

DECISION MEMORANDUM OF THE BOARD OF DIRECTORS
ACTING WITHOUT A QUORUM

Date: July 22, 1994

No. 94-DM-27

ISSUE:

Adoption by the Federal Housing Finance Board (Finance Board) of blanket approval criteria for modifications to previously approved awards of Affordable Housing Program (AHP) subsidies.

FACTORS CONSIDERED:

Section 10(j) of the Federal Home Loan Bank Act (Bank Act), 12 U.S.C. § 1430(j), requires that each Federal Home Loan Bank (FHLBank) establish an AHP.

The Finance Board has adopted a regulation governing the operation of the AHP by each FHLBank, codified at 12 C.F.R. Part 960. The AHP regulation requires the Finance Board to determine which applications for AHP subsidies are to be funded and to approve modifications to previously approved AHP awards.

As of March 31, 1994, the Finance Board approved a total of 2,128 AHP awards. It has been the practice of the Finance Board, acting with a quorum, to grant requests for modifications to approved AHP projects on a case-by-case basis. From June 1991 through May 1994, the Finance Board received a total of 280 requests to modify the terms of previously approved AHP awards. Approximately 99 percent of these requests ultimately were granted. The average time required to reach a final determination on requests was 58 calendar days.

It has been the past practice of the Finance Board, acting with a quorum, to grant requests for modifications of awards to previously approved AHP projects, provided that the following criteria are satisfied:

1. the project, as modified, would continue to score high enough to have been funded in its original AHP funding round;
2. the FHLBank determines at the time AHP funds are drawn down that the project continues to qualify for AHP funding in accordance with the regulations and policies of the Finance Board; and

3. if the request for modification involves an increase in the amount of an AHP award not exceeding 15 percent of the amount of the original award, the additional funds are necessary for project feasibility and completion, and the need for such funds resulted from unforeseen and justified increases in development costs or reductions in available funds from other financing sources.

Of the 280 requests for modification submitted to the Finance Board from June 1991 to May 1994, only 19 involved the third criterion -- an increase in the dollar amount of a previously approved AHP award. Of these 19, 15 were granted and four were denied.

Based on the high rate of approval of requests for modifications submitted to the Finance Board, it would promote the efficiency of the AHP to establish a blanket approval of any modification to an approved AHP award where the AHP project, as modified, would continue to score high enough to have been funded in its original AHP funding round.

However, based on the fact that only a small number of modification requests submitted to the Finance Board have involved an increase in the dollar amount of the previously approved AHP award, such modifications should continue to be subject to pre-approval review on a case-by-case basis by the Finance Board.

The Finance Board will continue its current practice of reviewing, through annual examinations of the FHLBanks, the terms of all modifications to approved AHP projects and how those terms have been implemented. In order to facilitate this post-approval review, each FHLBank should be required to notify the Finance Board of the terms of all AHP modifications that are approved by the FHLBank and that qualify for blanket approval pursuant to this decision memorandum.

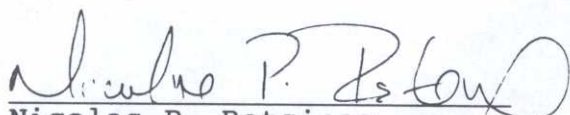
DECISION:

Any modification of an award to an approved AHP project which is proposed after the date of this decision memorandum and which does not require an increase in the amount of the AHP award shall be deemed to be approved by the Finance Board, notwithstanding the provisions of any prior resolution or decision memorandum of the Finance Board requiring written approval of such modification by the Director or Deputy Director of the Housing Finance Directorate, provided that:

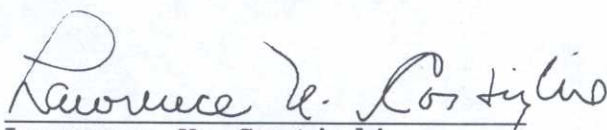
1. the project, as modified, would continue to score high enough to have been funded in its original AHP funding round; and
2. the FHLBank determines at the time AHP funds are drawn down that the project continues to qualify for AHP funding in accordance with the regulations and policies of the Finance Board.

Any modification involving an increase in the amount of an AHP award is not covered by this decision memorandum. Such modifications continue to be subject to pre-approval review on a case-by-case basis by the Finance Board, or, in the case of increases not exceeding 15 percent, by the Director of HFD under delegated authority.

Each FHLBank shall submit to the Finance Board a quarterly report describing: 1) how each modification approved during the quarter changes the terms of the project as originally approved by the FHLBank and the Finance Board; 2) the reason for each modification; and 3) an explanation of how the approved change affects the original score of the project.



Nicolas P. Retsinas
HUD Secretary's Designee
to the Board



Lawrence U. Costiglio
Director