Prosperity INDIANA

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Alfred M. Pollard
General Counsel
Federal Housing Finance Agency
400 Seventh Street, SW, Eighth Floor
Washington, D.C. 20219

Dear Mr. Pollard,

Prosperity Indiana appreciates the opportunity to provide feedback to Federal Housing Finance Agency's (FHFA) proposed amendments to the Affordable Housing Program (AHP). Prosperity Indiana is a member-serving nonprofit supporting our network of 200 housing and community development organizations and institutions dedicated to building stronger communities throughout Indiana. Our work on their behalf is aimed at ensuring all Hoosiers have the opportunity to live and work in an environment of economic and social opportunity.

According to the *2018 Out of Reach Report* from the National Low Income Housing Coalition, a renter must earn $15.56 per hour to afford a modest two-bedroom apartment in Indiana. As the minimum wage in our state is $7.25, a minimum wage employee would have to work 2.1 full time jobs to afford that unit. Further, data from the Eviction Lab project of Princeton University reveals that 86 renter households are evicted each day in our state. Central to this affordable housing crisis is a lack of affordable housing available to low-income Hoosiers. Our member network is dedicated to addressing this challenge, and the Federal Home Loan Bank's (FHLB) AHP program fills a critical role in financing projects to expand affordable housing units to underserved populations across Indiana.

Prosperity Indiana and our members regularly partner with the Federal Home Loan Bank of Indianapolis (FHLBI) to do just that. Since 1990, the FHLBI has awarded more than $273 million to create or rehabilitate single- and multi-family affordable housing within its Michigan and Indiana footprint. In 2017 alone, over $6.18 million worth of AHP subsidy was invested in 15

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projects in Indiana. Across Michigan and Indiana, 762 additional units of housing became available to individuals and families otherwise struggling to afford basic needs.

So, Prosperity Indiana and our members are invested in ensuring AHP program design and scoring makes these projects successful. With that in mind, we share the FHFA proposed rule's objectives to expand the flexibility of the program and ensure underserved housing populations are better met. We have significant concerns, however, about negative unintended consequences for these projects and the quality and diversity of applications, if the proposed rule is implemented in its current form.

TARGETING TO VERY LOW-INCOME HOUSEHOLDS

While flexibility and meeting local needs is emphasized in the proposed rule, the requirement for at least 55 percent of the units to be designated for very low income households could have the effect of housing fewer households in need. While laudable to ensure a greater number of low-income families are served, current practice and housing theory supports more integrated mixed-income housing, as a means of avoiding concentrated pockets of poverty, and constructing, rehabilitating or preserving this housing in areas of opportunity. Further, programs like the National Housing Trust Fund require intensive income targeting, which makes the funds difficult to use. Across Indiana, we also see demand for affordable housing among households slightly above 50 percent of area median income (AMI), and yet few resources exist to serve this income level.

Adding rigidity with this targeting does not allow for the kind of diversity of project type we would like to see. Instead, we recommend retaining the 20 percent minimum requirement for very low-income households; and if the "outcomes" are retained, we recommend putting that level at no greater than 25 percent.

TARGETING TO SERVE UNDERSERVED COMMUNITIES AND POPULATIONS

HOMELESS HOUSEHOLDS

Similarly, under the specified housing needs, the proposed rule would require 50 percent of units to be reserved for homeless households. We believe in the spirit behind this outcome measure, but the practical impact would be problematic. For instance, nonprofits may not have sufficient resources to manage properties where the percentage of homeless residents is between 50 and 100 percent. That could limit the number of applications received. We believe

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in scoring a project with more than the minimum homeless units higher, but do not suggest a punitive model that requires a 50 percent threshold. We suggest you retain the 20 percent minimum.

SPECIAL NEEDS HOUSEHOLDS

We also have concerns about the proposed rule's 50 percent set-aside for people with specified special needs under this outcome measure. We have fair housing legal concerns about this minimum threshold inhibiting integrated housing for people with disabilities. Instead, we again recommend a 20 percent minimum without penalizing project applications that seek to target at a higher percentage if it is appropriate for that project, such as a permanent supportive housing project.

EXTREMELY LOW-INCOME HOUSEHOLDS

Another category of the specified housing needs is for rental housing for extremely low-income households. As laid out earlier in this letter, there is clearly a critical need across low-, very-, and extremely low-income (ELI) households in Indiana. Again, we understand and appreciate the theory behind the threshold, but have concerns the minimum requirement may reduce overall project submissions– as it is difficult to achieve without federal voucher resources– and, accordingly, may see fewer units funded. Instead, we endorse an approach that would encourage deeper targeting, but through an incentivized points scoring, rather than a minimum threshold at 20 percent for ELI households.

OUTCOMES FRAMEWORK

Our members expressed strong concerns that the new outcomes framework overall would hinder individual FHLBank decision-making about project suitability to meet local community needs, even though the proposed rule emphasizes its interest in increasing flexibility. The thresholds are overly prescriptive to the point they could leave out projects that are statewide priorities or match state Qualified Allocation Plan priorities.

Quoting one of our members who has previously utilized AHP to fund units in rural Indiana, "Outcomes are great in theory but difficult in practice – this section of the proposed rule gives me the greatest concern, as it increases applicant risk, because it limits your ability to fully evaluate the competitiveness of a potential project application."

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A project that meets or exceeds all statutory requirements could fail to meet outcome requirements due to changing demands for project types. In that case, it would be subject to a re-ranking process that lacks transparency. Predictability and transparency are critical to ensuring quality project pipelines. The re-ranking process could very well have a chilling effect on submissions.

ADMINISTRATIVE ISSUES

CAPACITY

The proposed rule would change the current standards to require FHLBanks to examine the capacity of all members of the development team to perform the responsibilities laid out in the application instead of focusing on the sponsor's capacity. This is problematic for practitioners who have other funding sources that may require competitive procurement; and if implemented, this provision could limit new vendor entry into the affordable housing industry.

COMPLIANCE

One modification we certainly support is allowing partners who have a larger stake in financing affordable housing projects to take on compliance instead of FHLBs. We believe this will improve flexibility and collaboration.

DEBT COVERAGE

We have concerns about emphasizing debt coverage ratios in reviewing a project's pro forma because it could unduly impact smaller projects. When smaller projects experience a single event, such as a vacancy, it can result in a more significant change in ratio than a larger project. We would suggest the standard should be that "the cash flow and debt coverage ratio exceeds a Bank's project cost guidelines."

Again, we appreciate consideration of our input on how to strengthen the AHP program and respond to underserved housing needs in Indiana and across the country. Please do not hesitate to contact me with any questions or concerns.

Sincerely,

Jessica B. Love
Executive Director

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