



Submitted electronically via *FHFA.gov* and via email to *RegComments@fhfa.gov*

June 11, 2018

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

Re: Notice of Proposed Rulemaking and Request for Comments – Affordable Housing Program Amendments
RIN 2590-AA83

Dear Mr. Pollard:

On behalf of Wisconsin's credit unions® and their more than 3 million members, the Wisconsin Credit Union League (the League) appreciates the opportunity to comment on the notice of proposed rulemaking regarding the Affordable Housing Program (AHP) of the Federal Home Loan Banks (FHLBs). We applaud the Federal Housing Finance Agency (FHFA) for its efforts to modernize AHP rules, but we have several concerns about this proposal.

Currently, 48 Wisconsin credit unions are members of the FHLB of Chicago. For over 25 years, its AHP has been a valuable and crucial source of funding for affordable housing needs throughout its district. In Wisconsin alone, it has provided more than \$212 million to help more than 38,000 low and moderate income individuals and families to obtain, develop, rehabilitate or preserve safe, decent and affordable housing. Both our members and their housing development partners agree it is a very successful program. While it can always be improved, it is not broken. The goal of the FHFA's proposal should be to build upon the program's successes by helping the FHLBs more efficiently respond to the housing needs in their districts and better harmonize program use between members, sponsors and stakeholders.

Above all, when considering how to reform such a successful program, the first objective must be to do no harm. The FHFA must take care to ensure that the current benefits of the AHP are not unintentionally distorted or negatively impacted. We are concerned that the proposed rule does just that. Taken as a whole, the proposal does not appear to advance or modernize the AHP as was originally intended. Rather, it seeks to impose a complicated, top-down approach that promotes a number of national housing priorities that may or may not align with the housing priorities and needs within each distinct FHLB region.

Proposed outcomes framework

We are chiefly concerned about the outcomes framework proposed in the AHP amendments.

A hallmark of the AHP has been its relatively simple structure that encourages all members to submit applications on behalf of needed housing projects in their communities. The program then scores each application in an objective, straightforward and transparent manner. This approach also allows each FHLB some flexibility to tailor its AHP project awards to the specific needs of its district and region. The affordable housing needs of Wisconsin are undoubtedly different than those of Florida or California, and the current program allows the FHLBs some discretion to take such differences into account. Additional flexibility and discretion would help ensure these regional needs are met, and so we

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had hoped that the proposed rule would provide the FHLBs with more authority to design their AHPs to address affordable housing needs in their districts per the stated objective of the FHFA

However, the proposed rule moves in the opposite direction. It would replace the current scoring-based model for awarding AHP funds with a prescriptive outcome-based framework for awarding AHP funds, which would prioritize the FHFA's overall housing goals. This outcomes-based approach would dramatically reduce each FHLB's discretion to address local housing needs, and instead establish preferences for certain project types and make AHP less transparent. The new approach would direct the majority of the Bank's AHP contribution to meet targeted outcomes and preferences for certain project types, as determined in Washington, D.C. rather than rewarding projects most aligned with the priorities of the regional FHLBs. This is contrary to the current AHP scoring methodology, which incentivizes projects to respond to the most pressing local housing needs.

Furthermore, to mitigate the risk of not meeting the FHFA's requirements, the proposal would require the FHLBs to re-rank their applications, following the initial scoring results. In effect, the proposed top-down approach would elevate the chances of some project applications receiving funding at the cost of others. However, the concept of re-ranking would obscure the transparency of the current program and result in a more compliance-orientated structure that would require the FHLBs to ensure that a specified number of dollars and units are awarded to FHFA-prescribed priorities. Such unnecessary complexity would likely discourage member participation. Worse, it would leave the FHLB Chicago and its member/shareholders with less flexibility to respond to our unique local and regional affordable housing needs. This proposal could hurt communities that have been designated as most in need of housing production, making it more difficult for our members to best serve their customers and communities. All of this would threaten the value and relevancy of the AHP.

Our credit unions are confident that the FHLB of Chicago can direct AHP funds effectively to meet local district needs. We strongly favor the continued use of a scoring-based framework, as it provides the FHLB of Chicago with the flexibility to respond to local needs, encourages all project types to apply, and maintains the program transparency that we value. A regulatory-required outcomes framework would lessen the number of opportunities for our credit unions to participate successfully in AHP in the future, reduce the number of deep community relationships we have with housing partners, and limit the lending and investing opportunities that often come with AHP involvement. AHP is a critical source of funds for housing development, and the program should be flexible enough to support the types of projects needed in local communities through a clear and understandable process.

Other concerns

The League is concerned about several other aspects of the proposal, as well:

- The proposal would increase the thresholds that projects must meet to qualify as serving targeted populations, such as the homeless, individuals with special needs, and other specified groups. We believe that if the FHFA prescribes and defines housing needs, it should maintain a 20% threshold for serving targeted populations, rather than raising it to 50%. The higher threshold is not compatible with other funders and does not recognize the benefit of a mixed-occupancy development, which allows developers to cross-subsidize units in a project and ensure feasibility.
- FHLBs would be required to research, identify, and prioritize district housing needs in an annual Targeted Community Lending Plan (TCLP) that would then drive funding allocations and scoring criteria for the general fund, any targeted funds, and set-aside programs. Identified needs would have to be included in the TCLP at least

six months before the applicable year for the general fund and set-aside programs, and 12 months prior to the applicable year for targeted funds. This change would reduce the program's flexibility and responsiveness to changing dynamics within the FHLB's district (e.g., disaster relief). We urge the FHFA not to require FHLBs to identify scoring priorities and the need for targeted funds within a certain timeframe prior to an annual AHP application round.

- The proposal would eliminate the current requirement of a five-year retention period for owner-occupied housing, including owner-occupied housing assisted through the competitive AHP and set-aside homeownership products. An FHLB may favor maintaining retention agreements under specific circumstances depending on market dynamics within its district. We believe that the FHFA should let each FHLB determine when it is appropriate to require a retention agreement for owner-occupied AHP-assisted housing.
- The proposed amendments would require the FHLBs to evaluate the ability of the sponsor – including all affiliates and team members – to perform the responsibilities they commit to in an application. This evaluation would occur, not just at the time of application, but at the time of AHP disbursement, as well. Expanding the sponsor capacity assessment to include affiliates and team members is overly burdensome, as is requiring re-evaluation at disbursement. We oppose this change.

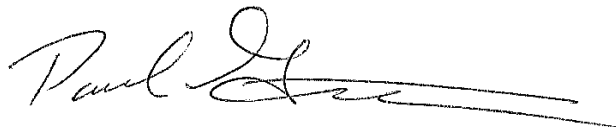
Conclusion

In summary, we commend the FHFA for working to modernize the AHP regulation. However, we believe that the proposed rule would result in unintended consequences for users and beneficiaries of the AHP, by making the program less flexible, less transparent and more complex. Replacing the current successful AHP with a top-down approach that promotes FHFA-prescribed outcomes would limit the ability of the FHLBs to best meet their local needs and discourage member participation.

For these reasons, we urge the FHFA to either 1) withdraw the proposal and resubmit at a later date, following further consultation with the FHLBs, members and other stakeholders, or 2) allow each FHLB to retain their current AHP as is, if it so chooses. Alternatively, any final rule should provide the FHLBs will the maximum flexibility to make their AHP easier for their members to access and use, as well as to design their AHP scoring model in a manner that reflects the unique housing needs in their districts.

Thank you for considering our comments on this important subject.

Sincerely,



Paul Guttormsson
Vice President of Legal & Compliance
The Wisconsin Credit Union League