

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 \$750 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 \$5,000 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?

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.org

To participate, member institutions enter into a Subsidy Agreement with the administrator and the FHLBC. Participating members pay an annual \$100 participation fee and a \$150 closing fee per loan. The loan closing fee cannot be passed through to the homebuyer. The participating member must either originate or fund the first mortgage.

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?

A single member may receive up to \$100,000 in DPP grants from the pool of funds available for 2007. Subject to the availability of funds, the allocation of DPP funds above this limit will be considered on a case-by-case basis. This does not mean that these amounts will be set-aside for each institution's use. The funds are made available on a loan-by-loan, first-come/first-served basis. Depending on usage of the program, some institutions may ultimately reach the maximum, while others may not.

6) How does a borrower obtain a grant?

The Borrower:

- ▶ Contacts a participating member financial institution. A list of participating member institutions can be obtained by contacting the administrators (*Refer to contact information on page 1*);
- ▶ Applies for first mortgage financing with a participating member financial institution;
- ▶ Provides an executed purchase contract for the property and evidence of income eligibility;
- ▶ Completes homebuyer counseling; and
- ▶ Makes the required \$750 equity contribution.

The Member:

- ▶ Determines that the borrower is income-qualified for a grant;
- ▶ Makes a grant reservation with the program administrator;
- ▶ Ensures that the borrower successfully completes an approved homebuyer counseling program;
- ▶ Disburses the grant funds at closing when the first mortgage funds are disbursed;
- ▶ Ensures the home is subject to a legally enforceable deed restriction meeting DPP requirements; and
- ▶ Forwards required documentation to the program administrator.

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

Eligible Uses:

- ▶ Down payment and closing cost assistance
- ▶ Costs required by lender to be paid in advance; items must be detailed on the settlement statement
- ▶ Escrow reserves deposited with the lender
- ▶ Rehabilitation costs directly associated with acquisition
- ▶ Homeownership counseling costs if they meet eligibility requirements (*Refer to Question 14*)

Ineligible Uses:

- ▶ Reimbursement of earnest money or deposits
- ▶ More than \$250 cash back to the homebuyer at closing (*Refer to Question 8*)
- ▶ Pre-paid life insurance
- ▶ Use with any other AHP subsidy for the same borrower in the same transaction
- ▶ Payment of member required \$150 loan closing fee
- ▶ Fees for homebuyer counseling provided by the member institution

8) Can the homebuyer receive cash back at closing?

A member may provide cash back to a household at closing on the mortgage loan in an amount not exceeding \$250. A member shall use any DPP subsidy exceeding such an 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 household's monthly payments on the mortgage loan. The grant amount will be reduced by any ineligible cash to the borrower at closing.

9) How is household income determined?

Income eligibility is based on the household's total annual income for the current year. The income of each household member age 18 years and older is included in the household's total income. The income calculated must include all year-to-date earned income, plus potential income for the remainder of the year. The FHLBC no longer accepts household income as determined by its members' underwriting standards. Members must use the FHLBC Income Calculation Guidelines posted on the administrator's website to determine a household's annual income. Please contact the program administrator for additional details.

10) 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 not considered dependents and are not living at home while attending school should be included in the borrower's household count.

11) 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. If a property is not located in Illinois or Wisconsin, it must be in the primary service area of the participating member. The property can be attached, detached or a condominium.

Mobile homes and property sold on land contract are also eligible. A mortgage lender who offers mortgage financing for the purchase of a mobile home may include a DPP grant provided the mobile 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.

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

- ▶ FHLBC Mortgage Partnership Finance®, FNMA and FHLMC have agreed in the past to purchase mortgages made under this program provided the loans meet their requirements.
- ▶ The grant can be combined with other federal, state and local grants or loans, such as CDBG funds.
- ▶ 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.

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.

*Homes with FHA mortgages require a special retention agreement; FHLBC must hold the lien, and the member must service the lien.

13) 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 and as approved by the administrator of the program.

Counseling education must include comprehensive financial literacy education, including information that alerts borrowers to potential predatory lending practices. Contact the Illinois League of Financial Institutions or Wisconsin Partnership for Housing Development for details.

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

14) 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 \$750 per household; and
- ▶ The cost is identified on the settlement statement (HUD-1).

15) 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 DPP grant can be subordinated to a home equity loan.

16) What is the applicable retention period for the 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.

17) 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 DPP subsidy to the refinanced first mortgage. No subsidy would have to be repaid.
- ▶ 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 Direct Subsidy Agreement with the FHLBC to ensure repayment. No subsidy would have to be repaid.
- ▶ Collect the unforgiven portion of the subsidy when the new loan is closed if neither of the first two options is chosen.

18) 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 to a non income-eligible purchaser, and realizes a net gain on the sale. Repayment is waived if the borrower realizes no net gain on the sale.
- ▶ 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 a primary residence.

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.

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

The DPP 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. Refer to the repayment calculator at <http://ci.fhlbc.com> to calculate the repayment amount.

- ▶ In the case of a sale, a pro rata share of the DPP grant shall be repaid to the FHLBC from any net gain realized upon the sale of the unit after deduction for sales expenses. 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.

Net gain on sale is calculated as the difference between the original purchase price and the new sales price, less usual and customary seller costs incurred in the new transaction. The seller costs should be detailed on the settlement statement. Final settlement statements from the purchase and sale of the property sold at a loss should be included in the packet sent to the FHLBC. The amount of the grant to be repaid shall not exceed the net gain on sale. (Refer to examples below.)

Subsidy Repayment Calculation Three examples

- *\$5,000 grant with 60 month retention period
 - * Property sold after 24 months
 - * 24/60 (40%) of the grant is forgiven
- * \$5,000 grant minus \$2,000 forgiven, so
 - * \$3,000 is subject to repayment.

	Example 1	Example 2	Example 3
Sales Price	\$58,000	\$57,000	\$61,000
Original Purchase Price	54,500	54,500	54,500
Difference	3,500	2,500	6,500
Less Seller Costs for the Transaction (Settlement Charges Line 1400 on HUD 1)	-2,240	-2,500	-2,500
Net Gain	1,260	0	4,000
Original Grant	5,000	5,000	5,000
# Months Forgiven divided by 60(24/60)	0.4	0.4	0.4
Amount Forgiven (.40 x 5,000)	2,000	2,000	2,000
Unforgiven Amount Subject to Repayment (Grant minus Amount Forgiven)	3,000	3,000	3,000
Amount Repaid	\$1,260	\$0	\$3,000

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