



FEDERAL HOUSING FINANCE BOARD

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December 29, 2005

Mr. David H. Hehman
President and Chief Executive Officer
Federal Home Loan Bank of Cincinnati
221 E. 4th Street, Suite 1000
Cincinnati, Ohio 45201

NO-ACTION LETTER: Federal Home Loan Bank of Cincinnati: Noncompliance with the AHP Rescoring Requirement for Modification of Approved AHP Applications (2005-NAL-03)

Dear Mr. Hehman:

Your letter of September 21, 2005, requests that the Federal Housing Finance Board (Finance Board) issue a waiver to allow the Federal Home Loan Bank of Cincinnati (Bank) to modify and thereby fund two approved Affordable Housing Program (AHP) project applications that could not otherwise be modified because they do not meet the requirements for rescoring contained in section 951.7(a)(2) of the AHP regulation. *See* 12 C.F.R. § 951.7(a)(2).¹ In lieu of a waiver, the Office of Supervision is issuing this No-Action Letter so that the Bank may fund two approved rental projects (#2004A0538 and #2004A0539) in Mississippi. The Bank states that the two projects are financially feasible and are being developed by an entity with a strong track record in producing affordable rental units with AHP assistance. The loss of scoring points that would otherwise prevent these projects from receiving the awarded AHP subsidy results not from a change in project characteristics or in the targeted households that they are committed to serve, but from a change in the member's status when it was acquired by a nonmember institution after the applications were approved. The no-action relief provided with respect to section 951.7(a)(2) of the AHP regulation will allow the Bank to modify these two projects and thereby assist in providing needed affordable housing that should not be foregone because of circumstances unrelated to the projects' merits. In addition, the no-action relief will allow the Bank to fund projects that will add to the affordable housing stock in Mississippi, a state that suffered housing damage and the displacement of households in the wake of Hurricane Katrina.

¹ In both cases, the member's proposed use of subsidized advances from the Bank to finance the projects enabled the applications to receive points for member financial participation under the Bank's AHP competitive application program scoring system. However, the acquisition of the member by a nonmember institution no longer allows the institution to obtain subsidized advances from the Bank. *See* 12 C.F.R. § 951.8(a). Without these points, the two projects would not have scored highly enough to have been funded in their original scoring rounds and, thus, are not eligible to be modified under section 951.7(a).

In light of these circumstances, the Office of Supervision will not recommend to its Board of Directors that supervisory action be taken against the Bank, nor will the Office of Supervision undertake any such supervisory action, for any violations of 12 C.F.R. § 951.7(a)(2) in modifying AHP projects #2004A0538 and #2004A0539. This No-Action Letter does not alter the Bank's obligation to otherwise comply with all sections of 12 C.F.R. part 951 with respect to enforcing compliance of these two AHP-assisted rental projects with the requirements of the AHP regulation.

This No-Action Letter expresses only the position of staff and may be modified or superseded by the Board of Directors of the Finance Board. Because this No-Action Letter is based upon the Bank's representations, any change in the facts or circumstances from those represented by the Bank may warrant a staff recommendation that the Finance Board take appropriate supervisory action. If you have any questions, please contact Charles E. McLean, Jr., Associate Director, Office of Supervision, at 202-408-2537, or Duane V. Creel, Portfolio Manager, Office of Supervision, at 202-408-2541.

Sincerely,

/s/ Stephen M. Cross

Stephen M. Cross
Director
Office of Supervision

cc: Charles E. McLean, Jr.
Duane V. Creel
John P. Kennedy