



June 12, 2018

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

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

Mr. Pollard,

Thank you for the opportunity to comment on your recent release of proposed rulemaking regarding the Affordable Housing Program (“AHP”) of the Federal Home Loan Banks (FHLBanks). I am presently the Community Development Manager at 1st Source Bank. 1st Source Bank, headquartered in South Bend, Indiana with \$6 billion in assets, is a community driven financial institution with 77 banking centers located throughout northern Indiana southwestern Michigan and Sarasota, Fla.

Community leadership is one of 1st Source Bank’s core values. Our 1,180 employees demonstrate their commitment to their communities through more than 19,000 volunteer hours gifted to more than 300 community based organizations. Further, 1st Source Bank, through its Foundation provides more than \$1.5 million annually in cash contributions. Much of this is done through the Affordable Housing Program (AHP) where member contributions to the development of the project translate to member involvement points. Pairing the AHP with construction financing, long term debt or a financial donation helps meet the bank’s CRA requirements and fulfill its mission to serve community. The Affordable Housing Programs are a valuable community resource that is relied upon to help 1st Source serve our communities.

We offer these comments:

- 1) Most of our AHP sponsors are non-profit organizations, many of whom serve vulnerable populations and rely on fundraising as a primary source of funds. AHP helps close the funding gap that must be raised from the community. The predictability of the AHP program with its easily understood scoring requirements and clarity of the timing to apply for AHP are essential in moving these types of projects forward. The proposed change from a fixed scoring approach to the outcomes approach threatens this predictability and reliance on AHP to close the

gap when the majority of the fundraising is committed. 1st Source would ask you to retain some component of the existing scoring framework in the proposed rule; the outcomes approach appears to overly complicate the evaluation of the project with the re-ranking element voiding the prioritization of a project by points and total score.

- 2) 1st Source does appreciate the easing of the household income documentation requirements during the long term monitoring period. For shelter type projects, this step has been an area that is burdensome on the sponsor. Developments that serve a transient population are challenged to meet the long term monitoring income documentation requirements. However, we would support retaining the income and rent validation component in the initial monitoring phase. If a project is going to derail it is most likely to occur during the initial lease up phase. This review by FHLBI provides for the member some reliance the project is compliant at the completion and; is likely to remain compliant long term.
- 3) With respect to projects that target underserved populations, most of the projects 1st Source has supported are typically 100% elderly or domestic violence victims. While 100% of the units in most cases are reserved for these vulnerable populations, we believe the minimum percentage of units reserved for underserved populations should remain at 20%. The increase to 50% is too limiting and restrictive for a family project, for example, wanting to also serve some homeless families. With the percentage so high, it may discourage developers from reserving any units at all for homeless families because such a reservation requires these units to sit vacant until an eligible household is identified. The 50% benchmark is higher than IHEDA and MSHDA requires. With LIHTC projects needing AHP to offset market fluctuations in equity pricing, with 50% of the units reserved for homeless families the project may not be financially feasible. Having some units in a family development reserved for homeless families is better than none at all which would likely happen in a low-income housing tax credit (LIHTC) project if this threshold is retained in the final rule. Please consider this change carefully.
- 4) 1st Source is concerned about the impact the proposed rule may have in closing out a project and moving it into the long term monitoring phase. The modification is a tool that enables all parties to resolve a scoring non-compliant issue. For many years, FHLBI has had green points. Several situations have occurred where the budget was impacted by the green requirements and some green elements had to be removed. Budgets are tight with increasing labor and material costs. Developers have to have the flexibility to know if a scoring element can be modified rather than having to make feigned attempts to cure an issue that is unresolvable without a modification.
- 5) The elimination of the real estate retention requirements for homeownership assisted properties should be left in place with the term of the retention period determined at the FHLB's discretion. This approach would preserve the unique needs of the FHLB districts. The AHP grants are very much needed and demand

is high with the funds exhausted before the needs are met. The retention agreement ensures a family that needs an affordable payment has an opportunity to own a home. Without the five year restriction to remain in the home, families that are assisted with grants may fall victim to predatory lenders when an unexpected expense occurs. The family may forego their affordable mortgage to relieve some short term debt obligation. In such a scenario the impact of the AHP down payment could be lost very quickly.

- 6) 1st Source strongly encourages the FHFA to provide the FHLBanks and its Advisory Council the flexibility to establish district specific criteria that addresses housing concerns/needs in the geographic footprint of the member banks. The targeted funds are an approach used by the state finance agency. In Indiana, the CSH Institute is an example of how targeted funds can work well. The timeline requirements detailed in the proposed rule could be limiting and problematic in being timely and relevant to changing market trends. The 12 month lead time requirement is too long and negates the importance and effectiveness of a targeted fund. Developers must assemble many applications for funding before projects are ready for AHP, and the AHP has to be considered by other investors in the project. Streamlined and transparent application decisions are needed in order for members to commit the resources to manage the AHP grants. The TCLP requirements have the potential of bogging down the process. Many of the scoring points identified in the implementation plan for Indianapolis mirror similar scoring in the low income housing tax credit program as an example. Keeping the process simple and allowing the FHLBI to rely on current and existing housing studies, data, and guidance from community development professionals including its Advisory Council is an approach that is working. Stipulating an extensive lead time before accepting applications for the targeted fund, may halt many worthwhile and viable developments.

1st Source is thankful that the FHFA is looking to improve and modernize the AHP program. We ask for consideration to be given to maintain a transparent, straightforward guideline that facilitates the creation of quality, sustainable affordable housing.

Thank you for considering these comments.

Sincerely,



Mark Gould  
Vice President  
Community Development Manager  
1st Source Bank