

June 12, 2018

Submitted Electronically

Alfred M. Pollard, Esq.
General Counsel
Attn: Comments/RIN 2590-AA83
Federal Housing Finance Agency
400 Seventh Street SW, Eighth Floor
Washington, DC 20219

**Re: Comments/RIN 2590-AA83; Affordable Housing Program Amendments
Federal Home Loan Bank of Indianapolis Affordable Housing Advisory Council**

Dear Mr. Pollard:

We write as members of the Affordable Housing Advisory Council (AHAC) of the Federal Home Loan Bank of Indianapolis (FHLBank Indianapolis), about some of the district-specific concerns we have with the proposed Affordable Housing Program (AHP) Amendments Rule published on March 14, 2018 (Proposed Rule). Since the Federal Housing Finance Agency (Agency) has already met with System-wide FHLBank AHAC leadership on April 26, 2018, this letter will focus on those areas of interest to the Indianapolis AHAC and project sponsors. The AHAC thanks the Agency for its diligence and efforts in considering the perspectives of the affordable housing community.

Our letter requests four changes: (1) modify the proposed regulatory outcome requirements; (2) adopt a less prescriptive process for developing programs that deviate from the Targeted Community Lending Plans (TCLP); (3) adjust the proposed changes to FHLBank Board governance; and (4) contain the expansion of the need for subsidy requirement.

As an initial general observation, the Proposed Rule does not appear to achieve the objective of regional flexibility sought by the FHLBanks and their AHACs during the past several years of discussion with the Agency. Each FHLBank district has different housing markets and housing needs, a different mix of members and sponsors, and different state and local laws and regulations relating to housing and the financing of affordable housing projects; consequently, what may work in one district may not work in other districts.

1. Regulatory Outcome Requirements

The outcome requirements concept in the Proposed Rule will give each FHLBank less discretion, not more, in tailoring its programs to meet the needs of its underserved affordable housing populations. This is because Targeted Funds, the General Fund and Homeownership Set-Aside Programs must first meet all of the quotas set in the Proposed Rule's statutory and regulatory outcome requirements before other projects may be funded. We prefer a system which retains – and even expands – the concept of Targeted or tailored Fund designs, but does not include the percentage-based quotas associated with specific regulatory outcome requirements. These prescribed outcomes may not accurately reflect the needs of a given district or the mix of projects that apply in any particular funding round.

FHLBanks have a strong track record at successfully operating their AHP and are excellent stewards of their members' investments in FHLBank programs. We believe that the Proposed Rule imposes substantial compliance burdens disproportionate to the risks that the FHLBanks experience, which would have the unintended consequence of reducing the AHAC's ability to support the needs of

our communities. Moreover, we are concerned that the greater compliance burdens will disproportionately harm the FHLBank Indianapolis district, because our small community bank and credit union members are already challenged to meet the compliance requirements of the current regulation. Increasing those compliance burdens further and reducing the certainty of funding, as the Proposed Rule does, combines to make this Proposed Rule uniquely harmful for communities already suffering from housing problems such as Detroit and Flint, Michigan, Gary and East Chicago, Indiana, and other parts of our district.

2. *TCLP Flexibility*

We are also concerned about the timing associated with establishing Targeted Funds in relation to publishing and approving an FHLBank TCLP. Targeted Funds should maintain the flexibility to address emerging needs with significantly shorter time-frames. Disaster recovery-related programs are one good example of short time-frame needs. In disasters or other emergency circumstances, relevant data is not immediately available and there are very short windows of time to meet the emergency needs meaningfully. Currently, the Indianapolis FHLBank has a mechanism, through its Homeownership Set-Aside Disaster Relief Program, to provide direct “first-come, first-serve” grant assistance to homeowners affected by disasters. However, the phase-in requirements, need to collect market research and to perform a data review, and the six-month and 12-month lead time requirements for approval, as contained in the Proposed Rule, would cause unreasonable delay as disaster victims wait for relief. Thus, under the Proposed Rule, FHLBanks would be unable to react swiftly in an emergency to support short-term or unforeseen but emerging affordable housing needs. Recent experiences with floods and with water supply contamination in Flint, Michigan have made us particularly sensitive to such delays.

We recommend removing the outcome requirements for regulatory priorities and the waiting periods associated with TCLP advance publication and approval. Instead, each FHLBank should be allowed to set housing priorities based on the considered recommendations of its AHAC, established local, state, regional and national housing initiatives, and the needs of its district. The Proposed Rule should allow an FHLBank the discretion to develop its own Targeted Funds, and those funds should be tied to well-understood housing needs identified by the AHAC and supported by market research and district-level data. Such needs can be documented in the Community Lending Plan that is required under the current regulation. However, the TCLP should also give the FHLBank sufficient flexibility to create short-term programs based on needs that cannot be predicted twelve or even six months in advance.

3. *Governance*

With respect to the Proposed Rule’s governance requirements, we do not support the requirement for quarterly meetings between the AHAC and the full Board of Directors. Since members of the AHAC are drawn from a pool of community members with deep experience in the local district’s housing needs, the AHAC, working closely with the Affordable Housing Committee of the Board (AHC), has an important role to play in helping the FHLBank establish housing priorities. The AHAC greatly values the specific affordable housing expertise of the directors serving on the AHC.

Expanding the scope of Board oversight and the frequency of required full-Board meetings is unnecessary. Currently, the FHLBank Indianapolis AHAC meets with the full Board annually, and with representatives of the AHC quarterly. Meeting frequently with fewer representatives of the Board allows the AHAC to productively address housing policy issues with AHC members that have a focus on affordable housing. The AHAC is concerned that the Proposed Rule, rather than increasing Board engagement and oversight, may instead diminish the role of the experts on the AHAC and the AHC who assist the FHLBank in identifying and setting district housing priorities.

The AHAC requests that the Proposed Rule be modified to require that the AHAC meet with the full Board annually. We believe that the current governance structure works, and that it is a more productive method to address the housing needs of our district.

4. *Subsidy Requirement*

Finally, the AHAC is concerned that the need for subsidy requirement in the Proposed Rule does not take into account the realities of funding affordable housing projects. The Proposed Rule would require the FHLBank to review project development budgets and operating pro formas submitted by the project sponsor, in order to determine the size of the project funding gap and thereby set the maximum permitted amount of AHP subsidy. Under the current regulation, the FHLBanks consider a development budget submitted along with a project application, but not an operating pro forma, to evaluate a need for subsidy.

Often, a project's pro forma may state a higher expense ratio that results in negative trending cash flow, which would require a higher-than-normal debt coverage ratio and cash flow early in the life of the project to ensure that the project remains financially viable throughout the entire development period. Such a project may require a higher AHP subsidy than a pro forma might indicate because the project developer seeks to ensure stable financing over the course of the entire project, not just in its first few years. The AHAC believes that the FHLBanks should have flexibility to determine whether proposed rental projects can operate in a financially sound manner based upon consideration of all facts and circumstances, including factors which can influence development costs and operational budgets, and not solely whether the cash flow or debt coverage ratio in the pro forma exceeds the FHLBank's feasibility guidelines.

Conclusion

The FHLBank Indianapolis AHAC appreciates the opportunity to provide comments on this very important Proposed Rule. The AHAC thanks the Agency for its diligence and efforts in considering the perspectives of the affordable housing community. However, the AHAC respectfully asks the Agency to consider the impact of this Proposed Rule in the context of other funding sources used by that community, and to structure the Final Rule to provide project sponsors the maximum amount of flexibility. AHP subsidy is usually a smaller piece of gap financing that is subordinate to funding from other Federal and state/local programs (such as tax credits and HUD programs) or private foundation grants. Requirements associated with these programs and sources change more frequently than the horizon for changes in regulations. It is important for the Agency to allow the administration of these programs with as few prescriptive requirements as possible, so that the FHLBanks, their members and project sponsors, can continue to use AHP as an important complementary financing resource.

We encourage the Agency to adopt a structure that reflects the successes of the current AHP, but does not impose mandatory outcome requirements. This approach, coupled with continued flexibility in setting and modifying scoring categories on a district-by-district, need-based basis, will ensure that the FHLBank System AHP will continue to serve as a crucial source of supplementary housing finance.

Sincerely,

FEDERAL HOME LOAN BANK OF INDIANAPOLIS
AFFORDABLE HOUSING ADVISORY COUNCIL

[signatures on following page]

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/s/ Eric Frey, II

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