



August 15, 2024

Federal Housing Finance Agency  
Division of Housing Mission and Goals  
400 Seventh Street SW, Ninth Floor  
Washington, DC 20219

RE: Request for Input: Federal Home Loan Bank Affordable Housing Program Competitive Application Process

To Whom it May Concern:

Thank you for the opportunity to comment on the Affordable Housing Program (“AHP”) Competitive Application Process. We appreciate the commitment of the Federal Housing Finance Agency (“FHFA”) and the Federal Home Loan Banks (the “Banks”) to ensure that AHP fund can be effectively accessed and leveraged.

Launched in 2003, SAHF is a nonprofit collaborative of exemplary, multi-state non-profit affordable housing providers--Mercy Housing, Volunteers of America, National Church Residences, National Housing Trust, Retirement Housing Foundation, Preservation of Affordable Housing, The NHP Foundation, BRIDGE Housing, CommonBond Communities, Community Housing Partners, Homes for America, and The Community Builders. SAHF members preserve and develop multifamily properties for low-income people with disabilities, the elderly, families, and the homeless. SAHF members collectively own and operate more than 1,950 properties comprised 150,000 affordable apartments across the country, approximately 100 of these properties were financed with AHP funds.

SAHF members are committed to providing healthy affordable homes where residents can achieve their goals. SAHF members create and preserve homes that respond to the needs of communities and are often partners to communities in confronting their most complex housing challenges. SAHF members have used AHP funds as one tool for financing these vital projects. While SAHF recognizes that AHP can be an important secondary financing source and appreciates changes that have been made in recent years, there are still opportunities to improve the program. SAHF members still find that the process for receiving and closing an AHP award can be unclear and administratively burdensome relative to the size of the financial resource. Based on our members’ experience, we offer the following general comments followed by responses to the specific questions in the Request for Input.

### **1. General Comments**

SAHF and its members appreciate that FHFA seeks to provide the Banks with flexibility to address regional needs, but also recognizes the opportunity to align the application of AHP with its role in rental housing transactions. AHP provides valuable gap financing for much-needed rental housing. While AHP is a valuable resource, it is typically a relatively small portion of the financing package required to construct or preserve rental housing. The administrative requirements and processing for AHP can play an outsized role in the timing and administrative and legal expenses of a transaction.



SAHF members have noted that small award amounts, a relatively long application process and additional requirements imposed by AHP make it an increasingly infeasible solution for the very transactions it is intended to facilitate. One SAHF member estimated that even in a less inflationary environment (3%), the additional six to twelve months process that AHP can entail can mean over all project costs may increase by more than the amount of the AHP funding. For instance, in a 3% inflation environment, a \$20M transaction (typical in many markets) will see \$600,000 in cost increases over twelve months. This is near the maximum funding amount for some banks.

It is vital the process be streamlined in a way that advances the program's intent. Current scoring and processes often give preference to projects that don't require further to move forward. We appreciate the desire to support transactions that can close quickly; however the primary goal should be – how these dollars can get into projects that have a gap and wouldn't move forward without FHLB commitments. Having a permitted project (clear path to closing) with significant financing commitments, but an existing funding gap that wouldn't happen without additional financial commitments would be the ideal project. If FHFA and the Banks are concerned about readiness, they could seek to allow applications earlier in the development process and consider an application that focuses on the strength of the sponsor since strong sponsors are more likely to close projects successfully and timely.

## **2. Responses to Targeted Questions** *(numbers correspond to those in RFI)*

- 1. Are there particular components of the FHLBanks' AHP application processes that could be made more effective or efficient, and if so, how? Are any of the FHLBanks' specific documentation requirements for AHP applications unnecessary for verifying that the applicant meets the AHP eligibility requirements and scoring criteria? Are there ways to streamline the application process while maintaining the FHLBanks' ability to verify applicants' compliance with the AHP eligibility requirements and scoring criteria?*

In general, SAHF members doing business across multiple Bank jurisdictions noted that online application processes work well and that the Rental Feasibility Workbook has been helpful in completing the application. All Banks should be encouraged to ensure that applications can be saved in draft form in the online portal before submission so that applicants can assemble applications over multiple days.

- 2. How do the FHLBanks' AHP application processes compare to those of other providers of gap funding with respect to scope, complexity, and documentation requirements?*
- 3. Do the FHLBanks' AHP application processes leverage other funders' applications/requirements? Are the AHP application processes duplicative or complementary of other funders' underwriting requirements and processes? Do the AHP application processes create the need for additional information and documentation?*

As a subordinate and relatively small funding source, the AHP application process and requirements remain overly complex and do not leverage other applications as well as they could. Notably, the



requirement to divide out the proforma between operations and supplementary services is not standard compared to other financing applications and creates difficulty in the application process.

Broadly, the process could better leverage other application processes by recognizing that first position lenders and equity sources have debt service coverage requirements and requirements for the distribution of cash flow that will establish parameters for the transaction. For LIHTC properties in particular, the allocating agency already has a statutory obligation to determine that the project isn't over subsidized. Given the complexity of most affordable rental transactions, the Banks should not require applicants to develop separate proformas that don't reflect operational realities.

AHP is for the acquisition, preservation or development of housing. To the extent that the sponsor can demonstrate the need for AHP funding for those purposes, the services budget is not relevant to the analysis. Services are not a rehabilitation or construction expense, but providing preservation or development funding to a property that provides services is not inconsistent with the statute or regulations. In fact, as the AHP applications typically encourage projects that provide services. The requirement for a separate proforma appears to be built on an assumption that if a property can support services as part of operating expenses, the Bank must consider whether the property could instead support more debt. This logical leap is not required under the statute and is not supported in practice. That cash flow, which is not assured, may be used to support services does not mean that applicants could otherwise apply that cash flow to acquire more debt and forego services. Further, removing resident services expenses from the operating budget will not necessarily result in more cash flow available for debt service since owners report that the presence of quality resident services can correlate with reductions in other expenses security, bad debt and legal expenses. These savings aren't realized in the absence of services.

Separating out supplementary service expenses, which in most other funding sources are included in the operating proforma, can make the Housing proforma appear to exceed the allowable debt coverage ratio, but that calculation is illusory since the operations assumptions are predicated on the availability of services. Further, separating Housing vs. Non-Housing costs for a mixed-income development was also inconsistent with other financing applications, and not something we've had to provide for other funding agencies.

- 4. Should the AHP regulation allow the FHLBanks to differentiate their AHP application requirements for projects requesting subsidy that constitutes a small percentage of the total funding in the project? If yes, why? Do other gap funders differentiate their application requirements for smaller projects?*

The AHP should both encourage the Banks to make awards and employ processes that balance the size and impact of the award in the transaction with the requirements and processing time. Banks should consider increasing award sizes to help minimize the number of sources and complexity in transactions, but should also have the ability to streamline requirements for awards that are gap financing. It is



common for state and local funders to streamline requirements for smaller and subordinate fundings sources.

5. *What role do consultants provide in applying for AHP funds?*

SAHF members are high-capacity nonprofit housing developers and did not report using consultants for AHP applications. Given the complexity of the process, we recognize that other organizations may need to do so.

6. *Are there effective practices the FHLBanks could implement to coordinate the underwriting review process across multiple funding sources in a project? What is the single most important change you would recommend for improving the AHP application process?*

See number 3 above. The pro forma divided between operations and supplementary services is not standard compared to other financing applications and should be replaced with a more standard process and review.

7. *What concrete steps would you recommend for simplifying the AHP application process and why?*

As housing providers working in multiple jurisdictions, SAHF members urge each of the Banks and FHFA to explore where common application features and scoring can be increased while preserving the ability for regions to tailor the application process to local priorities. Further, the process could be streamlined and improved by encouraging the Banks to update application processes and scoring on an established and published schedule. Given that most transactions take multiple years to assemble, predictability is helpful.

Thank you for the opportunity to comment on the improvement of this critical program. We would be happy to further discuss our comments. Please feel free to contact me at [aponsor@sahfnet.org](mailto:aponsor@sahfnet.org) or 202-737-5972.

Sincerely,

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