

Policy Title: Affordable Housing Program Subsidy Disbursement Policy
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I. Introduction

The FHLBC has established and implemented this Affordable Housing Program Subsidy Disbursement Policy (this “Policy”), which addresses the requirements for disbursement of AHP Subsidy to an AHP Project under the Competitive Application Program.

Capitalized terms shall have the meaning set forth for such terms in the Affordable Housing Program Definitions unless otherwise defined in this Policy.

Prior to approval of the Initial Draw Down and any subsequent disbursements, the FHLBC will determine whether: (1) the AHP Project meets all eligibility requirements of the Regulations, (2) the AHP Project has a need for AHP Subsidy, (3) the AHP Project is making progress towards Project Completion, (4) the AHP Project has met or will meet its Commitments, (5) the AHP Project is consistent with the Project Approval Record or changes to the AHP Project are acceptable as set forth in the Project Change Policy, (6) the AHP Project is in compliance with FHLBC policies and procedures, and (7) the documentation received by the FHLBC is acceptable and complete.

If the FHLBC determines the aforementioned criteria have been satisfied, the FHLBC may disburse AHP Subsidy to the AHP Project.

If the FHLBC determines the aforementioned criteria have not been satisfied, the disbursement request will be delayed until these requirements have been met or may be rejected.

Additionally the FHLBC may determine there is Non-Compliance which may also delay the disbursement or result in its rejection. For additional information regarding events of Non-Compliance and their remedies, see the Non-Compliance Policy.

The FHLBC may require additional documentation from the Sponsor or Member in connection with the disbursement of AHP Subsidy in order to determine whether the aforementioned criteria have been satisfied.

II. Threshold Provisions

Disbursement requests failing to meet the following threshold provisions will, at a minimum, be delayed until these provisions have been met. Alternatively the disbursement request may be rejected.

A. Conditions of Approval

If an AHP Project was approved with disbursement conditions, those conditions must be fulfilled prior to or at the time of Initial Draw Down of the AHP Subsidy.

B. Good Standing

The Member and the Sponsor are in Good Standing with the FHLBC.

C. Subsidy Agreement

The Subsidy Agreement has been executed by the Member(s), the Sponsor, and the FHLBC.

D. Disbursement Requests and Reimbursement

The FHLBC will only disburse AHP Subsidy to the Member associated with, and for use in, the AHP Project. Disbursement to the Member will occur as a reimbursement after the Member has funded the AHP Subsidy to the AHP Project.

If the Member associated with the AHP Project loses its membership in the FHLBC, the FHLBC may disburse the AHP Subsidy to another Member of the FHLBC, or through a member of another Federal Home Loan Bank, to which the Member associated with the AHP Project has transferred its obligations.

In a Rental Project, disbursement requests should be submitted to the FHLBC for review and approval prior to the Member's funding of AHP Subsidy to the AHP Project. Upon satisfactory completion of the disbursement review, the FHLBC will notify the Member of Pre-Approval to fund an amount equal to the AHP Subsidy for use in the AHP Project, along with any conditions that must be satisfied in order to receive reimbursement. Following the satisfaction of any disbursement reimbursement conditions, the FHLBC will provide reimbursement to the Member. *In no case should the Member assume that the FHLBC will provide reimbursement for the disbursement of AHP Subsidy to a Rental Project unless the FHLBC has provided Pre-Approval to disburse. Submission of a disbursement request does not guarantee Pre-Approval. Disbursement of AHP Subsidy to a Rental Project prior to Pre-Approval is at the Member's own risk, with reimbursement subject to FHLBC review and approval as set forth in this Policy.* For Rental Projects where all sources and uses of funds necessary for Project Completion will be disbursed to the AHP Project through a title company or escrow, utilizing controls including third-party management, monitoring, and inspection of the draw and construction or rehabilitation process, the AHP Subsidy may be funded by the Member in full to be used for the closing draw. For Rental Projects where all sources and uses of funds necessary for Project Completion will not be

disbursed to the AHP Project through a title company or escrow, the AHP Subsidy may only be funded by the Member to cover expenses evidenced as having already been incurred.

For Rental Projects, the AHP Subsidy will be disbursed in full through a single disbursement request, and will not be disbursed prior to the closing on all sources of funds necessary to complete the AHP Project.

In an Owner-Occupied Project, the Member funds an amount equal to the AHP Subsidy on a unit basis either in connection with the acquisition or rehabilitation completion of an AHP-Assisted Unit, after which a disbursement request is submitted to the FHLBC for review, approval, and reimbursement. *In all cases, Member funding of AHP Subsidy in an Owner-Occupied Project is at the Member's risk, with reimbursement subject to FHLBC review and approval as set forth in this Policy*

In an Owner-Occupied Project involving homebuyer acquisition, the Member should not fund AHP Subsidy prior to the Beneficiary's purchase of the AHP-Assisted Unit. The FHLBC will not provide reimbursement to the Member prior to the Beneficiary's purchase of the AHP-Assisted Unit.

In an Owner-Occupied Project that does not involve a homebuyer acquisition, and consists of rehabilitation only, the Member should not fund AHP Subsidy prior to completion of all rehabilitation work. The FHLBC will not provide reimbursement to Members prior to the completion of all rehabilitation work.

E. Timing of Initial Draw Down

The Initial Draw Down of the AHP Subsidy must be Member approved within 12 months of the Award Date, unless the AHP Project is granted an extension to the commitment expiration date. If an extension request is not submitted, or if the extension request is submitted and denied, the AHP Subsidy will be De-Obligated.

If the AHP Project is unable to meet the Initial Draw Down within 12 months of the Award Date, the Member and Sponsor may request an extension. Extension requests must demonstrate the following:

1. Good cause for an extension,
2. Progress towards meeting any conditions of approval for the AHP Project,
3. Progress towards the Initial Draw Down, and
4. Progress towards Project Completion.

The FHLBC will review all extension requests, and may, in its discretion, approve an extension to the Initial Draw Down of no more than 12 months. This is the equivalent of a maximum of 24 months from the Award Date.

Note: An AHP Project with a condition that it receive an allocation of LIHTC's must fulfill this condition in order to request an extension.

The FHLBC will consider an AHP Project to have met the Initial Draw Down requirement when the disbursement request has been approved for submission by the Member, and received by the FHLBC within the appropriate timeframe.

III. Disbursement Requirements

Prior to the Initial Draw Down and any subsequent disbursements of AHP Subsidy, the FHLBC will review the AHP Project and the disbursement request as described below.

A. Rental Projects

The FHLBC will verify the following¹ for all Rental Projects through the Project File and information obtained through the disbursement request:

1. *Eligibility*: The AHP Project and Sponsor meet all minimum eligibility requirements under the Regulations and the Implementation Plan
2. *Compliance*: The AHP Project, the Sponsor, and the Member are fulfilling all FHLBC requirements
3. *Eligible Use of AHP Subsidy*: The AHP Subsidy is being used for eligible purposes. For additional information see the FHLBC's Eligible and Ineligible Uses of AHP Subsidy Policy
4. *Financial Feasibility*: The AHP Project is financially feasible
5. *Need for subsidy*: The AHP Project has a demonstrated need for AHP Subsidy
6. *Project Completion*: The AHP Project is making progress towards Project Completion
7. *Commitments*: The AHP Project has met or is making progress towards meeting its Commitments
8. *Retention Agreement*: The AHP Project is subject to an executed Retention Agreement Note: this is not required in order to obtain Pre-Approval
9. *Delivery of Subsidy*: The Member has delivered the AHP Subsidy to the AHP Project Note: this is not required in order to obtain Pre-Approval
10. *Acquisitions*: For AHP Projects involving the acquisition of sites or buildings, all acquisitions have already occurred or will occur in connection with the disbursement of the AHP Subsidy.
11. *Acquisitions*: For AHP Projects involving the acquisition of sites or buildings, all acquisition costs are documented and validated
12. *Zoning*: All sites and buildings are appropriately zoned to permit the AHP Project
13. *Ownership*: The Sponsor has an ownership interest in the AHP Project
14. *Rehabilitation and Construction Scope*: For all AHP Projects involving rehabilitation or new construction, the scope of work is documented and acceptable
15. *Rehabilitation and Construction Costs*: For all AHP Projects involving rehabilitation or new construction, the cost of work is documented, reasonable, and acceptable in accordance with the FHLBC's per-unit development-cost guidelines
16. *Construction Payments and Completion*: For AHP Projects involving rehabilitation or new construction, the cost and completion of work that is partially or fully completed prior to the time of disbursement

¹ Unless otherwise noted, the FHLBC will review 100% of all back-up documentation in connection with its review.

17. *Sources*: All sources of funds are documented, acceptable, and available and contribute to evidencing the project's financial feasibility and need for AHP Subsidy
18. *Uses*: All uses of funds are documented, acceptable, and contribute to evidencing the project's financial feasibility and need for AHP Subsidy
19. *Income*: All sources of income associated with the operations of the AHP Project are documented, acceptable, and contribute to evidencing the project's financial feasibility and need for AHP Subsidy
20. *Expenses*: All operating expenses of the AHP Project are documented, acceptable, and contribute to evidencing the project's financial feasibility and need for AHP Subsidy
21. *Income Targeting and Rent Affordability Commitments*: For AHP Projects that are occupied at the time of disbursement, the FHLBC will review information related to demonstrating compliance with income targeting and rent affordability Commitments

Note: Sponsors are required to maintain documentation through the end of the Retention Period regarding tenant incomes and rents from the earlier of: (1) tenant move-in, or (2) submission of the Application for an existing occupied project. If a unit is reclassified subsequent to move-in or Application, Sponsors are required to also maintain the income documentation to support the reclassification.

Homeless shelters and shelters for victims of domestic violence will not be required to submit a tenant income workbook or income documentation. The Sponsor Certification will certify that income-targeting and rent commitments comply with the Commitments made in the approved Application.

B. Owner-Occupied Projects

The FHLBC will verify the following² for each AHP-Assisted Unit through the Project File and information obtained through the disbursement request:

1. *Eligibility*: The AHP Project and Sponsor meet all minimum eligibility requirements under the Regulations and the Implementation Plan
2. *Compliance*: The AHP Project, the Sponsor, and the Member are fulfilling all FHLBC requirements
3. *Eligible use of AHP Subsidy*: The AHP Subsidy is being used for eligible purposes. For additional information, see the FHLBC's Eligible and Ineligible Uses of AHP Subsidy Policy
4. *Financial Feasibility*: The AHP-Assisted Unit is financially feasible
5. *Need for subsidy*: The AHP-Assisted Unit has a demonstrated need for AHP Subsidy
6. *Commitments*: The AHP-Assisted Unit contributes to fulfilling the Commitments of the AHP Project

² Unless otherwise noted, the FHLBC will review 100% of all back-up documentation in connection with its review.

7. *Retention Agreement*: The AHP-Assisted Unit is subject to an executed Retention Agreement

The FHLBC will use a risk-based sampling plan to select recorded Retention Agreements for review

8. *Delivery of Subsidy*: The Member has delivered the AHP Subsidy to the AHP-Assisted Unit
9. *Acquisitions*: For AHP Projects involving a homebuyer purchase, the homebuyer purchase has occurred prior to the time of disbursement
10. *Rehabilitation and Construction Scope*: For all AHP Projects involving rehabilitation or new construction, the final scope of work in connection with the delivery of the AHP-Assisted Unit is documented and acceptable
11. *Rehabilitation and Construction Costs*: For all AHP Projects involving rehabilitation or new construction, the final cost of all work in connection with the AHP-Assisted Unit is documented, reasonable, and acceptable in accordance with the FHLBC's per-unit development-cost guidelines
12. *Construction Payments and Completion*: For all AHP Projects involving rehabilitation or new construction, all rehabilitation or new construction work in connection with the AHP-Assisted Unit is lien-free and complete
13. *Permission to Occupy*: For all AHP Projects involving rehabilitation or new construction, evidence that the AHP-Assisted Unit can be occupied
14. *Sources*: The final homeowner sources of funds in connection with the AHP-Assisted Unit are documented and acceptable

For Sponsor-Driven Projects, the final Sponsor sources of funds in connection with the AHP-Assisted Unit are documented and acceptable

Sponsor and homeowner sources of funds must contribute to evidencing financial feasibility and the need for AHP Subsidy

15. *Uses*: The final homeowner uses of funds in connection with the AHP-Assisted Unit are documented and acceptable

For Sponsor Driven Projects the final Sponsor uses of funds in connection with the AHP-Assisted Unit are documented and acceptable

Sponsor and homeowner uses of funds must contribute to evidencing financial feasibility and the need for AHP Subsidy.

In all cases, "cash back" payments to the homebuyer are only permitted in connection with the purchase of an AHP-Assisted Unit and are limited to a net amount of no more than \$250.00

16. *Eligibility and Targeting Commitments*: The FHLBC will verify that household incomes are in compliance with minimum eligibility requirements and Commitments related to income targeting for the AHP-Assisted Unit

For AHP-Assisted Units involving homebuyer acquisitions, household income documentation must be dated within 120 days of the closing / settlement date set forth on

the final closing disclosure. In the event that the first mortgage lender, investor, and/or guarantor requires more current income documentation, the most current income documentation obtained must be used to support income eligibility.

For AHP-Assisted Units that do not involve a homebuyer acquisition, and consist of rehabilitation only, household income documentation must be dated within 120 days of the initiation of rehabilitation work.