



**FHLBank**  
Chicago

# Compiled Affordable Housing Program Policies

POLICY TITLE: Compiled Affordable Housing Program Policies  
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# Introduction

The Compiled Affordable Housing Program Policies outline program requirements and guidelines covering all phases in the lifecycle of an Affordable Housing Program (AHP) project.

The Compiled Affordable Housing Program Policies includes the following:

- Affordable Housing Program Definitions
- Affordable Housing Program Eligible and Ineligible Uses of AHP
- Affordable Housing Program Subsidy Disbursement Policy
- Affordable Housing Program Monitoring Policy
- Affordable Housing Program Non-Compliance Policy
- Affordable Housing Program Project Change Policy
- Community Investment Program Suspension and Debarment Policy<sup>1</sup>

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<sup>1</sup> The Community Investment Program Suspension and Debarment Policy applies to all Community Investment programs offered by FHLBank Chicago, including AHP and all Voluntary Programs.

# I. Affordable Housing Program Definitions

The FHLBank Chicago has established and implemented these **Definitions** for use with the following policies under the **Affordable Housing Program: Eligible and Ineligible Uses of AHP; Subsidy Disbursement Policy, Monitoring Policy, Non-Compliance Policy, Project Change Policy, and Suspension and Debarment Policy.**

\* Denotes definition from the **Regulations**

**Affordable\*** means that:

(1) The rent charged to a household for a unit that is to be reserved for occupancy by a household with an income at or below 80 percent of the median income for the area does not exceed 30 percent of the income of a household of the maximum income and size expected, under the commitment made in the AHP application, to occupy the unit (assuming occupancy of 1.5 persons per bedroom or 1.0 persons per unit without a separate bedroom); or

(2) The rent charged to a household, for rental units subsidized with Section 8 assistance under 42 U.S.C. § 1437f or subsidized under another assistance program where the rents are charged in the same way as under the Section 8 program, if the rent complied with this definition of the Regulations at the time of the household's initial occupancy and the household continues to be assisted through the Section 8 or another assistance program, respectively

**AHC** means the Affordable Housing Committee of the **Board**

**AHP-Assisted Unit** is a housing unit that is subject to an income-targeting commitment of  $\leq 80\%$  AMI made to the FHLBank Chicago

**AHP Implementation Plan** means the document that sets forth certain policies, procedures, guidelines, and requirements applicable to the **General Fund, any Targeted Funds** and the **Homeownership Set-Aside Program** pursuant to the requirements of § 1291.13 of the **Regulations** specific to each year and round that **Applications** are accepted

**AHP Project\*** means a single-family or multifamily housing project for owner-occupied or rental housing that has been awarded or has received **AHP Subsidy** under the **General Fund, and any Targeted Funds**

**AHP Subsidy** means funds awarded and allocated under the **General Fund, and any Targeted Funds**

**Application** means the entire set of documents and data required and requested by, and submitted to, the **FHLBank Chicago**, through the **Funding Round**, that describe a proposed **AHP Project**. With respect to the Suspension and Debarment Policy, "Application" also includes the entire set of documents and data required and requested by, and submitted to, the FHLBank Chicago, for participation within a Voluntary Program

**Award Date** means the date on which an **AHP Project** was approved by the **Board** for an award of **AHP Subsidy**. For alternates, the project's **Award Date** is the date on which the Bank converts the project from an alternate project to an **AHP Project**.

**Beneficiary** means the individual(s) identified on the title of the **Retention Agreement**. With respect to the Suspension and Debarment Policy, "Beneficiary" also includes individuals identified within the application of a **Voluntary Program**.

**Board** means the **FHLBank Chicago's** Board of Directors

**CIO** means the Community Investment Officer of the **FHLBank Chicago's** Community Investment Department

**Commitments** means the scoring characteristics in the approved **AHP Project** and described in the **AHP Implementation Plan** under which the **AHP Project** was approved for an award of **AHP Subsidy**; **Commitments** are confirmed by the **FHLBank Chicago** through its review of the **Application** or through an approved **Modification**, and are reflected in the **Project Approval Record**

**Consumer-Driven Project** means an **Owner-Occupied Project** where the **AHP-Assisted Unit** will never be owned by the **Sponsor** prior to the sale to a homebuyer

**Cure Period** means the period of time, as set forth in the **Cure Plan**, for the resolution of **Non-Compliance**

**Cure Plan** means a plan to remedy **Non-Compliance** as set forth in the **Non-Compliance Policy**

**Debarment** means an action taken to permanently prohibit a **Member, Sponsor, Owner, or Voluntary Program** participant from participation in the **General Fund, any Targeted Funds, the Homeownership Set Aside Program, or any Voluntary Program**, as set forth in the **Suspension and Debarment Policy**

**Definitions** means the **FHLBank Chicago's** Affordable Housing Program Definitions or those definitions provided in the AHP regulations if not defined herein.

**De-Obligation** means a **full or partial** reduction in the amount of **AHP Subsidy** in an **AHP Project** as set forth in the **Project Change Policy**

**Disbursement Policy** means the **FHLBank Chicago's** Affordable Housing Program Subsidy Disbursement Policy

**Eligible and Ineligible Uses of AHP Subsidy Policy** means the **FHLBank Chicago's** Affordable Housing Program **Eligible and Ineligible Uses of AHP Subsidy Policy**

**FHFA** means the Federal Housing Finance Agency

**FHLBank Chicago** means the Federal Home Loan Bank of Chicago

**Funding Round** means the period of time during which the **FHLBank Chicago** accepts **Applications** for **AHP Projects** under the **General Fund**, and any **Targeted Funds**

**General Fund** means a program established by the **FHLBank Chicago** under which the **FHLBank Chicago** awards and disburses **AHP Subsidy** through a competitive application process pursuant to the requirements of § 1291.20 of the **Regulations** and the **AHP Implementation Plan**, which is allocated separately from any Targeted Funds established by FHLBank Chicago

**Good Standing** means one of the following, as applicable:

*In the case of Members:* means that the institution is a current member of the **FHLBank Chicago**, and that it is not currently suspended or debarred under the **Suspension and Debarment Policy**, and that the **Member's AHP Projects** are in compliance, or the **Member**

is acceptably remedying events of non-compliance as determined by the **FHLBank Chicago**, and described in the **Non-Compliance Policy**

*In the case of Sponsors:* means that the **Sponsor** is not currently suspended or debarred under the **Suspension and Debarment Policy**, and that the **Sponsor's AHP Projects** are in compliance, or the **Sponsor** is acceptably remedying events of non-compliance as determined by the **FHLBank Chicago**, and described in the **Non-Compliance Policy**

**Homeownership Set-Aside Program\*** means a program established by the **FHLBank Chicago** under which the **FHLBank Chicago** disburses AHP direct subsidy through a non-competitive process pursuant to the requirements of § 1291.40 of the **Regulations**

**Identity of Interest** means the existence of any of the following conditions between the buyer and seller of land or buildings purchased or acquired for an **AHP Project**

- A common officer, director, stockholder, member, partner, or entity in the buyer and seller; or
- A financial interest of any officer, director, stockholder, member, partner, or entity in the other party to the transaction

**Initial Draw Down** means the first disbursement of **AHP Subsidy** to an **AHP Project** as set forth in the **Disbursement Policy**

**LIHTC** means the Low-Income Housing Tax Credit as described in section 42 of the Internal Revenue Code

**Member** means an entity approved and designated by the **FHLBank Chicago** as the member in an **AHP Project** or associated with a **Homeownership Set-Aside Program** subsidy. With respect to the **Suspension and Debarment Policy**, "Member" also includes an entity approved and designated by the **FHLBank Chicago** as a member in a **Voluntary Program** or as a member receiving a **Community Advance**.

**Modification** means a change to the **Project Approval Record** as set forth in the **Project Change Policy**. With respect to the **Suspension and Debarment Policy**, "Modification" means a change to the use of funds and/or scope of work for a **Voluntary Program**.

**Monitoring Policy** means the **FHLBank Chicago's** Affordable Housing Program Monitoring Policy

**Non-Compliance** means a failure to fulfill the requirements in connection with an **AHP Project** as set forth in the **Non-Compliance Policy**

**Non-Compliance Policy** means the **FHLBank Chicago's** Affordable Housing Program Non-Compliance Policy

**Owner** of a **Rental Project** means the legal entity or individual identified on the title of the Rental Project; the **Sponsor** has an ownership interest in the **Owner**. **For Owner-Occupied Projects**, the Owner is the individual identified as the owner of the unit via a recorded legal instrument and is occupying the unit as primary residence.

**Owner-Occupied Project\*** means, for purposes of the **General Fund, and any Targeted Funds**, one or more owner-occupied units in a single-family or multifamily building, including condominiums, cooperative housing, and manufactured housing

**PCR Completion** means the point at which the **AHP Project** has satisfied the requirements of the **Project Completion Report**, as determined by the **FHLBank Chicago** and described in the **Monitoring Policy**

**Pre-Approval** means **FHLBank Chicago** approval for a **Member** to disburse **AHP Subsidy** to a **Rental Project** as set forth in the **Disbursement Policy**

**Project Approval Record** means the current characteristics of an **AHP Project** pertaining to its **Commitments**, eligibility, and feasibility as documented by the **FHLBank Chicago**

**Project Change Policy** means the **FHLBank Chicago's** Affordable Housing Program Project Change Policy

**Project Completion** means one of the following according to project type:

In the case of **Rental Projects**: the later of: 1) the date the project reports an 90% occupancy rate, 2) the date when construction or rehabilitation is complete, or 3) the date of the final disbursement of **AHP Subsidy**

In **Rental Projects**, the date of **Project Completion** is the beginning of the **Retention Period**

In the case of **Owner-Occupied Projects**: the later of: 1) the date all units are sold 2) the date when construction or rehabilitation is complete, or 3) the date of the final disbursement of **AHP Subsidy**

**Project Completion Report** means the documentation collected and reviewed by the **FHLBank Chicago** to fulfill project completion reporting as described in the **Monitoring Policy**

**Project File** means all documentation and data required by the **FHLBank Chicago** for an **AHP Project**. The **Project Documentation Record** includes, but is not limited to, documentation obtained and generated by the **FHLBank Chicago** through the **Application**, disbursement requests, modification requests, and monitoring activities

**Recapture** means the recovery of **AHP Subsidy** that was previously disbursed to an **AHP Project** as set forth in the **Non-Compliance Policy**

**Regulations** means Federal Regulations 12 C.F.R. Part 1291

**Rental Project\*** means, for purposes of the **General Fund, and any Targeted Funds**, one or more dwelling units for occupancy by households that are not owner-occupants, including overnight and emergency shelters, transitional housing for homeless households, mutual housing, single-room occupancy housing, and manufactured housing

**Repayment** means the return of **AHP Subsidy** that was previously disbursed to an **AHP Project** as set forth in the **Project Change Policy**

**Reservation** means the process by which a **Member** reserves an amount of funds from the **FHLBank Chicago's** Homeownership Set-aside Program for a household with an executed purchase contract and a first mortgage loan application.

**Retention Agreement** means a deed restriction or other legally enforceable retention or repayment agreement or mechanism, as set forth in the **AHP Implementation Plan**

**Retention Period** means that period of time required per the **Regulations** and set forth in the **AHP Implementation Plan** during which the **AHP Project** or **AHP-Assisted Unit** is subject to the **Retention Agreement**

**Semi-Annual Progress Report** means the information and documentation collected and reviewed by the **FHLBank Chicago** to fulfill semi-annual progress reporting as described in the **Monitoring Policy**

**Settlement** means **FHLBank Chicago** forgiveness of all or a portion of AHP Subsidy in connection with a **Recapture** as set forth in the **Non-Compliance Policy**

**Sponsor\*** means a not-for-profit or for-profit organization or public entity that:

- (1) Has an ownership interest (including any partnership interest), as defined by the **FHLBank Chicago** in its **AHP Implementation Plan**, in a **Rental Project**;
- (2) Is integrally involved, as defined by the **FHLBank Chicago** in its **AHP Implementation Plan**, in an **Owner-Occupied Project**

**Sponsor-Driven Project** means an **Owner-Occupied Project** in which the **AHP-Assisted Units** have been or will be owned by the **Sponsor** prior to the sale to a homebuyer

**Subsidy Agreement** means the tri-party agreement executed between the **FHLBank Chicago**, the **Member(s)**, and the **Sponsor** for each **AHP Project**, which describes the duties, obligations, and responsibilities associated with an award of **AHP Subsidy** under the **General Fund, and any Targeted Funds**

**Subsidy Reduction** means a reduction from the amount of **AHP Subsidy** requested by a **Sponsor** in an **Application** as a result of the **FHLBank Chicago's** analysis of the need for **AHP Subsidy**

**Suspension** means an action taken to temporarily prohibit a **Member, Sponsor** or **Owner** from participation in the **General Fund, any Targeted Funds, and Homeownership Set Aside Program** as set forth in the **Suspension and Debarment Policy**

**Suspension and Debarment Policy** means the **FHLBank Chicago's** Community Investment Program Suspension and Debarment Policy

**Targeted Fund<sup>2</sup>** means a program established by the **FHLBank Chicago** under which the **FHLBank Chicago** awards and disburses **AHP Subsidy** through a competitive application scoring process pursuant to the requirements of § 1291.20 of the **Regulations** and the **AHP Implementation Plan** to address specified affordable housing needs in its district pursuant to Section 1291.20(b) of the **Regulations** which is allocated separately from the General Fund established by the FHLBank Chicago.

**Voluntary Program** means a community investment program offered by FHLBank Chicago which not required by the Federal Home Loan Bank Act or the **Regulations**, but reflect the FHLBank Chicago's commitment to addressing needs related to affordable housing and economic development throughout its district to support its members and the communities they serve.

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<sup>2</sup> FHLBank Chicago does not currently offer a Targeted Fund.



## II. Affordable Housing Program Eligible and Ineligible Uses of AHP Subsidy

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### A. Introduction

The FHLBank Chicago has established and implemented this Affordable Housing Program Eligible and Ineligible Uses of AHP Subsidy policy, (this "Policy") which outlines the eligible and ineligible uses of AHP Subsidy in an AHP Project under the General Fund, and any Targeted Funds.

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

Project Sponsors and Members should use sound and prudent judgment when analyzing and determining the capital needs of the AHP Project.

New-construction, repair, and rehabilitation work should be done to ensure and improve the health, safety, and energy efficiency of the AHP Project, and to ensure safe and habitable dwellings.

The non-exhaustive lists below are to be used as a guideline, and include, but are not limited to, the items listed.

Sponsors and Members are encouraged to contact the FHLBank Chicago prior to incurring costs if they have any questions regarding eligible and ineligible uses of AHP Subsidy.

The FHLBank Chicago will not disburse AHP Subsidy for the reimbursement of costs determined to be for an ineligible use.

### B. All Projects: Ineligible Uses

For all Projects, ineligible uses of AHP Subsidy are as follows:

- Prepayment fees imposed by the FHLBank Chicago on a Member for a subsidized advanced that is prepaid, unless:
  - The Project is in financial distress that cannot be remedied through a project modification pursuant to §1291.29 of the Regulations and the Project Change Policy;
  - The prepayment of the subsidized advance is necessary to retain the Project's affordability and income targeting Commitments;
  - Subsequent to such prepayment, the Project will continue to comply with the terms of the approved Application and the requirements of the Regulations for the duration of the original Retention Period;

- Any unused AHP Subsidy is returned to the FHLBank Chicago and made available for other AHP Projects or households; and
- The amount of AHP Subsidy used for the prepayment fee may not exceed the amount of the Member's prepayment fee to the FHLBank Chicago.
- Cancellation fees and penalties imposed by the FHLBank Chicago on a Member for a subsidized advance commitment that is canceled;
- Processing fees charged by a Member providing AHP Subsidy to a Project; and
- Capitalized reserves, periodic deposits to reserve accounts, operating expenses, or supportive services expenses.

### **C. Owner-Occupied Projects**

For Owner-Occupied Projects, the non-exhaustive list of eligible and ineligible uses of AHP Subsidy is as follows:

#### **1. Eligible Uses**

- Down payment assistance (except as noted below for FHA insured financing)
- Pre-purchase homebuyer education and/or counseling costs incurred in connection with the purchase of an AHP-Assisted Unit that have not been covered by another funding source
- Closing cost assistance

Examples of eligible closing costs include:

- home inspection fees
- underwriting fees
- documentation preparation fees
- courier fees
- attorney fees for the borrower
- recording fees
- Repair or rehabilitation work to correct code deficiencies, weatherize, or ensure the habitability of the housing structure

Examples include, but are not limited to:

- Roof repair/replacement
- Structural repairs
- Lead-based paint hazard reduction
- Accessibility modifications
- Repair/replacement of attached garages
- Mold remediation
- Repair/replacement of major housing systems
- Repair/replacement of windows, gutters, or siding

- Repair/replacement of porches necessary for ingress and egress to fix code or safety violation(s)
- Repair/replacement of basic carpeting or floors
- Electrical or plumbing work needed to maintain habitability
- Repair/replacement of basic light fixtures
- Drywall, painting, fixtures, and flooring, only if related to other necessary repairs
- Interior painting needed as a result of necessary or eligible rehabilitation
- Exterior lighting, only if safety- or hazard-related necessity
- Exterior painting, if related to fixing code or safety violation(s)
- New construction of owner-occupied housing

## **2. Ineligible Uses**

- The provision of AHP Subsidy in connection with a homeowner purchase when the closing / settlement date set forth on the final closing disclosure is prior to the Award Date
- The provision of AHP Subsidy in connection with rehabilitation work when all rehabilitation work was completed prior to the Award Date
- Down payment assistance in conjunction with Federal Housing Administration (FHA) insured financing
- Use with any other AHP Subsidy for the same homebuyer in the same transaction
- More than \$250 cash back to the homebuyer at closing
- Reimbursement of earnest money, deposits, or costs paid outside of closing (in excess of the above-mentioned \$250 cash back)
- Pre-purchase homebuyer education and/or counseling fees that have been covered by another funding source
- Pre-purchase homebuyer education and/or counseling fees in transactions that do not include a homebuyer purchase of an AHP-Assisted Unit
- Points and fees related to an interest rate buy-down
- Home warranty plans
- Payment of property taxes or utility bills incurred by the seller, or other expenses unrelated to the purchase transaction that are owed by the seller
- Payment of non-housing-related costs, including, but not limited to:
  - Prepaid life insurance
  - Debt collections
  - Credit card bills
  - Child-support payments
  - Federal or state income taxes
  - Credit repair

- New construction, repair, or rehabilitation work unrelated to correcting code deficiencies, weatherizing a home, or ensuring its habitability

Examples include, but are not limited to:

- Decks not necessary for ingress and egress
- Finished attics or basements
- Fences and gates
- Detached garages, sidewalks, and driveways
- Awnings and shutters
- Landscaping and irrigation systems
- Swimming pools
- Furniture and appliances
- Window treatments
- Additions or extensions
- Security alarms and smart home systems
- Installation of skylights where none existed before
- Homeowner’s personal labor
- Upgrades to the building exterior solely to improve aesthetics/curb appeal (e.g., re-shingling, building re-surfacing, façade improvements)
- Agriculture or horticulture structures (e.g., barn houses or greenhouses)

#### **D. Rental Projects**

For Rental Projects, the non-exhaustive list of eligible and ineligible uses of AHP Subsidy is as follows:

##### **1. Eligible Uses**

- Acquisition of land and/or property
- Hard construction costs
- Soft costs

##### **2. Ineligible Uses**

- Capitalized reserves
- Pre-development expenses to determine if a project is feasible
- Points and fees related to an interest rate buy-down
- Uses related to:
  - Decks not necessary for ingress and egress
  - Fences and gates
  - Garages, sidewalks, and driveways

- Awnings and shutters
- Landscaping and irrigation systems
- Swimming pools and fountains
- Furniture and appliances
- Window treatments
- Security alarms and smart home systems
- Walking/bike trails
- Installation of skylights where none existed before
- Upgrades to the building exterior solely to improve aesthetics/curb appeal (e.g., re-shingling, building re-surfacing, façade improvements)

# III. Affordable Housing Program Subsidy Disbursement Policy

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## A. Introduction

The FHLBank Chicago 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 General Fund, and any Targeted Funds.

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 FHLBank Chicago 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 FHLBank Chicago policies and procedures, and (7) the documentation received by the FHLBank Chicago is acceptable and complete.

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

If the FHLBank Chicago 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 FHLBank Chicago 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 FHLBank Chicago 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.

## **B. 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.

### **1. 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.

### **2. Good Standing**

The Member and the Sponsor are in Good Standing with the FHLBank Chicago.

### **3. Subsidy Agreement**

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

### **4. Disbursement Requests and Reimbursement**

The FHLBank Chicago 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 FHLBank Chicago, the FHLBank Chicago may disburse the AHP Subsidy to another Member of the FHLBank Chicago, or to 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 FHLBank Chicago 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 FHLBank Chicago 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 FHLBank Chicago will provide reimbursement to the Member. *In no case should the Member assume that the FHLBank Chicago will provide reimbursement for the disbursement of AHP Subsidy to a Rental Project unless the FHLBank Chicago 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 FHLBank Chicago 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, new construction, or rehabilitation completion of an AHP-Assisted Unit, after which a disbursement request is submitted to the FHLBank Chicago 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 FHLBank Chicago 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 FHLBank Chicago 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 or new construction only, the Member should not fund AHP Subsidy prior to completion of all rehabilitation or new construction work. The FHLBank Chicago will not provide reimbursement to Members prior to the completion of all rehabilitation or new construction work.

## **5. 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:

- a. Good cause for an extension,
- b. Progress towards meeting any conditions of approval for the AHP Project,
- c. Progress towards the Initial Draw Down, and
- d. Progress towards Project Completion.

The FHLBank Chicago 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 LIHTCs must fulfill this condition in order to request an extension.

The FHLBank Chicago 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 FHLBank Chicago within the appropriate timeframe.

## **C. Disbursement Requirements**

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

### **1. Rental Projects**

The FHLBank Chicago will verify the following<sup>3</sup> for all Rental Projects through the Project File and information obtained through the disbursement request:

- 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 FHLBank Chicago requirements

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<sup>3</sup> Unless otherwise noted, the FHLBank Chicago will review 100% of all back-up documentation in connection with its review.



- c. *Eligible Use of AHP Subsidy*: The AHP Subsidy is being used for eligible purposes. For additional information see the FHLBank Chicago's Eligible and Ineligible Uses of AHP Subsidy Policy
- d. *Financial Feasibility*: The AHP Project is financially feasible
- e. *Need for subsidy*: The AHP Project has a demonstrated need for AHP Subsidy
- f. *Project Completion*: The AHP Project is making progress towards Project Completion
- g. *Commitments*: The AHP Project has met or is making progress towards meeting its Commitments
- h. *Retention Agreement*: The AHP Project is subject to an executed Retention Agreement  
Note: This is not required in order to obtain Pre-Approval.
- i. *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.
- j. *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
- k. *Acquisition Costs*: For AHP Projects involving the acquisition of sites or buildings, all acquisition costs are documented and validated
- l. *Zoning*: All sites and buildings are appropriately zoned to permit the AHP Project
- m. *Ownership*: The Sponsor has an ownership interest in the AHP Project
- n. *Rehabilitation and Construction Scope*: For all AHP Projects involving rehabilitation or new construction, the scope of work is documented and acceptable
- o. *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 FHLBank Chicago's per-unit development-cost guidelines
- p. *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
- q. *Sources*: All sources of funds are documented, acceptable, and available and contribute to evidencing the project's financial feasibility and need for AHP Subsidy
- r. *Uses*: All uses of funds are documented, acceptable, and contribute to evidencing the project's financial feasibility and need for AHP Subsidy
- s. *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
- t. *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
- u. *Income Targeting and Rent Affordability Commitments*: For AHP Projects that are occupied at the time of disbursement, the FHLBank Chicago 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.

## 2. Owner-Occupied Projects

The FHLBank Chicago will verify the following<sup>4</sup> for each AHP-Assisted Unit through the Project File and information obtained through the disbursement request:

- a. *Eligibility*: The AHP Project and Sponsor meet all minimum eligibility requirements under the Regulations and the Implementation Plan. Eligibility requirements must be satisfied on a per-unit basis, rather than in aggregate at the project level. Disbursement requests will be rejected as non-compliant if eligibility thresholds are not met on a per-unit basis
- b. *Compliance*: The AHP Project, the Sponsor, and the Member are fulfilling all FHLBank Chicago requirements
- c. *Eligible use of AHP Subsidy*: The AHP Subsidy is being used for eligible purposes. For additional information, see the FHLBank Chicago's Eligible and Ineligible Uses of AHP Subsidy Policy
- d. *Financial Feasibility*: The AHP-Assisted Unit is financially feasible. Feasibility guidelines must be satisfied on a per-unit basis, rather than in aggregate at the project level
- e. *Need for subsidy*: The AHP-Assisted Unit has a demonstrated need for AHP Subsidy
- f. *Commitments*: The AHP-Assisted Unit contributes to fulfilling the Commitments of the AHP Project, which will be evaluated on a per-unit basis
- g. *Retention Agreement*: The AHP-Assisted Unit is subject to an executed Retention Agreement

Note: Retention agreements are not permitted for households that receive AHP Subsidy solely for the rehabilitation of an owner-occupied unit on or after January 1, 2020.

Note: The FHLBank Chicago will use a risk-based sampling plan to select recorded Retention Agreements for review.

- h. *Delivery of Subsidy*: The Member has delivered the AHP Subsidy to the AHP-Assisted Unit
- i. *Acquisitions*: For AHP Projects involving a homebuyer purchase, the homebuyer purchase has occurred prior to the time of disbursement
- j. *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

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<sup>4</sup> Unless otherwise noted, the FHLBank Chicago will review 100% of all back-up documentation in connection with its review.

- k. *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 FHLBank Chicago's per-unit development cost guidelines
- l. *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
- m. *Permission to Occupy*: For all AHP Projects involving rehabilitation or new construction, evidence that the AHP-Assisted Unit can be occupied
- n. *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

- o. *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.

- p. *Eligibility and Targeting Commitments*: The FHLBank Chicago 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 or new construction only, household income documentation must be dated within 120 days of the initiation of rehabilitation or new construction work.

# IV. Affordable Housing Program Monitoring Policy

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## A. Introduction

The FHLBank Chicago has established and implemented this Affordable Housing Program Monitoring Policy (this "Policy"), which addresses the regulatory monitoring requirements for AHP Projects under the General Fund, and any Targeted Funds.

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 FHLBank Chicago 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 FHLBank Chicago policies and procedures, and (7) the documentation received by the FHLBank Chicago is acceptable and complete.

If the FHLBank Chicago determines that any of the aforementioned criteria have not been satisfied, the FHLBank Chicago may determine that there is Non-Compliance. For additional information regarding events of Non-Compliance and their remedies, see the Non-Compliance Policy.

The FHLBank Chicago 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.

## B. Initial Monitoring

*Initial monitoring* for all AHP Projects includes: (1) Semi-Annual Progress Reporting, and (2) Project Completion Reporting.

## 1. 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 FHLBank Chicago will verify the following through the Project File and information obtained through Semi-Annual Progress Reporting:

- a. 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.

- b. The AHP Project is making satisfactory progress towards Project Completion.

## 2. 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 FHLBank Chicago of Project Completion through one of the following:

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

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

### a. Rental Projects

The FHLBank Chicago will verify the following<sup>5</sup> for all Rental Projects through the Project File and information obtained through the Project Completion Report:

- 1) *Eligibility*: The AHP Project and Sponsor meet all minimum eligibility requirements under the Regulations and the Implementation Plan
- 2) *Acquisition Costs*: For AHP Projects involving the acquisition of sites or buildings, all acquisition costs are documented and validated
- 3) *Compliance*: The AHP Project, the Sponsor, and the Member are fulfilling all requirements under the Regulations and the FHLBank Chicago policies
- 4) *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
- 5) *Financial Feasibility*: The AHP Project is financially feasible
- 6) *Need for subsidy*: The AHP Project has a demonstrated need for AHP Subsidy
- 7) *Commitments*: The AHP Project has fulfilled its Commitments

Note: 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.

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<sup>5</sup> Unless otherwise noted, the FHLBank Chicago will review 100% of all back-up documentation.

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

Note: 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.

- 9) *Ownership*: The Sponsor has an ownership interest in the AHP Project
- 10) *Rehabilitation and Construction Scope*: For all AHP Projects involving rehabilitation or new construction, the final scope is documented and acceptable
- 11) *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 FHLBank Chicago's per unit development cost guidelines
- 12) *Construction Payments and Completion*: For AHP Projects involving rehabilitation or new construction work, evidence of construction payment and completion
- 13) *Occupancy*: For AHP Projects involving rehabilitation or new construction work, evidence that the AHP Project can be occupied and is making satisfactory progress toward occupancy
- 14) *Sources*: The final sources of funds are documented, acceptable, and contribute to evidencing financial feasibility and the need for AHP Subsidy
- 15) *Uses*: The FHLBank Chicago will verify that 100% of final uses of funds are documented, acceptable, and contribute to evidencing financial feasibility and the need for AHP Subsidy
- 16) *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
- 17) *Expenses*: All operating expenses of the AHP Project are documented, acceptable, and contribute to evidencing financial feasibility and the need for AHP Subsidy
- 18) *Income Targeting and Rent Affordability Commitments*: The FHLBank Chicago 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.

Accordingly, projects which received LIHTC or funding from one or more of: (1) HUD 202 Program for the Elderly; (2) HUD Section 811 Program for Housing the Disabled; (3) USDA Section 514 Farmworker Multifamily Program; (4) USDA Section 515 Rural Multifamily Program, are not required to submit back-up documentation related to income targeting and rent affordability.

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:

- 1) The AHP Subsidy was used for eligible purposes according to the Commitments made in the approved Application;
- 2) The tenant incomes and rents are compliant with the Commitments made in the approved Application;
- 3) The AHP Project is habitable and suitable for occupancy;
- 4) Documentation regarding tenant incomes and rents, from the earlier of move-in or Application submission for an existing occupied project, is maintained;
- 5) The Sponsor continues to have an ownership interest in the AHP Project;
- 6) The Sponsor is in existence and is in good standing;
- 7) The AHP Project's debt payments, if any, are current;
- 8) The AHP Project's real estate tax payments, if any, are current;
- 9) The current vacancy rate of the AHP Project;
- 10) The AHP Project has not suspended scheduled soft debt payments or reserve deposits; and
- 11) 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:

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

**b. Owner-Occupied Projects**

The FHLBank Chicago will verify the following<sup>6</sup> for all Owner-Occupied Projects, through the Project Documentation Record and information obtained through the Project Completion Report:

- 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 FHLBank Chicago requirements

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<sup>6</sup> Unless otherwise noted, the FHLBank Chicago will review 100% of all back-up documentation.

- 3) *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
- 4) *Commitments*: The AHP Project has fulfilled its Commitments

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

The Sponsor will be required to certify the following:

- 1) The Sponsor was integrally involved in the AHP Project as set forth in the Implementation Plan;
- 2) The AHP Subsidy was used for an eligible purpose;
- 3) 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 FHLBank Chicago; and
- 4) 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:

- 1) The AHP Subsidy was used for an eligible purpose according to the Commitments made in the approved AHP Application;
- 2) All AHP-Assisted Units, excluding rehabilitation-only owner-occupied units completed on or after January 1, 2020, are subject to a deed restriction or other legally enforceable Retention Agreement or mechanism meeting the requirements of the Regulations; and
- 3) The Retention Agreements (as applicable) are confirmed as recorded, and the Member maintains evidence of the recorded documents that is available for review by the FHLBank Chicago.

## **C. Long-Term Monitoring**

### **1. AHP Projects Not Subject to Long-Term Monitoring**

The FHLBank Chicago will not conduct additional monitoring activities<sup>7</sup> following PCR Completion for the following types of AHP Projects:

- Rental Projects financed with Low-Income Housing Tax Credits<sup>8</sup>
- 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.

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<sup>7</sup> The FHLBank Chicago reserves the right to conduct additional monitoring activities for any AHP Project if the FHLBank Chicago determines additional monitoring is warranted.

<sup>8</sup> The project sponsor or owner remains obligated to provide prompt written notice to the FHLBank Chicago if the project also received LIHTC and the project is in material and unresolved noncompliance with the LIHTC income targeting or rent requirements at any time during the AHP 15-year retention period.



## **2. AHP Projects Subject to Long-Term Monitoring**

For AHP Projects subject to long-term monitoring, the FHLBank Chicago will verify that 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 FHLBank Chicago 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;
- Sponsor experience and performance; and
- Any monitoring provided by a federal, state, or local agency

The documentation required will include the following annual certifications:

### **a. Sponsor Certification**

- 1) The AHP Subsidy was used for eligible purposes according to the Commitments made in the approved Application;
- 2) The tenant incomes and rents are compliant with the Commitments made in the approved Application;
- 3) The AHP Project is habitable and suitable for occupancy;
- 4) Documentation regarding tenant incomes and rents, from the earlier of move-in or Application submission for an existing occupied project, is maintained;
- 5) The Sponsor continues to have an ownership interest in the AHP Project;
- 6) The Sponsor is in existence and is in good standing;
- 7) The AHP Project's debt payments, if any, are current;
- 8) The AHP Project's real estate tax payments, if any, are current;
- 9) The current vacancy rate of the AHP Project;
- 10) The AHP Project has not suspended scheduled soft-debt payments or reserve deposits;

- 11) 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); and
- 12) The AHP Project is in compliance with its commitments to other funding sources.

**b. Member Certification**

- 1) The AHP Project is subject to a deed restriction or other legally enforceable Retention Agreement or mechanism meeting the requirements of the Regulations; and
- 2) The Retention Agreement is confirmed as recorded and the Member maintains evidence of the recorded document that is available for review by the FHLBank Chicago.

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.

**D. On-Site Monitoring**

The FHLBank Chicago 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 FHLBank Chicago 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 FHLBank Chicago suspects misrepresented, falsified, or altered information or documentation

The FHLBank Chicago 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 FHLBank Chicago through an Application
2. Information provided to the FHLBank Chicago through its monitoring or disbursement activities
3. Information provided to the FHLBank Chicago through a Member
4. Information provided to the FHLBank Chicago through another funder of the AHP Project
5. Information available to the FHLBank Chicago and the general public

## **E. Site Visit Review**

When conducting an on-site visit to an AHP Project, the FHLBank Chicago 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 FHLBank Chicago 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>1,2,3,4</sup>
Rental: LIHTC	> \$0	> 0%	>0	N/A	N/A	N/A
Rental: HUD 202 & 811	> \$0	> 0%	>0	1	5	5
Rental: USDA 514 & 515	> \$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 FHLBank Chicago will not collect this documentation

<sup>2</sup> The FHLBank Chicago 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 FHLBank Chicago will not collect a tenant income workbook or sample income documentation for homeless shelters or shelters for victims of domestic violence.

<sup>4</sup> The FHLBank Chicago reserves the right to collect a tenant income workbook on a more frequent schedule than indicated, based on risk factors indicated in Section C.2 of this Monitoring Policy.

# V. Affordable Housing Program Non-Compliance Policy

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## A. Introduction

The FHLBank Chicago has established and implemented this Affordable Housing Program Non-Compliance Policy (this “Policy”), which addresses the bases for and means of remediating Non-Compliance in an AHP Project under the General Fund, and any Targeted Funds. This Policy sets forth areas of Non-Compliance, the remedies available for resolution of Non-Compliance, and the implications of Non-Compliance. Capitalized terms shall have the meaning set forth for such terms in the Affordable Housing Program Definitions unless otherwise defined in this Policy. This section does not apply to individual AHP-assisted households or to the sale or refinancing by such households of their homes.

## B. Non-Compliance

Non-Compliance is one or more of the following:

- A failure to fulfill, in connection with an AHP Project, the requirements set forth in the Regulations, the Subsidy Agreement, the Retention Agreement (as applicable), or the AHP Implementation Plan for the applicable Funding Round under which the AHP Project was approved;
- A failure to comply with FHLBank Chicago policies and procedures as set forth in this Policy; or
- A failure to fulfill the commitments made in the application for AHP Subsidy, including any use of AHP Subsidy by the project sponsor or owner for purposes other than those committed to in the AHP application.

The following is a list of areas for which the FHLBank Chicago may determine there is Non-Compliance. In all cases, a determination of Non-Compliance will be at the discretion of the FHLBank Chicago after taking into consideration the facts and circumstances surrounding the event(s).

1. *Commitments*: Failure to fulfill a Commitment
2. *Eligibility*: Failure to meet or maintain minimum eligibility criteria as set forth in the Regulations, the Subsidy Agreement, the Retention Agreement (as applicable), or the AHP Implementation

Plan for the applicable Funding Round under which the AHP Project was approved. Examples may include, but are not limited to:

- Failure to demonstrate a need for AHP Subsidy
  - Use of AHP Subsidy for an ineligible purpose; for additional information regarding eligible and ineligible uses of AHP Subsidy, see the Eligible and Ineligible Uses of AHP Subsidy Policy
  - Failure to comply with the timelines for disbursement of AHP Subsidy or Project Completion; for additional information regarding AHP Project timelines, see the Disbursement Policy and the Monitoring Policy
  - Significant and/or chronic vacancy
3. *Feasibility*: Failure to demonstrate financial feasibility. This includes significant and/or chronic vacancy.
4. *Monitoring*: Failure to comply with the FHLBank Chicago's requirements for monitoring and reporting. Examples may include, but are not limited to:
- Failure to submit monitoring reports in a timely manner
  - Failure to submit monitoring documentation in a timely manner
5. *Misrepresentation, negligence, or fraud*
6. *Financial distress, insolvency, or dissolution*: Examples may include, but are not limited to:
- Bankruptcy of the Sponsor or Owner
  - Dissolution of the Sponsor or Owner
  - Insolvency of the Sponsor or Owner
  - Legal actions involving the Sponsor or Owner, including, but not limited to, violations of fair housing laws
  - Defaults on other sources of financing or real estate tax payments for the AHP Project
  - Significant and/or chronic vacancy

In cases where it is believed, anticipated, or unclear whether there has been Non-Compliance with the Regulations, the FHLBank Chicago may consult its legal department and, with CIO approval, the FHFA.

### **C. Remedies for Non-Compliance**

Upon a determination of Non-Compliance, the FHLBank Chicago will evaluate remedies available for resolution.

The FHLBank Chicago's policy is to remedy Non-Compliance in a timely manner with as little impact to the AHP Project as possible in an effort to maintain the AHP Project through the Retention Period.

Remedies for the resolution of Non-Compliance, in their order of preference, are as follows:

#### **1. Cure**

The FHLBank Chicago will first determine if the nature of the Non-Compliance is such that it can be cured. If the Non-Compliance cannot be cured, the FHLBank Chicago will consider alternative remedies to resolve the Non-Compliance.

If the Non-Compliance can be cured, the Sponsor and Member will be given an opportunity to do so. Unless the Non-Compliance can be immediately cured, the FHLBank Chicago will require the Member and Sponsor or Owner to submit a Cure Plan that includes both of the following:

- the actions to be taken to cure the Non-Compliance; and
- the reasonable Cure Period for resolution of the Non-Compliance.

The FHLBank Chicago will review the Cure Plan for reasonableness and effectiveness and may require revisions, prior to FHLBank Chicago approval, to ensure that the Non-Compliance is cured in a timely and effective way.

If the Cure Plan is approved, the FHLBank Chicago will also determine an appropriate frequency and method to monitor progress towards resolution of the Non-Compliance.

When the circumstances of the Non-Compliance are eliminated through an approved Cure Plan, the project Sponsor or Owner will not be required to repay AHP Subsidy to the FHLBank Chicago.

If the Non-Compliance is not resolved within the Cure Period, the FHLBank Chicago may extend the Cure Period or seek an alternative remedy to the Non-Compliance.

## **2. Modification**

If the Non-Compliance cannot be cured, the FHLBank Chicago may consider a Modification as a remedy to resolve the Non-Compliance.

When the circumstances of the Non-Compliance can be eliminated through an approved Modification, the project Sponsor or Owner will not be required to repay AHP Subsidy to the FHLBank Chicago.

For additional information regarding Modifications, see the Project Change Policy.

## **3. De-Obligation or Recapture of AHP Subsidy**

If the Non-Compliance cannot be resolved through a cure or a Modification as described above, the FHLBank Chicago may remedy the Non-Compliance through a De-Obligation of AHP Subsidy that has not yet been disbursed to the AHP Project. For additional information regarding the De-Obligation of AHP Subsidy, see the Project Change Policy.

Additionally, the FHLBank Chicago may remedy the Non-Compliance through Recapture of a partial or full amount of any AHP Subsidy that has been disbursed to the AHP Project. FHLBank Chicago, or the member if delegated the responsibility in consultation with the FHLBank Chicago, shall make a demand on the project Sponsor or Owner for repayment of the full amount of the AHP Subsidy not used in compliance with the commitments in the AHP application or the requirements of the Regulations, or the requirements of the Compiled Affordable Housing Program Policies (plus interest, if appropriate).

The effect of a full Recapture is that there will no longer be an AHP Project, and the AHP Project will, therefore, no longer be subject to the Retention Agreement. The CIO must approve all Recaptures before they are initiated or accepted and the Group Head for Community Investment must also approve all Recaptures from a Member. In the event of a Recapture, the FHLBank Chicago will provide written notification of the amount of AHP Subsidy subject to Recapture, along with the timeframe for Recapture, and will pursue repayment of the AHP Subsidy as follows:

If the Non-Compliance is due to the actions or omissions of the FHLBank Chicago, the FHLBank Chicago will reimburse the AHP fund in the amount of any AHP Subsidies (plus interest, if appropriate) not used in compliance with the commitments in an AHP application or the requirements of the Regulations as a result of the actions or omissions of the FHLBank Chicago.

Such reimbursement by the FHLBank Chicago must be approved by both the CIO and the Group Head for Community Investment.

If the FHLBank Chicago fails to reimburse its AHP fund as required due to an action or omission of the FHLBank Chicago, or the FHLBank Chicago fails to recover the full amount of AHP Subsidy due from a Sponsor, Owner, or Member, and has not shown that such failure is reasonably justified, the FHFA may order the FHLBank Chicago to reimburse its AHP fund in an appropriate amount.

If the Non-Compliance resulting in Recapture is due to the actions or omissions of the Member, the Member shall repay the amount of AHP Subsidy (plus interest, if appropriate) not used in compliance with the commitments of the Member's AHP application or the requirements of the Regulation to the FHLBank Chicago. A Member's failure to have properly recorded and maintained the Retention Agreement, AHP Subsidy mortgage, or other appropriate real property security instrument throughout the Retention Period, as set forth in the AHP Implementation Plan and Subsidy Agreement, may make the Member liable for reimbursing the FHLBank Chicago for the AHP Subsidy.

If the Non-Compliance is occupancy by households with incomes exceeding the income-targeting commitments in the AHP application, the amount of AHP Subsidy due is calculated based on the number of units in Non-Compliance, the length of the Non-Compliance, and the portion of the AHP Subsidy attributable to the noncompliant units.

In the event the FHLBank Chicago does not receive the Recapture amount from the Member, the FHLBank Chicago may approve a Settlement, provided that:

- The CIO and the Group Head for Community Investment have approved the amount of the Settlement; and
- For Settlements forgiving \$50,000 or less, the AHC approved the Settlement; or
- For Settlements forgiving more than \$50,000, the Board approved the Settlement; and
- The FHLBank Chicago has sufficient documentation showing that the Settlement is reasonably justified, based on the facts and circumstances of the Non-Compliance (including the degree of culpability of the non-complying parties and a determination of reasonable collection efforts); or
- The FHLBank Chicago has obtained a determination from the FHFA that the Settlement is reasonably justified, based on the facts and circumstances of the Non-Compliance (including the degree of culpability of the non-complying parties and a determination of reasonable collection efforts).

If the circumstances of a project's Non-Compliance result in Recapture from the Sponsor or Owner, the FHLBank Chicago, in its discretion, may either:

- Direct the Member to use reasonable collections efforts to recover the AHP Subsidy from the Sponsor or Owner and repay the amount recovered to the FHLBank Chicago, or
- Direct the Sponsor or Owner to repay the AHP Subsidy directly to the FHLBank Chicago.

In the event the FHLBank Chicago does not receive the Recapture amount from the Sponsor or Owner, the FHLBank Chicago may approve a Settlement, provided that:

- The CIO has approved the amount of the Settlement; and



- For Settlements forgiving \$50,000 or more, the Group Head for Community Investment has approved the Settlement; and
- The FHLBank Chicago has sufficient documentation showing that the Settlement is reasonably justified, based on the facts and circumstances of the Non-Compliance (including the financial capacity of the project Sponsor or Owner, assets securing the AHP Subsidy, other assets of the project Sponsor or Owner, degree of culpability of the non-complying parties and a determination of reasonable collection efforts); or
- The FHLBank Chicago has obtained a determination from the FHFA that the Settlement is reasonably justified, based on the facts and circumstances of the Non-Compliance (including the degree of culpability of the non-complying parties and a determination of reasonable collection efforts).

In the event the FHLBank Chicago settles for less than the full amount of the AHP Subsidy disbursed to the AHP Project, the FHLBank Chicago will reimburse the AHP fund for any shortfall if directed to do so by the FHFA.

Following De-Obligation or Recapture as a remedy for Non-Compliance, the CIO must approve the AHP Project's disposition and removal from Non-Compliance reporting.

#### **4. FHFA Waiver or No-Action**

In certain unique circumstances, the FHLBank Chicago may seek to obtain a waiver from the FHFA granting approval to pursue no action as the remedy for Non-Compliance. Prior to seeking such a waiver, the FHLBank Chicago must consult with its legal department and obtain the approval of the CIO.

### **D. Implications of Non-Compliance**

The FHLBank Chicago expects that AHP Projects will comply with the requirements of the Regulations, the Subsidy Agreement, the Retention Agreement (as applicable), the AHP Implementation Plan for the applicable Funding Round under which the AHP Project was approved, and the policies and procedures of the FHLBank Chicago. Instances of Non-Compliance may impact the Sponsor, the Member, or the AHP Project as described below.

#### **1. FHLBank Chicago Activities**

The FHLBank Chicago will not approve any of the following activities for an AHP Project in which there is unresolved Non-Compliance for which the FHLBank Chicago has not approved a Cure Plan:

- Disbursement of AHP Subsidy;
- PCR Completion.

#### **2. Capacity Review**

Non-Compliance is a reflection on the capacity of the entity responsible for Non-Compliance. Instances of Non-Compliance are documented and may factor into the FHLBank Chicago's assessment of the capacity of a Sponsor or Member when reviewing any future Application for AHP Subsidy.

#### **3. Suspension and Debarment**

Based on the severity or frequency of the Non-Compliance, the FHLBank Chicago or the FHFA may initiate Suspension or Debarment of the entity responsible for the Non-Compliance as set forth in the Suspension and Debarment Policy.

# VI. Affordable Housing Program Project Change Policy

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## A. Introduction

The FHLBank Chicago has established and implemented this Affordable Housing Program Project Change Policy (this "Policy"), which describes the nature and impact of changes to an AHP Project under the General Fund, and any Targeted Funds.

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

The FHLBank Chicago must be notified of potential changes to an AHP Project to determine whether such changes are reasonable and acceptable and to ensure the Project Approval Record contains current and accurate information about the AHP Project.

A change to the Project Approval Record that, had the change been reflected in the Application, would have impacted the scoring or eligibility of the AHP Project within the Funding Round for which it received an award of AHP Subsidy, is a Modification.

Any time there are changes in the amount of AHP Subsidy for an AHP Project, the amount of any De-Obligation, Repayment, or Recapture will be returned to the FHLBank Chicago's AHP fund and made available for other AHP-eligible projects or households, while the amount of any increase in AHP Subsidy will be drawn first from any currently uncommitted or repaid AHP Subsidy, and then from the FHLBank Chicago's required AHP contribution for the next year. AHP Subsidy that is De-Obligated or returned via Repayment or Recapture cannot be re-used in the same AHP Project.

Changes to an AHP Project are processed differently depending on the nature and extent of the change. As further defined below, changes are either processed as Modifications, updates to the AHP Project's financial feasibility, updates to information in the Project Approval Record, or changes in the amount of AHP Subsidy. The FHLBank Chicago will review all changes in an AHP Project and determine whether they rise to the level of a Modification, as well as how the change should be documented and processed.

Prior to the Initial Disbursement of AHP Subsidy, changes to an AHP Project arising to such a level that the FHLBank Chicago determines it is no longer the same project may result in De-Obligation. In all cases, the FHLBank Chicago reserves the right to determine that a change is unacceptable, which may result in Non-Compliance.

## **B. Project Changes**

Sponsors and Members must notify the FHLBank Chicago of any of the following changes:

### **1. Modifications**

A Modification is a change to the Project Approval Record that, had the change been reflected in the Application, would have impacted the scoring or eligibility of the AHP Project within the Funding Round for which it received an award of AHP Subsidy.

Modifications must be requested by the Sponsor, approved by the Member, and submitted with supporting documentation to the FHLBank Chicago.

Modification requests must demonstrate the following:

- The AHP Project continues to meet the minimum eligibility requirements per the Regulations and the AHP Implementation Plan
- The AHP Project continues to score high enough to have been approved in the Funding Round during which it was originally scored and approved which is as high as the lowest ranking alternate approved for funding by FHLBank Chicago
- There is good cause for the Modification which may not be solely remediation of Non-Compliance, including whether the Commitment could be met with additional time.

The FHLBank Chicago may require additional documentation from the Sponsor or Member in order to complete its review. The FHLBank Chicago will document its analysis and justification for approval or denial of the Modification in writing, including why a cure of Non-Compliance was not successful or attempted, and will provide written notification to the Sponsor and Member.

#### **a. Modifications to Commitments**

If an AHP Project is unable to fulfill its Commitments, the FHLBank Chicago may approve a Modification to the AHP Project's Commitments.

Failure to fulfill a Commitment is an event of Non-Compliance. For additional information regarding events of Non-Compliance and their remedies, see the Non-Compliance Policy.

As set forth in the Monitoring Policy, Commitments, with the exception of those related to income targeting and rent affordability, are fulfilled at PCR Completion. Once a Commitment has been fulfilled, changes to the AHP Project that impact the Commitment will not be considered Modifications.

#### **b. Modifications to Increase AHP Subsidy**

For Rental Projects only, prior to the Initial Disbursement of AHP Subsidy, the FHLBank Chicago will consider a Modification request to increase the amount of AHP Subsidy for the AHP Project that demonstrates all of the following:

- 1) The AHP Project is not financially feasible without additional AHP Subsidy. (Note that failure to demonstrate financial feasibility is an event of Non-Compliance. For additional information regarding events of Non-Compliance and their remedies, see the Non-Compliance Policy.); and

- 2) The Sponsor has explored alternatives to an increase in AHP Subsidy, including changes to the AHP Project size and scope; and
- 3) All other options to secure additional financing have been exhausted; and
- 4) An increase in AHP Subsidy will fully fund the gap in sources needed to complete the AHP Project.

The combined total of the original award of AHP Subsidy plus any increases in the amount of AHP Subsidy for the AHP Project cannot exceed the lesser of the following:

- 1) The maximum AHP Subsidy per AHP Project in the grant round during which the AHP Project was originally approved; or
- 2) The maximum AHP Subsidy per AHP Project in the AHP Implementation Plan for the current calendar year.

The decision to increase the AHP Subsidy is at the sole discretion of the FHLBank Chicago, and must be approved by the AHC.

**c. Eligibility Modifications**

Other changes to an AHP Project that may rise to the level of a Modification include, but are not limited to:

- A change in the AHP Project Sponsor
- A change in the AHP Project Member
- A change in the total number of units in the AHP Project
- A change in the location or site of the AHP Project (applicable to Rental Projects only)
- A significant change in the AHP Project's financial structure

In connection with a request to change the Sponsor for an AHP Project, the FHLBank Chicago will review the capacity of the proposed replacement Sponsor.

If there is a change to the Sponsor or Member for an AHP Project prior to the execution of the Subsidy Agreement, the replacement Sponsor or Member will be the signatory to the Subsidy Agreement.

If there is a change to the Sponsor or Member for an AHP Project following the execution of the Subsidy Agreement, the FHLBank Chicago will require the execution of an assignment and assumption of the Subsidy Agreement, which will not include a novation.

Any time there is a change to the Sponsor or Member for an AHP Project, the Member must ensure that the Retention Agreement (as applicable) and security instrument are properly assigned and assumed.

**2. Changes in Financial Feasibility**

When reviewing and approving an Application, the FHLBank Chicago reviews the AHP Project for compliance with the financial feasibility guidelines set forth in the AHP Implementation Plan for the applicable Funding Round under which the AHP Project was approved.

The FHLBank Chicago conducts additional reviews of the AHP Project's financial feasibility and compliance with feasibility guidelines as set forth in the Disbursement Policy and the Monitoring Policy.

Subsequent changes impacting the financial feasibility of an AHP Project may require additional information and clarification. Depending on the nature and extent of the change, and the overall analysis of financial feasibility, the FHLBank Chicago may or may not approve an exception to a financial feasibility indicator that is outside of the applicable guideline, determine that the change rises to the level of a Modification, or conclude that there is Non-Compliance as set forth in the Non-Compliance Policy.

### **3. Updates to Project Information**

The FHLBank Chicago requires notification of changes to other information in the Project Approval Record. Such changes may or may not rise to the level of a Modification, as defined above, and may or may not result in Non-Compliance as set forth in the Non-Compliance Policy. Examples include, but are not limited to:

- Contact information for the AHP Project, Sponsor, or Member
- Change in the property manager
- Legal actions involving the Sponsor or Owner, including, but not limited to violations of fair housing laws
- Legal or administrative investigations or charges, including, but not limited to investigations or charges regarding the conduct of the Sponsor's or Owner's personnel
- Bankruptcy of the Sponsor or Owner
- A disaster in the market area of the AHP Project causing major property damage
- Casualty damage to the AHP Project
- Refinancing the AHP Project
- A change in the ownership structure of the AHP Project

### **4. Repayments**

A Repayment is a return to the FHLBank Chicago of a portion of the AHP Subsidy that was previously disbursed to an AHP Project. Repayments that are initiated by the FHLBank Chicago as a remedy to Non-Compliance are Recaptures, as set forth in the Non-Compliance Policy.

### **5. De-Obligation of AHP Subsidy**

A De-Obligation is a reduction in the amount of the unfunded portion of the AHP Subsidy that is not necessary for completion of the AHP Project. The FHLBank Chicago may also utilize a De-Obligation in connection with a remedy for Non-Compliance. For additional information regarding the De-Obligation of AHP Subsidy as a remedy for Non-Compliance, see the Non-Compliance Policy.

A partial De-Obligation is a reduction of less than the full amount of FHLBank Chicago-approved AHP Subsidy available to the AHP Project.

A full De-Obligation is the elimination of the full amount of FHLBank Chicago-approved AHP Subsidy available to the AHP Project.

The effect of a full De-Obligation is the elimination of the AHP Project.

# VII. Community Investment Program Suspension and Debarment Policy

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## A. Introduction

The FHLBank Chicago has established and implemented this Community Investment Program Suspension and Debarment Policy (this “Policy”), which sets forth the circumstances under which Suspension or Debarment by the FHLBank Chicago may occur, the consequences of Suspension and Debarment, the requirements for reinstatement following Suspension, and the reporting requirements.

This Policy applies to all regulatory community investment programs, including the Affordable Housing Program General Fund, any Targeted Funds and the Homeownership Set-Aside Program.

This Policy also applies to all FHLBank Chicago community investment programs which are not required by the Federal Home Loan Bank Act or the Regulations, but reflect FHLBank Chicago’s commitment to addressing needs related to affordable housing and economic development throughout its district to support its members and the communities they serve (“Voluntary Programs”).

Additionally, this Policy applies to the Community Development Advance Program, Community Housing Advance Program, and Community Small Business Advance Program (“Community Advances”), which encompass both regulatory community investment programs and Voluntary Programs.

This Policy applies to all Members who participate in the Homeownership Set-Aside Program, as well as all Members, Sponsors, and Owners who participate within the Affordable Housing Program General Fund, and any Targeted Funds. This Policy also applies to all Members, Beneficiaries, Beneficiary Organizations, Partners, or Recipients of all other Voluntary Programs (Beneficiaries, Beneficiary Organizations, Partners, and Recipients are collectively, “Voluntary Program Participant(s)”), and Members utilizing Community Advances.

Capitalized terms shall have the meaning set forth for such terms in the Affordable Housing Program Definitions or as defined within the policy for each Voluntary Program unless otherwise defined in this Policy.

## B. Suspension

Suspension of a party by the FHLBank Chicago may occur for any of the following reasons:

*Member (including Members utilizing Community Advances)*

1. A consistent failure to provide the FHLBank Chicago with requested monitoring reports or documentation in a timely manner.

2. Failure to submit its required Community Support Statement.
3. Failure to submit a required Repayment for an AHP Project or Homeownership Set-Aside grant where the Member's actions or omissions were the cause of AHP Non-Compliance, or where the Member obtained full or partial recovery from the Sponsor or Owner.
4. Suspicious activity or misconduct by a Member.
5. Other events or actions that the FHLBank Chicago believes warrant Suspension.

*Sponsors, Owners, and Voluntary Program Participants*

1. A pattern of Non-Compliance that results in multiple Modifications in one or more AHP Projects.
2. A pattern of non-compliance within the Homeownership Set-Aside program, or within one or more Voluntary Programs that result in multiple Modifications.
3. A consistent lack of progress towards project funding or completion, including AHP Initial Draw Down or Project Completion that results in numerous De-Obligations, extensions, or Non-Compliance.
4. A consistent failure to provide the FHLBank Chicago with requested monitoring reports or documentation in a timely manner.
5. Failure to provide evidence of satisfactory resolution for program non-compliance, including AHP Non-Compliance.
6. Failure to submit a required Repayment for an AHP Project or Homeownership Set-Aside grant where the full or partial recovery plan was agreed upon with the FHLBank Chicago and Member.
7. Suspicious activity or misconduct by a Sponsor, Owner, or Voluntary Program Participant.
8. Other events or actions that the FHLBank Chicago believes warrant Suspension.

The FHLBank Chicago will obtain and present documentation supporting Suspension to the CIO for review.

Suspension of a Member must first be approved by the FHLBank Chicago's Executive Team, with a recommendation to the AHC, and will become effective upon approval by the AHC. Suspension of a Sponsor, Owner, or Voluntary Program Participant becomes effective upon CIO approval.

In the event that the FHLBank Chicago's Credit staff has concerns about the ongoing financial viability of a Member, or determines that a failure to act endangers an a funded project's viability or the FHLBank Chicago's assets allocated to a funded project, the Member may be subject to immediate suspension without AHC approval. This applies to AHP Projects, the Homeownership Set-Aside Program, Community Advances, and Voluntary Programs.

All suspended parties will be notified in writing of its Suspension, the reasons why such action was taken by the FHLBank Chicago, and the actions that may be taken to be reinstated from Suspension.

The FHLBank Chicago will also enforce the Suspension of a Member, or any other party ordered by the FHFA. An FHFA-ordered Suspension becomes effective immediately upon notice to the FHLBank Chicago.

The FHLBank Chicago will also cease to do business with any individual or entity that has been suspended by the FHFA pursuant to the FHFA's Suspended Counterparty Program (12 CFR Part 1227).

**1. Consequences of Suspension**

The FHLBank Chicago will prohibit all suspended parties from participation in all community investment programs, which includes the rejection of Applications and Reservations, and the rejection or withholding of all disbursement or funding requests for all community investment programs in which a Member, Sponsor, Owner, or Voluntary Program Participant subject to Suspension is involved.

In the case of Member Suspension, the FHLBank Chicago may also seek to remove the Member from any and all AHP Projects to avoid Recapture or De-obligation of AHP Subsidy and retain affordable housing. FHLBank Chicago may also seek to remove the Member from all Voluntary Programs and Community Advances, to preserve the deployment of the grant or subsidy.

## **2. Reinstatement from Suspension**

Following submission of a written request for reinstatement from Suspension by a Member, Sponsor, Owner, or Voluntary Program Participant, including all relevant and requested documentation evidencing compliance and resolution of the events that led to Suspension, a Member, Sponsor, Owner, or Voluntary Program Participant may have their Suspension lifted, provided that the cause(s) for the Suspension has been resolved to the FHLBank Chicago's satisfaction. Documentation supporting reinstatement from Suspension will be presented to the CIO for review.

Reinstatement of a Sponsor, Owner or Voluntary Program Participant becomes effective upon CIO approval. Reinstatement of a Member must first be approved by the FHLBank Chicago's Executive Team, with a recommendation to the AHC. Reinstatement will become effective upon AHC approval.

The Member, Sponsor, Owner, or Voluntary Program Participant will be notified in writing that it has been reinstated from Suspension.

If a Member, Sponsor, Owner, or Voluntary Program Participant subject to Suspension ordered by the FHFA wishes to seek reinstatement, the FHLBank Chicago will submit a request for reinstatement from the Member, Sponsor, Owner, or Voluntary Program Participant to the FHFA, and will notify the party of the FHFA's decision.

Suspension pursuant to the FHFA's Suspended Counterparty Program is subject to the regulations set forth at 12 CFR Part 1227.

## **C. Debarment**

Debarment of a Member, Sponsor, Owner, or Voluntary Program Participant by the FHLBank Chicago may occur for any of the following reasons:

1. Fraud or activities likely to result in fraud.
2. Committing negligent actions that led to the financial distress of project, including an AHP Project.
3. Abandoning a project, including an AHP Project, at any time during its life cycle.
4. Demonstrating a pattern of Non-Compliance or a single instance of flagrant Non-Compliance.
5. Suspicious activity or misconduct.
6. Other events or actions that the FHLBank Chicago believes warrant Debarment, including, but not limited to, repeated Suspensions.

The FHLBank Chicago will obtain and present documentation supporting Debarment to the CIO for review.

Debarment of a Sponsor, Owner, or Voluntary Program Participant becomes effective upon CIO approval. Debarment of a Member must first be approved by the FHLBank Chicago's Executive Team, with a recommendation to the AHC, and will become effective upon AHC approval.

The Member, Sponsor, Owner, or Voluntary Program Participant will be notified in writing of its Debarment and the reasons why such action was taken by the FHLBank Chicago.

The FHLBank Chicago will also enforce the Debarment of a Member, Sponsor, Owner, or Voluntary Program Participant ordered by the FHFA. An FHFA-ordered Debarment becomes effective immediately upon notice to the FHLBank Chicago.



The FHLBank Chicago will permanently prohibit program participation, which includes the rejection of Applications and Reservations, and the rejection or withholding of all disbursement or funding requests for all Community Investment programs in which a Member, Sponsor, Owner, or Voluntary Program Participant subject to Debarment is involved.

In the case of Member Debarment, the FHLBank Chicago may also seek to remove the Member from any and all AHP Projects to avoid Recapture or De-Obligation of AHP Subsidy and retain affordable housing. FHLBank Chicago may also seek to remove the Member from all Voluntary Programs and Community Advances, to preserve the deployment of the grant or subsidy.

**D. Suspension and Debarment Reporting**

On a quarterly basis, the CIO will report to the AHC all Members, Sponsors, Owners, and Voluntary Program Participants that are currently subject to Suspension or Debarment, as well as any that have been reinstated from Suspension during the reporting quarter.

**E. Suspicious Activity Reporting Requirements**

The Community Investment group has established AML/BSA Procedures as required under the FHLBank Chicago's Anti-Money Laundering, Bank Secrecy Act, and Suspicious Activity Reporting Policy. Any suspicious activity related to a Member, Sponsor, Owner, or Voluntary Program Participant will be reported to the AML Compliance Officer's Community Investment designee, who will, in consultation with the Law Department in each instance, determine whether a suspicious activity report (SAR) filing is required or otherwise appropriate. If it is determined that a SAR should be filed, the designee will work with the AML Compliance Officer to ensure that the necessary steps are taken to complete the filing and to maintain proper supporting documentation.

**Approval, Roles and Responsibilities**

The Affordable Housing Committee of the Bank's Board of Directors annually reviews all proposed changes to these compiled Affordable Housing Program policies and recommends approved changes to the full Board of Directors for final approval.

**Attachments**

None

Approved by the Board of Directors  
on the 28<sup>th</sup> Day of October, 2022

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Its Corporate Secretary



**FHLBank**  
Chicago

# Compiled Affordable Housing Program Policies

POLICY TITLE: Compiled Affordable Housing Program Policies

APPROVED BY: Board of Directors

APPROVAL DATE: ~~09/13~~10/28/2022

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# Introduction

The Compiled Affordable Housing Program Policies outline program requirements and guidelines covering all phases in the lifecycle of an Affordable Housing Program (AHP) project.

The Compiled Affordable Housing Program Policies includes the following:

- Affordable Housing Program Definitions
- Affordable Housing Program Eligible and Ineligible Uses of AHP
- Affordable Housing Program Subsidy Disbursement Policy
- Affordable Housing Program Monitoring Policy
- Affordable Housing Program Non-Compliance Policy
- Affordable Housing Program Project Change Policy
- ~~Affordable Housing~~Community Investment Program Suspension and Debarment Policy<sup>1</sup>

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<sup>1</sup> The Community Investment Program Suspension and Debarment Policy applies to all Community Investment programs offered by FHLBank Chicago, including AHP and all Voluntary Programs.

# I. Affordable Housing Program Definitions

The FHLBank Chicago has established and implemented these **Definitions** for use with the following policies under the **Affordable Housing Program: Eligible and Ineligible Uses of AHP; Subsidy Disbursement Policy, Monitoring Policy, Non-Compliance Policy, Project Change Policy, and Suspension and Debarment Policy.**

\* Denotes definition from the **Regulations**

**Affordable\*** means that:

(1) The rent charged to a household for a unit that is to be reserved for occupancy by a household with an income at or below 80 percent of the median income for the area does not exceed 30 percent of the income of a household of the maximum income and size expected, under the commitment made in the AHP application, to occupy the unit (assuming occupancy of 1.5 persons per bedroom or 1.0 persons per unit without a separate bedroom); or

(2) The rent charged to a household, for rental units subsidized with Section 8 assistance under 42 U.S.C. § 1437f or subsidized under another assistance program where the rents are charged in the same way as under the Section 8 program, if the rent complied with this definition of the Regulations at the time of the household's initial occupancy and the household continues to be assisted through the Section 8 or another assistance program, respectively

**AHC** means the Affordable Housing Committee of the **Board**

**AHP-Assisted Unit** is a housing unit that is subject to an income-targeting commitment of  $\leq 80\%$  AMI made to the FHLBank Chicago

**AHP Implementation Plan** means the document that sets forth certain policies, procedures, guidelines, and requirements applicable to the **General Fund, any Targeted Funds** and the **Homeownership Set-Aside Program** pursuant to the requirements of § 1291.13 of the **Regulations** specific to each year and round that **Applications** are accepted

**AHP Project\*** means a single-family or multifamily housing project for owner-occupied or rental housing that has been awarded or has received **AHP Subsidy** under the **General Fund, and any Targeted Funds**

**AHP Subsidy** means funds awarded and allocated under the **General Fund, and any Targeted Funds**

**Application** means the entire set of documents and data required and requested by, and submitted to, the **FHLBank Chicago**, through the **Funding Round**, that describe a proposed **AHP Project**. With respect to the Suspension and Debarment Policy, "Application" also includes the entire set of documents and data required and requested by, and submitted to, the FHLBank Chicago, for participation within a Voluntary Program

**Award Date** means the date on which an **AHP Project** was approved by the **Board** for an award of **AHP Subsidy**. For alternates, the project's **Award Date** is the date on which the Bank converts the project from an alternate project to an **AHP Project**.

**Beneficiary** means the individual(s) identified on the title of the **Retention Agreement**. With respect to the Suspension and Debarment Policy, "Beneficiary" also includes individuals identified within the application of a Voluntary Program.

**Board** means the **FHLBank Chicago's** Board of Directors

**CIO** means the Community Investment Officer of the **FHLBank Chicago's** Community Investment Department

**Commitments** means the scoring characteristics in the approved **AHP Project** and described in the **AHP Implementation Plan** under which the **AHP Project** was approved for an award of **AHP Subsidy**; **Commitments** are confirmed by the **FHLBank Chicago** through its review of the **Application** or through an approved **Modification**, and are reflected in the **Project Approval Record**

**Consumer-Driven Project** means an **Owner-Occupied Project** where the **AHP-Assisted Unit** will never be owned by the **Sponsor** prior to the sale to a homebuyer

**Cure Period** means the period of time, as set forth in the **Cure Plan**, for the resolution of **Non-Compliance**

**Cure Plan** means a plan to remedy **Non-Compliance** as set forth in the **Non-Compliance Policy**

**Debarment** means an action taken to permanently prohibit a **Member, Sponsor, ~~or Owner,~~ or Voluntary Program participant** from participation in the **General Fund, any Targeted Funds, and the Homeownership Set Aside Program, or any Voluntary Program**, as set forth in the **Suspension and Debarment Policy**

**Definitions** means the **FHLBank Chicago's** Affordable Housing Program Definitions or those definitions provided in the AHP regulations if not defined herein.

**De-Obligation** means a **full or partial** reduction in the amount of **AHP Subsidy** in an **AHP Project** as set forth in the **Project Change Policy**

**Disbursement Policy** means the **FHLBank Chicago's** Affordable Housing Program Subsidy Disbursement Policy

**Eligible and Ineligible Uses of AHP Subsidy Policy** means the **FHLBank Chicago's** Affordable Housing Program **Eligible and Ineligible Uses of AHP Subsidy Policy**

**FHFA** means the Federal Housing Finance Agency

**FHLBank Chicago** means the Federal Home Loan Bank of Chicago

**Funding Round** means the period of time during which the **FHLBank Chicago** accepts **Applications** for **AHP Projects** under the **General Fund**, and any **Targeted Funds**

**General Fund** means a program established by the **FHLBank Chicago** under which the **FHLBank Chicago** awards and disburses **AHP Subsidy** through a competitive application process pursuant to the requirements of § 1291.20 of the **Regulations** and the **AHP Implementation Plan**, which is allocated separately from any Targeted Funds established by FHLBank Chicago

**Good Standing** means one of the following, as applicable:

*In the case of **Members***: means that the institution is a current member of the **FHLBank Chicago**, and that it is not currently suspended or debarred under the **Suspension and Debarment Policy**, and that the **Member's AHP Projects** are in compliance, or the **Member**

is acceptably remedying events of non-compliance as determined by the **FHLBank Chicago**, and described in the **Non-Compliance Policy**

*In the case of Sponsors:* means that the **Sponsor** is not currently suspended or debarred under the **Suspension and Debarment Policy**, and that the **Sponsor's AHP Projects** are in compliance, or the **Sponsor** is acceptably remedying events of non-compliance as determined by the **FHLBank Chicago**, and described in the **Non-Compliance Policy**

**Homeownership Set-Aside Program\*** means a program established by the **FHLBank Chicago** under which the **FHLBank Chicago** disburses AHP direct subsidy through a non-competitive process pursuant to the requirements of § 1291.40 of the **Regulations**

**Identity of Interest** means the existence of any of the following conditions between the buyer and seller of land or buildings purchased or acquired for an **AHP Project**

- A common officer, director, stockholder, member, partner, or entity in the buyer and seller; or
- A financial interest of any officer, director, stockholder, member, partner, or entity in the other party to the transaction

**Initial Draw Down** means the first disbursement of **AHP Subsidy** to an **AHP Project** as set forth in the **Disbursement Policy**

**LIHTC** means the Low-Income Housing Tax Credit as described in section 42 of the Internal Revenue Code

**Member** means an entity approved and designated by the **FHLBank Chicago** as the member in an **AHP Project** or associated with a **Homeownership Set-Aside Program** subsidy. With respect to the **Suspension and Debarment Policy**, "Member" also includes an entity approved and designated by the **FHLBank Chicago** as a member in a **Voluntary Program** or as a member receiving a **Community Advance**.

**Modification** means a change to the **Project Approval Record** as set forth in the **Project Change Policy**. With respect to the **Suspension and Debarment Policy**, "Modification" means a change to the use of funds and/or scope of work for a **Voluntary Program**.

**Monitoring Policy** means the **FHLBank Chicago's** Affordable Housing Program Monitoring Policy

**Non-Compliance** means a failure to fulfill the requirements in connection with an **AHP Project** as set forth in the **Non-Compliance Policy**

**Non-Compliance Policy** means the **FHLBank Chicago's** Affordable Housing Program Non-Compliance Policy

**Owner** of a **Rental Project** means the legal entity or individual identified on the title of the Rental Project; the **Sponsor** has an ownership interest in the **Owner**. **For Owner-Occupied Projects**, the Owner is the individual identified as the owner of the unit via a recorded legal instrument and is occupying the unit as primary residence.

**Owner-Occupied Project\*** means, for purposes of the **General Fund, and any Targeted Funds**, one or more owner-occupied units in a single-family or multifamily building, including condominiums, cooperative housing, and manufactured housing



**PCR Completion** means the point at which the **AHP Project** has satisfied the requirements of the **Project Completion Report**, as determined by the **FHLBank Chicago** and described in the **Monitoring Policy**

**Pre-Approval** means **FHLBank Chicago** approval for a **Member** to disburse **AHP Subsidy** to a **Rental Project** as set forth in the **Disbursement Policy**

**Project Approval Record** means the current characteristics of an **AHP Project** pertaining to its **Commitments**, eligibility, and feasibility as documented by the **FHLBank Chicago**

**Project Change Policy** means the **FHLBank Chicago's** Affordable Housing Program Project Change Policy

**Project Completion** means one of the following according to project type:

In the case of **Rental Projects**: the later of: 1) the date the project reports an 90% occupancy rate, 2) the date when construction or rehabilitation is complete, or 3) the date of the final disbursement of **AHP Subsidy**

In **Rental Projects**, the date of **Project Completion** is the beginning of the **Retention Period**

In the case of **Owner-Occupied Projects**: the later of: 1) the date all units are sold 2) the date when construction or rehabilitation is complete, or 3) the date of the final disbursement of **AHP Subsidy**

**Project Completion Report** means the documentation collected and reviewed by the **FHLBank Chicago** to fulfill project completion reporting as described in the **Monitoring Policy**

**Project File** means all documentation and data required by the **FHLBank Chicago** for an **AHP Project**. The **Project Documentation Record** includes, but is not limited to, documentation obtained and generated by the **FHLBank Chicago** through the **Application**, disbursement requests, modification requests, and monitoring activities

**Recapture** means the recovery of **AHP Subsidy** that was previously disbursed to an **AHP Project** as set forth in the **Non-Compliance Policy**

**Regulations** means Federal Regulations 12 C.F.R. Part 1291

**Rental Project\*** means, for purposes of the **General Fund, and any Targeted Funds**, one or more dwelling units for occupancy by households that are not owner-occupants, including overnight and emergency shelters, transitional housing for homeless households, mutual housing, single-room occupancy housing, and manufactured housing

**Repayment** means the return of **AHP Subsidy** that was previously disbursed to an **AHP Project** as set forth in the **Project Change Policy**

**Reservation** means the process by which a **Member** reserves an amount of funds from the **FHLBank Chicago's** Homeownership Set-aside Program for a household with an executed purchase contract and a first mortgage loan application.

**Retention Agreement** means a deed restriction or other legally enforceable retention or repayment agreement or mechanism, as set forth in the **AHP Implementation Plan**

**Retention Period** means that period of time required per the **Regulations** and set forth in the **AHP Implementation Plan** during which the **AHP Project** or **AHP-Assisted Unit** is subject to the **Retention Agreement**

**Semi-Annual Progress Report** means the information and documentation collected and reviewed by the **FHLBank Chicago** to fulfill semi-annual progress reporting as described in the **Monitoring Policy**

**Settlement** means **FHLBank Chicago** forgiveness of all or a portion of AHP Subsidy in connection with a **Recapture** as set forth in the **Non-Compliance Policy**

**Sponsor\*** means a not-for-profit or for-profit organization or public entity that:

- (1) Has an ownership interest (including any partnership interest), as defined by the **FHLBank Chicago** in its **AHP Implementation Plan**, in a **Rental Project**;
- (2) Is integrally involved, as defined by the **FHLBank Chicago** in its **AHP Implementation Plan**, in an **Owner-Occupied Project**

**Sponsor-Driven Project** means an **Owner-Occupied Project** in which the **AHP-Assisted Units** have been or will be owned by the **Sponsor** prior to the sale to a homebuyer

**Subsidy Agreement** means the tri-party agreement executed between the **FHLBank Chicago**, the **Member(s)**, and the **Sponsor** for each **AHP Project**, which describes the duties, obligations, and responsibilities associated with an award of **AHP Subsidy** under the **General Fund, and any Targeted Funds**

**Subsidy Reduction** means a reduction from the amount of **AHP Subsidy** requested by a **Sponsor** in an **Application** as a result of the **FHLBank Chicago's** analysis of the need for **AHP Subsidy**

**Suspension** means an action taken to temporarily prohibit a **Member, Sponsor** or **Owner** from participation in the **General Fund, any Targeted Funds, and Homeownership Set Aside Program** as set forth in the **Suspension and Debarment Policy**

**Suspension and Debarment Policy** means the **FHLBank Chicago's Affordable HousingCommunity Investment** Program Suspension and Debarment Policy

**Targeted Fund**<sup>1—2</sup> means a program established by the **FHLBank Chicago** under which the **FHLBank Chicago** awards and disburses **AHP Subsidy** through a competitive application scoring process pursuant to the requirements of § 1291.20 of the **Regulations** and the **AHP Implementation Plan** to address specified affordable housing needs in its district pursuant to Section 1291.20(b) of the **Regulations** which is allocated separately from the General Fund established by the FHLBank Chicago.

<sup>1</sup> ~~FHLBank Chicago does not currently offer a Targeted Fund.~~

<sup>2</sup> ~~FHLBank Chicago does not currently offer a Targeted Fund.~~

**Voluntary Program** means a community investment program offered by FHLBank Chicago which not required by the Federal Home Loan Bank Act or the **Regulations**, but reflect the FHLBank Chicago’s commitment to addressing needs related to affordable housing and economic development throughout its district to support its members and the communities they serve.

## II. Affordable Housing Program Eligible and Ineligible Uses of AHP Subsidy

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### A. Introduction

The FHLBank Chicago has established and implemented this Affordable Housing Program Eligible and Ineligible Uses of AHP Subsidy policy, (this “Policy”) which outlines the eligible and ineligible uses of AHP Subsidy in an AHP Project under the General Fund, and any Targeted Funds.

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

Project Sponsors and Members should use sound and prudent judgment when analyzing and determining the capital needs of the AHP Project.

New-construction, repair, and rehabilitation work should be done to ensure and improve the health, safety, and energy efficiency of the AHP Project, and to ensure safe and habitable dwellings.

The non-exhaustive lists below are to be used as a guideline, and include, but are not limited to, the items listed.

Sponsors and Members are encouraged to contact the FHLBank Chicago prior to incurring costs if they have any questions regarding eligible and ineligible uses of AHP Subsidy.

The FHLBank Chicago will not disburse AHP Subsidy for the reimbursement of costs determined to be for an ineligible use.

## **B. All Projects: Ineligible Uses**

For all Projects, ineligible uses of AHP Subsidy are as follows:

- Prepayment fees imposed by the FHLBank Chicago on a Member for a subsidized advance that is prepaid, unless:
  - The Project is in financial distress that cannot be remedied through a project modification pursuant to §1291.29 of the Regulations and the Project Change Policy;
  - The prepayment of the subsidized advance is necessary to retain the Project's affordability and income targeting Commitments;
  - Subsequent to such prepayment, the Project will continue to comply with the terms of the approved Application and the requirements of the Regulations for the duration of the original Retention Period;
  - Any unused AHP Subsidy is returned to the FHLBank Chicago and made available for other AHP Projects or households; and
  - The amount of AHP Subsidy used for the prepayment fee may not exceed the amount of the Member's prepayment fee to the FHLBank Chicago.
- Cancellation fees and penalties imposed by the FHLBank Chicago on a Member for a subsidized advance commitment that is canceled;
- Processing fees charged by a Member providing AHP Subsidy to a Project; and
- Capitalized reserves, periodic deposits to reserve accounts, operating expenses, or supportive services expenses.

## **C. Owner-Occupied Projects**

For Owner-Occupied Projects, the non-exhaustive list of eligible and ineligible uses of AHP Subsidy is as follows:

### **1. Eligible Uses**

- Down payment assistance (except as noted below for FHA insured financing)
- Pre-purchase homebuyer education and/or counseling costs incurred in connection with the purchase of an AHP-Assisted Unit that have not been covered by another funding source
- Closing cost assistance

Examples of eligible closing costs include:

- home inspection fees
- underwriting fees

- documentation preparation fees
- courier fees
- attorney fees for the borrower
- recording fees
- Repair or rehabilitation work to correct code deficiencies, weatherize, or ensure the habitability of the housing structure

Examples include, but are not limited to:

- Roof repair/replacement
- Structural repairs
- Lead-based paint hazard reduction
- Accessibility modifications
- Repair/replacement of attached garages
- Mold remediation
- Repair/replacement of major housing systems
- Repair/replacement of windows, gutters, or siding
- Repair/replacement of porches necessary for ingress and egress to fix code or safety violation(s)
- Repair/replacement of basic carpeting or floors
- Electrical or plumbing work needed to maintain habitability
- Repair/replacement of basic light fixtures
- Drywall, painting, fixtures, and flooring, only if related to other necessary repairs
- Interior painting needed as a result of necessary or eligible rehabilitation
- Exterior lighting, only if safety- or hazard-related necessity
- Exterior painting, if related to fixing code or safety violation(s)
- New construction of owner-occupied housing

## **2. Ineligible Uses**

- The provision of AHP Subsidy in connection with a homeowner purchase when the closing / settlement date set forth on the final closing disclosure is prior to the Award Date
- The provision of AHP Subsidy in connection with rehabilitation work when all rehabilitation work was completed prior to the Award Date
- Down payment assistance in conjunction with Federal Housing Administration (FHA) insured financing
- Use with any other AHP Subsidy for the same homebuyer in the same transaction
- More than \$250 cash back to the homebuyer at closing

- Reimbursement of earnest money, deposits, or costs paid outside of closing (in excess of the above-mentioned \$250 cash back)
- Pre-purchase homebuyer education and/or counseling fees that have been covered by another funding source
- Pre-purchase homebuyer education and/or counseling fees in transactions that do not include a homebuyer purchase of an AHP-Assisted Unit
- Points and fees related to an interest rate buy-down
- Home warranty plans
- Payment of property taxes or utility bills incurred by the seller, or other expenses unrelated to the purchase transaction that are owed by the seller
- Payment of non-housing-related costs, including, but not limited to:
  - Prepaid life insurance
  - Debt collections
  - Credit card bills
  - Child-support payments
  - Federal or state income taxes
  - Credit repair
- New construction, repair, or rehabilitation work unrelated to correcting code deficiencies, weatherizing a home, or ensuring its habitability

Examples include, but are not limited to:

- Decks not necessary for ingress and egress
- Finished attics or basements
- Fences and gates
- Detached garages, sidewalks, and driveways
- Awnings and shutters
- Landscaping and irrigation systems
- Swimming pools
- Furniture and appliances
- Window treatments
- Additions or extensions
- Security alarms and smart home systems
- Installation of skylights where none existed before
- Homeowner's personal labor
- Upgrades to the building exterior solely to improve aesthetics/curb appeal (e.g., re-shingling, building re-surfacing, façade improvements)

- Agriculture or horticulture structures (e.g., barn houses or greenhouses)

#### **D. Rental Projects**

For Rental Projects, the non-exhaustive list of eligible and ineligible uses of AHP Subsidy is as follows:

##### **1. Eligible Uses**

- Acquisition of land and/or property
- Hard construction costs
- Soft costs

##### **2. Ineligible Uses**

- Capitalized reserves
- Pre-development expenses to determine if a project is feasible
- Points and fees related to an interest rate buy-down
- Uses related to:
  - Decks not necessary for ingress and egress
  - Fences and gates
  - Garages, sidewalks, and driveways
  - Awnings and shutters
  - Landscaping and irrigation systems
  - Swimming pools and fountains
  - Furniture and appliances
  - Window treatments
  - Security alarms and smart home systems
  - Walking/bike trails
  - Installation of skylights where none existed before
  - Upgrades to the building exterior solely to improve aesthetics/curb appeal (e.g., re-shingling, building re-surfacing, façade improvements)

### III. Affordable Housing Program Subsidy Disbursement Policy

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#### **A. Introduction**

The FHLBank Chicago 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 General Fund, and any Targeted Funds.

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 FHLBank Chicago 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 FHLBank Chicago policies and procedures, and (7) the documentation received by the FHLBank Chicago is acceptable and complete.

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

If the FHLBank Chicago 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 FHLBank Chicago 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 FHLBank Chicago 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.

## **B. 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.

### **1. 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.

### **2. Good Standing**

The Member and the Sponsor are in Good Standing with the FHLBank Chicago.

### **3. Subsidy Agreement**

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

### **4. Disbursement Requests and Reimbursement**

The FHLBank Chicago 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 FHLBank Chicago, the FHLBank Chicago may disburse the AHP Subsidy to another Member of the FHLBank Chicago, or to 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 FHLBank Chicago 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 FHLBank Chicago 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 FHLBank Chicago will provide reimbursement to the Member. *In no case should the Member assume that the FHLBank Chicago*

*will provide reimbursement for the disbursement of AHP Subsidy to a Rental Project unless the FHLBank Chicago 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 FHLBank Chicago 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, new construction, or rehabilitation completion of an AHP-Assisted Unit, after which a disbursement request is submitted to the FHLBank Chicago 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 FHLBank Chicago 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 FHLBank Chicago 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 or new construction only, the Member should not fund AHP Subsidy prior to completion of all rehabilitation or new construction work. The FHLBank Chicago will not provide reimbursement to Members prior to the completion of all rehabilitation or new construction work.

## **5. 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:

- a. Good cause for an extension,
- b. Progress towards meeting any conditions of approval for the AHP Project,
- c. Progress towards the Initial Draw Down, and
- d. Progress towards Project Completion.

The FHLBank Chicago 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 LIHTCs must fulfill this condition in order to request an extension.

The FHLBank Chicago 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 FHLBank Chicago within the appropriate timeframe.

### **C. Disbursement Requirements**

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

#### **1. Rental Projects**

The FHLBank Chicago will verify the following<sup>3</sup> for all Rental Projects through the Project File and information obtained through the disbursement request:

- 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 FHLBank Chicago requirements
- c. *Eligible Use of AHP Subsidy*: The AHP Subsidy is being used for eligible purposes. For additional information see the FHLBank Chicago's Eligible and Ineligible Uses of AHP Subsidy Policy
- d. *Financial Feasibility*: The AHP Project is financially feasible
- e. *Need for subsidy*: The AHP Project has a demonstrated need for AHP Subsidy
- f. *Project Completion*: The AHP Project is making progress towards Project Completion
- g. *Commitments*: The AHP Project has met or is making progress towards meeting its Commitments
- h. *Retention Agreement*: The AHP Project is subject to an executed Retention Agreement  
Note: This is not required in order to obtain Pre-Approval.
- i. *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.
- j. *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
- k. *Acquisition Costs*: For AHP Projects involving the acquisition of sites or buildings, all acquisition costs are documented and validated
- l. *Zoning*: All sites and buildings are appropriately zoned to permit the AHP Project
- m. *Ownership*: The Sponsor has an ownership interest in the AHP Project
- n. *Rehabilitation and Construction Scope*: For all AHP Projects involving rehabilitation or new construction, the scope of work is documented and acceptable

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<sup>3</sup> Unless otherwise noted, the FHLBank Chicago will review 100% of all back-up documentation in connection with its review.

- o. *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 FHLBank Chicago's per-unit development-cost guidelines
- p. *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
- q. *Sources*: All sources of funds are documented, acceptable, and available and contribute to evidencing the project's financial feasibility and need for AHP Subsidy
- r. *Uses*: All uses of funds are documented, acceptable, and contribute to evidencing the project's financial feasibility and need for AHP Subsidy
- s. *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
- t. *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
- u. *Income Targeting and Rent Affordability Commitments*: For AHP Projects that are occupied at the time of disbursement, the FHLBank Chicago 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.

## **2. Owner-Occupied Projects**

The FHLBank Chicago will verify the following<sup>4</sup> for each AHP-Assisted Unit through the Project File and information obtained through the disbursement request:

- a. *Eligibility*: The AHP Project and Sponsor meet all minimum eligibility requirements under the Regulations and the Implementation Plan. Eligibility requirements must be satisfied on a per-unit basis, rather than in aggregate at the project level. Disbursement requests will be rejected as non-compliant if eligibility thresholds are not met on a per-unit basis
- b. *Compliance*: The AHP Project, the Sponsor, and the Member are fulfilling all FHLBank Chicago requirements
- c. *Eligible use of AHP Subsidy*: The AHP Subsidy is being used for eligible purposes. For additional information, see the FHLBank Chicago's Eligible and Ineligible Uses of AHP Subsidy Policy
- d. *Financial Feasibility*: The AHP-Assisted Unit is financially feasible. Feasibility guidelines must be satisfied on a per-unit basis, rather than in aggregate at the project level

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<sup>4</sup> Unless otherwise noted, the FHLBank Chicago will review 100% of all back-up documentation in connection with its review.

- e. *Need for subsidy*: The AHP-Assisted Unit has a demonstrated need for AHP Subsidy
- f. *Commitments*: The AHP-Assisted Unit contributes to fulfilling the Commitments of the AHP Project, which will be evaluated on a per-unit basis
- g. *Retention Agreement*: The AHP-Assisted Unit is subject to an executed Retention Agreement

Note: Retention agreements are not permitted for households that receive AHP Subsidy solely for the rehabilitation of an owner-occupied unit on or after January 1, 2020.

Note: The FHLBank Chicago will use a risk-based sampling plan to select recorded Retention Agreements for review.

- h. *Delivery of Subsidy*: The Member has delivered the AHP Subsidy to the AHP-Assisted Unit
- i. *Acquisitions*: For AHP Projects involving a homebuyer purchase, the homebuyer purchase has occurred prior to the time of disbursement
- j. *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
- k. *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 FHLBank Chicago's per-unit development cost guidelines
- l. *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
- m. *Permission to Occupy*: For all AHP Projects involving rehabilitation or new construction, evidence that the AHP-Assisted Unit can be occupied
- n. *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

- o. *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.

- p. *Eligibility and Targeting Commitments:* The FHLBank Chicago 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 or new construction only, household income documentation must be dated within 120 days of the initiation of rehabilitation or new construction work.

## IV. Affordable Housing Program Monitoring Policy

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## **A. Introduction**

The FHLBank Chicago has established and implemented this Affordable Housing Program Monitoring Policy (this "Policy"), which addresses the regulatory monitoring requirements for AHP Projects under the General Fund, and any Targeted Funds.

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 FHLBank Chicago 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 FHLBank Chicago policies and procedures, and (7) the documentation received by the FHLBank Chicago is acceptable and complete.

If the FHLBank Chicago determines that any of the aforementioned criteria have not been satisfied, the FHLBank Chicago may determine that there is Non-Compliance. For additional information regarding events of Non-Compliance and their remedies, see the Non-Compliance Policy.

The FHLBank Chicago 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.

## **B. Initial Monitoring**

*Initial monitoring* for all AHP Projects includes: (1) Semi-Annual Progress Reporting, and (2) Project Completion Reporting.

### **1. 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 FHLBank Chicago will verify the following through the Project File and information obtained through Semi-Annual Progress Reporting:

- a. 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.

- b. The AHP Project is making satisfactory progress towards Project Completion.

### **2. 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 FHLBank Chicago of Project Completion through one of the following:

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

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

**a. Rental Projects**

The FHLBank Chicago will verify the following<sup>5</sup> for all Rental Projects through the Project File and information obtained through the Project Completion Report:

- 1) *Eligibility*: The AHP Project and Sponsor meet all minimum eligibility requirements under the Regulations and the Implementation Plan
- 2) *Acquisition Costs*: For AHP Projects involving the acquisition of sites or buildings, all acquisition costs are documented and validated
- 3) *Compliance*: The AHP Project, the Sponsor, and the Member are fulfilling all requirements under the Regulations and the FHLBank Chicago policies
- 4) *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
- 5) *Financial Feasibility*: The AHP Project is financially feasible
- 6) *Need for subsidy*: The AHP Project has a demonstrated need for AHP Subsidy
- 7) *Commitments*: The AHP Project has fulfilled its Commitments

Note: 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.

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

Note: 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.

- 9) *Ownership*: The Sponsor has an ownership interest in the AHP Project
- 10) *Rehabilitation and Construction Scope*: For all AHP Projects involving rehabilitation or new construction, the final scope is documented and acceptable
- 11) *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 FHLBank Chicago's per unit development cost guidelines
- 12) *Construction Payments and Completion*: For AHP Projects involving rehabilitation or new construction work, evidence of construction payment and completion
- 13) *Occupancy*: For AHP Projects involving rehabilitation or new construction work, evidence that the AHP Project can be occupied and is making satisfactory progress toward occupancy
- 14) *Sources*: The final sources of funds are documented, acceptable, and contribute to evidencing financial feasibility and the need for AHP Subsidy

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<sup>5</sup> Unless otherwise noted, the FHLBank Chicago will review 100% of all back-up documentation.



- 15) *Uses*: The FHLBank Chicago will verify that 100% of final uses of funds are documented, acceptable, and contribute to evidencing financial feasibility and the need for AHP Subsidy
- 16) *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
- 17) *Expenses*: All operating expenses of the AHP Project are documented, acceptable, and contribute to evidencing financial feasibility and the need for AHP Subsidy
- 18) *Income Targeting and Rent Affordability Commitments*: The FHLBank Chicago 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.

Accordingly, projects which received LIHTC or funding from one or more of: (1) HUD 202 Program for the Elderly; (2) HUD Section 811 Program for Housing the Disabled; (3) USDA Section 514 Farmworker Multifamily Program; (4) USDA Section 515 Rural Multifamily Program, are not required to submit back-up documentation related to income targeting and rent affordability.

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:

- 1) The AHP Subsidy was used for eligible purposes according to the Commitments made in the approved Application;
- 2) The tenant incomes and rents are compliant with the Commitments made in the approved Application;
- 3) The AHP Project is habitable and suitable for occupancy;
- 4) Documentation regarding tenant incomes and rents, from the earlier of move-in or Application submission for an existing occupied project, is maintained;
- 5) The Sponsor continues to have an ownership interest in the AHP Project;
- 6) The Sponsor is in existence and is in good standing;
- 7) The AHP Project's debt payments, if any, are current;
- 8) The AHP Project's real estate tax payments, if any, are current;

- 9) The current vacancy rate of the AHP Project;
- 10) The AHP Project has not suspended scheduled soft debt payments or reserve deposits;  
and
- 11) 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:

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

**b. Owner-Occupied Projects**

The FHLBank Chicago will verify the following<sup>6</sup> for all Owner-Occupied Projects, through the Project Documentation Record and information obtained through the Project Completion Report:

- 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 FHLBank Chicago requirements
- 3) *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
- 4) *Commitments*: The AHP Project has fulfilled its Commitments

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

The Sponsor will be required to certify the following:

- 1) The Sponsor was integrally involved in the AHP Project as set forth in the Implementation Plan;
- 2) The AHP Subsidy was used for an eligible purpose;
- 3) 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 FHLBank Chicago; and
- 4) 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:

- 1) The AHP Subsidy was used for an eligible purpose according to the Commitments made in the approved AHP Application;

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<sup>6</sup> Unless otherwise noted, the FHLBank Chicago will review 100% of all back-up documentation.

- 2) All AHP-Assisted Units, excluding rehabilitation-only owner-occupied units completed on or after January 1, 2020, are subject to a deed restriction or other legally enforceable Retention Agreement or mechanism meeting the requirements of the Regulations; and
- 3) The Retention Agreements (as applicable) are confirmed as recorded, and the Member maintains evidence of the recorded documents that is available for review by the FHLBank Chicago.

## **C. Long-Term Monitoring**

### **1. AHP Projects Not Subject to Long-Term Monitoring**

The FHLBank Chicago will not conduct additional monitoring activities<sup>7</sup> following PCR Completion for the following types of AHP Projects:

- Rental Projects financed with Low-Income Housing Tax Credits<sup>8</sup>
- 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.

### **2. AHP Projects Subject to Long-Term Monitoring**

For AHP Projects subject to long-term monitoring, the FHLBank Chicago will verify that 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 FHLBank Chicago 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

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<sup>7</sup> The FHLBank Chicago reserves the right to conduct additional monitoring activities for any AHP Project if the FHLBank Chicago determines additional monitoring is warranted.

<sup>8</sup> The project sponsor or owner remains obligated to provide prompt written notice to the FHLBank Chicago if the project also received LIHTC and the project is in material and unresolved noncompliance with the LIHTC income targeting or rent requirements at any time during the AHP 15-year retention period.

- The percentage of total project sources the AHP Subsidy represents;
- Sponsor experience and performance; and
- Any monitoring provided by a federal, state, or local agency

The documentation required will include the following annual certifications:

**a. Sponsor Certification**

- 1) The AHP Subsidy was used for eligible purposes according to the Commitments made in the approved Application;
- 2) The tenant incomes and rents are compliant with the Commitments made in the approved Application;
- 3) The AHP Project is habitable and suitable for occupancy;
- 4) Documentation regarding tenant incomes and rents, from the earlier of move-in or Application submission for an existing occupied project, is maintained;
- 5) The Sponsor continues to have an ownership interest in the AHP Project;
- 6) The Sponsor is in existence and is in good standing;
- 7) The AHP Project's debt payments, if any, are current;
- 8) The AHP Project's real estate tax payments, if any, are current;
- 9) The current vacancy rate of the AHP Project;
- 10) The AHP Project has not suspended scheduled soft-debt payments or reserve deposits;
- 11) 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); and
- 12) The AHP Project is in compliance with its commitments to other funding sources.

**b. Member Certification**

- 1) The AHP Project is subject to a deed restriction or other legally enforceable Retention Agreement or mechanism meeting the requirements of the Regulations; and
- 2) The Retention Agreement is confirmed as recorded and the Member maintains evidence of the recorded document that is available for review by the FHLBank Chicago.

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.

**D. On-Site Monitoring**

The FHLBank Chicago 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 FHLBank Chicago 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 FHLBank Chicago suspects misrepresented, falsified, or altered information or documentation

The FHLBank Chicago 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 FHLBank Chicago through an Application
2. Information provided to the FHLBank Chicago through its monitoring or disbursement activities
3. Information provided to the FHLBank Chicago through a Member
4. Information provided to the FHLBank Chicago through another funder of the AHP Project
5. Information available to the FHLBank Chicago and the general public

#### **E. Site Visit Review**

When conducting an on-site visit to an AHP Project, the FHLBank Chicago 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 FHLBank Chicago 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>1,2,3,4</sup>
Rental: LIHTC	> \$0	> 0%	>0	N/A	N/A	N/A
Rental: HUD 202 & 811	> \$0	> 0%	>0	1	5	5
Rental: USDA 514 & 515	> \$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 FHLBank Chicago will not collect this documentation

<sup>2</sup> The FHLBank Chicago 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 FHLBank Chicago will not collect a tenant income workbook or sample income documentation for homeless shelters or shelters for victims of domestic violence.

<sup>4</sup> The FHLBank Chicago reserves the right to collect a tenant income workbook on a more frequent schedule than indicated, based on risk factors indicated in Section C.2 of this Monitoring Policy.

# V. Affordable Housing Program Non-Compliance Policy

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## A. Introduction

The FHLBank Chicago has established and implemented this Affordable Housing Program Non-Compliance Policy (this “Policy”), which addresses the bases for and means of remediating Non-Compliance in an AHP Project under the General Fund, and any Targeted Funds. This Policy sets forth areas of Non-Compliance, the remedies available for resolution of Non-Compliance, and the implications of Non-Compliance. Capitalized terms shall have the meaning set forth for such terms in the Affordable Housing Program Definitions unless otherwise defined in this Policy. This section does not apply to individual AHP-assisted households or to the sale or refinancing by such households of their homes.

## B. Non-Compliance

Non-Compliance is one or more of the following:

- A failure to fulfill, in connection with an AHP Project, the requirements set forth in the Regulations, the Subsidy Agreement, the Retention Agreement (as applicable), or the AHP Implementation Plan for the applicable Funding Round under which the AHP Project was approved;
- A failure to comply with FHLBank Chicago policies and procedures as set forth in this Policy; or
- A failure to fulfill the commitments made in the application for AHP Subsidy, including any use of AHP Subsidy by the project sponsor or owner for purposes other than those committed to in the AHP application.

The following is a list of areas for which the FHLBank Chicago may determine there is Non-Compliance. In all cases, a determination of Non-Compliance will be at the discretion of the FHLBank Chicago after taking into consideration the facts and circumstances surrounding the event(s).

1. *Commitments*: Failure to fulfill a Commitment
2. *Eligibility*: Failure to meet or maintain minimum eligibility criteria as set forth in the Regulations, the Subsidy Agreement, the Retention Agreement (as applicable), or the AHP Implementation



Plan for the applicable Funding Round under which the AHP Project was approved. Examples may include, but are not limited to:

- Failure to demonstrate a need for AHP Subsidy
  - Use of AHP Subsidy for an ineligible purpose; for additional information regarding eligible and ineligible uses of AHP Subsidy, see the Eligible and Ineligible Uses of AHP Subsidy Policy
  - Failure to comply with the timelines for disbursement of AHP Subsidy or Project Completion; for additional information regarding AHP Project timelines, see the Disbursement Policy and the Monitoring Policy
  - Significant and/or chronic vacancy
3. *Feasibility*: Failure to demonstrate financial feasibility. This includes significant and/or chronic vacancy.
4. *Monitoring*: Failure to comply with the FHLBank Chicago's requirements for monitoring and reporting. Examples may include, but are not limited to:
- Failure to submit monitoring reports in a timely manner
  - Failure to submit monitoring documentation in a timely manner
5. *Misrepresentation, negligence, or fraud*
6. *Financial distress, insolvency, or dissolution*: Examples may include, but are not limited to:
- Bankruptcy of the Sponsor or Owner
  - Dissolution of the Sponsor or Owner
  - Insolvency of the Sponsor or Owner
  - Legal actions involving the Sponsor or Owner, including, but not limited to, violations of fair housing laws
  - Defaults on other sources of financing or real estate tax payments for the AHP Project
  - Significant and/or chronic vacancy

In cases where it is believed, anticipated, or unclear whether there has been Non-Compliance with the Regulations, the FHLBank Chicago may consult its legal department and, with CIO approval, the FHFA.

### **C. Remedies for Non-Compliance**

Upon a determination of Non-Compliance, the FHLBank Chicago will evaluate remedies available for resolution.

The FHLBank Chicago's policy is to remedy Non-Compliance in a timely manner with as little impact to the AHP Project as possible in an effort to maintain the AHP Project through the Retention Period.

Remedies for the resolution of Non-Compliance, in their order of preference, are as follows:

#### **1. Cure**

The FHLBank Chicago will first determine if the nature of the Non-Compliance is such that it can be cured. If the Non-Compliance cannot be cured, the FHLBank Chicago will consider alternative remedies to resolve the Non-Compliance.

If the Non-Compliance can be cured, the Sponsor and Member will be given an opportunity to do so. Unless the Non-Compliance can be immediately cured, the FHLBank Chicago will require the Member and Sponsor or Owner to submit a Cure Plan that includes both of the following:

- the actions to be taken to cure the Non-Compliance; and
- the reasonable Cure Period for resolution of the Non-Compliance.

The FHLBank Chicago will review the Cure Plan for reasonableness and effectiveness and may require revisions, prior to FHLBank Chicago approval, to ensure that the Non-Compliance is cured in a timely and effective way.

If the Cure Plan is approved, the FHLBank Chicago will also determine an appropriate frequency and method to monitor progress towards resolution of the Non-Compliance.

When the circumstances of the Non-Compliance are eliminated through an approved Cure Plan, the project Sponsor or Owner will not be required to repay AHP Subsidy to the FHLBank Chicago.

If the Non-Compliance is not resolved within the Cure Period, the FHLBank Chicago may extend the Cure Period or seek an alternative remedy to the Non-Compliance.

## **2. Modification**

If the Non-Compliance cannot be cured, the FHLBank Chicago may consider a Modification as a remedy to resolve the Non-Compliance.

When the circumstances of the Non-Compliance can be eliminated through an approved Modification, the project Sponsor or Owner will not be required to repay AHP Subsidy to the FHLBank Chicago.

For additional information regarding Modifications, see the Project Change Policy.

## **3. De-Obligation or Recapture of AHP Subsidy**

If the Non-Compliance cannot be resolved through a cure or a Modification as described above, the FHLBank Chicago may remedy the Non-Compliance through a De-Obligation of AHP Subsidy that has not yet been disbursed to the AHP Project. For additional information regarding the De-Obligation of AHP Subsidy, see the Project Change Policy.

Additionally, the FHLBank Chicago may remedy the Non-Compliance through Recapture of a partial or full amount of any AHP Subsidy that has been disbursed to the AHP Project. FHLBank Chicago, or the member if delegated the responsibility in consultation with the FHLBank Chicago, shall make a demand on the project Sponsor or Owner for repayment of the full amount of the AHP Subsidy not used in compliance with the commitments in the AHP application or the requirements of the Regulations, or the requirements of the Compiled Affordable Housing Program Policies (plus interest, if appropriate).

The effect of a full Recapture is that there will no longer be an AHP Project, and the AHP Project will, therefore, no longer be subject to the Retention Agreement. The CIO must approve all Recaptures before they are initiated or accepted and the Group Head for Community Investment must also approve all Recaptures from a Member. In the event of a Recapture, the FHLBank Chicago will provide written notification of the amount of AHP Subsidy subject to Recapture, along with the timeframe for Recapture, and will pursue repayment of the AHP Subsidy as follows:

If the Non-Compliance is due to the actions or omissions of the FHLBank Chicago, the FHLBank Chicago will reimburse the AHP fund in the amount of any AHP Subsidies (plus interest, if appropriate) not used in compliance with the commitments in an AHP application or the requirements of the Regulations as a result of the actions or omissions of the FHLBank Chicago.

Such reimbursement by the FHLBank Chicago must be approved by both the CIO and the Group Head for Community Investment.

If the FHLBank Chicago fails to reimburse its AHP fund as required due to an action or omission of the FHLBank Chicago, or the FHLBank Chicago fails to recover the full amount of AHP Subsidy due from a Sponsor, Owner, or Member, and has not shown that such failure is reasonably justified, the FHFA may order the FHLBank Chicago to reimburse its AHP fund in an appropriate amount.

If the Non-Compliance resulting in Recapture is due to the actions or omissions of the Member, the Member shall repay the amount of AHP Subsidy (plus interest, if appropriate) not used in compliance with the commitments of the Member's AHP application or the requirements of the Regulation to the FHLBank Chicago. A Member's failure to have properly recorded and maintained the Retention Agreement, AHP Subsidy mortgage, or other appropriate real property security instrument throughout the Retention Period, as set forth in the AHP Implementation Plan and Subsidy Agreement, may make the Member liable for reimbursing the FHLBank Chicago for the AHP Subsidy.

If the Non-Compliance is occupancy by households with incomes exceeding the income-targeting commitments in the AHP application, the amount of AHP Subsidy due is calculated based on the number of units in Non-Compliance, the length of the Non-Compliance, and the portion of the AHP Subsidy attributable to the noncompliant units.

In the event the FHLBank Chicago does not receive the Recapture amount from the Member, the FHLBank Chicago may approve a Settlement, provided that:

- The CIO and the Group Head for Community Investment have approved the amount of the Settlement; and
- For Settlements forgiving \$50,000 or less, the AHC approved the Settlement; or
- For Settlements forgiving more than \$50,000, the Board approved the Settlement; and
- The FHLBank Chicago has sufficient documentation showing that the Settlement is reasonably justified, based on the facts and circumstances of the Non-Compliance (including the degree of culpability of the non-complying parties and a determination of reasonable collection efforts); or
- The FHLBank Chicago has obtained a determination from the FHFA that the Settlement is reasonably justified, based on the facts and circumstances of the Non-Compliance (including the degree of culpability of the non-complying parties and a determination of reasonable collection efforts).

If the circumstances of a project's Non-Compliance result in Recapture from the Sponsor or Owner, the FHLBank Chicago, in its discretion, may either:

- Direct the Member to use reasonable collections efforts to recover the AHP Subsidy from the Sponsor or Owner and repay the amount recovered to the FHLBank Chicago, or
- Direct the Sponsor or Owner to repay the AHP Subsidy directly to the FHLBank Chicago.

In the event the FHLBank Chicago does not receive the Recapture amount from the Sponsor or Owner, the FHLBank Chicago may approve a Settlement, provided that:

- The CIO has approved the amount of the Settlement; and

- For Settlements forgiving \$50,000 or more, the Group Head for Community Investment has approved the Settlement; and
- The FHLBank Chicago has sufficient documentation showing that the Settlement is reasonably justified, based on the facts and circumstances of the Non-Compliance (including the financial capacity of the project Sponsor or Owner, assets securing the AHP Subsidy, other assets of the project Sponsor or Owner, degree of culpability of the non-complying parties and a determination of reasonable collection efforts); or
- The FHLBank Chicago has obtained a determination from the FHFA that the Settlement is reasonably justified, based on the facts and circumstances of the Non-Compliance (including the degree of culpability of the non-complying parties and a determination of reasonable collection efforts).

In the event the FHLBank Chicago settles for less than the full amount of the AHP Subsidy disbursed to the AHP Project, the FHLBank Chicago will reimburse the AHP fund for any shortfall if directed to do so by the FHFA.

Following De-Obligation or Recapture as a remedy for Non-Compliance, the CIO must approve the AHP Project's disposition and removal from Non-Compliance reporting.

#### **4. FHFA Waiver or No-Action**

In certain unique circumstances, the FHLBank Chicago may seek to obtain a waiver from the FHFA granting approval to pursue no action as the remedy for Non-Compliance. Prior to seeking such a waiver, the FHLBank Chicago must consult with its legal department and obtain the approval of the CIO.

### **D. Implications of Non-Compliance**

The FHLBank Chicago expects that AHP Projects will comply with the requirements of the Regulations, the Subsidy Agreement, the Retention Agreement (as applicable), the AHP Implementation Plan for the applicable Funding Round under which the AHP Project was approved, and the policies and procedures of the FHLBank Chicago. Instances of Non-Compliance may impact the Sponsor, the Member, or the AHP Project as described below.

#### **1. FHLBank Chicago Activities**

The FHLBank Chicago will not approve any of the following activities for an AHP Project in which there is unresolved Non-Compliance for which the FHLBank Chicago has not approved a Cure Plan:

- Disbursement of AHP Subsidy;
- PCR Completion.

#### **2. Capacity Review**

Non-Compliance is a reflection on the capacity of the entity responsible for Non-Compliance. Instances of Non-Compliance are documented and may factor into the FHLBank Chicago's assessment of the capacity of a Sponsor or Member when reviewing any future Application for AHP Subsidy.

#### **3. Suspension and Debarment**

Based on the severity or frequency of the Non-Compliance, the FHLBank Chicago or the FHFA may initiate Suspension or Debarment of the entity responsible for the Non-Compliance as set forth in the Suspension and Debarment Policy.

# VI. Affordable Housing Program Project Change Policy

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## A. Introduction

The FHLBank Chicago has established and implemented this Affordable Housing Program Project Change Policy (this "Policy"), which describes the nature and impact of changes to an AHP Project under the General Fund, and any Targeted Funds.

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

The FHLBank Chicago must be notified of potential changes to an AHP Project to determine whether such changes are reasonable and acceptable and to ensure the Project Approval Record contains current and accurate information about the AHP Project.

A change to the Project Approval Record that, had the change been reflected in the Application, would have impacted the scoring or eligibility of the AHP Project within the Funding Round for which it received an award of AHP Subsidy, is a Modification.

Any time there are changes in the amount of AHP Subsidy for an AHP Project, the amount of any De-Obligation, Repayment, or Recapture will be returned to the FHLBank Chicago's AHP fund and made available for other AHP-eligible projects or households, while the amount of any increase in AHP Subsidy will be drawn first from any currently uncommitted or repaid AHP Subsidy, and then from the FHLBank Chicago's required AHP contribution for the next year. AHP Subsidy that is De-Obligated or returned via Repayment or Recapture cannot be re-used in the same AHP Project.

Changes to an AHP Project are processed differently depending on the nature and extent of the change. As further defined below, changes are either processed as Modifications, updates to the AHP Project's financial feasibility, updates to information in the Project Approval Record, or changes in the amount of AHP Subsidy. The FHLBank Chicago will review all changes in an AHP Project and determine whether they rise to the level of a Modification, as well as how the change should be documented and processed.

Prior to the Initial Disbursement of AHP Subsidy, changes to an AHP Project arising to such a level that the FHLBank Chicago determines it is no longer the same project may result in De-Obligation. In all cases, the FHLBank Chicago reserves the right to determine that a change is unacceptable, which may result in Non-Compliance.

## **B. Project Changes**

Sponsors and Members must notify the FHLBank Chicago of any of the following changes:

### **1. Modifications**

A Modification is a change to the Project Approval Record that, had the change been reflected in the Application, would have impacted the scoring or eligibility of the AHP Project within the Funding Round for which it received an award of AHP Subsidy.

Modifications must be requested by the Sponsor, approved by the Member, and submitted with supporting documentation to the FHLBank Chicago.

Modification requests must demonstrate the following:

- The AHP Project continues to meet the minimum eligibility requirements per the Regulations and the AHP Implementation Plan
- The AHP Project continues to score high enough to have been approved in the Funding Round during which it was originally scored and approved which is as high as the lowest ranking alternate approved for funding by FHLBank Chicago
- There is good cause for the Modification which may not be solely remediation of Non-Compliance, including whether the Commitment could be met with additional time.

The FHLBank Chicago may require additional documentation from the Sponsor or Member in order to complete its review. The FHLBank Chicago will document its analysis and justification for approval or denial of the Modification in writing, including why a cure of Non-Compliance was not successful or attempted, and will provide written notification to the Sponsor and Member.

#### **a. Modifications to Commitments**

If an AHP Project is unable to fulfill its Commitments, the FHLBank Chicago may approve a Modification to the AHP Project's Commitments.

Failure to fulfill a Commitment is an event of Non-Compliance. For additional information regarding events of Non-Compliance and their remedies, see the Non-Compliance Policy.

As set forth in the Monitoring Policy, Commitments, with the exception of those related to income targeting and rent affordability, are fulfilled at PCR Completion. Once a Commitment has been fulfilled, changes to the AHP Project that impact the Commitment will not be considered Modifications.

#### **b. Modifications to Increase AHP Subsidy**

For Rental Projects only, prior to the Initial Disbursement of AHP Subsidy, the FHLBank Chicago will consider a Modification request to increase the amount of AHP Subsidy for the AHP Project that demonstrates all of the following:

- 1) The AHP Project is not financially feasible without additional AHP Subsidy. (Note that failure to demonstrate financial feasibility is an event of Non-Compliance. For additional information regarding events of Non-Compliance and their remedies, see the Non-Compliance Policy.); and

- 2) The Sponsor has explored alternatives to an increase in AHP Subsidy, including changes to the AHP Project size and scope; and
- 3) All other options to secure additional financing have been exhausted; and
- 4) An increase in AHP Subsidy will fully fund the gap in sources needed to complete the AHP Project.

The combined total of the original award of AHP Subsidy plus any increases in the amount of AHP Subsidy for the AHP Project cannot exceed the lesser of the following:

- 1) The maximum AHP Subsidy per AHP Project in the grant round during which the AHP Project was originally approved; or
- 2) The maximum AHP Subsidy per AHP Project in the AHP Implementation Plan for the current calendar year.

The decision to increase the AHP Subsidy is at the sole discretion of the FHLBank Chicago, and must be approved by the AHC.

**c. Eligibility Modifications**

Other changes to an AHP Project that may rise to the level of a Modification include, but are not limited to:

- A change in the AHP Project Sponsor
- A change in the AHP Project Member
- A change in the total number of units in the AHP Project
- A change in the location or site of the AHP Project (applicable to Rental Projects only)
- A significant change in the AHP Project's financial structure

In connection with a request to change the Sponsor for an AHP Project, the FHLBank Chicago will review the capacity of the proposed replacement Sponsor.

If there is a change to the Sponsor or Member for an AHP Project prior to the execution of the Subsidy Agreement, the replacement Sponsor or Member will be the signatory to the Subsidy Agreement.

If there is a change to the Sponsor or Member for an AHP Project following the execution of the Subsidy Agreement, the FHLBank Chicago will require the execution of an assignment and assumption of the Subsidy Agreement, which will not include a novation.

Any time there is a change to the Sponsor or Member for an AHP Project, the Member must ensure that the Retention Agreement (as applicable) and security instrument are properly assigned and assumed.

**2. Changes in Financial Feasibility**

When reviewing and approving an Application, the FHLBank Chicago reviews the AHP Project for compliance with the financial feasibility guidelines set forth in the AHP Implementation Plan for the applicable Funding Round under which the AHP Project was approved.

The FHLBank Chicago conducts additional reviews of the AHP Project's financial feasibility and compliance with feasibility guidelines as set forth in the Disbursement Policy and the Monitoring Policy.

Subsequent changes impacting the financial feasibility of an AHP Project may require additional information and clarification. Depending on the nature and extent of the change, and the overall analysis of financial feasibility, the FHLBank Chicago may or may not approve an exception to a financial feasibility indicator that is outside of the applicable guideline, determine that the change rises to the level of a Modification, or conclude that there is Non-Compliance as set forth in the Non-Compliance Policy.

### **3. Updates to Project Information**

The FHLBank Chicago requires notification of changes to other information in the Project Approval Record. Such changes may or may not rise to the level of a Modification, as defined above, and may or may not result in Non-Compliance as set forth in the Non-Compliance Policy. Examples include, but are not limited to:

- Contact information for the AHP Project, Sponsor, or Member
- Change in the property manager
- Legal actions involving the Sponsor or Owner, including, but not limited to violations of fair housing laws
- Legal or administrative investigations or charges, including, but not limited to investigations or charges regarding the conduct of the Sponsor's or Owner's personnel
- Bankruptcy of the Sponsor or Owner
- A disaster in the market area of the AHP Project causing major property damage
- Casualty damage to the AHP Project
- Refinancing the AHP Project
- A change in the ownership structure of the AHP Project

### **4. Repayments**

A Repayment is a return to the FHLBank Chicago of a portion of the AHP Subsidy that was previously disbursed to an AHP Project. Repayments that are initiated by the FHLBank Chicago as a remedy to Non-Compliance are Recaptures, as set forth in the Non-Compliance Policy.

### **5. De-Obligation of AHP Subsidy**

A De-Obligation is a reduction in the amount of the unfunded portion of the AHP Subsidy that is not necessary for completion of the AHP Project. The FHLBank Chicago may also utilize a De-Obligation in connection with a remedy for Non-Compliance. For additional information regarding the De-Obligation of AHP Subsidy as a remedy for Non-Compliance, see the Non-Compliance Policy.

A partial De-Obligation is a reduction of less than the full amount of FHLBank Chicago-approved AHP Subsidy available to the AHP Project.

A full De-Obligation is the elimination of the full amount of FHLBank Chicago-approved AHP Subsidy available to the AHP Project.

The effect of a full De-Obligation is the elimination of the AHP Project.



# VII. Affordable Housing Community Investment Program Suspension and Debarment Policy

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## A. Introduction

The FHLBank Chicago has established and implemented this Affordable Housing Community Investment Program Suspension and Debarment Policy (this "Policy"), which sets forth the circumstances under which Suspension or Debarment ~~of a Member, Sponsor, or Owner~~ by the FHLBank Chicago may occur, the consequences of Suspension and Debarment, the requirements for reinstatement following Suspension, and the reporting requirements.

This Policy applies to all regulatory community investment programs, including the Affordable Housing Program General Fund, any Targeted Funds and the Homeownership Set-Aside Program.

This Policy also applies to all FHLBank Chicago community investment programs which are not required by the Federal Home Loan Bank Act or the Regulations, but reflect FHLBank Chicago's commitment to addressing needs related to affordable housing and economic development throughout its district to support its members and the communities they serve ("Voluntary Programs").

Additionally, this Policy applies to the Community Development Advance Program, Community Housing Advance Program, and Community Small Business Advance Program ("Community Advances"), which encompass both regulatory community investment programs and Voluntary Programs.

This Policy applies to all Members who participate in the Homeownership Set-Aside Program, as well as all Members, Sponsors, and Owners who participate within the Affordable Housing Program General Fund, and any Targeted Funds. This Policy also applies to all Members, Beneficiaries, Beneficiary Organizations, Partners, or Recipients of all other Voluntary Programs (Beneficiaries, Beneficiary Organizations, Partners, and Recipients are collectively, "Voluntary Program Participant(s)"), and Members utilizing Community Advances.

Capitalized terms shall have the meaning set forth for such terms in the Affordable Housing Program Definitions or as defined within the policy for each Voluntary Program unless otherwise defined in this Policy.

~~This Policy applies to the General Fund, any Targeted Funds and Homeownership Set-Aside Program.~~

## B. Suspension

Suspension of a ~~Member, Sponsor, or Owner~~ party by the FHLBank Chicago may occur for any of the following reasons:

## Member

### Member (including Members utilizing Community Advances)

1. A consistent failure to provide the FHLBank Chicago with requested monitoring reports or documentation in a timely manner.
2. Failure to submit its required Community Support Statement.
3. Failure to submit a required Repayment for an AHP Project or Homeownership Set-Aside grant where the Member's actions or omissions were the cause of ~~the~~AHP Non-Compliance, or where the Member obtained full or partial recovery from the Sponsor or Owner.

#### 4. Suspicious activity or misconduct by a Member.

~~4.5.~~ Other events or actions that the FHLBank Chicago believes warrant Suspension.

## Sponsor or Owner

### Sponsors, Owners, and Voluntary Program Participants

1. A pattern of Non-Compliance that results in multiple Modifications in one or more AHP Projects.

#### 2. A pattern of non-compliance within the Homeownership Set-Aside program, or within one or more Voluntary Programs that result in multiple Modifications.

~~2.3.~~ A consistent lack of progress towards project funding or completion, including AHP Initial Draw Down or Project Completion that results in numerous De-Obligations, extensions, or Non-Compliance.

~~3.4.~~ A consistent failure to provide the FHLBank Chicago with requested monitoring reports or documentation in a timely manner.

~~4.5.~~ Failure to provide evidence of satisfactory resolution for program non-compliance, including AHP Non-Compliance.

~~5.6.~~ Failure to submit a required Repayment for an AHP Project or Homeownership Set-Aside grant where the full or partial recovery plan was agreed upon with the FHLBank Chicago and Member.

#### 7. Suspicious activity or misconduct by a Sponsor, Owner, or Voluntary Program Participant.

~~6.8.~~ Other events or actions that the FHLBank Chicago believes warrant Suspension.

The FHLBank Chicago will obtain and present documentation supporting Suspension to the CIO for review.

~~Suspension of a Sponsor or Owner becomes effective upon CIO approval.~~ Suspension of a Member must first be approved by the FHLBank Chicago's Executive Team, with a recommendation to the AHC, and will become effective upon approval by the AHC. Suspension of a Sponsor, Owner, or Voluntary Program Participant becomes effective upon CIO approval.

In the event that the FHLBank Chicago's Credit staff has concerns about the ongoing financial viability of a Member, or determines that a failure to act endangers an AHP Project's ~~sa funded project's~~ viability or the FHLBank Chicago's assets allocated to ~~the AHP Project's~~ a funded project, the Member may be subject to immediate suspension without AHC approval. This applies to AHP Projects, the Homeownership Set-Aside Program, Community Advances, and Voluntary Programs.

~~The Member, Sponsor, or Owner~~ All suspended parties will be notified in writing of its Suspension, the reasons why such action was taken by the FHLBank Chicago, and the actions that may be taken to be reinstated from Suspension.

The FHLBank Chicago will also enforce the Suspension of a Member, ~~Sponsor, or Owner~~ any other party ordered by the FHFA. An FHFA-ordered Suspension becomes effective immediately upon notice to the FHLBank Chicago.

The FHLBank Chicago will also cease to do business with any individual or entity that has been suspended by the FHFA pursuant to the FHFA's Suspended Counterparty Program (12 CFR Part 1227).

### 1. Consequences of Suspension

The FHLBank Chicago will prohibit ~~program~~all suspended parties from participation, ~~including rejecting in all community investment programs, which includes the rejection of~~ Applications and ~~rejecting~~Reservations, and the rejection or withholding of all disbursement or funding requests for all ~~AHP Projects~~community investment programs in which a Member, Sponsor, ~~or~~ Owner, or Voluntary Program Participant subject to Suspension is involved.

In the case of Member Suspension, the FHLBank Chicago may also seek to remove the Member from any and all AHP Projects ~~so as~~ to avoid Recapture or De-obligation of AHP Subsidy and retain affordable housing. FHLBank Chicago may also seek to remove the Member from all Voluntary Programs and Community Advances, to preserve the deployment of the grant or subsidy.

### 2. Reinstatement from Suspension

Following submission of a written request for reinstatement from Suspension by a Member, Sponsor, ~~or~~ Owner, or Voluntary Program Participant, including all relevant and requested documentation evidencing compliance and resolution of the events that led to Suspension, a Member, Sponsor, ~~or~~ Owner, or Voluntary Program Participant may have their Suspension lifted, provided that the cause(s) for the Suspension has been resolved to the FHLBank Chicago's satisfaction. Documentation supporting reinstatement from Suspension will be presented to the CIO for review.

Reinstatement of a Sponsor ~~or~~ Owner, Owner or Voluntary Program Participant becomes effective upon CIO approval. Reinstatement of a Member must first be approved by the FHLBank Chicago's Executive Team, with a recommendation to the AHC. Reinstatement will become effective upon AHC approval.

The Member, Sponsor, ~~or~~ Owner, or Voluntary Program Participant will be notified in writing that it has been reinstated from Suspension.

If a Member, Sponsor, ~~or~~ Owner, or Voluntary Program Participant subject to Suspension ordered by the FHFA wishes to seek reinstatement, the FHLBank Chicago will submit a request for reinstatement from the Member, Sponsor, ~~or~~ Owner, or Voluntary Program Participant to the FHFA, and will notify the party of the FHFA's decision.

Suspension pursuant to the FHFA's Suspended Counterparty Program is subject to the regulations set forth at 12 CFR Part 1227.

### C. Debarment

Debarment of a Member, Sponsor, ~~or~~ Owner, or Voluntary Program Participant by the FHLBank Chicago may occur for any of the following reasons:

1. Fraud or activities likely to result in fraud.
2. Committing negligent actions that led to the financial distress of project, including an AHP Project.
3. Abandoning a project, including an AHP Project, at any time during its life cycle.
4. Demonstrating a pattern of Non-Compliance or a single instance of flagrant Non-Compliance.
5. Suspicious activity or misconduct.
- 5-6. Other events or actions that the FHLBank Chicago believes warrant Debarment, including, but not limited to, repeated Suspensions.

The FHLBank Chicago will obtain and present documentation supporting Debarment to the CIO for review.

Debarment of a Sponsor, ~~or~~ Owner, or Voluntary Program Participant becomes effective upon CIO approval. Debarment of a Member must first be approved by the FHLBank Chicago's Executive Team, with a recommendation to the AHC, and will become effective upon AHC approval.

The Member, Sponsor, ~~or~~ Owner, or Voluntary Program Participant will be notified in writing of its Debarment and the reasons why such action was taken by the FHLBank Chicago.

The FHLBank Chicago will also enforce the Debarment of a Member, Sponsor, ~~or~~ Owner, or Voluntary Program Participant ordered by the FHFA.— An FHFA-ordered Debarment becomes effective immediately upon notice to the FHLBank Chicago.

The FHLBank Chicago will permanently prohibit program participation, ~~including rejecting which includes the rejection of~~ Applications and Reservations, and the rejection or withholding of all disbursement or funding requests for all AHP Projects Community Investment programs in which a Member, Sponsor, ~~or~~ Owner, or Voluntary Program Participant subject to Debarment is involved.

In the case of Member Debarment, the FHLBank Chicago may also seek to remove the Member from any and all AHP Projects ~~so as~~ to avoid Recapture or De-Obligation of AHP Subsidy and retain affordable housing. FHLBank Chicago may also seek to remove the Member from all Voluntary Programs and Community Advances, to preserve the deployment of the grant or subsidy.

#### **D. Suspension and Debarment Reporting**

On a quarterly basis, the CIO will report to the AHC all Members, Sponsors, ~~and~~ Owners, and Voluntary Program Participants that are currently subject to Suspension or Debarment, as well as any that have been reinstated from Suspension during the reporting quarter.

#### **E. Suspicious Activity Reporting Requirements**

The Community Investment group has established AML/BSA Procedures as required under the FHLBank Chicago's Anti-Money Laundering, Bank Secrecy Act, and Suspicious Activity Reporting Policy. Any suspicious activity related to a Member, Sponsor, ~~or~~ Owner, or Voluntary Program Participant will be reported to the AML Compliance Officer's Community Investment designee, who will, in consultation with the Law Department in each instance, determine whether a suspicious activity report (SAR) filing is required or otherwise appropriate. If it is determined that a SAR should be filed, the designee will work with the AML Compliance Officer to ensure that the necessary steps are taken to complete the filing and to maintain proper supporting documentation.

**Approval, Roles and Responsibilities**

The Affordable Housing Committee of the Bank's Board of Directors annually reviews all proposed changes to these compiled Affordable Housing Program policies and recommends approved changes to the full Board of Directors for final approval.

**Attachments**

None

Approved by the Board of Directors  
on the ~~13<sup>th</sup>~~28<sup>th</sup> Day of ~~September~~October, 2022

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Its Corporate Secretary