



Housing Alliance  
of Pennsylvania

August 19, 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 Housing Alliance of Pennsylvania, 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.

This RFI is a welcome opportunity to not only improve the AHP application process, but hopefully streamline the post-award requirements (long-term compliance). Addressing both issues is necessary to make AHP even more impactful than it already is.

#### Importance of The Housing Alliance of Pennsylvania's Perspective

The Housing Alliance of Pennsylvania advocates for policies and programs that improve access to safe, affordable housing and tenant protections. We promote common-sense solutions to balance the Commonwealth's housing market.

Many of our members and partner organizations have a first-hand perspective on the AHP application process. In addition to those who have expressed concerns over the application process and post-award requirements, we feel that we can speak for smaller nonprofits who have opted to forgo applying for AHP because of its administrative burden.

#### Need for Streamlining AHP

Complexities have incrementally been incorporated into the AHP over its 35-year history, greatly increasing its administrative burden. These incremental changes include regulatory revisions, Advisory Bulletins, regulator guidance, examination findings, and FHLBank actions, all of which have a compounding effect. Our recommendations convey the shared concerns of AHP sponsors in using AHP and those who do not apply due to considerable administrative challenges.

#### AHP Streamlining Recommendations

The Housing Alliance has provided responses to the RFI's specific questions in an attachment but want to emphasize an overarching theme in our response: 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.

- *Change the application structure and allocation process.*

The Housing Alliance recommends 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 a 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 benefit both in terms of streamlining and meeting district needs.

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 the 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. The 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.

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

The AHP statute directs the 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 FHLBanks to 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 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 the FHFA, we recommend forming a working group of subject matter experts – practitioners, FHLBank Affordable Housing Advisory Councils (AHAC), FHLBank members, and FHLBanks - be formed 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 the 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 considering our ideas on this very important subject.

Sincerely,

Phyllis Chamberlain  
Executive Director, Housing Alliance of PA



## 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?**

- Change 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 a 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 benefit both in terms of streamlining and meeting district needs. 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 the 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. The 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 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
  - Limit need for subsidy to a project's sources and uses, and for rental projects limit the operating pro forma review.

- 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.
- Recognize resident or social services as allowable operating expenses, rather than excluding those expenses from AHP operating pro forma financials.
- 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?**

- AHP doesn't leverage other funders' application or requirements.
- The AHP statute directs the 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 FHLBanks to 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 just 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?**

The FHLBanks cannot efficiently leverage the applications and/or requirements of other funders. We reiterate our belief that the 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?**

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?**

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. However, both sponsors and consultants would benefit from an integrated and simplified AHP regulatory framework.

**Question 6**

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

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?**

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

- Change 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?**

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 the FHFA, we recommend forming a working group of subject matter experts – practitioners, FHLBank AHACs, members, and FHLBanks - be formed to flesh out a framework for implementation. This will take time but is important work and is attainable.