

August 19, 2024

Federal Housing Finance Agency
Division of Bank Regulation
400 7th Street, S.W.
Washington D.C. 20219

**RE: Public Comment on the Request for Input: Federal Home Loan Bank Affordable Housing Program
Competitive Application Process**

On behalf of IFF, one of the largest diversified Community Development Financial Institutions (CDFIs) investing in communities throughout ten Midwestern states, we appreciate the opportunity to comment on the Federal Housing Finance Agency (FHFA)'s Request for Information (RFI) regarding the Affordable Housing Competitive Application Process.

In 2010, CDFIs were permitted to become members of the Federal Home Loan Bank (FHLBank) System for the first time, offering organizations like IFF a critical new source of capital to deploy to support the development of quality affordable housing. That capital comes in the form of "advances" that function as flexible loans, and through the FHFA's Affordable Housing Program (AHP), which enables member institutions to apply for grants annually that are passed through to affordable housing developers to subsidize the cost of their projects. While housing affordability has long been a challenge in many markets, consumers are now facing higher costs to own or rent homes throughout the country. Amidst this housing crisis, AHP has become the key tool for the FHLBank System to unlock capital for communities in service of affordable housing and community development.

The release of the FHFA's *FHLBank System at 100: Focusing on the Future* report last year made clear that while the FHLBanks have done an admirable job of providing liquidity to its members – only half of its dual mission – their role in addressing affordable housing and community development must be expanded. Mission-driven CDFIs like ours that are deeply committed to building thriving and more equitable communities are natural and supportive partners for FHLBanks to better fulfill this dual mission.

IFF, as a leading member of the CDFI-FHLB Working Group – a collaborative of over 30 CDFIs that are active members of the FHLBank System – has long believed that the FHLBanks, by limiting most of their affordable housing efforts to AHP, are not leveraging the unique strengths of CDFI members to address community challenges across a broad range of needs.

The FHLBanks have awarded approximately \$8 billion in AHP subsidies since 1990 to assist in the purchase, construction, and rehabilitation of over 1 million housing units. As a member of the FHLBank of Chicago, IFF has taken full advantage of AHP by sponsoring 58 grant applications since 2011 that have resulted in more than \$33.5 million in funding for developers in the Midwest. Combined, the projects supported with IFF-sponsored AHP funds have created or preserved 2,760 affordable housing units – helping to reduce the gap between the supply of affordable housing and existing demand in the Midwest.

AHP grant awards are capped at \$1 million per project, with the subsidy helping to bridge gaps in complex capital stacks that are constructed to ensure that housing projects can be completed while maintaining affordable rent levels for residents unable to pay market rate. This gap funding is especially important because not all projects



have the capacity to take on permanent debt due to the way the project cash flows. For smaller, nonprofit developers, in particular, AHP funds offer an attractive solution to fill budget gaps and enable projects to proceed that might not otherwise be possible. So, too, is AHP a valuable resource when tax credits are being used to finance the development of affordable housing, which places additional pressure on developers to close financing on projects within set timeframes to avoid losing the tax credits.

AHP regulation leaves program approval and governance authorities with the individual FHLBanks, which is intended to allow each FHLBank to determine how to best address the affordable housing needs within its respective district. Regulation also requires a linkage between each FHLBank's annual Targeted Community Lending Plan (TCLP) and its AHP Implementation Plan. IFF recently signed onto an RFI response on behalf of the CDFI-FHLB Working Group encouraging the System's Mission and Metrics framework to also tie back to the TCLP and the AHP Implementation Plan. We believe that measures of accountability to mission and implementation must be designed to incentivize each FHLBank to continuously innovate new ways to meet the need for affordable housing in their districts through a wide breath of their activities, not only their AHP initiatives.

With that said, AHP remains the primary way the FHLBank System supports affordable housing in partnership with member institutions, community organizations, developers, public housing authorities, and tribal governments. IFF will continue working in partnership with the FHLBank of Chicago to sponsor grant applications in service of affordable housing and is deeply supportive of FHFA's efforts to streamline and improve the AHP application requirements and process.

Our responses to the public input questions are as follows:

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?

One way to increase efficiency would be to provide more transparency around dates and deadlines ahead of time. Each year near the end of April, IFF receives a total subsidy amount and a maximum award cap from the FHLBank of Chicago for AHP sponsored grants, based on a per unit calculation. The application round then opens in May and closes in June. This results in a very fast turnaround between when we and other members learn of our total subsidy amount, and when the applications open. If we must turn away an applicant due to reaching our subsidy limit, that client only has about two weeks to shop around for another member bank with unallocated subsidy available. IFF acknowledges the effort that goes into calculating and distributing the subsidy and award cap information to each member and the consequential constraints on escalating these timelines. But any additional transparency around these deadlines and the subsidy amounts will enable IFF and other members guide clients towards successful applications in service of increasing FHLBank System investment in affordable housing throughout our communities.

IFF appreciates that the document collection burden on clients has improved significantly in recent years. There is less overlap between AHP document requirements and other federal funding applications, particularly the Low-Income Housing Tax Credit (LIHTC) program. The transition to an online application system has also improved the user experience, although our clients have reported issues with the third-

party authenticator system. While security is paramount to implementing a successful program, our clients' frequent use of outside consultants can create confusion around third-party authentication ownership year over year.

We must also note that increasing the total amount of FHLBank investment in AHP and alternative investments to CDFIs will also alleviate this urgency for clients. While housing affordability remains an urgent challenge throughout our country, there will always be more demand for more FHLBank support in service of its dual mission.

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?

We have no comments on the scope, complexity, and documentation requirements of the AHP application compared to other providers of gap funding.

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?

IFF has generally found the AHP application processes fair and not duplicative of other underwriting efforts. However, we note that one small nonprofit client was forced to fund an appraisal and market study earlier than they otherwise would have because of the AHP application requirements, which caused financial and logistical stress for that client.

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?

We have no comments on differentiating 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?

In our experience, applicants frequently rely on AHP application consultants because the process has a negative reputation for its complexity. This reputation is not entirely fair, in our opinion. Our clients have mostly struggled with the online application technology, particularly the third-party authenticator. The FHLBanks could provide more technical assistance and support throughout the process to reduce the reliance on consultants.

Question 6

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

IFF acknowledges the complexity in coordinating the underwriting review process across multiple state agencies, particularly for LIHTC since each state within a FHLBank district has a different agency. However, since applications receive such a significant scoring boost from already having LIHTC credits awarded, almost all applicant projects have already gone through the rigorous LIHTC underwriting process with their respective state agency. There is a huge opportunity to create efficiencies between the AHP application underwriting review process and the state LIHTC agencies.

Question 7

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

As mentioned under Question 1, providing more transparency around subsidy amounts and timelines would give clients who we can't sponsor more time to find another member bank to sponsor their applications.

Question 8

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

We recommend providing more technical assistance and support for applicants, particularly around online technology and third-party authentication to reduce the overall burden and reliance on application consultants. We also recommend coordinating the AHP underwriting process with state LIHTC agencies.

Again, thank you for the opportunity to provide comments on the AHP application process. If you have any questions, do not hesitate to contact me at jneri@iff.org.

Sincerely,

A handwritten signature in black ink, appearing to read 'Joe Neri', with a horizontal line extending to the right.

Joe Neri
Chief Executive Officer