



Federal Home Loan Bank
NEW YORK

TARGETED COMMUNITY LENDING PLAN – 2021 –



Letter from the Community Investment Officer

Dear Members and Community Partners,

As of the writing of this Targeted Community Lending Plan (Plan), the COVID-19 pandemic continues to press on the vulnerabilities of communities across District II served by the members of the Federal Home Loan Bank of New York. Those members and the district's impressive array of housing developers and social service providers know well the extent of pre-existing needs for access to credit and affordable, high-quality housing. The pandemic, as data are beginning to show, is only making those needs more severe.

The escalation of need, though, is not being met with an equal level of financial support or strategic coordination. Without adequate federal, state and local resources, it is clear today more than ever that private sector dollars need to be thoughtfully and creatively deployed to maximize their impact.

Two recent, complimentary efforts within the Federal Home Loan Bank of New York (FHLBNY) have made our community investment products and programs more relevant for today's demands. First, 2021 will be the third year that community investment is fully incorporated into the FHLBNY's overall strategy. That means staff from across the institution are now shaping the rules and operations for community investment in new ways. This Plan's discussion of the district's credit needs shows how internal collaboration continues to strengthen the value proposition of our offerings for the membership.

Second, 2021 will be the first year for the FHLBNY's full implementation of the new regulation governing the Affordable Housing Program. The FHLBNY took the new rule, issued in late 2018, as an opportunity to conduct a comprehensive review of the flagship grant program and the homeownership program, covered by the same regulation. Stakeholders in every corner of the district made that review a success.

Previous Plans described, at great length, the community needs and provided FHLBNY members with a guide to community investment offerings. This 2021 Plan goes further in connecting the rationale and evidence with the FHLBNY's choices about products and programs for the coming year.

Members and partners will see changes and innovation across the board, including to our Community Lending Programs and affordable housing grant programs. We've refined the discounted advance products so they better align with the asset and liability management strategies and Community Reinvestment Act plans of our members. We modified the Homebuyer Dream Program™ so participating members can more easily direct needed funds to households on the cusp of homeownership. And we enhanced the scoring categories in our Affordable Housing Program



General Fund, including adding a category called “Member Financial Participation” that rewards true partnerships between project sponsors and the members who submit their applications.

The updated suite of products and programs shows we have been listening and learning year-round – an effort that continued and intensified during the pandemic. Much of that listening and learning was guided by the members of the Affordable Housing Advisory Council, who have been generous with their time and contact lists. So, too, by our members, who have seen their ways of doing business upended but continued to take our calls as we refined every last detail. We thank these individuals and the range of other practitioners and experts who shared their insights.

The district’s credit and housing issues are multi-dimensional and complex, requiring a sophisticated array of solutions. Our best individual efforts, from state and local governments to financial, non-profit, or healthcare institutions, will not be sufficient. The FHLBNY wants to encourage greater cross sector engagement on all the issues described in this Plan.

The FHLBNY considers the research and writing of this Plan to be essential for product development, beyond just a regulatory requirement. I encourage readers of this Plan to reach out to me and the FHLBNY’s team of calling officers, or to the members of the AHAC, to share your experiences and ideas.

Sincerely,



Daniel Randall
Vice President and Community Investment Officer
Federal Home Loan Bank of New York



Table of Contents

LETTER FROM THE COMMUNITY INVESTMENT OFFICER	2
TABLE OF CONTENTS	4
1. EXECUTIVE SUMMARY	5
2. CREDIT NEEDS AND MARKET OPPORTUNITIES	7
A. Economic development and small business credit needs.....	8
<i>FHLBNY responses to better support members' small business lending needs</i>	10
B. Housing market dynamics facing FHLBNY members and their customers.....	12
<i>FHLBNY responses to better support members' mortgage lending needs</i>	15
3. AFFORDABLE HOUSING NEEDS	17
A. Status of affordable housing in District II.....	17
B. Pandemic impacts and the outlook for 2021	20
C. Housing needs as identified from market research	21
D. FHLBNY responses to address identified housing needs	24
4. TARGETED COMMUNITY LENDING PERFORMANCE GOALS.....	33
A. Progress toward credit needs and market opportunities.....	33
B. Progress toward affordable housing needs	33
5. APPENDIX.....	35
Recent FHLBNY publications.....	35



1. Executive Summary

Addressing the needs for meaningful credit and for affordable, high quality housing is at the heart of the mission of the Federal Home Loan Bank of New York (FHLBNY), which serves District II: New Jersey, New York, Puerto Rico and the U.S. Virgin Islands. In these states and territories, the ongoing COVID-19 crisis has exacerbated needs that were already severe – from public housing that is failing tens of thousands of residents, to student debt that is holding back a generation of homebuyers, from zombie properties abandoned following the Great Recession, to communities decimated by hurricanes and earthquakes.

This Targeted Community Lending Plan identifies those needs and the role of the FHLBNY's Community Investment products and programs in responding to the highest established priorities. While the Plan's publication is a regulatory requirement¹, its development is also an essential policy process for the FHLBNY. As the Plan makes clear, significant programmatic changes and new offerings for 2021 were generated from the market research the Plan summarizes.

The degree of uncertainty surrounding the duration of the pandemic, and its health and economic impacts, places any market research and forward-looking strategy on unstable footing. To take one example, will landlords ultimately press forward with eviction proceedings on millions of vulnerable renters, once moratoria are lifted, without a plan to identify replacement tenants who have not been themselves evicted? These kinds of questions were vexing industry-leading researchers as this Targeted Community Lending Plan was being written.

To overcome this challenge, the FHLBNY took a two-part approach to market research and analysis:

1. On the advice of one of the industry experts consulted during the research, Coalition for the Homeless's Policy Director Giselle Routhier, the needs in the district as of the beginning of 2020 are assumed to be a reliable baseline, and those needs were already severe in many areas. As the expectation is that the figures are likely to get worse, the existing data provide a good base for making policy decisions about the highest priority needs.
2. FHLBNY staff undertook significantly more qualitative research than in recent years, conducting interviews with senior staff of many member institutions, the members of the Affordable Housing Advisory Council, academic researchers, and experts at advocacy organizations. These interviewees often identified untapped sources of quantitative data, and their insights proved valuable in determining which emerging narratives were most meaningful for the FHLBNY.



Based on this research, the FHLBNY will prioritize the following district credit needs in 2021:

- The changes in the small-business space caused by the pandemic are posing new challenges to members, which must quickly adapt their offerings and analysis to serve their communities in an appropriate and sustainable manner; and
- The principal challenges of low- and moderate-income mortgage lending have accelerated in many areas in the current crisis, and members will need additional support to help households make the leap to homeownership where possible.

Additionally, three needs in the area of affordable housing are strong targets for the FHLBNY to address with its Affordable Housing Program:

- Greater funding and long-term protections for the most vulnerable renters, and improved access to homeownership across the district;
- More support for wrap-around services to keep people safe and stable and let them build for the future; and
- Incentives for investments that incorporate tenant-focused attributes that improve health and bring down costs.

This Plan describes the FHLBNY's analysis for each of the above conclusions. Further, it links the FHLBNY's strategy for 2021 to each of the identified market dynamics. As the FHLBNY continually reevaluates the relevance and value of its Community Investment offerings, future Targeted Community Lending Plans will assess the success of these initiatives.



2. Credit Needs and Market Opportunities

The FHLBNY's products and programs support the credit needs of the membership, which can in turn make strategic decisions about how to use the FHLBNY's flexible funding to support the communities across the district.

The suite of Community Lending Programs provides members with discounted rate advances to fund their loans for eligible purposes. These products include the Community Investment Program (CIP), which supports housing related activities where the households' incomes do not exceed 115% of the area median income; the Urban Development Advance (UDA), for economic development projects or programs in urban areas (population of greater than 25,000) and benefitting individuals or families in areas where the median income is at or below 100% of the area median income; and the Rural Development Advance (RDA) program, for rural areas (25,000 or less) where the tract income is at or below 115% of the overall area. The Disaster Relief Funding (DRF) program makes these same discounted advances available anywhere in the district with a federal or state disaster declaration; that program is available district-wide due to the COVID-19 pandemic. The DRF was already available in Puerto Rico following the January 2020 earthquakes in the territory.

The Homebuyer Dream Program™ (HDP), launched by the FHLBNY in 2019, is a grant program that supports members' lending activity in the low- and moderate-income mortgage market – one kind of lending that is considered under Community Reinvestment Act exams. In the HDP, members submit reservation requests on behalf of their mortgage customers, who are currently under contract for a home. Those customers must be first-time homebuyers and have incomes at or below 80% of the area median income. When a household closes on its home purchase, the FHLBNY reimburses the member for a grant of up to \$14,500 and up to an additional \$500 to cover the cost of homeownership counseling.

In the sections below, the Plan describes the credit needs in the district, particularly with regard to small-business lending and low- and moderate-income mortgages. In addition to the present needs, the Plan reports the findings of market research on the changing credit needs due to the pandemic, and how those needs could look in 2021.

The products and programs offered to support FHLBNY members' lending activity, whether for economic development or housing, will undergo significant changes for 2021. These changes are broadly intended to more meaningfully match FHLBNY offerings with members' asset-liability management practices and business planning needs. They are also expected to broaden the availability of FHLBNY funds to members' customers and community partners.

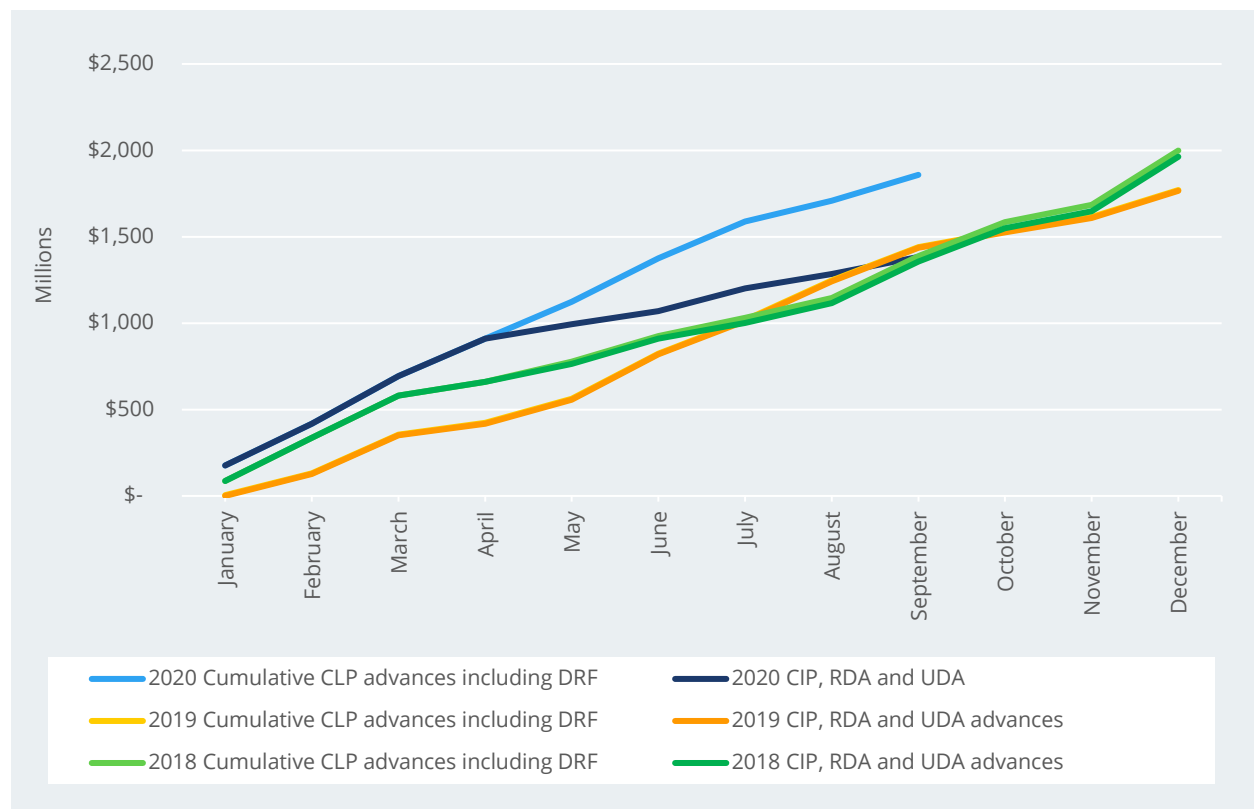


A. Economic development and small business credit needs

One straightforward way to demonstrate the ever-present need for credit in the district is to refer to FHLB NY members' utilization of the discounted advance programs. Year after year, members demonstrate a consistent appetite for these advances. While individual member decision-making can vary based on their access to liquidity or competing sources of funding, in general FHLB NY discounted advances are issued at or above the level of maturities.

Figure 1 below shows the past three years of activity in the Community Lending Programs. Activity for the core products – CIP, UDA and RDA – in 2020 is in line with recent performance; however, the availability of Disaster Relief Funding, and in particular the ability to fund all loans originated through the Payroll Protection Program (PPP)², has driven overall borrowing to a higher level than at the same point in 2018 or 2019.

Figure 1: Discounted advances borrowed by FHLB NY members as of Sept. 30, 2020

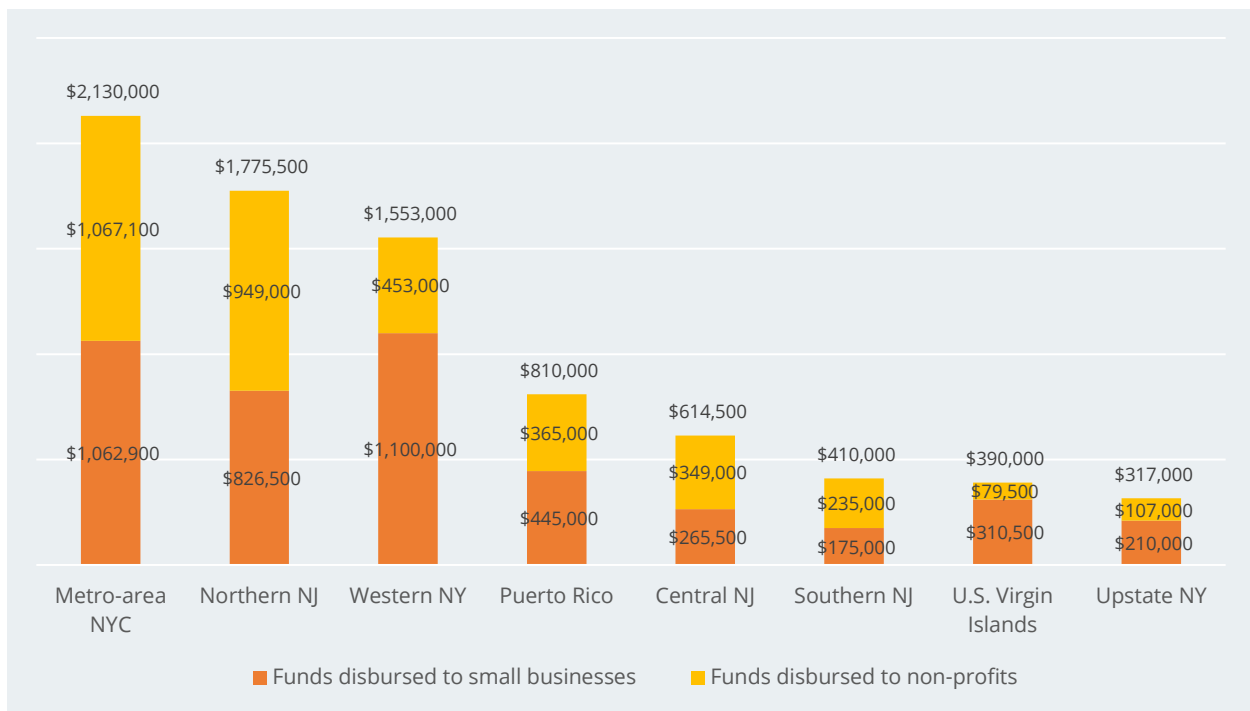


Just as with CIP, UDA and RDA, members seeking to borrow under DRF submit recent qualifying loans. During the time that both DRF was available to members and that the PPP was accepting applications – the months of May, June and July – FHLB NY members submitted 1,600 qualifying loans to borrow under the DRF program. Of those qualifying loans, 95% were for a PPP loan. Members were actively involved in supporting their local communities and using FHLB NY products to make that possible.



Members' response to the economic challenges facing their coverage areas was further demonstrated in their rapid take-up of the FHLBNY's Small Business Recovery Grant Program (SBRG), deployed in response to the pandemic. The SBRG provides grants of up to \$10,000 each to eligible small businesses and non-profit organizations, identified and qualified by FHLBNY members. Among other requirements, recipients have to document a decrease in revenue due to the pandemic. The program launched in May 2020, with an initial allocation of \$5 million approved by the FHLBNY's Board of Directors, and the program was extended with an additional \$3 million in July. As of the end of October, \$8 million in program funds had been disbursed by 59 participating FHLBNY members to 750 small businesses and 486 non-profits. Figure 2 below shows how members across the district responded by selecting recipients in their areas.

Figure 2: Disbursement of SBRG funds by region

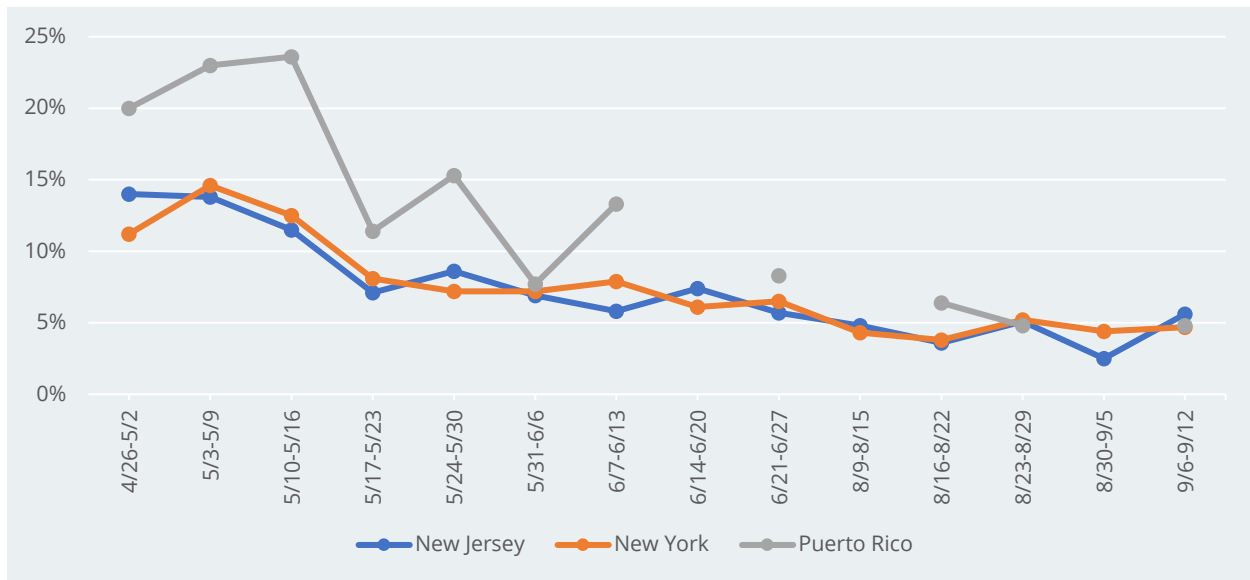


Feedback from many of the program's grant recipients confirms that the funds were essential in keeping businesses open and people employed. But this kind of grant program is best suited for short-term needs, and other, complimentary efforts are required to help small businesses contend with new economic realities over the longer term.

During the pandemic the U.S. Census Bureau deployed a survey for measuring the attitudes and expectations of small businesses.³ More importantly, it asked small businesses about their financial activity. As Figure 3 below shows, many district businesses suffered financial distress to the extent that they missed loan payments. (Loans that were forgiven or postponed were not included.) The reported incidence was higher in Puerto Rico than in New Jersey or New York.



Figure 3: Percent of small businesses answering Yes to "Since March 13, 2020, has this business missed any loan payments?"



Though reported missed payments have leveled off over the course of the pandemic, small businesses remain constrained in their ability to borrow in order to maintain or expand their businesses. This is compounded for brick-and-mortar businesses that must contend with high fixed costs. One survey of small businesses in Brooklyn, for example, found that one-third of those companies were at risk of closure if they did not receive rent relief during the pandemic.⁴ Research in Puerto Rico showed that small- and medium-sized enterprises were especially vulnerable because they have disproportionately less working capital and less well-established and resilient supply chains than those of bigger firms.⁵ For these companies, taking on new debt would likely be perceived as a high risk.

Looking to 2021, members consulted for this Plan expect the credit challenges of small businesses to persist, as those businesses that survive through the pandemic need to adapt their operations and offerings for remote working, social distancing, and perhaps a changed customer base. In this atmosphere, members will need to adapt in their own ways, understanding their customers' new ways of doing business and tailoring products (credit and non-credit) to support customers' evolving needs.

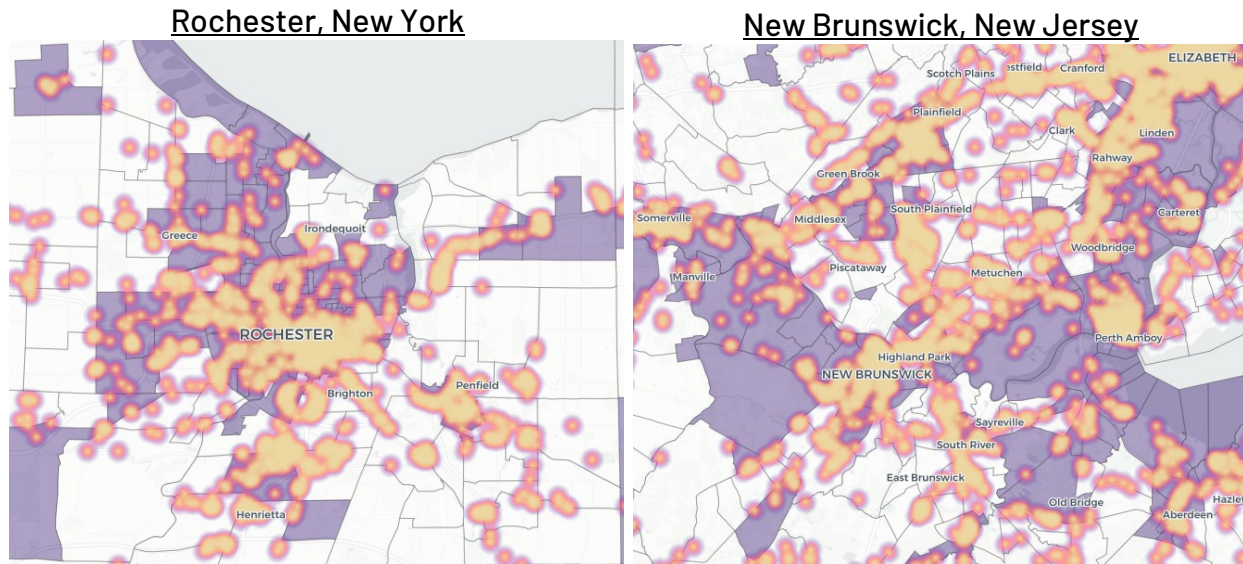
FHLBNY responses to better support members' small business lending needs

Members' utilization of the Disaster Relief Funding provides a good introduction to the mechanisms of the other discounted advance programs. In consultations for this Plan, some members suggested that those customers that were served by PPP may be strong targets for future cross-sell opportunities. And while members may have considered CIP, UDA and RDA in the past, under different interest rate environments, members may choose to reevaluate the programs given present business needs. The discounted advances could help strengthen the value proposition for new member activity, especially as the funds allocated to DRF are exhausted.



These members will find that there is significant overlap in the types of loans that qualify for FHLBNY discounted advances and the lending that satisfies their obligations under the Community Reinvestment Act. In other words, members already lend in qualified areas, and they should benefit from low-cost funding if it makes sense for their needs. Figure 4 below shows maps of commercial real estate loans originated by FHLBNY members. When FHLBNY members borrow, they pledge as collateral the eligible assets in their portfolios, including commercial real estate loans. (This does not necessarily mean that those loans were funded by discounted advances.)

Figure 4: Maps of commercial real estate loans pledged as collateral as of Aug. 2020



Census tracts shaded in purple are those with a median family income at or below 100% of the median family income for the surrounding county, according to the 2018 5-year estimates in the U.S. Census Bureau's American Community Survey.

In the areas shown on the map, a heatmap of the lending activity is overlaid on census tracts where the median family income is at or below 100% of the median family income for the surrounding county. There are some variations in the qualifying geographies for the discounted advance programs; however, these map layers provide a rough approximation to demonstrate the synergy between members' activity and FHLBNY program requirements.

Given the potentially greater interest in the discounted advance programs, the FHLBNY will implement several changes to make those programs more accessible and potentially meaningful.

Consultations with both participating and non-participating members in the Community Lending Programs revealed that the programs' complexity made it difficult to match the advances with members' funding needs. The complex web of borrowing limits – by month and by member – prevented members from utilizing bulk funding, instead requiring them to break their advances over multiple time periods.

For 2021, the programs will shift in two key ways: 1) All members will have a full-year borrowing limit based on their asset size; and 2) Members will receive commitments of funds of 90 days from the



date of the oldest closed loan in their application. These changes should allow for the kind of strategic planning members undertake.

In 2021 the FHLBNY also plans to make available a new discounted advance product: the Business Development Advance. Modeled after similar programs at other Federal Home Loan Banks, the Business Development Advance is essentially a discount fund: it uses discretionary dollars to buy down the interest rate of members' advances that are used to fund loans to small businesses. The program's intent is to give members added flexibility to adapt their offerings to their customers' needs and financial capabilities. The program establishes a maximum spread that members can add to those loans above their cost of borrowing. Members may choose to reduce the rate on their advances all the way down to zero percent, allowing them to offer financing at extremely low rates to their small business customers. Members consulted during the development of the program were highly enthusiastic and reported that it would allow them to maintain or increase their level of activity in the small-business market.

B. Housing market dynamics facing FHLBNY members and their customers

Going into 2020, the market for prospective low- and moderate-income homebuyers in the district was already challenging. According to FHLBNY members and local housing counseling agencies, two issues constrain that market:

- High rent burdens make it difficult for households to save for down payment and closing costs, even if their income would make it feasible to pay their monthly mortgage. Academic research has consistently shown the importance of down-payment and closing cost assistance in allowing renters to make the jump to homeownership, with minority households especially asset-constrained.⁶ Those households that are able to make a home purchase, likely by depleting their savings, lack sufficient reserves for significant home repairs (and cannot borrow to do so because they are at the maximum allowable loan-to-value or debt-to-income ratio).
- The above challenge is magnified because of the scarcity of affordable home purchase opportunities – and much of the existing affordable stock is aging and in need of upgrades for energy efficiency and quality. The inventory of single-family homes for sale in New Jersey had been declining steadily for years: by 2020 it was down to about 4 months' supply, one-fourth of the figure from its high in 2011⁷; in New York the supply had dropped from about 11 months to about 5 months over the same period.⁸ Members and counseling agencies consulted for this Plan said it was common to have 10-15 buyers for every seller in their markets. The competition is not all among low- and moderate-income households: a recent study of purchases in New York City in 2019 found that 52% of homes bought for less than \$420,000 were purchased with cash, which is more attractive to sellers.⁹



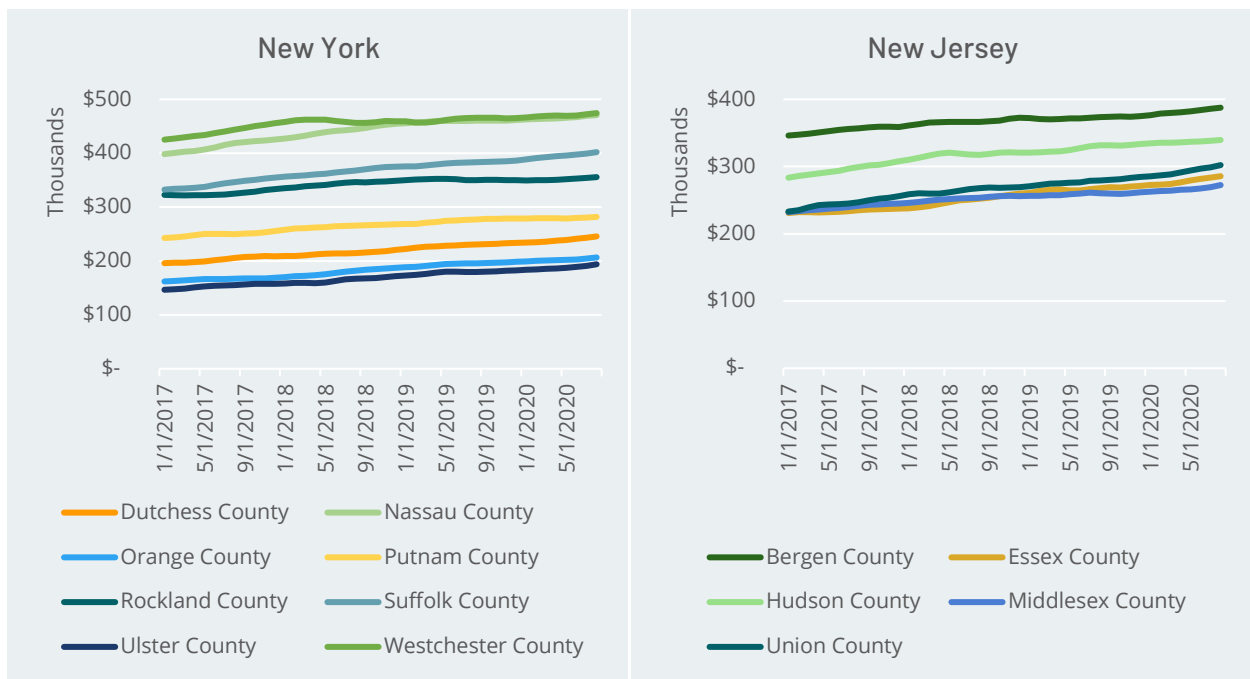
The second of these issues took a slightly different flavor in Puerto Rico. There, the 2017 hurricanes caused significant out-migration, leading to high vacancies. But there was (and is) still a sense of scarcity because low- and moderate-income households suffered their own losses in income (economic decline had also preceded the hurricanes), and many homes are not built to high quality standards, especially problematic given the risks exposed by the hurricanes.¹⁰

Scarcity has been evident in the U.S. Virgin Islands, as well: Inventory had been declining overall prior to 2020, with homes at the low end of the price range declining disproportionately compared with higher-priced homes.¹¹

News reporting suggests the pandemic has not abated these trends, particularly in New York or New Jersey¹², with the flight of aspiring homebuyers leaving New York City receiving prominent coverage.¹³ Members and housing counseling agencies report that this is indeed the case: a market increasingly favorable to sellers and competitive (or inaccessible) to low- and moderate-income households. This is despite the perpetuation of historically low interest rates that would otherwise be expected to be opening opportunities for this population of prospective homebuyers.

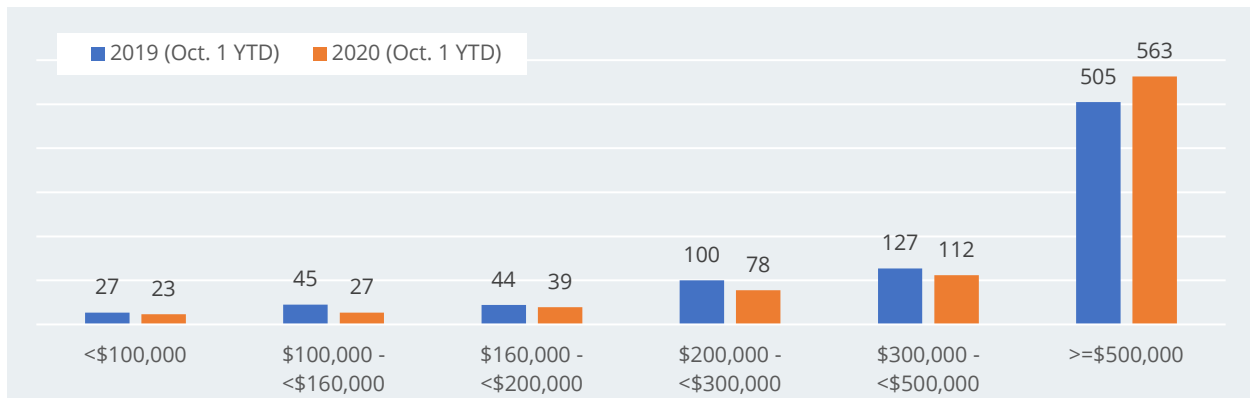
Data on home values supports the anecdotal evidence regarding the market pressures. Zillow estimates the typical home value between the 5th and 35th percentile in each county. Those figures show that low- and moderate-income homebuyers are faced with a continuous uphill movement in the price of homes on the market.¹⁴ Figure 5 below shows the data for New York and New Jersey counties surrounding New York City. In all of these markets, homebuying is becoming ever more unattainable.

Figure 5: Zillow Home Value Index for bottom-tier, by county and month



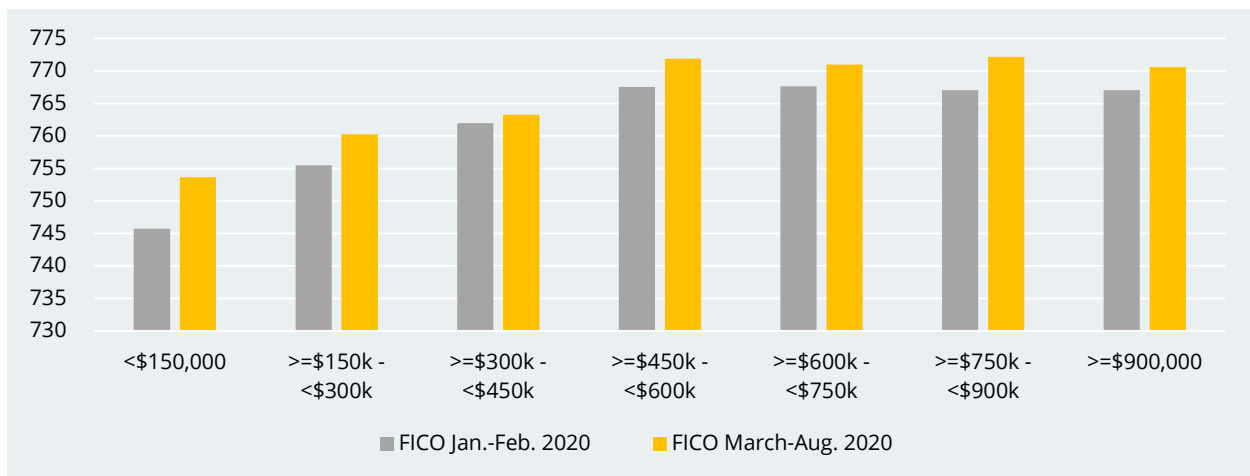
The U.S.V.I., too, has seen a continued slide in the availability of affordable homes. According to data from the Multiple Listing Service in the territory, as of Oct. 1, 2020, there had been just 50 listings at prices under \$160,000 across all three islands, a decrease of greater than 30% from the same point in 2019.¹⁵ Figure 6 below shows how home purchase opportunities are nearly exclusively available to higher-income residents.¹⁶

Figure 6: Available listings YTD by listing price in the U.S.V.I. (Oct. 1, 2020)



In addition to the supply constraints, the district’s prospective borrowers are also increasingly credit-constrained. While that trend may have begun following the Great Recession of 2007-2009, there is some evidence that the pandemic has led to a further tightening of credit standards by the lenders in the district. In addition to commercial real estate loans, FHLBNY members pledge as collateral much if not all of their residential mortgages. An analysis of these mortgages suggests that underwriting has become more stringent since March 1, 2020, from an already conservative level. Further, these changes are evident for lower-priced homes, suggesting that credit has tightened for low- and moderate-income households. Figure 7 shows the change in FICO scores for loans associated with a range of home values. Purchasers of lower-tier homes since the onset of the pandemic are being required to meet higher standards than purchasers of similar homes earlier in the year.

Figure 7: FICO scores for single-family mortgages in FHLBNY collateral by loan value



These shifts in FICO scores are evident in the data for New Jersey, New York, Puerto Rico and the U.S. Virgin Islands. However, a similar analysis of loan-to-value ratios for these loans does not reveal such a marked shift in underwriting standards, possibly because even borrowers with ideal credit profiles have a limit on their ability to save for down payments. A more definitive analysis of the credit environment is difficult with existing data but should be more feasible in late 2021 upon the expected release of the Federal Housing Finance Agency's dataset of mortgages acquired by Fannie Mae and Freddie Mac.¹⁷

For existing homeowners, and their lenders, there is also considerable uncertainty going into 2021, with the coming expiration of forbearance programs and eviction moratoria. The research firm Black Knight reports delinquencies significantly above pre-pandemic levels in both New York and New Jersey¹⁸, though there are no hard data yet on how this will translate into households' eventual ability to pay their mortgages. In interviews, members and other industry experts predicted that the incidence of foreclosure may be less than feared because lenders have little appetite for taking over so many properties and trying to dispose of them.

FHLBNY responses to better support members' mortgage lending needs

In the face of all these headwinds, low- and moderate-income households need financial support to make the jump to homeownership, when feasible, and they also need a set of protections to reduce the risks of their decisions. FHLBNY members can take advantage of the Homebuyer Dream Program to support their mortgage customers in just these ways.

In 2019 and 2020, the first two years of the HDP, members submitted reservation requests, on behalf of eligible households, on a first-come/first-served basis. In ongoing consultations with members and their housing counseling agency partners, the FHLBNY learned that the first-come/first-served approach, while operationally simple, introduced unintended risk to members' lending business and the purchasing decisions of their mortgage customers.

Hence for 2021, the program will revert to an allocation approach, a popular component of the previous First Home ClubSM program, whereby participating members will be allocated a proportion of program funds with which to make responsible, strategic decisions together with their customers over the course of the homebuying season. Three aspects of the allocation approach are worth highlighting: 1) Members' initial allocations will reflect their past usage of FHLBNY programs, recognizing their investments and service to eligible households; 2) Members new to the program will have a guaranteed minimum allocation, letting them test out the program with their borrowers; and 3) The opportunity for members to grow their allocations over time will depend in large part on their utilization of the program, meaning strong participation will be rewarded. These aspects are intended to build the confidence of members, making the program attractive to members of varying sizes and across the district, and in turn making the grant funds available to a broader set of potential homebuyers.



The program will also have a lower per-household grant limit. Members may determine the grant amount up to \$10,000 per household, inclusive of \$500 for homeownership counseling, a reduction from \$15,000 per household. Consider a hypothetical allocation to a member of \$60,000: At the maximum grant amount, that allocation could support six households (or six mortgages) instead of four. Given that many members report that \$10,000 is sufficient in the communities they serve, the reduced grant amount should make the program available to more households, and it should make smaller allocations more meaningful to new member participants in terms of mortgages supported.



3. Affordable Housing Needs

The Affordable Housing Program (AHP), in partnership with the FHLBNY's members, is the primary mechanism through which the FHLBNY supports the housing needs in the district. Created by Congress in 1989, the AHP provides subsidies, in the form of grant funding, to support the creation and preservation of housing for very-low, low, and moderate-income families and individuals. AHP funds are awarded to FHLBNY members that submit applications on behalf of project sponsors that are planning to purchase, rehabilitate, or construct affordable homes or apartments. Funds are awarded through a competitive process which typically takes place once a year.

The AHP must comply with and address statutory and regulatory priorities, common to all of the FHLBanks across the country. But within that framework the FHLBNY has the flexibility and mandate to tailor its program to the specific housing needs and market conditions of its district – New Jersey, New York, Puerto Rico and the U.S. Virgin Islands. Like in the sections above on the district's credit needs, the following sections describe the existing housing needs in the district, the evolution of those needs due to the pandemic, and the FHLBNY's initiatives for 2021.

The FHLBNY's 2020 Community Lending Plan discussed a growing body of research and increased industry attention on housing as a social determinant of health. The ongoing COVID-19 crisis has made this framework all the more persuasive and relevant. The rules for the FHLBNY's AHP should be viewed through this lens; the housing needs the program seeks to address are complimentary and speak to the holistic nature of housing in the lives of low- and moderate-income residents.

A. Status of affordable housing in District II

Just as with low- and moderate-income homeownership opportunities, there is simply not enough supply of affordable rental housing in the district. That scarcity means many district households' budgets are stretched thin, leaving those households less able to spend on healthcare, education, or transportation to employment; to prepare for unexpected shocks; or to save for the future. Recent FHLBNY Community Lending Plans have described various methodologies for assessing the breadth and depth of rental burdens, and their implications, as used by advocacy groups and industry experts. Interested readers will find links to those previous reports in the appendix to this Plan. What is important to consider is that, even pre-pandemic, there was a district-wide affordability crisis going into the year 2020.

According to the National Low Income Housing Coalition's 2020 report¹⁹, New York has the fifth highest housing wage in the country, and New Jersey has the seventh highest. To afford an average 2-bedroom apartment in New York, a household would need to earn \$32.53 per hour, whereas the



average renter earns just \$25.68. In New Jersey, the housing wage is lower, at \$29.69, but the gap is greater, with the average renter earning \$19.10. Even considering that many households have multiple wage earners, this means that a large share of both states' populations is spending more than the industry-standard 30% of income on housing, and often exceeding 50% of income. The Puerto Rico housing wage is \$9.36 per hour and the average renter there earns \$7.73.; the U.S.V.I. is not included in the organization's study because the territory is not covered by the Census Bureau's American Community Survey.

Similarly, the pre-pandemic state of homelessness was at crisis levels and showed little sign of improving significantly. Each year reporters for the New York Times find a new and vivid way to illustrate that year's statistics from New York State's Department of Education. The most recent article²⁰ in this series encapsulates how homelessness – which now affects over 100,000 New York City schoolchildren at some point during the year – consumes children's development.

Local organizations serving as Continuums of Care perform an annual point-in-time count of sheltered and unsheltered homeless individuals and families and report their data to the U.S. Department of Housing and Urban Development. (Previous Community Lending Plans document the limitations of these counts.) In the most recent available data²¹, from the January 2019 counts, there were over 54,000 homeless households in New York, up about 3% from 2018, which saw a 5% increase from 2017. Coalition for the Homeless analyzes data for New York City, and that organization's 2020 report found rising or flat numbers across all categories.²²

In New Jersey, according to the HUD data, there were 6,746 homeless households in 2019, down slightly from 2018 but above the level from 2017. The Continuums of Care in the state coordinate their data analysis through Monarch Housing, which allows for earlier reporting than the HUD process. The 2020 report shows an increase in the total homeless population, driven by a 9% increase in the population using emergency shelter.²³

Puerto Rico has seen a decline in homelessness: down to about 2,300 households in 2019 from a high of nearly 3,200 in 2017. Surprisingly the numbers for the territory do not reveal an uptick caused by the September 2017 hurricanes there; the 2020 count, yet to be compiled by HUD, took place before the impacts of either the January 2020 earthquakes or the COVID-19 crisis. The figures in the U.S.V.I. fluctuated slightly over the past three years, with just over 300 households counted in 2019.

In each of the states and territories, the HUD data make clear that a significant share of the homeless population has a severe mental illness, chemical dependency or other additional need that can be addressed through the kinds of supportive services provided by many Affordable Housing Program projects.

Issues of housing location and quality compound the ways in which lack of affordability and high rates of homelessness burden the residents across the district. Superstorm Sandy, in 2012, and Hurricanes Irma and Maria, in 2017, highlighted the risk climate change and extreme events pose to



vulnerable households and the expense and duration of the effort needed to recover. Industry stakeholders rightly focus on climate resiliency to lessen the impact of future disasters. However, the utility of considering housing's role in residents' health and communities' resiliency goes beyond rare, large-scale events. Indeed, emerging research supports a deeper, more sustained focus on the *character* of affordable housing units, as opposed to the quantity of units alone.

For example, researchers recently compared redlining maps from the 1930s with today's temperature data and found a nearly 6-degree difference between parts of the New York City area designated as hazardous (i.e. consigned to decades of underinvestment due to restrictions on government loan guarantees) and those designated as the best areas.²⁴ Areas ring-fenced for minorities have grown disproportionately hotter – exposing residents to numerous health impacts – because there is less open space and tree cover and more paved surfaces, among other things. Other reports use current income figures and identify the same connections, specifically in major cities in New York State and New Jersey.²⁵ Climate change is only exacerbating these inequalities.

In addition to these direct measures of health, the impacts of climate on low- and moderate-income households can be felt in their wallets, as these households pay a disproportionate share of their income on utility costs. Harvard's Joint Center for Housing Studies found, on a national level, that renters earning \$75,000 per year paid just \$30 more per month for utilities than renters earning \$30,000 per year: "Under these circumstances, households might reduce food or medical expenses to pay their utility bills, keep their homes at an unhealthy temperature, or otherwise find themselves unable to use their heating or cooling equipment. These measures can undermine the basic health and well-being of household members, particularly children and older adults."²⁶

Two further pressures amplify the burdens of rental scarcity, widespread homelessness, and disproportionate climate impact. First, the lifetime value of growing up and living in an area of high opportunity is increasingly well understood, but policy choices and inertia continue to site much new affordable housing in areas of concentrated poverty. A recent report from the Citizens Budget Commission, for example, documents the low levels of new housing production in the affluent suburbs north of New York City.²⁷ Though the report says production is somewhat higher in nearby New Jersey towns, many have yet to fulfil their fair housing obligations, and some continue to resist even the scope of those obligations, as the 2020 Community Lending Plan describes.

Second, funding for affordable housing preservation is not keeping pace with the eroding legal protections for units put into service through the Low Income Housing Tax Credit and other programs. Data compiled by the National Housing Preservation Database reveal that more than 30,000 units in New York are at risk of losing affordability protections in the next five years, as are more than 13,500 units in New Jersey.²⁸ In addition to preserving the long-term affordability of these units, many are in need of rehabilitation to maintain quality. A recent report from the Federal Reserve Bank of Philadelphia found that in the New York-Newark-Jersey City area, 43% of rental units and 28% of owner-occupied units have repair needs, with a total estimated cost of nearly \$8 billion.²⁹ The report found higher per-unit needs for low-income residents of both rental and owner-



occupied housing than for middle- and upper-income residents. Another recent paper, from the Urban Institute, makes the case that preservation should be a higher priority for housing advocates.³⁰

B. Pandemic impacts and the outlook for 2021

The COVID-19 crisis has certainly made the issues addressed above more visible. A whitepaper written early in the pandemic offered hypotheses for several potential impacts on affordable housing.³¹ To the extent that quantitative data are available, they are bearing out these early predictions. Among the most timely and relevant indicators is employment, where data continue to demonstrate that low-income workers have been hardest hit by the economic impacts of the pandemic, and their recovery is lagging that of higher earners.³² Qualitative input from industry experts points in the same direction: the district's housing needs in 2021 are likely to be not only more visible but more acute than they were pre-pandemic.

In the area of rental housing affordability, eviction moratoria seem to have been effective, so far, at holding back what industry experts expect, as a recent article put it, to be a “crisis of historic proportions.”³³ As of the writing of this Plan, Fannie Mae and Freddie Mac have extended eviction protections³⁴, as has the Centers for Disease Control.³⁵ However, even these protections are limited to qualified tenants, they are limited in duration, and of course they do not protect tenants from eviction in the future if they have been unable to keep up with their rent payments during the moratorium.³⁶ Local stakeholders stress that the eventual end of these moratoria should be a top-of-mind policy concern.

Various researchers are now attempting to estimate the scale of the pending need, particularly of low-income renters who could be on the cusp of homelessness if hit with a significant loss in income. Some of these estimation efforts focus on capturing likely job losses in low-income or service-oriented industries. For example, the Urban Institute applied national figures of job losses in certain industries to census tract-level employment in those industries.³⁷ This followed earlier analysis by NYU's Furman Center to identify vulnerable occupations³⁸ and the number of households dependent on income from those occupations.³⁹ Further research found that these households are disproportionately likely, at least in New York City, to live in buildings with fewer units, meaning landlords are more dependent on the income from each individual unit and perhaps more inclined to evict delinquent tenants when able (if not via informally during the moratorium).⁴⁰ Other analysis has found households with children⁴¹ and older adults of color⁴² to be particularly at-risk.

The highest profile estimation effort to date is from a consortium of academics and advocates.⁴³ It relied in part on a new survey of behavior and attitudes deployed during the pandemic by the U.S. Census Bureau.⁴⁴ These experts calculated over 1.2 million households in New York and over 400,000 households in New Jersey to be at risk of eviction – at the low end of their estimates. (Puerto Rico and the U.S.V.I. were not included in the project.)



These estimations are important from a policy perspective to inform rental assistance initiatives, not a component of current federal pandemic-relief efforts. In Puerto Rico, researchers estimated the funding necessary to expand existing programs that provide rental vouchers to households⁴⁵, whereas elsewhere rental assistance may be more appropriate in other forms.

Researchers are also estimating the implications of renters' vulnerability on the future level of homelessness. One study predicted, on a national level, a 40-45% increase in homelessness.⁴⁶ This kind of surge would compound the pandemic-related issues already facing homeless populations and service providers. For example, in consultation with public health experts, Coalition for the Homeless calculated the mortality rate of COVID-19 to be 66% higher among the sheltered homeless population than among the New York City population overall, as of August 24, 2020.⁴⁷ The causes, especially in congregate shelters, include overcrowding and lack of access to hygiene. An academic paper recently estimated what it would cost, *on an annual basis*, to increase homeless housing capacity as experts recommend: over \$747 million in New York, over \$126 million in New Jersey, over \$82 million in Puerto Rico, and over \$10 million in the U.S.V.I.⁴⁸

While the Coronavirus Aid, Relief, and Economic Security (CARES) Act is providing an influx of millions of dollars to counties through the Emergency Solutions Grant and the Community Development Block Grant Programs⁴⁹, local stakeholders express concern that these funds may be difficult to use for communities' longer-term strategic planning efforts around homeless housing, as opposed to efforts strictly focused on COVID-19.

The pandemic's impact on state and local budgets will also magnify the challenges to affordable housing in the district. State and local governments rely not only on tax revenue (and the underlying economic activity), but also on income from a wide range of revenue-generating activities (e.g. institutions of higher education, hospitals, etc.).⁵⁰ Municipalities further rely on state grants, to varying degrees. As recent research shows, many cities in the district are at risk of severe shortfalls: Rochester, Buffalo and Syracuse are all estimated to see decreases of over 12% in revenue for the fiscal year of 2021, even under a less severe scenario.⁵¹ These decreases will lead to cuts in municipal staff and services⁵², and may impact governments' abilities to offer subsidy and grant programs or to make new investments for housing purposes.

C. Housing needs as identified from market research

The market research described above, including the quantitative reports and the insights of members, the Affordable Housing Advisory Council, and industry experts all support maintaining the FHLBNY's focus on the same three housing priorities as in recent years. With the emerging evidence from the current crisis, the FHLBNY's understanding of those priorities has become more refined, hence the sharpened language in Table 1.



Table 1: Housing priorities for District II

<p>2020 Priorities</p>	<p>Housing is just too expensive in nearly all areas of the district</p> <p>A near universal under-supply of affordable rental housing across the district, and sparse home-purchase opportunities in many areas for low- and moderate-income households.</p>	<p>Homelessness remains at staggering levels</p> <p>The severe deficit in homeless housing, most prominently in New York City, but in various forms elsewhere, as well.</p>	<p>Climate resilience is a consensus need among developers and funders</p> <p>The industry consensus around the need to integrate strategies that address climate resiliency, including energy efficiency and disaster preparedness and recovery.</p>
<p>2021 Priorities</p>	<p>Low- and moderate-income renters and potential homebuyers are likely to be left behind as recovery begins</p> <p>Job losses and a lack of federal rental support are exacerbating existing rent burdens, while no new sources of funding are on the horizon to sustain or grow the stock of affordable rental or owner-occupied housing.</p>	<p>Eviction and foreclosure moratoriums are holding down what is expected to be a wave of need for homeless housing and supportive services</p> <p>The pandemic has led to greater awareness of populations at risk of homelessness and how tenuous is the situation for many district households.</p>	<p>The design of affordable housing impacts its contribution to equitable communities</p> <p>Energy costs take a disproportionate share of low-income households' income, and low-income and minority communities are experiencing disproportionate effects of climate change.</p>

In the first priority above, the change to the language is intended to capture the evident divergence in the housing market – between the choices available to higher income populations that have been more insulated from the crisis and those available to low- and moderate-income households. Whereas in many cases the first group is able to take advantage of the option to work remotely, and of low interest rates, to seek out homes with better access to open space and amenities, the second group is contending with much the same situation as before the pandemic: a severe undersupply of high quality affordable housing.



The change to the second priority recognizes that homelessness is a real risk for households that rely on employment from vulnerable occupations (as defined in the research discussed above, typically occupations where face-to-face interaction is indispensable). The supply of homeless housing and supportive services is a vital part of the social safety net not only for the high volume of currently homeless individuals and families, but also for those who are one missed rent check away from losing their home.

And the change to third priority brings it closer to the health and housing framework, with a more resident-focused framing. Whereas previous Plans discussed climate resiliency and energy efficiency as social goals, emerging research and the impacts of the pandemic have made clear that these issues are of immediate concern to the health and wellbeing of low-income households. Consistent heating and cooling, circulation of clean air, affordable utility bills – all these speak to housing’s role in someone’s life. As one member of the FHLBNY AHAC put it in a recent roundtable discussion, affordable housing should pass the “Mother Test”: Would I put my mother in it?

These priorities are all immense in scale, and addressing them comprehensively and collectively requires the efforts of many stakeholders. While the FHLBNY’s Affordable Housing Program is typically a gap funder – about 6% of the capital stack, on average, over the 2017-2019 rounds– its rules and requirements can address these larger housing priorities in important ways. First, on smaller projects, especially, the program can incentivize developers to design their projects strategically, whether in regard to tenant mix, resident services, or in some cases even siting. Second, by providing essential (and grant-based) gap funding, the program can increase the odds that particular types of larger projects, with other major funders, are ultimately successful.

Within the above priorities, the AHP is best placed to work on three housing needs. Table 2 shows the housing needs that are the focus of the program. The remainder of this section describes how the components of the AHP’s scoring criteria work in tandem to address those needs.

Table 2: Housing needs to be addressed by the AHP

2021 Priorities	Low- and moderate-income renters and potential homebuyers are likely to be left behind as recovery begins	Eviction and foreclosure moratoriums are holding down what is expected to be a wave of need for homeless housing and supportive services	The design of affordable housing impacts its contribution to equitable communities
2021 Needs	Greater funding and long-term protections for the most vulnerable renters, and improved access to homeownership across the district	More support for wrap-around services to keep people safe and stable and let them build for the future	Incentives for investments that incorporate tenant-focused attributes that improve health and bring down costs



D. FHLBNY responses to address identified housing needs

The clarity and flexibility of the new AHP regulation encouraged the FHLBNY to not only restructure the scoring criteria for the AHP – the mechanism by which the program ranks applicants for possible awards – but to conduct a full-fledged evaluation. Program staff conducted extensive analysis, surveyed current industry literature, interviewed dozens of district and industry experts, and convened multiple sessions of a special working group of the AHAC. This research examined the existing scoring criteria: To what extent were the criteria collectively producing a portfolio of projects that responded to the housing needs? And to what extent was each individual category supported by the best available evidence? (This in-depth process was a significant goal established in the 2020 Community Lending Plan.)

While many of the criteria are indeed statutory or regulatory priorities, and hence are required elements of the program, even these categories received intense review, given that the FHLBNY still shapes the definitions, standards, and documentation requirements.

The 2021 AHP round will score project applications against 13 criteria. The full details, including documentation requirements, can be found in the 2021 AHP Implementation Plan, available on the FHLBNY website. That document and the section below should be read as companions. The intent of the categories, as well as changes from recent rounds, is as follows:

Use of Donated or Conveyed Government-Owned or Other Properties

This category rewards projects that receive their land or buildings at a significantly discounted price or through a true donation. Originally included as a statutory priority to facilitate conveyances from the Department of Housing and Urban Development, the category is increasingly relevant in the current crisis.

Given the impact of the pandemic on local budgets, as well as the predictions regarding foreclosures, more district municipalities may find themselves needing to rehabilitate and dispose of blighted property – a replay of the “zombie” property issue that followed the Great Recession. For the 2021 AHP round, projects that receive a discount to 50% of the fair market value are eligible for points in this category. In previous years, the FHLBNY required a discount down to 30%. The intent of the change is to make it feasible for more municipalities to access gap funding to support their community initiatives.

Sponsorship by a Not-For-Profit Organization or Government Entity

Another statutory priority, this category ensures that non-profit developers are competitive in the application phase against for-profit sponsors, which may have more capacity and access to capital. In practice, it means that nearly all AHP projects are either led by non-profit sponsors, or, in the case of projects with Low Income Housing Tax Credit funding, that for-profit developers include non-profits in the ownership structure to some extent.



Based on the available research in this area⁵³, and consultation with AHAC members, this category will remain consistent in the 2021 AHP round.

Targeting

Targeting describes the income mix of a project’s residents, and, by regulation, the category rewards projects with a commitment to deeper affordability. At 20 points out of 100 available, this is the most valuable scoring category, and for good reason. It ensures that projects serving low-income residents can be viable, and by virtue of receiving an AHP award those projects are then part of the long-term stock of affordable housing through their retention periods.

In support of the first housing need identified above, the FHLBNY modified the Targeting category for the 2021 AHP round in two ways: 1) Projects that are owner-occupied and reserve at least 60% of their units for residents at or below 50% of the area median income will receive the full amount of points, something for which only rental projects were previously eligible; and 2) The formula used to translate the resident mix into the number of points for owner-occupied projects will increase the points awarded for units above 60% and equal to or less than 80% of area median income, recognizing that in many markets of the district the requirement for deeper affordability is incompatible with the realities of homeownership opportunities.⁵⁴

Table 3: Targeting treatment of owner-occupied projects

	Units ≤50% of AMI	Units >50% & ≤60% of AMI	Units >60% & ≤80% of AMI	Pre- 2021 score	2021 round score
Project with 60% very low-income units	15	10	0	17.6	20.0
Project with moderate income units	10	5	10	12.0	14.0

Both of these changes should encourage sponsors of owner-occupied projects to continue to look to the AHP, and allow the AHP to continue to promote low- and moderate-income homeownership opportunities in the district.



**Underserved
Communities and
Populations**

This umbrella category is a regulatory priority, and the FHLBNY has chosen to implement the category using three subcategories: 1) Homeless Households, 2) Supportive Housing, and 3) Rental Housing for Extremely Low Income Households, a new component of the criteria. The points allocated to the homeless and supportive housing subcategories will increase from recent AHP rounds. Each subcategory will award the full amount of points to qualifying projects (in previous AHP rounds, homeless housing projects received points based on the share of their units reserved for formerly homeless households). And projects can receive points for satisfying two of the three subcategories, if applicable.

One other change to these subcategories of note: Youth aging out of foster care is a long-running priority of the Affordable Housing Advisory Council and the Housing Committee of the FHLBNY's Board of Directors. Sponsors serving this population, which is at a high risk of homelessness, will now be eligible for supportive housing points.

These policy decisions are in recognition of the district's housing priorities, made more widespread and acute during the current crisis. The scoring for these subcategories is designed to have an outsized impact on projects' likelihood of receiving an AHP award.

**Creating Economic
Opportunity:
Residential
Economic
Diversity**

The new AHP regulation provides the FHLBNY the flexibility to define economic diversity so that it is supported by the best available evidence and fits with the housing needs identified for the district. As in recent AHP rounds, applicants may qualify for points in this category by, broadly, 1) locating the project in an upper income area, or 2) reserving units for households above 60% of the area median income. However, in both tracks, the FHLBNY made important choices and changes.

The new regulation tasks the FHLBNY with defining a "high opportunity area," a distinct concept from an upper income census tract as used previously. Locating projects in these areas, as described in the deepening academic literature on the subject⁵⁵, ties directly into the housing needs: projects in high opportunity areas can offer residents access to a greater degree of municipal services and other benefits, including but not limited to high quality schools, low crime, job options and open space.

Various federal agencies and the state housing finance agencies have adopted their own definitions of what constitutes a high opportunity area⁵⁶, as popularized by the academics associated with the Opportunity Insights



project.⁵⁷ In reviews of the approaches, researchers find the most common component and best single predictor to be some measure of an area's income or poverty.⁵⁸ This is crucial guidance for the FHLBNY because the AHP serves such a variety of project types across such a diverse district, unlike the state agencies which have the luxury of offering a "family round," for example, when they can use additional metrics relevant to those projects and standardized at the state level. The FHLBNY measure of opportunity needs to be more broadly relevant.

The specific metric the AHP will use is a comparison between a given census tract's median family income and 120% of the state or territory's median family income, as determined by American Community Survey (ACS) data. This will be different from the program's previous approach, which was to rely on the Federal Financial Institutions Examination Council's⁵⁹ (FFIEC) determination of a census tract's income level relative to its surrounding county. Even though that source has similar underlying data (from the ACS), it has two attributes that make it less well suited than the FHLBNY's new chosen approach:

- FFIEC infrequently updates which tracts are considered to be upper- (or not upper-) income, instead estimating a given tract's median family income as a fixed percentage of a changing county income from year to year.⁶⁰ This masks the changes that many areas in the district can experience on a more frequent basis.
- FFIEC's more local comparison, to the surrounding county, would overestimate the attributes associated with high opportunity in lower-income counties and underestimate those attributes' distribution in higher-income counties. For example, in New York's richest county, Nassau, there are over 150 census tracts that FFIEC does not consider "upper-income" but that would meet the test of having a median family income of at least 120% of the state level. On the other end of the spectrum, Atlantic County, one of New Jersey's poorest, has 20 tracts considered upper-income that would not meet the FHLBNY's definition for high opportunity areas.⁶¹

State- and territory-wide standards will make the category more consistent with the growing body of industry knowledge, and the approach was endorsed in interviews with experts and with the Affordable Housing Advisory Council.



For the second track, the previous AHP regulation allowed the program to recognize mixed-income housing in only low- and moderate-income areas, but the new regulation does not impose such a constraint. The best practices in this area, as documented in a recent collection of papers from the Joint Center for Housing Studies⁶² and in an ongoing series from Case Western University⁶³, suggest that mixed-income housing has value, and can be realized in different ways, across a range of communities. Hence in the 2021 AHP round, projects may be eligible for points in this category wherever they provide mixed-income housing. However, as several academics and other industry experts consulted by the FHLBNY noted, mixed-income housing can compete with the goal of maximizing the number of affordable units in high opportunity areas. So, applications for projects that offer mixed-income housing in high opportunity areas will receive somewhat fewer points than those that offer just one or the other benefit.

Community Stability

Recent FHLBNY Community Lending Plans discussed at length the importance of preserving the existing stock of affordable housing and maintaining the quality of affordable residences across the district. Rehabilitating existing affordable housing is typically more efficient than new construction and is less likely to experience the significant delays entailed in the public input process for new construction. If rehabilitation is accomplished using AHP funds (and, for owner-occupied projects, if it is also in conjunction with the purchase of a property), it extends the affordability protections for current and future residents.

The ongoing COVID-19 crisis has made this issue's importance even clearer. In response to projected tax revenue shortfalls, New York City's Department of Housing Preservation and Development saw its capital budget cut by 40%, though half of that loss was later restored.⁶⁴ While New York and New Jersey's state housing finance agencies have yet to see similar impacts, there is a severe risk that production of new affordable units in the district will be depressed for some time, making the need for preservation especially acute.

Given these considerations, the FHLBNY will increase the point allocation to its preservation scoring category for the 2021 AHP round.

Project Readiness

The intent of the project readiness category is to ensure that projects receiving an AHP award will meet the various milestones, from construction through occupancy, in the program's lifecycle. Funds allocated to a project that stalls, for whatever reason, could have been used on a project that was



more shovel-ready. And the process for cancelling a project or recapturing funds already disbursed can negatively impact a sponsor organization or the community the sponsor serves.

Two components make up this category, and projects can receive points for both: municipal approvals (site plan or as-of-right) and the commitment of other funding to the project. Both suggest that a project is likely to come to fruition. On paper, both components were available to all project types – new construction and rehabilitation. However, in practice the sponsors of rehab projects had difficulty receiving the points, or even failed to request them. For the 2021 round, the FHLBNY will conduct targeted outreach, rather than make a change to the rules, to clarify how rehabilitation projects can demonstrate their readiness to proceed.

All project types served by the AHP are needed to adequately address the identified housing needs; more successful implementation of this category will help address those needs promptly.

Owner-Occupied Projects

The FHLBNY understands that some of the scoring criteria may be more amenable to rental housing projects, as opposed to owner-occupied projects. However, owner-occupied housing plays an essential role in addressing the district's housing needs, particularly with regard to allowing first-time homebuyers to begin to build wealth and to preserve the ability of seniors to age in place in high-quality housing. The criteria for the 2021 AHP round, therefore, will award owner-occupied projects a base number of points to help them compete in the application phase. This category is consistent with recent rounds.

Small Projects

Similar to the above category, this category helps projects with 25 or fewer units to be competitive in the program. Smaller projects typically cannot access Low Income Housing Tax Credits and other funding available to larger projects, and they are often led by smaller non-profit developers with less capacity and capital than larger entities. Whether these projects are addressing an infill situation in a blighted urban area or are a Habitat for Humanity (or comparable) effort in a more suburban area, small projects should have a place in the AHP. (Note that projects may receive points in both the owner-occupied and small projects categories if relevant.)

In-District

An FHLBank's member may submit a project application to that FHLBank whether or not the project itself is located in the district. Many larger banks, especially, serve markets that cross state lines, and many operate



Member Financial Participation

nationally. In annual studies conducted internally by the FHLB system, the FHLB's Affordable Housing Program is described as generating a net out-flow of funds. In other words, FHLB members use the AHP to help their out-of-district customers more so than in-district project sponsors are able to access other FHLB's programs.

The new AHP regulation and its preamble are clear that an FHLB may not use its scoring criteria to exclude out-of-district projects, and that is also not the FHLB's intent. Rather, the FHLB will maintain a small scoring bonus for in-district projects to ensure local sponsors have continued access to essential gap funding. Moreover, addressing the district's housing needs depends on successful and meaningful projects in the district.

The FHLB's 2020 Community Lending Plan set a goal for the year to investigate the merits and feasibility of incorporating subsidized advances into the AHP. In use at other FHLB's, a subsidized advance uses funds awarded to a project to reduce the interest rate on an advance to the project's member financial institution; then that member would pass along the discount in a construction or permanent loan to the project. The subsidized advance would either take the place of or supplement the grant award to the project; the project sponsor would choose what made the most sense for the project's financial structure.

Subsidized advances are used successfully in other districts, not only in the AHP but also in targeted advance programs for small businesses. Several FHLB's offer zero-interest programs to encourage their members to make low-cost loans available in the communities they serve.

For the 2021 AHP round, the FHLB is introducing a scoring category for member financial participation. It will reward applications where the affiliated member is part of the capital stack, in the form of construction or permanent loans, or grants. The intent of this new category is fourfold: 1) To sensitize sponsors and members to a deeper level of mutual commitment in anticipation of launching a subsidized advance option, 2) To bring onto the project another layer of expert financial review at the local level, a certain benefit to the FHLB's own analysis, 3) To provide business opportunities for the FHLB's members where today many projects partner with out-of-district lenders, and 4) To encourage diversity among the AHP's member participants as sponsors seek out the best partners for their transactions and members recognize that their participation increases a project's chances at receiving an award.



Green Building Innovation

For the 2021 AHP round, the FHLBNY will introduce a category to be called Green Building Innovation. This change is in recognition of one of the highest priority district needs. During the ongoing health and economic crises from COVID-19, the need for such a category is even clearer: projects that address this issue have lower utility costs for residents; they improve the air quality and other health and comfort aspects of the units; and they help normalize these kinds of building practices in the industry.

Following extensive consultation with the district's housing finance agencies and other funders of green building, standard-setting entities in this area, project sponsors across a range of project types, and consultants and other industry experts, the FHLBNY determined the most appropriate element of the category at this time to be a certification to the effect that a project will be designed and built to one of these two standards: Passive House Institute US (or its European equivalent), or Net Zero Energy. (Rehabilitation projects will have the further option of receiving points if they are designed to significantly reduce energy usage.) These standards are widely understood and accepted in the industry as being the most rigorous; they focus on energy usage and dwelling quality; and they have clear milestones and documentation requirements that align with the needs of the AHP lifecycle.

There are already projects in the AHP pipeline that use these design standards. Even if growth in the category's usage is gradual, the industry experts consulted by the FHLBNY encouraged this direction with the aim of making other funders' own incentives more attainable and driving down costs on materials and other expenses. The word "innovation" in the category's name communicates that it will reward projects that go above and beyond typical practices or base-level building codes, taking on some additional expense and risk to address district needs.

AHP Subsidy Per Unit

For this category, projects are assigned points on a sliding scale based on the amount of subsidy they request per unit targeted to households at or below 80% of the area median income. The category's intent is to describe a project's cost efficiency – its "bang for the buck" – and promote the leveraging of AHP funds with other sources. Formerly a regulatory priority, it is no longer a required scoring criterion in the new regulation. Based on an analysis of internal data and consultation with AHP sponsors, the FHLBNY recognizes that this category is especially onerous for smaller projects, which, as described above, may not be able to leverage an AHP award to the extent a larger project, or a larger sponsor entity, could.



For the 2021 AHP round, the FHLBNY will reduce the points allocated to this category, hopefully evening the competitive landscape among project types.

Lastly, three categories in the scoring criteria for the 2020 round and prior will be removed for 2021's program:

- **Difficult to Develop Areas/Qualified Census Tracts as a component of Community Stability:** By locating a project in these areas, defined by the Department of Housing and Urban Development, a project can receive a basis boost in its Low Income Housing Tax Credits, and it is likely from the tax credit program that the FHLBNY originally copied the incentive into the AHP. However, with the other AHP scoring changes discussed here, it is no longer necessary or meaningful to maintain this standalone bonus. DDAs are often areas where construction costs are high, and most such areas are captured in the new definition of high opportunity areas, making another category duplicative. Projects located in QCTs, or lower-income areas, will still be competitive in the AHP, provided they address one of the identified district housing needs.
- **Empowerment Activities:** Previously a regulatory requirement, this category is now an optional component under the "Creating economic opportunity" regulatory priority. The FHLBNY has chosen to discontinue it for several reasons: 1) In seeking to identify eligible empowerment activities for every project type, the category had become inequitable. For example, projects received the same number of points for offering flu shots to their tenants as they did for offering child care services – a vastly different commitment of resources; 2) The category for Supportive Housing rewards projects that develop specialized plans and contract services tailored for their residents' needs, clearly fulfilling the health-and-housing approach, whereas empowerment activities did not need to be coordinated or personalized; and 3) Over the course of an AHP project's lifecycle (including, for rental projects, the 15-year retention period), monitoring the implementation of empowerment activities was operationally burdensome, especially due to turnover among project staff.
- **Desirable Sites:** This category was introduced for the 2018 AHP round as a preliminary attempt to address the concept of high opportunity areas, which was not then an eligible component of the scoring criteria. The FHLBNY rewarded projects located in proximity to public transit and food retailers, two elements then popular in indices used by state housing finance agencies. In the category's three rounds of use, most project applications received points, meaning the category was not useful in determining which projects should receive an award. Like with the empowerment activities category, there was also a concern of fairness, as a rural project near an infrequently serviced bus stop received the same number of points as an urban project in a transit hub where residents could get to work at all hours and on weekends. The category for high opportunity areas should better capture the range of benefits originally envisaged for desirable sites.



4. Targeted Community Lending Performance Goals

This Plan lays out clear and coherent connections between the district's credit and affordable housing needs and the design of FHLBNY products and programs. In the same way, there is intended to be a logical link between the programmatic changes and the methods and metrics the FHLBNY will use to measure success. Given that the FHLBNY operates in the context of wider market forces and in partnership with members and other community organizations, many outcomes are beyond the control of the FHLBNY. The goals described here are both achievable and meaningful, in the sense that the FHLBNY's achievements and challenges will inform further improvements in the area of community investment.

A. Progress toward credit needs and market opportunities

The core discounted advances – CIP, UDA and RDA – are available to members to support their lending that may not qualify for the Disaster Relief Funding program or when those DRF funds become exhausted. The various changes to the discounted advance products are intended to help members more seamlessly incorporate them into their business planning. Hence a meaningful metric for those products is the extent to which the new rules facilitate utilization of discounted advances.

Goal A1 FHLBNY members borrow \$1.0 billion in total across the CIP, UDA and RDA.

To make the above goal feasible, FHLBNY staff will continue strategic engagement with members on the suite of Community Investment products and programs. As described in the 2020 Plan, there needs to be a wide awareness of the programs across the departments within a given FHLBNY member, including representatives from the treasury department, loan originations team (multi- and single-family) and the designated Community Reinvestment Act Officer. These discussions will also inform the rollout of the Business Development Advance and future performance metrics for that program. Given the restrictions due to the pandemic, much of this engagement is expected to be conducted remotely.

Goal A2 Conduct education, training or research activities with the cross-functional staff of 24 FHLBNY members.

B. Progress toward affordable housing needs

In a typical year, FHLBNY staff conduct dozens of outreach activities with district stakeholders to remain current on pressing housing needs. These activities include presenting at industry



conferences on the FHLBNY's programs; holding large-group training sessions for potential program applicants; speaking alongside leaders from state funding agencies and local municipalities at celebration events; interviewing experts on affordable housing topics; and other related communications. The remote posture will surely change the execution of much of these initiatives; for example, FHLBNY staff will consult with members of the Affordable Housing Advisory Council on designing appropriate and accessible training sessions in place of the usual in-person roadshow in the first quarter of the year. Despite the challenges, this goal remains essential to the FHLBNY's product development process.

Goal B1 Conduct 50 outreach activities with AHP sponsors, housing counseling agencies, district funding sources, and other stakeholders.

The 2020 Plan described the FHLBNY's intent to better understand, and to improve, the contribution of its Community Investment programs in the area of Diversity and Inclusion (D&I). As of the writing of the 2021 Plan, the FHLBNY had successfully deployed a survey to past AHP sponsors to gather baseline information on two key subjects: the extent to which their own organizations intentionally promote D&I aims, and the extent to which their housing work broadens the business opportunities available to Minority-, Women-, and Disabled-Owned Business Enterprises. In 2021, Community Investment staff will evaluate survey responses in collaboration with D&I colleagues, consult further with AHAC members, and explore possible approaches for incorporating D&I into FHLBNY products and programs.

Goal B2 Hold a working session to discuss the results of the D&I survey and reflect on potential approaches.

The 2020 Plan also described the FHLBNY's efforts to make the Homebuyer Dream Program more broadly available across the district, especially on tribal land. Over the course of 2020, FHLBNY staff continued outreach with other Federal Home Loan Banks, government funding sources, and housing counseling agencies to develop proposed program enhancements. In 2021, the FHLBNY will refine those proposals, create operational components where needed, and educate FHLBNY members about how they may serve first-time homebuyers and housing needs on tribal land.

Goal B3 Continue strategic research on how to expand access to AHP funds on tribal land in the district.

The above goals will inform FHLBNY policies and initiatives over the course of 2021. Subsequent Targeted Community Lending Plans will revisit the established metrics and evaluate their utility.



5. Appendix

Recent FHLBNY publications

Targeted Community Lending Plan	2020	2019	2018
Affordable Housing Advisory Council Annual Report		2019	2018

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80% of the area median income (the qualifying criteria for the FHLBNY's Homebuyer Dream Program), in Onondaga County, NY (Syracuse), 30% of these borrowers were at or below 50% of the area median income, whereas in Nassau County (Long Island), just 6% of borrowers were in this income band. In Mercer County, NJ (Trenton), 36% of borrowers were in the lowest income band, compared with 7% in Bergen County.

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