

Policy Title: Affordable Housing Program Monitoring Policy  
Effective Date: 3/28/2018

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**I. Introduction**

The FHLBC has established and implemented this Affordable Housing Program Monitoring Policy (this “Policy”), which addresses the regulatory monitoring requirements for AHP Projects 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.

Through the monitoring of AHP Projects, 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 or has achieved 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 that any of the aforementioned criteria have not been satisfied, the FHLBC may determine that there is Non-Compliance. 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 its monitoring activities in order to determine whether the aforementioned criteria have been satisfied.

## **II. Initial Monitoring**

*Initial monitoring* for all AHP Projects includes: (A) Semi-Annual Progress Reporting, and (B) Project Completion Reporting.

### **A. Semi-Annual Progress Reporting**

All AHP Projects will be subject to Semi-Annual Progress Reporting beginning in the first year after the Award Date and continuing semi-annually until Project Completion.

The FHLBC will verify the following through the Project File and information obtained through Semi-Annual Progress Reporting:

1. The AHP Project is making satisfactory progress towards Initial Draw Down of the AHP Subsidy.

For additional information regarding the timeframes for Initial Draw Down of the AHP Subsidy, see the Disbursement Policy.

2. The AHP Project is making satisfactory progress towards Project Completion.

### **B. Project Completion Reporting**

Owner-Occupied Projects have 36 months from the Award Date to reach Project Completion. Rental Projects have 42 months from the Award Date to reach Project Completion.

The Sponsor must inform the FHLBC of Project Completion through one of the following:

- Semi-Annual Progress Reporting;
- A disbursement request; or
- Direct communication with FHLBC staff.

Within 18 months of notification of Project Completion, the FHLBC requires the Sponsor and the Member to submit the Project Completion Report for FHLBC review in order to verify the following:

1. **Rental Projects** The FHLBC will verify the following<sup>1</sup> for all Rental Projects through the Project File and information obtained through the Project Completion Report:
  - a) *Eligibility*: The AHP Project and Sponsor meet all minimum eligibility requirements under the Regulations and the Implementation Plan
  - b) *Acquisitions*: For AHP Projects involving the acquisition of sites or buildings, all acquisition costs are documented and validated
  - c) *Compliance*: The AHP Project, the Sponsor, and the Member are fulfilling all requirements under the Regulations and the FHLBC policies
  - d) *Eligible Use of AHP Subsidy*: The AHP Subsidy has been used for eligible purposes; for additional information, see the Eligible and Ineligible Uses of AHP Subsidy Policy

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<sup>1</sup> Unless otherwise noted, the **FHLBC** will review 100% of all back-up documentation.

- e) *Financial Feasibility*: The AHP Project is financially feasible
- f) *Need for subsidy*: The AHP Project has a demonstrated need for AHP Subsidy
- g) *Commitments*: The AHP Project has fulfilled its Commitments

Upon PCR Completion, a Rental Project has fulfilled all Commitments with the exception of Commitments related to income targeting and rent affordability, as described below, which must continue to be fulfilled throughout the Retention Period.

- h) *Retention Agreement*: The AHP Project is subject to an executed and recorded Retention Agreement

The Member is responsible for ensuring that the AHP Project remains subject to a legally enforceable Retention Agreement through the end of the Retention Period.

- i) *Ownership*: The Sponsor has an ownership interest in the AHP Project
- j) *Rehabilitation and Construction Scope*: For all AHP Projects involving rehabilitation or new construction, the final scope is documented and acceptable
- k) *Rehabilitation and Construction Costs*: For all AHP Projects involving rehabilitation or new construction, the final cost of all work is documented, reasonable, and acceptable in accordance with the FHLBC's per unit development cost guidelines
- l) *Construction Payments and Completion*: For AHP Projects involving rehabilitation or new construction work, evidence of construction payment and completion
- m) *Permission to Occupy*: For AHP Projects involving rehabilitation or new construction work, evidence that the AHP Project can be occupied
- n) *Sources*: The final sources of funds are documented, acceptable, and contribute to evidencing financial feasibility and the need for AHP Subsidy
- o) *Uses*: The FHLBC will verify that 100% of final uses of funds are documented, acceptable, and contribute to evidencing financial feasibility and the need for AHP Subsidy
- p) *Income*: All sources of income associated with the operations of the AHP Project are documented, acceptable, and contribute to evidencing financial feasibility and the need for AHP Subsidy
- q) *Expenses*: All operating expenses of the AHP Project are documented, acceptable, and contribute to evidencing financial feasibility and the need for AHP Subsidy
- r) *Income Targeting and Rent Affordability Commitments*: The FHLBC will verify Commitments related to income targeting and rent affordability and will use a risk-based sampling plan to select back-up documentation for review

Household income documentation for Rental Projects should be dated within one (1) month of the date the household signed the lease.

Commitments related to income targeting and rent affordability must continue to be fulfilled throughout the Retention Period.

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.

The Sponsor will be required to certify the following:

- a) The AHP Subsidy was used for eligible purposes according to the Commitments made in the approved Application;
- b) The tenant incomes and rents are compliant with the Commitments made in the approved Application;
- c) The AHP Project is habitable and suitable for occupancy;
- d) Documentation regarding tenant incomes and rents, from the earlier of move-in or Application submission for an existing occupied project, is maintained;
- e) The Sponsor continues to have an ownership interest in the AHP Project;
- f) The Sponsor is in existence and is in good standing;
- g) The AHP Project's debt payments, if any, are current;
- h) The AHP Project's real estate tax payments, if any, are current;
- i) The current vacancy rate of the AHP Project;
- j) The AHP Project has not suspended scheduled soft debt payments or reserve deposits; and
- k) The AHP Project is able to operate without the aid of reserves, grants, donations, or subsidies beyond those identified at application, funding, or project completion (PCR).

The Member will be required to certify the following:

- a) The AHP Project is subject to a deed restriction or other legally enforceable Retention Agreement or mechanism meeting the requirements of the Regulations;
- b) The Retention Agreement is confirmed as recorded and the Member maintains evidence of the recorded document that is available for review by the FHLBC; and
- c) The AHP Project appears to be suitable for occupancy based upon an exterior visual inspection.

## 2. Owner-Occupied Projects

The FHLBC will verify the following<sup>2</sup> for all Owner-Occupied Projects, through the Project Documentation Record and information obtained through the Project Completion Report:

- a) *Eligibility*: The AHP Project and Sponsor meet all minimum eligibility requirements under the Regulations and the Implementation Plan
- b) *Compliance*: The AHP Project, the Sponsor, and the Member are fulfilling all FHLBC requirements
- c) *Eligible Use of AHP Subsidy*: The AHP Subsidy has been used for eligible purposes; for additional information, see the Eligible and Ineligible Uses of AHP Subsidy Policy
- d) *Commitments*: The AHP Project has fulfilled its Commitments

Upon PCR Completion, an Owner-Occupied Project has fulfilled all Commitments.

The Sponsor will be required to certify the following:

- a) The Sponsor was integrally involved in the AHP Project as set forth in the Implementation Plan;
- b) The AHP Subsidy was used for an eligible purpose;
- c) Households receiving the AHP Subsidy were eligible recipients and the Sponsor maintains household income verification documentation to support its certification that is available for review by the FHLBC; and
- d) The services and activities committed to in the approved Application have been provided in connection with the AHP Project.

The Member will be required to certify the following:

- a) The AHP Subsidy was used for an eligible purpose according to the Commitments made in the approved AHP Application;
- b) All AHP-Assisted Units are subject to a deed restriction or other legally enforceable Retention Agreement or mechanism meeting the requirements of the Regulations; and
- c) The Retention Agreements are confirmed as recorded, and the Member maintains evidence of the recorded documents that is available for review by the FHLBC.

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<sup>2</sup> Unless otherwise noted, the **FHLBC** will review 100% of all back-up documentation.

**III. Long-Term Monitoring** The FHLBC will not conduct additional monitoring activities<sup>3</sup> following PCR Completion for the following types of AHP Projects:

- Rental Projects financed with Low-Income Housing Tax Credits
- Owner-Occupied Projects

All other AHP Projects will be subject to long-term monitoring commencing in the second year after Project Completion and extending through the end of the **Retention Period** as set-forth below.

**A. AHP Projects Subject to Long-Term Monitoring**

For AHP Projects subject to long-term monitoring, the FHLBC will verify the following:

- The AHP Project is fulfilling Commitments related to household incomes and rents

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.

Members are responsible for ensuring the AHP Project remains subject to a legally enforceable Retention Agreement through the end of the Retention Period.

The FHLBC will utilize the following risk factors, as they exist during long-term monitoring, to determine the documentation required and the frequency with which it will be collected:

- The type of AHP Project
- The number of units in the AHP Project
- The amount of AHP Subsidy in the project
- The percentage of total project sources the AHP Subsidy represents;
- Any monitoring provided by a federal, state, or local agency

The documentation required will include the following certifications:

**1. Sponsor Certification**

- a) The AHP Subsidy was used for eligible purposes according to the Commitments made in the approved Application;
- b) The tenant incomes and rents are compliant with the Commitments made in the approved Application;
- c) The AHP Project is habitable and suitable for occupancy;

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<sup>3</sup> The FHLBC reserves the right to conduct additional monitoring activities for any AHP Project if the FHLBC determines additional monitoring is warranted.

- d) Documentation regarding tenant incomes and rents, from the earlier of move-in or Application submission for an existing occupied project, is maintained;
- e) The Sponsor continues to have an ownership interest in the AHP Project;
- f) The Sponsor is in existence and is in good standing;
- g) The AHP Project's debt payments, if any, are current;
- h) The AHP Project's real estate tax payments, if any, are current;
- i) The current vacancy rate of the AHP Project;
- j) The AHP Project has not suspended scheduled soft-debt payments or reserve deposits; and
- k) The AHP Project is able to operate without the aid of reserves, grants, donations, or subsidies beyond those identified at application, funding, or project completion (PCR)

## **2. Member Certification**

- a) The AHP Project is subject to a deed restriction or other legally enforceable Retention Agreement or mechanism meeting the requirements of the Regulations;
- b) The Retention Agreement is confirmed as recorded and the Member maintains evidence of the recorded document that is available for review by the FHLBC; and
- c) The AHP Project appears to be suitable for occupancy based upon an exterior visual inspection.

For additional information related to long-term monitoring documentation and the frequency with which it will be collected and reviewed, see the Long-Term Monitoring table at the end of this Policy.

## **IV. On-Site Monitoring**

The FHLBC will select AHP Projects for on-site visits in order to determine whether: (1) the AHP Project meets all eligibility requirements of the Regulations, and (2) the AHP Project has met or will meet its Commitments. The FHLBC may conduct an on-site visit to any AHP Project at any time, including prior to and after Project Completion, based on the following risk factors:

- 1) Events of non-compliance at the AHP Project
- 2) Events of non-compliance in a Sponsor's portfolio of AHP Projects
- 3) Changed circumstances calling into question the continued feasibility of the AHP Project
- 4) Changed circumstances calling into question the operational capacity of the Sponsor or Owner
- 5) The suspension or debarment of a Sponsor
- 6) Projects where the AHP subsidy is a significant portion of the total financing/development costs
- 7) The FHLBC suspects misrepresented, falsified, or altered information or documentation

The FHLBC may become aware of these and other risk factors pertaining to the AHP Project, the Sponsor, or the Owner that would trigger an on-site visit outside of the risk-based sampling selection process described above for reasons including, but not limited to:

- 1) Information provided to the FHLBC through an Application
- 2) Information provided to the FHLBC through its monitoring or disbursement activities
- 3) Information provided to the FHLBC through a Member
- 4) Information provided to the FHLBC through another funder of the AHP Project
- 5) Information available to the FHLBC and the general public

**V. Site Visit Review**

When conducting an on-site visit to an AHP Project, the FHLBC will review information obtained through its standard monitoring practices and requested in connection with the on-site visit, including, but not limited to:

- 1) Income Targeting and Rent Affordability, which may include:
  - Household incomes
  - Rents
  - Income calculation policies
- 2) Project Operations, including, but not limited to:
  - Project income
  - Project expenses
  - Unit turnover
  - Waiting lists
- 3) Capital Review, including, but not limited to:
  - Capital improvements
  - Reserve balances
- 4) Physical characteristics, including, but not limited to:
  - Building exterior
  - Common areas
  - Rental units
- 5) Other project characteristics, including, but not limited to:
  - Third-party inspection reports
  - Health and safety violations



- Building code violations
- Project management

When conducting an on-site visit of an AHP Project, the FHLBC will also review information related to the risk factor triggering the on-site visit.

## Long Term Monitoring

Project Type	Project Characteristics			Documentation Required and Frequency (in years)		
	AHP Subsidy	AHP % of TDC	Total Project Units	Owner Certification	Member Certification <sup>1</sup>	Tenant Income Worksheet (TIW) <sup>1,2,3</sup>
Rental: LIHTC	> \$0	> 0%	>0	N/A	N/A	N/A
Rental: HUD 202 & 811	> \$0	> 0%	>0	1	5	5
Rental: All other projects	< \$200,000	< 50%	>0	1	5	5
	≥ \$0	≥ 50%	>0	1	3	3
	≥ \$200,000	> 0%	>0	1	3	3
Owner-Occupied Projects	> \$0	> 0%	>0	N/A	N/A	N/A

<sup>1</sup> In cases when the frequency schedule would result in collection of documentation in the Project's final year of the Retention Period, the FHLBC will not collect this documentation

<sup>2</sup> The FHLBC will sample household income documentation for up to 10% of the Project units with a minimum sample size of four (4) and a maximum size of fifteen (15)

<sup>3</sup> The FHLBC will not collect a tenant income workbook or sample income documentation for homeless shelters or shelters for victims of domestic violence.