FHLB CINCINNATI

221 East Fourth Street
Suite 600
Cincinnati, OH 45202

T (513) 852-7500
F (513) 852-7655
www.fhlbcin.com

July 31, 2024

Ms. Naa Awaa Tagoe
Deputy Director
Division of Housing Mission and Goals
Federal Housing Finance Agency
400 7th Street SW
Washington, DC 20024

Ms. Tagoe,

On behalf of the Affordable Housing Advisory Council (Advisory Council) of the Federal Home Loan Bank of Cincinnati (Bank), we would like to express our appreciation to the Federal Housing Finance Agency (FHFA) for its commitment to enhancing both the liquidity and affordable housing mission of the Federal Home Loan Bank System (System). The FHFA's *Requests for Input on Application Process for the Federal Home Loan Bank Affordable Housing Program* (RFI) marks the next step in the FHFA's work addressing the affordable housing component of the System's mission. This is a process that began with numerous engagements with the System's Advisory Council Leadership during the Affordable Housing Program (AHP) regulatory refresh from 2014 to 2016, followed by numerous listening sessions and roundtables held during the development of the FHFA's *FHLBank System at 100: Focusing on the Future*. This letter represents the Advisory Council's response to the RFI.

Before addressing the specific questions contained in the RFI, it is worth noting that the process of streamlining the AHP began more than a decade ago with a presentation made to the FHFA by the System Advisory Council Leadership on October 8, 2014 (Attachment 1). This was followed by numerous meetings between the leadership group and the FHFA and included a System Advisory Council Leadership comment letter in response to the AHP Notice of Proposed Rulemaking, dated December 7, 2016 (Attachment 2). It is important to note that throughout the last ten years, both the System, the Advisory Council Leadership and the 11 Community Investment Officers have spoken with a single unifying voice on areas of concern regarding the administration of the AHP. The most important of these items is the enforcement by the FHFA of the Need for Subsidy (NFS) standard codified in both the current and previous version of the AHP Regulation. To briefly reiterate, the two most pressing concerns with the enforcement of the NFS standard are:

1. The requirement that each FHLBank rely heavily on the preliminary operating pro forma to decide whether the AHP applicant's project should replace AHP subsidy needed to

develop the project with permanent debt if the pro forma indicates a higher level of cash flow and/or operating reserves than deemed appropriate; and,

2. The requirement that the AHP pro forma include a separate supportive services budget – a requirement unique to the AHP.

The FHFA's hesitancy to simply require the FHLBanks to comply with the explicit language of both the current and immediately preceding AHP regulation has been a source of lingering frustration for the System, its member financial institutions and affordable housing development partners. After a decade of practitioners reinforcing this problematic approach, this Advisory Council remains hopeful that this problem may now be resolved.

It is also worth noting that affordable housing providers and developers are motivated first and foremost by mission. We need to achieve a level of profitability, but only as a means to sustain that mission. If we were driven solely by profitability, our focus would be on developing market rate housing instead of affordable housing. We are mission driven, and our mission is in alignment with the Federal Home Loan Banks' mission.

On behalf of the Advisory Council, we commend you, and the rest of the FHFA leadership, for your recognition of the System as an important resource to affordable housing developers across the country. We further agree that the System is well-positioned to be a steadfast resource in an affordable housing market with a significant shortage of both affordable housing units and resources to support their development and ongoing operation. This Advisory Council is happy to make ourselves available as a resource to the FHFA and to answer any follow-up questions that the FHFA may have. We also would respectfully request that during the FHFA/Advisory Council Leadership meeting in October, there is a formal opportunity for review and discussion of the general themes raised in response to the RFI from across the System.

Sincerely,

Natalie H. Harris
Chair, Affordable Housing
Advisory Council
Federal Home Loan Bank of Cincinnati

Sincerely,

Samantha A. Shuler
Vice Chair, Affordable Housing
Advisory Council
Federal Home Loan Bank of Cincinnati

Responses to the Federal Housing Finance Agency's Requests for Input on Application Process for the Federal Home Loan Bank Affordable Housing Program

Q1. 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?

The Advisory Council believes that the AHP application documentation requirements are burdensome because of the underwriting requirements of the program. Specifically, as all 11 Advisory Council Chairs noted in their presentation to the FHFA on October 8, 2014 and reiterated in a joint letter to the FHFA, dated December 7, 2016, there are several problematic areas within the administration and examination of the AHP that have resulted in a complicated application and approval process. The most problematic area is the Need for Subsidy (NFS) standard applied in practice versus the language contained within the current AHP Regulation and its immediate predecessor. Within the context of the NFS standard, areas that are particularly problematic are:

- The requirement that applicants bifurcate their budgets and include a separate budget for supportive services; and,
- The presumption that a project can, and should, take on debt (or more debt), if the pro forma indicates the project to have significant cash flow.

With regards to these two items, it is worth noting that AHP is the only real estate development funding source that requires applicants to submit a supportive services budget. Other real estate development funding sources require only a development pro forma and all-inclusive operating pro forma because these are the funders' areas of expertise. These sources do not require supportive service budgets to be submitted, and instead rely on the funders awarding service funds and monitoring service outcomes to review and approve service budgets. Additionally, the pro forma included in the AHP application is an estimate prepared years in advance of the project being completed. Thus, a project's financials included in the application may change significantly between application and completion as we have seen since 2020, when the Covid-19 pandemic followed by significant inflation drove up development and operating costs substantially. Even more variable is predicting cash flow over a fifteen-year period, as the recent inflationary period has illustrated. Including an additional cushion of 2-3% inflation is prudent, and not necessarily a sign of profiteering.

A simple approach to streamlining the AHP application process is to allow the FHLBanks to adopt underwriting consistent with the NFS language contained in the Regulation (i.e., determine whether AHP subsidy is needed to complete project development) and not require the FHLBanks to reduce the AHP subsidy award if the project is expected to have excessive cash flows, which is a highly subjective measure.

Q2. How do the FHLBanks' AHP application processes compare to those of other providers of gap funding with respect to scope, complexity, and documentation requirements?

As noted in our response to Q1 above, the AHP is the only funding source that requires a separate supportive services budget. This issue was highlighted during the following engagements with the FHFA:

- An October 8, 2014 presentation by the Advisory Council leadership to the FHFA;
- A May 12, 2015 meeting between the FHFA and the Advisory Council leadership of the Cincinnati, Dallas, Des Moines, and New York FHLBanks; and,
- An April 26, 2018 meeting between the Advisory Council Leadership, the System's Community Investment Officers (CIOs) and the FHFA.

It was also noted in the above referenced communiques that the AHP application should be evaluated based on the FHLBanks' adopted scoring criteria and the gap in the development budget irrespective of estimated project operating cash flow. The AHP requirements associated with these issues result in an application process that is unique to the AHP and significantly more burdensome than the process required by other funders, notwithstanding Low-Income Housing Tax Credits (LIHTC). It should be noted that the latter's process is at least equally burdensome, but warranted given the substantial amount of subsidy that LIHTC provides, which greatly exceeds the amount of AHP subsidy a project may receive.

Regarding documentation, the NFS standard is the source of many of the areas of additional and unnecessary burden and, again, is unique to the AHP. For example, requirements such as (i) the calculation to Net Present Value the mortgage if it is at a zero-percent interest rate on projects, which impacts nearly all Habitat for Humanity applications, and (ii) providing a separate supportive services budget on permanent supportive housing projects, introduce a level of complexity that most projects struggle to meet. This level of requirement seems in opposition to the FHFA's desire for AHP to serve smaller, non-LIHTC rental projects and increase homeownership throughout the United States.

Q3. 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?

The AHP application does not defer to other funders, particularly majority funders, such as LIHTC, Historic Tax Credits, U.S. Department of Agriculture, etc. As such, the application process is largely duplicative, apart from its treatment of supportive services in the operating pro forma. The result is the AHP application creates a need for Sponsors to provide additional information at both application and disbursement that most funders do not require. For example, the FHLB Cincinnati requires that Project Sponsors provide line by line comparisons between their FHLB proposal and their LIHTC proposals. This comparison is cumbersome because Project Sponsors modify project costs after applying for funds as development planning progresses and more fully informs project costs. These changes require Project Sponsors to compare a project to an application that included preliminary estimates and to submit requests for Modifications, which could be denied and therefore creates uncertainty in their financial stack.

AHP projects are well leveraged by other funding sources that have their own regulations. FHLBanks have an opportunity to use this leveraging to streamline reporting requirements, particularly in the case of projects funded by LIHTC.

Q4. 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?

Yes. This point was noted during the numerous engagements with the FHFA previously noted in this document. In projects in which the AHP is not the majority funder, the financial risk to the Bank is lower and the return on investment is higher (i.e., the number of units created per dollar of AHP subsidy). Further, lower AHP funding amounts means that the Project Sponsor is securing funding from other sources that have their own regulation and underwriting guidelines. To encourage financial leveraging, the Bank should be able to adopt and consider other funders' reviews in their processes. The Bank would gain flexibility to streamline highly leveraged and regulated projects while maintaining discretion to review projects more in-depth when warranted.

Q5. 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?

AHP Project Sponsors utilize consultants for the following two reasons:

- Limited staff and financial wherewithal to respond to the level of complexity involved in applying for AHP subsidy, applying for disbursement of the awarded subsidy, and complying with the ongoing AHP monitoring requirements; and,
- To increase the competitiveness of the AHP application. Project Sponsors often engage with consultants who specialize in grant writing in general, but have a particular expertise in managing the AHP process from application through conclusion of the five-year and 15-year Retention Periods.

It is worth noting that given the increasing level of complexity in securing AHP subsidy over the last 34 years, a niche consulting market has evolved – consultants that work exclusively, or at least primarily, on AHP applications. That alone illustrates the level of complexity involved in securing AHP financing from the System. Unfortunately, such complexity is costly, requiring hours of time responding to the Bank's regulatory inquiries. In addition, this level of complexity cannot be fully illustrated in the *Affordable Housing Program Implementation Plan*, so the only way applicants can truly understand the program's expectations is to frequently apply for and receive the funding. For less experienced Project Sponsors, hiring a consultant is the most prudent way to gain this experience. However, using consultants decreases the financial support these Project Sponsors receive.

Q6. Are there effective practices the FHLBanks could implement to coordinate the underwriting review process across multiple funding sources in a project?

Yes. As noted in the prior Advisory Council Leadership presentations, meetings, and letters, the most impactful changes would be enforcement of the NFS standard consistent with the language codified in the AHP Regulation and allowing supportive services to be included in the pro forma "above the line". Both are consistent with the requirements of all other funding sources.

Additionally, there also appears to be a perception of an adverse bias against LIHTC projects. While it is true that the AHP subsidy often comprises a small portion of the funding sources on LIHTC projects, those projects still demonstrate a gap in their development budget and are, therefore, eligible for AHP subsidy in accordance with the AHP Regulation. LIHTC projects are the single largest provider of affordable housing in the United States, providing housing for America's most housing insecure populations –

individuals with mental and/or physical disabilities, individuals experiencing homelessness and individuals and households with extremely low-income.[1]

To address these challenges, the FHLBanks should be given discretion to rely on other funders' conclusions about a project's readiness, capacity, market demand, financial feasibility, etc.

Q7. What is the single most important change you would recommend for improving the AHP application process?

Resolving the enforcement of NFS standard noted throughout this letter and in numerous communications to the FHFA over the last decade.

Q8. What concrete steps would you recommend for simplifying the AHP application process and why?

The Advisory Council recommends the following steps:

- Underwriting projects from the perspective of whether they are financially strong enough to provide the housing committed to in the AHP application for the length of the applicable Retention Period without being held to subjective judgements regarding whether the project has excessive cash flow;
- Allowing the expenses related to the provision of supportive services to be included in the pro forma "above the line";
- Deferring underwriting compliance and ongoing monitoring compliance to majority funders, particularly if such funders are state, federal, or local governments; and finally,
- Permitting AHP subsidy to be more than a "gap filler". The AHP should be viewed as an investment in the provision of affordable housing. It should not require the Project Sponsor to demonstrate that they have exhausted all other avenues to attaining subsidy before applying to the AHP (e.g., taking on debt or additional debt).

[1] Household income at or below 30 percent of the Area Median Income.

OPPORTUNITIES FOR CHANGE: AHP AT 25

FHLB Advisory Council Leadership on proposed FHLB AHP reforms.
October 8, 2014

The AHP has developed a strong reputation over the last 25 years as being a quality funding program that is administered with integrity and mission in mind. It is one of the most long-standing demonstrations of private industry support for affordable housing as a community development effort. However AHP must change to stay relevant. The consensus opinion of the Advisory Council leadership is that mission based investments made in keeping with the wisdom that comes from our systemic diversity will make AHP a more impactful force.

OPPORTUNITIES FOR CHANGE: AHP AT 25

FHLB ADVISORY COUNCIL LEADERSHIP ON PROPOSED FHLB AHP REFORMS.

OCTOBER 8, 2014

The Advisory Council leadership's operating hypothesis is that more and more projects and project sponsors are staying away from the AHP program because AHP is not seen as "friendly" money. We don't know for certain what we aren't seeing come through the door but, we do know that projects most likely to succeed in the current structure are:

- Urban
- Sponsored by larger, more sophisticated organizations
- Targeted to specialized populations for which preferences in the scoring are available

We know that the way AHP is currently being implemented is making it harder for layered finance projects to succeed.

- The lead time needed to arrange for layered financing makes it hard to disburse funds according to AHP timeframes.
- Challenges in alignment between funders' cycles are growing.
- Mismatches between funder underwriting approaches make it increasingly difficult to develop a feasible project structure that can still compete for AHP funding.

We also recognize that the affordable housing industry and the environment in which we work is significantly different than it was when the AHP program was first written.

In 1989: Affordable Housing development was simpler.

- One subsidy was all it usually took to make a project work
- Less competition for funds and overall less production (fewer developers using the tools)
- Simultaneous with the creation of other key tools (LIHTC, HOME)
- CRA was new and a bigger catalyst for lender engagement with projects
- Greater flexibility in regulatory monitoring

WHY CHANGE?

WE GIVE THE MONEY AWAY EVERY YEAR – ISN'T THAT GOOD ENOUGH?

The environment in which we work is different today than it was 25 years ago.

Good projects needed to address community needs are being driven away by the increasing level of constraints that have become the AHP.

Resources are scarce. Regulatory overburden represents a diversion of resources from program delivery to program compliance.

The program can't deliver on its mission of helping member banks meet the diversity of community affordable housing and community development needs if we can't effectively engage community partners.

In 2014: The same type of development has become more complicated.

- Multiple sources / layered financing is the norm, not the exception
- Increasing demand (and need) for services to support tenant success
- Higher cost of development – transaction costs
- Less public subsidy and private philanthropic support available
- CRA impacts are different today as banks have a better understanding of how to achieve compliance
- “Gotcha” attitude stemming from funders’ fear of project/applicant mis-deeds
- The AHP program has a long track record of success across the country
- Consolidation of banks changes the lending environment and distribution of profits through FHLB system

The PREMISE FOR OUR CONVERSATION on the issue of Affordable Housing Program reforms can be summarized as follows:

Maintaining the soundness and solid reputation of the program is important.

The compounding impact of 25 years of findings and interpretations has begun to truly constrain project feasibility.

AHP is typically a small part of an affordable housing project, so it is unrealistic to think its unique programmatic twists can drive project decisions.

Our shared goal is delivering on the mission of creating long term, low- and moderate-income, owner-occupied and affordable rental housing as effectively and efficiently as possible in today’s environment.

The changes we are proposing are all made in pursuit of this end.

- Redefinition of “Need for Subsidy”
- Alignment with Other Funders
- Harnessing the Wisdom of Our Diversity
- Re-orienting to a Culture of Mission-based Investment
- Going Beyond Housing

REDEFINITION OF “NEED FOR SUBSIDY”

Banking operations are predicated on the notion of safety and soundness. This embodies much of what it is to be in banking. However, the current application of the “need for subsidy” concept seems to put project design and programmatic determination of “feasibility” at cross-purposes with each other.

The net result of an overly restrictive interpretation of a project’s “need for subsidy” is that the project is underwritten so tightly it is, in fact, at risk of failure. Reserves may not be sufficient to allow the project owner to weather the storms that will most certainly come with ongoing management of these types of projects.

We believe there are three items that would have a markedly positive impact on projects’ overall feasibility and long term prospects for success.

- Allow **reserves** to be included in project budgets at levels that align with other funders’ requirements. Don’t consider reserves “excess cash” and don’t factor reserves into per unit costs.

- Allow cost of **tenant supportive services** to be an eligible operating budget expense. Review of operating budget should recognize that project must provide enough cash flow to pay for supportive services and that such an operating budget is not to be considered unnecessarily “flush” with cash.

- The use of **deferred development fee** to balance projected budgets should not create a required use from that source or negate the need for AHP subsidy.

- Need for subsidy should be about **long term sustainability**, not just about what it takes to first “open the doors”. Reserves, well-funded support services, and sustainable cash flow should be seen as a means to support long term sustainability rather than an indication of over-subsidization.

ALIGNMENT WITH OTHER FUNDERS

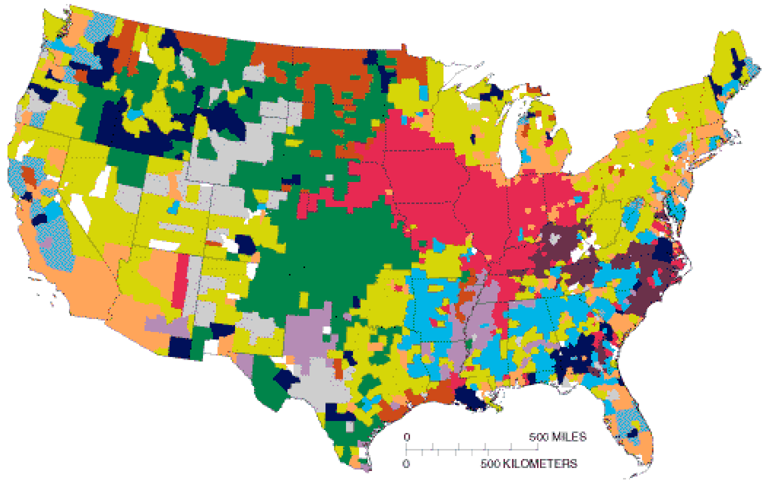
There are very few affordable housing projects done in today's environment with a single source of funding. As such, the need to coordinate between funding programs is an essential part of almost any affordable housing development.

As AHP is typically a small part of a project's overall funding package, it is extremely important that the FHLB's approach to AHP allocation is mindful of this reality. Sponsors cannot produce a successful project if they cannot meet the various requirements of their funding partners, and as we know, AHP typically cannot be the driver of these types of project decisions because it is not typically the largest funding partner.

If we want to ensure that AHP retains its role as the extremely valuable "first money in" or "last money in / gap filler" it has typically been, we need to be intentional in our efforts to align with other funding sources to the greatest extent possible.

- Allow the Bank to **align the AHP feasibility benchmarks** with other affordable housing programs in the district (ex. Architect/engineering, cost per unit, developer fee, reserve requirements)
- Extend calendar requirements related to **timely disbursement of funds** to allow projects adequate time to assemble financing.
    - While we agree that it is important to get money out the door and put to work in a timely fashion, this calendar flexibility is needed because of the realities of the funding environment (i.e., annual funding rounds for many project sources).
- To accomplish better alignment between programs and to reduce redundancy of oversight, **establish a lead agency for monitoring and compliance** per project based on the relative funding interest
    - Once eligibility is determined and an application is approved, a decision about the entity responsible for further compliance monitoring would need to be made.
        - FHLB would serve as lead monitoring entity if AHP represented more than 50% of the total funding in a particular project
        - FHLB would subordinate its monitoring requirements to the designated lead agency if AHP represented less than 50% of project funding
    - HFAs would be considered a safe harbor monitoring lead, with others to be designated by each district's Bank, in consultation with the Advisory Council

HARNESSING THE WISDOM OF OUR DIVERSITY



One of the greatest strengths of the FHLB system is its nationwide reach and its systemic propensity to be responsive to local needs. However, the AHP program's approach to funding affordable housing, has perhaps drifted more toward being nationally-prescribed than regionally-driven.

We know that our nation's affordable housing needs are becoming more complex rather than less. It is this very circumstance that suggests the need to **allow Banks to decide how to invest the resources they have** to best meet the housing and community development needs of their districts.

This change in strategy would not affect the ultimate standard of measure, which is still the statutorily designated reinvestment of 10% of bank profits in furtherance of the system's declared affordable housing mission. It would, however, generate a variety of approaches to addressing affordable housing issues, essentially creating unique paths to a common programmatic outcome.

- **Each District's Approach.** Each bank would present a plan to outline its approach to achieving district-specific affordable housing outcomes (rather than a plan that focuses only on how points are allocated within the prescribed categories)

- **Simplified Scoring Matrix.** Simplifying the prescribed elements of the scoring matrix would facilitate desired variability between <u>and</u> within districts

    - Allow for greater differentiation in how factors are scored with the goal of less prescription in how the scoring apparatus is structured (ex. 100 point max, 5 point per factor minimum)

    - Allow for varied scoring matrices that would facilitate different targeting by district sub-region (geographic groupings) or by project type (rental v owner, urban v rural)

- **A Myriad of Options.** This ability to customize the method of allocation could take many forms:

    - Allow each bank to determine whether they want to have a set-aside program, and what the nature of that program is (ex. Only homeownership? $15,000 max (Hawaii))

    - Allow for use of set-aside dollars to support financial counseling provided by a 3rd party where the measure of "success" is not necessarily a closed first mortgage (i.e., sometimes the right advice for a family is to delay the move to homeownership)

    - Allow AHP funds to be used to make enterprise-level investments, rather than project-specific investments

    - Create mechanisms that would make it practical / workable for districts to consider revolving loan funds as part of their AHP award process

RE-ORIENTING TO A CULTURE OF MISSION-BASED INVESTMENT

Just as much of the work of affordable housing comes not in the construction of the project but in the effective management of each project once it is built, so too the work of AHP administration is not just in the initial award of funds but in the long term monitoring of the projects for program compliance.

To be an effective tool for affordable housing producers, the AHP program should evaluate its perspective on the intensity of regulatory scrutiny relative to the risks associated with the program, and ultimately, to the projects' continued ability to deliver on the affordable housing mission.

Because we believe **AHP is most effective when viewed as an investment in affordable housing as community development, rather than as a traditional commercial real estate transaction**, we are advocating for a **re-orientation of program culture.**

A re-orientation to mission-based investing will allow the program to strike a new balance between monitoring for underwriting and compliance risk, and monitoring for mission outcomes. This in turn will help shape the culture of regulatory interpretation and program compliance monitoring that surrounds AHP.

- **Prorate recapture** of funds as the project's compliance period proceeds.
    - Some version of pro-rated recapture has become the industry norm because it is It is typically not in the best interest of the communities, clients or project sponsors to adhere rigidly to absolute recapture through the last day of project compliance.
- Each Bank should have the **discretion to work with a project owner to restructure** various project characteristics as circumstances change.
    - This recognizes that risk and change are inherent to the nature in affordable housing development, and that sometimes thoughtful project restructuring, done with mission impact in mind, can generate the best result possible.
- Monitoring strategies need to recognize that affordable housing projects of the type funded by AHP are inherently riskier than traditional real estate transactions, which suggests intentional discussions of "**risk appropriate" approaches to compliance monitoring**.
- Refine concept of "reasonable risk based sampling" to **align with the intended mission impact** of the program.
    - Review the Technical Manual that guides AHP examinations to ensure a balance between accepted audit principles and the uniqueness of delivering on the affordable housing mission (ex. standards of materiality)
    - Create opportunities for examiners to develop a deeper understanding of the projects they are monitoring by visiting sites, project sponsors, and/or Advisory Council members
    - Create a mechanism for examiners to seek and receive input from Advisory Councils on areas of focus

To achieve the outcome we seek, do we need to:

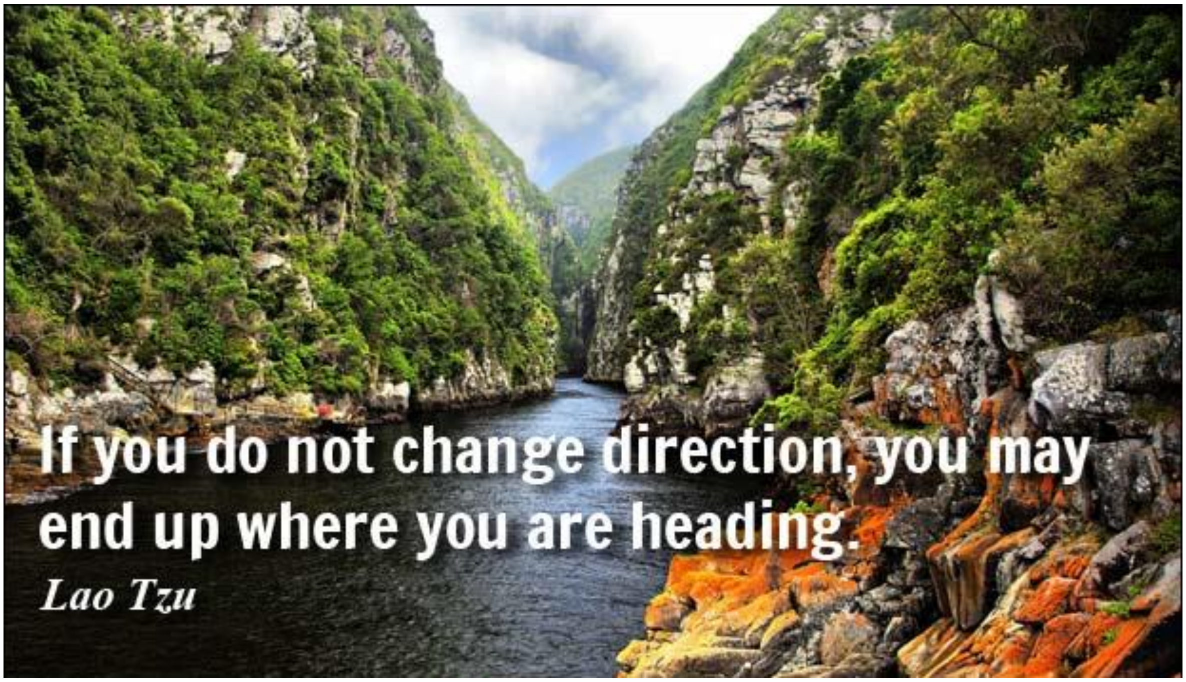
GO BEYOND HOUSING

Because we know, today more than ever, that housing alone is not enough, we may need to broaden our thinking about the type of investments that are necessary for us to achieve the ultimate objective of affordable housing work, which is for families to achieve housing stability, and for neighborhoods and communities to realize healthy housing markets that support community livability.

If we can agree that the intent of our affordable housing goal is to help families and communities succeed, **every Bank should be able to use a portion of its AHP allocation for economic development** because we know that economic opportunity is a critical precursor to successful homeownership and to any family's move from vulnerability to stability.

Economic development is already a Bank goal but, it Is currently considered separately from the Bank's affordable housing goals. Perhaps the time has come to recognize that the intersection of these two goals is essential to the success of either one.

Perhaps, if we want to achieve our housing goals, we will need to broaden our thinking about what kind of investments will get us there.



SUMMARY

The AHP has developed a strong reputation over the last 25 years as being a quality funding program that is administered with integrity and mission in mind. It is one of the most long-standing demonstrations of private industry support for affordable housing as a community development effort.

But the question we find ourselves asking today is, can the program be more? Does AHP need to change in order to stay relevant? In order to have maximum impact?

The consensus of the Advisory Council leadership is an emphatic “yes”. Mission based investments made in keeping with the wisdom that comes from our systemic diversity will make AHP a more impactful force.

December 7, 2016

Mr. Ted Wartell
Office of Housing and Community Investment
Division of Housing, Mission and Goals
Federal Housing Finance Agency
400 7th Street SW
Room 8 -148
Washington, D. C. 20024

Mr. Wartell,

On behalf of the eleven Affordable Housing Advisory Councils (AHACs) Chairs and Vice Chairs, I'd like to express our sincere appreciation to the Federal Housing Finance Agency (Agency or FHFA) for facilitating an extremely productive Annual Leadership meeting. The collaborative format of the meeting, and having the policy options to review in advance, permitted us to engage in a constructive dialog with you, your team and the CIOs. We found that engaging the Agency's panel representing policy, counsel, and supervisory expertise was a unique and stimulating opportunity.

We would also like to acknowledge, with appreciation, that the Agency's proposals to this point have generally aligned with the basic thoughts and principles set forth in our "Opportunities for Change" document presented by the AHAC Chairs and Vice Chairs at the Annual Leadership meeting in 2014. That document is a good outline of our current thinking and recommendations for the modernization project, such as: redefinition of "need for subsidy;" alignment with other funders; adoption of more risk-appropriate approaches to compliance monitoring;, and allowing the individual FHLBanks to decide how to best meet the housing and economic development needs of their districts; — i.e., greater local flexibility.

The major purpose of this letter is to encapsulate our specific views, and what we believe to be a consensus view among all eleven district's Chairs and Vice Chair, on the three policy topics presented by the Agency.

1. With respect to establishing new standards for AHP project selection, we support the concept of allowing FHLBanks to establish one or more pools of AHP funds based on the housing needs in their Districts, as determined by a District-wide housing needs assessment within a housing plan, and according to selection criteria developed by each FHLBank.

2. We support the direction in which the Agency is going on the topic of eliminating redundant monitoring practices. It is important to us that the FHLBanks have the tools and latitude to administer their programs responsibly and prudently, with regulatory authority, recognizing the watchful and reasonable oversight of the FHFA. As an advisory council we collectively bring additional insight as developers and advocates, it is imperative from our standpoint that the AHP be in alignment with other funding sources, not only in matters of monitoring but in other appropriate aspects of the development and underwriting processes.   We all believe that the Banks have proven themselves to be reliable and trustworthy funding partners. We recommend that they have the flexibility to be fully leveraged for maximum efficiency and efficacy, as the statute suggests.

3. With respect to the homeownership set-aside programs, we believe each bank, with their knowledge of the housing markets and needs in their communities, is best

positioned to establish the appropriate amount of the total allocation to be used in the set-aside programs (within the confines of the statute), and to determine when and if retention agreements should be required.

Again, we thank the Agency for sharing with the group more specific information on the scope and direction of the changes it is considering in response to the requests for reform, and for continuing to include the CIOs in the discussion. In our view, while contemplating sweeping changes to the AHP, input is key from the CIOs, who face daily the operational realities of the program, and whose recommendations to you we respect and echo, whether they be aspirational or practical.

We want to see the AHP funding go to the very most efficient use of the resources. For some it may seem counterintuitive that users of AHP actively seek regulatory and operational retooling for a program which, in reality, is greatly oversubscribed. Yet the demand for AHP funds speaks to the desperate need for affordable housing and the resources required to get it done, and may obscure longstanding administrative and policy issues that stand in the way of more effective deployment of the AHP. We appreciate that the FHFA, through its modernization efforts, recognizes this and supports our shared goal of ensuring that the AHP, as a model affordable housing financing program, is nimble and responsive, and assists FHLBank members in their efforts to invest in and grow their communities.

Certainly, one of the enduring legacies of AHP has been its ability to more fully engage the nation's private financial institutions in the mission and business of affordable housing. The same community activism that helped establish CRA was there a decade later to advocate for a program that not only sourced the funds but also brought with those funds lenders as active partners. Anything that impedes that unique notion and its success thus far needs to be remedied. And now, with a new administration and Congress on the horizon, AHP more than ever needs these attributes to fulfill its promise and ensure its relevance.

The need for affordable, safe and sustainable housing is acute in our communities, and its development is extremely challenging. We remain steadfast in our support of the Affordable Housing Program and your efforts to modernize the AHP regulations. Even more so, we remain committed to the people, families and individuals, in need of, and living in, affordable housing. Our modernization advocacy and comments are ultimately for the benefit of the families and communities we serve through AHP.

We appreciate so much your focus to prioritize this thoughtful modernization effort and your commitment to have it ready for comment before the summer of 2017. We strongly urge the Agency to keep to that schedule.

Thank you again on behalf of the eleven district's Chairs and Vice Chair for your consideration and please feel free to call on us for any information or resources we can provide.

Sincerely,

Cleon P. Butterfield, CPA
Chair of the Affordable Housing Advisory Council
Federal Home Loan Bank of Des Moines

CC: Sandra Thompson, FHFA
Sylvia Martinez, FHFA

FHLBank Advisory Council Chairs and Vice Chairs
FHLBank Community Investment Officers

Federal Home Loan Bank of Atlanta

Federal Home Loan Bank of Boston

Federal Home Loan Bank of Chicago

Federal Home Loan Bank of Cincinnati

Federal Home Loan Bank of Dallas

Federal Home Loan Bank of Indianapolis

Federal Home Loan Bank of New York

Federal Home Loan Bank of Pittsburgh

Federal Home Loan Bank of San Francisco

Federal Home Loan Bank of Topeka