GCHP

August 9, 2024

Director Sandra L. Thompson
Federal Housing Finance Agency
Division of Housing Mission & Goals
400 7th Street SW
9th Floor
Washington, D.C. 20219

Dear Director Thompson:

We received notice of your Request for Input (RFI) on opportunities to improve the Federal Home Loan Banks' processes for members and project sponsors to apply for AHP Funding. Gulf Coast Housing Partnership "GCHP" is a regional nonprofit affordable housing developer and over the past 10 years we have put in 82 AHP applications to various FHLBs across the country. AHP is an extremely important program to us as a non-profit developer focused on transformative development. AHP funding has in many cases been the piece of the capital stack that gets our projects over the finish line. We are grateful to all the FHLBs that put time and energy into these applications as they are a critical to making projects viable.

To provide generic feedback on the program, our team worked together to compile the following list. We hope that you find it useful as you seek to streamline and improve the program.

Member Participation. Some FHLBs provide scoring incentives for Member (i.e. sponsoring bank) participation. Developers seek to score as high as possible. These well-intentioned member participation points for scoring oftentimes create a complexity for smaller banks not familiar with the AHP Program. We have worked to get the smaller banks involved. This can require them to go to loan committee for a project that is strictly conceptual (and nonviable without FHLB Funding), or an unwillingness to sponsor multiple projects due to driving up a small bank's limited loan capacity. We have found that this can be a disincentive for member banks to sponsor projects.

Interbank Collaboration is Challenging, especially at the application stage. Some FHLBs encourage collaboration between CDFI/MDI/LIDCU and traditional banks through scoring incentives. If the developer's member bank is a CDFI/MDI/LIDCU which ours often are, it is insufficient to work with another CDFI/MDI/LIDCU, and the requirement is that other bank must be a "traditional bank." More broadly, as we understand it, many banks have been incentivized to become CDFIs which has had the impact of limiting the number of traditional banks with which to create a collaboration. On a smaller deal, this collaboration may not be worth either bank's effort. At the time of application, projects are conceptual in nature and creating these secondary linkages with other banks creates a severe challenge for developers.

Consistency in Income Limits. Property management/compliance can struggle with the differing income limits between FHLB and the allowable rents from IRS LIHTC Section 42 rents. It would greatly simplify for compliance purposes to have a uniform set of rents, or for projects with LIHTC to clearly mimic or give deference to IRS LIHTC guidelines.

Heirs Property. One FHLB features Heirs Property as a scoring criteria. We feel that laudable goal - providing pro bono legal work to individuals who may have heirs property issues – steps outside the issues that affordable housing rental projects and their residents face on a regular basis. Reaching for these points, as developers are incentivized to do, may not lead to the intended FHLB outcomes.

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Initial Monitoring for a project can be years after its initial lease up. For any development organization this can prove quite challenging as there can be staff turnover and a loss of institutional memory related to the specifics of the development aspects of a project. Shortening up this timeline (potentially concluding all development related aspects at closeout) would result in more accurate information and easier reporting for sponsors. Recommendation to provide an Initial Monitoring Manual for the requirements would make it easier for transitions from development to property management.

Transparent Scoring. We applaud any efforts by FHLB banks to make their scoring as transparent as possible. Whenever a developer can know exactly how their project will score, it makes them more likely to put in an application. We have found that Subsidy per unit and Lower Income Targeting tend to be areas of less clarity.

Reliance on Other Sources. We appreciate it when FHLB and AHP financial underwriting takes reliance on other funding sources to simplify the underwriting process, especially as projects continue to layer more sources with varying requirements to make them feasible.

Portals can make it challenging. We appreciate efforts to digitize the FHLB process and generally this has made it more accessible. However, some portals are extremely challenging to use with many steps that require multiple approvals. Navigating these complexities requires time, many follow ups with FHLBs, and many smaller developers will struggle and require consultants to complete this, thus driving up costs further.

Transparency on Requirements. We have found that requirement for the applications can be buried deep within the online portal which makes it challenging for first time users, as well as veterans, to be able to have a global view of the application before submitting.

Permission to Layer FHLB sources. As deals become more capital intensive you may find developers that need to have multiple layers of AHP grants. Not all FHLBs permit this layering, and we think that it is important to encourage FHLBs to permit this allowance of multiple FHLB subsidies.

Reach out for Clarification. To the extent possible, we encourage banks to be willing to reach out to sponsors for clarification, or provide an opportunity to appeal the loss of points. It takes a great deal of time to put together an application, especially for small developers or entities new to an FHLB. We greatly appreciate it when FHLB will reach out for clarification rather than immediate dismissal of points or portions of an application.

Provide final score to applicants. We have found the best way to learn is to understand how we did. It would be helpful for all FHLBs to provide applicants with their final scores and the threshold score for award.

Operations versus Development. Sometimes the analysis of the ongoing operations of a property at Initial Monitoring seems unnecessary. As the development portion of the project is complete and the operations are undergirded by Operating Deficit Guarantees and an Operating Reserves, we question whether the projected Year 15 DSCR is essential for demonstrating compliance.

Sincerely,

Tom Champion

Tom Champion
Senior VP, Real Estate Development
GCHP