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Federal Housing Finance Board
1625 Eye Street, NW
Washington DC 20006

Attention: Public Comments

To Whom it May Concern:

The Metropolitan Milwaukee Fair Housing Council (MMFHC) appreciates the efforts of the Federal Housing Finance Board to reform and update the Affordable Housing Program (AHP). The AHP has been a vital resource for financing low-income housing.

Carefully considering reforms and updates is a crucial exercise in bolstering the equity and efficiency of this important program. As an active member of the National Community Reinvestment Coaltion, MMFHC's comments mirror those of NCRC in all but one arena – homeownership counseling. Immediately below, MMFHC offers comments on key aspects of the proposed changes.

Balance Between Homeownership and Rental

MMFHC supports the proposal that would eliminate accelerating set-asides for homeownership programs. These features had the potential for effectively increasing the homeownership set-aside beyond the current set-aside of 35 percent of a FHLB bank's annual AHP contribution. As such, these program features could divert too much financing away from very low-income rental developments into homeownership projects.

Accountability: Advisory Council and Implementation Plans

MMFHC does not support the proposal to allow a FHLB bank to appoint some Advisory Council members for two years and others for one year. The intent of this proposal is to prevent high turnover when one third or more of the seats have terms expiring in any one year. Instead of its proposal, the Finance Board could simply stagger three year terms in order to avoid high turnover in any one year. Offering a FHLB bank discretion in making one or two year appointments creates unequal political power among Advisory Council members. Those with the two year appointments would effectively have more power. FHLB bank boards would therefore be tempted to place their favorite members of the nonprofit community in the two year slots.

MMFHC supports the proposed requirements for placing each FHLB bank's implementation plan and annual analysis of low- and moderate-income housing and lending activity on the FHLB banks' websites. This proposal increases the transparency and accountability of the FHLB banks.

Homeownership Counseling

MMFHC does not support the proposal to make homeownership counseling an option rather than a requirement for either of the homeownership programs - the competitive application programs or the set-aside programs. Allowing counseling to be an option under both programs risks allowing too many low-income people to enter the homeownership market without adequate preparation. Homeownership is the only means of wealth for most Americans. In addition, the dramatic increase of predatory lending too often puts that means of wealth at risk. Low-income Americans that are also first time homebuyers benefit from counseling that empowers them to negotiate the complex and treacherous lending market place.

Allowing a borrower to demonstrate competency via an exam in lieu of counseling should be allowed as a means to provide some flexibility under a mandatory counseling requirement. If a first-time homebuyer wishes to skip counseling under the set-aside programs, he or she could be asked to take a test much like the driver's license exam. If the homebuyer passes the test, he or she can skip the counseling. Passing the exam provides some assurance that the homebuyer can successfully negotiate the home buying and lending process just like a driver's test provides assurance that the driver can negotiate the road. The test, however, must rigorously assess knowledge of the home buying and lending process.

The Finance Board must establish standards for counseling such as stipulating that homebuyer counseling is timely and of high quality. Timely means that the counseling must occur before the home is selected or the loan application is completed. Counseling that is done quickly and/or after the home purchase may superficially meet the requirements of a FHLB bank's counseling program but has not actually assisted the borrower prudently negotiate the home buying and lending process. Likewise, the Finance Board must insist upon quality counseling that adequately prepares the borrower for the multiple steps involved in buying a home and qualifying for a loan.

Natural Disaster Areas

MMFHC supports the proposal to provide financing for housing in federally declared disaster areas and to low- and moderate-income families displaced by disasters. This proposal would be consistent with the recent changes to the regulations implementing the Community Reinvestment Act (CRA). The proposal would thus work in tandem with CRA to direct resources to geographical areas and low- and moderate-income families afflicted by natural disasters.

Projects Outside FHLB Bank Member Districts

MMFHC does not support the proposal to rescind FHLB bank discretion to weigh in-district projects more heavily. The preference for in-district projects preserves a geographic balance and the spreading of projects across the country. Eliminating all in-district preferences may eventually divert projects to districts with large, multi-billion dollar banks and away from districts with fewer banks and/or smaller banks.

As a compromise, MMFHC would not oppose eliminating FHLB bank prohibitions on projects outside their districts. However, eliminating FHLB bank weighting preferences for in-district projects goes too far and risks geographic balance. Besides, it appears that the Finance Board is fixing a procedure that is not broken; few FHLB banks are prohibiting or restricting out of district financing.

MMFHC members have suggested that one reason behind the pressure for expanding out-of-district projects is that the boundaries of the FHLB banks are antiquated. Rather than dramatically changing the FHLB bank award processes, the Finance Board should consider boundary adjustments. One MMFHC member asked why should Michigan and Indiana be one district; while that made sense several years ago, population shifts suggest that this district may be obsolete.

Charging High Interest Rates

MMFHC strongly supports the proposal that both member banks and non-member institutions cannot charge interest or fees that exceed a reasonable market rate. High cost lending has accelerated in recent years. The AHP program and its subsidies must be focused on providing affordable alternatives to high cost lending for low- and moderate-income families.

In Conclusion

MMFHC appreciates this important opportunity to comment on proposed changes to the AHP program. Before closing, MMFHC also wishes to add a comment about access to credit and capital for small business. While we realize you are asking for comments on proposed changes to the AHP program, MMFHC reiterates our long-standing advocacy before the Finance Board of a specific program responding to the credit and capital needs of small businesses. Your CIP program supports community development but is not specifically targeted to small business development. Women- and minority-owned small businesses in working class and minority communities face persistent obstacles to credit and capital. A lengthy literature based on Federal Reserve sponsored-surveys suggests that discrimination is a factor blocking access to credit and capital for traditionally underserved small businesses. MMFHC sincerely hopes that the Finance Board consider a specific small business program. As a first step, please consider convening a conference or symposium on small business needs across America. Given that the membership of the FHLB banks is now heavily skewed towards commercial banks, the FHLB system has the resources to tackle all the dimensions of economic development, including assisting small businesses.

Sincerely,

William R. Tisdale

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