Mayor's Office of Housing and Community Development
City and County of San Francisco

SEAL OF THE CITY AND COUNTY OF SAN FRANCISCO

Mark Farrell
Mayor

Kate Hartley
Director

June 11, 2018

Federal Housing Finance Agency
Ted Wartell
Manager, Office of Housing and Community Investment
400 Seventh Street SW
Washington, D.C. 20219

Subject: Affordable Housing Program Amendments

Dear Mr. Wartell:

Thank you for the opportunity to comment on the Federal Housing Finance Agency's ("FHFA") proposed amendments to its regulation for the Federal Home Loan Bank's ("Banks") Affordable Housing Program ("AHP" or "Program") dated March 14, 2018. We appreciate your team's attention to continuous improvement of the Program, your leadership's willingness to modernize the Program, and your responsiveness to our comments.

The City and County of San Francisco is working to execute on late Mayor Ed Lee's commitment to build 10,000 affordable housing units by 2020. We have developments in our pipeline that will help us to meet this goal, and we need the support of the FHFA to meet the tremendous demand for affordable housing in our city and support those most in need.

We appreciate the opportunity to comment on the amendments to AHP. Most notably, the sharp decline in State and Federal funding for affordable housing is at a crisis level, and local jurisdictions such as ours cannot bear the lift alone. We have shown in the past how we can leverage support from AHP to develop thousands of affordable units in San Francisco, and we hope to continue to do so under this program that shares so many of our San Francisco values such as sustainability, economic diversity, and transit oriented development.

These comments are submitted on behalf of the Mayor's Office of Housing and Community Development ("MOHCD") and the Office of Community Investment and Infrastructure, the offices responsible for overseeing the City's affordable housing developments. The section numbers below reference the section numbers published on the March 14, 2018 from FHFA.

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In general, we support efforts to: allow autonomy of the member banks to decide how to invest FHLB resources; simplify administration of AHP; increase opportunities to combine AHP with other sources of funding; and increase opportunities to resolve issues of non-compliance, where that arises.

Subpart B – Program Administration and Governance

Proposed §1291.12. This section would revise the required and permissible allocations of the Bank's required annual AHP contribution, under current §1291.2(b). Section 1291.2(b)(1) currently requires each Bank to allocate annually to its Competitive Application Program that portion of its required annual AHP contribution that is not set aside by the Bank to fund Homeownership Set-Aside Programs. Section 1291.2(b)(2) provides that each Bank may allocate annually, in the aggregate, up to the greater of $4.5 million or 35 percent of its annual required AHP contribution to Homeownership Set-Aside Programs. Therefore, a Bank generally is required to allocate at least 65 percent of its required annual AHP contribution to its Competitive Application Program (CAP) depending on the amount of AHP funds it allocates, if any, to Homeownership Set-Aside Programs. The change would allow the Banks to create a Targeted Fund and allocate up to 15 percent of AHP allocation there, thereby decreasing the amount of the AHP CAP allocation to 50 percent from 65 percent of the current provisions. In the event that the Bank does not set up a Targeted Fund Competitive Application Program, the amount that would be allocated to the Targeted Fund would be allocated to AHP.

MOHCD can understand the benefit of having a directed allocation for targeted populations, but is concerned that the new Targeted Funds Competitive Application Program would result in less units built overall. It is helpful that the provisions note that the Banks *may* allocate to Targeted Funds, and if not, then those funds would remain in the Program. However, MOHCD takes issue that the Banks are allowed up to 15 percent of the Program to Targeted Funds. Considering the current high cost market, the difficulty obtaining leveraged funds, and lack of new housing being built nationwide, this could be a significant decrease in the Program. For example, in reviewing San Francisco Bank's Program allocation for the last five years, on an average per unit basis, if the Bank were to reduce the annual allocation of the Program by 15 percent this would result in a potential loss of over 4,000 units at the cost of over $45 million. This equates to slightly less than the five year allocation average of $60 million per round or 5,515 units developed per round. High costs cities where homeownership is lower would be most affected. There is no way to know if the new Targeted Funds allocation would be able to produce as many units that are currently built with the Program's current allocation. Furthermore, if there are targeted populations that individual Banks would like to reach with allocation funds, a Bank could adjust the AHP District Priorities to capture those populations. This would in turn maintain the number of units built based on the current 65 percent set aside.

As mentioned earlier, §1291.2(b)(2) provides that each Bank may allocate annually, in the aggregate, up to the greater of $4.5 million or 35 percent of its annual required AHP contribution to Homeownership Set-Aside Programs. Under the new provisions, this would be up to the greater of $4.5 million or 40 percent of its required annual AHP contribution. Speaking only to the San Francisco Bank's AHP allocation, MOHCD does not take issue with this increase. Considering the Program's allocation over the last five years on an average per unit basis, decreasing the amount of allocation by 5 percent would result in a potential loss of only 10 units annually, at the cost of about $15 million, which is de minimus overall.

Subpart C – General Funds and Targeted Funds
Proposed §1291.5(c)(2) would move to propose §1291.24(a)(3), with clarifying changes, including comments on supportive services funding through the operating budget and the requirement in which the Bank should review the operating budget for cash flow analysis. MOHCD strongly suggests aligning the changes with LIHTC on issues related to supportive services and cash flow analysis. Administratively, if a project has already been approved by LIHTC, which allows payment for social services in the operating budget, and in which the project's cash flow was reviewed and approved as appropriate, then the Bank should defer to that approval at time of the AHP application. Furthermore, an investor, and lender if applicable, are already regulating the project's operating budget and social services requirement at disbursement and initial monitoring, which would alleviate the administrative burden on the Banks to review these items.

Subpart E – Outcome Requirements for Statutory and Regulatory Priorities.
Proposed §1291.48(d). Subsection d would establish outcome requirements for three regulatory priorities for the FHFA. This would include increasing the Housing for Homeless Households and Housing for Special Needs Populations set aside from 20 percent of all units to receive the minimum scoring to 50 percent of all units in a development. At the same time, subsection d would include a new set aside for Housing for Other Targeted Populations at 50 percent of all units to receive minimum scoring.

MOHCD supports the new set aside for Other Targeted Populations and sees this as benefit to many of the communities we serve. The concern for the City is that increasing the minimum set aside from 20 percent of all units to 50 percent of all units for both Homeless and Special Needs, and now Other Targeted Populations, would result in specific developments that we have been planning for many years not be as competitive. The City has found, especially for buildings targeted to families, that creating a more diverse unit mix – ranging from a starting point of 20% -- has proven to be more successful when working with populations such as Homeless or Special Needs. MOHCD encourages FHFA to again align with LIHTC regulations for setting the minimum level at 20 percent to receive points in this category.

Furthermore, if the goal of the proposed changes are to help Homeless and Special Needs households that are concentrated in specific areas or buildings, then providing provisions under the new Target Funds would better serve those household considering the intensive supportive services that are needed on those sites.

Thank you again for your willingness to engage in a dialogue with us about these proposed regulations. Please contact me at mara.blitzer@sfgov.org or 415-701-5544 with any questions regarding these comments.

Sincerely,

Mara B

Mara Blitzer
Director of Housing Development

Copy: Jeff White, Housing Manager, Office of Community Infrastructure and Investment, San Francisco