

KeyBank Real Estate Capital



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The Honorable Sandra L. Thompson
Director
Federal Housing Finance Agency
400 Seventh Street SW
Washington, DC 20024

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

Dear Director Thompson:

On behalf of KeyBank, National Association, I am writing in response to the Federal Housing Finance Agency's (FHFA) Request for Input (RFI) issued June 20, 2024, related to the Federal Home Loan Bank's Affordable Housing Program (AHP).

The Affordable Housing Program has long been an important and vital funding source for projects of all sizes and scale. At KeyBank, the program is utilized by clients developing mid-, to large-scale rental projects where public funding makes up more than seventy-five percent of the funding sources. Therefore, the responses provided here are consistent with these development types.

Question #1a: Are there particular components of the FHLBank's AHP application processes that could be made more effective or efficient, and if so, how?

A reoccurring comment that is typically asked by KeyBank's clients, is "why are the AHP applications different from one FHLB to another." Although it is understood that the AHP regulation requires common scoring components, what is not understood is why the underwriting criteria are varied amongst the FHLBanks. As previously mentioned, several KeyBank clients develop rental projects across many states and have experience in using the AHP from multiple FHLBanks to which they have noted the inconsistencies in the underwriting standards.

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It is commonly understood that development and operating costs vary across the country. However, for those clients that use multiple FHLBs, it is difficult for them to understand their requirement to justify project features and financial information when applying as an out-of-district applicant to an FHLBank especially if historical data is provided to evidence that the otherwise in-district FHLB will allow those financial exceptions, which are largely based on geographic location. It is KeyBank's experience that it is not the intention of clients to apply to an FHLB that does not cover the state in which they are developing. Developers will submit to the FHLB to which their preferred lender is a member institution. Most lenders that have a footprint beyond a particular FHLBank have lending capacities and equity capabilities that require a higher level of underwriting standard that should be accepted by the FHLBanks.

Question #1b: 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?

The documentation requirements are sufficient and do not exceed those of other funding sources.

Question #1c: Are there ways to streamline the application process while maintaining the FHLBank's ability to verify applicants' compliance with the AHP eligibility requirements and scoring criteria?

Ideally the FHLBanks should offer more user-friendly platforms that are spreadsheet-based and consistent from one bank to the next. As it stands now the online platforms are cumbersome and extremely difficult to edit versus the various public funding source platforms that our clients typically utilize. Moving to platforms that mirror the Low-Income Housing Tax Credit (LIHTC) applications should make the AHP application more functional and overall, more efficient for all users. The added benefit would be that separate applications could be created to accommodate rental and homeownership so as not to add additional layers of complexity under the "one size fits all" mentality.

Question #2a: How does the FHLBanks' AHP application processes compare to those of other providers of gap funding with respect to scope, complexity, and documentation requirements?

The AHP program most closely mirrors the LIHTC programs with respect to scope, complexity, and documentation requirements. However, as stated previously, the user-friendly aspect is not found within the AHP program application for both homeownership and rental projects.

Question #3a: Do the FHLBanks' AHP application processes leverage other funders' applications/requirements?

The AHP for rental projects most closely resembles the LIHTC program in most respects. However, where they differ is in underwriting criteria, social services, and project characteristics. Regarding

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underwriting criteria, by far the biggest issue is income targeting. The industry knows that the LIHTC program income limitation cannot exceed 60% of the Area Median Income (AMI), whereas the AHP regulation requires a minimum twenty percent reservation of units to be at or below 50% AMI and potentially even more restrictive to score enough points to receive an award. For projects that struggle to cash flow and/or maintain a debt coverage ratio between 1.0 and 1.5 for the fifteen-year retention period, having to restrict units is financially burdensome when the only perceived benefit is not having to be audited by both the LIHTC program and FHLB. For the program to be more impactful it would be better if the rental income targeting for AHP exactly mirrored the LIHTC program.

The AHP regulation is confusing in that on one hand it encourages projects to add social services (aka empowerment services), via the scoring system, in their project but on the other hand complicates the underwriting requirements by stating that social services and/or empowerment services cannot be paid for from tenant rents because AHP is not an operating subsidy. But AHP as defined by the regulation is a development source. If AHP can only be used to fund the development of AHP-eligible units, why then should projects be forced to identify a third-party funding source that covers the social service expenses offered to the tenants?

Finally, the LIHTC program from time to time, offers points for projects that are creative and add components to their project that have a larger community impact than just housing. As an example, a project that received a LIHTC award for creating housing for abused women and children displaced from their homes also included a space for a healthcare clinic that would not only serve the families in the rental portion of the building but the rural community at large. In general, rural communities do not have access to the same healthcare infrastructure compared to their urban counterparts. FHLB denied the application because the square footage of the healthcare clinic was greater than the square footage of the rental portion even though the LIHTC program funds covered the full development cost of the clinic, and the operating costs would have been covered by private insurance, Medicare, and Medicaid payments. AHP should be supportive of and compliment the initiatives put forth by any public funding source, especially the LIHTC program.

Question #3b: Are the AHP application processes duplicative or complementary of other funders' underwriting requirements and processes?

As previously mentioned, AHP does mirror the requirements of the LIHTC and most other public funding sources. However, as also mentioned the underwriting criteria do not always align perfectly, thus making it challenging to create a project that meets all the underwriting criteria of the funding sources in a deal. Since funders like LIHTC and HUD provide the largest contribution of funding compared to the AHP, it would seem only logical that the underwriting criteria of the taxpayer funded monies be followed.

Question #3c: Do the AHP application processes create the need for additional information and documentation?

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For homeownership projects, the AHP application process does not create the need for additional documentation or information. However, as noted when LIHTC encourages developers to be innovative or creative, it not only triggers the need to provide more documentation to FHLB in the application stage of the AHP lifecycle but also requires the preparation of supplemental narratives to explain the unusual project aspects that the AHP application platform does not allow for.

Question #4a: 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?

Specifically for rental projects when the capital stack includes public funding such as HUD or LIHTC, the AHP regulation should be amended to prioritize the underwriting criteria of these sources. Additionally, the AHP regulation should recognize that the member institution, supporting the financial requirements as well as supporting the AHP application, has done its due diligence to properly scrutinize the financial feasibility of such projects in line with its own regulatory requirements.

Question #4b: Do other gap funders differentiate their application requirements for smaller projects?

It has been the experience of KeyBank that other funding sources do not differentiate their application requirements for smaller projects.

Question #5: What role do consultants provide in applying for AHP funds? What are the reasons that an AHP applicant may use a consultant? To the extent that applicants are using the services of consultants to apply for AHP subsidy, how does the practice compare to the use of consultants for other sources of gap funding?

It has been KeyBank's experience that consultants are usually involved in projects where the Sponsor does not have the staff capacity or experience to apply for AHP funds, similarly sized programs like CDBG, or other major funding sources like HUD or LIHTC. Although KeyBank has supported applications to FHLB that involved a consultant, most clients have experienced staff and therefore do not employ the services of a consultant.

Question #6: Are there effective practices the FHLBanks could implement to coordinate the underwriting review process across multiple funding sources in a project?

KeyBank believes that it is important for FHLB to publish their preferred underwriting criteria annually in the Implementation Plan. However, a caveat should be included to note that for projects where fifty percent or more of the funding is derived from another funding source, FHLB will accommodate that funding sources' underwriting standards.

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Question #7: What is the single most important change you would recommend for improving the AHP application process?

As noted in the previous question, continue to publish the underwriting criteria as always but allow for the acceptance of larger funding sources' underwriting standards instead, including income targeting and social services.

Thank you for the opportunity to provide input on the Affordable Housing Program.

If you have any questions, please call me at 513-830-1261.

Sincerely,



Laura Sandmann

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