



Aug. 15, 2024

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

Dear Director Thompson,

On behalf of the Federal Home Loan Bank of Pittsburgh's (FHLBank Pittsburgh) Affordable Housing Advisory Council (Advisory Council), we thank you for the opportunity to comment on the Federal Housing Finance Agency's (FHFA) Request for Input (RFI) seeking feedback on opportunities to improve FHLBank's Affordable Housing Program (AHP) application process. The RFI is an important step in making AHP a more efficient and effective resource to help address the nation's affordable housing needs.

We welcome this RFI and recommend that FHFA expands AHP reforms beyond the application process to include streamlining the post-award requirements (long-term compliance). Addressing both issues is necessary to make AHP even more impactful.

Importance of Advisory Council's Perspective

The 11 Advisory Councils are in a unique position to provide insights. We understand the important role FHLBanks serve; this includes enabling increased credit at reduced prices to flow through member financial institutions to communities, as well as supporting affordable housing and community development. FHFA's annual Advisory Council leadership meetings recognize the invaluable role played by the 165 members of the FHLBank System's Advisory Councils. We thank you for your consideration of our voice in the RFI process as we strive to address the housing needs of individuals and families in our district and throughout the country.

Our Advisory Council is a diverse blend of experienced leaders in affordable housing and community development representing Delaware, Pennsylvania, and West Virginia. We work in densely built urban areas like Charleston, West Virginia; Philadelphia and Pittsburgh, Pennsylvania; and Wilmington, Delaware; and in rural towns in Cambria County, Pennsylvania; Fairmont, West Virginia, and Warren, Pennsylvania. Our technical expertise spans affordable housing development, housing authorities, service to extremely low-income households, persons who are homeless, vulnerable populations, community development and small businesses. In addition, several of our Advisory Council members have sponsored multiple AHP applications.

Through our collective experience and the cooperative relationship with FHLBank Pittsburgh's Board of Directors (Board) and management, we have a solid understanding of how AHP works and how it fits into the affordable housing finance system. Pittsburgh's Advisory Council is fully engaged in helping shape affordable housing policy at the FHLBank. For example, in addition to our regular meetings, we have formed task forces to guide AHP and other products. Our unique governance structure – Advisory Council, Board and management working together – enables us to understand the affordable housing needs in our three-state district and create policies that direct our AHP dollars to meet those needs.

Need for Streamlining AHP

AHP's challenges were raised during the *FHLBank System at 100: Focus on the Future* listening sessions, but they are not new. For over a decade, there has been a persistent and growing demand from AHP sponsors and member financial institutions for streamlining the AHP process to enhance its accessibility and efficiency. During the most recent AHP regulation revision process, we and many others, shared concerns with FHFA about the increasing complexity of AHP and its misalignment in some respects with the nation's affordable housing finance system.

The complexities have been built into AHP over many years. They are the result of incremental changes - regulatory revisions, Advisory Bulletins, regulatory guidance, examination findings, and FHLBank actions, all of which have had a compounding effect. Because this compounding occurred over AHP's 35 years, oftentimes AHP sponsors share their frustration and difficulty in using AHP in general but may not be able to pinpoint a specific change(s) that is needed. They don't know where to start. This is the input we know about. Our biggest concern, however, are the voices we don't hear. Those are organizations, often smaller nonprofits, who have opted to forgo applying for AHP because of its administrative burden.

AHP Streamlining Recommendations

We have provided responses to the RFI's specific questions in an attachment. We, however, wish to underscore a fundamental theme: achieving meaningful impact and simplification necessitates a comprehensive overhaul of AHP, rooted in its original statute. While incremental changes offer benefits, a true reboot grounded in the statute will yield the most significant and lasting improvements.

- *Change and simplify the application structure and allocation process.*

We recommend a new structure to allocate and prioritize AHP. The statute requires only three AHP priorities, yet the regulation adds multiple additional categories and establishes a General Fund that is a one-size fits all structure. Recently added Targeted Funds provide some flexibility to tailor AHP to meet an FHLBank's district needs, but this structure introduces administrative and market challenges. A new structure that allows FHLBanks to design their own scoring methodology and allocate funding to specific priorities by project types in a funding round would have enormous benefits, both in terms of streamlining and meeting district needs.

To illustrate, FHLBank Pittsburgh has successfully implemented a new structure under our voluntary housing grant (VHG) initiative launched in 2022. Using the same application submission process as AHP, VHG selections are made after AHP funds are exhausted. Each year, with input from the Advisory Council, our Board establishes VHG selection priorities. Thus far, VHG allocations have been limited to in-district projects and minimum awards per in-district states. Under VHG, priority targeting could go further. For example, minimums by project types could be established like serving rural areas, Native American populations, minority populations, persons experiencing homelessness, small rental projects, etc. If this structure existed under AHP General Fund (competitive program), funds could be directed to district priorities via allocation pools within a single funding cycle much better than the current universal scoring-based rubric required by the regulation.

This simplification, creating pools of funds within an AHP funding cycle, would allow FHLBanks to ensure support for priority needs within their districts. Using allocation pools, FHLBanks would be certain to award AHP to the district's priority needs as opposed to using a scoring methodology with the hopes of achieving certain outcomes. FHFA has already taken a step in this direction by checking that each state received AHP funding. Selection criteria within the pools would be needed, but the criteria could be targeted to the types of pools created.

- *Coordinate AHP with other funding sources to the maximum extent possible.*

The AHP statute directs FHFA to “coordinate activities under this subsection with other Federal or federally subsidized affordable housing activities to the maximum extent possible.” Adopting this as AHP’s philosophy, would have a profound streamlining effect without expanding risks. Housing sponsors/developers would embrace this change. They manage multiple layers of capital and operating financing that take years to assemble. Developers must blend AHP into the total financial package while dealing with the complexities of real estate development. For developers to deliver much-needed affordable housing, the affordable finance system should strive to be as streamlined, transparent and operationally efficient as possible.

The current AHP philosophy requires that FHLBanks independently underwrite all aspects of an AHP transaction regardless of AHP’s percentage participation, and without consideration of the risk in the deal. Consequently, developers must repackage financial and other information that has already met other funders’ criteria to also meet AHP’s underwriting requirements. FHLBanks then must analyze the proposed project using its underwriting filters. This is unnecessary and duplicative. Instilling a philosophy coordinating with other funding sources to the maximum extent possible would enable all developers, large and small, to participate more fully without sacrificing the quality or integrity of AHP.

Allowing AHP underwriting to rely on evaluations completed by federal agencies, state housing finance agencies or other funding sources would eliminate redundancies, thus simplifying the AHP application process. Leaning into a new philosophy that fully aligns with the statute to maximize coordination with other funders can expand to other aspects of AHP, thus simplifying not just the application, but also carry through the entire AHP compliance period.

- *Engage stakeholders to make meaningful change.*

As noted earlier, we believe to achieve meaningful impact and simplification, AHP should be rebuilt from its roots, the AHP statute. Certainly, incremental changes can help, but a reboot grounded by the statute will have the most significant impact. We recommend engaging stakeholders to make meaningful change. If a new application and prioritization structure, and new philosophy are embraced by FHFA, we recommend forming a working group of subject matter experts – practitioners, Advisory Councils, members, and FHLBanks – to flesh out a framework for implementation. This will take time but is important work and is attainable.

AHP has been, and will continue to be, a valuable funding source for affordable housing. We commend FHFA for engaging in a process to streamline AHP to align better with the affordable housing finance system, enhance AHP’s support for vulnerable populations, and enable greater access for all affordable housing stakeholders. Thank you for listening to our ideas on this very important subject.

Sincerely,



Jordan Casey
Chair, Affordable Housing Advisory Council
Director, The Foundation for Delaware County



Tonya Mitchell-Weston
Vice Chair, Affordable Housing Advisory Council
President and CEO, Housing Authority of the
County of Warren

2024 FHLBank Pittsburgh's Affordable Housing Advisory Council

Name	Title	Organization
Matthew Barczak	Executive Director	Northern Cambria Community Development Corporation
Carrie Sawyer Casey	Division Manager	New Castle County
Jordan A. Casey	Director	The Foundation for Delaware County
Christal M. Crouso	Executive Director	The Fairmont-Morgantown Housing Authority
Jerrel T. Gilliam	Executive Director	Light of Life Rescue Mission
Kelly Hunt	District Director	US Small Business Administration
Sarah Lester	President and CEO	Cornerstone West CDC
Nora Lichtash	Executive Director	Women's Community Revitalization Project
Tonya Mitchell-Weston	President and CEO	Housing Authority of the County of Warren
Laura Northup	Principal	M&L Associates (Mullin & Lonergan Associates)
Nilda Ruiz	President and CEO	Asociacion Puertorriquenos En Marcha, Inc.
Susan Salisbury	Vice President Community Development	Charleston Area Alliance
Francis Vargas	Vice President	Elon Affordable Housing, LLC
Christine Marie Verdier	Board Member	Tamaqua Area Community Partnership
Karen L. Welsh	President	UpStreet Architects, Inc.

Pittsburgh Advisory Council – Responses to Input Questions

Question 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?

Pittsburgh's AHAC response:

- *Change and simplify the application and allocation process.*
 - Limit the required scoring categories to what is in the statute and allow FHLBanks to determine scoring based on district need.
 - Permit the FHLBanks to allocate a percentage of awards or funding within the General Fund round to address certain priority activities.
 - We recommend a new structure to allocate and prioritize AHP. The statute requires only three AHP priorities, yet the regulation adds multiple additional categories and establishes a General Fund that is a one-size fits all structure. Recently added Targeted Funds provide some flexibility to tailor AHP to meet an FHLBank's district needs, but this structure introduces administrative and market challenges. A new structure allowing FHLBanks to design their own scoring methodology and allocate funding to specific priorities by project types in a funding round would have enormous benefits both in terms of streamlining and meeting district needs.
 - To illustrate, FHLBank Pittsburgh has successfully implemented a new structure under our voluntary housing grant (VHG) initiative launched in 2022. Using the same application submission process as AHP, VHG selections are made after AHP funds are exhausted. Each year, with input from the Advisory Council, our Board establishes VHG selection priorities. Thus far, VHG allocations have been limited to in-district projects and minimum awards per in-district states. Under VHG, priority targeting could go further. For example, minimums by project types could be established like serving rural areas, Native American populations, persons experiencing homelessness, small rental projects, etc. If this structure existed under AHP General Fund (competitive program), funds could be directed to district priorities via allocation pools within a single funding cycle much better than the current universal scoring-based rubric required by the regulation.
 - This simplification, creating pools of funds within an AHP funding cycle, would allow FHLBanks to ensure support for priority needs within their districts. Using allocation pools, FHLBanks would be certain to award AHP to the district's priority needs as opposed to using a scoring methodology with the hopes of achieving certain outcomes. FHFA has already taken a step in this direction by focusing on making sure AHP awards are made in each state. Selection criteria within the pools would be needed, but the criteria could be targeted to the types of pools created.
 - Permit sponsors to provide certifications for compliance with scoring components to receive conditional approval, and FHLBanks follow-up for supporting documentation, as needed.
 - Coordinate AHP with other funding sources to the maximum extent possible.
 - Minimize underwriting as much as possible; rely on other funders' determinations, and permit other funders to certify their approval, satisfying AHP.
 - Permit FHLBanks to accept information provided to, and utilized by, other funders.
 - The "need for subsidy" and "project costs" do not specifically allow for the maximization of coordination with other funding sources. Requiring an FHLBank to independently underwrite a project's need for subsidy and viability is oftentimes redundant and increases the burden on sponsors, especially in cases where other funding sources have already underwritten the project. We recommend allowing FHLBanks to rely on the underwriting of other funders with comparable

standards in terms of cost reasonableness, viability of operations, market demand, development team capacity and need for subsidy.

- Additional input
 - o Limit need for subsidy to a project's sources and uses, and for rental projects limit the operating pro forma review.
 - o Revise the regulations to recognize that aspects of the property development may change from the time of application to completion of the property due to economic or other factors. Requiring that developers attempt to cure any scoring category changes prior to requesting a modification is burdensome, especially when AHP is a small part of the development budget, and other funders allow a change.
 - o Recognize resident or social services as allowable operating expenses, rather than excluding those expenses from AHP operating pro forma financials.
 - o Specifically provide for pro-rata forgiveness on rental projects commensurate with the remaining retention period - requiring full repayment when a project has met its AHP commitments for a portion of the retention period is unfair and creates an unreasonable financial burden for project sponsors.

Question 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?

Pittsburgh's Advisory Council response:

- AHP doesn't leverage other funders' applications or requirements.
- The AHP statute directs FHFA to "coordinate activities under this subsection with other Federal or federally subsidized affordable housing activities to the maximum extent possible." Adopting this as AHP's philosophy, would have a profound streamlining effect without expanding risks. Housing sponsors/developers would embrace this change. They manage multiple layers of capital and operating financing that take years to assemble. Developers must blend AHP into the total financial package while dealing with the complexities of real estate development. For developers to deliver much-needed affordable housing, the affordable finance system should strive to be as streamlined, transparent and operationally efficient as possible.
- The current AHP philosophy requires that FHLBanks independently underwrite all aspects of an AHP transaction regardless of AHP's percentage participation and without consideration of the risk in the deal. Consequently, developers must repackage financial and other information that has already met other funders' criteria to also meet AHP's underwriting requirements. FHLBanks then must analyze the proposed project using its underwriting filters. This is unnecessary and duplicative. Instilling a philosophy coordinating with other funding sources to the maximum extent possible would enable all developers, large and small, to participate more fully without sacrificing quality or the integrity of AHP.
- Allowing AHP underwriting to rely on evaluations completed by federal agencies, state housing finance agencies or other funding sources would eliminate redundancies, thus simplifying the AHP application process. Leaning into a new philosophy that fully aligns with the statute to maximize coordination with other funders can expand to other aspects of AHP thus simplifying not only the application, but also carry through the entire AHP compliance period.

Question 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?

Pittsburgh's Advisory Council response:

FHLBanks cannot efficiently leverage the applications and/or requirements of other funders. We reiterate our belief that AHP regulations need to reflect a change in philosophy as noted in response #2.

Question 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?

Pittsburgh's Advisory Council response:

Yes. The percentage of AHP in a project should be a factor in determining a project's compliance risk. Other factors may include development team experience and complexity of the project. Allowing differentiation for projects in which the AHP subsidy constitutes a smaller percentage of the total funding would more effectively integrate AHP into the affordable housing finance system.

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?

Pittsburgh's Advisory Council response:

Sponsors may have limited resources and be unable to devote the time necessary to develop expertise in working through AHP Implementation Plans. It can be more efficient for sponsors to rely on consultants who have worked with AHP on numerous projects through multiple phases and have developed expertise as a result. Both sponsors and consultants, however, would benefit from an integrated and simplified AHP regulatory framework.

Question 6

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

Pittsburgh's Advisory Council response:

Yes. Relying on other funders' conclusions about a project's readiness, capacity, market/demand, and financial viability. To support the reliance on other funders, documentation can either be provided through the sponsor or received directly from the funder by the FHLBank.

In addition, we recommend eliminating the exclusion of supportive services from the operating pro forma to align with other funders.

Question 7

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

Pittsburgh's Advisory Council response:

We believe that there are two changes as noted throughout our response:

- Change and simplify the application and allocation process.
- Coordinate AHP with other funding sources to the maximum extent possible.

Question 8

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

Pittsburgh's Advisory Council response:

As noted earlier, we believe to achieve meaningful impact and simplification, AHP should be rebuilt from its roots, the AHP statute. Certainly, incremental changes can help, but a reboot grounded by the statute will have the most significant impact. We recommend engaging stakeholders to make meaningful change. If a new application and prioritization structure, and new philosophy are embraced by FHFA, we recommend forming a working group of subject matter experts – practitioners, Advisory Councils, members, and FHLBanks – to flesh out a framework for implementation. This will take time but is important work and is attainable.