Homeword

June 11, 2018
Submitted Electronically
Alfred M. Pollard, General Counsel
Attn: Comments/RIN 2590-AA83
Federal Housing Finance Agency
400 Seventh Street SW
Eighth Floor
Washington, D.C. 20219

RE: Proposed Rulemaking and Request for Comments: Affordable Housing Program Amendments (RIN 2590-AA83)

Dear Mr. Pollard:

Homeword respectfully submits these comments to the Federal Housing Finance Administration (FHFA) in response to the Affordable Housing Program (AHP) proposed rule. Thank you for the extension of time until June 12th in order to make thoughtful comments. Since 1994, Homeword has developed or preserved 21 rental properties in 11 communities across Montana, creating or preserving 862 healthy affordable homes to people earning less than 60% of the Area Media Income (AMI). Homeword also has developed four homeownership projects, providing 21 homes for homeowners earning less than 80% AMI in three Montana communities. Homeword is a HUD Certified Housing Agency, and since 1997 we have served over 13,000 people with our education and counseling services.

We have been involved with promoting the homebuyer down payment program (in our District known as Home$tart) through our Homebuyer Education and Counseling activities. As a developer of multi-family housing that is affordable to low and moderate-income renters, we see the competitive AHP program as a vital "gap" funding source for our developments. Montana has very few resources for affordable housing development; we are largely dependent on federal sources and programs and therefore our communities are grateful to have this private funding source to make projects feasible.

We appreciate the efforts the FHFA has made to examine the AHP program in response to requests to modernize the program. However, we feel the proposed rule does not provide the requested flexibility. Rather, it increases regulatory control and program complexity and reduces award transparency. These factors impact not only the FHLBanks, but also its Members, Sponsors, and the communities they serve.

The core of the proposed rule is an outcomes framework that stems from a national perspective of need. This is problematic for many reasons and makes the allocation process less transparent and more complex. The practical implications of the proposed outcomes framework make the AHP less flexible to meet local needs. The data in the Supplementary Information cites numerous national statistics to explain the rationale of the rule change. The problem with this data is that it paints a picture about national averages rather than the granular picture about the very disparate, specific and distinct needs experienced in different communities across the county. We are in the Des Moines District which is vastly diverse in urban, suburban and rural needs. For example, there is a high poverty rate (14.9%) in Montana, but a low homeless rate (.15%). Washington state, in our same District, has the opposite dynamic—a lower poverty rate (10.1%) and a higher rate of homelessness (3%). Clearly, Washington has a high need to address homelessness through the AHP, while Montana might be better served by creating affordable housing for families in poverty. Our concern in Montana is that to meet the required outcomes, the FHLBanks will have to overly allocate to those targets which will overshadow and discount local and regional affordable housing needs. We believe this will ultimately reduce the Banks' ability to leverage local opportunities, such as coordination with the State Housing Finance Agencies as needs and market demand shifts.

We see a risk for unintended consequences which may result in only a certain type of project being funded. As proposed, a project would be required to reserve at least 50 percent of its units for homeless and/or special needs households in order to be eligible for those points. The current threshold is at least 20 percent of the units must be reserved for these populations to be eligible for these points. The unintended consequence of this proposal is that AHP is more competitive in Seattle, WA than it is in Kalispell, MT because Seattle and Washington have the necessary resources in terms of capital and operating subsidy to prioritize projects with a concentrated proportion of units for homeless and/or special needs households and Kalispell and Montana simply do not have those sources and therefore cannot compete. In many of our states, homeownership activities, like rehab, are the localized solutions to maintaining housing affordability. The outcomes framework compromises those projects' applicability, and therefore does not meet the affordable housing needs of many communities in our District.

Our request is that the FHFA maintain the current AHP scoring model and allow FHLBanks more flexibility for allocating points and responding to localized affordable housing needs.

In the past, the need for AHP funds has been defined as the difference between sources and uses. The proposed rule complicates this equation by requiring the FHLBanks to view Sponsor underwriting through a more conservative lens as it relates to cash flow, capital, and operating reserve benchmarks. Why would the proposed rule complicate how projects are underwritten, especially when AHP funds are one small piece of the financing puzzle of projects? Additionally, preventing AHP funds from being awarded to projects that rely on cash flow to finance supportive services presents a potential conflict with the proposed outcomes framework's minimum threshold requirements for homeless and special needs units. Projects with a greater proportion of units serving special needs populations are more likely to require substantial supportive services to be operationally feasible, yet long term supportive service funding is extremely limited and/or virtually unavailable. The proposed regulations works to emphasize more special needs units, but at the same time reduces the viability of these projects.

The proposed outcomes framework causes less transparency for both the Sponsor and the Bank in that the Bank would need to "re-rank" applications and select lower-scoring applications to achieve the outcomes framework requirements. Our FHLBank Des Moines provides Sponsors valuable technical assistance prior to grant application deadlines to help present the strongest projects to the funding pool. This proposal would trigger uncertainty associated with re-ranking. We request the FHFA maintain the current AHP scoring model, which is transparent and incentivizes, rather than requires, certain types of projects.

The proposed rule missed an opportunity to simplify AHP administration, minimize redundancies, and optimize how well it coordinates with other funders. It introduces unnecessary administrative burdens for Sponsors by adding new provisions that focus on cures rather than modifications and require overreaching capacity and organizational review. A proposed change that creates a major problem for Sponsors is the change in corrective actions in cases of noncompliance. The proposed rule further subjects the Sponsor's assets and other financial resources as sources for repayment of AHP funds if a project cannot be brought back into compliance. In effect, the AHP shifts from a grant program to one that requires the Sponsor to act as a guarantor. This can cause major implications for developers, particularly those who utilize low-income housing tax credits, and will discourage developers of affordable housing from applying for AHP funds.

In summary, the proposed rule does not achieve the goals. It:

- Reduces the availability of AHP funding to meet specific community housing needs where they differ from a "national" average,
- Increases and complicates regulatory restrictions and administrative burdens for the Banks, Members, Sponsors and Projects,
- Reduces the transparency and clarity of the existing program, and
- Discourages affordable housing developers from seeking this important gap funding source, especially in rural and semi-rural communities where sources are very limited.

Again, we value the opportunity to provide the FHFA input on the Proposed Rule.

Sincerely,

Andrea Davis

Andrea Davis
Executive Director
Homeword

Cc: Montana State Senator Jon Tester
Montana State Senator Steve Daines
Montana Congressional Representative Greg Gianforte