



***Report of the Horizontal Review of the
Affordable Housing Programs of the Federal
Home Loan Banks***

March 15, 2005

Preface

In 2003 and 2004, Federal Housing Finance Board Examiners and Community Development Specialists conducted targeted visits and examinations of the Affordable Housing Program at each of the 12 Federal Home Loan Banks. Our goal in conducting those reviews and examinations was to assess how each Federal Home Loan Bank administered its Affordable Housing Program. We assessed compliance with regulatory and statutory requirements, including program eligibility; reviewed decisions about awards and the amount of disbursements; and evaluated program monitoring. We did not limit our assessment to compliance. We paid particular attention to the role of a Federal Home Loan Bank's board of directors, its housing committee, its Affordable Housing Advisory Council, and its senior management in directing and administering its Affordable Housing Program. We looked at the operations of both the competitive application program and the homeownership set-aside program. We reviewed management information systems and their effectiveness in supporting program governance and operations. Our ultimate goal was to highlight effective practices in Affordable Housing Program governance and operations and to identify areas for improvement that could help the Federal Home Loan Banks leverage more affordable housing from a given investment.

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Chapter 1: AHP Overview

The Federal Home Loan Bank System (“System”) was created in 1932 by the Federal Home Loan Bank Act (“Bank Act”) and comprises 12 Federal Home Loan Banks (“FHLBanks” or “Banks”). It was established to restore confidence in the nation's financial institutions and to improve the supply of funds to local lenders to finance loans for home purchases. The System’s creation came in response to the Great Depression, which had undermined confidence in the U.S. banking and financial system and had created the need for assurance that funding would be available for home financing.

The Federal Home Loan Bank System's public policy mission was expanded to include affordable housing and community development lending in 1989. The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (“FIRREA”) established the Affordable Housing Program (“AHP”). FIRREA also established a community investment program for the Banks to provide funding for members in support of community and economic development activities.

By statute, each of the 12 FHLBanks is required to contribute at least 10 percent of its previous year’s net earnings to the AHP, subject to a minimum annual combined contribution by the 12 Banks of \$100 million. The AHP subsidizes the cost of affordable owner-occupied and rental housing targeted to individuals and families with incomes at or below 80 percent of the median income for the area. The subsidy may be in the form of a grant or a below-cost, or subsidized, interest rate on an advance from an FHLBank to a member lender. By statute, AHP subsidies must be used to finance homeownership by families with incomes at or below 80 percent of the median income for the area or to finance the purchase, construction, or rehabilitation of rental housing in which at least 20 percent of the units will be occupied by and affordable for households with incomes at or below 50 percent of area median income (“AMI”).¹ By regulation, additional preferences are given to owner-occupied projects with the highest percentage of units targeted to households with the lowest percentage of median income for the area and to rental projects with 60 percent or more of the units reserved for occupancy by households with incomes at or below 50 percent of AMI. Preferences are also given to rental projects with the highest percentage of remaining units reserved for households with incomes below 80 percent of AMI.²

The AHP is available to fund a wide range of different housing needs. Indeed, over the years the AHP has provided assistance to:

- Low- and moderate-income homeowners and first-time homebuyers;
- Very low-income residents of rental housing;
- Special-needs households, including the elderly, the disabled, the homeless, or victims of domestic violence who need supportive services;
- Residents in rural communities; and
- Residents in urban areas.

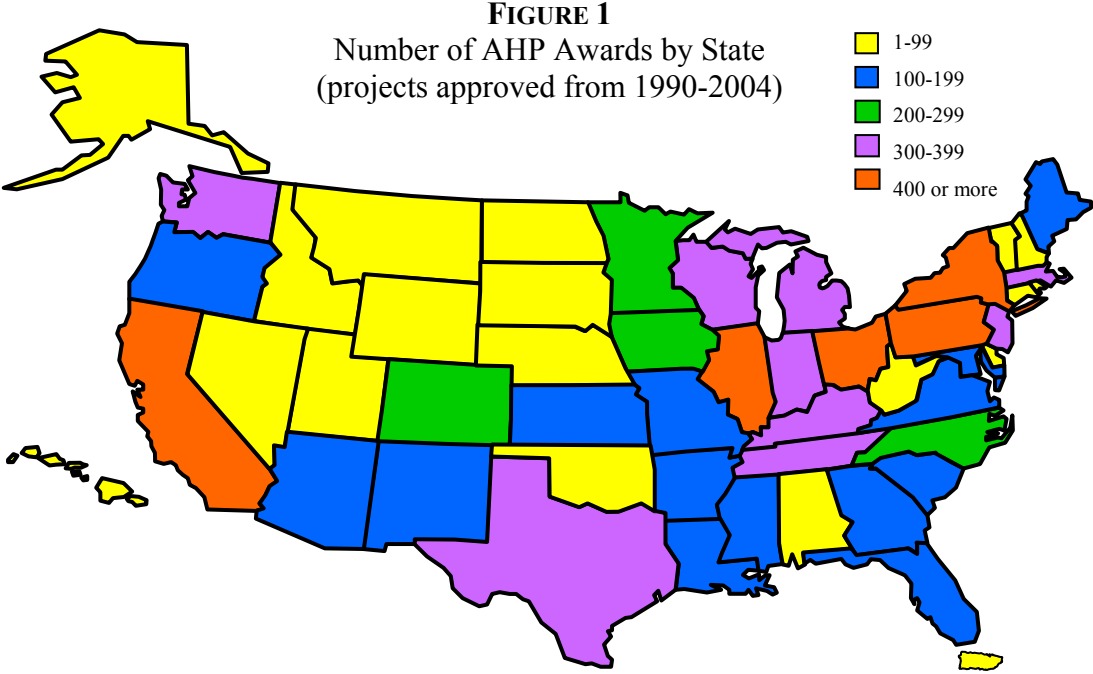
¹ 12 USC 1430(10)(j)(2).

² 12 CFR§951.6(b)(4)(iv)(C)(1).

One of the attributes of the AHP is its flexibility. AHP funds can be used to support a wide range of affordable housing projects – rental and owner-occupied as well as single-family and multi-family units. While some housing programs limit uses to housing rehabilitation and others focus on new construction, the AHP permits both uses. The program is designed to augment other sources of funding by filling gaps in other programs. This flexibility enables lenders and affordable housing developers to respond to unique and difficult financing conditions.

Long-term retention requirements tied to the AHP help ensure that the subsidized rental units will stay in the affordable housing stock for 15 years. Owner-occupied units are subject to a five-year retention period.

Since the program’s inception, the Banks have awarded more than \$2 billion in AHP grants through their members. Between 1990 and 2004, nearly 430,000 housing units have been subsidized with AHP funds. In 2004, \$229 million was made available by the Banks to subsidize 39,802 units of owner-occupied or rental housing. The distribution of AHP awards by state is depicted in Figure 1, below.



The majority of the AHP subsidy is made available through a competitive application program at each of the FHLBanks. In the competitive program, members submit applications on behalf of one or more sponsors of eligible housing projects. Projects must meet certain regulatory requirements to be eligible for AHP funding under the competitive application program. These requirements are:

- 1) AHP funding must be used for owner-occupied or rental affordable housing;
- 2) AHP projects must be financially feasible and must need the AHP subsidy to be feasible;
- 3) The project must begin to use AHP funds within 12 months;
- 4) The project must not use the subsidy for prepayment, cancellation, or processing fees;
- 5) The AHP subsidy must be used for eligible costs;
- 6) The affordable housing units financed with the subsidy must be subject to a retention agreement of five years for owner-occupied units and 15 years for rental units;
- 7) AHP project sponsors and developers must meet AHP program qualifications; and
- 8) The project must be in compliance with applicable fair housing laws and regulations.

The FHLBank may establish additional district eligibility requirements at its discretion, such as limits on the amount of AHP subsidy.

In addition to the funds awarded in the competitive program, AHP funds are also awarded through the homeownership set-aside (“set-aside”) program. The set-aside program was authorized by the Finance Board in 1995. An FHLBank may set aside an amount up to the greater of \$3 million or 25 percent of its AHP funds each year to assist low- and moderate-income households purchase homes. A Bank may establish an additional first-time homebuyer set aside up to the greater of \$1.5 million or 10 percent of its AHP funds each year to assist low- and moderate-income households that are also first-time homebuyers. Member lenders obtain the AHP set-aside funds from the FHLBank and then use them to give grants to eligible households. Set-aside funds may be used for down-payment or closing cost assistance or counseling costs in connection with a purchase or rehabilitation of owner-occupied units. Each Bank sets its own maximum grant amount, which may not exceed \$15,000 per household. Currently, all 12 of the FHLBanks have AHP homeownership set-aside programs.

Table 1 provides an overview of the AHP programs and shows the breakdown of units receiving assistance and funds disbursed for the competitive application and set-aside programs.

TABLE 1				
AHP Program Overview				
Program	Time Period	Units Receiving Assistance	Total Funds Awarded (\$ Millions)	Subsidy Per Unit (\$)
Competitive Application Program	1990-2004	380,960	\$1,903.3	\$4,996
Set-Aside Program	1995-2004	47,813	213.0	4,455
Total AHP	1990-2004	428,773	2,116.3	4,936

The Competitive Application Program

In 2004 a total of 31,681 units received assistance through the competitive program of the AHP. Since the program’s inception in 1990, 380,960 units were awarded AHP competitive funds. The total AHP competitive program subsidy awarded in 2004 amounted to more than \$189 million. Over the course of the program’s history, more than \$1.9 billion in affordable housing funding has

been awarded through the competitive program. As Table 2 illustrates, almost three-quarters of the units funded have been rental units. The table also reveals that AHP subsidies were spread among a large number of units, so that the average subsidy per unit was less than \$6,000 in 2004 and less than \$5,000 on average since the start of the program in 1990.

TABLE 2 AHP Competitive Application Program Approved Applications Owner-Occupied vs. Rental Units		
	2004	1990-2004
Total Units	31,681	380,960
Owner-Occupied	7,019	102,810
Rental	24,662	278,150
Total AHP Competitive Application Program Subsidy Awarded (\$ Millions)	\$189.3	\$1,903.3
Average Subsidy per Unit (\$)	\$5,974	\$4,996

As shown in Table 3, since the program’s inception 70 percent of units receiving competitive program subsidies were units for “very low-income” individuals or families – those with income no greater than 50 percent of the median income for the area. Funds going to very low-income individuals made up a higher percentage of rental assistance projects than homeownership projects.

TABLE 3 AHP Competitive Application Program Approved Applications Very Low Income Units Receiving Assistance		
	2004	1990-2004
Total Units	31,681	380,960
Very Low Income	22,040	268,215
Owner-Occupied	7,019	102,810
Very Low Income	3,524	58,041
Rental	24,662	278,150
Very Low Income	18,516	210,174

In allocating funds under the competitive program, each FHLBank operates under a scoring system based on nine regulatory criteria. Each criterion must be assigned a weight of at least five points, except for the “income targeting” criterion, which must be assigned a weight of at least 20 points. Total points must add to 100. Funding is provided to applications receiving the highest scores until

the funds available in a particular competitive funding round are exhausted. Normally, there are two funding rounds each calendar year. The nine scoring criteria are:

- 1) Use of government-owned or other donated or below-market properties
- 2) Sponsorship by a not-for-profit organization or government entity
- 3) Income targeting
- 4) Housing for homeless households
- 5) Promotion of empowerment
- 6) First District Priority (one or more of the following):
 - a) Special needs
 - b) Community development
 - c) First-time homebuyers
 - d) Member financial participation
 - e) Disaster areas
 - f) Rural
 - g) Urban
 - h) Economic diversity
 - i) Fair housing remedy
 - j) Community involvement
 - k) Lender consortia
 - l) In-District projects
- 7) Second District Priority (a housing need identified by the FHLBank)
- 8) AHP subsidy per unit
- 9) Community stability

In our interviews, a number of the respondents indicated that the scoring criteria are overly rigid. They suggested, for example, that in cases in which a funding round is substantially oversubscribed, the failure to achieve maximum points under a particular criterion may exclude a project from receiving an AHP award. However, our examiners found many instances in which projects were awarded competitive funds with scores ranging from 70 to 85, which is well less than the maximum 100 points. This might suggest that failure to achieve maximum points under a particular criterion would not be a significant problem. On the other hand, we observed a noticeable clustering of scores resulting in instances in which there was little differentiation between the points awarded to projects that were funded and those that were not. One community investment officer (“CIO”) remarked, “I hate to give awards based on a 0.5 differential.” When awards are given on such marginal scoring differences, any rigidity in the scoring criteria may become significant. Therefore, clustering of scores creates the potential for worthwhile projects being excluded from funding.

However, the AHP regulation still provides substantial latitude to the individual FHLBanks in the awarding of competitive program funds.³ As shown in Table 4, the 12 Banks award different points to any given criterion and choose a wide range of first and second district priorities. For example, one Bank allocates 20 points to “Subsidy per Unit,” while two FHLBanks award that criterion only

³ The latitude comes from the selection of district priorities and in the allocation of points. The regulation allows the FHLBank to identify its first and second district priorities. It also specifies minimum point allocations that sum to 60 of the required 100 points. Therefore each FHLBank allocates 40 points among the nine scoring criteria as it determines to be most appropriate.

five points. Similarly, four FHLBanks have chosen to emphasize mixed-income housing development through “Economic Diversity” in their “First District Priority.” Eight FHLBanks, by way of contrast, assign no weight to “Economic Diversity.” Six identify “Member Financial Participation” in affordable housing projects – through the provision of financing, fee waivers, or donations – as a top priority. The other six Banks assign no weight to that factor. Eight Banks identify support for first time homebuyers as a priority. Seven Banks support special needs populations; eight give priority to financing of housing located in rural areas; and two prioritize urban in-fill or housing rehabilitation. Two Banks assign more points to the “Second District Priority” than they assign to the “First District Priority.” In short, the range of point allocations to particular criteria and the differences in identified priorities suggest that the FHLBanks may have more discretion in allocating their competitive program AHP funds than is commonly understood.

TABLE 4
2005 AHP Competitive Application Program Scoring Criteria by FHLBank
(Point allocations out of a total of 100)

	Atlanta	Boston	Chicago	Cincinnati	Dallas	Des Moines	Indianapolis	New York	Pittsburgh	San Francisco	Seattle	Topeka
Project Uses Donated or Federal Properties	5	5	5	5	5	5	5	5	5	5	5	7.5
Not-For-Profit Sponsorship of Project	5	5	5	5	8	10	7	10	5	10	5	7.5
Income Targeting	20	20	20	20	25	20	20	20	20	20	20	20
Housing for Homeless Households	5	5	5	5	5	7	6	10	5	6	5	5
Promotion of Empowerment	10	10	10	7	5	7	5	10	10	15	5	7.5
First District Priority –Total Points for following criteria:	35	30	25	40	19	8	23	10	27	16	24	20
Special Needs			5	10			5		7	5	7	5
Community Development			5			5	4					
First-time homebuyers		5	3	7	10				10	6	12	5
Member Financial Participation		15	7	15	4		6					5
Disaster Areas												
Rural	15	5	5	5	5				5	5		5
Urban	10			3								
Economic Diversity	10	5						5	5			
Fair Housing Remedy												
Community Involvement						3	8					
Lender Consortia												
In-District Projects								5			5	
Second District Priority	5	5	5	5	5	10	12	15	13	7	14	17.5
Subsidy Per Unit	10	5	15	6	20	13	12	10	5	8	10	7.5
Community Stability	5	15	10	7	8	20	10	10	10	13	12	7.5

The Homeownership Set-Aside Program

Since its inception in 1995, the set-aside program has become an important component of the AHP. In response to the national policy drive to increase homeownership among low- and moderate-income households and to improve smaller and rural member access to the AHP, the Finance Board has gradually increased the FHLBanks' total set-aside authority from 10 percent to 35 percent. The maximum grant award for each household has also been increased over the years from \$5,000 to \$15,000. The FHLBanks have disbursed more than \$213 million in set-aside funding, serving more than 47,000 households in their set-aside programs through 2004. Table 5 shows the number of units and total subsidy disbursed through the set-aside program for 2004, and since the program's inception in 1995.⁴

TABLE 5 AHP Homeownership Set-Aside Program		
	2004	1995-2004
Total Units	8,121	47,813
Owner-Occupied	8,121	47,813
AHP Set-Aside Program Disbursements (\$ Millions)	\$39.9	\$213.0
Average Subsidy per Unit (\$)	\$4,916	\$4,455

All twelve FHLBanks have established set-aside programs. The percentage of AHP allocations to the set-aside, as shown in Table 6, ranges from a low of 10 percent in Dallas to 44 percent in Indianapolis. Cincinnati and Indianapolis allocated more than the regulatory maximum of 35 percent in 2004, which reflects special circumstances at each Bank. Cincinnati reprogrammed funds that were not used from earlier years, and Indianapolis accelerated funds from the 2005 required AHP contribution to the 2004 allocation.^{5 6}

⁴ Total set-aside disbursements (as shown in Table 5) are less than set-aside allocations (as shown in Table 6) because funds are allocated prior to being disbursed. Therefore, disbursements lag allocations.

⁵ Funds can be reprogrammed from earlier years in three ways. First, funds are repaid when a home or project is sold prior to the completion of the retention period. Second, funds are repaid to the Bank's AHP when a recipient is found to be out of compliance with applicable regulations. Third, funds can be "de-obligated" from a project and redirected into the Bank's AHP fund if the FHLBank determines that the project is not meeting the FHLBank's requirements.

⁶ Section 951.3 of the AHP regulation allows a Bank to allocate, up to a specified maximum, a share "of its annual required AHP contribution for the subsequent year to the current year's program." Acceleration is permissible for both the set-aside program and the competitive application program.

TABLE 6
2004 Set-Aside Allocations by FHLBank

FHLBank	2004 Set-Aside Allocations (\$ Millions)	Percent of 2004 Total AHP Contribution
Atlanta	2.7	15
Boston	1.5	15
Chicago	10.7	27
Cincinnati	7.9	42
Dallas	1.0	10
Des Moines	1.8	16
Indianapolis	5.6	44
New York	1.3	26
Pittsburgh	0.8	26
San Francisco	5.5	15
Seattle	5.6	35
Topeka	2.4	24
TOTAL	46.8	NA

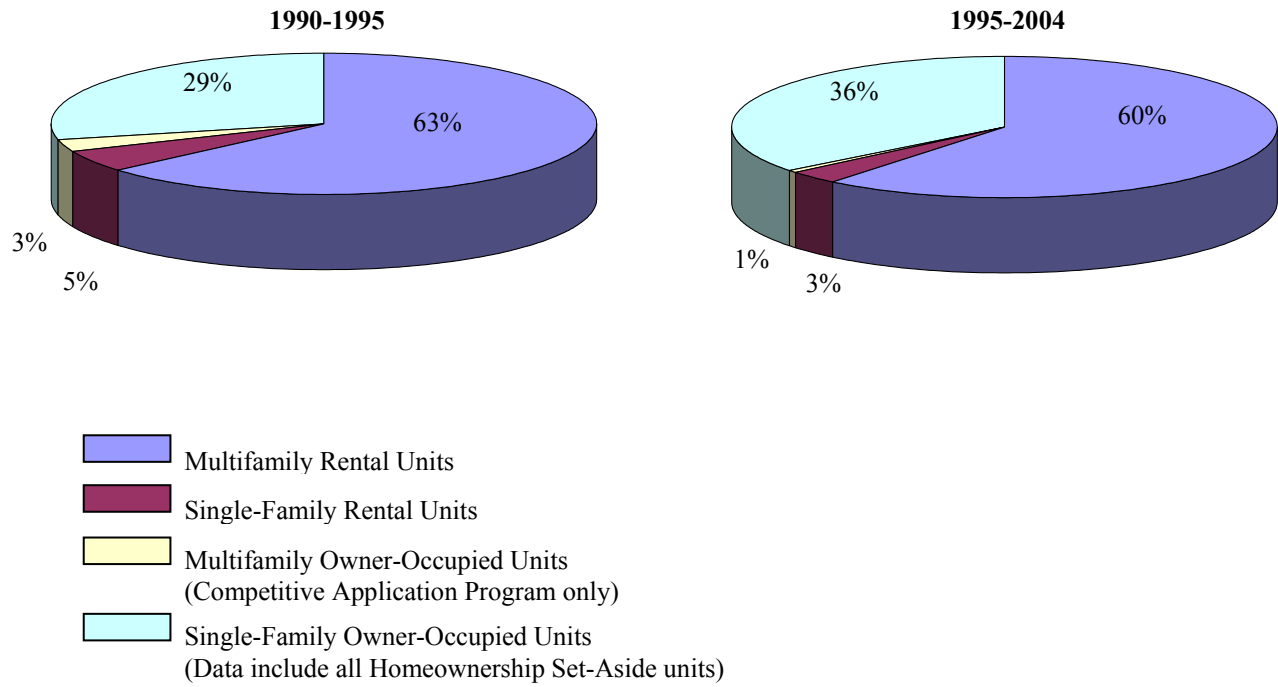
Most of the FHLBanks target a portion of their set-asides to first-time homebuyers.⁷ Two FHLBanks have programs that provide rehabilitation assistance to current homeowners. The set-asides have also been used at some FHLBanks to address specific and unique needs in the district such as households living in rural communities, households living on tribal lands, and victims of federal disasters. Our interviews and the surveys have indicated strong support by members for the set-aside program.⁸ Although member demand exhausts most Banks' set-aside allocations well before the end of the year, one Bank has had difficulty in disbursing its annual set-aside program allocation because not enough households have qualified for mortgages or have satisfied the eligibility requirements the Bank imposes.

Because the set-aside program targets homeownership, whereas the competitive program appears to favor rental properties, the growth in set-aside allocation has increased the share of AHP contributions going to owner-occupied properties. As the pie charts in Figure 2 indicate, there has been a slight shift toward more single-family homeownership since the authorization of the set-aside program in 1995.

⁷ In addition to authorization for a homeownership set-aside subject to a \$3 million or 25 percent cap, the Banks are authorized to set-aside an additional \$1.5 million or 10 percent of their AHP for a first-time homebuyer set-aside. See 12 CFR§951.36(a)(1)(ii).

⁸ See Appendix 1 for a discussion of the sources of information and the methodologies used to gather information for this report. See Appendix 2 for a description of the survey of AHP stakeholders that we conducted as part of this project.

FIGURE 2
Affordable Housing Program
Percentage of AHP-Assisted Units



Chapter 2: Criteria for an Effective FHLBank AHP

Key Findings

The FHLBanks have met their statutory obligation to award 10 percent of the preceding year's net income to the AHP. As Table 7 below indicates, the FHLBanks have been required by the FHLBank Act to contribute \$2.017 billion to the AHP since 1990. The FHLBanks have awarded \$2.116 billion to the AHP. Total AHP disbursements, however, are significantly lower than the required contribution or the allocated awards.⁹ A primary cause is likely to be the lags involved in funding a project after it has been awarded an AHP grant or subsidy. The AHP typically makes awards early in the life of a project. This is intended to facilitate the securing of additional funding commitments based upon the commitment from the FHLBank that is already in place. Projects that use an AHP award to secure other financing commitments, particularly complex multifamily projects, may be a number of years from drawing down the AHP awards. Other possible explanations of the gap between awards and disbursements include lags in reporting that funds have been disbursed, inadequate data capture in the AHP data reporting system, or faulty recordkeeping by a Bank.

TABLE 7
AHP Required Contributions, Awards, and Disbursements
1990 - 2004

FHLBank	Total Statutory Contribution (Required By FHLBank Act) 1990 – 2004 (\$ Millions)	Total AHP Awards 1990 – 2004 (\$ Millions)	Total AHP Disbursements 1990-2004 (\$ Millions)
Atlanta	260.0	275.1	200.6
Boston	127.7	132.0	109.0
Chicago	163.0	171.6	131.2
Cincinnati	162.8	184.6	100.8
Dallas	120.7	136.7	66.2
Des Moines	113.0	120.1	99.5
Indianapolis	122.7	124.0	110.9
New York	221.5	227.6	164.1
Pittsburgh	117.9	126.1	106.4
San Francisco	358.6	367.9	259.3
Seattle	161.0	166.9	140.2
Topeka	88.5	83.7	73.9
TOTAL¹⁰	2,017.3	2,116.3	1,562.2

⁹ Funds awarded may exceed statutory contributions if recaptured or de-obligated funds from a previous year are awarded in subsequent rounds.

¹⁰ In Table 7, column totals may differ from the sum of the column entries due to rounding.

A few other common themes emerge from our reviews and examinations. First, most of the FHLBanks are satisfactorily making information about the AHP available to their members. Information on scoring criteria and awards are available on web sites, and at least four Banks have instituted web-based application procedures that should make the process of applying for AHP funds more user-friendly. Second, the knowledge of and commitment to the AHP among board members and senior managers varied within Banks and among Banks. Third, each Bank has an Affordable Housing Advisory Council (‘Advisory Council’) in place to work with the board or the board’s housing committee. Advisory Council members are, for the most part, experienced in the affordable housing field, many representing non-profit affordable housing providers. The effectiveness of the Advisory Councils, though, varies across the Banks. Fourth, shortcomings in management information systems have, at times, affected the quality of a Bank’s monitoring of projects awarded AHP funds. Fifth, an effective AHP responds to affordable housing needs identified through market research or by member institutions, Advisory Council members, and bank affordable housing and community investment staff. One way to assist those efforts through the competitive program would be for the Bank to tie the weighting of scoring criteria to identified affordable housing needs. Finally, the set-aside programs are popular with members, but we found shortcomings in the administration of the set-aside program at certain Banks, particularly with respect to income eligibility.

Evaluation Standards

FHLBanks with an effective AHP have a number of key strengths that were the focus of our AHP reviews and examinations. The factors we looked for in an effective AHP are:

- Measurable AHP Goals Addressing Identified Housing Needs;
- Engaged Board, Affordable Housing Advisory Council, and Senior Management;
- Comprehensive and Accurate Management Information System;
- Project Awards Based on Eligibility Standards and Responsive to District’s Affordable Housing Needs; and
- Approved Projects Monitored for Continued Eligibility for AHP Awards.

Measurable Goals Addressing Identified Housing Needs

Effective AHP programs identify and respond to critical affordable housing needs in the FHLBank’s district. Those needs may differ from district to district, or even state to state or city to city within a district. Each Bank directly or through its members and in conjunction with its Advisory Council should have developed an assessment of affordable housing needs and developed a plan for using the AHP to help to address those needs. In evaluating a Bank on this factor, we paid particular attention to the AHP implementation plans adopted by its board of directors with input from the Advisory Council.

An FHLBank should also ensure that the AHP fits into the Bank’s overall community support and housing finance mission. In the competitive application program, each Bank must allocate funds pursuant to the nine regulatory scoring criteria, but the Bank may be able to direct funds to critical

needs by the way in which it defines the scoring criteria and allocates points among the criteria. With the set-aside program, the Bank has even more freedom to define the criteria it will use to allocate its funding.

Engaged Board, Affordable Housing Advisory Council, and Senior Management

An effective AHP benefits from direction from the FHLBank's board along with knowledgeable and competent senior management. The board and program managers, in turn, need support from the board's housing committee and the Advisory Council comprised of representatives from community and not-for-profit organizations actively involved in providing or promoting affordable housing or community lending in the FHLBank's district. A Bank's AHP is likely to be better managed and therefore achieve better results if the Bank's management and board of directors provide support on a par with other operations of the Bank. Board housing committees and Advisory Council meetings are likely to achieve higher attendance rates if the board places a greater emphasis on the importance of affordable housing activities. Similarly, within the Bank, actions that can send strong messages about the importance that the Bank's board and senior management place on the affordable housing and community investment mission of the Bank include putting the CIO at a rank commensurate with other senior staff and ensuring there is a clear career development path for housing staff. While the board will not direct the day-to-day operations of the Bank's AHP and community investment programs, the board should be knowledgeable about the AHP at the Bank and elsewhere in the System.

In evaluating an FHLBank on this factor, we paid particular attention to minutes and agendas from board of director meetings, the role of the Bank's housing committee, the role of the Bank's Affordable Housing Advisory Council, and the background and responsibility of the Bank's CIO and his/her role within the management structure of the FHLBank. We also reviewed the conflicts of interest policies and practices at the FHLBanks. Member and Advisory Council involvement in determining the goals of the AHP is desirable. However, Bank and Advisory Council members may have competing interests as applicants or sponsors of projects seeking AHP awards. Although each assumes a fiduciary or public policy responsibility to the Bank and its AHP program, the needs of the member institution or the sponsor of an affordable housing project may not always be coincident with those that serve the long term interest of the Bank and its district. In particular, members of the board, its associated housing committee, or the Advisory Council, can influence Bank AHP policies, and they can exert influence on Bank staff who review and score applications. Inadequate governance policies or insufficiently strong conflicts of interest policies could induce the officers or staff of a cooperative to distribute the benefits in favor of certain members over others.

Comprehensive and Accurate Management Information System

A comprehensive and accurate management information system (MIS) is critical to the success of any activity. A management information system that accurately reflects the status of applications, ongoing projects, and measures of affordable housing needs in the district aids in effectively administering the AHP. The FHLBank's MIS should deliver to staff, management, and its board up-to-date information about all projects that have been awarded funding by the Bank. The MIS should

also facilitate review by staff, management, and the board to determine the extent to which the Bank is managing its projects effectively and the extent to which the projects are helping the Bank to meet the overall goals that the board has set for the district. In evaluating an FHLBank on this criterion, we paid particular attention to the thoroughness of data collection and data quality checks and whether the data management system readily provides reports for management and staff use. Each of these factors is a hallmark of a well-designed management information system.

An effective MIS for the AHP should have the ability to be integrated with other Bank information systems where appropriate. One example is the case of accounting for funds that are returned to the AHP. Another crucial feature of an effective management information system is the presence of adequate controls governing the underlying data residing in the databases. Controls help to ensure that data are not manipulated by those who might benefit from doing so. Still another feature of a successful management information system is that it captures all appropriate information necessary to ensure compliance with program requirements. Finally, an effective management information system will automatically generate reports at pre-specified times, for example, at project completion, in addition to facilitating the generation of reports on demand. The crucial test of any information system is its use. The system must be used to generate reports that get the attention of program managers, senior Bank management, and the Bank's board of directors.

Project Awards Based on Eligibility Standards and District's Affordable Housing Needs

Without effective policies and strategies regarding the awarding of AHP funds, even a well-intended AHP can find itself in difficulties. The FHLBank should have an open and transparent process whereby members can readily apply for AHP funds and understand the standards by which decisions on AHP awards will be made. The Bank's standards should be tied to affordable housing priorities in the Bank's district. The process of reviewing applications should ensure the Bank is using its AHP funds to meet critical housing needs and to help the Bank to guard against fraud, waste, and abuse in the program. Strong disbursement screens and requirements can help screen out fraudulent and ineligible participants from the list of applicants. Banks lacking well-conceived and designed disbursement policies and strategies are placing at risk the reputation of their institution and that of the Federal Home Loan Bank System. On the other hand, the application process should not be so difficult as to discourage eligible potential participants from applying for funds.

In evaluating an FHLBank on this factor, we paid particular attention to the initial application process, the Bank's competitive application scoring criteria, and the process by which the Bank ensured project eligibility. We also looked at the Bank's disbursement policies and the extent to which they were integrated with monitoring strategies, especially where funds are distributed in a series of funding rounds. Along with making the application process as easy to use as it can be, given the constraints imposed by the need to detect fraudulent applications and ineligible recipients, an effective disbursement policy will clearly state the penalties or sanctions to be applied should a recipient be found to be in violation of program rules.

Approved Projects Monitored for Continued Eligibility for AHP Awards

An effective monitoring system both assists in the day-to-day operation of the program and permits an audit to gauge the integrity of program operations in a meaningful way over time. A good monitoring system starts with a functional method for accumulating and tracking performance of project sponsors/recipients and also includes a management information system with enough edit checks to alert program staff of errors or inconsistencies. Such a system will also allow random queries of the database, storing information about projects to ensure that the FHLBank can independently monitor the integrity of program operations.

The Bank Act requires the Finance Board to “...ensure that advances are only used to assist projects for which there is adequate long-term monitoring to assure that affordability standards and other requirements of the [AHP] statute are satisfied.”¹¹ Compliance monitoring encourages integrity in the application process and assures that a program can demonstrate that it is meeting its public purpose.

In evaluating an FHLBank on this factor, we paid particular attention to the collection of sufficient information from and about program participants and sponsored projects to ensure that requirements of the program are being met at all stages: application, scoring, funds disbursement, project completion, and throughout the long-term monitoring period. While there will always be a certain percentage of projects that fail owing to unforeseen circumstances, the effectively managed program will use ongoing monitoring to deter and detect fraud and non-compliance with program requirements and identify problems in a timely manner. We also looked at the frequency with which projects were monitored. Projects that are effectively managed are normally monitored in such a way that problems can be detected early and corrections implemented promptly.

In any FHLBank’s AHP, there may be cases in which funds disbursed need to be repaid to the Bank by the sponsor. This can occur, for example, if an approved project never gets off the ground or if an approved project is modified and no longer qualifies as eligible for AHP funds. Another case is where a mortgage for a home in which the household received a set-aside grant is paid off or refinanced, resulting in repayment of AHP funds. Regardless of the cause, it is important that the Bank have an MIS to track de-obligated and recaptured AHP funds and effective policies and controls governing the handling of returned funds.

¹¹ 12 USC 1430(10)(j)(9)(C)

Chapter 3: Findings from System-Wide AHP Review

In the course of our reviews, we assessed each FHLBank's performance against the five performance criteria described in Chapter 2. A summary of our findings, including examples of strengths and weaknesses for each criterion, is provided in Table 8, which begins on the following page.

In those FHLBanks that our review team judged to be most effective, we found the Banks went beyond the minimum regulatory requirements to integrate the program into the operations and business profiles of the Banks. We saw some combination of an engaged board of directors; a skilled, knowledgeable and respected CIO; thorough and effective operational policies and procedures and follow-up; integrated MIS with current information on project compliance; a knowledgeable Advisory Council that effectively advocates for the AHP and the Bank's overall housing and community development mission; close attention to scoring issues and Bank priorities; and the integration of the AHP's symbolic and tangible role in the Bank's overall operations and philosophy. The better programs had user-friendly application processes, including web-based applications in a few Banks. Finally, skilled directors on the board also made a difference. We found that the AHP especially benefited when the Bank had public interest directors with first-hand housing experience as either not-for-profit or for-profit developers and builders of affordable housing.

The FHLBanks that our review team judged more critically met their statutory obligation to award 10 percent of net income to the AHP. In the less effective programs, however, the rationale for the allocation of points among the nine scoring criteria was not always clear; nor was the relationship between the district's affordable housing needs and the first and second district priorities. Our findings also suggest that at those Banks the board and senior management may have economized on resources allocated to the program. In some cases, the Advisory Council's access to and influence on the Bank's full board of directors was limited. In other cases, some board or Advisory Council members may have advocated conflicting interests rather than program needs. The board's housing committee may have had less stature than other board committees, or the CIO was at a lower rank than other program managers and had less experience in community development or affordable housing than peers in other Banks. The MIS was inadequate, either because of data inaccuracies or because the technology platform did not support a full range of necessary monitoring capabilities. Perhaps as a result, we saw some shortcomings in program management and project monitoring, particularly, but not exclusively, in the homeownership set-aside program.

TABLE 8
Indicators of Strong/Weak Affordable Housing Programs

Indicator	Strong	Weak
<i>Measurable AHP Goals Addressing Identified Housing Needs</i>	<ul style="list-style-type: none"> • Bank allocates time and resources to researching the nature and scope of housing needs in its district • Advisory Council integrated into needs assessment process • Scoring allocations aligned with district’s housing needs 	<ul style="list-style-type: none"> • Inconsistent and/or conflicting goals, reflecting member or Advisory Council member preferences rather than identified district housing needs • Scoring allocations do not align with housing needs
<i>Engaged Board, Affordable Housing Advisory Council, and Senior Management</i>	<ul style="list-style-type: none"> • AHP is part of a greater Bank business development effort • Bank has additional affordable housing and community investment programs to complement AHP • AHP is included in strategic planning process • Board allocates adequate resources for program management and operations • Advisory Council participates in developing AHP policies • Strong and effectively enforced conflicts of interest policies • CIO is part of senior management team and serves on executive management committees • CIO has access to Bank president • CIO has experience/credentials in affordable housing finance and development • CIO has sufficient staff and the staff is qualified in various areas of affordable housing finance and development 	<ul style="list-style-type: none"> • Board is not involved in AHP beyond minimum statutory and regulatory requirements • Board members lack housing expertise • AHP lacks adequate resources for its operations • AHP is treated as stand-alone function, which is not integrated with strategic planning or business planning • AHP treated principally as a cost center or tax • Bank does not have effective procedures for disclosing and managing conflicts of interest • Board rarely accepts Advisory Council recommendations • Advisory Council’s role limited to statutory and regulatory requirements • Board or Advisory Council members advocate conflicting interests rather than program or Bank district’s needs • CIO lacks suitable affordable housing experience and does not have experienced or credentialed staff in department

TABLE 8 (Continued)
Indicators of Strong/Weak Affordable Housing Programs

Indicator	Strong	Weak
<i>Comprehensive and Accurate MIS</i>	<ul style="list-style-type: none"> • Management information system that assists staff in program management and provides reports to keep board informed of program status • Complete and updated policies and procedures for all program operations • MIS helps to flag projects and/or sponsors with problems • Data accuracy and integrity promoted with controls 	<ul style="list-style-type: none"> • MIS does not capture necessary project information to monitor compliance over time • MIS unable to flag problematic sponsors/members over time • MIS unable to aggregate and summarize data above the project level, inhibiting Bank staff and board from getting the “big picture” on the overall effectiveness of the AHP • Unsound data entry controls • MIS does not produce alerts to appropriate staff if indicators of ineligibility entered into database
<i>Awards Based on Eligibility Standards and Responsive to Housing Needs</i>	<ul style="list-style-type: none"> • User-friendly and automated application • Consistent household income calculation/determination • Complete homebuyer files • Accurate database information • Thorough written operational policy and procedures • Criteria used to award AHP funds reflect goals of AHP and district needs • Strong internal control environment 	<ul style="list-style-type: none"> • Funds awarded for ineligible purposes • Non-documented exceptions to written scoring policies and procedures • Weak or nonexistent policies and set-aside procedures covering enrollment, household eligibility and subsidy disbursement • Income eligibility calculations vary among the applicants
<i>Projects Monitored for Eligibility and Effectiveness</i>	<ul style="list-style-type: none"> • Adequate number of trained, experienced staff • A fully automated and integrated AHP database • MIS that supplies regular progress reports for projects in progress and that can identify and track problem projects and sponsors • A watch-list to track noncompliant projects and those that demonstrate potential for noncompliance 	<ul style="list-style-type: none"> • Inadequate AHP MIS • Overly burdensome documentation for members and sponsors • Unsound controls for recaptures or repayments of AHP subsidies • Vague and unspecific procedures for monitoring and responding to project noncompliance

Chapter 4: Review Findings in Detail

Our findings indicate that the FHLBanks made AHP awards in compliance with the statutory requirement to allocate 10 percent of their net earnings to the AHP. However, we found strengths and weaknesses with respect to each of our five performance criteria among the 12 Banks.

Measurable Goals that Address District Needs

All of the FHLBanks conduct assessments of economic and community development needs in their districts. All have capable community investment staff and Affordable Housing Advisory Council members who help to identify affordable housing needs. Many Advisory Council members are active in the provision of affordable housing and knowledgeable about housing needs and conditions in the district. Many Advisory Councils also have local and state housing officials serving on them, who are able to provide data about housing needs assessments undertaken by state and local housing authorities and can offer ways to address those needs.

Some FHLBanks have identified needs for not-for-profit development capacity or for targeted housing, such as senior housing. The Banks' research has identified that some areas, particularly rural areas of their districts, lack a supply of potential sponsors or technical assistance providers, while others have less access to other sources of funding or lack the physical infrastructure to develop housing. Other needs identified by selected Banks include workforce housing, replacement of aging housing stock, tribal and other native populations, seasonal workers, housing with supportive services, two to four unit homeownership, rural housing, housing for large families, and housing for persons with mental disabilities. In many, but not all, instances, these needs have been reflected in the Bank's choice of first or second district priorities.

The goals of the FHLBanks' affordable housing programs should be reflected in the criteria used for allocating funds among the many requests the Banks receive. In the competitive application program, these criteria, particularly the first and second district priorities, are scoring components that the Banks can set within regulatory parameters, which allow the Banks to allocate 40 out of the 100 points used to score, and ultimately award, projects. The allocation of funds under the competitive and set-aside programs at the Banks is a relatively passive process, however, in that the AHP funds are awarded according to applications received from members, rather than as a result of direct outreach on the part of the Banks. As a result, the success of the Banks in addressing district needs is a function of the Bank's choice of first and second district priorities, the Bank's allocation of points among the nine scoring criteria, and member sponsorship of projects that are responsive to critical housing needs in the district.

While the current regulatory scoring criteria provide the FHLBanks some latitude to target AHP funds to needs, the scoring criteria do involve rigidities that are not easily overcome. For example, certain of the scoring criteria, particularly "Targeting," work against economic integration or mixed-use projects. Similarly, workforce housing – the need for affordable housing for essential workers, such as teachers and police in areas with high housing costs – can require very deep subsidies that are difficult for projects to obtain under the "AHP Subsidy-per-Unit" scoring criterion. Projects that are trying to promote innovative or energy-efficiency construction techniques, which are more expensive upfront, may also score poorly under the "AHP Subsidy per Unit" scoring criterion.

Table 9 below lists the first and second district priorities of each FHLBank, the points allocated to each, and the total points allocated to the two priorities. As the table indicates, each Bank allocates more than the minimum 10 total points between its first and second district priorities required by regulation. However, no Bank allocates the maximum permissible 50 points between its first and second district priorities. Only three Banks allocate even 40 points between the first and second district priorities, which suggests that the Banks may not be taking full advantage of the scoring flexibility that they have. Although a district’s affordable housing needs could be captured in one of the other seven scoring criteria, in our reviews we did not find any Bank that allocated more than 25 points to any criterion other than the “First District Priority.”

**TABLE 9
District Housing Needs and Priorities**

FHLBank	First District Priority	Points Allocated	Second District Priority	Points Allocated	Total “Priority” Points
Atlanta	Rural, urban, economic diversity	35	(1) Owner-occupied rehabilitation, or (2) Projects affected by hurricanes	5	40
Boston	First-time homebuyers, member financial participation, rural, economic diversity	30	Use of a community land trust or similar providing reversionary interest to sponsor or government agency	5	35
Chicago	Special needs, community development, first-time homebuyers, member financial participation, rural	25	Mixed-income housing in higher cost areas.	5	30
Cincinnati	Special needs, first-time homebuyers, member financial participation, rural, urban	40	Housing in Appalachia	5	45
Dallas	First-time homebuyers, member-financial participation, rural	19	100 percent of units for special needs	5	24
Des Moines	Community development, community involvement	8	Homeownership units targeting households at or below 60 percent of area median income	10	18
Indianapolis	Special needs, community development, member financial participation, community involvement	23	Projects with small number of units, amenities, close to public services and transportation	12	35
New York	Economic diversity, in-district projects	10	Rental projects nearing completion; homeownership training with homebuyer projects	15	25
Pittsburgh	Special needs, first-time homebuyers, rural, economic diversity	27	(1) Rentals with 3+ bedrooms, or (2) Operating cost efficiency design and construction	13	40
San Francisco	Special needs, first-time homebuyers, rural	16	Project readiness	7	23
Seattle	Special needs, first-time homebuyers, in-district projects	24	(1) Preservation of expiring affordability restrictions, (2) Rental units with 3+ bedrooms, (3) Native American housing, or (4) Housing for seasonal or migrant farm workers.	14	38
Topeka	Special needs, first-time homebuyers, member financial participation, rural	20	Community support from nonprofit, government, or community organizations.	17	37

In an effective AHP, identified housing needs should be reflected in the district priorities. However, there is no requirement that an FHLBank conduct a formal affordable housing needs assessment. As such, during our review, Finance Board examiners and community development specialists had to obtain information about the housing needs of a Bank's district from various sources, such as discussions with Bank staff, information sent in by the Banks, and information contained in the Banks' community lending plans. Housing needs assessments in community lending plans, though, are elective and not all Banks include them. We concluded that Banks that do not conduct and document a formal affordable housing needs assessment should do so. We would also expect Bank staff, Bank management, Advisory Council members, and board members to strive to be as responsive as possible to affordable housing needs in the district in establishing their scoring guidelines and in making AHP awards.

Engaged Board, Advisory Council, and Senior Managers

The FHLBank's board of directors has the responsibility for overall policymaking regarding the Bank's AHP and for ensuring that the AHP operates in compliance with the regulations. Effective boards are familiar with the AHP statute and regulation and their objectives. An effective director's involvement in setting the program's strategic direction is objective and conducted in an impartial manner without attempting to steer other directors or Bank management to personally-favored areas or projects.

The type and content of board reports about the AHP vary from Bank to Bank, depending upon each board's level of delegation to its housing committee and to management. The thoroughness of board reporting varied among the Banks. Some Banks regularly provide detailed information on regulatory and policy exceptions. Others do not provide this information unless specifically requested to do so by the board or senior management.

Attitudes Among Board Members and Senior Bank Management Toward AHP Vary

There is wide variability in board and senior management attitudes toward the AHP. A few FHLBanks have boards and senior management that are actively engaged in and committed to their affordable housing programs. Some board members and senior Bank managers in our surveys, however, view the AHP principally as a tax and a drain on earnings. One person we spoke with indicated that with the exception of the CIO, that Bank's management viewed the AHP as a tax. Another put his remarks in context by reminding us that "AHP is not a money maker," while yet another told us to keep in mind that AHP was "not a profit center."

Some FHLBank managers and board members view the AHP as an extension of their community support activities. At others, the view among board members and senior managers is that compliance with the regulations is the main objective of the program. Further, compliance with the regulations is viewed by some as an indicator of a well-run program. As one of our interviewees put it, "We will do [the AHP] well by following the rules."

We found that there was limited awareness among FHLBank senior management and the board of other FHLBanks' affordable housing programs. Some reported knowledge of the people working at

the other Banks, but most of those we spoke with reported very little knowledge of other Banks' programs. Some reported knowledge based on prior work experience, or based on email traffic or conferences.

Another factor we reviewed was the incentive structure for awarding compensation and bonuses to FHLBank presidents. An examination of the incentive criteria, as summarized in Table 10, reveals that community investment activities, where incentives for the AHP might be expected to reside, are given zero weight in the incentive structure for six of the Bank presidents. Only five Banks give these activities weight.¹²

**TABLE 10
Incentive Criteria for FHLBank Presidents' Salaries**

FHLBank	Earnings	Asset/Program Growth	Community Investment	New Membership	Other/ Discretionary Factors
A	30%	40%	10%	0%	20%
B	65%	0%	10%	0%	25%
C	40%	40%	0%	0%	20%
D	40%	60%	0%	0%	0%
E	35%	35%	25%	5%	0%
F	45%	50%	5%	0%	0%
G	50%	50%	0%	0%	0%
H	Determines size of pool	14-20%	27-45%	22-35%	0%
I	100%	0%	0%	0%	0%
J	54%	36%	0%	0%	10%
K	40%	40%	0%	0%	20%

The Board's Housing Committee Plays an Important Role in Overseeing AHP

Each board has a housing committee, or equivalent, that takes primary responsibility for board-level oversight of the AHP and other community development activities of the FHLBank. Those boards that have directors with significant experience in affordable housing issues are generally more involved and more effective in evaluating and setting goals for that Bank's AHP. We found that when a Bank has housing industry directors on its board, the AHP benefits from feedback on the program and information about industry changes in housing production and finance by having access to practitioners with credibility and influence in the housing industry.

¹² At time of publication, we did not have data for one Bank.

The experience and qualifications of the directors can significantly affect a board's effectiveness. Many directors on the housing committees are knowledgeable about the AHP. However, some of the committee members indicated in interviews that they were not aware of the reason they had been assigned to the housing committee and some held the committee in lower esteem than other board committees, such as the audit committee, the risk management committee, or the executive committee. When we asked about specific qualifications required of board members to serve on board housing committees, many stated that the chairman looked to appoint people with interest and knowledge of housing issues. In some cases, however, there were no specific qualifications as prerequisites for housing committee service. One person stated that appointed directors have more interest in serving on housing committees than do elected directors. The chairman of one housing committee stated his desire that more of the board had interest in and knowledge of housing issues. The most common weakness we observed was in the knowledge of housing development or finance, which may be influenced by, among other factors, director turnover.

All of the housing committees meet regularly with their Affordable Housing Advisory Councils. However, we observed at least two shortcomings in the meeting schedules of some of the committees. One housing committee only met in joint session with the FHLBank's Advisory Council. This practice makes it difficult for the housing committee to act independently on a range of AHP issues or to evaluate problem projects or sponsors. At another Bank, the housing committee used to meet only prior to an Advisory Council meeting, a practice that may have indicated the committee was acting without first obtaining input from the Advisory Council. That practice has subsequently changed.

Additional Bank Resources Are Being Allocated to the AHP

At a minimum, the board of directors and senior management are responsible for ensuring that the Bank's AHP has sufficient resources, including financial, staffing, and information resources, to operate the AHP in compliance with the AHP statute and regulation and with any operational objectives established by the FHLBank. They should also endeavor to ensure the program operates efficiently, effectively, and beyond minimum requirements.

At a number of Banks, the interest in AHP-related activities appears to be growing. A number of factors may be responsible for this heightened interest, including new leadership that focuses more on housing issues, a realization of the political and member services benefits of the AHP, or previously critical Finance Board reports of examination. All of the FHLBanks have increased resources in the community development area during the past five years, as would be expected given the increase in AHP funding during that period.

There are still areas for improvement. While some of the senior managers and directors with whom we spoke mentioned their highly talented, committed community development and affordable housing staff, there were also reports that those staff felt undervalued at a number of the FHLBanks. One Advisory Council member complained that the Bank's affordable housing staff was fewer in number than at a number of other FHLBanks, and that the Bank's management and board viewed the AHP staff as an additional expense and a drain on the bottom line. Resource allocation differs significantly from Bank to Bank. Currently, one Bank has 22 employees in the community

investment and affordable housing area. Most have less than half that amount, and another has only five. There may be valid reasons for differences among the Banks in the resources allocated to the AHP, not the least of which are differences in program size. However, the rationale for some of those differences was not readily apparent. Some Banks may not have devoted adequate resources to operate their AHP effectively, even after taking into account the Bank's size, the size of the district, and the Bank's community development activities other than affordable housing.

Skilled Program Management is Critical to Success of an FHLBank's AHP

We found that the qualifications and the status of the CIO were key determinants as to whether the program would be well managed and successful. Nine of the 12 CIOs have previous industry experience in affordable housing or real estate finance, and most of the community investment departments have senior staff with solid industry experience. A number of AHP staff at the Banks, including several CIOs, has nationally recognized certifications as Housing Development Finance Professionals and Economic Development Finance Professionals from the National Development Council.

A measure of the CIO's status at the FHLBank is the extent to which the CIO has the budget not only for staffing, but also for Advisory Council activities, outreach and technical assistance to members and sponsors, and other activities that enhance the Bank's influence and prestige in the affordable housing community. In our review and interviews with Bank leadership we concluded that five of the 12 CIOs have greater status within their respective Banks. Those CIOs are part of the Banks' senior management, rather than subordinate to some other program managers in the Bank.

Affordable Housing Advisory Councils Influence AHP

By statute, each FHLBank appoints an Affordable Housing Advisory Council of seven to 15 members drawn from the affordable housing community. The Advisory Council meets at least quarterly with the members of the Bank's board of directors, advises the Bank on housing needs in its district and also prepares an annual report to the Finance Board on the Bank's low-income housing activities. However, the full boards of some Banks do not meet regularly with their Advisory Councils. Some delegate their Advisory Council meeting to just the housing committee of the board. At one Bank, the Advisory Council has never met with the full board of directors.

Our survey of Advisory Council members indicated that they are an experienced group, with 74 percent having been involved with affordable housing for more than 10 years. The majority of respondents to our survey indicated that they worked for non-profit organizations. Based on our review, the Advisory Councils influence the direction of the AHP in virtually all of the FHLBanks. Eighty-five percent of respondents to our survey stated that the Bank's board of directors adopted the Advisory Council's recommendations for AHP policies all or most of the time, while 87 percent characterized the relationship between the Advisory Council and their Bank's board of directors as either very good or good.

In only a few cases were we critical of the role of the Advisory Council or its members. In one instance, individual members of the Advisory Council sought changes that appeared to favor their

own housing interests, rather than the interests of the district as a whole. In a second case, the Advisory Council recommended interpretations of regulatory requirements, primarily scoring criteria, which appeared to go beyond a reasonable interpretation of the scope of the regulation.

A few FHLBanks reported that they had difficulty securing sufficient attendance at meetings of the Advisory Council. One Bank reported that it has had difficulty securing more than 50 percent attendance levels at meetings of the board with the Bank's Advisory Council. Another Bank reported that its Advisory Council had "attendance issues." Whether this is related to the fact that only five Banks provide a stipend for Advisory Council participation is unknown. Some Banks have strengthened their recruiting practices to get a stronger Advisory Council while other Banks now remove members who do not regularly attend meetings.

Conflicts of Interest Policies Exist at Each FHLBank

Finance Board regulations require the FHLBanks to adopt conflicts of interest policies for directors, Advisory Council members, and Bank employees. All Banks have conflicts of interest policies.

The FHLBanks identify potential AHP-related conflicts of interest through various means. Several of the Banks make direct inquiries of staff and directors at the time the Bank receives an AHP application. Several other Banks ask staff and management to disclose any potential conflicts of interest after all the applications have been received, and ask board members to disclose any conflicts prior to their approval of the applications. We also found that some Banks require directors to identify in detail their related interests, which are compared to the applications by Bank AHP staff to identify potential conflicts.

Other than through self-identification, however, the record of identifying potential conflicts of interest was mixed. In our reviews, for example, we questioned unique structures for AHP funding that involved board members, AHP funding to members contributing significantly to the FHLBank's earnings, and funding directed to organizations associated with Advisory Council or board members. The Board and senior management should be cognizant of potential conflicts of interest and establish an environment in which all members and sponsors are treated equitably.

Comprehensive and Accurate Management Information Systems

The management information systems at the FHLBanks are in a state of flux. At some Banks, the management information systems have recently been upgraded. Most, however, have yet to fully upgrade their systems. Because the AHP is, in terms of objective financial and operational standards, a relatively minor part of the Banks overall operations and does not directly affect the Bank's safety and soundness, there may be a tendency to place the AHP behind budget needs for other Bank operations that are more directly related to safety and soundness.

Most of the FHLBanks would benefit from upgraded management information systems for the AHP. Only a few Banks use fully automated and integrated systems to manage information for AHP projects. Manual data entry and manipulation is likely to be responsible for some errors in the Bank's AHP databases. During our review, we observed one Bank that needed to reconcile the AHP

and other databases to the Bank's general ledger on a regular basis. The Banks' boards should ensure that adequate resources are made available for timely upgrades to staff and systems to facilitate the successful operation of the AHP.

Adequate controls governing the underlying data are also crucial to prevent data manipulation. Controls over access to the management information system, and thus the accuracy and integrity of data input, varied among the FHLBanks. In some instances, many or all of the AHP department's personnel had access to the management information system and could input, delete, or change data. At other Banks, only a few employees had the authority to enter and change data. Enhanced controls at some Banks would benefit program operations.

Still another critical feature of an effective MIS is the capture of information necessary to ensure compliance with program requirements. An effective management information system will normally be capable of automatically generating reports at pre-specified times, for example, at project completion. An effective MIS should also facilitate report generation on demand. These features relieve from staff the burden of manually manipulating data, which can reduce the chances for errors to be introduced into the system. Automatically generated reports can also act as early warning signals to enable staff to catch instances of noncompliance in a timely manner.

Finally, the crucial test of any information system is its use. The system must be used to generate reports that get the attention of program managers, senior Bank management, and the Bank's board of directors. The thoroughness of board and management reporting varied among the FHLBanks. Some boards may not be receiving sufficient information to perform their oversight role. For example, at one Bank we found that information on the AHP presented to the Bank's board of directors did not provide a complete picture of the current status of all projects receiving AHP funds and therefore limited the Board's ability to determine whether the AHP was operating within established guidelines. More generally, Banks may improve their AHP operations by supplying to their AHP staff, senior management, and boards of directors on a regular basis automated reports detailing relevant program information.

Project Awards Based on Eligibility Standards and Responsive to District's Affordable Housing Needs

The success of the AHP ultimately rests upon the willingness of sponsors and members to use the program. Consequently, user-friendliness is an important component of the application process. We found that all the FHLBanks have application materials, including the scoring criteria, available from their website, along with information on accessing the Bank's homeownership set-aside programs. It is also possible for households to determine their eligibility for the set-aside programs by going through some Banks' websites. At least four Banks already have web-based applications with built-in controls and prompts, which facilitate the submission of a complete and accurate application. All of the Banks offer technical assistance to applicants prior to application and also to applicants whose projects are not approved. Some Banks also conduct post-award conferences to apprise successful applicants of their responsibilities in complying with Bank policies and procedures as their projects move forward.

The FHLBanks often need to balance several goals. They must respond to member, sponsor, and district housing needs yet ensure that at all stages in the process – from the awarding of applications through the end of the compliance monitoring period – the AHP funds are used for eligible purposes. The Banks are responsible for effective program compliance management, yet they must conduct day-to-day operations in a manner responsive to the needs of the AHP award recipients.

The fair and impartial selection of award recipients according to regulatory criteria and regulatory compliance in the disbursement of funds form the cornerstone of any AHP program – be it the competitive application program or the set-aside program. In the competitive application review process an FHLBank must ensure that funds are allocated to the most qualified recipients according to pre-defined standards. It is at this beginning stage where existing or potentially ineligible uses of the funds can first be identified and prevented.

The application review process admittedly involves some subjectivity. For example, the project feasibility review process requires staff judgment on whether the AHP subsidy is needed and whether the project, if funded, will be feasible. However, clear policies and procedures should provide application review staff with guidance on how much latitude they have to make judgments. FHLBank policies should be transparent and specify the conditions under which a relaxation of application standards is warranted. Further, the reasons for a departure from a standard in the guidelines should be transparent and well-documented.

In our review, we found that some Banks may need to enhance their application review policies and procedures as well as their staff capacity in the application review process. At one FHLBank we found there was inadequate board guidance on approval of projects for funding, standards for exceptions to feasibility guidelines, and disposition of any cases of non-compliance. In some instances, deficiencies persisted even after examiners had called these issues to the Bank’s attention during a prior examination.

In the scoring of competitive applications we noted a significant number of cases of non-compliance with regulatory standards. In only two FHLBanks were the scoring criteria as defined in the implementation plans fully in compliance with the AHP regulation. Some of the scoring criteria that were incorrectly applied included the use of donated or conveyed government owned property or other donated properties, sponsorship by a not-for-profit organization or government agency, income targeting, the promotion of empowerment, and the definition of “special needs.”¹³

Some of the incorrect use of scoring criteria may indicate a misunderstanding over scoring requirements in the AHP regulation and how the criteria must be defined and applied. However, where doubt exists, it is incumbent upon the Banks to seek interpretive guidance from the Bank’s legal counsel and, if there are unresolved ambiguities, from the Finance Board.

¹³ Examples of the types of problems we found include failure to award points for projects using a significant portion of property conveyed by the federal government or other entity at or below market value, “special needs” not meeting regulatory definitions, awarding points for projects that promote personal rather than economic empowerment, and awarding points for projects that are located near specified services instead of having those services as an integral part of the housing project or affiliated with it.

In other situations, the program deficiencies can be traced to inadequate board oversight or result from insufficient information received by the board. In one case, the information presented to the FHLBank's board of directors did not give the board the current status of all projects receiving AHP funds and therefore limited the board's ability to determine whether the AHP was operating within established guidelines.

In addition to effective application review policies, the FHLBanks need to have effective disbursement policies. The point when AHP funds are about to be disbursed to a project presents a critical opportunity for Banks to assure that funds are being used for eligible purposes. On the other hand, disbursement practices should also respond to the project financing needs of member applicants and project sponsors.

The FHLBanks employ different disbursement approaches based on the level of risk a Bank is willing to assume that a project may not comply with the AHP regulation at completion. A noncompliant use would require a recapture of the AHP funds. Some Banks will disburse funds for prospective actions, such as providing purchase money at the time a loan is closed. Other Banks use the AHP funds to reimburse expenditures after these are incurred, subject to a review to assure that the use is eligible under the AHP.

One FHLBank does not disburse funds until after a project is completed, all expenses are paid, and initial project monitoring confirms project compliance. While this practice increases the likelihood that a project will comply with program requirements, compliance comes at a cost to the sponsor and the AHP fund. In some cases disbursement has been delayed for years, resulting in a backlog of awarded but un-disbursed funds. The practice of "back-end" disbursement has resulted in increasing project costs since the sponsor must secure interim financing to fill the gap. Ultimately, the additional costs may need to be covered by the AHP, thus calling into question the efficient use of the funds and undermining a touted national characteristic of the AHP as "front-end" leverage for additional funding sources.

Disbursement problems in the FHLBanks' set-aside programs

Our review of the affordable housing set-aside programs leads us to believe that there are many areas where the administration of these programs could be significantly improved. In general, we found that there were a number of instances where auditors uncovered recipients whose income was greater than that allowed under the program (80 percent of area median income.) There were also cases where recipients had questionable eligibility. For example, we found instances in which full-time students had received set-aside funds. In some cases they were qualifying as income eligible while they were working part-time or not at all while still in school – with the expectation that upon graduation they would obtain jobs that would put them above the program's income limits. While there may be special circumstances in which loans to full-time students may be justified, the practice raises concerns that set-aside funds were used to assist individuals whose income eligibility was a temporary condition.

We found particular issues with respect to the awarding of set-aside funds. Although some were relatively minor, others indicate more serious problems with FHLBank management and oversight of the program.

- *Individuals receiving cash back at closing.* At one FHLBank, we found that in over half of the cases we reviewed homebuyers received cash back at closing. It is essential that AHP funds are used for downpayment, closing costs, and counseling, not for the household's personal use.
- *Databases at a number of FHLBanks had a large number of errors.* For example, at one Bank we examined recipient files to document basic eligibility and subsidy distribution. We found serious weaknesses in that documentation, making it impossible to determine the date that recipients were enrolled in the set-aside program. In this case, we found that the Bank had relied on members and non-profit administrators for verification of program eligibility and had not provided sufficient or proper guidance for those third parties to fulfill their responsibilities.
- *Inadequate board and management review of the administration of the program.* At a number of FHLBanks, we were not able to verify consistent review by the board and management of the administration of the Bank's set-aside program.
- *Individuals receiving funds that were over the income limits established in the program.* Some individuals qualified for set-aside funds based on incomes in years prior to when they were enrolled in the program, while other households had their incomes calculated incorrectly or measured by an incorrect income standard.

A few FHLBanks have problems with the databases used to manage their set-aside programs. In addition, while some Banks need to strengthen their written policies and procedures supporting their programs, others need to adhere in practice to their written procedures.

Approved Projects Monitored for Continued Eligibility for AHP Awards

Project monitoring should provide a level of assurance to the FHLBank that each project is complying with the requirements of the regulation and the commitments contained in its AHP application, as applicable. Project monitoring occurs at all stages from application approval to project completion, and throughout the retention period, and involves project owners/sponsors, members, and the Federal Home Loan Banks. The regulations set specific monitoring requirements at each stage of a project's life. At each stage, a project must meet eligibility requirements, such as income-targeting, rental affordability, and any other regulatory criteria, such as special-needs units committed to in the approved application.

An FHLBank should manage its inventory of projects based on each project's stage in the project's AHP lifecycle:

- Project awarded funds;
- Subsidy disbursed;
- Project in process;
- Project completed; and
- Retention period (five years for owner-occupied and 15 years for rental units).

A successful monitoring program depends upon an accurate and competent MIS and effective communication among staff. A fully integrated MIS that links projects and sponsor information at all levels facilitates effective monitoring. At one FHLBank we found that staff responsible for long-term monitoring were preparing to take action against a sponsor that was not in compliance with regulatory requirements while, at the same time, other staff were disbursing additional subsidies for another approved project of this same sponsor.

Our reviews indicated that most FHLBanks had incomplete or late documentation for some projects at various stages of monitoring. Most problems stemmed from sponsors or members not submitting information in a timely manner, lack of staff follow-up to resolve inadequate or incomplete submissions, or projects not meeting targeting commitments or delivering services outlined in an application.

Several FHLBanks, however, have expanded their monitoring to take greater account of risk factors, such as sponsor experience or special project characteristics. Many supplement their regulatory monitoring requirements with more frequent reviews of projects with higher risks. Most, but not all, of the Banks restrict further disbursements if project sponsors or members are not current in providing documentation. A number of Banks also prohibit such sponsors or members from submitting additional applications until the documentation is brought up to date. Most Banks have established guidance for implementing such actions. However, at some Banks, policies and procedures do not address this process.

Finance Board regulations permit the FHLBank to take one of three alternatives in the case of project noncompliance:

- 1) The Bank may modify the terms of the original application subject to the limitations of the AHP regulation;
- 2) The project sponsor may cure the noncompliance by correcting it; or
- 3) The Bank may either recapture the subsidy from the project sponsor or member or replenish the AHP fund itself.¹⁴

We found some FHLBanks could improve their monitoring by adopting more detailed procedures for dealing with project noncompliance. In one case, the Bank's policies provided that the Bank would cure or remedy a noncompliant project in accordance with the AHP regulation, but did not establish a line of authority for such action. A number of Banks with a watch list or similar report did not have a clear process for placing projects on, or removing projects from, this report. One Bank manually tracks and reports project noncompliance, but its policies do not specify the process or controls over it. The Bank is correcting that deficiency in response to a recent exam finding.

Since 1998, three FHLBanks have reimbursed the fund for improper disbursement by the Bank. Finance Board regulations allow the Bank to suspend or bar a member or sponsor from further participation in the AHP if the member or sponsor regularly or egregiously violates the requirements of the program. However, the regulation does not allow the Banks to charge fees or assess financial penalties to punish noncompliance by members or sponsors.¹⁵

¹⁴ 12 CFR§951.12(c)(1) and 951.12(c)(3).

¹⁵ 12 CFR§951.12(f)(1).

Though identified instances of fraud are not prevalent, several FHLBanks have had experiences with fraudulent or problematic sponsors. In one case, the sponsor was submitting applications for almost identical projects in multiple rounds, using fraudulent costs. If the Bank had a procedure for reviewing and comparing applications of sponsors in multiple rounds, or thoroughly reviewed the reasonableness of project costs, then the Bank would have caught the problem before it approved the projects and disbursed funds to them. The Bank did recapture the full amount of AHP subsidy from the sponsor. A second Bank continued to disburse subsidies to a sponsor with multiple projects although none of the projects were proceeding adequately to completion. Another Bank banned a sponsor that had attempted to defraud the AHP in several projects.

Chapter 5: Conclusions and Recommendations

Our review of the FHLBanks' Affordable Housing Programs found that the FHLBanks have contributed substantially to affordable housing over the years. Many individuals commented to us that the Banks have become a significant source of affordable housing financing in their communities. Nevertheless, there is room for improvement at each Bank.

We offer the following recommendations.

- 1) Each FHLBank should work to integrate the AHP into the Bank's overall community development and housing mission vision for the district. Toward this end, the AHP funds allocated should, to the extent practicable, be directed toward areas of need identified in the district. Banks should take full advantage of their ability to adjust scoring criteria in the competitive program to ensure that projects awarded funds address district needs.
- 2) More commitment and involvement by boards of directors, along with strict conflicts of interest policies will help to ensure that each FHLBank's AHP gets the resources and attention it needs to maximize the program's effectiveness. Bank boards may want to consider salary incentives for senior executives of the Banks that are tied, in part, to an independent assessment of the effectiveness of the Bank's AHP.
- 3) Improving the management information systems associated with the AHP will better enable the FHLBank staff, senior management, and board to monitor the progress of the Bank's AHP. Specifically, the MIS reports should be able to alert program staff to potentially ineligible recipients, track problematic sponsors and members over time, and provide aggregated statistics that would better enable the Bank to determine the effectiveness of the AHP.
- 4) The FHLBanks and their members need to devote more attention to the management of their set-aside programs to ensure that the awarded grants do not violate eligibility standards. They must pay particular attention to applications for set-aside awards from individuals who would qualify for a mortgage only if the loan were co-signed by another party or who could draw down the award only after securing income above the program's limits.
- 5) The FHLBanks' management and boards should enhance their review of funded applications and set-aside recipients to ensure that the program complies fully with the Bank Act, Finance Board regulations, and other applicable laws and regulations.
- 6) FHLBanks should develop a robust methodology to calculate household income to determine applicant eligibility. Some of the Banks do not require the same information to verify recipient income as the members providing the mortgage loan. Further, a number of different methodologies may be used to determine the relevant time period for which to qualify recipient eligibility. Banks must establish and publicize appropriate standards for determining income eligibility so that all members are adhering to those standards.

Appendix 1: Sources and Methodology

In preparing this report, we relied on three principal sources of information. First, in 2003, we requested Affordable Housing Program stakeholders – project sponsors, housing committee members, Advisory Council members, and financial institutions that are members of a Federal Home Loan Bank – to respond to a program survey. We also conducted interviews of stakeholders during our review of the Banks’ affordable housing programs in 2003. Second, during Finance Board visits to the Banks in 2003, we reviewed Bank AHP policies and procedures, community lending plans, and Advisory Council reports. Third, in 2003 and 2004 we conducted on-site reviews and examinations of the Banks’ affordable housing programs.

Interviews and Surveys

Interviews with AHP Stakeholders

We conducted on-site interviews with FHLBank presidents, general counsels, housing committee members of the Banks’ boards of directors, community investment officers, affordable housing personnel, and Affordable Housing Advisory Council members. In those interviews we sought information about their views on the AHP, including their knowledge of the affordable housing programs at other FHLBanks; their background in housing or community development issues; and other matters of interest to AHP stakeholders.

Surveys

During 2003, we sent requests to participate in our web-based survey to AHP stakeholders, including financial institutions that are members of an FHLBank, AHP project sponsors, Bank Affordable Housing Advisory Council members, and directors serving on board housing committees. The overall response rate was only 11.4 percent – so we do not treat the survey results as statistically reliable or representative. However, the survey responses yielded insights or helpful information about the key characteristics of the AHP, trends, and issues that might require attention.

The highest response rate was from Advisory Council members. More than 40 percent of Advisory Council members responded to the survey. The lowest response rate was from members of the boards’ housing committees, for which the response rate was less than 10 percent.

The surveys asked questions about the respondent’s organization, the organization’s participation in the AHP, suggestions to improve the AHP, and other considerations. However, the surveys were also customized by type of respondent. For example, member financial institutions were asked about their experiences with documentation and monitoring, the AHP set-aside program, and the interaction between the AHP and the Community Reinvestment Act. Sponsors were asked about the extent of their experiences with the AHP and the comparison between the AHP and other housing programs with which they were familiar. Advisory Council members were asked about their views on the role of the Advisory Council and their influence in identifying affordable housing needs in the district and influencing the Bank’s policies on the use of AHP subsidies.

Document Review

As part of our 2003 AHP review, we evaluated the FHLBank board minutes and AHP Implementation Plans, Advisory Council reports, and AHP policies and procedures.

Reviews of Board Minutes and AHP Implementation Plans

In the course of the 2003 horizontal review, Finance Board examiners reviewed each FHLBank's AHP Implementation Plan and their board minutes for discussions and decisions regarding the Bank's AHP. Examiners paid particular attention to the details of the Bank's operational procedures to be used in implementing the AHP.¹⁶

Reviews of Advisory Council Reports

The Federal Home Loan Bank Act requires each Bank to set up an Advisory Council of 7-15 persons drawn from community and nonprofit organizations actively involved in providing or promoting low- and moderate-income housing in the Bank's district.¹⁷ The Advisory Councils are required to submit an annual report to the Finance Board with an analysis of the low-income housing activity of the Bank by which it is funded.

Reviews of FHLBank AHP Policies and Procedures

We reviewed the FHLBanks' protocols for determining project compliance with the AHP regulation and other commitments contained in its AHP application at four monitoring stages: (1) funds disbursement; (2) semi-annual reviews, for projects under construction or rehabilitation; (3) initial monitoring at project completion; and (4) long-term monitoring after project completion. We reviewed the Banks' processes for tracking whether sponsors or members were compliant with the reporting requirements and each action taken by the Bank in cases of noncompliance. We looked at how the Banks identify, track and report project noncompliance and implement regulatory remedies. We paid particular attention to whether the Bank had the tools to anticipate and correct potential noncompliance and how a Bank handled problem sponsors or members.

On-Site Reviews and Examinations

Horizontal AHP Review During 2003

The Finance Board undertook a "horizontal review" of all 12 Banks' Affordable Housing Programs during 2003. A horizontal review comprises visits to each FHLBank to assess a particular program or risk area. In the first six months of 2003, we visited each Bank for purposes of reviewing its AHP program. The purpose of the review was to:

¹⁶ See 12 CRF §951.3(b). The AHP plans are required to be submitted to the Finance Board within 30 days after their adoption by the Bank's board of directors.

¹⁷ 12 USC 1430(j)(11).

- Gather information about the management and operations of the AHP at each Bank;
- Identify effective management and operating practices at the Banks; and
- Identify impediments in regulation or practice to effective AHP management and operations.

The review of the AHP of the Federal Home Loan Banks was designed to assist the Finance Board in directing and developing its supervisory and regulatory initiatives. In the course of our review, we visited each of the Banks and interviewed key members of the Banks' boards and management.

As explained above, we also reviewed FHLBank documents, particularly with respect to board policies, practices, and decisions. However, these activities did not constitute an examination of the Bank.

Examinations and Analyses During 2004

During the course of 2004, we conducted AHP examinations at all 12 Federal Home Loan Banks. This report, while not a report of examination, does convey in general terms some of the issues that arose during the course of these examinations. Those issues include matters of compliance as well as assessments of program effectiveness.

Some of the examinations focused on the competitive application program. Examinations of other Banks emphasized the set-aside program. Some of our analyses required additional data, which were requested of the FHLBanks.

During 2004, we also examined the Finance Board's affordable housing database, and developed a revised database that we think will result in a more reliable, usable database containing elements that will yield insights on the effectiveness of the programs at each of the Banks. As part of this work, we reviewed each FHLBank's AHP database to understand better the specific data elements collected by each Bank.

Appendix 2: Survey Results

As part of our horizontal review, we conducted a survey of AHP stakeholders. Those receiving the survey were sponsors, members, Affordable Housing Advisory Council members, and members of the housing committees of the FHLBanks' boards of directors. In total, we mailed out 5,814 invitations to participate in our web-based survey. Table 11 shows the number of requests for participation by type of respondent, and the number of actual participants.

TABLE 11
Affordable Housing Program Horizontal Review Survey

	AHP Sponsors	FHLBank Members	FHLBank Affordable Housing Advisory Council Members	FHLBank Board of Directors' Housing Committee	Total
Requests for Participation	3,591	1,905	174	144	5,814
Participants in the Survey	416	163	71	12	662

Summaries of the surveys, organized by type of respondent, are presented below. Owing to the low number of participants among the members of the housing committees, we do not include summaries of their responses.

Sponsor Survey Results

We mailed letters inviting participation in a web-based survey to 3,591 sponsors. Of these, 416 participated. The majority of sponsors completing our survey were non-profit organizations, nearly half of which had annual operating budgets exceeding \$1 million. Although almost four times as many rental units were funded in 2004 compared to owner-occupied units, sponsors responding to our survey were roughly equally split between those serving multifamily rental units versus single-family homeownership units. Similarly, those organizations responding to our survey were roughly split in terms of serving rural or urban populations. The largest number of sponsor respondents indicated serving areas with concentrations of poverty, along with areas predominantly populated by minorities. A large number of sponsors also indicated that their programs serve areas having large immigrant populations.

Sponsors Responding to Our Survey are an Experienced Group

Those sponsors responding to our survey have a history of working with their FHLBank and other housing assistance programs.¹⁸ More than 40 percent indicated they had received two to four AHP awards in the past. Nearly 21 percent of respondents have received more than five AHP awards. Sponsors responding to our survey typically have worked with their FHLBank member institution before their first AHP project.¹⁹ Perhaps owing to the largely local nature of those active in housing assistance work, almost 70 percent of respondents indicated they had applied to only one FHLBank for AHP funding.

Sponsors Appear Pleased with the AHP

We asked a series of questions of sponsors in an attempt to gauge the sponsors' satisfaction with the Affordable Housing Program. The answers of those sponsors responding indicate that sponsors do not view the AHP as particularly burdensome. For example, more than three quarters of responding sponsors view the documentation and monitoring requirements as about the same or containing fewer requirements than those of other low- and moderate-income housing assistance programs. Sixty-five percent of sponsor respondents indicated that the timeliness of AHP funds disbursements was excellent or good. Perhaps most telling, 94 percent of responding sponsors indicated they would apply for AHP funds again.

Member Survey Results

We sent requests for participation to 1,905 member financial institutions that had been participants in the AHP. Of these 1,905 institutions, 163 filled out our survey. Members responding to our survey were roughly split between large and small institutions.²⁰ The largest group of member respondents indicated they served both urban and rural populations with concentrations of poverty, areas with predominantly minority populations, and/or areas with large immigrant populations.

Members use AHP to Help with Community Reinvestment Act Requirements

We asked a series of questions in an attempt to determine how the Affordable Housing Program fit into the member financial institutions' overall community lending efforts. We found that 89 percent of members responding to our survey indicated that AHP was either somewhat important or very important for helping their institution meet its Community Reinvestment Act (CRA) obligations. Of the members responding to our survey, 71 percent of respondents stated that their institutions' most recent CRA rating was "satisfactory;" 29 percent of those responding stated that their most recent CRA was "outstanding."

¹⁸ Ninety-one percent of the responding sponsors indicated having received affordable housing funds from federal, state, or local government housing assistance programs.

¹⁹ Nearly two-thirds of the responding sponsors indicated they had prior business relationships with the FHLBank member financial institution before their first AHP project.

²⁰ Member financial institutions with assets less than \$500 million accounted for 52 percent of those members responding to our survey.

An interesting response from our survey indicated that AHP might have a positive effect beyond that of its actual disbursements. Almost three quarters of members responding to our survey indicated that their involvement in AHP had increased their institution's interest or activity in financing affordable housing projects or community development projects outside of the AHP.

Members Appear Pleased with the Affordable Housing Program

As we did with each set of respondents, we asked a series of questions designed to gauge member satisfaction with the Affordable Housing Program. A few responses are most revealing. For example, 97 percent of members responding stated that their institution's experience with AHP had been excellent, good, or satisfactory. Ninety-one percent of members responding stated that the timeliness of disbursements was excellent, good, or satisfactory. Ninety-four percent of the members responding indicated they would apply for AHP funds again.

Affordable Housing Advisory Council Member Survey Results

Finally, we sent survey request letters to 174 members of the FHLBanks' Affordable Housing Advisory Councils. We received 71 responses.

Affordable Housing Advisory Council Members Bring Valuable Experience

The survey indicated that those serving on Affordable Housing Advisory Councils are an experienced group, with 74 percent having been involved with affordable housing for more than 10 years. The majority of respondents indicated that they worked for non-profit organizations. Almost two-thirds of respondents stated that their organization's annual budget was more than \$1 million.

Eighty-one percent of Advisory Council respondents indicated they were familiar with the AHP before becoming Advisory Council members. Sixty percent indicated that their organization had submitted an AHP application prior to their being appointed to the Advisory Council.

Ninety-four percent of Advisory Council respondents stated that they were either very familiar or familiar with the FHLBank's AHP policies and operations. Seventy-three percent indicated they were either very familiar or somewhat familiar with the way that the AHP operates at other FHLBanks.²¹

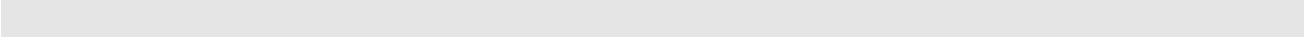
Affordable Housing Advisory Council Members View the FHLBanks Positively

We asked a set of questions to determine Advisory Council members' views about the relationship between their Advisory Council and the FHLBank. Eighty-seven percent of respondents indicated that the relationship between the Advisory Council and their FHLBank's board of directors was either very good or good.

²¹ Eighty-nine percent of Advisory Council respondents stated that they had not applied for AHP funds outside their FHLBank's geographic district.

Ninety-seven percent of respondents indicated their belief that the Advisory Council was either very important or somewhat important in providing information and advice on the affordable housing situation and needs in the FHLBank's district. That same percentage stated that the Advisory Council was either very important or somewhat important in determining or influencing the FHLBank's policies and procedures on the use of AHP subsidies. Eighty-five percent of respondents stated that the FHLBank's board of directors adopted the Advisory Council's recommendations for AHP policies all of the time or most of the time.

Eighty-six percent of respondents indicated that their serving on the Advisory Council did not represent a financial hardship for their organization.



Appendix 3: Finance Board AHP Database Redesign

The current AHP data information system was established in 1998. It is an interactive transactional data system. Under current practice, each FHLBank enters AHP data into a web-based application system that is maintained by the Finance Board. The FHLBanks are required to submit information at least twice a year after each round of AHP awards.

The existing AHP information system has serious limitations:

- The system has been plagued with operational difficulties, including technical obsolescence and failures. These difficulties affect data integrity and render in-service fixes impractical.
- Data entry has been unnecessarily burdensome on the FHLBanks and on Finance Board staff.
- The AHP information system has proven difficult to query. Further, the existing AHP database elements do not capture important program information.
- The interactive, transactional data entry system, whereby the FHLBanks enter data into a web-based application system maintained by the Finance Board, has inherent security vulnerabilities.

Revising the existing data collection system is also warranted because the current AHP information system has several gaps that should be addressed. For example, actual AHP funding commitments, disbursements, funds carried over, projects withdrawn, and other essential features of a housing production report should be more distinctly identified than they are now.

To respond to these shortcomings, the Finance Board is developing an alternative to the existing AHP system that would involve changing the underlying AHP database application and re-specifying the AHP data elements.²² The project would allow the AHP database to be recast in a form consistent with the Finance Board's new data warehouse currently in development. The salient objectives in the redesign of the database are to:

- Render an AHP database design that will capture accurate data and more effectively respond to the agency's information needs;
- Simplify the data capture process;
- Minimize electronic security vulnerability;
- Eliminate the burdensome transactional reporting process, which requires eight FHLBank data entries a year, and institute a process with one annual data entry requirement; and
- Select data elements that better track the AHP statute and historical uses of the program.

²² The existing AHP system is constructed upon a Microsoft Windows 97 application. The new AHP database would be constructed on the Microsoft SQL Server platform that is already the common platform in use at the Finance Board. Accordingly, there is no need for additional software.

A key consideration in the design of the database is to assure that the database can transcend regulatory changes to the program. Although development of the new database will be closely coordinated with the regulatory process, and, the system can accommodate changes if these were to become necessary, the database is designed such that regulatory changes will not require a substantial redesign of the database. As such, nothing in the database should be seen as indicative of any future direction in regulatory amendments to the AHP.
