June 12, 2018

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,

The Affordable Housing Advisory Council (AHAC) for the Federal Home Loan Bank of Chicago (FHLBC) has been reviewing the proposed amendments to the Affordable Housing Program regulations (Proposed Rule). Our review has included discussions with the FHLBC Board of Directors, its Affordable Housing Committee, Community Investment and other FHLBC staff, and most importantly, FHLBC members and our community stakeholders.

For the past four years, we have had strong representation and participation with the FHFA during annual meetings held in Washington, D.C. regarding the review of the AHP regulations. At each of those annual meetings, dating back to October 2014, the full Affordable Housing Advisory Council (AHAC) Leadership offered modification recommendations. Most recently, in April 2018, after the publication of the Proposed Rule, the AHAC Leadership met together and with the FHFA to discuss and share very specific concerns with the proposed amendments. After all of these dialogues, we found the Proposed Rule very different from the many proposals by the AHAC Leadership, as well as the System CIOs, whose positions were informed by their FHLBank colleagues, Advisory Councils, members, and other stakeholders, all of whom bring critical viewpoints as it relates to the FHLBank affordable housing and community investment activities.

Our 15-member AHAC is comprised of representatives of state housing finance agencies, housing authorities, municipal governments, and individuals that work for not-for-profit and for-profit organizations engaged in affordable housing and community development activities. Both the multifamily and single-family sectors are represented and activities include affordable housing development, service provision and organizational technical assistance, and capacity building.

We included this brief summary of the diversity of our AHAC to show the breadth of practitioners who share their voices around the table, working for a strong AHP program indicative of the needs and housing solutions we find most significant for Illinois and Wisconsin. As affordable housing and community development experts, we are keenly aware of the AHP's importance, its strengths and limitations, and the opportunity the Proposed Rule had to modernize the AHP to improve the strategic flexibility of the FHLBanks and position the program for the future of affordable housing. While there are improvements, there are significant intended and unintended consequences with the way in which the Proposed Rule alters the AHP.

For the last 28 years, the success of the AHP has been undoubtable. Through the work of the FHLBanks and the shared objective with the FHFA that the program be impactful, transparent and without reproach, the AHP has become a model program that supports affordable housing development and finance. The financial strength of the cooperative allows for the AHP, which provides highly sought after funds. Because of this past success, FHLBanks need and should have greater flexibility to respond as quickly and thoughtfully as possible to the needs of their members and the communities they serve.

We encourage the FHFA to have confidence in the FHLBanks to deploy the AHP funds in a manner that maintains the integrity of the program and that directs resources to the most pressing affordable housing needs. We believe that the FHLBanks have proven themselves as practitioners who are mission driven and stewards of the cooperative. To be responsive and relevant, they have built and continue to sustain trust and partnerships with members, AHP sponsors, and other stakeholders and funding partners. A modernized AHP should allow them to expand upon the trust that has been built with these partnerships. A final rule published under the demands of a deadline may have the consequence of a regulation that is challenging to fulfill. If the final rule maintains the outcomes framework, we recommend that the FHLBanks have the flexibility to retain the current scoring.

What follows are our comments on the Proposed Rule. The amendments are expansive and, as a result, we are certain you will receive a multitude of comments that, taken together, will address the many concerns and recommended changes to the Proposed Rule. We refer to the FHLBank System Letter submitted to the FHFA on June 1st, the FHLBank Chicago letter submitted to the FHFA on June 12, 2018, the AHAC Leadership presentation submitted to the FHFA on April 25, 2018, and the Proposed Scoring Model submitted to the FHFA on June 11, 2018. We express our support for the comments contained in these documents.

GOVERNANCE

The Proposed Rule is requiring that the FHLBank's full Board of Directors and AHAC meet together quarterly. Our AHAC meets quarterly with members of the Board of Director's Affordable Housing Committee. The Affordable Housing Committee Chairperson reports on the Committee's activities to the Board of Directors and the AHAC Chair provides a formal annual report to the Board of Directors and periodically engages with them throughout the year. Community Investment staff regularly engages with the Board of Directors, its Affordable Housing Committee and AHAC on strategic, tactical, and operational matters. It is our opinion that the governance structure is not only sufficient, but robust. It is unnecessary and burdensome for the FHFA to further dictate this framework and process.

FLEXIBILITY

Flexibility has been the key word and expectation from the first discussion in 2014 up to and including the most recent discussions with FHFA staff in Cincinnati. AHP practitioners, both sponsors and members, as well as FHLBank leaders have anticipated a degree of flexibility that would provide more authority to position AHP funds based on each

Bank's district's needs. This increased authority would not only provide the potential to create various funding tools -- not unlike the general fund and the targeted fund -- but would enable faster implementation than what is being prescribed in the Proposed Rule.

The creation of targeted funds and the expanded allocation of funds are positive movements forward, but partnered with the outcomes-based framework, they cease to have added value. The targeted funds need to be reflective of the needs from each district, and they should be designed and implemented as soon as possible for the benefit of those in need of that program within each district. The twelve-month publication timeline for any targeted fund is too long and doesn't allow an FHLBank leverage to use this funding tool to respond quickly to a disaster or unique and pressing housing need.

The process with which targeted funds will be established can mirror successful voluntary programs that many of the FHLBanks have already created with much success. When an FHLBank creates a program using its voluntary funds, it is informed of a need, researches existing resources, and then determines how it can impact the situation with what type and amount of funding. The same expertise and experienced staff, Board of Directors, and AHAC will be trusted to create the AHP targeted funds. For this reason, we do not believe that the FHFA should have to pre-approve a targeted fund prior to an FHLBank's creation of its Implementation Plan.

Furthermore, the outcomes framework does not allow for the AHP to change with the cyclical nature of real estate markets and the needs and solutions that present themselves and evolve over time. Real estate markets historically move in cycles; a general rule of thumb is in ten-year increments. Looking back to the last major adjustment in housing finance, which occurred as part of the Great Recession, reasonable people would concur that we are closer to the next adjustment than farther away.

When the next adjustment occurs, both the FHFA and the FHLBanks need to react quickly if it is determined that the AHP and/or community lending programs could soften the blow. Such changes need to be administratively addressed, not statutorily or from a regulatory standpoint. The latter two approaches simply take too much time to be effective.

Finally, creating more prescription around the Targeted Community Lending Plan (TCLP) could also have negative effects, diminishing the role of the AHAC and restricting the FHLBanks' ability to respond quickly to certain housing needs. If the proposed TCLP expansion is included in the Final Rule -- without the outcomes-based approach -- the TCLP could add value in allowing the FHLBanks the flexibility to design an award structure that would align with the districts' housing needs.

SCORING VS OUTCOME-BASED

As noted above, the FHLBC AHAC supports the Proposed Scoring Model jointly proposed by all FHLBanks. As such, we acknowledge and agree with the concerns communicated regarding the various outcomes-based requirements. They introduce a level of complexity and do not allow for policy objectives to be established and measured by each FHLBank.

To begin with, the required outcomes and various thresholds do not align, in general, with affordable housing development and finance, and there are very specific thresholds that raise concerns. For example, we have heard many voices from AHP practitioners across our two-state district that the predetermined percentages, for both statutory and regulatory categories, are not aligned with the housing they are developing and other funding sources. Specifically, several developers who have previously been awarded AHP funds have told us that the requirement for 55% of all competitive rental units to be for households with less than or equal to 50% of the area median income is not sustainable, especially in rural areas where maintaining a low vacancy rate is already a challenge.

Additionally, the thresholds for targeted populations are not feasible. Developers have pointed out that these thresholds do not align with the requirements of other funders, nor do they reflect current housing models. For example, many Housing Finance Agencies are requiring only 25% or 30% for special needs or homeless projects.

These are just two examples of the many unintended consequences that further support our concerns with a framework that is more punitive than flexible and responsive in nature, introducing a compliance risk that will direct FHLBank staff to mitigate that risk rather than focus on the analysis, research, and design of program priorities to align with the needs of their markets.

FAVORABLE CHANGES

The AHAC Leadership identified favorable changes that can be implemented through an alternative scoring framework without significant revision. The FHLBC AHAC supports the proposed inclusion of targeted funds and the proposed increase in the maximum allocation to set-aside program(s) from 35% to 40% of the required annual AHP contribution. The FHLBC's set-aside programs are a critical and oversubscribed source of down payment and closing-cost assistance for our members' customers. The funds expand homeownership, reaching all areas of our district. The increase in the maximum allocation will allow for the program to extend longer and increase access for our members. We also support the increase in maximum subsidy per unit from $15,000 to $22,000 and the annual adjustment of such maximum based on the FHFA's Housing Price Index.

CLOSING THOUGHTS

The restrictiveness of the Proposed Rule is disappointing. The outcomes-based requirements, both statutory and regulatory, create a framework that does not reward those projects most aligned with the unique priorities of each individual FHLBank district. National housing models should not dictate outcomes; rather, the FHLBanks should evaluate how national models and needs are evident in their respective districts and determine which of those are most impactful – these will represent the priorities established by the FHLBanks in a way that benefits each FHLBank's members and communities.

All of the AHP funds are oversubscribed across the FHLBank System. The AHP is a critical gap resource for affordable housing projects; however, it doesn't necessarily create the development. Rather, we are in the enviable position of allocating funds to programs and developments that meet our current, and most importantly unique, needs within each FHLBank and district.

We believe that any AHP Final Rule should respond to the voices of the AHP administrators and practitioners and provide the means for a growing and vital AHP of the future. The AHP has been so successful over the last 28 years that the AHAC Leadership believes now is the time to release the power of the program. The FHFA has the opportunity to further the legacy of success for this meaningful program: one that is mission driven, locally funded with trusted and diverse leadership, and governed with integrity.

We are grateful for the tireless work from FHFA staff and for that of the FHLBanks' staff and Advisory Councils over the last few years. We appreciate the opportunity to offer our comments and look forward to, what we hope to be, a truly modernized AHP.

Sincerely,

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