From: Cheryl Neas [CNeas@OpportunityFinance.net]
Sent: Tuesday, April 25, 2006 3:58 PM
To: Comments
Subject: Federal Housing Finance Board. Proposed Rule: Affordable Housing Program Amendments. RIN 3069-AB26. Docket Number 2005-23

Federal Housing Finance Board
1625 Eye Street NW
Washington, DC 20006
ATTENTION: PUBLIC COMMENTS

Via email: comments@fhfb.gov

April 27, 2006

To whom it may concern:

Opportunity Finance Network (formerly the National Community Capital Association) appreciates the opportunity to comment on the Proposed Rule: Affordable Housing Program Amendments (RIN Number 3069-AB26, Docket Number 2005-23). We share with the Federal Housing Finance Board a commitment to expanding the reach of the Affordable Housing Program (AHP) and generally support the proposed regulations.

The Opportunity Finance Network of 167 financial institutions finds and finances opportunities that others overlook. We are community development financial institutions (CDFIs) and other opportunity finance institutions that work just outside the margins of conventional finance to bring those markets into the economic mainstream and to help the economic mainstream flow into those markets.

We particularly applaud the inclusion of "revolving loan funds" as eligible sponsors of AHP projects, and believe that communities will see significant benefit from the extended participation of CDFIs in the AHP program. CDFIs bring specific expertise and a strong track record in the markets the AHP targets.

We are also pleased to see that the FHFB has proposed strengthening the AHP's role in the FHLB system by emphasizing the role of the AHP Advisory Council, specifying some of its duties, and solidifying its relationship with the Banks' Boards.

Strengthening the Advisory Council, however, is no substitute for ensuring that the Board of each FHLB has Directors knowledgeable in affordable housing finance. An FHLB will have the most success with its Affordable Housing Program when it can draw on and use effectively the advice and knowledge of those with expertise in the affordable housing and community development arena. The Board's own Horizontal Review, to which this proposal responds, noted that, "Those Boards that have directors with significant experience in housing issues are generally more involved and more effective in evaluating and setting goals for the Bank's AHP.... When a Bank has housing industry directors on its Board, the AHP benefits....” The large number of current vacancies on the FHLB Boards—including the absence of Community Interest Directors, those most likely to provide this valuable experience with affordable housing finance—undermine the improvements proposed for the Affordable Housing Advisory Councils. The FHFB must fill the vacant Public Interest and Community Interest Director seats in the FHLB system if it wants these proposed regulations to have maximum impact and the AHP to be fully successful.

The "Background" section of the proposed rule notes that, "As the [AHP] program has matured, however, the Finance Board has revised the regulations a number of times, in part to provide greater responsibility to the Banks in managing the program....” It is inappropriate and irresponsible for the FHFB to delegate additional responsibility to the individual Banks without also meeting its statutory obligations for governance to ensure that the Banks are equipped to meet that responsibility.

Specific Comments on the Proposed Regulations

§ 951.2(b): The FHLB System’s affordable housing activity must appropriately balance homeownership and support for rental and special needs housing. For this reason, we support the proposal to eliminate accelerating set-asides for the homeownership program and ensuring that the competitive application program has sufficient resources.

§ 951.3(d): We applaud the new requirement for each Bank to post its AHP implementation plan on its website, and agree with the FHFB that this public access will promote "greater transparency and accountability." We urge the FHFB to go a step further and hold FHLBs accountable for the success of the AHP implementation plan. The FHFB might require that the FHLBs post annual or semi-annual reports on their progress toward the implementation plan on their websites as well as the plans.

§ 951.4: As noted above, we are pleased to see that the FHFB has strengthened the role of the AHP Advisory Council. Requiring that the FHLB Board interact closely with the AHP Advisory Council will improve the Board's understanding of affordable housing issues and affordable housing finance. The list of areas in which the Board must solicit the Advisory Council's recommendations (§941.5(d)) are a minimum to ensure appropriate consideration of AHP issues within the Bank. We repeat, however, that even the strongest Advisory Council is no substitute for informed and knowledgeable Board members.

We do not support the portion of the proposed rule that would allow a Bank to appoint some Advisory Council members for two years and others for one. To prevent high turnover, the Banks could appoint Advisory Council Members to staggered three-year terms. Three-year terms would be far more effective than one-year terms in providing stability and knowledge on the Advisory Council.

§951.5(d)(5)(vi)(E): We support the inclusion of disaster areas and families displaced by disaster areas as evaluation criteria. The Community Reinvestment Act (CRA) regulations released last year, as well as the 2006 Community Development Financial Institutions Fund (CDFI Fund) programs in the Department of Treasury, have recognized the importance of providing resources to these people and communities. The FHFB's proposal is consistent with other agencies' provisions for community investment.

§951.5(10) and 951.5(13): As we said in the introduction to this letter, Opportunity Finance Network strongly supports the addition of loan funds as eligible sponsors of AHP projects. As the Board correctly notes, many of these loan funds "are able to leverage additional funds for low-income borrowers or bring added value to the services provided by nonprofit corporations and local governments. These entities may also provide technical assistance in packaging loans, or may service loans, manage affordable housing revolving loan funds…." This is precisely the role that community development financial institutions play in leveraging additional resources into emerging markets including low-income borrowers and renters and first-time homebuyers.

To help ensure that this new authority makes sound use of the subsidy, we urge you to recognize explicitly CDFIs as specific entities that would meet the criteria as loan fund sponsors. The Opportunity Finance Network's 167 Member CDFIs, for example, have $4.1 billion in assets and $9.6 billion in cumulative financing, finding and financing opportunities others miss while maintaining a net charge-off rate of only 0.5%. They also leverage significant private-sector investment: the CDFI Fund estimates that CDFIs leverage as much as $27 in private sector capital for each $1 the Fund invests.

CDFIs have expertise in working in low-income, first-time homebuyer, special-needs housing, and other markets targeted by the AHP. They have developed products and services as well as knowledge that meet the needs of and demand from these markets; the FHFB could gain leverage for the AHP subsidy by recognizing CDFIs in the regulations. Additionally, most CDFIs already have in place systems for internal control and reporting systems that assure both the affordable housing mission and financial soundness.

Because of this sound track record, we further suggest that you give priority to CDFIs as loan fund sponsors of AHP projects. Authorization of loan fund sponsors and development of FHLB programs that support them will likely bring new competition for AHP subsidies, which at many Banks are already in high demand, and prioritizing CDFIs can help direct the subsidy appropriately.

We do not mean to suggest that priority for CDFIs should substitute for the evidence of sound financial practices that § 951(c)(10)(ii) spells out; we strongly agree that users of the AHP subsidy must demonstrate the capacity to use it appropriately. However, providing priority to CDFIs that meet those requirements can assure the FHLB system that the projects financed by the AHP are managed by organizations with an understanding of opportunity finance and a commitment to improving affordable housing opportunities.

§ 951.7: We believe that the monitoring requirements proposed are appropriate and adequate, and support the reliance on other government monitoring, as in §951.7(2)(b)(2); streamlined monitoring and reporting allows a greater proportion of organization effort to be directed toward projects. We urge that monitoring of projects financed by revolving loan funds be conducted on a project-by-project basis or other method that would allow a CDFI to incorporate the AHP subsidy into its existing capital pools rather than require establishment of a separate fund with separate controls. CDFIs that could use the AHP in this new program have concerns about taking on new monitoring and reporting responsibilities.

Conclusion

Opportunity Finance Network believes there is significant potential for the AHP to reach even further into emerging markets, and that partnership with CDFIs is a way to capitalize on that opportunity. The inclusion of loan funds and loan pools as more active participants in the AHP is an important step in this direction.

However, an engaged and experienced Board at each FHLB will be key to the success of these proposals, and we repeat once more our call for the FHFB to fill the vacant Director seats across the system with people knowledgeable in affordable housing finance practice. Without taking this step, the FHFB cannot hope to have maximum impact for the AHP.

Thank you for the opportunity to comment. Please do not hesitate to contact me at 215.320.3404 or mpinsky@opportunityfinance.net if you have questions or concerns.

Sincerely,

Mark Pinsky
President and CEO