June 12, 2018

<u>Submitted Electronically</u>
Mr. Alfred M. Pollard
General Counsel
Federal Housing Finance Agency
400 Seventh Street, SW, 8th floor
Washington, DC 20019

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

Dear Mr. Pollard:

The National Multifamily Housing Council (NMHC) and the National Apartment Association (NAA) appreciate the opportunity to respond to FHFA' s request for public input on the proposed amendments to its regulation of the Federal Home Loan Banks' (FHLB or Banks) Affordable Housing Program (AHP).

For more than 20 years, NMHC and NAA have partnered to provide a single voice for America's apartment industry. Our combined memberships are engaged in all aspects of the apartment industry, including ownership, development, management and finance. NMHC represents the principal officers of the apartment industry's largest and most prominent firms. As a federation of 160 state and local affiliates, NAA encompasses over 75,000 members representing 9.25 million rental housing units globally.

Today, we are experiencing fundamental shifts in our housing dynamics, as more people are moving away from buying houses and choosing to rent apartments. More than one in three Americans rent, and 19 million of those households are building their lives in apartments1. In the past five years, an average of 600,000 new renter households was formed every year. This increased apartment demand creates a critical need for 4.6 million new apartments at all price points by 2030 according to a study conducted by Hoyt Advisory Services and commissioned by the National Multifamily Housing Council and the National Apartment Association. To meet that demand, we will need to build an average of at least 325,000 new apartments every year; yet, on average, just 244,000 apartments were delivered from 2012 through 2016.

It is becoming increasingly difficult to build housing that is affordable to a wide range of income levels. According to the Harvard Joint Center for Housing Studies, between 2012 and 2017, the price of vacant commercial land rose 62 percent, while the combined costs of construction labor, materials and contractor fees increased by 25 percent. For comparison, the general inflation rate rose seven percent. NMHC/NAA believes that the AHP can be a valuable tool in helping to address the affordability challenges facing communities across the country.

Many LIHTC developers rely on the gap financing provided through the AHP, which is even more important given the reduced value of tax credit equity from the reduction in corporate income tax rates. Affordable rental housing rehabilitation is also supported through the funds provided by AHP.

While the AHP program has deployed over $4.4 billion in support of over 660,000 rental units over the past 26 years, NMHC/NAA shares the concerns raised by some of the FHLB bank members and end users expressing concern that the certainty of the AHP processes and decision-making timeframes has recently declined. This decline in service has resulted in calls for modifications to the existing system to enhance service and support more affordable housing. With that goal in mind, NMHC/NAA submits the following comments aimed at addressing the shortcomings in the proposed rule for your consideration:

The conversion from a scoring-based process to an outcome-based process reduces banks' ability to meet community needs.

The existing scoring system used by FHLB banks provides the flexibility needed to meet the specific needs of the areas the banks serve. Each bank's service area is unique, and it is necessary to maintain flexibility in serving those communities. There is a concern that switching to an outcome-based approach establishes a much more rigid, prescriptive approach to serving the needs of the community.

This approach may reduce transparency and increase uncertainty of how an application would be evaluated. The existing scoring process is largely understood by the banks and its borrowers, but an outcome-based approach eliminates that understanding. Without the thorough understanding of the evaluation and approval process, there is a real chance that there will be a reduction in the number of applicants for AHP funds.

Broadening the participants on the Advisory Councils increases the pool of applicants.

The existing rule requires that each Bank appoint an Advisory Council of persons drawn from "community and not-for-profit organizations" actively involved in providing or promoting low- and moderate-income. The proposed rule would clarify that "community organizations" may include for-profit organizations. We strongly endorse this proposed change as the inclusion of for-profit organizations on the Advisory Council will add the voice of developers and owners who have expertise in affordable housing and increase the pool of applicants for the AHP program.

The goal to integrate more closely with other financing sources falls short.

As a secondary source of funding, it is imperative that the AHP align itself with other financing sources. Programmatic requirements that are at odds or are vastly different will make the program less attractive for potential applicants. Increasing the minimum percentage of units from 20 percent to 50 percent that are reserved for homeless and special needs households is admirable but does not represent other financing or programmatic sources. These minimums will make it much more difficult for applicants to utilize the AHP program. The existing 20 percent limits are more in line with other funding sources and should be maintained.

Similarly, the proposed outcome-based process would require that 55 percent of all units in a rental property are targeted to very low-income households. This level does not align with other existing funding sources and will be difficult for a FHLB to attract sufficient interest from developers.

The goal of many localities is to facilitate the development of mixed income properties and design their incentives and support for developers who can meet that objective. By significantly raising the minimums for homeless, special needs and very low-income families, this objective will be impossible to achieve.

Reduction in minimum contribution to the Competitive Allocation Program is not warranted.

Promoting the development and preservation of rental housing is the most efficient and effective way to meet the housing needs for communities that have affordability challenges. Reducing the minimum required allocation from each Bank's AHP program from 65 percent to 50 percent runs counter to promoting the development and preservation of rental housing.

Expanding the requirement to evaluate the Project Sponsor and all affiliates and team members is unreasonable.

The proposed change would expand the requirement to not only evaluate the Project Sponsor but include all affiliates and team members. At the time of application not all of the total project team may be identified – so that would either delay application or possibly prevent approval if the team is not identified. The critical evaluative function is to focus solely on the capacity of the Project Sponsor and their ability to identify and work with affiliates and other team members.

NMHC/NAA request that FHFA consider the comments contained in this letter and welcome the opportunity to discuss any comments by contacting Cindy Chetti at cchetti@nmhc.org, 202.974.2328.

Sincerely,

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