



April 27, 2006

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

Subject: Federal Housing Finance Board Proposed Rule: Affordable Housing Program Amendments, RIN Number 3069-AB26. Docket Number 2005-23.

To The Federal Housing Finance Board:

The Board of Directors (Board) and the Affordable Housing Advisory Council (Council) of the Federal Home Loan Bank of Des Moines (Bank) express their appreciation to the Federal Housing Finance Board (Finance Board) for publishing proposed amendments to the regulations governing the Affordable Housing Program (AHP). The Board and the Council agree that changes to the current AHP regulations could enhance the operation of the AHP and appreciate the opportunity to provide input into the final regulations.

The Advisory Council met and discussed the proposed regulations at length and considered each of the issues on which the Finance Board requested comment. The Advisory Council also discussed other issues raised in the proposal and the current regulation that the Council thought warranted further input.

After reaching a position on each of those issues, the Advisory Council met with the Housing and Economic Development Committee of the Board and reviewed each of the positions that the Advisory Council recommended. The Housing and Economic Development Committee of the Board, and the entire Board, supported the positions suggested by the Advisory Council. Thus, the following comments on the AHP regulations and the proposed amendments are submitted on behalf of the Board, its Housing and Economic Development Committee, and the Advisory Council.

To facilitate review of this comment letter, we have included the topic name, and the pages and columns in the Federal Register on which the referenced topic can be found.

1. Definition of Retention Period for Rehabilitation of Owner-Occupied Units – page 76939, column 3, and page 76951, column 1

The proposed rule would amend the definition of retention period for rehabilitation of owner-occupied units that do not involve a closing to commence on the date of completion of rehabilitation. It may be difficult for the Bank and a project sponsor to know the exact date when rehabilitation is completed. We recommend that the definition of closing be further expanded to include (a) execution of the retention document or rehabilitation contract and (b) when the project is substantially complete. The phrase “substantially complete” is a term used in the construction/rehabilitation industry and may be easier to define and identify than the term “complete”.

2. First Time Homebuyer Set Aside Requirement – page 76940, column 3, and page 76951, column 2

The Finance Board proposes to consolidate two provisions regarding homeownership set aside programs to aggregate the allocation of AHP dollars to the greater of \$4.5 million or 35 percent of a Bank’s annual required AHP contribution. As part of this consolidation, the Finance Board proposes to require each Bank to allocate at least one-third of the Bank’s aggregate annual set-aside allocation to programs that assist first-time homebuyers.

The Bank’s two homeownership set aside programs currently do not specifically allocate any funds to first-time homebuyers. However, since 2001, 96% of all disbursements for the Bank’s homeownership set aside programs were to first time homebuyers. Accordingly, we agree with the proposed change requiring each Bank to allocate at least one-third of the Bank’s aggregate annual homeownership set-aside allocation to programs that assist first-time homebuyers.

3. Removal of Acceleration Authority – page 76941, column 1

The Finance Board is proposing to remove authority for the Bank to accelerate or borrow funds from its annual required AHP contribution for the subsequent year to the current year's programs.

The Bank considers this authority to be useful if there were periods of extreme volatility in the Bank’s earnings that could significantly reduce the amount the Bank had available for the AHP in any given year. Even though the Bank has never used this authority, we recommend that the regulations retain this authority as a mechanism to offset any significant fluctuations in income and significant fluctuations in AHP contributions.

4. Revolving Loan Funds – page 76943, column 1, and page 76953, column 3, and page 76954, column 1

The Finance Board proposes to allow a Bank in its AHP Implementation Plan to specify the Bank’s requirements for funding revolving loan funds, if adopted by the Bank. The Finance Board specifically seeks comments on how the revolving loan fund authority could be used within the requirements of the AHP.

The Advisory Council believes that AHP is one of the last grant funds available to serve low-to-moderate income individuals and families and that using grant funds for revolving loan funds erodes the original intention of the AHP program. The Advisory Council maintains there are plentiful sources of revolving loan funds but few sources of grant funds. It is their belief that many grant programs have evolved into revolving loan funds and as the revolving loan funds mature, the funds gradually are used to serve populations with incomes higher than those traditionally targeted by the AHP. It is the Advisory Council’s opinion that allowing grant funds to be used for revolving loan funds is not just an alteration of the AHP program but an inappropriate shift in public policy. The Advisory Council and the Board do not support using the AHP for revolving loan funds.

5. Loan Pools – page 76943 – columns 1 – 3, and page 76954, columns 1 -2

The Finance Board also proposed to allow a Bank, in its AHP Implementation Plan to specify the Bank’s requirements for funding loan pools, if adopted by the Bank. The proposed rule would authorize a Bank to provide AHP subsidies to its members under circumstances in which another entity would receive the subsidy and then commit to purchase AHP-eligible loans in order to pool them and sell interests in the pool of loans. The Finance Board specifically seeks comments on how the loan pool authority could be used within the requirements of the AHP.

The Advisory Council believes that AHP is one of the last sources of grant funds serving the low-to-moderate income population. Establishing loan pools, as with revolving loan funds, would also be a significant erosion of the purpose of AHP grants and could lead to the eventual elimination of a very valuable grant program. It is the Advisory Council’s opinion that, as a matter of public policy, it is inappropriate to use grant funds for loan pools. The Advisory Council and the Board do not support using AHP for loan pools.

6. Out-of-District Projects, page 76943, column 3

The Finance Board proposes to remove the existing provision that allows a Bank, at its discretion, to impose an eligibility requirement that a project assisted with AHP subsidy must be located in the Bank’s district.



The Bank currently does not include such a requirement in its AHP Implementation Plan. However, we think that each Bank should continue to have the flexibility to restrict funds to projects located in the Bank's district if the board of directors and advisory council of that Bank believe that it would serve the housing needs in that Bank's district. Accordingly, we recommend that this change not be included in the final regulation.

7. Homeownership Set-Aside Programs, Member Financial Incentives – page 76946, column 1, and page 76957, column 1

The Finance Board specifically requested comment on the following three questions. Our response follows each question.

(1) Whether the Finance Board should require all originators of AHP-assisted mortgage loans to provide financial or other incentives in connection with the mortgage financing, irrespective of whether the originator is a member or nonmember.

We believe the Bank should encourage members to offer financial or other incentives in connection with the mortgage financing. We do not believe that the Bank would have any control over non-members offering financial or other incentives. Accordingly, we do not recommend that financial or other incentives be a requirement in the regulation.

(2) Whether the current financial incentive requirement should remain as a mandatory requirement or be made a matter of discretion for the Bank, as a preferential selection criterion for its homeownership set-aside program(s).

We recommend that the current mandatory financial incentive requirement be made discretionary. This would allow the Bank to determine if its current financial incentive requirement discourages small community financial institutions from using AHP, particularly the Bank's homeownership set aside programs, the Rural Homeownership Fund and the Native American Homeownership Initiative.

(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.

We do not support placing any more burdens on members or other third parties because we believe it would discourage use of the AHP.



8. Homeownership Set-Aside Programs, Cash Back – page 76946, column 2, and page 76957, column 2

Proposed rule 951.6(c)(10) would expressly prohibit a member from providing cash back to a household at closing of a mortgage loan and would require a member to use any AHP subsidy beyond what is needed for closing costs and the approved mortgage amount to further reduce the principal of the mortgage loan.

We believe that the use of the phrase “cash back” is a misnomer. We think it is entirely appropriate for members to provide cash to borrowers for reimbursable costs. If the phrase “cash back” is retained in the final regulation, we recommend that it be a defined term that includes reasonable and legitimate, reimbursable costs. For example, if a grant covers down payment and closing costs, cash back at closing should cover earnest money and/or eligible closing costs paid outside of closing (P.O.C.). If a grant covers rehabilitation of a property, cash back should include funds used for rehabilitation, whether deposited in an escrow account or paid to a third party.

9. Competitive Application Program - Initial Monitoring Policies and Procedures – page 76946, column 3, page 76947, column 1 and page 76957, columns 2 and 3

The proposed rule would require the Bank to review back-up project documentation regarding household incomes and rents maintained by the project sponsor or owner. The regulation does not define or explain what is meant by “back-up project documentation.”

We think it would be very difficult to administer a regulation requiring back-up project documentation regarding household incomes and rents and that it would create an undue and unnecessary burden on members and sponsors if the Bank had to verify with each tenant that the tenant paid the amount listed on the list of tenant rents. Therefore, we do not support this proposal.

10. Competitive Application Program - Long-term Monitoring Policies and Procedures, page 76497, columns 1 and 2, page 76957, column 3 and page 76958, columns 1 and 2

The proposed rule would replace several prescriptive long term monitoring provisions with more broadly stated performance objectives, which are intended to allow the FHLBank’s more latitude in determining the type and frequency of AHP monitoring reports.

We think that performance objectives that could vary from district to district would cause confusion among members, sponsors, and owners/developers that use AHP in multiple districts. We think that the current monitoring regulations have served the intended purpose and we do not think that any change in the current long-term monitoring regulations is necessary or appropriate.



If this proposal is adopted, the Finance Board should provide additional information in the final regulation regarding the factors the Finance Board will consider in reviewing a FHLB's monitoring policies for compliance with the regulation.

11. Rental Project Repayment in case of Sale or Refinance – page 76949, columns 1 and 2, and page 76960, column 2

The existing regulations require a rental project that sells or refinances a project prior to the end of the retention period to repay the full amount of the AHP subsidy received. The project owner does not receive any credit for any time that the property was used in compliance with the AHP application. The proposed regulation would include a new provision that would allow two exceptions to the requirement for full repayment.

We do not think that any changes should be made in the existing regulations. We are concerned that the proposed amendments could adversely affect the preservation of affordable rental units.

12. Monitoring – page 76957, columns 2 and 3, and page 76958, column 1 and 2

We are requesting that section 951.7 be clarified as to the Bank's ability to rely on the LIHTC monitoring performed by a State Housing Finance Agency or other governmental monitoring from Federal, State, or local government entities in lieu of including these projects in the FHLB risk based monitoring system. Although this appears to be the intention of 951.7 (a) (2) (ii) (B) (1) and (2) (*Reliance on other monitoring*), later language in 951.7 (a) (2) (iii) (*Annual certifications and back-up documentation*) appears to require specific certifications and back-up documentation review for all projects. We request that the regulators clarify that if the project has received tax credits or other funding from a Federal, State, or local government entity and the Bank is relying on that governmental entity's monitoring, the Bank need not receive annual certifications and back-up documentation as otherwise required under section 951.7 (a) (2) (iii)

In addition, the Advisory Council and the Board would like to see the follow issue addressed in the proposed rule:

District Scoring Criteria (951.5 (d) (5) (vi))

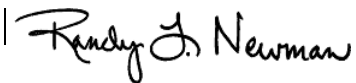
We would like to see more flexibility in establishing District Priorities and scoring requirements, rather than continuing the prescriptive First and current Second District Priority mechanisms in the existing AHP regulation. This would require the removal of the First and Second District Priority categories from the regulation and the addition of a single District Priority at comparable point values with the current First and Second



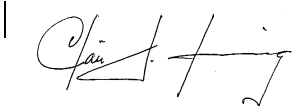
District Priorities. The Banks could then identify and assign points within this new District priority for up to five tiered elements that are agreed to by the Bank's Advisory Council and Board of Directors.

We appreciate the opportunity to provide our recommendations for additional changes to the AHP Regulations and to the proposed amendments to the AHP regulations.

Sincerely,

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Randy Newman
Chairman of the Board

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Clair Lensing
Chair, Housing and Economic Development Committee

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Jim Schmidt
Chair, Affordable Housing Advisory Council