



Housing Finance & Regulatory Affairs

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Sandra Thompson
Director
Federal Housing Finance Agency
Office of the Director
400 7th Street, S.W.
10th Floor
Washington, D.C. 20219

Re: Request for Input: Federal Home Loan Bank Affordable Housing Program
Competitive Application Process

Submitted via email to: FHLBank Affordable Housing Program Competitive Application Process | FEDERAL HOUSING FINANCE AGENCY (fhfa.gov)key

Dear Director Thompson:

On behalf of the National Association of Home Builders (NAHB), I welcome the opportunity to submit comments to the Federal Housing Finance Agency (FHFA) regarding the Request for Input (RFI) on Federal Home Loan Bank Affordable Housing Program Competitive Application Process. The Affordable Housing Program (AHP) of the Federal Home Loan Banks (FHLBanks) is key to their support for affordable housing and community development – core components of their mission. NAHB appreciates that FHFA is seeking input on ways to streamline the competitive application process and make it more efficient for FHLBank members to apply for AHP funds on behalf of project sponsors.

NAHB is a Washington, D.C.-based trade association representing more than 140,000 members involved in the development and construction of for-sale single-family homes, including homes for first-time and low- and moderate-income homebuyers, as well as the construction, ownership and management of multifamily rental housing, including affordable rental housing. The ability of the home building industry to meet the demand for housing, including addressing affordable housing needs, and significantly contribute to the nation's economic growth is dependent on an efficiently operating housing finance system. The nation's housing finance system must offer home buyers in all geographic areas access to affordable mortgage financing at reasonable interest rates through all economic conditions and provide financing for multifamily housing development to support affordable rental opportunities.

Background

Following its comprehensive review of the Federal Home Loan Bank System that began in the fall of 2022, FHFA released a published report, *FHLBank System at 100: Focusing on the Future* (the report), with recommendations from stakeholders for ways FHFA and the FHLBanks could be positioned to better meet the needs of their members and the communities they serve in today's market and in the future.

The FHLBanks' AHP was created by Congress as part of the Financial Institutions Reform, Recovery and Enforcement Act of 1989. Since 1990, the Federal Home Loan Bank Act (Bank Act) has required each FHLBank to

contribute a percentage of its annual net earnings to its AHP. The percentage has stood at 10 percent since 1995. Collectively, the FHLBanks must meet an annual minimum allocation of \$100 million toward AHP funding. In 2023, the FHLBanks' combined income resulted in AHP contributions of \$752 million for use in 2024.

The AHP is comprised of two components. The first is the AHP competitive application program (also referred to as the General Fund) that is geared toward the financing, acquisition, construction, and rehabilitation of both single-family and multifamily housing for rent and ownership. The second component is the AHP set-aside program that is targeted to individual borrowers and homeowners for downpayment or closing cost assistance, housing counseling or rehabilitations costs in connection with a household's purchase or rehabilitation of an owner-occupied unit.

In this RFI, FHFA is asking for input specifically on making the FHLBanks' AHP competitive application process more effective and efficient.

Affordable Housing Program Competitive Application Program

Each FHLBank is required by law to devote at least 65 percent of its available AHP funding to the AHP competitive application program. Funds are awarded on a competitive basis to applicants (typically developers, nonprofits, and other housing associates) based on defined scoring criteria. By statute, AHP subsidies must be used to either help finance the purchase, construction or rehabilitation of owner-occupied housing for households with incomes at or below 80 percent of area median income (AMI), or the purchase, construction, or rehabilitation of rental housing in which at least 20 percent of the units will be occupied by, and affordable to, households with incomes at or below 50 percent of AMI.

Much like the Low-Income Housing Tax Credit (LIHTC) program, the AHP can be utilized in financing the construction and rehabilitation of affordable rental housing. Its ability to be combined with other federal funding makes it useful to fill funding gaps in capital required for the development of affordable rental housing in high-cost and difficult to develop areas as well as acquisition, construction, and rehabilitation of both single-family and multifamily housing for rent and ownership.

NAHB Comments

The AHP application process is complicated and time consuming. However, in the effort to make the program more effective and efficient, NAHB cautions against creating a one-size-fits-all approach to AHP applications for the General Fund, which could harm the program. The FHLBanks each can use discretion and have some flexibility to determine certain eligibility requirements and scoring criteria for their competitive application programs if the applicants meet the general priorities established by the Bank Act and the AHP regulations established by FHFA.

An advantage of the AHP over some other gap funding sources is the point scoring methodology is transparent to developers and while completing an application a developer can assess the chances of his or her project being awarded the desired funds. The option to receive technical assistance from the FHLBank prior to submission is available throughout the process. If the developer does not get the requested funds, it is clear why and there is a clear understanding of how to improve the application for the next round of funding. This scoring transparency must be maintained and the ability for a FHLBank to incorporate certain scoring flexibilities in the categories of

scoring criteria for the General Fund to respond to regional housing needs also must be maintained or enhanced to allow even more scoring discretion to meet district needs.

NAHB hears from multifamily developer members that when the FHLB System introduced the AHP, the funding was flexible enough that developers could leverage AHP to help attract additional funding sources to their affordable housing developments, especially those in overlooked communities. Over time, the AHP underwriting and compliance requirements have become unduly complex and have become an obstacle to participation despite AHP often being a small portion of a project's capital stack. Currently, in many projects AHP funding often is the last funding put in place due to the rigorous underwriting and fund draw-down criteria. This complexity has led to increased cost as many sponsors must hire consultants to complete AHP applications and meet monitoring requirements. Other potential sponsors are deterred from the program altogether.

However, for many of NAHB's builder and developer members, a primary concern with the AHP is the bias in the competitive application process against for-profit entities. With a scoring process dependent on points awarded in various categories, a for-profit builder or developer starts out at a disadvantage as points are awarded for the nonprofit status of an entity. This bias against a for-profit home builder or developer interested in building affordable rental units or single-family owner-occupied homes is problematic when the country is in such dire need of housing supply. In reviewing the AHP application guides and implementation guides for the individual FHLBank programs, it is troubling to note the bias against for-profit home builders and developers. While some FHLBanks do not even reference for-profit sponsorship in these documents, this sentence is taken from one FHLBank's AHP Online Guide for Sponsor Applicants 2024: "Other entities, including for-profits, may sponsor an application and receive AHP funding but cannot receive points for such sponsorship." This makes it difficult for a for-profit entity to compete for AHP competitive application funds.

An NAHB builder wrote of his attempt a few years ago to get AHP funding for a project in a remote location of his state. The project had received a tax credit allocation, but the location made it difficult to hire contractors and when estimates came in over budget the builder needed to find additional funding. He reached out to his FHLBank but was encouraged to find a non-profit partner. A partnership did not work out and it became clear working with the FHLBank that the project would not score high enough with a for-profit entity only. The entire development project was abandoned. Gap funding from the FHLBank's AHP could have allowed this home builder to complete his low-income housing project.

NAHB Recommendations

NAHB estimates the nation is facing a housing supply shortage of roughly 1.5 million housing units. This is making it increasingly challenging for American families to afford to purchase or rent a home. Access to development and construction financing is one of the impediments to creating housing supply that home builders face. While there is no silver bullet to solving this housing supply crisis, that economists at NAHB estimate could take years to substantially mitigate, it is important to support as many ideas and initiatives as possible. Neither the public nor the private sector can meet the challenge alone. Neither can not-for-profit nor for-profit entities meet the challenge alone.

- *Each year, NAHB's members construct about 80% of the new homes built in the United States, both single-family and multifamily. For-profit builders should not be deemed less worthy of federal support*

when they have the same goals as nonprofit entities seeking to house America's families. NAHB recommends FHFA urge the FHLBanks to allow for-profit builders and developers to have equal opportunities to access AHP funding if they are committed to projects that will create homes that are affordable and attainable to renters and homebuyers.

While the competitive application program is intended to finance the acquisition, construction, and rehabilitation of both single-family and multifamily housing for rent and ownership, the program is weighted heavily toward development of multifamily housing and rental housing. According to the FHLBanks' 2023 Impact Report, the eleven FHLBanks were assessed \$355 million of funding to be awarded through the AHP in 2023 based on 2022 income. That year, the General Fund awarded \$319 million in funding to create more than 20,500 housing units, 77% of which were dedicated to multifamily projects.¹ Also in 2023, rental units constituted about 87 percent of total units developed under the General Fund, up from 86 percent in 2022².

Homeownership is a key wealth-building tool and still considered the American dream for many individuals and families. According to a poll conducted for CNN by SSRS, an independent research company, between June 3 and June 24, 2024, 70 percent of respondents said, "owning a home is essential to achieving the American Dream." Of the respondents that currently do not own a home, 86 percent said they would like to own a home but cannot afford to do so.³

- *The competitive application program should place more emphasis on applications seeking funding to develop single-family homes for purchase. As the shortage of supply in the housing market is a primary cause of decreased housing affordability, increasing the supply of homes for purchase will contribute to increased affordability and accessibility of homeownership.*

NAHB Responses to RFI Questions

NAHB's responses below to the questions in the RFI reflect responses and recommendations from home builders and developers who have utilized the AHP program. Recognizing that the FHLBanks have some flexibilities in their scoring and program criteria based on needs in their districts, the answers below may not apply specifically to all FHLBanks.

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?

A universal takeaway from NAHB members is the AHP does not effectively leverage the information and documentation provided by developers/sponsors to other funding sources that was deemed sufficient for

¹ [2023 IMPACT REPORT](#) Liquidity | Affordability | Stability JUNE 2024, Federal Home Loan Banks, Page 54

² [2023 Housing Mission Report](#), Federal Housing Finance Agency, Page 28.

³ [SSRS poll conducted for CNN](#)

approving significantly larger subsidies than a FHLBank would be providing. NAHB believes there should be a general provision in the regulations that FHLBanks could choose to allow AHP applicants for funding of projects that already have funding approval from federal agencies, state housing finance agencies or other sources of funding to submit the same financial and other documentation forms for review by AHP underwriters or AHP underwriters could be allowed to rely on evaluations by these other funding entities. Currently, FHLBanks evaluate all aspects of an AHP application regardless of the dollar amount of the subsidy or the perceived level of risk. Eliminating this duplication of documentation and review would be a key factor in streamlining the AHP application process.

Establishing flexibilities for points awarded to the categories of scoring criteria for the General Fund can help direct funding to certain housing needs in a FHLBank's district. Allowing the FHLBanks to voluntarily set aside funds for single-family housing or housing in rural communities could direct funds to these projects when they might have scored too low to be awarded funding under the scoring methodology of the General Fund's competitive application process.

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?

The FHLBank's AHP application process notably is more detailed and demanding than that of other gap funding programs, such as the U.S. Department of Housing and Urban Development's (HUD) HOME Investment Partnerships Program (HOME). The AHP application process involves a higher degree of engagement from third-party stakeholders and includes requirements typically not found in other gap funding applications.

For instance, while some gap funding programs require a general supportive services plan, the AHP program makes this more burdensome by mandating additional signatures from service providers on specific FHLBank AHP documentation.

Other requirements for AHP funding are overly onerous when considering the funding's percentage of a project's development budget. The construction monitoring and project closeout requirements are time-consuming and often repetitive, resembling the procedures of a Housing Finance Agency, even though the AHP funding constitutes a much smaller portion of the overall project's funding. Specifically, each disbursement request, Semi-Annual Progress Report, and Project Completion Certification requires the submission of a current AHP feasibility workbook, which the portal analyzes. Applicants must then respond to queries generated by this analysis, adding to the process's complexity.

At project closeout, the AHP program requires the submission of a Tenant Income Workbook. This detailed report, which includes data such as Date of Move-In, Household Income at Move-In, and Year of Income, can be burdensome, particularly for a funding source that represents a minor portion of the overall development budget.

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?

No, the FHLBank's AHP application processes do not leverage other funders' applications/requirements. Given that the Bank Act requires AHP activities to coordinate with other federal or federally subsidized affordable housing activities to the maximum extent possible, FHLBank AHP program's underwriting guidelines and feasibility review requirements for AHP projects that include LIHTCs are more robust and stringent than necessary. State Housing Finance Agencies (HFAs) have comprehensive Qualified Allocation Plans (QAPs) and underwriting guidelines in place already to which LIHTC projects must adhere. The additional, differing underwriting requirements imposed by the AHP program complicate the AHP process and make it challenging to include AHP funding in the preservation or construction of affordable housing.

As the FHLBanks handle applications from various state HFAs, each with its own QAP and underwriting criteria, aligning the AHP's application and underwriting requirements more closely with the LIHTC program would reduce redundancy and streamline the process to the benefit of all parties involved. For example, the requirement for a Community Planning Certification and a Memorandum of Understanding when empowerment services are provided introduces unnecessary complexity since similar documentation may already have been completed for the LIHTC application. Aligning AHP's application requirements with the application requirements for LIHTCs rather than requiring new and/or different documentation would simplify the AHP application process and reduce the need for applicants to provide redundant information and documentation. Even better, allow FHLBanks to accept a limited AHP application or to rely on evaluations by other gap funding entities such as HUD or state housing finance agencies if the FHLBank has had previous experience with the developer.

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?

Yes, it is reasonable to explore a more tailored AHP application process for projects requesting a smaller percentage of subsidy relative to the overall development budget. A smaller percentage of the overall development budget means less risk to the FHLBank.

For smaller projects, FHFA could consider allowing FHLBanks to establish a set-aside or a specific application pool for projects that include LIHTC. As noted above, LIHTC projects already adhere to rigorous requirements and undergo thorough scrutiny through the LIHTC program so the FHLBanks could potentially scale back oversight and extensive reporting for projects that include LIHTC funding. By creating a dedicated pool or set-aside for LIHTC projects, the FHLBanks would streamline the application process, reduce redundant documentation and reporting, and simplify the experience for AHP applicants.

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?

The AHP process is complex from application to project completion to long-term monitoring. A first-time applicant almost certainly will need to engage a consultant to advise it or complete the FHLBank AHP application. It is not unusual for consultants to be used in this manner for other sources of gap funding, although the cost of hiring consultants could be better used toward a developer's housing development budget.

Guidance or training support from FHFA could help first-time applicants and smaller applicants that have fewer resources to spend for consultants. While some FHLBanks offer training or guidance, a program developed by FHFA that would not be geared toward a specific FHLBank could offer a more objective, high-level training opportunity.

Question 6

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

As noted in comments above, the FHLBank could rely on the determination of other funders to lessen the burden of collecting and reviewing documentation and information on a project that is simply repackaged from the submissions from the other funders.

Question 7

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

Better alignment of the AHP application documents and information with those of the LIHTC program and other gap funders.

Question 8

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

Streamline Post-Funding Requirements

- *The initial application process for AHP funding is manageable through the online portal, and the program's guidelines are well-structured. However, to enhance the overall experience and attract more projects, the FHLBank should aim to minimize additional work for owners and developers after the project is funded.*
- *The requirement for a feasibility review with each progress report and disbursement request can be time-consuming and redundant. Additionally, a final feasibility analysis at the project's closeout further adds to the workload. To alleviate this, the FHLBank could rely on established LIHTC requirements, such as the Audited Cost Certification completed at project completion, instead of requiring a separate final financial feasibility review. By leveraging milestones and documents generated from the LIHTC program, the AHP process could be streamlined, reducing unnecessary documentation and simplifying the experience for all involved.*

Enhance Application Scoring

- *A concrete suggestion for improving the application scoring process is to incorporate the "Next Available Unit" rule into the Special Needs and Military Veterans section. This adjustment would account for the challenges faced by management companies when they depend on third-party groups for referrals of special population residents. Allowing for this flexibility would help prevent vacancies and ensure better operational success for properties designated for these groups. Applications that want to incorporate a Next Available Unit rule will not score as well, however, the potential for a unit to sit empty for months as a management company waits for a specific tenant to be located is losing money to the detriment of the project's financial health.*

Conclusion

Thank you for this opportunity to offer recommendations and input on the competitive application process for the AHP program of the FHLBanks.

Please contact Rebecca Froass at rfroass@nahb.org for additional information or to answer any questions you may have regarding these comments.

Sincerely,



Jessica R. Lynch