire. A second notification may be sent to the member within one month of the expiration date. At the member's request, up to two six-month extensions may be approved. If the member does not request an extension or disbursement for a homebuyer within one year of enrollment, the homebuyer will be withdrawn and the member will be notified via email that the homebuyer was withdrawn and is no longer eligible for disbursement of funds. The funds that were allocated to the withdrawn homebuyer will be made available to H$P or Affordable Housing Program (AHP) recipients.

H$P APPLICATIONS AND REGULATORY AGREEMENTS

APPLICATIONS

1. Since 2001, Members with an approved H$P application on file with the Seattle Bank are not required to submit a new application. All other members may submit an application at any time.
2. H$P applications will be accepted only from current members of the Seattle Bank.
3. Applications are available to members on the Community Investment Forms, Manuals, and Regulations section of the Seattle Bank's website.
4. H$P applications must be signed by two individuals authorized by the *member's Resolution for Transacting Business with the Federal Home Loan Bank of Seattle*.

REGULATORY AGREEMENTS

1. Prior to the start of the H$P program year, Regulatory Agreements will be sent to members that received a Regulatory Agreement in the previous program year.
2. **Member Signatures**: Regulatory Agreements for participating members must be signed by two individuals authorized by the member's Resolution for Transacting Business with the Federal Home Loan Bank of Seattle. A

current, properly signed Regulatory Agreement must be returned to the Seattle Bank before homebuyers may be enrolled or disbursement requests submitted.

H$P PROGRAM REQUIREMENTS

1. **H$P Plus:** In addition to all the program requirements listed below, homebuyers must be receiving public housing assistance at the time they are enrolled in order to participate in H$P Plus.
2. **Income:** Household income must be at or below the HUD 80 percent area median income limit, adjusted for family size, available at the time the member qualified the homebuyer for participation in the program (80 percent of area median income is listed as "low-income" on the HUD table). The 80 percent area median income limit used is based on the homebuyer's county of residence at the time of qualification.
3. **Affordability:** Members shall certify that the homebuyer's mortgage is affordable and the rate, interest, points, fees, and other charges on mortgages with H$P grants will not exceed a reasonable market rate for a loan of similar maturity, term, and risk. Additionally, if a homebuyer is estimated to pay 35 percent or more of his or her monthly income toward monthly principal and interest payments, the member will be required to provide an explanation about why the mortgage is appropriate (i.e., to include those factors which gave the member confidence in the homebuyer's ability to afford and maintain the mortgage such as credit history, debt load, and payment shock). At the Seattle Bank's sole discretion, the member's explanation may be accepted or rejected. If the member's explanation is rejected, the disbursement request will be denied.
4. **Household Account Balance:** Members must provide a recent account statement to verify compliance with the account balance requirement. If applicable, third party verification of a homebuyer's participation in sweat equity (or other programs which earned them an in-kind contribution) and proof of earnest money (i.e., a copy of the earnest money check and a receipt from the organization holding the funds in escrow or other equivalent documentation) may also be accepted. Home$tart Plus recipients may use their Family Self Sufficiency (FSS) accounts to demonstrate an account balance.
    a) Recent account statement means that the account statement is dated no more than 45 days prior to the date requested for disbursement of the H$P funds. Exceptions may be approved on a case-by-case basis.
    b) Gift funds will not be considered when evaluating the account balance.
5. **Significant Account Balance:** The Seattle Bank, at its sole discretion, may deny disbursement of H$P funds to enrolled homebuyers whose account balance shows that they may contribute 20 percent or more toward the purchase of the home.
6. **First-time homebuyer: At least one third of H$P funds must be allocated to first-time homebuyers. At the start of each program year, members will be restricted to enrolling only first-time homebuyers,** defined as: an individual and his or her spouse or domestic partner, if any, who have not owned a home during the three-year period prior to the purchase of a home with the H$P grant, except that: (a) any individual who is a displaced homemaker may not be excluded because that individual, while a homemaker, owned a home with his or her spouse or domestic partner; and, (b) any individual who is a single parent may not be excluded because that individual owned a home with his or her spouse or domestic partner. Displaced homemaker is defined in 12 CFR 1290 as an adult who has not worked full-time, full-year in the labor force for a number of years and, during that period worked primarily without remuneration to care for a home and family, and currently is unemployed or underemployed and is experiencing difficulty in obtaining or upgrading employment. Single parent is defined in 12 CFR 1290 as an individual who is unmarried or legally separated from a spouse and has custody or joint custody of one or more minor children. The member will certify displaced homemaker and single parent status.

Once on third of all H$P funds have been allocated to eligible first-time homebuyers, members will be notified in writing that enrollments may be accepted for eligible homebuyers who are not first-time homebuyers. Non first-time homebuyers are subject to all other H$P program requirements and eligibility criteria.

7. **Homebuyer education:** The homebuyer must complete a Seattle Bank approved homebuyer education course that is provided by an educator or organization certified by NeighborWorks; OR, if the provider is not NeighborWorks certified, the homebuyer must complete a minimum of eight hours of homebuyer education provided by, or based on one provided by, an organization recognized as experienced in homebuyer or homeownership counseling, such as one approved by HUD or a state or local agency including at least one hour of face-to-face, one-on-one counseling. The curriculum MUST cover each of the following topics:
    - Preparing for the financing, purchase, and maintenance of a home
    - Budgeting and credit
    - Education about the characteristics of predatory lending

    Homebuyers must (a) certify at the time of enrollment that they acknowledge the requirement to complete the defined homebuyer education; and, (b) provide certificate(s) of completion at the time of disbursement.
8. **Use of H$P grant:** H$P funds must be provided as a grant, and may only be used for downpayment, closing costs, or rehabilitation assistance in connection with the homebuyer's purchase or rehabilitation of an owner-occupied housing unit, including a condominium, cooperative housing unit, or manufactured housing, to be used as the homebuyer's primary residence.Seattle Bank H$P funds may not be used for counseling costs.
9. **Cash back:** The homebuyer may not receive cash back at closing in an amount exceeding $250 and must use any funds exceeding such amount that is beyond what is needed at closing for closing costs and the approved mortgage amount as a credit to reduce the principal of the mortgage loan or as a credit toward the homebuyer's monthly payments on the mortgage loan. The cash back limitation applies to any amount over $250 (e.g., the homebuyer's own earnest money deposit).
10. **Double dipping:** Members may not knowingly enroll or request disbursement of an H$P grant for a homebuyer who has received or will receive direct subsidy through the Seattle's Bank's AHP competitive program.
11. **Distribution of subsidy:** The member will pass on the full amount of the H$P or H$P Plus subsidy to the homebuyer for whom the subsidy was approved within 30 days of disbursement by the Seattle Bank.
12. **Retention:** Homes purchased with an H$P grant must be secured as affordable for five years by a recorded retention mechanism that fully complies with section 1291.9(a)(7) of the AHP regulations. (See H$P Grant Unused, Recaptured, and Forgiven section.) The Seattle Bank provides a state-specific *Deed of Trust and Retention Agreement* on its website and encourages its use and recording by members.
13. **Member incentives:** Members must provide financial or other incentives specifically to prospective homebuyers (e.g., a free credit report provided to all of the member's customers and not being provided specifically to the prospective homebuyer would not be eligible). Examples of incentives include, but are not limited to, waived credit report fees, waived flood certification fees, reduced interest rates, etc. For mebers who pass through the H$P grant to antoher financial institution that originates the mortgage, providing the H$P grant and complying with H$P policies and procedures during the five-year retention period will be considered an "other" incentive. At the time of disbursement, members may be allowed to provide financial or other incentives other than those indicated in the current Regulatory Agreement, so long as they are approved by the Seattle Bank.
14. **Co-signers:** A homebuyer who is using co-signer(s) to qualify for a mortgage will not be enrolled or receive disbursement of an H$P grant.
15. **Students:** The member acknowledges that the Seattle Bank will critically analyze homebuyers and/or adult members of the household who are students to ensure that the student does not have a reasonable expectation or knowledge that upon graduation he or she will have income substantially above the H$P income limit, and the

Seattle Bank may, at its sole discretion, deny enrollment and/or disbursement of the H$P grant to these homebuyers.

DETERMINING HOUSEHOLD INCOME

1. Members and Seattle Bank staff will use the current income documentation, provided at the time the prospective homebuyer is qualified by the member for participation in the program, to determine annual household income per the methods set forth in the *Home$tart and Home$tart Plus Annual Income Calculation Worksheet*. The worksheet is available on the Community Investment Forms, Manuals, and Regulations section of the Seattle Bank's website.
2. The gross income of any family member 18 years or older who will be a permanent resident in the home being purchased must be included in annual household income.
3. Using HUD income data, homebuyers enrolled in H$P must have an annual household income at or below 80 percent of area median income, adjusted for family size, at the time that the homebuyer is qualified for H$P by the member (80 percent of area median income is listed as "low-income" on the HUD tables). Any income amount greater than 80 percent of area median income, adjusted for family size, as published by HUD is not eligible for H$P.

DETERMINING HOUSEHOLD SIZE

1. The number of person at the time the prospective homebuyer is qualified by the member for participation in the program who will have permanent residence in the home determines the household size. The determining factor for housing size is whether an individual, related or non-related, has permanent residency in the home and/or will have permanent residency in the home to be purchased. Unborn children are not considered residents of the household.

HOMEBUYER ENROLLMENT

1. **Approving enrollments**: Approved members enroll prospective homebuyers by faxing or emailing: (a) the *Home$tart and Home$tart Plus Enrollment and Certification Form*, (b) the *Home$tart and Home$tart Plus Annual Income Calculation Worksheet*, and, (c) the required documentation of the household's income. Seattle Bank staff will review the enrollment and income documentation for completeness. The income calculation will also be reviewed for accuracy and corrected if necessary. If the prospective homebuyer has been income verfieid and has not previously been enrolled or received an H$P grant, the enrollment will be entered into the H$P database (thereby reserving H$P funds), the enrollment documentation will be filed, the database flag on the Buyer Detail screen will be checked to indicate that the income has been verified and the homebuyer has been officially enrolled by the Seattle Bank, and the member will be notified via email. The member may also check the status of a given enrollee by logging on to the Community Investment Services application on the Seattle Bank website at www.fhlbsea.com/login. When the homebuyer's name appears in the members' list of buyers, the enrollment has been approved.
2. **Students:** If it is determined that a homebuyer and/or an adult member of the household is a student, staff will ask the member to provide a statement from the student detailing his/her course of study, employment plans after graduation, and potential salary. These enrollments are approved or denied by the Community Programs Manager or designee.
3. **Notifying Members:** Once a prospective homebuyer has been income verified and approved, the H$P database will generate an automatic email notifying the primary H$P member contact that the enrollment was approved.

Staff will forward a copy of the automatic email to the member contact listed on the enrollment request if it is not the primary H$P member contact. If the Seattle Bank determines that a homebuyer is not eligible for enrollment, the member will be notified via email of the denial and the specific reasons eligibility was denied.

4. **Member Program Numbers:** For enrollments from April 2013 through March 31, 2014, the H$P program number prefix is 2013C12XXX and the H$P Plus program number prefix is 2013D12XXX.
5. **Transfer of homebuyer between members**: The transferred enrollment will retain all original enrollment information, including the date of enrollment and income verification so that the homebuyer will not be required to re-qualify for the program (if previously income verified). Staff will:

   a) Require written notice from both institutions authorizing the transfer, which will both be kept in the homebuyer's enrollment packet; and
   b) Withdraw the transferred homebuyer from the original member's H$P program number, enroll them under the recipient member's H$P program number, and note the transfer in the Comment field.

H$P GRANT DISBURSEMENT

1. The member must request the H$P grant using the Seattle Bank's *Home$tart and Home$tart Plus Disbursement Request and Certification Form*. Note: Members may only request disbursement for an enrollment which has been approved by Community Investment staff.
2. Requirements for disbursement include, but are not limited to, the following:
   a) On the last page of the *Home$tart and Home$tart Plus Disbursement Request and Certification Form*, an individual authorized to undertake community investment transactions with the Seattle Bank (as designated by the member's *Transaction Authorization for Funding – Community Investment Programs* form on file) must sign and certify to all of the information in the disbursement request.
   b) The member must provide a:
      i) Recent account statement or comparable documentation to verify compliance with the account balance requirement; and
      ii) Certificate of completion or comparable documentation to verify that homebuyer's completion of a Seattle Bank approved homebuyer education class. See H$P Program Requirements #4 and #7.
   c) Helpful Hint: Two program requirements which most often require additional explanation from members, and may result in denial of disbursement to enrolled homebuyers, include: (a) the ability of the homebuyer to contribute -20 percent or more toward the purchase of the home; and, (b) situations where the household is paying 35 percent or more of monthly income toward principal and interest payments. Please refer to the Program Requirements section for more detail on these and all other Home$tart and Home$tart Plus requirements.

H$P MONITORING AND COMPLIANCE

1. **Receipt of subsidy:**

(a) The Seattle Bank will require final HUD-1 settlement statements for each H$P grant recipient to, among other things, verify that the full amount of the H$P grant was used for eligible purposes. If a member fails to provide a copy of the final HUD-1 statement within 30 days of disbursement of the H$P grant, the Seattle Bank may restrict future disbursements until it has been received. Members will be notified by the Seattle Bank via email if HUD-1 statements are overdue. Exceptions may be granted on a case-by-case basis.

(b) If the member has not disbursed the H$P grant to the homebuyer within 30 days, the funds may be recalled by Community Investment staff. Exceptions may be granted on a case-by-case basis.

(c) The amount of cash back to the homebuyer will be evaluated to ensure that it does not exceed $250. If cash back does exceed $250, the member will be required to document that the excess amount is used for reduction of principal on the mortgage or as a credit toward future mortgage payments. If the member is slow to cure the noncompliance, the Seattle Bank may restrict future disbursements until suitable action is taken.

2. **Retention of subsidy:** Within 90 days of closing, members are required to ensure that a compliant retention agreement is recorded for each H$P recipient and are strongly encouraged to use the current version of the *Seattle Bank Deed of Trust and Retention Agreement.* If a member fails to provide a recorded compliant retention agreement within 90 days of disbursement, the Seattle Bank may restrict future H$P disbursements until it has been received. Mortgages that close in the state of Hawaii or in Multnomah County, Oregon, will be permitted up to 180 days to provide a recorded compliant retention agreement before future disbursements may be restricted. Exceptions to the time limit may be granted on a case-by-case basis. Members will be notified by the Seattle Bank via email if compliant retention agreements are overdue.
3. **Semi-annual certifications:** Community Investment staff will send a *Semi-annual Certification* form to members for each H$P program year in which that member has remaining enrollees still undisbursed. The member will be asked to certify that the enrollees continue to progress toward homeownership, or if not, to request withdrawal of that enrollee so that funds can be made available to H$P or AHP recipients.

DEED RESTRICTIONS AND SUBORDINATION AGREEMENTS

1. **Deed Restrictions:** The member will ensure that a compliant retention agreement is recorded for each H$P disbursement and is encouraged to use the current version of the *Seattle Bank Deed of Trust and Retention Agreement*. Deed restriction templates for each state in the district and Guam are provided on the Community Investment Forms, Manuals, and Regulations section of the Seattle Bank's website. Once the recording is completed, the original *Seattle Bank Deed of Trust and Retention Agreement* is returned to the Seattle Bank from the recorder's office per the instructions on the document. The Seattle Bank may also accept a copy of the recorded document.
2. **Subordinations:** In the case of a refinance, Community Investment staff will send a *Seattle Bank Subordination Agreement* approved for the state in which the refinance will occur upon request, or direct the party completing the Subordination Agreement, typically a title company, to the Community Investment Forms, Manuals, and Regulations section of the Seattle Bank's website, where the most current Subordination Agreements are available. Once the completed subordination agreement has been returned by the member and reviewed, the agreement is sent to an officer of the Seattle Bank for signature, which will be notarized. Signed and notarized subordination agreements will be mailed or sent overnight (if the requestor provides a completed FedEx/UPS label or a FedEx number).

H$P GRANT UNUSED, RECAPTURED, AND FORGIVEN

1. **Unused:** If H$P funds have been disbursed but an expected closing does not occur or the homebuyer did not use the full amount of the H$P grant at closing, funds will be debited from the member's DDA account equal to the unused amount If closing is delayed over 30 days past the date on which H$P funds were disbursed, funds will be debited from the member's DDA account equal to the unused amount; in this case the Seattle Bank may re-enroll the homebuyer for future re-disbursement upon member request.

2. **Recaptures (Repayment on a pro rata basis):** If a home that was purchased using H$P grant funds is sold or refinanced within five years of the date of the loan closing, a pro rata share of the H$P grant funds must be repaid to the Seattle Bank from any net gain from the sale of the home, unless:.
   a) Following a refinance the home continues to be occupied by the eligible homebuyer and is subject to the recorded compliant retention agreement for the remainder of the retention period; or.
   b) At least one of the following forgiveness criteria are met:

Forgiveness Criteria:

1. **80 percent AMI Household.** The new purchaser is a homebuyer with an annual household income of 80 percent of HUD area median income, adjusted for family size, or less (as determined by Seattle Bank staff), in which case, original lien will be reconveyed such that the new eligible homebuyer is not subject to the remainder of the retention period. A *Home$tart and Home$tart Plus Annual Income Calculation Worksheet,* along with supporting income documentation, and the household size and county of current residence, must be submitted and the purchaser's eligibility will be verified by Seattle Bank staff.
2. **Foreclosure.** The homebuyer's interest in the property is divested via foreclosure, deed-in-lieu of foreclosure, or an FHA-insured first mortgage or deed of trust on the property is assigned to the Secretary of HUD.
3. **No Net Gain.** The home that was purchased using H$P grant funds is sold within five years of the date of the loan closing and no net gain is realized., Any net gain up to the pro-rated amount owed upon sale must be repaid. Net gain will be determined by comparing the purchase price plus settlement charges originally paid for the home (less the H$P grant amount), to the purchase price less settlement charges received upon the sale of the home. The final HUD-1 provided upon the H$P grant recipient's purchase of the home the estimated HUD-1 submitted by the entity requesting forgiveness prior to the H$P grant recipient's sale of the home will be used by Seattle Bank staff to verify no net gain on sale.
4. **Death.** The home is assumed by successors because the qualifying borrower(s) is (are) deceased.

RECONVEYANCE/LIEN RELEASE

1. In the event of completion of the five-year retention period, approval of forgiveness, or upon receipt of an approved payoff check, the Seattle Bank may receive a written request that the lien be released from title. In such cases, a Request for Reconveyance will be signed by an Officer of the Seattle Bank, notarized, and returned to the requesting party along with the original (or copy) of the *Seattle Bank Deed of Trust and Retention Agreement*. As stated on the *Seattle Bank Deed of Trust and Retention Agreements*, it is the homebuyer's responsibility to request a lien release.
2. If the requesting party is not listed as the trustee on the original retention agreement, he/she may also submit a Substitution of Trustee form to be signed by an Officer of the Seattle Bank, notarized, and returned to the requesting party.
3. An *Indemnification for Lost Note or Deed and Request for Reconveyance* form (or equivalent document) may also be signed by an officer of the Seattle Bank if a copy of the retention agreement will not be accepted to reconvey the H$P lien.