



Comment #26

FEDERAL HOME LOAN BANK OF INDIANAPOLIS

December 15, 2008

Federal Housing Finance Agency
1625 Eye Street, N.W.
Washington, DC 20006
Attention: Public Comments

Building Partnerships.

Serving Communities.

Subject: Federal Housing Finance Agency
Interim Final Rule: Affordable Housing Program
Amendments: Federal Home Loan Bank Mortgage
Refinancing Authority
RIN 2590 – AA04

Dear Federal Housing Finance Agency Public Comments Coordinator:

On behalf of the Federal Home Loan Bank of Indianapolis (FHLBI) Board of Directors, its Affordable Housing Committee, and the FHLBI's Affordable Housing Advisory Council, we appreciate the opportunity to comment on the Affordable Housing Program Amendments proposed by the Federal Housing Finance Agency (FHFA).

The FHLBI applauds the FHFA's efforts to implement section 1218 of the Housing and Economic Recovery Act of 2008 which allows FHLBanks until July 30, 2010, to use AHP homeownership set-aside funds to refinance low- or moderate-income households' mortgage loans. This proposed initiative if properly implemented will allow the FHLBanks the opportunity to be part of the solution to a national housing crisis. The following comments offer suggestions to the FHFA's proposed AHP amendments.

Eligible Lender Participants

Under the interim final rule, an FHLBank may provide the AHP direct subsidy to members that are FHA-approved lenders for the purpose of refinancing an eligible loan into an FHA-insured loan originated by the member. The interim final rule also makes a provision for an FHLBank to offer the subsidy to members that will in turn provide it to FHA-lenders that are not members of the FHLBank. We suggest that the refinancing initiative be expanded to a broader use to include homeowner refinance products offered by our non-FHA members, State Housing Finance Agencies and other comparable programs. Restricting the eligible lender participants to the FHA HOPE for Homeowners Program (H4H) limits the use of AHP subsidy for foreclosure prevention since the H4H program has generated little interest from lenders or servicers on a national basis.

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Household Income Eligibility

According to the interim final rule, eligible borrowers who receive AHP assistance under a mortgage refinance program must earn less than 80% of the area median income, adjusted for family size, based on an IRS tax return or other equivalent standards. The borrower's housing debt-to-income ratio, as of March 1, 2008, must have been greater than 31%, or such higher amount as the FHA deems appropriate. Under the existing set-aside programs, FHLBanks are required to use current income to calculate a future projection for income eligibility. Also, the FHLBanks are rigorous in including all income from all adult household members but FHA income determination may not be comparable. We suggest that it would be prudent to allow FHLBanks to rely on the FHA's income and debt-to-income ratio calculations or those of other approved program underwriters and not require the FHLBanks to recalculate income or debt ratios.

Eligible Loans

Under the interim final rule, according to the H4H program, the underlying loan may be delinquent at the time of the refinance. This seems contrary to the purpose of the interim final rule (borrower must have made at least six payments and did not intentionally default) and we suggest clarification. Given the severity of the mortgage crisis, the member should be given flexibility on a case-by-case basis to determine eligibility.

AHP Retention Agreements

The interim final rule does not require five-year retention agreements as required under the current AHP regulation and therefore does not require repayment of AHP subsidy by a household in the event of a subsequent sale or refinancing of the unit during the five-year retention period. We suggest the FHFA provide regulatory assurances that the lack of a retention agreement is not a safety and soundness finding. An additional risk is that prior to the FHA issuing insurance under this program, the borrower must make the first mortgage payment due. Thus, it is possible for a borrower to receive AHP funds, miss the first payment and therefore not be part of H4H and possibly cause a compliance issue for the FHLBanks.

Eligible Uses of AHP Subsidy

We recommend that in this time of economic crisis, the FHFA promulgate a rule authorizing that the AHP set-aside program be utilized in conjunction with the modification of loans owned in the Mortgage Purchase Program (MPP) or Mortgage Purchase Finance (MPF) portfolios. Recent articles indicate that the Federal Deposit Insurance Corporation is not only strongly encouraging banks to adopt the systematic loan modification program but in some cases requiring adoption. In these circumstances, the FHLBanks have direct control of the loan servicing process and are well positioned to restructure troubled loans. Members could apply on an individual household basis for AHP

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funds to assist families at risk of foreclosure whose loans are owned in the MPP or MPF portfolios. Up to \$15,000 would be provided to the household with net income at or below 80% area median income at the time of the AHP subsidy disbursement request in order to restructure the MPP or MPF loan. The AHP funds could not be utilized by the member, the supplemental mortgage insurance provider, or the FHLBank to absorb losses but must be provided to benefit the homeowner. The five-year retention and pro-rata recapture obligations could remain. A set-aside program for MPP and MPF would be effective in providing immediate foreclosure relief and would also reaffirm the FHLBank System's leadership tradition of providing mortgage funding to the nation during all economic cycles.

I thank you again for the opportunity to comment on the proposed AHP amendments. We look forward to assisting our members in finding new solutions to the mortgage foreclosure crisis.

If you have questions, please contact MaryBeth Wott, Vice President and Community Investment Officer, or the undersigned.

Sincerely,



Gregory L. Teare
Senior Vice President – Chief Banking Officer