[START OF TRANSCRIPT]

FHLBank Affordable Housing Program
Overview of Notice of Proposed Rulemaking
March 27, 2018

Female Speaker: Ladies and gentlemen, welcome and thank for joining today's web conference, Federal Housing Finance Agency's Federal Home Loan Banks Affordable Housing Program Proposed Rule. Please note that all participant lines will be muted for the duration of this event. You're welcome to submit written questions during the presentation. To submit a question, please use the chat panel on the right-hand side of your screen and please choose "All Panelists" from the "Send To" drop down menu. If you require any technical assistance, please send a note to the events producer. I would now like to formally begin today's conference and introduce Cynthia Adcock, Director of Communications. Cynthia, please go ahead.

Cynthia: Good afternoon everyone and welcome. I'm Cynthia Adcock, Director of Communications here at FHFA. We're so glad you could join us today for this webinar on the proposed rule that would amend the Federal Home Loan Banks' Affordable Housing Program regulation. The proposed rule was published in the Federal Register on March 14th. It has a 60-day comment period, so that will end on May 14th. We will explain a little bit later in the webinar exactly how to comment on the rule. Joining me today are presenters from our Office of Housing & Community Investment. We have with us today Ted Wartell, Marcea Barringer, Eric Howard, and Tiffani Moore. For the next hour, they will provide an overview of the proposed amendments and will answer questions. Once the webinar has concluded, we will make a recording available on our website, fhfa.gov. Now I'm going to turn things over to Ted to begin our presentation.

Ted: All right. Thanks, Cynthia. Cynthia mentioned our presentation today is going to start with a brief overview of the AHP and we'll list the specific objectives of the rule and then describe the proposed changes themselves, including the assessment of the Bank district housing needs, Program design, and the new outcome-based approach for project selection, changes to the Homeownership Set-Aside, monitoring requirements, and remediation of AHP noncompliance.

Slide three is a brief overview of the AHP. Congress created the Program in 1989 as part of the Financial Institutions Reform, Recovery, and

Enforcement Act, or FIRREA. The program started funding affordable housing projects in 1990. The law requires each Home Loan Bank to allocate 10% of its prior year's net income to fund its AHP for purchase, construction, or rehabilitation of affordable housing. The law also establishes a number of other requirements. For rental housing, a minimum of 20% of the units of the projects must be reserved for households at or below 50% of their area [median] income. Homeownership units must serve units at or below 80% of area median income. The statute also establishes several priorities for the Banks to meet in awarding their AHP funds: Purchase or rehabilitation of housing owned by [the] U.S. government; Purchase or rehabilitation of housing sponsored by any nonprofit organization, any state or political subdivision of any state; and Purchase…

Female Speaker: I'm sorry to disturb you there but we need to see the slides moving please. Right now, we're at the cover slide here.

Female Speaker: I think we're having technical difficulty here, so can you switch the control of the slides to the video please?

Female Speaker: Absolutely, I can move the slides for you. Please let me know which slide I should be on.

Ted: Of course, you're on slide…

Female Speaker: You're on slide four.

Female Speaker: At least just say next slide whenever you want me to move the slides for you. Thank you.

Ted: Can we just go back to three or I can just read through?

Male Speaker: Slide three motion.

Ted: Okay. Great, thanks. So just to finish the point, in addition, the law requires FHFA to issue regulations that, at a minimum, specify the activities that are eligible to receive AHP funds, specify priorities for use of the AHP funds, and coordinate AHP activities with other program activities -- other federal program activities -- to the maximum extent possible. The law also requires each Bank to establish an affordable housing advisory council of members drawn from community and non-profit organizations involved in low- or moderate-income housing within its district.

We're going to slide four. Many of you on the phone know the process of developing the proposals we're talking about today has been underway for quite some time. FHFA has greatly benefited from the input we've received from the Home Loan Banks themselves, as well as the AHP stakeholders including the Banks' advisory councils (whose members include non-profits or for-profit developers and local government officials), other non-profit organizations, Bank System members, and AHP subsidy recipients themselves. Based on that input, as well as our own analysis, the agency set the following objectives for the proposed rule. First, to expand the Banks' ability to tailor their AHP to meet the specific affordable housing needs in their districts. Second, is to expand flexibility and the effectiveness of the Homeownership Set-Aside Program. Third, to streamline rents and income monitoring requirements. The fourth objective is to clarify the responsibilities, potential liabilities for the Banks, Bank members, and project sponsors or owners in the event of AHP non-compliance.

Now, let me turn it over to Tiffani who's going to describe the proposed requirement to assess district housing needs.

Tiffani: Okay, thanks Ted. Slide five describes the agency's proposal on the assessment of district housing needs. The proposal will require that each Bank undertake a process to identify specific affordable housing priorities in its district. The Bank will then set priorities for, and allocate AHP funds to, its General Fund and any Homeownership Set-Aside Programs and Targeted Funds established by the Bank. The Banks currently must adopt or update, and post on their websites annually, Targeted Community Lending Plans addressing targeted economic development needs in their districts. The proposed rule would expand requirements for these Plans to:

- Specifically include analysis of affordable housing needs in a Bank's district; and

- Identify, from among those needs, specific housing needs to be addressed through the Banks' AHP, supported by empirical data in order to justify:

  -- selection by the Bank of specific housing needs priorities for its General Fund. The General Fund will be similar to the Bank's current competitive application program, but with some differences that we will discuss shortly; and

-- establishment by the Bank of any Targeted Funds and Homeownership Set-Aside Programs, in its discretion.

Each Bank would be required to publish its Targeted Community Lending Plan six months in advance of the Plan year. For any Targeted Fund established by the Bank, the Bank would be authorized to implement the Fund after 12 months have elapsed since the publication of its Plan. In the Banks' AHP Implementation Plans, which are published annually, the Banks would specify the funding allocations for the Banks' General Funds, and any Bank Targeted Funds and Homeownership Set-Aside Programs, as well as the scoring frameworks for the Banks' General Funds and Bank Targeted Funds.

Now I will turn it over to Eric to discuss proposed provisions on Program design.

Eric: Okay, thank you, Tiffani. I'm now on slide six and I'm going to discuss the overall proposals for Program design under the AHP.

FHFA proposed a number of regulatory amendments to enhance the Home Loan Banks' ability to design their Programs in order to address specific affordable housing needs within their districts. The Banks would have greater flexibility to allocate and award their annual total AHP funds, while at the same time preserving certain beneficial features of the current Program. For example, each Bank would be required to allocate a minimum of 50% of its total annual AHP funding allocation to its competitive General Fund. This would ensure that the majority of AHP funds continue to be allocated competitively through a program that's open to all applicants.

Each Bank would also be authorized to establish a Targeted Fund or Funds and this will be at the Bank's discretion. Targeted Funds are a new category of competitive Funds. A Bank could allocate up to 40% of its total annual AHP funding allocation to a maximum of three Targeted Funds. The establishment of the Targeted Funds would be subject to certain phase-in requirements. The use of Targeted Funds would enable the Banks to further target housing needs in their districts that are challenging to reach using the existing competitive scoring framework.

The proposal would also increase the annual amount the Banks could allocate to their Homeownership Set-Aside Programs from the current 35% to 40%, while retaining the current alternative funding limit of $4.5 million. This would enable the Banks to further tailor their

Homeownership Set-Aside Programs to address homeownership needs in their district.

Finally, about the proposal, the proposed rule would continue to require that the Banks allocate the majority of their total annual AHP funds to competitive programs through the General Funds and any optional Targeted Funds or Fund.

Now on slide seven and we're going to discuss the proposal for the General Fund. As I mentioned previously, the proposed rule would require that each Home Loan Bank allocate at least 50% of its total annual AHP funding to its General Fund. The General Fund would operate in a manner similar to the current competitive application program. The proposal would require the Banks to continue administering competitive application programs that attract numerous applications that address a broad array of affordable housing needs. However, as will be discussed shortly, each Bank will design its own scoring framework for its General Fund, based on specific affordable housing needs identified in its district, subject to meeting certain outcome-based requirements prescribed by FHFA in the proposed rule.

I'm now on slide eight to discuss the proposal authorizing a Home Loan Bank to establish Targeted Funds in their discretion. As I stated earlier, the purpose of a Targeted Fund is to enable a Bank to target a specific affordable housing need or needs within its district that are either unmet, have proven difficult to address through the existing competitive application program, or align with objectives identified in the Bank's strategic plan. A Targeted Fund would serve as a tailored competition to address district needs that are difficult to meet through the General Fund. The use of Targeted Funds would help Banks address challenges they experience when trying to target multiple affordable housing needs within their districts, especially during a single AHP application funding period. For example, a Bank's use of Targeted Funds could improve its ability to target the affordable housing needs of specific geographic areas or populations, or to act in response to a disaster that occurs within its district.

The Bank would be required to administer each Targeted Fund using an objective and transparent competitive application scoring process developed by the Bank and comprising scoring criteria applicable to the targeted affordable housing need. The Bank would be required to adopt and implement controls to ensure that each Targeted Fund is designed to receive sufficient numbers of applicants for the amount of AHP funds allocated to the Targeted Fund to facilitate a competitive application process. The controls would also include a phase-in period for establishing and allocating AHP funds to Targeted Funds, and the Banks would be required to announce any Targeted Funds in their Targeted Community Lending Plans one year before their implementation of the Targeted Fund. FHFA would review the Targeted Community Lending Plans before their release to the public.

I'm now on slide nine. I'm going to discuss the proposed amendments to the AHP Homeownership Set-Aside Program. In addition to authorizing the Banks to increase the allocation of total annual AHP funds to the Homeownership Set-aside Programs from 35% to 40%, the proposed changes would include increasing the maximum set aside subsidy amount per household from the current $15,000, which was set in 2002, to $22,000. This would bring the subsidy limit in line with changes in FHFA's House Price Index. The subsidy limit would then be adjusted annually for increases in FHFA's House Price Index. The proposed increase in the subsidy limit takes into account increases in current housing construction and rehabilitation costs. The proposed increase would also address homeownership needs in high cost areas.

The proposal would require the Banks to meet the statutory priority to support home purchases by families at 80% of area median income or below. Specifically, the proposal would require that each Bank demonstrate that a minimum of 10% of its total annual AHP funds support home purchases by such families. The Banks could demonstrate satisfaction of this requirement through their Homeownership Set-Aside Programs, General Funds, and/or their Targeted Funds.

The proposal would revise the current one-third set aside funding allocation requirement to include not only first-time homebuyers but also owner-occupied rehabilitation. This proposal would serve to encourage more AHP subsidy use for owner-occupied rehabilitation.

The proposal would also remove the current requirement for a five-year retention period agreement and the related AHP subsidy repayment requirements. The purpose of the current retention agreement requirement is to discourage potential flipping of homes purchased with AHP grants. However, FHFA has found little evidence of flipping in properties with AHP subsidies. Given this lack of evidence, and the administrative costs that the retention agreements and repayment requirements place on Banks and member institutions, FHFA has proposed eliminating this requirement.

FHFA is requesting comments on the advantages and disadvantages of the retention agreement requirements, including any impact its elimination would have on FHFA's ability to ensure that AHP funds are being used for statutorily intended purposes. FHFA is also requesting comments on ways to deter flipping other than through retention agreements.

I'm now on slide ten. This is an example of how a Bank might choose to allocate its total annual AHP funds under the proposed funding allocation authorities. Let's begin by assuming that a Bank has $30 million in total annual AHP funds, which is 10% of the Bank's prior year's net income. The Bank would analyze the district's affordable housing needs in conjunction with the development of its Targeted Community Lending Plan. The Bank's board of directors would then approve the design of the Program and the allocation of AHP funds. This could result in, for example, the Bank allocating 50% of the total annual AHP funds to the Bank's General Fund. This is the regulatory minimum that a Bank would be required to allocate to the General Fund. This equates to $15 million for this Bank.

The Bank could allocate 40% of the total annual AHP funds to the Bank's Homeownership Set-Aside Program, which is… and 40% is the regulatory maximum that a Bank would be authorized to allocate to its Homeownership Set-Aside Program. This equates to $12 million for this Bank.

The Bank could allocate 10% of the total annual AHP funds to the Targeted Fund. The 10% is well below the regulatory maximum of 40% of total annual AHP funds that a Bank would be authorized to allocate to Targeted Funds. In this example, this would equate to $3 million for this Bank.

Now I'm going to turn the presentation over to Marcea, who will discuss the proposed rule's project selection changes.

Marcea: Thank you, Eric. I'm now on slide 11. Eric described a number of the ways we believe the Banks could address their district's specific affordable housing needs. FHFA is proposing a different framework for the Banks to select projects to receive AHP awards, which is an outcome-based approach. As many of you know, the current regulation mandates a scoring framework with seven mandatory scoring categor**ies**, and two Bank district priority categories. Under the proposed rule, each Bank would establish its own scoring framework for its General Fund, and could establish a separate scoring framework for each Targeted Fund. However, as we touched on in the overview, the statute does include certain priorities for the awarding of AHP funds, and requires FHFA to establish additional priorities through regulation. The proposed rule would include those statutory priorities, and proposes several regulatory priorities. Under the outcome-based approach, FHFA expects a specific amount of each Bank's AHP awards to meet those statutory and regulatory priorities. We will discuss those FHFA-prescribed outcome requirements on the next few slides.

The proposed shift to measuring outcomes is intended to create more flexibility for the Banks to effectively target specific housing needs in their districts. At the same time, it would assure that the AHP is meeting both the statutory and FHFA regulatory priorities.

The proposal would also increase flexibility in the General Fund scoring framework by changing the current regulatory priorities. The proposed regulatory priorities would continue to address important housing needs. At the same time, they would provide additional flexibility to the Banks. Some of the proposed regulatory priorities are also aligned with FHFA priorities in other programs, most notably the Duty to Serve Program.

I'm now on slide 12. This slide describes the statutory priorities that the Home Loan Banks' AHP awards must meet under the proposal. As we noted earlier, the Federal Home Loan Bank Act includes three specific priorities. The first priority, as implemented in the current regulation, is for land or units donated or conveyed by the federal government or by other parties. The second priority is for projects sponsored by nonprofit organizations or by government entities. Under the proposed rule, each Bank would be required to award a certain percentage of AHP funds to projects meeting at least one of these two statutory priorities. The third statutory priority is for homes purchased by households with incomes at 80% of area median income or below. Our proposal would separate this third statutory priority from the other two. We'll be describing the details a little further on, on slide 15.

Moving on to slide 13. The rule also proposes four regulatory priorities. The first regulatory priority is for income targeting of rental units to very low-income households. The proposal would require each Bank to ensure that at least 55% of the total rental units in rental projects receiving AHP awards are reserved for households at 50% area median income or below.

Now turning to slide 14, which describes the other three regulatory priorities that FHFA would establish under the proposed rule. The first regulatory priority is for underserved communities and populations. This priority would include housing for homeless populations, special needs populations, other targeted populations such as military veterans or Native Americans, housing in rural areas, and housing for households with income at 30% of area median income or below. Some of these housing needs are retained from the current regulation. The definition of rural areas would be consistent with the definition of rural in FHFA's Duty to Serve regulation.

The second regulatory priority is creating economic opportunity in conjunction with providing housing. This priority would include housing connected to promotion of empowerment services, such as childcare or healthcare services, and residential economic diversity as defined in FHFA's Duty to Serve regulation. Elements of both of these housing needs are retained from the current regulation.

The third regulatory priority is for housing preservation, including rental housing preservation and homeownership preservation. These housing needs would be consistent with those in the Duty to Serve Program, and include housing with energy efficiency measures, and shared equity programs.

As opposed to mandating that all of the Banks allocate a minimum number of points to the same priorities regardless of district need, our proposal would require each Bank to meet a minimum of two of these three regulatory priorities. For each regulatory priority that a Bank chooses to include in its scoring framework, it would be required to select at least one housing need under that regulatory priority. For instance, if the Bank chooses to meet the underserved populations and communities priority, it could do so by selecting and awarding AHP funds to projects located in rural areas.

Now moving to slide 15. Slide 15 illustrates the specific outcomes that each Bank would be required to meet under the proposal. As I just described, the proposal calls for the Banks' awards to address both statutory and regulatory priorities. We have proposed the following four specific measures.

First, each Bank would be required to satisfy one of the first two statutory priorities. To do that, at least 55% of a Bank's annual competitive awards (that's the General Fund and any Targeted Funds) would have to meet either the federal government and donated or conveyed properties priority, or the non-profit and government sponsor priority. Second, each Bank would be required to separately meet the third statutory priority. To do that, at least 10% of a Bank's total annual AHP awards (that's the General Fund and any Targeted Funds and any Homeownership Set-Aside Program combined), would have to assist in home purchase for households with incomes at or below 80% of area median income.

Turning to the regulatory priorities, each Bank would have to meet the income targeting priority by awarding AHP funds annually to rental projects so that at least 55% of rental units would be reserved for households at or below 50% of area median income. We would measure this outcome in units as opposed to dollars.

Lastly, in terms of meeting the other three regulatory priorities, each Bank would be required to award at least 55% of its total annual AHP funds to projects that, in the aggregate, meet at least two of the three regulatory priorities. Each Bank would be required to choose a minimum of two of the three regulatory priorities in its scoring framework with which to meet this outcome, based on its own district housing needs. In order for the Bank to receive credit towards meeting this outcome requirement, each individual project would only have to meet one of the regulatory priorities that the Bank specified.

Now I'll turn it over to Tiffani to discuss an example.

Tiffani: Thanks, Marcea. The next five slides illustrate how Banks could design AHP for a given application funding cycle under the proposed rule. Slide 16 please. Thank you. Let's use the AHP allocation example from slide 10 that Eric described previously. This Bank has $30 million for its annual AHP funding allocation. As I described on slide five, the Bank had submitted its Targeted Community Lending Plan to FHFA prior to its application cycle. The Plan would identify significant housing needs in the Bank's district, supported by empirical data. In this example, the Bank has identified the following significant housing needs: recovery from Hurricane Maria; housing for the homeless in rural communities; rental housing preservation in rural communities for very low-income households; and first-time homeownership. The Plan would be approved by the Bank's board of directors and published on the Bank's website**.**

I'm now moving to slide 17. The Bank's AHP Implementation Plan will specify how the Bank will allocate the $30 million based upon the identified needs in the Targeted Community Lending Plan. Here, the Bank's funding allocations are as follows: $15 million to the General Fund for rural rental housing preservation for very low-income households; $3 million to a Targeted Fund for rural housing for homeless households; and $12 million to two Homeownership Set-Aside Programs -- one to assist households recovering from Hurricane Maria, and the other to assist first-time homebuyers. The Bank's AHP Implementation Plan would include the specific scoring criteria for the General Fund and the Targeted Fund, and would address the requirements for the Homeownership Set-Aside Program, including the Bank applications and subsidy disbursement requirements, and the maximum set-aside amount per household.

Moving to slide 18. As I previously discussed, this Bank has decided to target its General Fund for rental housing preservation in rural communities for very low-income households. These are individuals with incomes at or below 50% of area median income. These housing needs are reflected in the scoring criteria included in the Bank's AHP Implementation Plan, as indicated on this slide. This includes two of the three proposed regulatory priorities: underserved communities and populations; and housing preservation. As shown, this Bank has also opted to include scoring criteria in its General Fund based upon the statutory priorities for federal government/donated or conveyed properties, and non-profit/government sponsors.

Moving to slide 19. Slide 19 shows the Bank's scoring criteria for its Targeted Fund. This includes housing for homeless households and rural housing under the regulatory priority for underserved communities and populations. As shown, the Bank's scoring criteria for its Targeted Fund also emphasize the statutory priority for federal government/donated or conveyed properties and non-profit/government sponsors.

I'm now moving to slide 20. Slide 20 shows the Bank's two Homeownership Set-Aside Programs -- one focused on assisting first-time homebuyers, and the other targeting homeowners in need of housing assistance due to Hurricane Maria.

The Bank's AHP outcomes will be assessed in accordance with the outcome requirements described by Marcea on slide 15.

I'm now moving to slide 21. FHFA is proposing to reduce redundant monitoring requirements with other government housing programs, which will be consistent with the Bank Act's requirement that FHFA coordinate AHP activities with other federally subsidized affordable housing activities to the maximum extent possible.

For initial monitoring of AHP projects that received low-income housing tax credits, the proposed rule would provide that the Banks review certifications and rent rolls from tax credit project sponsors to determine that the residents' incomes and rents comply with the income targeting and rent commitments in the approved AHP application, and no other back-up documentation would be required. The Banks will be required to include in their AHP monitoring agreement with members and/or project sponsors that the project sponsors provide written notice to the Bank if the tax credit project fails to comply with tax credit income targeting and rent requirements during the AHP fifteen-year retention period.

For AHP projects funded by other government programs, which would be specified in separate FHFA guidance, the Banks would only be required to review the project sponsor certification and rent roll at initial monitoring and no other back-up documentation. Each year, during the AHP fifteen-year retention period, the Bank would only be required to review the project sponsor certification, and will not be required to review the rent roll or other back-up documentation for income and rent. FHFA will include in the guidance only government programs that have the same or substantially equivalent rent, income, and retention period requirements as the AHP, FHFA has determined that there is a very low occurrence of noncompliance with these requirements, and that the monitoring entity has demonstrated and continues to demonstrate its ability to monitor the project. The FHFA guidance will specifically identify the following programs: HUD Section 202 program for the elderly; HUD Section 811 program for the disabled; USDA's Section 514 farmworker multifamily program and Section 515 rural multifamily program. The agency may add federal housing programs as appropriate through the guidance.

I'm now moving to slide 22 to discuss the AHP noncompliance remediation. The proposed rule would reorganize and streamline the noncompliance remedial sections of the current regulation by including each type of noncompliance -- project sponsor or owner, Bank, or Bank member -- in a separate regulatory section so that the responsibilities and the potential liabilities of each party is clear and distinct.

The proposed rule will also make specific changes by establishing an order of remedial steps that a Bank would be required to follow before recovering AHP subsidies in the event of AHP noncompliance. Since the objective of the AHP is to provide affordable housing to eligible households for the duration of the AHP fifteen-year retention period, recovery of AHP subsidy should be the last resort. Therefore, the project sponsor will be first required to cure the project's noncompliance within a reasonable period of time. If the noncompliance cannot be cured, then the Bank will be required to determine whether the noncompliance could be eliminated through a project modification as in the proposed rule's specific modification procedures. If a project modification cannot be achieved, then the Bank, or Bank member if delegated this responsibility, will be required to exercise reasonable collection efforts to recover AHP subsidy due. This may include settlement for less than the full amount of subsidy due where appropriate.

The proposed rule would clarify the factors the Banks and members should take into consideration in determining whether to settle with the party for less than the full amount of AHP subsidy due.

The proposed rule would also remove the provision permitting a Bank to obtain prior approval from the agency of a proposed AHP subsidy settlement. The agency has determined there is no need to retain this option because it has rarely been used. The Banks have entered subsidy settlements for many years without seeking approval from the agency. Moreover, the proposed rule would clarify the factors the Banks should consider in deciding whether to settle with their project sponsors, which also mitigates any need for prior approval from the agency.

This concludes the overview of the proposed rule. Next, Cynthia will discuss the submission of public comments on the proposed rule for consideration by the agency in developing the final rule.

Cynthia: Let's turn to slide 23 please. Thank you, Tiffani. If you want to submit comments from you or your organization on the proposed rule as you heard today, please submit those comments by May 14th, 2018. Comments can be submitted electronically to the web portal as shown here, or in writing to the mailing address that you'll find on the proposed rule. Please do not use the mailbox that you used to register for the webinar today to submit your comments on the rule -- your comments will not be considered if you do.

Let's also move now to slide 24. The presentation that you've seen today will also be emailed to all participants at some time during the next week, and we'll also post it on fhfa.gov along with links to the press release and the proposed rule.

With that said and presenters, should we answer some questions? I believe we have had some submitted. We can go to the next slide for question one please.

Tiffani: Question one: Why does the proposed rule focus on requiring the Banks to achieve outcomes in conjunction with the implementation of their AHPs rather than the current scoring system?

The agency believes its proposal to implement an outcome-based approach for awarding AHP subsidies will enhance each Bank's ability to address their specific affordable housing needs. The outcome-based approach will require that each Bank award a minimum percentage of its annual total AHP funds to projects that address priorities identified in the AHP statute, as well as regulatory priorities established by the agency. It's important to note that the proposed statutory and regulatory priorities encompass many of the priorities that the Banks currently meet for AHP funding. Also, under the proposed rule, the Bank will have the flexibility to choose among regulatory priorities, and to select which housing needs to address under each of those regulatory priorities.

The proposed rule would also provide each Bank more flexibility to design and implement its own scoring systems for its General Fund and any Targeted Funds established by the Bank. The proposed new optional Targeted Funds that Eric discussed previously would address specific affordable housing needs in the Bank's district.

Finally, the proposed rule would give greater flexibility to the Banks to allocate their total annual AHP funds among those various programs in the AHP.

Cynthia: Moving to slide 26, question two. This is for Marcea. The proposed rule would require that at least 55% of total annual AHP funds meet statutory and regulatory priorities. With this in mind, how would the proposed rule provide the Banks greater flexibility to allocate their AHP funds?

Marcea: Our answer is as follows: FHFA [designed] the proposed rule to enhance each Bank's ability to address the specific affordable housing needs in its district. Those affordable housing needs may vary significantly from Bank district to Bank district. The proposed rule would require each Bank to assess the affordable housing needs within its district, and select some of those housing needs to address with AHP funds. A number of these housing needs are likely to overlap with the statutory and regulatory priorities.

The Bank would have more flexibility to allocate and award AHP funds to address those district priorities than under the current regulation. The percentage of annual total AHP funds each Bank could allocate to its

Homeownership Set-Aside Program would be increased from 35% to 40%. The percentage of funds required to be allocated to the General Fund would be reduced to 50%. The Banks could also allocate up to 40% of the funds to Targeted Funds addressing specific housing needs in the Bank's district.

The Banks would have the authority to design their own scoring systems for their General Fund and Targeted Fund to address those district housing needs.

In short, the Banks would have greater flexibility to determine how to allocate their AHP funds towards meeting specific housing needs in their districts, and that would also be applicable to how they choose to meet the statutory and regulatory priorities.

Marcea: Okay, moving to slide 27 and question three. The proposed rule would increase the annual maximum Homeownership Set-Aside Program funding allocation from 35% to 40%. This would appear to decrease the amount of funds available for rental housing. Why did FHFA propose this change?

The answer: FHFA did not design the proposed regulatory amendments to advantage or disadvantage one type of affordable housing over another. FHFA instead designed the proposed rule to enhance each Bank's ability to address the specific affordable housing needs in its district, and that can certainly include rental housing. As just discussed, the proposed rule will provide the Banks more flexibility to allocate and award AHP funds. Those affordable housing needs may vary significantly between Bank districts. Each Bank would assess the affordable housing needs within its district and select those to be addressed in the AHP. That might include rental housing. Although the proposed rule [would] increase the percentage of total AHP funds each Bank could allocate to its Homeownership Set-Aside Program from 35% to 40%, it would not mandate that any Bank do so. It is true that implementation of the proposed rule could result in the reduction in AHP funds awarded to rental projects in a given year. However, the proposal could also result in a significant increase in AHP funds awarded to rental projects if a Bank decided to allocate more AHP funds to its General Fund and Targeted Fund and prioritized funding for rental projects within those Funds.

Eric: Okay, this is Eric and I'm moving on to question four which is on slide 28. I'll read the question: How will FHFA ensure that the Federal Home Loan Banks achieved the proposed outcomes?

In response: The proposal would require that the Banks provide FHFA a copy of their Targeted Community Lending Plans for review but not approval before releasing these Plans to the public. FHFA would review each Bank's analysis and support for allocating its annual total AHP funds to its General Fund, any Targeted Fund or Funds, and any Homeownership Set-Aside Programs.

FHFA also conducts annual examinations of the Banks, which would include examination of the Bank's implementation of its AHP and its fulfillment of the proposed statutory and regulatory outcome requirements.

The proposal would require each Bank to submit an annual report to FHFA demonstrating the Bank's compliance with the outcome requirements for the statutory and regulatory priorities. Finally, the Director of FHFA would determine annually each Bank's compliance with the proposed outcome requirements.

I'm moving on to question five and that's on slide 29. I'll read the question: What would be the consequences if a Federal Home Loan Bank does not meet the outcome requirements in the proposed rule?

In response to this question: If a Bank fails to meet one or more of the outcome requirements and FHFA determines that meeting the outcome requirement was feasible, FHFA could require the Bank to take actions to remedy the noncompliance. We could require the Bank to develop and implement a remedial AHP housing plan to improve compliance in the next calendar year, and the proposed housing plan requirement… excuse me, this proposed housing plan requirement is similar to what is required in the Enterprise Housing Goals regulation.

I will respond to question six which is on the next slide, slide 30, which is: When will the final rule become effective?

I see two questions, ok, and will there be a transition period for implementing the new AHP requirements?

The answer to the first question is we fully expect to publish the final rule by the end of this calendar year.

With respect to the transition, I think we certainly understand and fully expect that there are a number of things that we talked about today will take time to implement. We are interested in your comments, in part, of how you will be responding to the proposed rule about which provisions will take a longer period of time and which potentially could be implemented more quickly. For example, could some provisions be made effective 30 days after publication of a final rule such as the provision to eliminate the five-year retention period or other changes we proposed to the Homeownership Set-Aside, or other certain provisions requiring longer periods for implementation such as the revised Targeted Community Lending Plan, adoption of revisions to the Banks' scoring frameworks? We fully understand that a lot of change would be needed here and it will be very helpful in the comments to get some sense of what those timeframes would be.

Tiffani: Moving on to question seven of slide 31. The scoring framework in the current AHP regulation prioritizes housing for homeless households with the required minimum allocation of points. The proposed rule would not place a scoring emphasis on housing for homeless households. Why is FHFA proposing this change?

Our response is as follows: As discussed earlier, the agency did not design the proposed regulatory amendments to advantage or disadvantage one type of affordable housing over another. The agency instead designed a proposed rule to enhance the Banks' ability to address specific affordable housing needs in its district. This certainly could include housing for homeless populations. If you'll note, housing for homeless populations is also included under proposed regulatory priorities for underserved communities and populations. This affordable housing need may vary significantly from Bank district to Bank district. Each Bank would assess the affordable housing needs within its district and select those to be addressed in the AHP. This might include housing for homeless individuals. While implementation of the proposed rule could result in a reduction in AHP funds awarded for homeless projects in a given year, it could also result in an increase in AHP awards funded to those projects if a Bank decided to allocate more AHP funds to its General Fund and Targeted Funds that prioritize funding for homeless projects.

I'll now turn the presentation back over to Cynthia.

Cynthia: Thank you, Tiffani. We do have a few minutes left, so if the panelists are willing, let's take some of the questions that have come in. Tiffani, maybe you could take this first one: How does the proposed rule assist disaster areas and/or victims of disasters?

Tiffani: It's a really timely question given the number of natural disasters that occurred in the previous calendar year and many people have been affected across the country. It's a very timely question, but thank you for your submission. The proposed rule would authorize the Banks to establish up to three Targeted Funds to address specific affordable housing needs within the districts that are either unmet, have proven to be difficult to address through the competitive application process, or align with the Banks' objectives in their strategic plans. This could include assisting AHP income[-eligible] households that have been affected by natural disasters. These Targeted Funds, too, would be administered in the same way that the current competitive application process is administered across the Bank System. It would be in a manner consistent with the housing needs that the Targeted Fund was intended to serve.

The Banks would continue to have the authority to establish Homeownership Set-Aside Programs, which many of them continue to do now, that actually do address disasters and other types of occurrences that happen. Those assist affected households and they also address owner-occupied rehab, and they provide down payment assistance and closing costs to purchase a home.

Cynthia: Thank you. Marcea, maybe you could take the next question we've received: Could a Bank design the scoring for the General Fund so only rental projects qualify, and have a Targeted Fund that only owner-occupied rehabilitation and single-family owner-occupied, new construction qualify?

Marcea: Okay, well this is a great question too. The Targeted Funds are new as we're proposing them. They're not part of the current Program, so I'm happy to answer those questions. In looking at this question, I think what it's trying to ask is whether a Bank could choose to establish a Targeted Fund for owner-occupied housing, and a General Fund for rental projects, without establishing a Homeownership Set-Aside Program. The answer is yes, provided that the Bank meets its outcome requirements for the AHP regulatory and statutory requirements as prescribed and I explained on slide 15 -- a Bank could take this route.

In this example for this question, where a Bank did not establish a Homeownership Set-Aside Program, it could allocate up to 40% of its total AHP funds to a Targeted Fund for owner-occupied housing. That would be subject to the phase-in requirements that we discussed for Targeted Funds that are explained in more detail in the proposed rule. The Bank could then allocate the remaining 60% of its total AHP funds to a General Fund which would prioritize rental projects.

Cynthia: Thank you. I think we have time for one more question. This question is from an associate "member" who says: I can't participate at this time. The question is, does the proposed rule make any changes to which type of member banks may participate in AHP?

Tiffani: Good question. The proposed rule does not make any changes to the type of financial institutions that may participate in the AHP. Housing associates that are also referred to as non-member mortgagees are not authorized to participate in the AHP. That's because the actual statute actually prohibits that.

Cynthia: Thank you. Ted or panelists, do we have any other comments you guys would like to make?

Ted: No, just thank you, everyone, for your interest in the Program and reading the regulation. We very, very much look forward to receiving your comments.

Cynthia: That's right and please remember to send them in by May 14th. This actually concludes our webinar. Thank you so much for joining us.

Female Speaker: Thank you for joining today. The call has now completed and you may disconnect.

[END OF TRANSCRIPT]