



August 19, 2024

The Honorable Sandra L. Thompson
Director
Federal Housing Finance Agency
400 Seventh Street SW
Washington, DC 20024

Dear Director Thompson:

I appreciate the opportunity to provide comments on the Federal Housing Finance Agency's (FHFA) Request for Input (RFI) on opportunities to improve the Federal Home Loan Banks' (FHLBanks) processes for members and project sponsors to apply for Affordable Housing Program (AHP) funding and to make AHP funding more accessible to nonprofits, community organizations, and tribal entities.

As an Architect working in the affordable housing sector for 32 years, and currently serving on the FHLB-Pittsburgh Affordable Housing Advisory Council, I have celebrated the successes and witnessed the challenges of various housing funding programs. I have also experienced the evolution of community development strategies, fluctuations in housing needs and trends, swings in construction costs and credit availability, and the paralyzing effects of increasing regulatory hurdles. The FHLB AHP has been an important and valuable funding source for affordable housing. In Pennsylvania, it is sometimes the only funding source available for certain types of housing. In other cases, it is the last piece of the capital stack that makes the project possible.

Your request for input on the process is very timely. The recently closed AHP process at FHLB-Pittsburgh resulted in a record number of applications seeking a record high request. Obviously not every request can be fulfilled, but it is important to continue the engagement with members and sponsors in the future to make their application efforts worthwhile, to best utilize the resources at FHLB-Pittsburgh to review the applications, and to provide funding awards where it is most needed. While right now the available funding allows doing more with more, it is important to plan to do more with less, and to continue to demonstrate the effectiveness of AHP funding regardless of the amount available.

To this end, I offer these comments:

Simplify AHP financial underwriting and allow AHP underwriting to rely on evaluation by other funding sources to the greatest extent possible:

As stated in the FHLB@100 (regarding shared functions across the FHLB system), "improving operational efficiency helps to reduce costs". This philosophy can be applied externally as well. When a project is applying for LIHTC or other primary financing sources through a federal or state agency that performs its own underwriting, AHP is often a gap filler. Many developers are dissuaded from applying for AHP for a relatively small amount of funds due to the duplicative and often contrary paperwork and requirements. The downward benefit of relying on other established funding source underwriting leads to:

- less sponsor and member frustration
- lower risk of non-compliance
- conservation and sharing of resources for other agencies, developers and FHLB
- more time for FHLB staff to focus on other initiatives or sponsors that need more help
- Allows the amount of effort (from the sponsor and the Bank) to be proportional to the AHP's percentage of the Total Development Costs.

There are of course risks to be evaluated and mitigated:

- Deference and reliance to another agency's underwriting policies and procedures
- Agencies operating under their own statutory obligations
- FHLB's staff must become experts in other agency policies and impending changes

- Cooperation between agencies is essential
- Different timing of each agency's and the Bank's application due-date and award-date
- Loss of institutional knowledge about the historical priorities of the Bank's underwriting process

Flexibility in Eligible Programs for AHP:

As described in the FHLB@100, "the FHLBanks allocate funds to implement a variety of voluntary programs to address specific needs in their districts". This is testament to the fact that one size does not fit all in the nation, nor a multi-state district. Housing needs are regional or community specific. In addition to the *statutory* requirements, the AHP process should permit each District to evaluate and prescribe scoring categories and set-asides of targeted funds to address the needs that they have identified. The multiple additional categories added by *regulation* restrict the ability to address these specific needs, and the voluntary programs are the only option left. This handcuffs the effectiveness of the AHP. The FHLBanks are in the best position to determine the best use of resources in their District.

Regulatory Requirement Compliance:

The application becomes increasingly complex each year. The regulation requires each Bank to establish feasibility guidelines and use cost reasonableness standards, which are then reviewed by regulators who require modifications either by formal or informal comments. The staff must work very hard to implement updates and revisions to software, which is expensive to develop. A nation-wide system of standardized and approved forms could reduce complexity and regulator comments. This is consistent with the FHLB@100 comment, "collaboration and consolidation of shared functions across the System is potentially where the largest efficiencies could be achieved". It would allow for a better and more consistent underwriting process of universal objective data, and allow staff to focus on feasibility questions that are not easily quantified by tables and charts such as the sponsor's capacity, community support, market demand, and ability to proceed.

Many projects experience a change as the development process advances. Recognition of this and allowing an efficient system for evaluating the change should be permitted in a reasonable manner.

Resident and social services expenses are required by other funding agencies such as Housing Finance Agencies. These expenses are excluded from the AHP operating pro-forma but should be recognized, especially when the other source is predominant.

Revisit the AHP Statute:

The FHLB@100 was a very informative and inward-looking document. It is clear that the statute needs a structural revision in order to address the housing needs and allow FHLB-AHP to be an efficient and effective solution for the country's diverse needs. Each of the above topics not only relate to the ability to attract nonprofits, community organizations, and tribal entities to the AHP opportunities, but really apply to all potential applicants:

- Simplify the Underwriting Process: Complexity means time, and many do not have enough staff hours to do multiple funding applications that require the same information just in a different format. The other option is to hire consultants to assist. Simplifying the application may attract these groups especially if they can do it in-house with a reasonable investment of time and resources.
- Flexibility in AHP Programs and Scoring: These groups often have specialized projects that focus on an issue that is important to their community and/or the District. Often proposed projects are worthy but do not score high enough on the AHP regulatory scale. They may apply for the voluntary housing grants, or decide that FHLB is just not the right program and seek other

sources. Allowing FHLB's to target AHP funding to prioritize needs in their District may be more consistent with the work these groups are trying to do.

- **Reduce Regulatory Requirements:** Reduce regulator comments to the Bank by streamlining objective data into approved forms. This will give Bank staff more time to interact with these groups to provide technical assistance and discuss the eligibility of their project. The sponsor's compliance requirements should be commensurate with the percentage of AHP in the project, size, and/or type of project. These groups may find the regulations burdensome for the amount of AHP they are requesting.

Again, thank you for extending the invitation to comment. FHLB-Pittsburgh is doing amazing work within the confines of the current statute, but they could do so much more with reform. Below I have attached responses to the specific RFI questions.

Sincerely,



Karen L. Welsh, AIA
Affordable Housing Advisory Council FHLB-Pittsburgh

Response to Public Input Questions:

Question 1: Are there particular components of the FHLBanks' AHP application processes that could be made more effective or efficient, and if so, how? Are any of the FHLBanks' specific documentation requirements for AHP applications unnecessary for verifying that the applicant meets the AHP eligibility requirements and scoring criteria? Are there ways to streamline the application process while maintaining the FHLBanks' ability to verify applicants' compliance with the AHP eligibility requirements and scoring criteria?

Response:

- Depending on the percentage of AHP funding in the project, accept the underwriting and proformas of other funders such as Housing Finance Agencies.
- Objective data required for feasibility analysis such as construction costs should be standardized throughout the Banks. This will streamline the regulator review process and reduce the comments the Bank must address. This will save time for the Bank's underwriting analysis, providing more time for their feasibility review of other factors which cannot be quantified on a spreadsheet. This is consistent with the FHLB@100 comment, "collaboration and consolidation of shared functions across the System is potentially where the largest efficiencies could be achieved".

- Resident and social services expenses are required by other funding agencies such as Housing Finance Agencies. These expenses are excluded from the AHP operating pro-forma but should be recognized, especially when the other source is predominant.

The benefit of relying on other established funding source underwriting leads to:

- less sponsor and member frustration
- lower risk of non-compliance
- conservation and sharing of resources for other agencies, developers and FHLB
- more time for FHLB staff to focus on other initiatives or sponsors that need more help
- Allows the amount of effort (from the sponsor and the Bank) to be proportional to the AHP's percentage of the Total Development Costs.
- As stated in the FHLB@100 (regarding shared functions across the FHLB system), "improving operational efficiency helps to reduce costs". This philosophy can be applied externally as well.

Question 2: How do the FHLBanks' AHP application processes compare to those of other providers of gap funding with respect to scope, complexity, and documentation requirements?

Response:

- Other funders usually defer to the majority funder, which is often a state or federal agency with its own documents. Requiring the same information on different forms leads to frustration and duplicated efforts. It also raises the potential for errors.

Question 3: Do the FHLBanks' AHP application processes leverage other funders' applications/requirements? Are the AHP application processes duplicative or complementary of other funders' underwriting requirements and processes? Do the AHP application processes create the need for additional information and documentation?

Response:

- They do not leverage other funders' application requirements.
- There are of course risks to be evaluated and mitigated:
 - Deference to and reliance on another agency's underwriting policies and procedures
 - Agencies operating under their own statutory obligations
 - FHLB's staff must become experts in other agency's policies and impending changes
 - Cooperation and trust between agencies is essential
 - Different timing of each agency's and the Bank's application due-date and award-date
 - Potential loss of institutional knowledge about the historical priorities of the Bank's underwriting process
- However, developing housing is a long and hard process with stop's and go's. Anything that can be done to coordinate efforts and make best use of resources will be an advantage to the eventual completion of the project and creating or preserving much needed housing.
- Many projects experience a change as the development process advances. Recognition of this and allowing an efficient system for evaluating the change should be permitted in a reasonable manner.

Question 4: Should the AHP regulation allow the FHLBanks to differentiate their AHP application requirements for projects requesting subsidy that constitutes a small percentage of the total funding in the project? If yes, why? Do other gap funders differentiate their application requirements for smaller projects?

Response:

- The Bank needs to manage its risk for compliance and there will always be a minimum threshold of documentation. But from that starting point, the amount of documentation can be determined by percentage of AHP and size of project.
- AHP is only one of a few sources that funds all sizes and types of projects that meet the eligibility requirements in our state. In Pennsylvania, often funding is limited to very small projects, 9 or less, through our Department of Economic and Community Development, or very large projects of more than 24 units through the Pennsylvania Housing Finance Agency's LIHTC program.
 - The LIHTC application is quite complex and can be relied upon for financial feasibility and compliance risk.
 - The smaller funding sources may not have as much due diligence and therefore AHP requirements may still apply.
- The level of documentation can be tailored to the size of the project, the amount of investment and the percentage of Total Development Costs.

Question 5: What role do consultants provide in applying for AHP funds? What are the reasons that an AHP applicant may use a consultant? To the extent that applicants are using the services of consultants to apply for AHP subsidy, how does the practice compare to the use of consultants for other sources of gap funding?

Response:

- On complex large projects, a sponsor may use a consultant to navigate all the funding sources required.
- On smaller projects, a sponsor may use a consultant because of capacity issues or lack of knowledge.
- The reason for the use of a consultant is unlikely to change with a streamlined AHP process.
- A streamlined process will provide a high level benefit for those that do not use a consultant, which are mostly smaller projects or those in the middle.
- A streamlined process will provide benefit to everyone in terms of lower effort, cost, and reliability that the inputs were correct and the awarded projects were the highest scoring.

Question 6: Are there effective practices the FHLBanks could implement to coordinate the underwriting review process across multiple funding sources in a project?

Response:

- Communication with other agencies already occurs but would need to be expanded.
- The timing of other agency applications and awards could preclude the reliance on the documentation, if approval has not yet been received.
- Permitting documentation to be in the primary funding agency format may need to be approved by that Agency in order to be acceptable.
- One of the scoring points is for a level of committed financing. If there was already a commitment of majority funds from a source whose documentation was acceptable, then the sponsor would both get the points and not have to complete the AHP specific forms. This would be an incentive to have the other funding in place prior to applying for AHP.

Question 7: What is the single most important change you would recommend for improving the AHP application process?

Response:

- In terms of the AHP application process solely, simplify the underwriting procedure which includes adoption of standardized system-wide forms for objective data as well as coordination with other majority funders.

Question 8: What concrete steps would you recommend for simplifying the AHP application process and why?

Response:

- Re-write the statute to permit the flexibility needed for reforms, utilizing the input of stakeholders.
 - Just changing the application process will not solve the root issues for the complexity developed over years of adaptation.
 - Permit flexibility in AHP Programs and Scoring, Allow FHLBanks to determine District priorities above the original three statutory requirements.
 - As described in the FHLB@100, “the FHLBanks allocate funds to implement a variety of voluntary programs to address specific needs in their districts”. This is testament to the fact that one size does not fit all in the nation, nor a multi-state district. Housing needs are regional or even community specific.
 - In addition to the *statutory* requirements, the AHP process should permit each District to evaluate and prescribe scoring categories and set-asides of targeted funds to address the needs that they have identified. The multiple additional categories added by *regulation* restrict the ability to address these specific needs, and the voluntary programs are the only option left. This handcuffs the effectiveness of the AHP.
 - The FHLBanks are in the best position to determine the best use of resources in their District.
 - Smaller non-profit groups, community organizations, and tribal entities often have specialized projects that focus on an issue that is important to their community and/or the District. Often proposed projects are worthy but do not score high enough on the AHP regulatory scale. They may apply for the voluntary housing grants, or decide that FHLB is just not the right program and seek other sources. Allowing FHLB’s to target AHP funding to prioritize needs in their District may be more consistent with the work these groups are trying to do.
- Tailor the required documents to size of project, percentage of the project’s cost, and risk of non-compliance.
- Coordinate with and rely upon other agency documents and reviews where possible to focus resources on other sponsors or initiatives.
- Standardize forms for objective data across the System so that resources can be spent on analysis and underwriting of other forms of information, allowing staff to focus on feasibility questions that are not easily quantified by tables and charts such as the sponsor’s capacity, community support, market demand, and ability to proceed.