

**HOMESTART AND HOMESTART PLUS
2009
MEMBER POLICIES & PROCEDURES**

MAY 2009

**FEDERAL HOME
LOAN BANK
OF SEATTLE**

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2009 HOME\$TART ALLOCATION STRATEGY

Members approved to participate in Home\$start ("H\$P") on May 1, 2009 will be awarded an equal allocation of the available H\$P funds to use for a four month period, May 1, 2009 through August 31, 2009, after which any allocated funds not used will be made available to any member with an approved H\$P application and a current, properly signed Regulatory Agreement on a first-come, first-served basis. Approved members will be those who enrolled at least one household between April 1, 2008 and April 30, 2009. All other members may enroll homebuyers as funds become available on a first-come, first-served basis once they have an approved H\$P application and a current, properly signed Regulatory Agreement on file.

The following maximum grant amounts have been approved:

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

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 receive 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for a homebuyer within one year of enrollment, the member will be notified via email that the homebuyer was withdrawn and is no longer eligible for disbursement of funds. The funds that were allocated to the withdrawn homebuyers will be returned to the H\$P pool.

H\$P MINIMUM ELIGIBILITY STANDARDS

SUBMITTING AN H\$P APPLICATION

1. Members approved to participate in H\$P since 2001 are not required to submit a new application. All other members may submit an application at any time.
2. Any member that is a stockholder on the date an application is received and is in good standing with the Community Investment Department is eligible to participate in H\$P, subject to the availability of funds.
3. Applications are available to members on the Seattle Bank's website at: www.fhlbsea.com. The member downloads and completes the application, and then returns it to the Seattle Bank.

H\$P PROGRAM REQUIREMENTS

1. **H\$P *Plus*:** In addition to all the program requirements listed below, households 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 80% of HUD's area median income, adjusted for family size, for the year the member qualified the household for participation in the program. 80% of area median income is listed as "low-income" on the HUD table.

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. The Seattle Bank may inquire about the affordability of the mortgage and/or the use of additional subsidies for homebuyers. Community Programs staff may ask the member to outline the factors which gave them confidence in the homebuyer's ability to afford and maintain the mortgage (e.g., credit history, payment history, debt load and payment shock).
4. **Household Account Balance:** Members must provide a recent account statement to verify the amount of the H\$P grant. If applicable, third party verification of a homebuyer's participation in sweat equity (or other programs, which earned them an in-kind contribution) may also be accepted. Recent documentation 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. Gift funds will not be considered when evaluating the account balance. The Seattle Bank may deny disbursement of H\$P funds for enrolled homebuyers whose account balance shows that the homebuyer may contribute 20 percent or more toward the purchase price of the home.
5. **First-time homebuyer:** Households must be 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 944.1 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 944.1 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.
6. **Homebuyer education:** The homebuyer must complete a Seattle Bank approved homebuyer education that is provided by an educator or organization certified by the Neighborhood Reinvestment Corporation (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 lendingHomebuyers must certify at the time of enrollment that they acknowledge the requirement to complete the defined homebuyer education and they must provide certificate(s) of completion at the time of disbursement.
7. **Use of H\$P grant:** H\$P funds must be provided as a grant, and may only be used for downpayment assistance, closing costs, or rehabilitation assistance in connection with the household's purchase or rehabilitation of an owner-occupied housing unit, including a condominium or cooperative housing unit or manufactured housing, to be used as the household's primary residence. H\$P may not be used for counseling costs.
8. **Cash back:** The homebuyer may not receive cash back at closing in an amount exceeding \$250 and must use any amount exceeding 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 household's monthly payments on the mortgage loan.

9. **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 Affordable Housing Program.
10. **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(c)(7) of the AHP regulations. (See H\$P Grant Recapture and Repayments section.)
11. **Member incentives:** Members must provide financial or other incentives to homebuyers. Examples of incentives include, but are not limited to, waived credit report fees, waived flood certification fees, reduced interest rates, etc. At the time of disbursement, the member may provide Seattle Bank approved incentives other than those indicated in the current Regulatory Agreement. For members who pass through the H\$P grant to another 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.
12. **Co-signers:** Households who are using co-signers to purchase a home may not be enrolled.
13. **Students:** The member acknowledges that the Seattle Bank will critically analyze homebuyers or adult members of the household who are students to ensure that the students do not have a reasonable expectation or knowledge that upon graduation they will have income substantially above the H\$P(s) income limit, and the Seattle Bank may, in its sole discretion, deny the H\$P(s) grant to these households.

DETERMINING HOUSEHOLD INCOME

1. Members and Seattle Bank staff will use the current income documentation provided at the time the homebuyer is qualified by the member for participation in the program to determine annual household income per the methods set forth in the 2009 Home\$tart Program Annual Income Calculation Worksheet. The Worksheet is available on the Seattle Bank's Web site at www.fhfbsea.com.
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, households enrolled in H\$P must be at or below 80% of area median income adjusted for family size at the time that the homebuyer is qualified for H\$P by the member. 80% of area median income is listed as "low-income" on the HUD tables. Any income amount greater than 80% of area median income as published by HUD is not eligible for H\$P.

DETERMINING HOUSEHOLD SIZE

The number of persons at the time the homebuyer is qualified by the member for participation in the program who will have permanent residence in the home determines the household size. For example, a couple with two children will have a household size of four.

HOUSEHOLD ENROLLMENT

1. Approved members enroll homebuyers by faxing or emailing: a) A 2009 H\$P Enrollment and Certification Form, b) A 2009 H\$P Annual Income Calculation Worksheet, and c) The required documentation of the homebuyer's income to the attention of the Seattle Bank, which will verify the homebuyer's income eligibility and notify the member via email if the enrollment has or has not been approved. In addition to an email notification, the member may also check the H\$P website for the status of a given enrollee. When the comment field reads

“Pending income verification”, review of the enrollment is still underway; when there is no comment, the enrollment has been approved.

2. The income of the homebuyer will be determined at the time the homebuyer is qualified for participation in the program by the member. The 2009 Home\$start Enrollment and Certification Form and supporting documentation must be submitted to the Seattle Bank within one year of the date the member qualified the homebuyer.
3. Enrollments will not be approved/final until the Seattle Bank verifies that the homebuyer is income eligible using the 2009 Home\$start Program Annual Income Calculation Worksheet.
4. For enrollments from May 2009 through April 2010, the H\$P program number prefix is 2009C12XXX and the H\$P *Plus* program number prefix is 2009D12XXX.
5. If the Seattle Bank determines that a household is not eligible for enrollment, the member will be notified via email of the specific reasons eligibility was denied.
6. Transferring Homebuyers – the member may transfer an enrolled homebuyer from its institution to another Seattle Bank member with an approved H\$P application and properly signed current year Regulatory Agreement on file. The transferred enrollment will retain all original enrollment information, including the date of enrollment and income verification so that the household will not be required to re-qualify for the program. The Seattle Bank will:
 - a. Require written notice from both institutions authorizing the transfer.
 - b. Withdraw the transferred homebuyer from the original member’s H\$P program number and enroll them into the new member’s H\$P program number.

H\$P GRANT DISBURSEMENT

1. The member must request the H\$P grant using the Seattle Bank’s 2009 H\$P Disbursement Request and Certification Form.
2. Requirements for disbursement include but are not limited to the following:
 - a. On the last page of the 2009 H\$P 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 recent account statement to verify the amount of the H\$P grant and a certificate of completion or comparable documentation to verify the homebuyer’s completion of a Seattle Bank approved homebuyer education class (see Program Requirements).
 - c. Among other things, the Seattle Bank may deny a disbursement request if the amount of funds shown on the homebuyer’s recent account statement would allow the household to put down 20 percent or more of the purchase price of the home.

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 HUD-1 statement within 30 days after 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. b) If the member has not disbursed the H\$P grant to the homebuyer within 30 days, the funds may be recalled by the Seattle Bank. 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, members will be required to ensure that the excess amount is used for reduction of principal on the mortgage or as a credit toward future mortgage payments.

2. **Retention of subsidy:** The Seattle Bank will require that the H\$P Deed of Trust and Retention Agreement is recorded for each H\$P recipient. If a member fails to provide the recorded Deed of Trust and Retention Agreement within 90 days of closing, 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 copy of the recorded H\$P Deed of Trust and 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 H\$P Deed of Trust and Retention Agreements are overdue.
3. **Semi-annual certifications:** The Seattle Bank 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 withdraw that enrollee so that funds can be returned to the H\$P pool and made available to other homebuyers.

DEED RESTRICTIONS AND SUBORDINATION AGREEMENTS

1. **Deed Restrictions:** The member will record the H\$P Deed of Trust and Retention Agreement approved for the state in which the transaction occurs for each H\$P disbursement. The appropriate documents for each participating state are available on the Seattle Bank's Website. Once the recording is completed, the original 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 pending receipt of the original.
2. **Subordinations:** In the case of a refinance, the Seattle Bank will send an H\$P Subordination Agreement approved for the state in which the refinance will occur upon request, or direct the party completing the Subordination Agreement to the Seattle Bank's Website, where updated Subordination Agreements are available.

H\$P GRANT RECAPTURE AND REPAYMENTS

1. A Home\$start Grant Repayment Calculator must be requested from the Seattle Bank prior to the sale of a home before the end of the five-year retention period. The payoff amount will be based on the settlement date of the original purchase and will be calculated as of the last day of the month in which the home is sold.
2. If H\$P funds have been disbursed but an expected closing does not occur, funds will be debited from the member's DDA account equal to the amount originally disbursed to the homebuyer.
3. 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. The new purchaser is a first-time homebuyer as defined above under "Program Requirements" with a household annual income at 80% of HUD's area median income adjusted for family size or less, in which case, the original lien will be reconveyed such that the new eligible household is not subject to the remainder of the retention period. If an alternate income standard was used to approve the original H\$P grant, that

alternate income standard may apply. An income calculation worksheet with supporting income documentation must be submitted as verification of the purchaser's eligibility.

- b. Following a refinance, the home continues to be occupied by the eligible household and is subject to the recorded H\$P Deed of Trust and Retention Agreement for the remainder of the five-year retention period as evidenced by a signed and recorded Subordination Agreement.
- c. The homebuyer's interest in the property is divested via foreclosure.
- d. If the home that was purchased using any H\$P grant funds is sold within five years of the date of the loan closing and no net gain is realized, the full H\$P grant will be forgiven. 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. These figures can be found on the HUD-1 provided upon the H\$P grant recipient's purchase of the home and on the estimated HUD-1 submitted upon the H\$P grant recipient's sale of the home.

RECONVEYANCE

1. In the event of completion of the five-year retention period or upon receipt of an approved payoff check, the Seattle Bank may receive written request that the lien be released from title. In such cases, the third page of the Deed of Trust and Retention Agreement, entitled Request for Reconveyance, will be signed by an Officer of the Seattle Bank and the original agreement will be returned to the requesting party. As stated on the Deed of Trust and Retention Agreements, it is the household's responsibility to request a lien release.
2. If the requesting party is not listed as the trustee on the original Deed of Trust and Retention Agreement, they may also submit a Substitution of Trustee form to be signed by an Officer of the Seattle Bank.
3. If the Seattle Bank does not have the original Deed of Trust and Retention Agreement, the requesting party will be notified, and may submit an Indemnification for Lost Note or Deed and Request for Reconveyance form to be signed by an Officer of the Seattle Bank.