



**Los
Angeles
Housing
Partnership, Inc.**

July 11, 2006

**Federal Housing Finance Board
1625 Eye Street, NW
Washington, DC 20006**

RE: Federal Housing Finance Board; Proposed Rule: Excess Stock Restrictions and Retained Earnings Requirements for Federal Home Loan Banks; RIN Number 3069-AB30; Docket Number 2006-03

Dear Sir/Madam:

Thank you for the opportunity to comment on the Federal Housing Finance Board's proposed rule on excess stock and retained earnings requirements.

The Affordable Housing Programs (AHP) of the Federal Home Loan Banks (FHLBanks) are a critical source of affordable housing funds in the U.S. They involve a unique public-private partnership among the FHLBanks, their member institutions, community-based sponsors, state and local governments, and other entities.

Since the beginning of the Federal Home Loan Bank of San Francisco's AHP in 1990, the Bank has awarded approximately \$400 million in AHP grants to assist in the creating of over 70,000 affordable housing units. This flow of funds, based on 10% of the Bank's earnings, is made possible because of the Bank's financial strength and strong earnings. Our organization relies on these funds to build affordable housing in the communities we serve in Los Angeles.

Los Angeles Housing Partnership, Inc. (LAHP) is a nonprofit corporation that was established in 1989 to produce and preserve rental housing for low income individuals and families. LAHP has completed 14 affordable housing developments containing over 1,200 apartments that house elderly, families and special needs households, the majority of whom earn less than 50% of the Los Angeles County median income (AMI). LAHP's affordable housing developments and its residents have benefited significantly from the funding available through the FHLBank Affordable Housing Program (AHP). The AHP funds have provided assistance directly for rental units targeting tenants between 25% and 50% of the AMI. The AHP subsidies were absolutely necessary in order to insure the financial feasibility of these housing units. Subsidies from local and state public agencies to support affordable housing development continue to be woefully insufficient to address the affordable housing needs for low wage earners in the neighborhoods which

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we serve. It is imperative that the grants, subsidies and other forms of assistance available through the AHP continue to be made available at the highest levels possible.

Funds for the Bank's AHP are made possible through the borrowing activities of its members. The proposed rule, with its requirement to increase retained earnings by \$562 million and thereby decrease the dividends available to members, is likely to make membership in the Bank less attractive for some current members. The proposed rule would require the combined FHLBanks to increase retained earnings by over \$3 billion, according to a Bank estimate. Some members, particularly larger ones, may choose to borrow less and, therefore, reduce the profitability of the Bank, and consequently the net earnings that support the AHP.

The proposed regulation may also limit the ability of the Bank to provide additional voluntary contributions for affordable housing and community economic development initiatives, in addition to supporting the AHP.

I am especially concerned that the Finance Board does not seem to have devoted sufficient time to evaluating the impact of the proposed rule on the AHP and other voluntary contributions, which rely on FHLBank earnings for their funding. The proposed rule does not include any such analysis, despite the likelihood that the rule would cause a reduction in Bank earnings and, therefore, funds available for the AHP.

The overall impact of the proposed rule could be particularly adverse in this period of increasing mortgage rates and reduced federal funding for housing. It would be unfortunate if the enactment of this proposed rule caused families to be shut out of the housing market due to their inability to afford higher mortgage rates.

I urge you to withdraw this proposed rule. Its impact could be extremely damaging to the efforts of our organization and similar organizations nationwide that are working to provide affordable housing opportunities to families in need. Thank you for your consideration of these comments.

Sincerely,



Louis J. Bernardy
President & CEO