

Affordable Housing Competitive Funding Program

The Affordable Housing Competitive Funding Program provides an opportunity for members to compete for funds that helps them partner with local housing providers to develop (purchase, construct, or rehabilitate) affordable owner-occupied or rental housing units in their communities.

BACKGROUND AND PURPOSE

FHLBs award Affordable Housing Competitive Funding Program (AHP Competitive Funding Program) grants through a competitive application process for members working with community organizations and housing developers to create rental or homeownership opportunities for lower-income households. By statute, each FHLB sets aside 10 percent of their annual earnings for distribution as equity-like investments, usually grants, to its member communities for affordable housing purposes.

For homeownership projects under the AHP Competitive Funding Program, funds must support the purchase, construction, or rehabilitation of owner-occupied housing by or for very low-, low-, or moderate-income households. Affordability targets vary by FHLB. Projects applying for AHP funds for homeownership projects need to serve individuals and families below 80 percent of the area median income. Many FHLBs give preference to projects that serve lower-income households, such as those below 50 percent or 60 percent of the area median income.

Eligible uses of AHP grant funds include the acquisition, construction, or rehabilitation of affordable rentals or homeownership units, as well as down payment and closing cost assistance. At least 65 percent of the funds must be allocated to the AHP Competitive Funding Program, in which members partner with project sponsor organizations to compete for rental or homeownership project awards. The remaining up to 35 percent of the funds is allocated on a non-competitive basis to assist low- and moderate-income families who want to purchase a home. A project sponsor cannot apply without the support of an FHLB member.

The maximum amount awarded per project and allocated per unit varies annually and by FHLB. Assistance may be given in the form of below market-rate loans or grants if allowed by the FHLB. Typically, the member that originates the application must pass the full amount of the award on to the project sponsor, and awards are made only in the amount necessary to fill project-financing gaps.

Bank Eligibility and Grant Application Process

Applications are typically accepted for a limited period once a year. Members should form relationships with project sponsors and solicit and evaluate projects well in advance of the application period. Each FHLB publishes an annual Affordable Housing Program Implementation Plan that outlines the program guidelines and application process for the year. Generally, these can be found under the Affordable Housing Program section of the FHLBs' websites (see Resources).

Applications must meet the threshold requirements established by each FHLB. Of the applications meeting all threshold requirements, the highest scoring applications are funded until funds are exhausted. The FHLB performs an underwriting analysis of the project to determine whether the development budget, market analysis, and sponsor's experience make it likely that the project will be completed and occupied. The FHLB may request additional information from applicant members, project owners, and sponsors, as well as other material parties involved with a project in order to determine whether an application has materially complied with the threshold requirements. Changes

to the project's location, sponsor, or substantial changes to the budget are generally not allowed once an application is awarded funds.

Award Use

Awards are for the purchase, construction, or rehabilitation of an owner-occupied project by or for very low-, low-, or moderate-income households.⁵ A household must have an income meeting the income targeting commitments in the approved AHP application. With the exception of targeting toward special populations described in FHLBs' AHP Implementation Plans, such as first-time homebuyers or veterans, there are no other borrower criteria.

Threshold Requirements

Compliance with Regulations

Members must be compliant with the Community Support Regulations,⁶ which is a requirement of membership in the FHLB system. Community support compliance is determined by a combination of CRA rating (for depository institutions), community development financial institution accreditation (as applicable), and a demonstrated track record of lending to, and explicitly marketing to, first-time homebuyers. Projects must also comply with fair housing laws.

Review by senior management

Senior management of the member bank must stipulate that a review and a satisfactory level of underwriting were conducted.

Budget, sources, and uses

The application must include a statement of construction, permanent sources of funding, and a development budget. A percentage of the total development budget must already be conditionally committed by an unrelated third-party funder. The FHLB typically sets limits on common cost drivers in residential construction, such as the builder's overhead and profit, project sponsor fee, and soft costs including architecture and engineering fees, permits, and financing costs. In addition, projects must typically have both hard and soft cost contingency accounts.

Requirements related to project readiness

Satisfactory evidence of site control must be provided if the funds are to be used to fund new construction and to ensure that if funds are provided the project will succeed. Cost specifications for rehabilitation projects are required. A hard cost schedule of values and conceptual plans and elevations for any new construction and/or additions to existing building(s) must be provided. For homeownership projects, a percentage of the home buyers or units must be identified and qualified. Projects are typically expected to be funded within three years of the award of AHP funds, with the first draw occurring within the first 12 months.

POTENTIAL BENEFITS

AHP Competitive grants helps members partner with local developers and community partners to develop or rehabilitate affordable rental and/or ownership housing.

AHP Competitive grants may help members achieve their Community Reinvestment Act goals.

POTENTIAL CHALLENGES

The application process can require extensive preparation.

Program funding is limited.

The approval process is competitive so not all members will get funds for which they apply.

⁵ Very-low income is no greater than 50 percent of area median income; low-income is no greater than 80 percent of area median income; and moderate-income is income at or below 100 percent of area median income.

⁶ <http://www.ecfr.gov/cgi-bin/text-idx?SID=a4384a1fd746c400b19fa3a0fde6b123&node=12:10.0.2.5.4.6&rqn=div5>

Sponsor qualifications

The sponsor of an owner-occupied project must be integrally involved in the project in order to ensure that the maximum reasonable amount of funds directly benefits the project's occupants rather than intermediaries. "Integrally involved" generally means that the entity exercises control over planning, project design, development, construction, marketing, sales, or any other major elements of the project. FHLBs may also set their own sponsor qualification requirements.

Scoring

Projects are reviewed and accepted based on a scoring system. A maximum of 100 points is typically possible for each project application. Eligible applications are approved in descending order starting with the highest scoring application until funds are exhausted or until no eligible applications remain. Of those not approved for funding, the FHLB will generally designate four alternates. If previously committed funds become available, alternates may receive funding.

Points are typically allocated based on the following factors:

- donated government-owned or other property;
- nonprofit or government project sponsor;
- affordability targeting;
- connection to services or activities that assist residents in moving toward better economic opportunities;
- targeting for homeless households or other special populations;
- AHP subsidy per unit (less subsidy is preferred);
- community characteristics;
- project readiness;
- other sources of funds leveraged; and
- leveraging financing via the Community Investment Program or Economic Development Program advances, or utilizing a Letter of Credit.

Training

Each FHLB offers training opportunities for members to learn more about FHLB products and business-related opportunities. See the individual FHLB summary for training information offered.

Quality Control and Reporting

Beginning after the FHLB's approval date and continuing until project completion, the sponsor must submit to the member and subsequently the FHLB, a report about whether reasonable progress is being made toward the drawdown of the AHP Competitive subsidy and project completion. The frequency of project reporting is at the discretion of the FHLB. After project completion, the FHLB reviews the completed project to check compliance with program expectations. The FHLB will review:

- whether the subsidy was used for eligible purposes according to the commitments made in the approved AHP Competitive application;
- whether household income complies with the income targeting commitments made in the approved application;
- whether the project's actual costs were reasonable and customary in accordance with the FHLB's project feasibility and cost guidelines, and the subsidies were necessary for the completion of the project as currently structured;
- whether the record retention agreement was fully executed and recorded; and
- whether services and activities promised in the AHP Competitive application have been provided.

In the event an AHP-assisted unit is sold or refinanced in the first five years from the date of closing, a pro-rata share of the subsidy, reduced for every year the seller owned the unit, must be repaid to the FHLB from any net gain on the sale of the unit, unless the unit is resold to a very low-, low-, or moderate-income household. Repayment of subsidy is not necessary in the event of foreclosure. Members must ensure that there is a deed restriction or other legally enforceable retention mechanism to ensure compliance.

Potential Benefits

- AHP Competitive grants helps members partner with local developers and community partners to develop or rehabilitate affordable rental and/or ownership housing.
- AHP Competitive grants may help members achieve their Community Reinvestment Act goals.

Potential Challenges

- The application process can require extensive preparation.
- Program funding is limited.
- The approval process is competitive so not all members will get funds for which they apply.

RESOURCES

FHLB of Atlanta AHP Competitive Funding Program

<http://corp.fhlbatl.com/files/documents/AHP-Competitive-Brochure.pdf>

FHLB of Boston Affordable Housing Program

<http://www.fhlbboston.com/communitydevelopment/ahp/index.jsp>

FHLB of Chicago Competitive Affordable Housing Program

http://www.fhlbc.com/ProductsandServices/CommunityInvestmentsandAffordableHousingPrograms/GrantPrograms/Documents/FHL.371_AHP.ProductSheet_FINAL.01.pdf

FHLB of Cincinnati Affordable Housing Program

<https://www.fhlbcin.com/community-investment/affordable-housing-program/>

FHLB of Dallas Annual Grants for Affordable Housing

<https://www.fhlb.com/community/Pages/Affordable-Housing-Program.aspx>

FHLB of Des Moines Competitive Affordable Housing Program

<http://www.fhlbdm.com/affordable-housing-products/competitive-affordable-housing-program/>

FHLB of Indianapolis Competitive Affordable Housing Program Grants

<https://www.fhlbi.com/products-services/communities-and-housing/competitive-affordable-housing-program>

FHLB of New York Affordable Housing Program

<http://www.fhlbny.com/community/housing-programs/ahp/index.aspx>

FHLB of Pittsburgh Affordable Housing Program

<http://www.fhlb-pgh.com/housing-and-community/programs/affordable-housing-program.html>

FHLB of San Francisco Affordable Housing Program

<http://www.fhlbsf.com/community/grant/ahp.aspx>

FHLB of Topeka Affordable Housing Program

<https://www.fhlbtopeka.com/ahp>