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Regulatory Interpretation: Questions on Scoring Criteria of the Affordable Housing Program (AHP) Regulation (98-RI-4)

Dear Chris:

This letter is in response to your memorandum of October 22, 1998, to Janet M. Fronckowiak of the Federal Housing Finance Board (Finance Board) regarding the following questions on certain scoring criteria of the Finance Board's AHP regulation.

Q1. How should a Federal Home Loan Bank (Bank) score owner-occupied and rental projects together given the two separate scoring methods specified in the AHP regulation for owner-occupied and rental projects? Which of the Banks' targeting scoring methods for rental projects seem to be the most responsive to the Finance Board's intent in drafting the regulation?

Al. Under the AHP regulation, for purposes of the targeting scoring criterion, applications for owner-occupied projects and rental projects may be scored separately. See 12 C.F.R. § 960.6(b)(4)(iv)(C)(3). The regulation also requires owner-occupied projects to be scored for targeting using one scoring method, and rental projects to be scored for targeting using a different scoring method. See id. § 960.6(b)(4)(iv)(C)(1), (2).

The Preamble to the regulation states that the purpose of allowing separate scoring of owner-occupied and rental projects is to offset what may be an inherent bias in the targeting criterion in favor of rental projects, which, in general, have more units targeted to very low-income households than do owner-occupied projects. See 62 Fed, Reg. 41812, 41821 (Aug. 4, 1997).

Although the regulation provides the Banks with the option to score owner-occupied and rental projects separately or together, the two separate scoring methods required for owner-occupied and rental projects mean essentially that owner-occupied and rental projects must be scored separately. Therefore, in order to score owner-occupied and rental projects together for targeting purposes, a Bank would have to seek a waiver for good cause of the current regulatory scoring requirements and propose an alternative scoring method to the Finance Board for its approval, pursuant to section 902.6 of the Finance Board's regulations. See 12 C.F.R. § 902.6.

With regard to the potential rental bias in the targeting scoring, some Banks that have experienced this bias in their targeting scoring methods have attempted to further limit the bias by adjusting their rental targeting scoring methods, within the confines of the regulation. See id § 960.6(b)(4)(iv)(C)(1). Such decisions regarding the most desirable scoring method for a particular Bank District are within the individual Bank's discretion, subject to the rental targeting scoring requirements of the AHP regulation. See id.

Q2. May an AHP application receive scoring points for "member financial participation" under the first District priority scoring category, if another member rather than the applicant itself is providing qualifying financial assistance to the project?

A2. No. Points may only be awarded under this scoring criterion if the financial assistance is provided directly by the member that is applying for the AHP subsidy. See 12 C.F.R. § 960.6(b)(4)(iv)(F)(4). As discussed in the Preamble to the regulation, where a member lends its own funds to a project, it is more likely to underwrite the project for financial feasibility and to monitor the project for AHP compliance. Greater member financial involvement in projects also builds member affordable housing lending capacity and expertise, which may encourage more of such activity. See 62 Fed. Reg. 41822.

If you have any additional questions, please contact Janet Fronckowiak at (202) 408-2575.

Sincerely,

Richard

Richard Tucker
Deputy Director
Program Assistance Division

This is a Finance Board regulatory interpretation within the meaning of the Procedures for Requests and Applications adopted by the Board of Directors of the Finance Board pursuant to Resolution No. 98-51 (October 28, 1998). The regulatory guidance set forth herein may be relied upon by the recipient subject to modification or rescission by action of the Board of Directors of the Finance Board.

I concur: William W. Ginsberg

cc: William W. Ginsberg
Deborah F. Silberman
James L. Bothwell
Mitchell Berns