



June 13, 2008

Federal Housing Finance Board  
Attention: Public Comments  
1625 Eye Street N.W.  
Washington, D.C. 20006

VIA E-MAIL: [Comments@fhfb.gov](mailto:Comments@fhfb.gov)

Re: Comments on Proposed Rule  
Affordable Housing Program Amendments (73 Fed. Reg. 20552) (April 16, 2008)  
RIN Number 3069-AB35. Docket Number 2008-09

Greetings:

The Federal Home Loan Bank of San Francisco (“the Bank”) appreciates the opportunity to comment on the Federal Housing Finance Board (“Finance Board”) proposal to amend its Affordable Housing Program (“AHP”) regulations (“Proposed Rule”). The Bank firmly supports the proposed regulatory amendments. The Bank believes they are based on important policy objectives and effectively commit to regulation the elements of the Finance Board’s January 15, 2008, Resolution Number 2008-01. That Resolution waived certain AHP regulatory provisions to enable the Bank to implement its Homeownership Preservation Subsidy (“HPS”) pilot program. The Bank acknowledges the efforts of the Finance Board to allow the Bank to continue the program beyond a pilot stage and to grant other Federal Home Loan Banks (“FHLBanks”) the opportunity to implement similar programs.

While we generally agree with the Proposed Rule, we offer the following comments, which primarily seek to respond to the questions in the Proposed Rule.

### **Maximize Program Flexibility**

The Bank believes that the final rule should give the FHLBanks flexibility in tailoring their programs to address the specific market conditions in the district each serves. Median home prices, for example, vary dramatically throughout the country and even within the districts of some FHLBanks. In addition, the effects of subprime and nontraditional mortgages in each district can differ in magnitude, timing, and cause. For these reasons, we believe the final rule should:

- Not impose a regulatory limit on the maximum amount of the refinanced or restructured loan. Instead, each FHLBank could, but should not be required to, establish its own program limits (after consultation with its Affordable Housing Advisory Council) that best reflect the needs in the markets served by that FHLBank.
- Grant the FHLBanks discretion to design programs that target communities and neighborhoods that may be at higher risk for defaults and foreclosures.
- Permit an FHLBank to allocate funds to its financing or restructuring program in excess of the maximum currently permitted for allocation to homeownership set-aside programs. In addition, exclude the funding cap on set-aside programs that requires at least one-third to be targeted to assist first-time homebuyers. Imposing these funding caps on refinancing and restructuring programs

unnecessarily limits the FHLBanks' ability to meet increased demand and respond promptly to regional crises.

- Preferably, allow each FHLBank to determine the household eligibility criteria for its program, including whether the need for loan restructuring assistance is caused primarily by a past or pending interest-rate adjustment. Alternatively, allow the FHLBanks to make subsidy available to help homeowners who can show they are at risk of foreclosure, regardless of how long their loan has been delinquent or how far in the future their loan is scheduled to reset.

If the final rule must retain the nexus requirement between loan delinquency and a pending rate adjustment, then the rule should permit each FHLBank to set its own eligibility criterion for the maximum period prior to reset within which delinquency must have occurred. Likewise, if the final rule must impose a nexus requirement between program enrollment and reset, the rule should permit each FHLBank to establish its own eligibility criterion for the maximum period prior to enrollment within which reset must have occurred. In no case should the Finance Board require that delinquency or enrollment have occurred within a certain period after reset.

### **Simplify Program Administration Where Possible**

To maximize the accessibility of the programs developed using the final rule's authority, the final rule should minimize requirements that impose complex or burdensome calculations and determinations. The more streamlined the final rule is, the easier, faster, and more efficient it will be for (i) the FHLBanks to implement and administer their programs, (ii) members to offer the programs, and (iii) homeowners to understand and benefit from the programs. Accordingly, to bring maximum benefit to homeowners yet still achieve the public policy objectives discussed in the proposal, we believe the final rule should:

- Permit the FHLBanks to allow the refinance of non-purchase money first mortgages.
- Give the FHLBanks discretion to specify how much equity a household is permitted to have taken out of the home in any previous non-purchase money first mortgage, and not include a requirement that the FHLBank evaluate the homeowner's use of the equity. Such requirements would be difficult to administer fairly and consistently.
- Permit the refinancing of separate first and second mortgages into a single combined new mortgage, even when the second mortgage was used to take equity out of the home.
- Permit the use of AHP subsidy to pay down loan principal that is the result of negative amortization on loans such as option adjustable rate mortgages ("ARMs").
- Give the FHLBanks discretion to allow members to use ARMs when restructuring or refinancing a loan, rather than requiring only one type of fixed mortgage product.

### **Other Comments**

Some of the limitations in the Proposed Rule are appropriate to ensure that refinancing and restructuring programs are not perceived as mitigating member losses or otherwise inappropriately disbursing AHP funding. Specifically, we believe it is reasonable for the final rule to:

- Require members to contribute towards the funding of each financing, however, the rule should allow each FHLBank, after consultation with its Advisory Council, to set its own minimum member contribution level.
- Limit refinancing and restructuring programs to mortgage loans held by members or their affiliates.
- Impose, as an eligibility criterion, a maximum home equity of the greater of \$50,000 or 20% of the current appraised value.

With the members of each FHLBank district facing regional differences in market conditions and with the obvious need for prompt and easily implemented and administered refinancing and restructuring programs, as described above, the Bank believes the final rule should incorporate flexible and simple standards for program design and implementation to enable the FHLBanks and their members to assist low and moderate income borrowers through refinancing and restructuring subprime and nontraditional loans. We also believe the final rule should encourage the FHLBanks and their members to continue to innovate, by specifying that FHLBanks may apply to the Finance Board to establish programs not contemplated by the final rule.

We wish to thank the Finance Board for working with the Bank to implement the HPS program and for its efforts to make similar programs available in the near future by engaging in this rulemaking. Thank you for your consideration of our comments.

Sincerely,



Dean Schultz  
President and  
Chief Executive Officer