
§37.8 Safety and soundness requirements.

A national bank must manage the risks associated with debt cancellation contracts and debt suspension agreements in accordance with safe and sound banking principles. Accordingly, a national bank must establish and maintain effective risk management and control processes over its debt cancellation contracts and debt suspension agreements. Such processes include appropriate recognition and financial reporting of income, expenses, assets and liabilities, and appropriate treatment of all expected and unexpected losses associated with the products. A bank also should assess the adequacy of its internal control and risk mitigation activities in view of the nature and scope of its debt cancellation contract and debt suspension agreement programs.

Appendix A to Part 37—Short Form Disclosures

• This product is optional
  
  Your purchase of [PRODUCT NAME] is optional. Whether or not you purchase [PRODUCT NAME] will not affect your application for credit or the terms of any existing credit agreement you have with the bank.
  
  • Lump sum payment of fee
    
    [Applicable if a bank offers the option to pay the fee in a single payment]
    
    [Prohibited where the debt subject to the contract is a residential mortgage loan]
    
    You may choose to pay the fee in a single lump sum or in [monthly/quarterly] payments. Adding the lump sum of the fee to the amount you borrow will increase the cost of [PRODUCT NAME].
    
    • Lump sum payment of fee with no refund
      
      [Applicable if a bank offers the option to pay the fee in a single payment for a no-refund DCC]
      
      [Prohibited where the debt subject to the contract is a residential mortgage loan]
      
      You may choose [PRODUCT NAME] with a refund provision or without a refund provision. Prices of refund and no-refund products are likely to differ.
      
      • Refund of fee paid in lump sum
        
        [Applicable where the customer pays the fee in a single payment and the fee is added to the amount borrowed]
        
        [Prohibited where the debt subject to the contract is a residential mortgage loan]
        
        [Either:] (1) You may cancel [PRODUCT NAME] at any time and receive a refund; or
        
        (2) You may cancel [PRODUCT NAME] within ___ days and receive a full refund; or
        
        (3) If you cancel [PRODUCT NAME] you will not receive a refund.
        
        • Additional disclosures
          
          We will give you additional information before you are required to pay for [PRODUCT NAME]. If applicable: This information will include a copy of the contract containing the terms of [PRODUCT NAME].

• Eligibility requirements, conditions, and exclusions
  
  There are eligibility requirements, conditions, and exclusions that could prevent you from receiving benefits under [PRODUCT NAME].
  
  [Either:] You should carefully read our additional information for a full explanation of the terms of [PRODUCT NAME] or You should carefully read the contract for a full explanation of the terms of [PRODUCT NAME].

Appendix B to Part 37—Long Form Disclosures

• This product is optional
  
  Your purchase of [PRODUCT NAME] is optional. Whether or not you purchase [PRODUCT NAME] will not affect your application for credit or the terms of any existing credit agreement you have with the bank.
  
  • Explanation of debt suspension agreement
    
    [Applicable if the contract has a debt suspension feature]
    
    If [PRODUCT NAME] is activated, your duty to pay the loan principal and interest to the bank is only suspended. You must fully repay the loan after the period of suspension has expired. [If applicable]: This includes interest accumulated during the period of suspension.
    
    • Amount of fee
      
      [For closed-end credit]: The total fee for [PRODUCT NAME] is ________.
      
      [For open-end credit, either:] (1) The monthly fee for [PRODUCT NAME] is based on your account balance each month multiplied by the unit-cost, which is ________.
      
      (2) The formula used to compute the fee is ________.
      
      • Lump sum payment of fee
        
        [Applicable if a bank offers the option to pay the fee in a single payment for a no-refund DCC]
        
        [Prohibited where the debt subject to the contract is a residential mortgage loan]
        
        You may choose to pay the fee in a single lump sum or in [monthly/quarterly] payments. Adding the lump sum of the fee to the amount you borrow will increase the cost of [PRODUCT NAME].
        
        • Lump sum payment of fee with no refund
          
          [Applicable if a bank offers the option to pay the fee in a single payment for a no-refund DCC]
          
          [Prohibited where the debt subject to the contract is a residential mortgage loan]
          
          You may choose to pay the fee in a single lump sum or in [monthly/quarterly] payments. Adding the lump sum of the fee to the amount you borrow will increase the cost of [PRODUCT NAME].

FEDERAL HOUSING FINANCE BOARD
12 CFR Part 951
No. 2002–52
RIN 3069–AB16

Affordable Housing Program Amendments

AGENCY: Federal Housing Finance Board.

ACTION: Final rule.

SUMMARY: The Federal Housing Finance Board (Finance Board) is amending its regulation governing the operation of the Affordable Housing Program (AHP) to authorize a Federal Home Loan Bank (Bank), after consultation with its Advisory Council, to set aside annually an additional amount, up to the greater of $1.5 million or 10 percent of the Bank’s annual required AHP contribution, to assist low or moderate-income, first-time homeowners under the Bank’s homeownership set-aside program. This increased discretionary

funding authority supplements the Banks’ current discretionary authority to fund homeownership set-aside programs subject to the $3.0 million or 25 percent allocation cap. The Finance Board also is amending the regulation to increase the maximum subsidy limit per household to $15,000 for homeownership set-aside programs in general. Under the Banks’ AHP contribution requirement for 2002, the increased funding authority will enable the twelve Banks to provide an additional $24.0 million to assist 1,600 to 4,800 additional low- or moderate-income, first-time homebuyers. This additional set-aside funding authority complements national housing policy initiatives to broaden first-time homeownership, especially among minority and immigrant households and households living in rural areas and on Native American tribal lands.

**EFFECTIVE DATE:** The final rule shall be effective on October 21, 2002.

**FOR FURTHER INFORMATION CONTACT:** Charles E. McLean, Associate Director, (202) 408–2537, Melissa L. Allen, Program Analyst, (202) 408–2524, Community Investment and Affordable Housing, Office of Supervision; Sylvia C. Martinez, Policy Analyst, (202) 408–2825, Strategic and System Research, Office of Supervision; Sharon B. Like, Senior Attorney-Advisor, (202) 408–2930, Office of General Counsel, Federal Housing Finance Board, 1777 F Street, NW, Washington, DC 20006.

**SUPPLEMENTARY INFORMATION:**

I. Statutory and Regulatory Background

Section 10[j][1] of the Federal Home Loan Bank Act (Bank Act) requires each Bank to establish a program to subsidize the interest rate on advances to members of the Bank System engaged in lending for long-term, low- and moderate-income, owner-occupied and affordable rental housing at subsidized interest rates. See 12 U.S.C. 1430[j][1]. The Finance Board is required to promulgate regulations governing the AHP. See id. The Finance Board’s existing regulation governing the operation of the AHP is codified at 12 CFR part 951.

On June 20, 2002, the Finance Board published a proposed rule requesting comment on proposed amendments to the AHP regulation that would authorize a Bank, after consultation with its Advisory Council, to set aside annually up to the greater of $1.5 million or 10 percent of the Bank’s annual required AHP contribution to assist low- or moderate-income, first-time homebuyers (first-time homebuyer set-aside program), under the Bank’s homeownership set-aside program. See 67 FR 41872 [June 20, 2002]. The proposed rule provided for a 60-day comment period, which closed on August 19, 2002. The Finance Board received seven comment letters on the proposed rule. Commenters included: two Banks; one Bank member; three trade associations; and one nonprofit housing developer. Comments that raised issues beyond the scope of the proposed rule are not addressed in this final rule, but may be considered by the Finance Board in any future rulemaking under the AHP. The provisions of the proposed rule on which significant comments were received are discussed below.

II. Goal to Broaden Homeownership

It is widely recognized that homeownership contributes to community stability and upward mobility of homeowners. A key goal of national housing policy is to broaden homeownership, especially among minority and immigrant households and households living in rural areas and on Native American tribal lands. Based on 2000 Census data, the homeownership rate is approximately 66.3 percent nationwide.1 The homeownership rate for all minority groups is 48.6 percent, compared to 72.4 percent for non-minorities. The homeownership rate for immigrant households is 47 percent. According to data of the Department of Housing and Urban Development (HUD), in fiscal year 2001, 45.1 percent of Federal Housing Administration (FHA) loans to first-time homebuyers had a greater effect than other options on the ability of renters to afford to purchase a home. According to the report, a $5,000 cash grant for downpayment assistance increases the number of minority renters who can afford to purchase a home by as much as 13 percent, while a $10,000 cash grant has nearly twice the effect.

The changes to the AHP regulation are discussed further below under the Analysis of Final Rule section.

III. Analysis of Final Rule

A. Current AHP Homeownership Set-Aside Program Authority

The current AHP regulation requires each of the twelve Banks to operate a competitive application program in its district for the awarding of AHP grants or subsidized advances to members to assist in the purchase, construction or rehabilitation of housing for very low- and low- or moderate-income households. See 12 CFR 951.3(a)(2), 951.5(b), 951.6(b). In addition, the AHP regulation authorizes each Bank, in its discretion, after consultation with its Advisory Council, to adopt homeownership set-aside programs for the disbursement of AHP grants to members to assist low- or moderate-income households with the purchase or rehabilitation of owner-occupied

1 According to the United States Department of Commerce, U.S Census Bureau Housing Vacancies and Homeownership Survey, the fourth quarter 2001 national homeownership rate was approximately 67.8 percent.

2 The total required AHP contribution of the twelve Banks in 2002 is $240 million. See 12 U.S.C. 1430[j][1][C].
housing units. See 12 CFR 951.3(a), 951.5(a), 951.6(a). “Low- or moderate-income households” are defined generally as households with incomes of 80 percent or less of the median income for the area. See 12 CFR 951.1.

Specifically, each Bank, after consultation with its Advisory Council, may set aside annually, in the aggregate, up to the greater of $3.0 million or 25 percent of its annual required AHP contribution to provide funds to members participating in homeownership set-aside programs at the Bank. 12 CFR 951.3(a)(1). In addition, in cases where the amount of homeownership set-aside funds applied for by members in a given year exceeds the amount available for that year, a Bank may allocate up to the greater of $3.0 million or 25 percent of its annual required AHP contribution for the subsequent year to the current year’s homeownership set-aside programs. 12 CFR 951.3(a)(1).

The AHP regulation provides that households must use the homeownership set-aside grants to pay for downpayment, closing cost, counseling, or rehabilitation assistance in connection with the household’s purchase or rehabilitation of an owner-occupied housing unit. See 12 CFR 951.5(a)(4). The AHP regulation also provides that households must complete a homebuyer or homeowner counseling program, and must meet such other allocation and eligibility criteria as may be established by the Bank, such as a matching funds requirement or criteria that give priority for the purchase or rehabilitation of housing in particular areas or as part of a disaster relief effort. See 12 CFR 951.5(a)(1), (2)(ii) and (iii).

The Banks have used this authority over the years to adopt a variety of different eligibility requirements and priorities under their homeownership set-aside programs. In addition, a housing unit purchased or rehabilitated using homeownership set-aside funds must be subject to a five-year retention agreement requiring that if the unit is sold to an income-eligible household or reverts to the condition of an income-ineligible household, such a pro rata share of the subsidy will be repaid to the Bank. See 12 CFR 951.5(a)(5), 951.13(d)(1).

B. Amendments to the Regulation

For the reasons discussed above, the Finance Board believes that increasing the Banks’ current maximum allowable annual homeownership set-aside amount without the incremental increase targeted to low- or moderate-income, first-time homebuyers, would assist the national housing policy goal of broadening homeownership, including homeownership among minority and immigrant groups and households living in rural areas and on tribal lands. Commenters on the proposed rule generally supported this increased discretionary funding authority. A trade association commenter recommended that the proposed incremental set-aside increase of 10 percent of a Bank’s annual required AHP contribution should be used only for eligible households buying newly constructed or substantially rehabilitated housing. The commenter stated that new construction technologies result in lower maintenance and energy costs than those associated with older homes.

Although the Finance Board agrees that there can be potential benefits of new technologies in terms of long-term operating costs, the Finance Board’s objective is to make the purchase of the unit more affordable, whether the housing is new or not. Moreover, the Finance Board does not believe that the AHP should contain requirements that restrict a household’s ability to choose its housing under the homeownership set-aside program.

Accordingly, consistent with the proposed rule, §951.3(a)(1)(ii) of the final rule authorizes a Bank, after consultation with its Advisory Council, to set aside annually an additional amount, up to the greater of $1.5 million or 10 percent of its annual required AHP contribution, to assist low- or moderate-income, first-time homebuyers. Section 951.5(a)(1)(ii) also authorizes a Bank, in cases where the amount of funds applied for by members in a given year under the first-time homebuyer set-aside program exceeds the amount available for that year, to set aside an additional amount, up to the greater of $1.5 million or 10 percent of its annual required AHP contribution for the subsequent year, to the current year’s first-time homebuyer set-aside program. The increased discretionary funding authority will supplement the Banks’ current discretionary authority to fund homeownership set-aside programs subject to the existing $3.0 million or 25 percent allocation cap. Consistent with the proposed rule, the final rule also makes a technical amendment to require that the Consumer Price Index (CPI) adjustments of the maximum dollar limits be made beginning in 2003 instead of 2002.

Under the existing AHP regulation, prior to disbursement of homeownership set-aside funds by a Bank to a member, the Bank must require the member to certify that, among other things, the funds received from the Bank will be provided to a household meeting the eligibility requirements of §951.5(a)(2). See 12 CFR 951.3(b)(2). Consistent with the proposed rule, the final rule amends §951.5(a)(2)(iii) to include the first-time homebuyer requirement as an eligibility requirement under the first-time homebuyer set-aside program. Therefore, a member is required to certify that funds to be disbursed to households under the first-time homebuyer set-aside program will be provided to eligible first-time homebuyers. Consistent with the current AHP regulation, the final rule does not define the term “first-time homebuyer,” leaving such determination to the discretion of each Bank, as set forth in its AHP Implementation Plan.

The increased funding authority entails use of the Banks’ existing set-aside program operations, thereby minimizing additional administrative costs on the Banks, and does not affect the Banks’ and Advisory Councils’ current discretionary authority regarding funding and operation of existing or new set-aside programs under the $3.0 million or 25 percent allocation cap. Thus, the Banks, in consultation with their Advisory Councils, may continue their existing set-aside programs, and have the flexibility to adopt new set-aside programs based on local needs, subject to the current $3.0 million or 25 percent allocation cap. A determination on whether to use the increased funding authority is in the discretion of each Bank, after consultation with its Advisory Council. However, if a decision is made to use the increased funding authority, such increased funding must be targeted to low- or moderate-income, first-time homebuyers, subject to any additional eligibility criteria adopted by the Bank, in its discretion, for the program. See 12 CFR 951.5(a)(2)(iii). A Bank could, of course, choose, in its discretion, to also target some or all of its existing or new set-aside programs operating under the current $3.0 million or 25 percent allocation cap to low- or moderate-income, first-time homebuyers, as some Banks do now.

The Banks’ homeownership set-aside programs have proven to be an efficient and effective means for the Banks and their members to provide homeownership opportunities for low- or moderate-income homebuyers, including first-time homebuyers. Homeownership set-aside funds help finance affordable housing in underserved areas and for underserved households, and often are the only way
to effectively meet scattered-site, affordable housing needs in rural areas or tribal areas, which have difficulty scoring well under the competitive AHP application program and where rental projects are not feasible. Homeownership set-aside programs also allow a member to use AHP funds to finance housing for individual eligible households on an as-needed basis, even if it is only for one household in the member’s market area. These are households that the competitive AHP application program might not otherwise reach.

In addition, homeownership set-aside funds often are the only way to meet the need for homeownership opportunities for low-income and very low-income households, which require larger per-unit subsidies and, therefore, may not score well under the competitive AHP application program. Set-aside funds could be made available, in conjunction with funds offered by other homeownership programs, to assist households purchasing homes under such programs. Many households that meet the eligibility requirements of HUD and FSS and IDA homeownership programs may still have difficulty meeting the financial demands of homeownership. Providing additional set-aside funds as downpayment assistance could help lower housing costs to a level that will improve the chances of successful homeownership for such households.

The current AHP regulation requires members to provide homeownership set-aside funds as a grant, in an amount up to a maximum of $10,000 per household, as established by the Bank, with such limit applying to all households. See 12 CFR 951.5(a)(3). In the SUPPLEMENTARY INFORMATION section of the proposed rule, the Finance Board raised the question whether this $10,000 limit per household may impede the ability of Banks and members to assist eligible households that have lower incomes or live in high cost areas and that may require larger per-unit subsidies in the purchase or rehabilitation of homes. The Finance Board requested comment on whether the regulation should be amended to increase the maximum subsidy limit per household and the amount of such limit, or whether the Banks should be provided the authority to determine, in their discretion, whether to adopt a maximum subsidy limit per household and the amount of any such limit.

Two trade association commenters supported providing the Banks the discretionary authority to adopt maximum subsidy limits per household and the amount of such limits, with one commenter noting that housing and rehabilitation costs can vary significantly by geographic area and the needs of homebuyers can differ significantly within the low- or moderate-income targeting range. While most of the Banks have adopted subsidy per-household limits below the maximum authorized by the current regulation, several Banks have suggested that the current maximum subsidy limit per household prevents the homeownership set-aside program from being an effective tool in helping to make homeownership affordable for the working poor and for households in areas where housing costs are exceptionally high. The Finance Board recognizes that there is a need for additional flexibility in the maximum subsidy limit. Accordingly, the Finance Board is amending § 951.5(a)(3) of the regulation to increase the maximum grant that a Bank is authorized to make under its homeownership set-aside programs in general, from $10,000 per household to $15,000 per household.

The member commenter also recommended that the Banks be permitted to pay fees, such as $500 per loan closing, to nonprofit organizations for the administration of the program. Use of homeownership set-aside funds by nonprofit organizations for administrative fees would not be an eligible use of AHP subsidies under the Bank Act and AHP regulation. See 12 U.S.C. 1430(j)(2), 12 CFR 951.5(a)(4). Therefore, this suggestion has not been adopted in the final rule.

IV. Paperwork Reduction Act

The final rule does not contain any collections of information pursuant to the Paperwork Reduction Act of 1995. See 44 U.S.C. 3501 et seq. Therefore, the Finance Board has not submitted any information to the Office of Management and Budget for review.

V. Regulatory Flexibility Act

The final rule applies only to the Banks, which do not come within the meaning of “small entities,” as defined in the Regulatory Flexibility Act (RFA). See 5 U.S.C. 601(6). Thus, in accordance with section 605(b) of the RFA, 5 U.S.C. 605(b), the Finance Board hereby certifies that the final rule will not have a significant economic impact on a substantial number of small entities.

List of Subjects in 12 CFR Part 951

Community development, Credit, Federal home loan banks, Housing, Reporting and recordkeeping requirements.

Accordingly, the Finance Board hereby amends part 951, title 12,
adopted by the Bank’s board of directors.

(iii) Requirements applicable to all homeownership set-aside programs. Beginning in 2003 and for subsequent years, the maximum dollar limits set forth in paragraphs (a)(1)(i) and (a)(1)(ii) of this section shall be adjusted annually by the Finance Board to reflect any percentage increase in the preceding year’s Consumer Price Index (CPI) for all urban consumers, as published by the Department of Labor. Each year, as soon as practicable after the publication of the previous year’s CPI, the Finance Board shall publish notice by Federal Register, distribution of a memorandum, or otherwise, of the CPI-adjusted limits on the maximum set-aside dollar amount. A Bank’s board of directors shall not delegate to Bank officers or other Bank employees the responsibility for adopting its homeownership set-aside program policies.

* * * * *

3. Amend §951.5 by:
   a. Revising paragraph (a)(2)(iii); and
   b. In paragraph (a)(3), removing the term “$10,000” and adding, in its place, the term “$15,000”, to read as follows:

§951.5 Minimum eligibility standards for AHP projects.

(a) * * *

(b) * * *

(iii) Meet the first-time homebuyer requirement, in the case of households receiving funds pursuant to a first-time homebuyer set-aside program established pursuant to §951.3(a)(1)(ii), and meet such other eligibility criteria that may be established by the Bank, such as a matching funds requirement or criteria that give priority for the purchase or rehabilitation of housing in particular areas or as part of a disaster relief effort, in the case of households receiving funds pursuant to homeownership set-aside programs established pursuant to §951.3(a)(1)(i) or (ii); * * * * *

Dated: September 12, 2002.

By the Board of Directors of the Federal Housing Finance Board.

John T. Korsmo,
Chairman.

[FR Doc. 02–23823 Filed 9–18–02; 8:45 am]

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