



August 19, 2024

The Honorable Sandra Thompson
Director, Federal Housing Finance Agency
400 Seventh Street SW
Washington D.C. 20219

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

Dear Director Thompson:

The National Council of State Housing Agencies (NCSHA)¹, on behalf of the nation's state housing finance agencies (HFAs), thanks you for the opportunity to submit comments for the Federal Housing Finance Agency's (FHFA) June 20 Request for Input on potential changes to the application process for the Federal Home Loan Banks' (FHLBs) Affordable Housing Programs (AHP).

NCSHA thanks FHFA for its continuing efforts to review and update the FHLB System to ensure the Banks maintain their valuable place in our nation's housing finance system for years to come. We especially appreciate FHFA's focus on how the FHLBs can further support affordable housing and community development. This includes encouraging the FHLBs to increase contributions to their Affordable Housing Programs (AHP), considering regulatory changes to AHP, urging the FHLBs to develop "mission-oriented" collateral programs, fostering the development of FHLB pilot programs, and hosting a listening session with the FHLBs and community development financial institutions.

The RFI builds on these efforts. The AHPs serve as a reliable source of funding for affordable housing, helping to finance homeownership opportunities for low- or moderate-income households and the development and rehabilitation of affordable multifamily housing. From 1990 through 2023, the FHLBs used nearly \$8 billion in AHP financing to subsidize the development of 1 million affordable housing units. A strong majority of these AHP-financed housing units have been affordable to very low-income households.

¹ NCSHA is a nonprofit, nonpartisan organization. None of NCSHA's activities related to federal legislation or regulation are funded by organizations that are prohibited by law from engaging in lobbying or related activities.

However, as important as AHP is, its overly rigid structure has made it difficult for HFAs to utilize AHP funds in conjunction with the federal and state programs they administer. This can diminish AHP's impact by making it harder to combine it with other funding sources.

Better Alignment Between AHP and Other Funding Sources

One notable example is the Low-Income Housing Tax Credit (Housing Credit), which state HFAs administer in nearly all states. The Housing Credit is by far the biggest source of funding for affordable rental housing. Since its establishment in 1986, the Housing Credit has financed more than 3.6 million apartments for low-income households, adding more than 120,000 units to the inventory each year.

As our nation's affordable housing shortage worsens, the Housing Credit is more important than ever. At the same time, construction costs and surging interest rates have exacerbated the need for affordable sources of gap financing. An NCSHA-commissioned report released September 2022 found that affordable developments have experienced unexpected cost increases averaging 30 percent, or much more in some cases, resulting in funding gaps ranging from \$145,000 to \$5.7 million. Many costs, including insurance and land, have increased significantly more since then.

AHP has and will continue to serve as a critical source of gap financing for Housing Credit developments. However, in our conversations with HFAs, they mention several features of the AHP program that make it difficult to utilize AHP with Housing Credit projects. These include application cycles that do not align with the Housing Credit award cycles; stringent underwriting and income targeting standards; and low award limits that do not meet project needs. In 2022, only 7 percent of Housing Credit projects received AHP funds (though the percentage was notably larger in some states).

In addition to the Housing Credit, there are many other critical federal housing programs administered by state HFAs, including tax-exempt private activity Housing Bonds, the HOME Investment Partnerships program, Project-Based Rental Assistance, HUD's Section 202 Supportive Housing for the Elderly Program, Section 811 Supportive Housing for Persons with Disabilities Program, and the United States Department of Agriculture's (USDA) Section 515 Rural Multifamily Program. HFAs also administer a number of state housing programs as well.

A Bank-by-Bank Approach

Adjustments to the AHP application process and requirements to allow stakeholders to better combine AHP funding with other federal and state housing programs will maximize

the impact of the AHP program and, ultimately, expand housing opportunities for more households.

However, this issue does not lend itself to top-down solutions. As FHFA knows, each FHLB structures its AHP application process to reflect the needs of its members and jurisdictions. Further, each HFA sets its own application cycles for awarding Housing Credits and other funding sources. Consequently, any specific policy directive from FHFA would likely prove burdensome to the FHLBs and applicants and would be unable to address the issue.

To be truly impactful, each FHLB will have to make whatever modifications to their AHP application process best fit the needs of their members and constituencies, including HFAs and other Housing Associate members. Consequently, rather than suggest specific changes, NCSHA asks that FHFA direct the FHLBs to seek input from HFAs and other government agencies on how their AHP application processes could be changed to allow AHP funding to be leveraged more effectively with other affordable housing programs. The FHLBs could also be required to report on the input they receive and how they incorporate it into any changes they make.

Thank you for your consideration of our comments. Please do not hesitate to contact me if we can provide additional information.

Sincerely,

A handwritten signature in black ink, appearing to read "Garth Rieman". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Garth Rieman
Director of Housing Advocacy and Strategic Initiatives