June 11, 2018

Alfred M. Pollard
General Counsel
Attention: Comments RIN 2590-AA83
Federal Housing Finance Agency
400 Seventh Street, S.W., Eighth Floor
Washington, DC 20219

Dear Mr. Pollard:

Thank you for the opportunity to comment on the proposed amendments to the Federal Home Loan Bank's Affordable Housing Program (AHP). This letter includes comments by the members of the FHLB of San Francisco's Affordable Housing Advisory Council (AHAC). As we are aware that you will receive an enormous number of comment letters we have limited our input to those items that are of most concern to us. We are pleased that the Federal Housing Finance Agency (FHFA) has taken a comprehensive look and evaluation of the regulations governing the AHP and appreciate our ability to provide input on the proposed amendments. We all agree that the program has been extremely successful, having helped fund affordable housing communities throughout the country. The way in which community, economic and affordable housing development comes together in our communities has changed over the past 29 years, so it is essential for the FHFA to re-evaluate AHP to determine how best to continue the legacy of success of this impactful program.

We are very appreciative of the FHFA's efforts to improve the AHP and the time and energy that has been devoted to this endeavor over the past several years. Unfortunately, as is often the case when developing or redesigning large scale community programs, there can be unintended consequences. Our concerns with the proposed amendments to the AHP regulation include the following:

Outcome-based framework

The introduction of a prescriptive outcomes-based framework to award AHP funds creates a complicated structure that results in increased program complexity and reduces the program transparency.

The proposed outcome requirements determine how the majority of the AHP subsidy is awarded: 65 percent of the Bank's required annual AHP contribution is prescribed including the required regulatory priorities (55 percent) and the 10 percent AHP for homeownership. This translates into the majority of the Bank's required annual AHP contribution being permanently prescribed in the regulation, which may be an obstacle with addressing the changing affordable housing needs of the district. Dictating the majority of the outcomes could reduce the pool and diversity of competitive AHP sponsors that will apply, knowing they are unlikely to qualify under the FHFA-required regulatory priorities: Underserved Communities and Populations; Creating Economic Opportunity, and Affordable Housing Preservation. To ensure meeting the outcome requirements, the Bank most likely will redesign its program, focusing on the outcomes required by the FHFA priorities. This may have unintended consequences such as certain types of housing and certain developers being placed at a disadvantage to compete for AHP funds.

Under the proposed Rule, if a Bank fails to satisfy the regulatory requirements, it may re-rank applications in order to meet those requirements. Re-ranking adversely impacts the simplicity and rationale of the current award process, the AHP's predictability and transparency, and may further deter sponsors from participating in the program. This proposal could have the result of creating a circumstance in which competitive projects are denied an AHP award in favor of lower-scoring projects. In practice, there may be several cycles of re-ranking projects needed to comply with the FHFA outcomes because simply substituting one project with another may satisfy compliance with one or more FHFA outcome requirement, but not all of those requirements. Thus, it is possible to imagine a scenario in which one or more otherwise non-competitive projects are replaced by one or more lower-scoring and otherwise non-competitive projects for the sole purpose of meeting FHFA's outcome requirements. An additional unintended consequence of re-ranking a project is diminishing the value of the technical assistance the Bank provides to project sponsors to improve the competitiveness of unsuccessful AHP applications.

In most projects developed in our region, AHP is a small piece of the financing stack. The program's predictability, transparency and ability to "play nice" with other funding sources is key. The larger funding programs are what typically drives public policy so it is important that AHP is flexible enough to be used in combination with other sources of funds.

Targeted Community Lending Plan (TCLP)

The Proposed Rule requires the Banks to publish the TCLP at least six months before the TCLP's effective date and 12 months in advance if a Bank offers a Targeted Fund. The timing requirements inhibit the Banks' ability to respond to the unforeseeable and emerging events such as disasters or new district priorities, in a timely manner. The lead times may also result in placing AHP at an incompatible planning schedule with other funding sources, such as the State Housing Finance Agencies which have notably shorter lead times. In addition, the timing requirement makes it operationally very difficult for the Banks to incorporate AHAC input into their plans that addresses immediate needs in their districts. For instance, at the SF Bank's quarterly meetings and outside formal meetings, the AHAC has the opportunity to discuss or raised issues related to the Bank's housing needs and priorities; however, under this expanded TCLP and timing constraints, our direct involvement will be severely limited.

The intent of the TCLP is to identify those affordable housing needs critical to a specific Bank district. Not allowing a Bank to count an award to a project that meets a regulatory priority, simply because the Bank has not prioritized that need as a district need within its TCLP, contradicts the purpose of the TCLP. In this instance, the Bank would not have been credited for addressing a valid affordable housing need. It is also important to note that the Proposed Rule requires the Banks to demonstrate in the TCLP that there is a defined need in each district to support the continued use of their Set-Aside programs, many of which have been effectively supporting first time homebuyers for nearly 18 years. This is an unnecessary and overly burdensome requirement.

Threshold Requirements

The Proposed Rule more than doubles the threshold for units reserved for households with incomes at or below 50 percent. Fifty-five percent as opposed to the statutory requirement of 20 percent, of units must be reserved for households with incomes at or below 50 percent of the area Median Income (AMI) under the Proposed Rule. This is inconsistent with current national housing trends that promote economic diversity. Additionally, the Proposed Rule appears to be incompatible with the LIHTC-income averaging option available to developers through the passage of the Consolidated Appropriation Act of 2018.

The requirement that sponsors reserve a minimum of 50 percent of a project's units for special needs and homeless populations may have an adverse effect on rental projects since it is contrary to best practices of integrated housing models. In addition to these requirements being excessive, they may also be incompatible with other funding sources. In addition, operating subsidies are difficult to obtain and indispensable to make these kinds of projects feasible.

10% Homeownership Requirement

The very high cost of housing in California and in all of the Bank's district has led to very few homeownership projects being awarded funds in the past few years. This trend is expected to continue in the foreseeable future. As a result, all of the homeownership funding is done through the voluntary set-aside programs. The 80% of AMI threshold makes homeownership extremely difficult to achieve through these programs as well, which makes the 10% requirement punitive. The SF Bank would not have met the 10% requirement in 2017, which was noted by the FHFA in their presentation in Cincinnati in April 2018.

AHAC Member Example

It takes a lot of assistance to make a person at 70% of AMI a successful homeowner and more than twice as much to make a 60% of AMI buyer successful. Most of our lower AMI applicants have large families with five or six household members. This is because the additional household members allows them higher income limits as adjusted for household size making it easier for them to reach the bottom tier of newly constructed homes.

In the Phoenix Metro area a new entry level energy-efficient home sells for $199,000. A 70% of AMI buyer will require $18,000 in down payment and closing cost assistance in addition to $6,000 or so of their own funds. A 60% of AMI buyer purchasing the same home will require $54,200 in assistance.

Under the current scoring system, an application submitted under the competitive AHP round requesting this range of subsidy is far from competitive. Even if the scoring allows for it, the subsidy per unit limits stop at $40,000.

Our concern becomes a new mandate from the Proposed Amendment that requires 10% of AHP to be allocated to homeownership. Considering the scoring and limits of the subsidy makes it difficult to see how the bank will succeed in distributing all of those funds. The overall income limit of 80% of AMI is not likely to change and the rules to date don't support significant production so something has to give. A penalty for underperformance is hard to imagine given the circumstances.

Another issue for this program is that in order to qualify for AHP, the developer has to identify the lots by parcel number at the time of application. A preferred method would be to have the developer identify the source of the lots and commit to a production number and a timeframe. The risk to buy and hold lots while an AHP application is prepared, submitted, awarded, developed and sold to an AHP assisted buyer in the right income bracket is just too high.

Increased Burden on Sponsor

The Proposed Rule expands the definition of the sponsor to include all members of the development team; that adds a documentation burden on the sponsors that now need to certify their capacity as well. Additionally all members of the development might not have been selected at the time of the AHP application. This new requirement also adds an increased review by the bank member staff. When there are limited banks in a region, this could hinder sponsors from finding a bank willing to participate in the program.

AHAC Member Example

One of the challenges in the state of Arizona with respect to finding member banks is the fact that many of the smaller regional and local banks that are members of the Federal Home Loan Bank system, might not have adequate staff that fully understand the application, funding, initial monitoring, and overall compliance of the Affordable Housing Program. Those banks that do understand the program often times are inundated with multiple requests by sponsors to serve as the member bank for a sponsor's application. The easier we can make an application in the compliance process for these small banks, the more choices and opportunities and more diverse set of project types from rural to urban and homeownership to rental will be realized.

Often times, with the larger banks that are members of the multiple Federal Home Loan Bank districts, the sponsor has to go through an internal competitive process just to be considered by that member bank to submit an application in the first place. This can be time-consuming and strenuous for all sides and creates a less competitive environment for the applications overall.

Need for Subsidy and Supportive Services

The SF AHAC agrees with the SF Bank and the System as reflected in the paragraphs below.

The Proposed Rule simply states that the project's cash flow and cost be "reasonable." However, the AHAC is concerned that the language of the preamble prescribing various standards for evaluation of the project's cash flow to determine need for subsidy and accordingly, the project's eligibility for subsidy, will be rigidly enforced. Doing so could severely limit the Bank's ability to: 1) effectively coordinate with major funders, including federal funders as required by statute; and, 2) arrive at sensible, fair and pragmatic judgements in instances where a project may appear to have sufficient funds to proceed with development and operation of the project without the use of the AHP subsidy.

We understand that the FHFA's historical interpretation of the statutory authority has been that supportive services are not an eligible use of AHP subsidy and therefore should not be a development expense paid for by the AHP subsidy. We strongly believe that supportive services should be included as standard operating expenses and are necessary to operate most, if not all, affordable rental housing projects, including but not limited to those serving residents with special needs. Because resident services expenses are included in project operating pro formas not in the development budgets, it should be clear that the AHP subsidy is not being used to pay for them. Therefore, resident services should be treated the same as other standard operating costs and included in the operating pro forma along with other customary operating expenses such as property management, security, and maintenance costs, etc.

Many major funders require that resident services expenses appear on the operating pro forma. Requiring the Banks to separate resident services expenses from the project's operating pro forma leads to misrepresentation, confusion and adds an unnecessary burden to developers. The issue of how the resident services expenses are treated has led to frustration and the extra burden on sponsors to prepare two separate sets of accounting records and tracking expenses by funding sources. This is difficult and not reasonable, especially as mentioned earlier, the AHP provides only a small portion of total project development costs.

AHAC Member Example

Senior Project

The Service Coordinator (SC) performs a wide range of services that include the roles of case manager, advocate, counselor, liaison/service facilitator, community builder, and educator. All of the Service Coordinator's roles will be focused on promoting resident autonomy, safety, and fulfilling tasks that will improve the residents' quality of life. Social services referrals may come from Managers, Maintenance Technicians, Regional Property Supervisors, corporate staff and the resident themselves. The SC visits residents that have been hospitalized or placed in Skilled Nursing Facilities; working with the Physician's, Nurses, Social Workers and Discharge Planners to facilitate all services are in place for the safe discharge of a resident back to their home. It is a requirement that SC's respond to emergencies after hours and on weekends as needed, and if they cannot be present, they are accountable for contacting another Service Coordinator to go in their place. The Service Coordinator is expected to provide the following services:

- Keep residents informed of the services available in the community.
- Provide space and opportunities for service agencies to acquaint residents with services through workshops, presentations and free health screenings.
- Link residents with the appropriate service agency or service personnel when needed.
- Maintain a confidential file, separate from management's file, relating to services used and on-going case management.
- Provide advocacy to the residents.
- Provide emergency assistance.
- Support residents in starting and maintaining a Resident Association.
- Help in filling out program and services applications.
- Empower residents to fulfill goals and to remain in their own homes.
- Facilitate movement to a higher level of care when the resident is no longer safe living on their own, even with services in place.
- Educate other staff and the management team on issues relating to the elderly population they serve.

Personnel (Direct Labor/Salary) Identify Position - SC or Aide	
Resident Services Coordinator	$48,900.80
Fringe Benefits (25% of Salary)	
Resident Services Coordinator	$12,225.20
Quality Assurance/Program Evaluation (cap - 10% of line "a", Personnel)	
Quality Assurance (10% of Salary)	$4,890.08
Training, Meetings & Annual Conference (Registration Cost)	
Total Training	$2,075.00
Travel *(Indicate local private vehicle, (mileage and rate per mile) airfare (trips and fare), other (quantity and unit cost), per diem (days and rate per day).*	
Total Travel	$2,800.00
Supplies and Materials	
Total Supplies and Materials	$2,500.00
Other Direct Costs: Memberships, Software fee, IT Support	
Total Other Direct Costs	$1,000.00

Subtotal of Direct Costs	**$74,391.08**
Indirect Costs: Cell Phone, Conference Call & LEP	$1,050.00
PUPM ($15 per unit per Mo. – 70 Unit Bldg.)	**$12,600.00**
Total Indirect Costs	**$13,650.00**
i. Total Estimated Costs	**$88,041.08**

As residents age in place, supportive services and coordination of care will continually expand to meet the needs of the aging population. By adding our Service Coordinators into the site's budget, it allows them to be there to make sure all services in the community are linked with our residents, creating a service enriched environment and overseeing that the $15 per unit per month is used to maximize services and programs for those in need. This program is designed to link residents with home health and wellness programs, home delivered meals, nursing care, personal care, counseling, transportation, income sources, money management resources, legal aide, and other supportive services.

AHAC Member Example

City Request for Proposal - Supportive Service Narrative – Family Project

Provide detailed responses to the following questions.

NEED

- Describe the target population(s) and how the project will address the needs of the target population(s). Include demographic data.

RESIDENT SELECTION

- Provide a detailed description of each on and off-site services to be provided for the residents by the lead service provider and partnering agencies. Merely stating that tenants will be referred is not an adequate description of your plan to provide the service.
- Describe the role(s) of the Resident Service Coordinator and/or case managers and explain how on-site service provision will be coordinated.
- Describe how household will be assessed for service and individualized client service plans will be developed. Include a copy of the assessment tool and service plan that you intend to use.
- For both on-site and off-site services, explain the referral process and available hours of services.
- For off-site services, describe transportation plans, including who will cover the cost of transportation

STAFFING

- Indicate and justify the staff-to-resident ratio(s) for each target population for the first year of the building's operation. For mixed population projects, also identify which staff positions will work with each target population, and explain any differences in staff-to-tenant ratios.

RESIDENT ENGAGEMENT AND PARTICIPATION

- Describe how the service staff will outreach to applicants and residents to engage them in services. For mixed population projects, describe any differences in outreach strategies for the target populations.
- Describe the mechanisms by which the lead service provider and property management will facilitate resident participation in decision-making with regards to building operations.
- Describe the mechanisms by which the lead service provider will facilitate resident participation in decision-making with regards to service delivery.

- Describe residents' opportunities for social interactions to foster social cohesion within the building. Describe how the project's physical space will support provision of services and social cohesion. For mixed population projects, describe plans to facilitate interaction among the different target population groups to build a unified community.

- Describe your method for collecting and evaluating the measurable outcomes data. Who will collect and how? Who will evaluate? What systems/ tools will you employ?

AHAC Member Example

The Marist on Cathedral Square – Supportive Services Analysis - Senior

In response to the growing health and economic needs of our senior residents, The Marist on Cathedral Square has committed to provide supportive services throughout the life of the project. In the last ten years, our typical senior resident has gone from having an operating car, some savings and pension at the time of move-in to having very little savings if any and no pension or reliable transportation. Additionally, the healthcare system has become increasingly fragmented and downright difficult for seniors to navigate without constant help from a knowledgeable and trusted source. Our service coordinators are that precious resource.

Our assistance at The Marist includes a service coordinator at no less than 40 hours per month, fringe benefits, travel and supplies along with the cost of supportive services materials for the tenants. Based on our experience at other properties, the first year cost of these services will be $30,428 increasing annually at 3% per year. Given the current restrictions on the use of AHP, these services can only be paid from available cash flow from property operations or subsidized by the nonprofit sponsor and general partner.

The restrictive AHP regulations put The Marist at odds with the state housing agency. A requirement of the 2016 Qualified Allocation Plan (QAP) from which the property was awarded Low Income Housing Tax Credits, is to maximize the permanent loan based on the net operating income. The QAP states "ADOH (Arizona Department of Housing) will expect the Applicant to maximize its lending sources by paying at least the maximum mortgage payment supportable by the Project is net operating income as described hereafter. The amount of the primary loan shall be fully amortized for no less that twenty-five (25) years, with a loan term of no less than the Compliance Period, written at a competitive interest rate, and the annual debt service coverage ratio ("DSCR") shall be no less than one point two zero (1.20) for each year of operating during the Compliance Period."

Based on the requirements above, funding the supportive services puts a significant and growing burden on the nonprofit General Partner to fund the supportive services as the expenses rise faster than revenue. FSL is expected to pay $211,462 out of pocket for supportive services over the first 15 years of the project, which is a really tough sell to a nonprofit board of directors. If supportive services were allowed to be underwritten as a normal operating expense we could properly size the permanent loan debt from the net operating income and meet the requirement of the QAP making the property much more sustainable and our board more willing to sustain the other risks of developing affordable housing.

In closing, we strongly encourage that either the existing scoring framework or an expanded scoring framework like the one being proposed by the Banks, would be preferable to the proposed outcome requirement framework. In addition, the AHAC supports the Bank's recommendation to eliminate the expanded requirements and timing restrictions of the TCLP for the General Fund. Should the Bank offer a Targeted Fund, the AHAC recommends that the FHFA eliminate the 12-month notice requirement. The AHAC also strongly recommends that the FHFA allow the Banks to include supportive services as a standard operating expense.

We appreciate and thank you for the opportunity to comment on the Proposed Rule and your time and commitment to meet with the Chairs and Vice Chairs earlier this year. We believe that our expertise and input on the Proposed Rule will help make the program even a stronger.

Sincerely,

Laura Archuleta
Chair, Affordable Housing Advisory Council – FHLB San Francisco

Name of Council	**Company**
Anne Wilson	Community Housing Works
Carol Ornelas	Visionary Home Builders of California, Inc.
David Adame	Chicanos Por La Causa
David Paull	Nevada HAND
Dean Matsubayashi	Little Tokyo Service Center
Diana Yazzie Devine	Native American Connections
Donald Falk	Tenderloin Neighborhood Development Corporation
Dora Leong Gallo	A Community of Friends
Douglas Shoemaker	Mercy Housing California
Elizabeth Moore	Elizabeth Moore and Associates
Iosefa Alofaitulio	Opportunity Fund
Jasmine Borrego	TELACU
Laura Archuleta	Jamboree Housing Corporation
Stephen Hastings	Foundation for Senior Living
Tunua Thrash-Ntuk	Local Initiatives Support Corporation