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April 28, 2006

Federal Housing Finance Board
1625 Eye Street, NW
Washington, DC 20006
Attention: Public Comments

Re: Affordable Housing Program Amendments, RIN Number 3069-AB26
Docket Number, 2005-23

To Whom It May Concern:

The Independent Community Bankers of America (ICBA)¹ appreciates the opportunity to comment on the proposed amendments to the Federal Home Loan Bank (FHLB) Affordable Housing Program (AHP) published by the Federal Housing Finance Board (FHFB). The proposed rule makes several changes to the current rules governing the AHP that relate to the scoring system for the competitive application program, allocations to the homeownership set-aside program and use of AHP funds for projects located outside a FHLB's district.

Summary of ICBA's Position

The AHP is an important tool that community banks use to promote affordable housing in their communities. ICBA does not object to the removal of the restriction on use of AHP funds out of district, but the rule should continue to permit the FHLBs to provide some scoring points for in-district projects for at least a portion of their AHP funds to ensure that those members that do not operate out of district can receive their fair share of funds. We urge the FHFB to closely monitor the flow of AHP funds after the removal of geographic restrictions to ensure that the majority of funds do not flow out-of-

¹ *The Independent Community Bankers of America represents the largest constituency of community banks of all sizes and charter types in the nation, and is dedicated exclusively to representing the interests of the community banking industry. ICBA aggregates the power of its members to provide a voice for community banking interests in Washington, resources to enhance community bank education and marketability, and profitability options to help community banks compete in an ever-changing marketplace.*

With nearly 5,000 members, representing more than 18,000 locations nationwide and employing over 265,000 Americans, ICBA members hold more than \$876 billion in assets \$692 billion in deposits, and more than \$589 billion in loans to consumers, small businesses and the agricultural community. For more information, visit ICBA's website at www.icba.org.

district once restrictions are removed, a situation that would disadvantage the many smaller members that only operate in-district.

While ICBA supports some level of uniformity among FHLBs in the system for scoring projects, sufficient flexibility should be maintained in order to address the unique needs of each district. ICBA supports allowing points for projects that help persons located in disaster areas and provide housing for low- or moderate-income households that have been displaced from a federally declared disaster area. We also support allowing points for projects in rural areas because of the difficulties lenders face in serving them.

ICBA also supports the proposed requirement that at least one-third of a FHLB's aggregate annual homeownership set-aside allocation be targeted for first-time homebuyers. These funds play an essential role in helping community banks serve first-time homebuyers.

Community Banks' Use of the AHP

Many community banks use the AHP and find that it is a very beneficial tool in helping them meet the affordable housing needs of their communities, particularly for first time homebuyers. But some community banks say that due to a lack of knowledge, personnel, and difficulties obtaining funds through the competitive process, they have never used AHP funds. There seems to be a perception that AHP funds are hard to obtain because of "red tape" involved. Some community banks find it difficult for their projects to successfully compete against those of larger members because smaller banks do not have staff primarily focused on working on projects of the type that typically score better. Thus, it is important that the FHLBs continue their outreach and educational efforts to help smaller members use these programs.

AHP Projects Outside of the District

Under the current regulation, a FHLB may at its discretion deny consideration of applications to the AHP competitive application program from members proposing to fund projects located outside the FHLB's district. The regulation also permits a FHLB to give scoring point preference to the creation of housing located within the FHLB's district. The proposed rule would rescind the FHLBs' authority to prohibit or restrict applications to fund out-of-district projects. The FHFB states that in 2004 only one FHLB prohibited the use of funds for out-of-district projects and only two FHLBs elected to give scoring preference to in-district projects. It also states that out of 10,391 AHP projects funded since the program began in 1990, only 323 or 3.1 percent have been located outside of a FHLB's district. Thus the FHFB concludes that funding out-of-district projects has had a minimal impact on the AHP. According to the FHFB, the authority to deny an application based on location may have been appropriate when all FHLB members did business only within the boundaries a FHLB's district, but due to interstate branching, many members do business in communities outside their district.

Since nearly all FHLBs already permit to some extent the use of AHP funds for out-of-district projects, ICBA does not object to the removal of the restriction on use of funds out-of-district. However, we strongly recommend that the rule continue to permit

the FHLBs to provide some scoring points for in-district projects for at least a portion of AHP funds. We do not believe this would overly restrict the use of funds for projects outside of a district that would otherwise score well above in-district ones. It would provide members that operate only within the district a level of assurance that they have a fair chance at the funds. We recognize that some members, usually larger members, serve areas outside their FHLB district and wish to use AHP funds that were generated in part by earnings on advances used outside the district, but the cooperative nature of the system dictates that all members of a FHLB, including smaller ones that operate solely within the district, should have a fair chance at obtaining funds from their district.

We urge the FHF to closely monitor the flow of AHP funds after the removal of geographic restrictions to ensure that FHLB members that only operate within their district get their fair share of AHP funds and that the majority of funds do not flow out of district. While nearly all FHLBs permit out-of-district use currently, removal of restrictions may act as an encouragement for even more funds to be used out-of-district. Some community bankers believe that AHP funds should be restricted to in-district projects because obtaining funds is already so competitive. They are concerned that their access to funds would be restricted and a preference may be given to other, out-of-district projects. Most likely those members that will use funds out-of-district are larger institutions with more staff and expertise related to AHP projects and community banks are concerned their local projects will lose to the out-of-district projects of larger banks. We do not see a need to increase the restriction of movement of AHP funds, but we do believe that it needs very close monitoring over the next several years to ensure all members are treated fairly.

Changes to the Scoring System

The proposed rule would retain the current provisions for AHP applications that require each FHLB to adopt written scoring guidelines and to allocate 100 points among nine different scoring criteria. While ICBA supports some level of uniformity in scoring among FHLBs, sufficient flexibility should be maintained in order to address the unique needs of each district. After years of approving AHP applications, each FHLB has developed an expertise to understand the unique characteristics of its district such as its demographics, economic conditions, and resources available for the projects. Since affordable housing needs are very specific to each region, the local FHLB is best suited to determine the scoring criteria that would best meet those needs.

ICBA supports allowing FHLBs to award scoring points for applications that would provide housing for persons located in disaster areas, as well as for applications proposing to provide housing for low- or moderate-income households that have been displaced from a federally declared disaster area. Community bankers say that awarding points for projects in disaster areas would help them meet the urgent needs of their customers and to rebuild devastated areas. Further, because many FHLB members are located in rural areas, awarding points for projects located in these areas are particularly helpful in ensuring that they have funds to support affordable housing and first-time homebuyers in their communities. Community banks continue to see a strong need to support rural housing and this is a market segment that often does not get addressed because of low volume potential.

AHP Contributions

The proposed rule would retain the maximum allowable aggregate allocation of AHP dollars to the homeownership set-aside programs (the greater of \$4.5 million or 35% of a FHLB's annual required AHP program) but would eliminate the first-time homebuyer set-aside program authority as a separate and distinct authority. The proposed rule would require that at least one-third of a FHLB's aggregate annual homeownership set-aside allocation be targeted for first-time homebuyers.

Community bankers tell ICBA that the first-time homebuyer program is an essential lending tool for them because they can not typically lend to these borrowers without some form of financial assistance. ICBA believes that one-third is the very minimum and FHLBs should be encouraged to set aside more. Rural areas are in particular need of this type of funding because they are not well-served by non-profit groups that specialize in these types of grants.

Eligible Applicants

The proposal would eliminate the current provision that allows a FHLB to accept AHP applications from institutions that are not members of the FHLB, but have applied for membership. The FHFB believes that at one time that provision may have encouraged institutions to become members of their district but, given the growth in membership, such an incentive is no longer necessary.

ICBA disagrees. Community bankers believe this is still an effective membership recruitment tool. Community banks that are FHLB members tell ICBA that they know of banks that have not yet joined a FHLB that may find the AHP to be an incentive, particularly as supporting affordable housing becomes a bigger challenge. They do not see the need to remove this provision, especially if the institution is in the process of becoming a FHLB member and is "conditionally" accepted.

Project Monitoring

The proposed rule would make a number of changes to the monitoring provisions under both the competitive application and homeownership set-aside programs. The FHFB believes that several of the current rules are prescriptive and wants to replace them with provisions that are more broadly stated performance objectives. Also, the current regulation requires a FHLB to specify a time period in its AHP Implementation Plan for the drawdown and use of the AHP subsidy. If a project does not do so within such period, the FHLB must cancel its approval. The FHFB believes this is too rigid and proposes to give the FHLBs greater capacity to manage this process by requiring each FHLB to adopt policies and procedures that address how they will make this determination.

ICBA agrees that the current rules are prescriptive. Community banks believe that each FHLB should be given more flexibility in managing the process. Projects occasionally encounter unforeseen delays and circumstances beyond the project's control, like a building re-design or re-bidding process. It is reasonable to allow the FHLB to determine if an extension is warranted.

Advisory Council

The proposed rule would require each FHLB to adopt policies governing how it would conduct the process it uses to appoint individuals to its Advisory Council. These individuals represent community and non profit groups that provide low income housing and community lending. The FHLB proposes to require that appointments be made for terms up to three years, permitting terms of 1 or 2 years. Since all terms are currently for three years, this would lessen the likelihood that the terms of more than one third of the council would expire in a year. ICBA supports these changes. The Advisory Councils are important resources to the FHLBs in assisting them in identifying the particular needs to be addressed in their district.

ICBA appreciates the opportunity to comment. If you have any questions, please contact the undersigned at 202-659-8111 or by email at ann.grochala@icba.org.

Sincerely,



Ann M. Grochala
Director, Lending and Accounting Policy