



August 19, 2024

The Honorable Sandra Thompson
Director
Federal Housing Finance Agency
Division of Bank Regulation
400 7th Street SW, 7th Floor
Washington, D.C. 20219

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

Dear Director Thompson,

The National Community Stabilization Trust (NCST) and the Homeownership Alliance are pleased to offer comments on the Federal Housing Finance Agency's (FHFA) Request for Input (RFI) on the efficiency and effectiveness of the Federal Home Loan Banks (FHLBanks) Affordable Housing Program (AHP) competitive application process, as well as suggestions for improvement to better support affordable homeownership.¹

NCST is a national nonprofit that supports families and communities by facilitating the restoration of distressed single-family homes, thereby strengthening neighborhoods and increasing access to sustainable and affordable homeownership opportunities. NCST offers a multifaceted approach to revitalize vacant and defaulted properties, further best practices for community development across the nation, and advance federal policies to support equitable homeownership.²

To ensure NCST's policy recommendations are rooted in the practitioner perspective, we manage a nonprofit-led advocacy coalition called the Homeownership Alliance.³ The mission of the Homeownership Alliance is to increase access to homeownership to narrow the racial wealth gap, improve access to long-term affordable housing, and revitalize disinvested communities without gentrification. Together, NCST and the Homeownership Alliance work to pursue innovative solutions to provide low- to moderate-income (LMI) and historically disinvested communities increased opportunities for affordable homeownership.

Each year, the 11 regional FHLBanks are required to set aside at least 10% of their prior year's net earnings to fund their respective Affordable Housing Programs. This dedicated pool of funds must then be

¹ [Request for Input: Federal Home Loan Bank Affordable Housing Program Competitive Application Process](#), (June 20, 2024). Federal Housing Finance Agency.

² [Property Acquisition](#), (2024). NCST.

³ Established by NCST in 2021, the [Homeownership Alliance](#) is a practitioner-led coalition of 20 CDFIs and nonprofit housing developers serving 16 states, (2024). The Homeownership Alliance.

utilized to support homeownership for households with incomes at or below 80% of area median income (AMI), or to support the purchase, construction, or rehabilitation of affordable, owner-occupied and rental housing for LMI households.

FHLBank members have the ability to access these grants through two different pathways, one of them being the competitive application program. AHP requires that the FHLBanks direct at least 65% of available AHP funding to this specific program, otherwise known as the General Fund.⁴ Under this program, FHLBank members may submit an application for themselves or on behalf of a project sponsor, which often includes nonprofit developers, government entities, or other for-profit organizations looking to engage in affordable housing development. It is important to note that the AHP regulation authorizes each FHLBank to design its own application forms, as well as determine eligibility and scoring requirements for competitive application programs, causing the overall process to differ from bank to bank.

Accomplishments of AHP to Date

AHP competitive funds have helped to uplift a number of LMI households across the country, renters and homeowners alike. According to the Council of Federal Home Loan Banks 2023 Impact Report,⁵ the 11 regional FHLBanks made available \$355 million in statutory AHP assessments for use in 2023, and contributed more than \$319 million in AHP competitive funds. As a result, AHP helped finance 443 rental and owner-occupied housing projects and produced a total of 20,000 housing units at large, 13,620 of which were considered to be units for very low-income individuals.⁶

2023 AHP Competitive Fund Awards*

	Rental Housing Projects	Owner-Occupied Housing Projects	Total Housing Projects
Total Number of Awarded Projects	343	100	443
Subsidy Awarded (\$ in Millions)	\$266.2	\$52.8	\$319
Number of Housing Units	17,598	2,703	20,301
Average Subsidy per Unit	\$15,126	\$19,536	\$15,714
Number of Very Low- Income** Housing Units	12,206	1,414	13,620

* As of December 31, 2023

** Units at or below 50 percent AMI

*Source: *Affordable Housing Programs, (2024). Affordable Housing and Community Development at the Federal Home Loan Banks 2023.*

⁴ [Request for Input: Federal Home Loan Bank Affordable Housing Program Competitive Application Process](#), (June 20, 2024). Federal Housing Finance Agency.

⁵ [2023 Impacts Report](#), (June 2024). The Council of Federal Home Loan Banks.

⁶ [2023 Impacts Report](#), (June 2024). The Council of Federal Home Loan Banks.

The competitive application process under AHP was created to support affordable housing projects from a national lens, and was originally designed to serve as a mechanism that could help regional FHLBanks meet the unique needs of their respective districts. However, FHFA and the FHLBanks have experienced a number of conceptual changes since the Bank's inception in 1932, and **there is an overwhelming need to streamline applications and differentiate the requirements imposed by the regulation onto AHP competitive programs applicants.** As such, NCST and the Homeownership Alliance believe there are a number of ways that the FHFA can streamline the application process while still ensuring FHLBanks have the ability to verify applicants compliance with the AHP eligibility requirements and scoring criteria.

Specific Responses to RFI Questions

Question 1: Are there particular components of the FHLBanks' AHP application process that could be made more effective or efficient, and if so, how?

NCST and Homeownership Alliance members believe there are a number of components within the AHP application that can be made more efficient and effective, as outlined below.

Review Time

Some members of the Homeownership Alliance express frustration over the amount of time it takes for the FHLBanks to review AHP application submissions and make subsequent decisions on program awardees. This makes it difficult for hopeful applicants — especially CDFIs that have minimal internal capacity and development capital — to adequately plan for projects in and among their respective organizations. We recommend FHFA work to expedite the review process through streamlining the application and internal process to allow eligible applicants to begin their projects quicker, and also suggest these processes be uniform across all FHLBanks in order to account for fairness among program applicants.

Reimbursement Time

If and when CDFIs are selected for programmatic funding, they often cite extensive reimbursement periods from the FHLBanks as a major concern. This may seem like a miniscule issue in the eyes of the FHLBanks, but reimbursement time is absolutely critical to small, mission-driven organizations who do not have a significant pool of funds to fall back on during times of financial distress. As such, we urge FHFA to set a new and more efficient standard for reimbursement periods once awardees are selected, and to make this standard mandatory for all FHLBanks to meet.

Need for AHP Subsidy Language

The application's underwriting requirements are also a cause for concern, particularly as it relates to the Need for AHP Subsidy Standard. According to AHP statute, the Need for AHP Subsidy is defined as the difference between the project's sources of funds (excluding AHP subsidy) and uses of funds, which is the

maximum amount of AHP subsidy the project may receive.⁷ It is crucial that FHFA and the FHLBanks recognize that this method of calculation results in an insufficient figure to address the need for subsidy in practice, as project budgets can greatly fluctuate overtime, especially when labor and construction costs are constantly changing. This places significant strain on the awardees and makes them vulnerable to either having their funds recaptured in the case of excess cash flow, or requiring additional subsidy in case of unforeseen project expenses. FHFA and the FHLBanks must adjust the Need for AHP Subsidy calculation to provide greater flexibility for cost margins for AHP projects.

Question 2: Are any of the FHLBanks' specific documentation requirements for AHP applications unnecessary for verifying that the applicant meets the AHP eligibility criteria, and are there ways to streamline the application process?

Members of the Homeownership Alliance cite concerns over documentation requirements for the AHP application, particularly as it pertains to the program's mapping requirement. The AHP's current mapping requirement differs from other applications more familiar to Homeownership Alliance members - such as the Low-Income Housing Tax Credit (LIHTC) - adding additional burden to the application process. Members also suggest the application is unnecessarily tedious compared to applications solicited by local municipalities or Housing Finance Agencies (HFAs), frustrating grantees when AHP awards are relatively low compared to other funding mechanisms. As such, the Agency should work to standardize its mapping requirement in accordance with other housing programs to make the application process less burdensome for applicants overall. NCST and the Homeownership Alliance also ask that the FHFA and FHLBanks consider these same recommendations in response to RFI Question #3.⁸

Finally, FHFA and the FHLBanks should reevaluate their approach to grantees' separate budgets for supportive services, as well as the innate presumption that a grantee's project can and will take on debt. Instead, the FHLBanks should consider adopting underwriting practices that do not require the AHP subsidy award to be reduced if the project is expected to have excess cash flow — a feature that is almost always subject to change.

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?

⁷ [U.S.C 12 § 1291.24](#) Eligible uses

⁸ [Question 3](#) of the FHFA's RFI on the AHP competitive application process asks, "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?"

NCST and the Homeownership agree that the AHP regulation should allow FHLBanks to differentiate their AHP application requirements for projects requesting subsidy that constitutes a small percentage of total funding in the project. Our member CDFIs note that supply chain issues for construction coupled with increased costs for labor have severely hindered their ability to execute projects. FHFA establishing separate requirements for smaller projects would be a welcome change.

Question 5: What role do consultants provide in applying for AHP funds?

Project sponsors often leverage the capacity and expertise of consultants when applying for AHP funding, especially when internal resources are limited. Homeownership Alliance members note that AHP is an unusually complicated program that requires a significant amount of time, energy, and attention to detail from applicants, and agree that consultants help expedite the submission process, as well as ensure compliance for high-stakes, complex projects.

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

As previously mentioned, we suggest the FHFA consider accepting the same proforma as many HFAs in order to eliminate duplicative steps for applicants and expedite service and completion of affordable-housing projects. AHP funding is often used as a gap filler alongside other affordable housing programs issuing larger awards, and the FHLBanks should defer unwriting compliance and ongoing monitoring to the majority funders, as they likely have a more concrete understanding of a project's readiness, capacity, market demand and financial feasibility.

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

FHFA and the FHLBanks should continue to streamline the application process by eliminating duplicative steps, standardizing documentation requirements to better align with other affordable housing programs used among the applicant pool, and expediting its overall review and reimbursement process. It's important for the Agency to recognize that CDFIs applying for AHP funds have very limited time, resources, and capacity, and that excessive time needed to complete this application process takes away from the more immediate needs of the populations in which they serve.

It is also important to note that current supply chain disruptions may impact a project's timeline and budget. Members providing affordable housing opportunities to LMI households should not have funds recaptured in the case of excess cash flows, and should instead be allowed to use said funds for additional projects so long as they are serving affordable housing and community development goals at large.

Finally, our members believe that the FHLBanks can and should go further to thoroughly train AHP applicants and awardees before, during and after the application process. As previously mentioned, this program is extremely complex, and there is a growing need for end-users to better understand the ins and outs of the program and not fear penalization for unintentional compliance violations.

Additional Recommendations

As the Agency appropriately considers incorporating enhancements to the AHP's competitive application process, NCST and the Homeownership Alliance outline a number of practitioner-informed recommendations for consideration below.

The FHLBs should increase their minimum AHP contributions to at least 20%

The 2023 *Federal Home Loan Bank: System at 100 Report* recommends that Congress work diligently to amend the Bank Act to increase the statutorily required minimum funding contribution for the AHP from the current 10% to at least 20% of the FHLBank's net income from the previous year.⁹ This proposal has also gained momentum in the Senate, largely thanks to Senator Cortez Masto's *Federal Home Loan Banks' Mission Implementation Act*,¹⁰ and has received support from housing practitioners across the country.

Support for this recommendation is widespread, and the data to uphold its implementation is just. In 2023, the FHLBanks made approximately \$355 million available for statutory AHP assessments, with many FHLBanks meeting only their 10% minimum requirement.¹¹ This is a stark contrast to the \$3.4 billion spent on FHLBank member dividends, many of whom only have a tangential relationship to housing. As a result, the majority of FHLBank subsidies went to support member profits instead of affordable housing, a distinct contradiction to the FHLBanks core mission of supporting affordable housing and community development.¹²

Furthermore, the FHLBanks held 1.83% — or \$23 billion — in excess capital in the first quarter of 2024 alone. This proves that the FHLBanks are more than financially equipped to make increased AHP contributions without jeopardizing their zero-loss, safety and soundness management standard. We therefore implore the Agency to place a greater and more immediate emphasis on this to the Congress as it works to reform AHP, and to encourage the FHLBanks to exceed the 10% minimum in the meantime. It is absolutely imperative that, with the utmost clarity, the primary regulator remind FHLBanks that the 10% requirement is a floor, not a ceiling.

The FHLBanks should standardize their climate resiliency efforts in AHP scoring criteria

⁹ [FHL Bank System at 100: Focusing on the Future](#). (2023). Federal Housing Finance Agency.

¹⁰ [Federal Home Loan Banks' Mission Implementation Act, S.1684](#), (May 18, 2021). Congress.gov.

¹¹ [Federal Home Loan Banks Publish 2023 Impact Report](#), (June 27, 2024). Council of Federal Home Loan Banks.

¹² [12 U.S.C §1424](#), (1932). Criteria for Eligibility.

There is overwhelming evidence that suggests climate change directly impacts the housing finance system, as denoted in the federal government’s 2023 National Climate Assessment Report.¹³ LMI communities — as well as communities of color, Tribes, and Indigenous Peoples — experience higher than average exposure to extreme weather events both due to their proximity to hazard-prone areas and lack of adequate infrastructure.¹⁴ Families across the country are seeing heightened insurance costs and are feeling the physical effects of climate change on their properties first-hand. Although climate related risks to infrastructure and local economies can vary across regions, these risks have a disproportionate impact on LMI households, whose incomes cannot sustain climate-proof upkeep and who do not have the ability to take preemptive measures to prevent climate-induced damage.

Given that FHLBanks assets are directly supported by collateral whose value could drastically decrease from natural events caused or exacerbated by climate change,¹⁵ some FHLBanks have appropriately begun incorporating climate resiliency into their AHP scoring criteria, such as post-disaster forbearance options and assistance for communities that need to rebuild following an extreme weather event.¹⁶ This is a step in the right direction, but the FHFA can go further to promote energy-efficiency and climate resiliency within the affordable housing industry.

For example, FHLBanks could consider providing low-cost advance programs to members or favorable discounts on energy-resilient collateral, both of which could count toward the banks’ Core Mission Activities (CMA) requirements. There are a number of ways the Agency can incentivize disaster resilient measures, and we implore the FHFA to standardize this practice across all districts and require that all FHLBanks consider climate resiliency when scoring AHP applicants.

The FHFA should update its regulatory provisions to expand overall access to AHP utilization

In its *System at 100: Focusing on the Future Report*, the FHFA outlines potential ways to expand access to AHP, including updating AHP regulatory provisions for revolving loan funds, assessing options for AMI flexibility in high-cost areas, increasing household homeownership set-aside grants in high-cost areas, and revising certain project compliance and monitoring requirements to increase programmatic efficiency.¹⁷ NCST and the Homeownership are extremely supportive of each of these individual actions, and believe that implementing them correctly can effectively help to combat the nation’s affordability crisis and increase the overall need for products and services offered by the FHLBanks. Robust engagement with on-the-ground, mission-driven practitioners is a crucial component in revitalizing the

¹³ The [Fifth National Climate Assessment](#) is the US Government’s preeminent report on climate change impacts, risks, and responses. It is a congressionally mandated interagency effort that provides the scientific foundation to support informed decision-making across the United States.

¹⁴ [The Fifth National Climate Assessment](#), (2023). The U.S. Global Change Research Program.

¹⁵ [FHLBank System at 100: Focusing on the Future](#), (2023). Federal Housing Finance Agency.

¹⁶ Ibid.

¹⁷ Ibid.

nation's affordable housing supply, and in order to make a meaningful contribution to the nation's housing crisis at scale, they must be granted more funding from the AHP at large.

The FHLBanks should work to streamline and reduce internal operating costs

The FHFA has noted that, while member advance demands can largely fluctuate within individual FHLBank portfolios, operating costs are largely fixed and routine.¹⁸ As such, NCST and the Homeownership Alliance encourage the FHLBanks to consolidate any shared functions across the System wherein possible, and redirect these savings into AHP funding and other affordable homeownership initiatives.

The FHLBanks should consider additional funding allocation periods for the AHP

Currently, the FHLBanks only disperse AHP funding once a year. Given their strong financial positions, we believe the FHLBanks should elevate their funding rounds to cater to more parties, a strategy that can be carried out in a number of innovative ways.

For example, the FHLBanks could consider holding two rounds of funding per year. The first round of funding could be the FHLBanks standard 10% AHP contribution funds, and the second round could yield an additional 5% or 10% to better meet the needs of the nation's affordable housing crisis. Another option could be for the FHLBanks to offer technical assistance (TA) for members that applied to the first round of funding and are committed to addressing barriers to housing — similar to other federal programs such as the Pathways to Removing Obstacles to Housing (PRO Housing) grant competition.¹⁹ Incorporating these initiatives into routine AHP practices would not only help applicants access funding at different points throughout the year, but would make resources more broadly accessible for grantees to conduct affordable homeownership work at scale.

The FHLBanks should look to increase their engagement with manufactured housing as part of their overall AHP strategy

There are very few FHLBanks who engage with the manufactured housing community through their AHP, despite the successes of manufactured housing as a tool to support homeownership. Manufactured homes realize significant cost-savings benefits during the developmental stage, primarily because they are built indoors, avoiding weather delays, and the site facilities allow for a greater degree of quality control for each home built.²⁰ There are a number of organizations — including those within the Homeownership

¹⁸ Ibid.

¹⁹ [FACT SHEET: Vice President Harris Announces First-of-Its-Kind Funding to Lower Housing Costs by Reducing Barriers to Building more Homes](#), (June 26, 2024). The White House.

²⁰ [Why Factory-Build](#), (2024). Next Step Network.

Alliance — who dedicate majority of their time and resources to supporting manufactured housing, and some FHLBanks have already begun to recognize this trend.

In January of 2024, the FHLBank of Cincinnati established a set-aside of AHP funds to help increase homeownership through a program called the Welcome Home Program. The Welcome Home Program distributes funds in the forms of grants, which are then made available to eligible homebuyers who are at or below 80% AMI and contribute at least \$500 of their own funds toward down payment and closing costs.²¹ While this program is open to any one to four-unit properties, the program is also available for manufactured housing, on the condition that an appraisal is done at the time of funding reservation to verify eligibility.²² This initiative also incorporates climate resiliency efforts by requiring that all manufactured homes within this program be Energy Star rated.²³

We implore the FHFA to encourage all 11 FHLBanks to scale this model and build upon lessons learned to better engage with and support manufactured housing communities. Dispersing funds for manufactured homes is an efficient way for FHLBanks to support a higher amount of affordable homes at a more cost-effective and rapid rate.

In conclusion, there is ample evidence to suggest that the FHLBanks' AHP is in need of a robust overhaul, and the first step to achieving this goal is fixing the competitive application process. We are grateful to the Agency for recognizing the disadvantages of this outdated application structure, and stand ready to engage as the FHFA and FHLBanks consider additional enhancements to make this program more accessible and equitable for all members, regardless of size, geographic location, or capital holdings.

For any questions or points of clarification, please contact Emmerson McClintock, Policy Analyst at emcclintock@ncst.org, and Elisabeth Coats, Director of the Homeownership Alliance at ecoats@ncst.org. We thank the Agency for its time and consideration of our recommendations.

Sincerely,

The National Community Stabilization Trust

The Homeownership Alliance

²¹ [2024 Welcome Home Guide](#), (2024). FHLBank of Cincinnati.

²² [2024 Welcome Home Guide](#), (2024). FHLBank of Cincinnati.

²³ [2024 Welcome Home Guide](#), (2024). FHLBank of Cincinnati.