PHFA
PA HOUSING FINANCE AGENCY

211 North Front Street
P.O. Box 8029
Harrisburg, PA 17105-8029
(717) 780-3800

August 19, 2024

Sandra L. Thompson, Director
Federal Housing Finance Agency
400 7th Street, SW
Washington DC 20219

Re: Federal Home Loan Bank Affordable Housing Program Competitive Application Process

Dear Director Thompson:

Thank you for the opportunity to provide input to the Federal Housing Finance Agency (FHFA) concerning the Federal Home Loan Bank (FHLB) Affordable Housing Program (AHP) competitive application process. As the Executive Director of the Pennsylvania Housing Finance Agency (the Agency), my staff and I work with many developers of affordable housing who have applied for AHP funding. We have received both positive and negative feedback from the developers related to the competitive application process. We have also witnessed the strong need for the AHP funds to serve as a gap resource in rental capital budgets due to the recent reduction in federal financing sources.

Because of this strong need, we believe it is vitally important that: 1. AHP funding is expended more efficiently, expeditiously, and flexibly to replace reduced federal gap-filling resources; and 2. A broader model be created and adopted to deploy AHP and other FHLB resources.

Importance of the Agency's Perspective

The Agency serves the Commonwealth of Pennsylvania as its state Housing Finance Agency. The Agency's primary mission is to provide access to affordable housing opportunities available to low- and moderate-income Pennsylvanians. These opportunities are created through the Agency's programs, which fund both multi-family rental housing and single-family homes. We also administer programs to address the needs of vulnerable populations including the elderly, people with special needs, and people experiencing homelessness. The Agency administers critical programs with the goal of addressing the current affordable housing crisis, including the Low Income Housing Tax Credit (LIHTC) program and the state Housing Trust Fund. We also fund housing counseling agencies and provide down payment and closing cost assistance to support first time homebuyers. Additionally, the Agency has saved the homes of families facing foreclosure for decades through an assistance program that has served as a model for other programs at both the state and federal level. For more than 50 years the Agency has been developing creative approaches to meet housing and community needs.

Working in Partnership with State Housing Finance Agencies

The Agency recommends that FHLB work in partnership with state Housing Finance Agencies (HFAs) for more efficient underwriting and review of rental development applications. HFAs have a proven track record allocating LIHTC and have well-established processes for determining the feasibility of affordable housing rental developments. By taking advantage of existing processes, FHLB and HFAs could coordinate to make awards in tandem. FHLB should allocate pools of AHP funding to well established HFAs to allocate as part of the LIHTC allocation process. This will help *leverag*e and *accelerate* funding for affordable housing developments. It would streamline process without expanding risks, and affordable housing developers would embrace the simpler process, as they currently manage multiple layers of capital and operational finance that take years to assemble. For developers to deliver more units of much-needed affordable housing, the affordable finance system should strive to be as *streamlined, transparent* and *operationally efficient* as possible.

The current AHP underwriting and review process requires FHLB member banks to independently underwrite all aspects of an AHP transaction regardless of AHP's percentage participation and without consideration of the share of risk. Consequently, developers must repackage financial and other information that has already met other funders' criteria to also meet AHP's underwriting requirements. FHLB member banks then must analyze the proposed project using their own underwriting filters. This is unnecessary and duplicative. HFAs have decades of experience underwriting for many federal programs, including LIHTC and the HOME Investment Partnerships Program, and can effectively integrate AHP requirements into their process. By allocating pools of AHP funding to well-established HFAs, developers, large and small, would be able to participate more fully without sacrificing quality or the integrity of AHP. Furthermore, allowing AHP underwriting to rely on evaluations completed by HFAs would eliminate redundancies thus simplifying the AHP application process.

Incentivize Large Affordable Rental Developments to Apply by Adjusting Priorities

My staff and I have heard from numerous developers that the current point scoring system seems to incentivize applications by developers of for-sale housing over rental housing. It is important to incentivize the construction of large affordable rental developments. We recommend that the scoring system be revised to create a more equitable distribution between awards to for-sale and rental applicants. As there is also an AHP set-aside for homeownership projects awarded outside of the competitive process, we recommend establishing policies that guarantee at least 50% of competitive awards are made to rental applicants. If our first recommendation is implemented and pools of AHP funding are allocated to State Housing Finance Agencies, then the allocation process of HFAs can streamline reviews for large affordable rental developments.

Finally, the Agency strongly recommends that FHFA require FHLB member banks to increase their funding of AHP from 10% of annual revenue to 25%. Although this specific request does not concern the competitive application process, we believe that the need for additional resources is paramount during the current national housing crisis. Because federal funding sources for affordable housing such as the HOME Investment Partnerships Program and the federal Housing Trust Fund have declined drastically, it is vitally important that other resources for the development of affordable rental housing fill the gap. By increasing the requirement to at least 25%, AHP will be better positioned to address the significant gaps at the project level. Additionally, the increased funding would assist in the implementation of other recommended changes.

Thank you for accepting these comments. Please do not hesitate to contact me at 717-780-3911 with any questions you may have concerning the Agency's response to the request for input. My staff and I would appreciate any opportunity to better acquaint FHFA with our robust underwriting process and the opportunity it presents to improve to effectiveness of AHP funding.

Sincerely,

Robin L. Wiessmann

Robin L. Wiessmann
Executive Director & CEO