



AFFORDABLE HOUSING PROGRAM GUIDELINES FOR DETERMINING MORTGAGE AFFORDABILITY

In accordance with the final rule of the amended regulation that governs the Affordable Housing Program (“AHP”) as promulgated by the Federal Housing Finance Agency (“AHP Regulations”) and relocated in the Federal Register under 12 CFR Part 1291 on October 8, 2008, the Federal Home Loan Bank of New York (“FHLB-NY”) is responsible for monitoring mortgage affordability for households approved to occupy units benefiting from AHP subsidy.

The FHLB-NY will request and review source documents providing mortgage affordability information from applicant stockholder institutions (“Members”) or project sponsors. The FHLB-NY will implement the following guidelines in order to confirm that households who have been approved to purchase and/or occupy AHP-subsidized units have been approved after the affordability of the mortgage product offered or executed has been considered:

- All first-time homebuyers who receive AHP subsidies under the First Home Clubsm set-aside program must complete an approved credit counseling course (which incorporates a formal homebuyer education curriculum). Almost all homeownership initiatives that are approved to receive an allocation of AHP subsidies under the competitive program opt to offer homebuyer education as well. The FHLB-NY is of the opinion that financial literacy is a key primary component in properly preparing and vigilantly alerting low- and moderate-income households to both the responsibilities of homeownership and the dangers of predatory loans.
 - The FHLB-NY currently requires the submission of HUD-1 Settlement Statements for all AHP-assisted homebuyers as well as Truth in Lending (“TIL”) disclosure statements for First Home Club households. The TIL statement is a valid source document for verifying the Annual Percentage Rate (“APR”) charged on home mortgage loans, including origination fees and other interest charges. Beginning in 2010, the FHLB-NY will begin to verify the annual percentage rate for a sampling of all AHP-assisted homebuyers through the collection of TIL data.
 - Since prepayment penalties are not legally enforceable in connection with mortgages on one-to-four-family owner-occupied dwellings throughout the Second District, all AHP-assisted homebuyers receive de facto protection against this predatory lending practice.
 - The FHLB-NY requires that all First Home Club households obtain end loan financing through an approved participating FHLB-NY member institution. Households who receive competitive AHP subsidies often obtain end loan financing through a member institution. AHP-assisted homebuyers who qualify for conventional mortgages through traditional, highly regulated financial institutions effectively minimize the risk of predatory and other unaffordable mortgage products that unscrupulous brokers and nontraditional lenders typically promote and originate.
-

- The U. S. Department of Housing and Urban Development (“HUD”) Federal Housing Administration’s mortgage cost to income ratios standards are 31% front-end ratio and 43% back-end ratio where front-end ratio is the individual's monthly housing expenses divided by his or her monthly gross income and back-end ratio is the sum of the household’s monthly debt and the proposed loan’s monthly payment (i.e., principal and interest plus tax and insurance escrows) divided by the gross household income. Using FHA standards as an industry bench-mark the affordability review will include a range of variables which may have an effect on ratios. These ratios and other determinants of affordability may be affected by other factors including but not limited to the following:
 - a) Amount of the Loan to Value ratio (LTV). FHA usually requires an LTV no greater than 97.5%. With LTV ratios less than 97.5% the acceptable ratios may also change.
 - b) The existence of rentable units in the mortgaged property
 - c) Participation in Section 8 to homeownership or similar programs which alter the ratios.
 - d) The degree of parity between area monthly rental housing costs and the monthly costs of mortgaged housing.
 - e) The amount of cash reserves available to the household.
- In addition to receiving HUD-1 Settlement Statements and TIL disclosures, the FHLB-NY also collects mortgage financing commitment letters which reflect the proposed terms and conditions of the AHP-assisted household’s end loan. If FHLB-NY staff concludes that an AHP-assisted household is indeed at risk for predatory or unaffordable mortgage debt, the FHLB-NY shall, in its discretion, recapture or withhold the AHP subsidy disbursement in such a situation and so notify the Member.
- Prior to awarding AHP subsidies to households who do not conform to the front- and back-end ratios referenced above, the FHLB-NY reserves the right to request that Members submit the following documentation in order to confirm the reasonableness of the monthly payment and ensure affordability of mortgage throughout the five-year AHP compliance period:
 - a) A copy of the executed contract of sale;
 - b) A copy of the appraisal report;
 - c) A summary of additional grants or secondary financing that the household is receiving; and
 - d) A copy of the Uniform Underwriting and Transmittal Summary or comparable analysis.
- The FHLB-NY also reserves the right to request the supplemental documentation set forth above in connection with very low-income households who earn 35% or less of the area median, adjusted for family size, as well as low- or moderate-income households who have qualified for mortgage loans of \$200,000 or more.

Revised 12/13/12