



## REGULATORY INTERPRETATION 1999-RI-03 SUPPLEMENT

**Date:** August 25, 1999

**Subject:** Additional Guidance on Regulatory Interpretation 1999-RI-03

### ***Request Summary/Background:***

On January 26, 1999, the Federal Housing Finance Board issued Regulatory Interpretation 1999-RI-03, which provided guidance on how the Federal Home Loan Banks (FHLBanks), their members, and Affordable Housing Program (AHP) project sponsors can demonstrate need for AHP subsidy in owner-occupied AHP projects involving primarily sweat equity, in-kind donations, volunteer professional labor and services and sponsor-provided low-interest permanent financing. Since 1999-RI-03 was issued, two issues have arisen that require additional guidance.

### ***Analysis or Discussion:***

The first issue is whether the sponsor-provided low-interest permanent financing must be written down by the amount of the AHP subsidy. The guidance in 1999-RI-03 states that the sponsor should demonstrate need for AHP subsidy by performing a cash sources and uses analysis. The analysis calculates the gap between the cash costs to complete the project and the sum of (1) any cash sources other than the sponsor, and (2) any cash contributions by the sponsors. The sponsor's cash contribution must include the present value of any payments the sponsor is to receive from the buyer, which includes any cash downpayment from the buyer, plus the present value of any purchase note the sponsor holds on the unit.

Because the calculation of the AHP subsidy requires a present value analysis of any purchase note/mortgage the sponsor holds, this analysis ensures that the subsidy is passed through to the homebuyer. Therefore, the Finance Board staff does not find it necessary to further "write-down" the note/mortgage by the amount of AHP subsidy.

The second issue is whether a present value analysis required for permanent low-interest financing provided to these types of projects from sources other than the sponsor (for example, the U.S. Department of Housing and Urban Development's Community Development Block Grant or HOME Programs, or state or local government-sponsored loan program). As indicated above, in order to demonstrate the need for AHP subsidy, a sponsor must perform a cash sources and uses analysis.

The analysis calculates the gap between cash costs to complete the project and the sum of (1) any cash sources other than the sponsor and (2) any cash contributions by the sponsor. Such contributions include only the present value of any payments the sponsor is to receive from the buyer. Therefore, if there is permanent, low-interest financing from sources other than the sponsor, and the payments are remitted to the source, then the present value analysis is not required for that financing.

***Conclusion:***

It is the opinion of Finance Board staff that it is not necessary to further “write-down” the note/mortgage that the sponsor holds by the amount of AHP subsidy and if there is permanent, low-interest financing from sources other than the sponsor, and the payments are remitted to the source, then the present value analysis is not required for that financing.

A Regulatory Interpretation applies only to the particular transaction or activity proposed by the requestor, may be relied upon only by the requestor, and is subject to modification or rescission by action of the Board of Directors of the Finance Board. 64 Fed. Reg. 30880 (June 9, 1999), *to be codified at* 12 CFR part 903.