

**FEDERAL HOME LOAN BANK OF CHICAGO
2014 AFFORDABLE HOUSING PROGRAM IMPLEMENTATION PLAN**

This Implementation Plan (the “Plan”) sets forth certain policies, procedures, guidelines and requirements applicable to the Affordable Housing Program (“AHP”) of the Federal Home Loan Bank of Chicago (the “Bank”), as required by Part 1291 of the Code of Federal Regulations governing the AHP (12 C.F.R. Part 1291) (“Regulations”). While the Implementation Plan includes pertinent information pertaining to the Bank’s AHP, the Plan is not intended to be a comprehensive statement of all of the Bank’s policies and procedures applicable to the AHP. In the event of a conflict between the Plan and the Regulations, the Regulations will govern.

Plan Contents	Page
I. Median Income Standard	2
II. Requirements for the Bank’s Competitive Program (“Competitive Program”)	2
A. Funding Periods and Application Process	2
B. Minimum Eligibility Requirements	2
- Project Feasibility and Cost Guidelines (Exhibit I)	
C. Scoring Guidelines (Exhibit II)	
D. Approval of AHP Applications.....	7
E. Modification of Approved Competitive Program Applications	7
F. Procedure for Funding Competitive Program Subsidies.....	8
G. Monitoring Requirements for the Competitive Program (Exhibit III)	
III. Requirements for the Bank’s Homeownership Set-Aside Program (“Set-Aside Program”).....	10
A. Establishment of Set-Aside Program	10
B. Eligible Applicants.....	10
C. Minimum Eligibility Requirements	10
D. Procedure for Funding Set-Aside Subsidies	13
E. Monitoring Requirements for Set-Aside Program	14
IV. Retention Agreement Requirements	15

Exhibits

Exhibit I: Project Feasibility and Cost Guidelines for the Competitive Program

Exhibit II: Scoring Guidelines for the Competitive Program

Exhibit III: Monitoring Policies for the Competitive Program

I. Median Income Standard

Section 1291.3(a)(1) of the Regulations requires the Bank to adopt one or more applicable median income standards. Accordingly, the median income guidelines published annually by the U.S. Department of Housing and Urban Development are adopted as the income standard used by the Bank. Such income guidelines are posted on the Bank's Community Investment website at www.fhlbc.com.

II. Requirements for the Bank's Competitive Program

A. Funding Periods and Application Process

1. In 2014 there will be a single funding round. The application deadline is 5:00 p.m. (CT) on June 20, 2014.
2. The Bank will accept applications for AHP subsidies under its Competitive Program only from institutions that are members of the Bank at the time the application is submitted to the Bank, and will award subsidies only to institutions that are members of the Bank at time of award approval.
3. Competitive Program applications must contain information sufficient for the Bank to:
 - a. Determine that the proposed AHP project meets the eligibility requirements pursuant to Section II.B below; and
 - b. Evaluate the application pursuant to the scoring guidelines attached hereto as Exhibit II.

B. Minimum Eligibility Requirements

Projects receiving AHP subsidies pursuant to the Competitive Program must meet the following eligibility requirements:

1. *Owner-occupied or rental housing*

The AHP subsidy must be used exclusively for:

 - a. Owner-occupied housing. The purchase, construction, or rehabilitation of an owner-occupied project by or for very low-income, low-, or moderate-income households. A household must have an income meeting the income targeting commitments in the approved AHP application at the time it is qualified by the project sponsor for participation in such project.
 - b. Rental housing. The purchase, construction, or rehabilitation of a rental project, where at least 20 percent of the units in such project are occupied by, and affordable for, very low-income households. A household must have an income meeting the income-targeting commitments in the approved AHP application upon initial occupancy of the rental unit, or for projects involving the purchase or rehabilitation of rental housing that

already is occupied, at the time the application for AHP subsidy is submitted to the Bank for approval.

2. *Need for subsidy*

A project's estimated uses of funds must equal its estimated sources of funds, as reflected in such project's development budget. The difference between a project's sources of funds and uses of funds is the maximum amount of AHP subsidy such project may receive.

A project's sources of funds must include:

- a. Cash contributions by the sponsor, any funds from sources other than the sponsor, and estimates of funds the sponsor has obtained, or intends to obtain, from other sources, but which have not yet been committed to such project.
- b. In the case of homeownership projects where the sponsor extends permanent financing to the homebuyer, the sponsor's cash contribution must include any cash down payment from the buyer, plus the present value of any purchase note the sponsor holds on the unit. The present value of the note must be determined using a market rate of interest to discount the projected cash flows.
- c. Estimates of the market value of in-kind donations, volunteer professional labor and services, and sweat equity committed to the project should not be included as a source of funds.

3. *Project costs*

- a. A project's cash uses are the actual outlay of cash needed to pay for materials, labor, and acquisition or other costs of completing such project. Cash costs do not include in-kind donations, voluntary professional labor or services, or sweat equity. Non-cash costs should not be included as a use of funds.
- b. Taking into consideration the geographic location of a project, development conditions, and other non-financial project characteristics, the Bank will determine whether a project's costs, as reflected in such project's development budget, are reasonable in accordance with the Bank's project cost guidelines.
- c. The purchase price of property or services, as reflected in the project's development budget, sold to the project by a member providing the AHP subsidy to the project, or, in the case of property upon which such member holds a mortgage or lien, may not exceed the market value of such property or services as of the date the purchase price was agreed upon. In the case of "real estate owned property" sold to a project by a member providing an AHP subsidy to such project, or property sold to the project upon which the member holds a mortgage or lien, the market value of such

property is deemed to be the “as-is” or “as-rehabilitated” value of such property, whichever is appropriate, as reflected in an independent appraisal of such property performed by a state certified appraiser or licensed appraiser, as defined in 12 C.F.R. 564.2(j) and (k) respectively, within six months prior to the date the Bank disburses the AHP subsidy to a project. “As-rehabilitated” is defined as the prospective value of a property after all construction has been completed. This value reflects all expenditures for lease-up and occupancy that may be expected to have occurred at that point in time, which may or may not put the property at stabilized value.

4. *Project feasibility*

- a. Developmental feasibility. A project must be likely to be completed and occupied, based on relevant factors, as set forth in the Bank’s Project Feasibility and Cost Guidelines, attached hereto as Exhibit I, including, but not limited to, the development budget, market analysis, project timeline, and the project sponsor’s experience in providing the requested assistance to households.
- b. Operational feasibility of rental projects. A rental project must be able to operate in a financially sound manner, and in accordance with the Bank’s Project Feasibility and Cost Guidelines, attached hereto as Exhibit I, as projected in the project’s operating *pro forma*.
- c. The Bank will evaluate the operational and financial feasibility of a project and the need for AHP subsidy, as required by the Regulation, using the Project Feasibility and Cost Guidelines, attached hereto as Exhibit I.

5. *Financing costs*

The rate of interest, points, fees, and any other charges for all loans that are made for the project in conjunction with the AHP subsidy must not exceed a reasonable market rate of interest, points, fees, and other charges for loans of similar maturity, terms, and risk.

6. *Timing of AHP subsidy use*

At the time of application, the AHP subsidy must be likely to be drawn down by the project, or used by such project to procure other financing commitments, within 12 months of the date of approval of the application for AHP subsidy.

7. *Counseling costs*

AHP subsidies may be used to pay for counseling costs only where such costs are incurred in connection with counseling of homebuyers who actually purchase an AHP-assisted unit, and the cost of counseling has not been covered by another funding source, including the member.

8. *Refinancing*

A project may use an AHP subsidy to refinance an existing single-family or multi-family mortgage loan, provided that the refinancing produces equity proceeds, and such equity proceeds up to the amount of the AHP subsidy in such project must be used only for the purchase, construction, or rehabilitation of housing units meeting the applicable eligibility requirements of Section II.B of this Plan.

9. *Retention*

- a. Owner-occupied units will be subject to a 5-year retention agreement, as described in Section IV of this Plan.
- b. Rental projects will be subject to a 15-year retention agreement, as described in Section IV of this Plan.

10. *Project sponsor qualifications*

Sponsor is defined as a not-for-profit or for-profit organization or public entity that (1) has an ownership interest in a rental project, or (2) is integrally involved in an owner-occupied project.

- a. For purposes of the definition of sponsor, “ownership interest” means that (i) the sponsor is the owner of the rental project, or (ii) the sponsor has an ownership interest (including any partnership interest) in the entity that is the owner of the rental project.
- b. For purposes of the definition of sponsor, “integrally involved” means the sponsor (i) exercises control over the development or management of an owner-occupied project, (ii) provides homebuyer or homeowner counseling, or (iii) qualifies borrowers and provides or arranges financing for the owners of the owner-occupied units.
- c. A project's sponsor must be qualified and able to perform its responsibilities as committed to in an application for an AHP subsidy.

11. *Fair housing*

A project, as proposed, must comply with applicable federal and state laws on fair housing and housing accessibility including, but not limited to, the Fair Housing Act, the Rehabilitation Act of 1973, the Americans with Disabilities Act of 1990, and the Architectural Barriers Act of 1969, and the project must demonstrate how such project will be affirmatively marketed.

12. *Calculation of AHP subsidy*

- a. Where an AHP direct subsidy is provided to a project to write down the interest rate on a loan extended by a member, sponsor, or other party to a project, the net present value of the interest foregone from making the loan below the lender’s market interest rate must be calculated as of the date the application for the AHP subsidy is submitted to the Bank, and subject to adjustment under section 1291.5(g)(4) of the Regulations.

- b. Where an AHP subsidized advance is provided to a project, the net present value of the interest revenue foregone from making a subsidized advance at a rate below the Bank's cost of funds must be determined as of the earlier of the date of disbursement of the subsidized advance or the date prior to disbursement on which the Bank first manages the funding to support the subsidized advance through its asset/liability management system, or otherwise.

13. District eligibility requirements

Pursuant to section 1291.5(c)(15)(i) of the Regulations, the Bank has adopted the following district eligibility requirements:

- a. The Bank will limit the amount of subsidy a member may apply for to a maximum of 25% of the subsidy announced for each application period. The limit will be calculated using the following parameters: 1) the order in which applications are in "Member Approved" status in AHP Online, and 2) for applications with member consortiums, 100% of the requested subsidy will be applied toward the 25% limit of each member.
- b. The Bank will limit the amount of subsidy per project to \$850,000.

14. Prohibited uses of AHP subsidies

- a. Prepayment fees imposed by the Bank on a member for a subsidized advance that is prepaid, unless,
 - i. The project is in financial distress that cannot be remedied through a project modification pursuant to section 1291.5(f) of the Regulations;
 - ii. The prepayment of the subsidized advance is necessary to retain the project's affordability and income-targeting requirements;
 - iii. Subsequent to such prepayment, the project will continue to comply with the terms of the approved AHP application and the requirements of the Regulations for the duration of the original retention period;
 - iv. Any unused AHP subsidy is returned to the Bank and made available for other AHP projects; and
 - v. The amount of AHP subsidy used for the prepayment fee may not exceed the amount of the member's prepayment fee to the Bank.
- b. Cancellation fees and penalties imposed by the Bank on a member for a subsidized advance commitment that is cancelled.
- c. Processing fees charged by members for providing direct subsidies to a project.
- d. Capitalized reserves in the development budget.

- e. Repaid AHP subsidy may not be re-allocated to the same project from which it was recaptured.
- f. The Bank may limit or deny funds for projects submitted to more than one Federal Home Loan Bank if such projects are the same or substantially similar.

The Bank has not adopted, and does not have a program for, revolving loan funds or loan pools.

C. Scoring Guidelines

The Bank's scoring system is described in detail in the Scoring Guidelines, attached hereto as Exhibit II.

D. Approval of AHP Applications

The applications receiving the highest overall scores will be reviewed by the Bank's Community Investment Officer and presented to the Bank's President. Those applications will then be recommended to the Affordable Housing Committee of the Bank's Board of Directors for award approval. Such Committee will approve applications for AHP subsidy in descending order starting with the highest scoring application until the total subsidy amount for the particular funding round, except for any amount insufficient to fund the next highest scoring application, has been allocated. The next four highest scoring applications will be recommended for approval as alternates, and within one year of approval, the Bank may fund such alternates if any previously committed AHP subsidies become available.

E. Modification of Approved Competitive Program Applications

- 1. If, prior to or after final disbursement of funds to a project from all funding sources, there is or will be a change in the project that would change the score that the project application received in the funding period in which it was originally scored and approved, had the changed facts been operative at that time, the Bank, in its discretion, may approve in writing a modification to the terms of the approved application, provided that:
 - a. The project, incorporating any such changes, would meet the eligibility requirements of Section II.B of this Plan;
 - b. The application, as reflective of such changes, continues to score high enough to have been approved in the funding period in which it was originally scored and approved by the Bank; and
 - c. There is good cause for the modification, and the analysis and justification for the modification are documented by the Bank in writing.

2. Modifications involving an increase in AHP subsidy must be approved or disapproved by the Bank's board of directors ("Board of Directors").
3. A change to the location of the project is generally not allowed and will be considered by the Bank on a case-by-case basis based on an evaluation of information and documentation justifying the need for the change. It is solely within the Bank's discretion to allow or deny any such proposed modification.
4. A change to the project's member and/or sponsor(s) is generally not allowed and will be considered by the Bank on a case-by-case basis based on an evaluation of information and documentation justifying the need for the change. It is solely within the Bank's discretion to allow or deny any such proposed modification.

F. Procedure for Funding Competitive Program Subsidies

1. The Bank may disburse AHP subsidies only to institutions that are members of the Bank in good standing, as determined by a capacity review of the member, at the time they request a draw-down of the AHP subsidies. If an institution with an approved application for AHP subsidy loses its membership, the Bank, in its discretion, and on such terms, conditions, and documentation as are acceptable to the Bank, may disburse AHP subsidies to (a) a member of the Bank to which the institution has transferred its obligations under the approved application, or (b) through another Federal Home Loan Bank ("FHLBank") to a member of that FHLBank that has assumed the institution's obligation under the approved application.
2. The Bank will verify that the AHP subsidies for a project approved under the Competitive Program are fully or partially drawn down by the project, or used by the project to procure other financing commitments, within 12 months of the date of approval of the application for AHP subsidy funding the project. At its discretion, the Bank may approve an extension of the AHP subsidy award for projects not meeting the 12-month use requirement. The Bank will assess whether satisfactory progress is being made, and approve or deny such requests according to its internal policies. Projects that are not approved for extension are subject to the cancellation of the AHP subsidy award. If the Bank cancels an application approval, the AHP subsidy will be made available for other AHP-eligible projects.
3. Prior to its initial disbursement of AHP subsidies for an approved project, and prior to each subsequent disbursement, if the need for AHP subsidy has changed, the Bank will verify that the project meets the eligibility requirements of section 1291.5(c) of the Regulations, and all obligations committed to in the approved application. The Bank will also verify that there is an executed subsidy agreement between the Bank, the member, and the sponsor pursuant to the requirements of the Regulations.

4. Projects are subject to applicable retention agreements per Section IV of this Plan.
5. The Bank may reduce the amount of AHP subsidy if additional funding has been secured, or if the project's costs were reduced as a result of a restructuring of the development, or in any other circumstances deemed appropriate by the Bank. If the Bank reduces the amount of an AHP subsidy, the amount of the reduction must be returned to the Bank's AHP fund. If the Bank increases the amount of AHP subsidy approved for a project, the amount of such increase shall be drawn first from any currently uncommitted or repaid AHP subsidies, and then from the Bank's required AHP contribution for the next year.
6. In cases where the AHP direct subsidy has been approved to write down, prior to closing, the principal amount or the interest rate on a loan to a project (and an interest rate assumption was made in determining the amount of subsidy needed at the time of approval), the final amount of the AHP subsidy awarded to the project may be changed through a project modification. Further, the Bank is not obligated to commit to more AHP funding than the amount of the original award.

G. Monitoring Requirements for the Competitive Program

Competitive Program projects will be monitored in conformity with the initial monitoring requirements of section 1291.7(a)(1) of the Regulations and the long-term monitoring requirements in section 1291.7(a)(4) of the Regulations. The Bank's policies for monitoring its Competitive Program are further described in its Monitoring Guidelines, attached hereto as Exhibit III.

III. Requirements for the Bank's Set-Aside Program

A. Establishment of Set-Aside Program

The Bank's Set-Aside Program will consist of two funding pools: a general pool (referred to as Downpayment Plus[®] or DPP[®]) and a restricted pool (referred to as Downpayment Plus Advantage[®] or DPP Advantage[®].) In 2014, the Bank will allocate up to the greater of \$4.5 million or 35% of its annual required AHP contribution to the Set-Aside Program. At least one-third of the Bank's aggregate set-aside allocation will assist first-time homebuyers, as required in section 1291.2(b)(2) of the Regulations.

Members participating in DPP may access set-aside subsidies on behalf of eligible homebuyers or homeowners to whom they are providing first mortgages. Members participating in DPP Advantage may access set-aside subsidies on behalf of eligible homebuyers with first mortgage financing from a not-for-profit organization.

Unless otherwise noted, eligibility, funding, and monitoring requirements set forth below for the Set-Aside Program apply to both DPP and DPP Advantage.

B. Eligible Applicants

The Bank may only accept applications for its Set-Aside Program from institutions that are members of the Bank at the time of the member's submission of its application to the applicable program administrator. The program administrators are the Illinois League of Financial Institutions and the Wisconsin Partnership for Housing Development (collectively, the "Program Administrators").

C. Minimum Eligibility Requirements

The Bank's Set-Aside Program eligibility requirements include the following:

1. Member allocation criteria

The member will apply to the applicable Program Administrator for a reservation of funding for the homebuyer within 90 days prior to closing. Program Administrators will accept reservations from participating members after the allocation for the program year has been announced. Reservations will be granted on a first come/first served basis until program funds have been fully reserved.

The member limit for DPP is \$560,000 for the 2014 program year. There is no member limit for DPP Advantage funds. Program utilization will be monitored throughout the year, and if Bank management determines that the funds allocated to the Set-Aside Program are not likely to be reserved prior to year-end, the Community Investment Officer, based on an evaluation of needed down payment assistance within the Seventh District, is authorized to increase the member limit to up to \$800,000, effective on or after August 1,

2014. The Community Investment Officer will inform the Affordable Housing Committee of the Board of Directors and the Bank, and the Program Administrators will notify participating members of any such change to the member limit for 2014.

2. *Eligible households*

Members must ensure the following requirements are satisfied:

- a. Households must have incomes that do not exceed 80% of median income for the area at the time of enrollment. The member will determine household eligibility and apply to the Program Administrator for a reservation for funding. The reservation date will be considered the “time of enrollment.”
- b. Households using the DPP subsidy to assist with the purchase of a home must complete a homebuyer education program. The homebuyer education program must include a financial literacy component, and must provide information alerting borrowers to practices characteristic of predatory and sub-prime lending. The program must be provided by an organization experienced in homebuyer or homeowner counseling.
- c. A minimum of one-third of households accessing DPP funds must be first-time homebuyers, pursuant to the first-time homebuyer requirement in section 1291.2(b)(2) of the Regulations. A first-time homebuyer is defined by the Bank as a household meeting any one of the following criteria:
 - i. An unmarried individual, or an individual and his or her spouse, who has/have not owned a home during the three-year period prior to the date of purchase of a home with AHP assistance.
 - ii. A divorced or legally separated individual who has only owned with a (former) spouse.
 - iii. An unmarried individual, or an individual and his or her spouse, who has/have only owned a property that was not in compliance with state, local, or model building codes, and which cannot be brought into compliance for less than the cost of constructing a permanent structure.
- d. Homebuyers accessing DPP must contribute a minimum of \$1,000 toward the purchase of the home. Households using the DPP Advantage Program are not required to make the \$1,000 equity contribution.
- e. Households can receive a DPP subsidy once every five (5) years.

3. *Maximum grant amount*

Grants to households cannot exceed \$8,000, except as provided below. Program utilization will be monitored throughout the year, and if Bank management determines that the funds allocated to the Set-Aside Program are not likely to be reserved prior to year-end, the Community Investment Officer, based on an evaluation of needed down payment assistance within the Seventh District, is authorized to increase the maximum grant amount per household to

up to \$12,000, effective on or after August 1, 2014. At any time during the year, the Community Investment Officer will have the discretion to allow a maximum grant amount per household of up to \$15,000, as well as other concessions or exceptions, as permitted by the Regulations, for grants made through the Set-Aside Program as part of any program implemented by the Bank to provide disaster relief as authorized by the Bank's Board of Directors. The Community Investment Officer will inform the Affordable Housing Committee of the Board of Directors and the Bank, and Program Administrators will notify participating members of any such change to the maximum grant amount per household for 2014.

4. *Eligible uses of AHP direct subsidy*

Households must use the subsidy to pay for down payment, closing costs, counseling, or rehabilitation assistance in connection with the household's purchase or rehabilitation of an owner-occupied unit, including a condominium or cooperative housing unit or manufactured housing, to be used as the household's primary residence.

5. *Retention Agreement*

An owner-occupied unit purchased or rehabilitated using an AHP direct subsidy will be subject to a 5-year retention agreement per section IV of this Plan.

6. *Financial or other concessions*

- a. Members accessing DPP set-aside funds for purchase or rehabilitation must:
 - i. Fund or originate the mortgage. The mortgage may be funded or originated by a subsidiary of the member provided the member has greater than 50% ownership interest in the subsidiary, or by a subsidiary of the member's parent company provided the parent company has greater than 50% ownership interest in the subsidiary.
 - ii. Provide financial or other incentives in connection with the related first mortgage financing. Payment to a Program Administrator of enrollment fees and/or processing fees cannot be passed on to the borrower and, as such, can be considered as incentives meeting this requirement.
- b. Members accessing DPP Advantage funds are not required to provide financial concessions.

7. *Financing costs*

The rate of interest, points, fees, and any other charges for loans made to households using the DPP subsidy for purchase or rehabilitation must not exceed a reasonable market rate of interest, points, fees, and other charges for loans of similar maturity, terms, and risk.

8. *Counseling costs*
Set-aside funds may be used to pay for counseling costs provided by someone other than the member only where the costs are incurred in connection with counseling of homebuyers who actually purchase an AHP-assisted unit and the cost has not been covered by another funding source, including the member. Counseling costs reimbursed by the set-aside funds may not exceed \$650 per household. If the member charges a fee for providing homebuyer or homeowner counseling, the set-aside subsidy will be reduced accordingly.
9. *Cash back to household*
A member may provide cash back to a household at closing on the mortgage loan in an amount not exceeding \$250. The member must use any set-aside subsidy 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 household's monthly payments on the mortgage loan.

D. Procedure for Funding Set-Aside Subsidies

1. *Reservation of set-aside subsidies*
The member will determine household eligibility and will apply to the applicable Program Administrator for a reservation of funding for the homebuyer. Program Administrators will accept reservations after the allocation for the program year has been announced to the Bank's members. Funds will be available on a first-come, first-served basis, until the member limit has been reached or the program funds have been fully reserved, whichever occurs first.
2. *Progress toward use of set-aside subsidies*
The Bank requires its set-aside funds to be drawn down and used by members by the end of the first quarter of the year following the allocation year. If a member's reservation exceeds the 90-day period, the Program Administrator may allow, per Bank policy in effect at that time, an extension of the reservation. Likewise, if necessary, the Bank may allow an extension of the funds to be drawn down and used by members. If an extension is not granted, the reservation will be cancelled. The reserved amount will then be returned to the DPP general pool of funds.
3. *Disbursement of Set-Aside Subsidies*
 - a. At closing, the member will disburse its own funds and submit loan documentation and verification of eligibility to the Program Administrator. After review, the Program Administrator will submit the documentation to the Bank for reimbursement to the member. The Bank will:
 - i. Verify that the requesting institution is a member at the time of disbursement;
 - ii. Verify there is an executed subsidy agreement between the Bank, the member, and Program Administrator pursuant to the Regulations;

and
iii. Review each loan for certification of eligibility pursuant to the Regulations prior to member reimbursement.

- b. The member or Program Administrator, depending on culpability, will be required to assume the liability for any
- i. Subsidies made to an ineligible household, or
 - ii. Subsidies used for an ineligible purpose.

E. Monitoring Policies for Set-Aside Program

1. The Bank will require the member to certify, prior to each disbursement for each set-aside transaction, that:
 - a. The set-aside subsidy was provided to a household meeting all applicable eligibility requirements of section 1291.6(c) of the Regulations and the Bank's Set-Aside Program policies; and
 - b. All other applicable eligibility requirements in section 1291.6 of the Regulations and the Bank's Set-Aside Program policies are met.
2. The Bank will require the member to maintain, for the Bank's review, any documentation necessary for the Bank to determine whether assisted households meet all applicable eligibility requirements of section 1291.6(c) of the Regulations and the Bank's Set-Aside Program policies, including that the AHP-assisted units are subject to the retention agreements.
3. The Bank will review certifications provided by the member for each set-aside transaction prior to disbursement of the set-aside subsidy.
4. The Bank will establish and use a reasonable sampling plan to select households to be monitored, and to review the back-up documentation and any other documentation received by the Bank.

IV. Retention Agreement Requirements

A. Retention Agreements

The Bank will require retention agreements for its Competitive and Set-Aside Programs consistent with the requirements of section 1291.9(a)(7) and (a)(8) of the Regulations. Members will be required to incorporate the terms of the retention agreement into a deed restriction or a mortgage (or other appropriate real property security instrument under applicable law) securing solely the AHP subsidy. Members will be responsible for ensuring that the deed restriction or mortgage (or other appropriate security instrument) is enforceable under applicable law, is in the proper form for recording under applicable law, and is properly recorded. The Bank has provided sample retention agreements on its website at www.fhlbc.com. While the Bank does not require that a member use the sample retention agreements, if a retention agreement will differ substantially from the Bank's sample retention agreements, the member should contact the Bank.

1. Rental project requirements include:
 - a. The rental units, or applicable portion thereof, must remain occupied by, and affordable for, households with incomes at or below the levels committed to be served in the approved AHP application for the duration of the retention period;
 - b. The Bank or its designee is to be given notice of any sale or refinancing of the project occurring prior to the end of the retention period;
 - c. In the case of a sale or refinancing of the project prior to the end of the retention period, the full amount of the direct subsidy received by the owner must be repaid to the Bank, unless (i) the project continues to be subject, for the duration of the retention period, to a deed restriction or other legally enforceable retention agreement or mechanism incorporating the income-eligibility and affordability restrictions committed to in the approved AHP application, or (ii) if authorized by the Bank, in its discretion, the households are relocated, due to the exercise of eminent domain, or for the expansion of housing or services, to another property that is made subject, for the remainder of the retention period to a deed restriction or other legally enforceable retention agreement or mechanism incorporating the income-eligibility and affordability restrictions committed to in the approved AHP application; and
 - d. The income-eligibility and affordability restrictions applicable to the project terminate after any foreclosure.
2. Owner-occupied project requirements include:
 - a. The Bank or its designee is to be given notice of any sale or refinancing of the unit occurring prior to the end of the retention period;

- b. In the case of a sale prior to the end of the retention period, an amount equal to a *pro rata* share of the direct subsidy, reduced for every full month the seller owned the unit, will be repaid to the Bank from any net gain realized upon the sale, unless (i) the unit is sold to a very low-, low-, or moderate-income household, or (ii) the unit was assisted with a permanent mortgage loan funded by an AHP subsidized advance;
 - c. In the case of refinancing prior to the end of the retention period, an amount equal to a *pro rata* share of the direct subsidy, reduced for every full month the seller owned the unit, will be repaid to the Bank from any net gain realized upon the refinancing, unless (i) the unit continues to be subject, for the duration of the retention period, to a deed restriction or other legally enforceable retention agreement or mechanism, or (ii) the unit was assisted with a permanent mortgage loan funded by an AHP subsidized advance.
 - d. The obligation to repay an AHP subsidy to the Bank will terminate after any foreclosure.
3. Inception of Retention Period:
- a. For rental projects, the date of project completion, as reported by the sponsor, or the date of the last AHP subsidy disbursement, whichever is later, will be considered the inception of the 15-year retention period.
 - b. For owner-occupied projects using the AHP subsidy for construction or purchase, the closing date from the HUD-1 settlement statement will be considered the inception of the 5-year retention period.
 - c. For owner-occupied projects using the AHP subsidy for rehabilitation only, the execution date of the retention documents will be considered the inception of the 5-year retention period.

Approved by the Board of Directors
on the 12th day of December, 2013,
amended on the 24th day of February, 2014,
and further amended on the 21st day of March, 2014
by the Affordable Housing Committee of the
Board of Directors

Its Corporate Secretary

EXHIBIT I

Project Feasibility and Cost Guidelines for the Competitive Program

The Bank has established guidelines for determining project feasibility and the need for the requested AHP subsidy pursuant to section 1291.5(c)(4) of the Regulations. These guidelines serve as a benchmark for evaluating projects and may be used as a basis for adjusting or rejecting requests for a subsidy in the application, modification, and pre-and post-disbursement stages of a project. Exceptions to these guidelines will be considered by the Bank on a case-by-case basis based on an evaluation of information and supporting data justifying the need for such exception. Bank staff will make recommendations to the Bank’s Affordable Housing Committee of the Board of Directors.

All projects will be evaluated for reasonableness and a need for subsidy. Projects with values outside of the following guidelines must provide an explanation. Additionally, the guidelines for maximum values below may be utilized as a benchmark for determining over-subsidization.

Rental Projects: Development Budget

Developer Fee

The maximum developer / consultant fee as a % of development costs* excluding developer and consultant fees are as follows:

Project Units	Hard Costs as a % of total project costs	Maximum Fee
1 – 24	≤ 25.0%	7.5%
24 or more	≤ 25.0%	7.5%

Project Units	Hard Costs as a % of total project costs	Maximum Fee
1 – 24	> 25.0%	15.0%
24 or more	> 25.0%	12.0%

Note: For projects involving an acquisition where there is an identity of interest between the buyer and seller, the maximum developer / consultant fee calculated as described above will be limited to 5% of the acquisition.

When the acquisition is initially arms-length, but is followed by an acquisition where there is an identity of interest between the buyer and seller that is necessary to facilitate the project, the developer fee will not be limited to 5.0% of the acquisition.

* The market value of donated or discounted land, labor, and materials will not factor into development costs for purposes of this calculation

Tax Credit Pricing

The sales price for Tax Credits is subject to the following guidelines:

Tax-Credit Type	Minimum	Maximum
LIHTC	\$0.83	N/A

Capitalized Reserves

Reserve Type	Minimum	Maximum	Of
Lease-up Reserves: Used to cover expenses prior to stabilized occupancy	\$0	75%	Total operating expenses plus replacement reserves and all debt service payments excluding cash flow notes during the absorption period identified in the market study
Rental Assistance Reserves: Used to offset the loss of income from a rental assistance commitment	\$0	100%	Amount required per lender / syndicator documents. A detailed explanation of how the reserve was calculated as well as how and when it will be used must be provided.
The sum of all other reserves	3 months	12 months	Total operating expenses plus replacement reserves and all debt service payments excluding cash flow notes

Hard Cost Contingency

Construction Type	Minimum	Maximum
New Construction	5%	10%
Rehabilitation	8%	12%

Rental Projects: Operating Budget

Debt Coverage Ratio

The ratio of net operating income to all debt service payments **excluding** cash flow notes is subject to the following guideline throughout the 15 year operating pro-forma:

Project type	Minimum	Maximum
All projects	1.15	1.45

Expense to Income Ratio

For projects with little or no debt, the ratio of the sum of total operating expenses, replacement reserves, all debt service payments **including** cash flow notes, and deferred developer fee payments to effective gross income is subject to the following guidelines throughout the 15-year operating pro-forma:

Project type	Minimum	Maximum
All projects	85.0%	N/A

Cash Flow

The average annual per unit cumulative cash flow throughout the 15-year operating pro-forma, net of the sum of total operating expenses, replacement reserves, all debt service payments **including** cash flow notes, and deferred developer fee payments, is subject to the following guidelines throughout the 15-year operating pro-forma:

Project type	Minimum	Maximum
All projects	\$100	\$500

Trending Factors

Annual cash-flow trending factors are subject to the following guidelines throughout the 15-year operating pro-forma:

Factor Type	Minimum	Maximum
Income	2%	3%
Expenses	3%	4%
Real Estate Taxes	3%	5%

Note: A minimum spread of 1% between the income and expenses trending factor is required

Vacancy Rates

Annual operating income vacancy rates are subject to the following guidelines throughout the 15-year operating pro-forma:

Project type	Minimum	Maximum
All projects	5.0%	10.0%

Operating Costs per Unit

Annual per unit operating expenses, net of real estate taxes, are subject to the following guidelines in the stabilized occupancy operating budget:

Project type	Minimum	Maximum
All projects (including out of district)	\$2,500	\$5,500

Management Fee

The property management fee, as a percentage of Effective Gross Income (EGI) is subject to the following guidelines:

Project type	Minimum	Maximum
All projects	3.0%	7.0%

Reserve Funding

Annual per unit reserves funded through operations are subject to the following guidelines throughout the 15 year operating pro-forma:

Replacement Reserves		
Construction Type	Minimum	Maximum
New Construction	\$250	\$400
Rehabilitation	\$300	\$500

Operating Reserves		
Project type	Minimum	Maximum
All projects	\$0	Amount required per lender / syndicator documents. A detailed explanation of how the reserve was calculated as well as how and when it will be used must be provided.

Loan Interest Rates

Interest rates on financing from any source are subject to the following guidelines:

Project type	Minimum	Maximum
All projects	0%	400 basis points above the FHLBC CICA rate on the date the application round opens

Owner-Occupied Projects: Development Budget

Developer Fee

The maximum developer / consultant fees are limited as follows:

Project Type	AHP Activity		Developer Fee Eligible	Developer Fee %	Of
	Down Payment Assistance	New Construction / Rehabilitation			
Consumer	X		No	N/A	N/A
Consumer		X	Yes	12%	Hard costs
Consumer	X	X	Yes	12%	Hard costs
Sponsor		X	Yes	12%	Development costs*
Sponsor	X	X	Yes	12%	Development costs*

* Excluding developer and consultant fees. Additionally, the market value of donated or discounted land, labor, and materials will not factor into development costs for purposes of this calculation

Homeowner Counseling Costs

Per household counseling costs subsidized by AHP subsidy are limited as follows:

Project type	Minimum	Maximum
Purchase of AHP assisted units	\$0	\$650
All other projects	\$0	\$0

Loan Interest Rates

Interest rates on financing from any source are subject to the following guidelines

Project type	Minimum	Maximum
All projects	0%	400 basis points above the FHLBC CICA rate on the date the application round opens

All Projects: Development Cost per Unit

The development cost per unit guidelines are as follows:

50+ UNITS	0 bedrooms	1 bedroom	2 bedrooms	3 bedrooms	4+ bedrooms
Chicago MSA*	\$163,016	\$214,495	\$235,944	\$271,336	\$312,036
Balance of Illinois	\$144,061	\$189,554	\$208,510	\$239,786	\$275,754
Wisconsin	\$81,444	\$107,163	\$140,517	\$161,594	\$187,449

25-49 UNITS	0 bedrooms	1 bedroom	2 bedrooms	3 bedrooms	4+ bedrooms
Chicago MSA*	\$152,136	\$200,179	\$220,197	\$253,227	\$291,211
Balance of Illinois	\$138,306	\$181,981	\$200,179	\$230,206	\$264,737
Wisconsin	\$94,463	\$124,294	\$138,458	\$159,227	\$183,111

1-24 UNITS	0 bedrooms	1 bedroom	2 bedrooms	3 bedrooms	4+ bedrooms
Chicago MSA*	\$114,102	\$150,134	\$165,148	\$189,920	\$218,408
Balance of Illinois	\$103,729	\$136,486	\$150,134	\$172,654	\$198,553
Wisconsin	\$72,237	\$95,048	\$105,609	\$121,451	\$139,668

*The Chicago Metropolitan Statistical Area (MSA) is defined as the counties of: Cook, DeKalb, DuPage, Kane, Kendall, Lake, McHenry, and Will.

For out-of-district projects (i.e. not in Illinois or Wisconsin), Bank staff will apply the development cost per unit guidelines determined by the Federal Home Loan Bank for the district of the project. If the out-of-district project exceeds the cost guidelines, the Bank will further analyze costs using its internal cost model. The FHLBC will apply a similar analysis for operating cost per unit.

All other FHLBC feasibility guidelines will apply to out-of-district projects.

For rental projects not involving acquisition only, the adjusted development cost per unit is calculated by excluding land acquisition costs, building acquisition costs, off-site costs, soft costs, developer / consultant fees, financing costs, and capitalized reserves. For rental projects involving acquisition only, the building acquisition cost will be included in the adjusted development cost per unit.

For owner-occupied projects, the adjusted development cost per unit is calculated by excluding land acquisition costs, off-site costs, soft costs, developer / consultant fees, and financing costs.

EXHIBIT II Scoring Guidelines

Projects meeting all eligibility requirements will be reviewed and scored based on nine scoring criteria that total 100 points. Each of the nine scoring criteria has been assigned a maximum point value. Fixed point criteria (*i.e.*, pass/fail) are those that cannot be satisfied in varying degrees (“Fixed”). Applications meeting a fixed-point criterion will receive the maximum number of points allocated to that category. Variable-point criteria are those where there are varying degrees by which an application can satisfy the criteria (“Variable”).

1. DONATED / DISCOUNTED GOVERNMENT OR OTHER PROPERTIES |

5 Variable Points

The creation of housing opportunities using a significant proportion, defined as $\geq 20\%$, of land or units donated or conveyed at a discount of $\geq 20\%$ below the fair market value. Rehabilitation-only projects that do not involve the acquisition of land or units/buildings are not eligible to receive points in this category.

With the exception of the Federal government or any agency or instrumentality thereof, the property must be donated or conveyed by an entity not related to, or affiliated with, the member, project sponsor, or project owner through ownership or control.

Long-term leases of 15 years or more with a nominal annual rent payment of no more than \$100 annually qualify as donated.

The formula below must result in ≥ 1.00 in order for applicants to receive a score in this category. For projects with both donated and discounted land and/or units the score will be the sum of the donated and discounted calculations.

Points are awarded based on the following formula:

$$\left[\frac{B}{A} \right] \times 5 = \text{POINT(S)}$$

For land or units donated:

A = Total number of units or total square feet of land in the project

B = Number of units or total square feet of land donated to the project

For land or units conveyed at a discount:

- A = Fair market value of total units and/or total square feet of land not donated in the project
- B = Fair market value of total units and/or total square feet of land not donated in the project, less the total amount of conveyance

2. PROJECT SPONSORSHIP | 5 Points

Rental Projects 5 Variable Points	
3 points	Criterion 1: Sponsor must be a not-for-profit organization, a state or political subdivision of a state, a state housing agency, a local housing authority, a Native American Tribe, an Alaskan Native Village, or the government entity for Native American Home Lands, and have an ownership interest that exceeds 50% of the managing member, general partner, or overall property ownership.
2 points	Criterion 2: If Criterion 1 is met, then two additional points are available if the sponsor plays at least two of the four following integral roles in the project by directly exercising operational control by: (1) developing the project, (2) providing property management of the project, (3) directly providing empowerment services as defined in this Plan, or (4) directly providing supportive services to the residents of a permanent supportive housing project as defined in this Plan. A co-developer role is not considered an integral role.

Owner-Occupied Projects 5 Fixed Points	
5 points	Sponsor must be a not-for-profit organization, a state or political subdivision of a state, a state housing agency, a local housing authority, a Native American Tribe, an Alaskan Native Village, or the government entity for Native American Home Lands; and play at least two of the three following integral roles in the project by: (1) managing the construction or rehabilitation of the property, (2) directly providing empowerment services as defined in this Plan, or by (3) qualifying borrowers and arranging financing for the owners of the housing units.

3. TARGETING | 20 Variable Points

The Bank will consider the extent to which the project creates housing for very low-, low-, or moderate-income households. For purposes of this scoring criterion, applications for owner-occupied and rental projects will be scored separately. To the extent the applicable formula below returns a negative result, zero points will be awarded in this category. To the extent the applicable formula returns a result greater than 20, the maximum number of points available in this category (i.e. 20) will be awarded.

Rental Projects

Points will be awarded to projects that finance the purchase, construction, and/or rehabilitation of rental housing, of which $\geq 20\%$ of the units in the project will be occupied by very low-income households with incomes $\leq 50\%$ of area median income (“AMI”). For rental projects, units must be retained as affordable for 15 years.

- a. Rental projects where $\geq 60\%$ of the total units will be occupied by, and affordable to, very low-income households ($\leq 50\%$ of AMI) will receive 20 points.
- b. Rental projects that do not meet the 60% very low-income criteria will be awarded points on a declining scale based on the percentage of units in a project that are reserved for very low-income households and on the percentage of remaining units reserved for moderate-income households. Rental projects will be scored using the following formula:

$$25 \left[\frac{B - (.20(A))}{.80(A)} \right] + 16 \left[\frac{C}{.80(A)} \right] + 8 \left[\frac{D}{.80(A)} \right] + 0 [E] = \text{POINT(S)}$$

- Where:
- A = Total Number of Units
 - B = Number of Units $\leq 50\%$ of AMI
 - C = Number of Units $> 50\%$ and $\leq 60\%$ of AMI
 - D = Number of Units $> 60\%$ and $\leq 80\%$ of AMI
 - E = Number of Units $> 80\%$ of AMI

Owner-Occupied Projects

Points will be awarded to projects that finance the purchase, construction, and/or rehabilitation of owner-occupied homes for low- and moderate-income households, in that priority order. For owner-occupied projects, incomes cannot exceed 80% of the AMI and units must be retained as affordable for five years.

Owner-occupied projects will be awarded points on a declining scale. Those with the greatest percentage of households with low incomes ($\leq 60\%$ of AMI) and moderate incomes ($> 60\%$ and $\leq 80\%$ of AMI), in that order, will receive the most points. A weighted average is calculated with the greater weight given to low-income households. The following formula is used to determine the score:

$$20 \left[\frac{B}{A} \right] + 12 \left[\frac{C}{A} \right] = \text{POINT(S)}$$

Where: A = Total Number of Units

B = Number of Units \leq 60% of AMI

C = Number of Units $>$ 60% and \leq 80% of AMI

4. HOUSING FOR HOMELESS HOUSEHOLDS | 5 Fixed Points

Projects that (1) create rental housing, excluding overnight shelters, reserving \geq 20% of the AHP-assisted units for homeless households, (2) create transitional housing for homeless households permitting a minimum of six months of occupancy, or (3) create permanent owner-occupied housing reserving \geq 20% of the AHP-assisted units for homeless households, are eligible to receive five points.

Homeless households are defined as those households recognized as homeless under current Department of Housing and Urban Development (“HUD”) statutes, regulations, or regulatory interpretations. The current definition includes four broad categories of homelessness:

- People who are living in a place not meant for human habitation, in an emergency shelter, in transitional housing, or are exiting an institution where they temporarily resided.
- People who are losing their primary nighttime residence, which may include a motel or hotel or a doubled-up situation, within 14 days and lack resources or support networks to remain in housing.
- Families with children or unaccompanied youths who are unstably housed and likely to continue in that state. This applies to families with children or unaccompanied youths who have not had a lease or ownership interest in a housing unit in the last 60 or more days, have had two or more moves in the last 60 days, and who are likely to continue to be unstably housed because of disability or multiple barriers to employment.
- People who are fleeing or attempting to flee domestic violence, have no other residence, and lack the resources or support networks to obtain other permanent housing.

5. PROMOTION OF EMPOWERMENT | 5 Variable Points

Up to five points are available for projects that empower residents by providing housing in combination with the services identified below. Empowerment services are: (1) intended to increase the economic self-sufficiency of a household, and (2) not integral to the operation of the housing. Proposed services must be appropriate for the target population of the housing.

Five points will be given for projects committing to three services from the list below.

Three points will be given for projects committing to two services from the list below.

One point will be given for projects committing to one service from the list below.

Empowerment services eligible for points:

- Employment services (*i.e.*, employment/career counseling, job training and/or placement)
- Financial literacy, independent of homebuyer education and/or pre-purchase counseling
- Education related to economic empowerment (*e.g.*, English as a Second Language (“ESL”), General Educational Development (“GED”), High School Equivalent Diploma (“HSED”), or computer classes)
- Youth education programs serving as a substitute for child care, or those that create employment and/or volunteer opportunities for youth
- Assistance accessing benefits and/or entitlements that provide income and/or reduce the cost of living
- Assistance with preparing income tax returns, including determining eligibility for the Earned Income Tax Credit (“EITC”)
- Pre-purchase homebuyer education and counseling that adopts the National Industry Standards for Homeownership Education and Counseling. (Note: Must be mandatory for all AHP-assisted homebuyers.)
- Post-purchase homeowner counseling that adopts the National Industry Standards for Homeownership Education and Counseling. (Note: Must be mandatory for all AHP-assisted homebuyers/homeowners.)

6. DISTRICT PRIORITY 1 | 16 Variable Points

a. SPECIAL NEEDS | 5 Variable Points

The financing of housing where $\geq 20\%$ of the AHP-assisted units are reserved for occupancy by households with special needs.

For purposes of this scoring criterion, special needs populations are defined as individuals with physical, mental, or developmental disabilities.

The individual with the qualifying special need(s) is not required to be the head of the household.

Alternatively, the financing of housing that is visitable by persons with physical disabilities who are not occupants of such housing qualifies for up to five points in this scoring criterion. A visitable unit must include these three features: (1) at least one zero-step entrance approached by an accessible route on a firm surface proceeding from a driveway, accessible parking lot, or public streets or sidewalks; (2) doorways that are 32

inches clear throughout the floor plan of the unit; and (3) basic access to at least one half-bath/powder room on the main floor.

Projects subject to the design and construction requirements of the Federal Fair Housing Act are not eligible for visitable points.

The commitment of units in this category may be a combination of those occupied by individuals with special needs and those that are visitable.

5 points	≥ 50% of the AHP-assisted units will be occupied by households with special needs or visitable by persons with physical disabilities
3 points	≥ 20% and < 50% of the AHP-assisted units will be occupied by households with special needs or visitable by persons with physical disabilities

b. RURAL HOUSING | 6 Fixed Points

Projects in which ≥ 50% of the AHP-assisted units are located in a rural area are eligible for six points.

The Bank’s definition of a rural area will be consistent with the Rural Housing Service, U.S. Department of Agriculture definition per 7 C.F.R. § 3550.10. To determine if a particular location is designated as rural, please refer to:

<http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do>

c. IN-DISTRICT PROJECTS | 5 Fixed Points

Projects in which 100% of the AHP-assisted units are located within the states of Illinois and/or Wisconsin (*i.e.*, the Seventh District) are eligible for five points.

7. DISTRICT PRIORITY 2 | 11 Variable Points

a. PROJECT READINESS | 5 Fixed Points

In an effort to resolve the critical shortage of affordable housing in a timely manner, a rental project that demonstrates readiness in accordance with all of the following criteria is eligible for five points:

- 1) Committed funding sources of ≥ 50% (exclusive of requested AHP subsidy and deferred developer fee) of total development costs.
- 2) Site control for the project as evidenced by a fee simple interest in the property or a fully executed, binding agreement to purchase, lease, or donate the property.

- 3) Site must be currently zoned for the proposed use. For multiple or scattered-site projects, all parcels must be currently zoned for the proposed use(s).

b. MEMBER FINANCIAL PARTICIPATION | 6 Variable Points

This scoring criterion measures the extent to which a member or members of the Bank participate(s) **financially** in a project, excluding pass-through of the AHP subsidy.

The sum total of a member's or members' financial participation will be used to determine points in this scoring criterion.

Rental Projects	
5 points	<p>If a member or members of the Bank provide(s) long-term financing with a minimum term of 15 years to the project (<i>i.e.</i>, permanent financing, letter of credit for credit enhancement, direct purchase of tax credits, or purchase of tax credits through a proprietary investment fund), the sum total of which constitutes $\geq 10\%$ of total development cost.</p> <p>Projects consisting of rehabilitation-only are eligible to receive points for long-term financing only if a member or members of the Bank commit(s) to provide financing for the proposed rehabilitation $\geq 10\%$ of total development cost.</p>
2 points	<p>If a member or members of the Bank provide(s) long-term financing with a minimum term of 15 years to the project (<i>i.e.</i>, permanent financing, letter of credit for credit enhancement, direct purchase of tax credits, or purchase of tax credits through a proprietary investment fund), the sum total of which constitutes $\geq 5\%$ and $< 10\%$ of total development cost.</p> <p>OR</p> <p>If a member of the Bank has an existing permanent loan on a project consisting of rehabilitation only.</p>
1 point	<p>If a member of the Bank provides intermediate or short-term financing to the project (<i>i.e.</i>, primary construction or bridge loan, or performance guaranty letters of credit).</p>

Owner-Occupied Projects	
6 points	If a member or members of the Bank will definitively provide financing with a minimum loan term of five years to $\geq 75\%$ of all qualified homebuyers/homeowners.
3 points	If a member or members of the Bank will provide only short-term financing to the project (<i>i.e.</i> , construction loan or bridge loan) or will definitively provide financing with a minimum loan term of five years to $\geq 25\%$ and $< 75\%$ of homebuyers/homeowners.
1 point	If a member or members of the Bank will provide financing with a minimum loan term of five years to $\geq 10\%$ and $< 25\%$ of homebuyers/homeowners.

8. AHP SUBSIDY PER UNIT | 10 Variable Points

The Bank will consider how effectively the project uses AHP subsidy dollars. Scoring is based on the extent to which the project proposes to use the least amount of AHP subsidy per AHP-targeted unit (units $\leq 80\%$ of AMI), *i.e.*:

$$\frac{\text{AHP Subsidy}}{\# \text{ of units } \leq 80\% \text{ AMI}} = \$ \text{ Subsidy per Unit}$$

Rental	
\$ Subsidy per Unit	Points
\$18,000 or less	10
\$18,001 - \$19,000	8
\$19,001 - \$20,000	6
\$20,001 - \$21,000	4
\$21,001 - \$22,000	2
Over \$22,000	0

Owner-Occupied	
\$ Subsidy per Unit	Points
\$8,000 or less	10
\$8,001 - \$8,500	8
\$8,501 - \$9,000	6
\$9,001 - \$9,500	4
\$9,501 - \$10,000	2
Over \$10,000	0

9. COMMUNITY STABILITY | 23 Variable Points

The Bank seeks to promote projects that incorporate characteristics of stable, vibrant, and inclusive communities. Points are available for the following criteria:

5 points	<p>Promotion of homeownership, defined as projects involving:</p> <ul style="list-style-type: none"> • Down payment assistance with AHP subsidy <p>100% of the AHP-assisted units in the project must meet the criteria to receive the points.</p>
5 points	<p>Rehabilitation of single family housing (<i>i.e.</i>, structures with four or fewer units).</p> <p>100% of the total AHP-assisted units in the project must meet the criteria to receive the points.</p>
3 points	<p>Elimination of blighting influences, defined as projects involving one or more of the following characteristics:</p> <ul style="list-style-type: none"> • The inclusion of foreclosed properties and/or properties acquired via a short-sale • The acquisition and rehabilitation of vacant and/or abandoned buildings that will become and/or be incorporated into the AHP-assisted project • The demolition of a vacant and/or abandoned structure that will be replaced with the AHP-assisted project, <i>or</i> • The utilization of one or more infill lots. <p>≥ 50% of the AHP-assisted units in the project must meet the criteria to receive the points.</p>
3 points	<p>Projects incorporating permanent supportive housing units. Permanent supportive housing is defined as having <i>all</i> of the following characteristics:</p> <ul style="list-style-type: none"> • Targeted to individuals and/or families with a history of homelessness or living for extended periods of time in institutional care and have at least one disabling condition (including if a child has a disabling condition), <i>and</i> • Housing units are designed to allow the tenant(s) to live independently (<i>i.e.</i>, full private kitchen and bath facilities), <i>and</i> • Affordable to households at ≤ 30% of area median income, <i>and</i> • Supportive services are designed to increase rates of housing stability and retention, <i>and</i> • Tenants have leases and participation in supportive services is not a condition of tenancy <p>≥ 20% of the AHP-assisted units in the project must meet the criteria to receive the points.</p>

2 points	<p>Preservation of affordable rental housing with land use, restrictive use, or tax credit covenants that have expired or will expire within five years of the date of application. Expiring Annual Contributions Contracts (“ACC”) are not eligible for points in this criterion.</p> <p>100% of the AHP-assisted units in the project must meet the criteria to receive the points.</p>
2 points	<p>Projects in targeted areas, defined as being located in one or more of the following:</p> <ul style="list-style-type: none"> • HUD Qualified Census Tracts (“QCT”) • Neighborhood Stabilization Program (“NSP”) census tracts, <i>or</i> • Census tracts where the median income equals or exceeds the median income for the county or metropolitan area (<i>i.e.</i>, ‘mixed-income locations’) <p>100% of the AHP-assisted units in the project must meet the criteria to receive the points.</p>
2 points	<p>A ‘Walkscore’ of ≥ 70.00 points as calculated on www.walkscore.com.</p> <p>For scattered site projects, the average Walkscore of all AHP-assisted addresses/parcels will be used to determine eligibility for points.</p>
1 point	<p>Certification of consistency with neighborhood, community, or local planning efforts, excluding Consolidated and/or Annual Action Plans.</p>

EXHIBIT III

Competitive Program Monitoring Policies

Please be aware the policies below are subject to revision. At such time as revisions are warranted, the Bank will republish the policies.

1. Initial Monitoring Policies

a. Monitoring Prior to Project Completion

The Bank will require project members and sponsors to report at least once in the first year after award, and semi-annually thereafter, a project's progress. The Bank will review such reports to assess whether satisfactory progress is being made towards draw-down and use of the subsidy, and project completion. The Bank may cancel its AHP approval for lack of such progress.

b. Monitoring After Project Completion

1. Project Completion Definition

Owner-Occupied Projects – The Bank defines completion as the later of the date of the final AHP subsidy disbursement, the date when construction or rehabilitation is complete, the date all units are sold, or the date unused funds are deobligated.

Rental Projects – The Bank defines completion as the later of the date the project reports an 85% occupancy rate or the date of the final AHP subsidy disbursement.

2. Review, Documentation, and Certifications

The Bank will require project members, sponsors, and owners, as applicable, to maintain and submit any project documentation required to demonstrate a project's compliance with commitments made in the AHP application and the Bank's financial feasibility and scoring guidelines.

- a. Eighteen (18) months after project completion, the Bank will determine and collect documentation to demonstrate whether each project meets the following requirements:
 1. AHP subsidies were used for eligible purposes according to the commitments made in the approved AHP application;
 2. household incomes and rents comply with the income targeting and rent commitments made in the AHP application;
 3. actual costs were reasonable in accordance with the Bank's Project Feasibility and Cost Guidelines;

4. AHP subsidies were necessary for the completion of the project as currently structured;
5. each AHP-assisted unit of an owner-occupied project and rental project is subject to a deed restriction or other legally enforceable retention agreements or mechanisms meeting Section IV of this Plan; and
6. services and activities committed to in the AHP application have been provided in connection with the project.

- b. Within eighteen (18) months after project completion, the member, sponsor, and owner of each project will submit executed certifications to supplement documentation used to confirm the above mentioned requirements.

3. Household and Tenant Documentation

- a. For owner-occupied projects, the Bank will review back-up documentation regarding household incomes at the time of disbursement. Where the subsidy is used for construction of the units, the review will be done when the project is completed. The documentation will be collected for each owner-occupied project and its units according to the Bank's risk-based sampling plan.
- b. For rental projects, the Bank will review back-up documentation regarding tenant incomes and rents at project completion. The documentation will be collected for each rental project and its units according to the Bank's risk-based sampling plan.

2. *Long-Term Monitoring Policies*

- a. **Owner-Occupied Projects**
There will be no long-term monitoring of owner-occupied projects beyond the member bank servicing the recorded lien for AHP-assisted units.
- b. **Low Income Housing Tax Credit Projects**
The Bank elects to rely on the "Low Income Housing Tax Credit Program" monitoring by the applicable state-designated housing credit agency for compliance with the income targeting and rent commitments for rental projects as allowed under section 1291.7(a) (2) of the Regulations.
- c. **Non-Low Income Housing Tax Credit Projects**
For completed non-Low Income Housing Tax Credit projects, the Bank will use a reasonable, risk-based sampling plan to select the rental projects and units to be monitored. The Bank will conduct its long-term monitoring commencing in the second year after completion and through the full 15-year

retention period.

1. Annually, the Bank will require owners of rental properties to certify that the tenant incomes and rents comply with the income targeting and rent commitments made in the approved AHP application.
2. For projects involving new construction, every five (5) years, the Bank will require members to certify, based on an exterior visual inspection, that the rental project appears to be suitable for occupancy.
3. For projects involving rehabilitation, every three (3) years, the Bank will require members to certify, based on an exterior visual inspection, that the rental project appears to be suitable for occupancy.
4. Periodically the Bank will review back-up documentation regarding tenant incomes and rents to verify compliance with income targeting and rent commitments in the approved AHP application. The Bank will use a risk-based sampling plan to determine the frequency and sampling of project units for such reviews. The Bank will conduct on-site reviews for higher risk projects.

3. Events of Non-Compliance

- a. Failure to comply with the monitoring requirements of the Regulations or the Bank's policies.
- b. Actions or omissions that result in the subsidy not being used in compliance with the terms of the AHP application or Regulations.

4. Remedial Actions for Non-Compliance

- a. Non-compliant projects will have an opportunity to be cured within a reasonable period of time, or through a project modification, as determined by the Bank in compliance with the Regulations.
- b. When the event cannot be cured or a modification cannot eliminate the non-compliance, repayment of the subsidy will be required in accordance with the Regulations.
- c. In accordance with the Bank's policy and Regulations, the Bank may suspend or debar a member, project sponsor, or project owner from participation in the Bank's Competitive Program if such party shows a pattern of non-compliance, or engages in a single instance of flagrant non-compliance, with the terms of an approved application for AHP subsidy or the requirements of the Regulations.