

Chicago Federal Home Loan Bank

111 East Wacker Drive Chicago, Illinois 60601

April 25, 2006

VIA ELECTRONIC MAIL

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

Re: Proposed Affordable Housing Program Amendments, Proposed Rule

Dear Sir or Madam:

Introduction

This letter addresses the Federal Housing Finance Board's ("FHFB") request for comments on the above Proposed Rule ("Proposed Regulation") that would amend the FHFB's current Affordable Housing Program ("AHP") regulation to remove prescriptive requirements, clarify certain operational requirements, remove certain authorities and otherwise streamline and reorganize the existing regulation.

Since the inception of the Affordable Housing Program in 1990, the Federal Home Loan Bank of Chicago ("Bank") has awarded more than \$219 million in subsidies to support approximately 52,500 units of affordable housing. Of that amount, \$176.6 million was awarded through the competitive application process while the remaining \$42.6 million was awarded for downpayment and closing cost assistance, helping approximately 10,500 families and individuals become homeowners. In addition, since 1989 the Bank has loaned more than \$5.3 billion in community investment cash advances to its member institutions.

The Bank is pleased to provide our comments on the Proposed Regulation below.

Financial Incentives

The FHFB requested comment on Section 951.6(c)(6) of the Proposed Regulation, specifically, (1) whether all originators of AHP-assisted mortgage loans should be required to provide financial or other incentives in connection with the mortgage financing, irrespective of whether the originator is a member;

(2) whether the current financial incentive requirement should remain as a mandatory requirement or be made a matter of discretion for a Federal Home Loan Bank ("FHLBank") (as a preferential selection criterion for its homeownership set-aside program); and (3) whether additional incentives should be required, such as a matching funds requirement, member-provided financing, or preference to a member working in partnership with a nonprofit sponsor assisting first-time homebuyers to qualify for a mortgage.

The Bank is supportive of a regulation that levels the playing field by requiring all originators (regardless of whether they are a member) to provide financial or other incentives in connection with the mortgage financing. The Bank does not endorse requiring members to provide additional financial incentives.

Use of AHP Subsidy by Revolving Loan Funds and Loan Pools

In Section 951.5(c)(13) and Section 951.5(c)(14) of the Proposed Regulation, FHLBanks would be authorized at their discretion to allow two uses of AHP subsidies under their competitive application program: "revolving loan funds" and "loan pools."

The Bank is not in favor of establishing revolving loan funds and loan pools as eligible AHP activities due to the difficulties associated with the scoring, monitoring and compliance of revolving loan funds and loan pools. If revolving loan funds and loan pools are established as AHP eligible activities, the Bank encourages the FHLB to permit a FHLBank, at its discretion, to fund such activities as an additional set-aside that would be free of the competitive scoring system.

AHP Implementation Plan

The Proposed Regulation requires the adoption of written policies and/or procedures in a number of instances, some of which are to be specifically included in the Banks' AHP Implementation Plan ("Plan"). The Bank believes the issues below warrant further clarification.

- Section 951.3 of the Proposed Regulation outlines the various requirements to be included in a FHLBank's Plan. In some instances this section now uses the word "requirement" regarding the inclusion of provisions in other sections of the regulation. However those other provisions may require the adoption of a policy and/or procedure. It is unclear in some

cases whether the entire applicable policy and/or procedure is to be included verbatim in the Plan, rather than a reference to such policy and/or procedure.

- A related question is whether the Plan is to be a policy document or a policy and procedure document. While a FHLBank's board of directors is responsible for approval of such FHLBank's policies, management should have independent authority to establish operating procedures that implement the board-approved policies.

To provide greater operational flexibility, the Bank respectfully requests that operating procedures not be an integral part of the Plan, but only be required to be publicly disclosed in a separate document or posted on a FHLBank's website. This has the benefit of transparency and also allows each FHLBank the ability to modify its operating procedures without amending its Plan.

Eligible Member Applicants

Section 951.5(b)(2) of the Proposed Regulation eliminates the current provision that allows a FHLBank to accept AHP applications from institutions that have membership applications pending. The underlying reason for the change is that the FHFBS does not believe the incentive is necessary due to the growth of membership in recent years.

The Bank opposes the regulation as proposed and is in favor of retaining the current regulation. This change could impact members involved in merger or acquisition activity. The Bank believes it is important for our members to have the program continuity and flexibility permitted by the current regulation.

Upon the consolidation of a member ("former member") into an institution ("successor") that is not a member of a FHLBank, the former member might have pending AHP funding requests, AHP applications submitted, or the successor might wish to submit an application for an upcoming AHP competitive program round. Under applicable regulation, the successor has 60 days after cancellation of the charter of the former member to notify the FHLBank that the successor intends to apply for FHLBank membership, and then it has 60 days to submit an application for membership. A Bank then has 60 days to approve such application. Effectively the Proposed Regulation could prohibit the AHP activities of the successor for as much as 180 days, despite the successor's commitment to continue the membership of the former member.

Long-Term Monitoring Policies

The background provided in the Supplementary Information section of the Proposed Regulation refers to monitoring standards based on "required outcomes." Section 951.7(a)2(ii)(A) of the Proposed Regulation indicates that a FHLBank's long-term monitoring policies and procedures shall take into account various risk factors. The Bank requests additional clarification as to the distinction between "outcome-based monitoring" and "risk-based monitoring," as well as clarification of FHFB expectations with regard to how a FHLBank's long-term monitoring standards should be determined.

District Priorities

The Proposed Regulation does not expand a FHLBank's authority to establish FHLBank defined and/or multiple priorities under the first or second district priority scoring categories. In the interest of greater efficiency, the Bank respectfully suggests that District Priority #1 and District Priority #2 be consolidated into a "single" District Priority where the FHLBank would determine the number and type of priorities important to its district. This single District Priority would, at a minimum, constitute a five point scoring category.

Thank you for the opportunity to comment on this proposal. The Bank would be pleased to answer any questions your staff may have regarding this comment letter or provide such additional information or comments that would be helpful.

Sincerely yours,



Peter E. Gutzmer
Executive Vice President
General Counsel &
Corporate Secretary