Wabuck Development Company, Inc.

EQUAL HOUSING OPPORTUNITY

May 1, 2018

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Federal Housing Finance Agency
400 7th St. SW
Washington, DC 20024

Ref: Proposed Changes
AHP Regulations

As President of Wabuck Development Company, Inc., I have gained considerable experience in the utilization of the Affordable Housing Program (AHP) in the fifth district of the system. I personally have over 35 years' experience in the development, construction, and operation of affordable housing. Our organization has been involved in over 100 successful projects utilizing AHP fund. Additionally, I served eleven years on the Advisory Council of the Federal Home Loan Bank of Cincinnati including two as chairman. I am currently a bank director of a member bank. Among the projects we have developed utilizing AHP funds are:

- Homeownership in Rural & Appalachian Areas
- New rental housing for foster children
- New rental housing for recovering addicts
- New rental housing for the mentally disabled
- New rental housing in Appalachian
- New rental housing for elderly with services
- Rehabilitation of vacant housing
- Rehabilitation of elderly and family housing

I have seen the positive impact the AHP program has made on the lives of those it has served, improving the health and safety of many and, in some cases, saving lives. It is with passion for those the program assists that I'm writing to express my concerns about the proposed regulations regarding the program and comment as follows:

The proposed regulations appear to further complicate the program. As badly as the AHP assistance is needed, we see organizations trying to make their projects work without it due to complexity. Among those are underwriting requirements that don't match those of the major funding providers. The timelines don't correspond to the major funding providers. There are delays in projects receiving disbursements due to the regulatory requirements. I see the additional regulations as adding unneeded complexity to a program that is in need of deregulation.

The proposed regulations appear to require a more restrictive view of need for subsidy. The AHP is principally designed as gap financing and is not intended to be the principal financial source for a project. Rental projects will probably have financial contributions from sources with substantial financial risks. The regulations need to yield to the underwriting criteria of the substantial financial risk takers, typically equity providers, state housing finance agencies and banks, and allow flexibility in providing gap financing. Many of the projects we see have loans that are a small percentage of total sources. Any time the debt service is less than 50% of revenues the DCR trends downward and the smaller the percentage of revenue to debt services, the faster the DCR declines. For rental projects to be affordable to low income households in rural areas the debt must be small, but some debt is possible. We constantly have issues meeting DCR first year feasibility guidelines, due to the DCR being too high in year one. However, this is the only way for the project to break even through 30 years which is an underwriting requirement of the state housing finance agency. I see the proposed regulations exacerbating a situation that already begs for improvement.

The need for subsidy as proposed would take a harder look at operating reserves. Again, the regulations need to allow more flexibility in the use of reserves. Capitalized reserves allow for rents to be lowered which will be paid by a low-income house hold. These reserves are being underwritten by organizations with substantially more risk. The Federal Housing Finance Agency should understand that neither the member banks nor the banking system has resources at risk relative to AHP program subsidy. Lenders and equity providers have risk, the program needs to recognize this risk and be flexible to yield to their requirements. Every project we have started with AHP is viable today. Reserves and stronger DCR's make for stronger projects.

I am opposed to the idea of additional pools of targeted funds as specified in the proposed regulations. The program already has an Advisory Council to determine district needs and I've personally been part of those debates during my tenure on the counsel. Please let them, the counsel, do the work that the regulations already require in conjunction with the Housing and Community Development committee of the Bank's Board of Directors. The full board has sufficient matters to deal with in supplying my bank's credit needs in a manner that provides "safe and sound" financial structure and the ability to pay a reasonable dividend. The existing scoring already insures that

1. Reserves are widely dispersed (subsidy per unit)
2. Involvement by non-profits (points for participation)
3. Projects are ready to proceed (scoring for funds committed)
4. Leveraging is incentivized (AHP subsidy as % of development cost)
5. Serving lower income households (points for 50% AMI)
6. Disadvantaged populations (serving Appalachian)

The idea of more targeted pools to reach a certain outcome only reduces the incentive to apply to a program that already has uncertainty. However we would be open to targeted pools of funding that were recommended by the Advisory Council without the requirement of lower prescriptive incomes.

I am opposed to the idea of limiting the resources to one sponsor. The merits of the scoring system are strong. The system needs to encourage the use of sponsors to assist housing/special needs advocates and if that application is competitive, it should stand on its merits. Please do not penalize a sponsor for hard work.

I am opposed to expanding the definition of sponsor. Being able to get reliable, efficient, affordable contractors and management agents is difficult already.

I am opposed to increasing the percentage of funds that go toward home ownership. Our organization has undertaken numerous home ownership projects and it's a rewarding experience to see someone get their own home. However, we have seen too many of these homes in foreclosure. The resources of AHP are limited and cannot fill the great need. The greatest need is for the lowest income households and that population needs affordable rental housing. The single mother with a $12/hour job is struggling to get her child to school and hold down her job and has little time for home repairs and maintenance, neither does the elderly person living on a $1,000 per month social security check. The greatest need is for affordable rental housing for low-income households.

Our projects have served many individuals with special needs. We have taken those individuals out of dilapidated housing into safe, decent, accessible housing closer in proximity to needed services. We serve many individuals in rural areas where supportive services may not exist. To require the utilization of supportive services as a requirement for a project to serve special needs would be to further penalize a population that is in need of safe, decent, accessible affordable housing, especially in rural areas. Many of those individuals have a supportive system in the form of family and friends. Having a scoring threshold requiring a minimum of 50% of the units to have supportive services places undue stress on a project. While a project with low rents is likely to satisfy the requirement, equity providers are reluctant to accept the restriction especially in small rural areas. This percentage should remain at 20% for scoring purposes.

The requirement for member banks to report non-compliance of a project places another layer of regulation on the member banks. Many member banks we have approached are reluctant to participate in the AHP program due to monitoring requirements. Adding additional monitoring requirements will only reduce the willingness of banks to participate in the AHP program. This is especially true for community banks which lack the resources to employ a community development officer and will certainly affect the ability to do projects in rural areas.

In summary, the AHP program needs to be more flexible, get the funds into the hands that need it faster, allow funds for services to special needs populations, yield underwriting to those with "skin in the game", allow the flexibility to work through unintended situations for the benefit of the population the program was designed to serve. We know firsthand the great impact AHP has had on low-income families. Please reconsider the effects the proposed regulations will have. We also request that additional time be granted to allow all to consider and comment.

Thank you for your consideration.

Sincerely,

Garry D. Watkins
President