June 9, 2008

Federal Housing Finance Board
1625 Eye Street, NW
Washington, DC, 20006

Attention: Public comments
Comments@fhfb.gov
Fax: 202.408.2580

Subject: Federal Housing Finance Board. Proposed Rule: Affordable Housing Program Amendments. RIN Number 3069-AB35. Docket Number 2008-2009

Dear Sir or Madam;
The Corporation for Enterprise Development (CFED) writes to oppose the Proposed Rule published by the Federal Housing Finance Board (FHFB) on Wednesday, April 16, 2008.

While CFED applauds the Board and the Federal Home Loan Banks' (FHLBanks) interest in preventing foreclosures of homes owned and occupied by low-income families and financed by member banks, we do oppose using the homeownership set aside of the Affordable Housing Program for this use.

This proposal rewards members for making nontraditional loans with substantial interest rate risks at the expense of low and moderate income homeowners. Member financial institutions that have made subprime or exotic loans with large interest rate increases are able to restructure loans on their own without AHP funds.

The FHLBanks have many sources of funds that should be used before tapping into a reliable source of homeownership already acknowledged as an integral part of the pipeline for affordable homeownership.
Our concerns are as follows:

1. **AHP is a critical resource for new homeownership for low and moderate income households and should not be reallocated.**

Current AHP regulation permits each FHLBank to set-aside up to 35% of its annual required AHP contribution to establish homeownership programs for low- or moderate income households. This percentage is a ceiling, not a floor. This is a higher level than previous years. Each FHLBank can set its own allocation below the 35% ceiling. To date, the AHP homeownership set aside has resulted in $297 million to assist 67,103 primarily first-time home owners with purchase costs.

AHP is one of the few reliable and private sources of downpayment funds, which are critical to community development corporations, housing counseling agencies, city governments, and other agencies helping low- and moderate-income families achieve and sustain homeownership. Without it, nearly 10 thousand homeowners per year may not be able to purchase homes. Many homeownership assistance programs require numerous sources of subsidies, including local down payment loans and grants, Individual Development Accounts, individual savings, and private financing. AHP funds are critical to the ability to leverage these other sources.

The proposed rule permits reallocation of AHP through June 30, 2011, effectively diminishing this resource for new, first-time low-income homeowners. The press release notes that a family assisted by the proposed refinancing provision could receive up to $10,000. This amount is more than double the usual down payment assistance amount that a family receives through AHP. At a time when it is more difficult to secure mortgages for low-income people and with limited housing resources, this proposal further harms those families.

2. **The FHFB and FHLBanks have other resources for mortgage refinancing that should be utilized first.**

The FHLBanks have tremendous resources to meet the refinancing needs of their members. We question whether the Banks have already provided any financing to individual homeowners at risk of foreclosure and what they have done to assist hard hit communities. The Rule states (on page 20553) that “a number of the Banks have instituted special Community Investment Program (CIP) advances to provide member banks and thrifts with lower-cost funds to refinance households.” However, the Rule goes on to note that few members have actually used CIP for mortgage refinancing. The Rule does not delineate the options FHLBanks have to assist member financial institutions with delinquent loans. The rule does not detail any actions FHLBanks have taken, such as through Community Investment Cash Advances, loan guarantee programs, or other programs or financing. The San Francisco Bank request notes that the San Francisco FHLBank plans to provide a two-to-one match of AHP funds, which means that for every dollar in AHP funds reallocated, the member financial institution would provide two dollars of other sources. The financial institution can provide these resources without reallocating AHP.

In addition, there seems to be little analysis of what types of home owners would receive assistance. Are these mortgages held in hard hit communities or anywhere where a bank might have a problem with a potential non-performing loan due to the financial institution’s own lending criteria? It appears that none of these homeowners facing delinquency due to rate fluctuations actually benefitted from AHP funds for downpayment. The rule notes the need for stabilization in communities with many foreclosures but does not restrict assistance to these communities.

In conclusion, the AHP is a critical resource for low-income families and the community development corporations and other housing providers that serve them. A three-year moratorium or limitation of AHP downpayment funds would be damaging to families, the organizations, and the communities.

This proposal appears self-serving as it subsidizes poor lending decisions made by financial institutions. It seems blatantly unfair to reallocate resources dedicated to low-income families wanting to buy a home in order to help other low-income families who have received exotic mortgages they cannot afford. The FHLBanks and their member institutions have an incredible amount of resources to aid families facing foreclosure, it is unfortunate that the first resource the Finance Board encourages them to use is the AHP, "the crown jewel of the System."

Finally, we would note that the 60 day comment period is 30 days shorter than the typical AHP request for comments. If the Finance Board wanted to encourage options other than reallocating AHP to aid families in need of foreclosure, another rule with adequate time should be promulgated.

Sincerely,

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