

Partnership and Community Development

2016 Affordable Housing Program
Members' Only Webinar

May – September 2016

FHLBBoston

Agenda

- Community Development: *Opportunities and Rewards*
- Other Housing and Community Investment Programs
- Affordable Housing Program (AHP) Overview
- Members Role in AHP
- AHP Basics
- Next Steps

A teal-colored rectangular area with a white silhouette of a two-story house on the right side. The house has a gabled roof, a porch, and several windows. The text is centered in white.

Community Development Opportunities and Rewards

Community Development Opportunities



- Needed Affordable Housing
- Small Business
- Economic Development
- Increased Business Development and Lending Opportunities

How FHLB Boston Can Help



Programs

- Affordable Housing Program (AHP)
- Community Development Advances (CDA and CDA Extra)
- Equity Builder Program (EBP)
- New England Fund (NEF)
- Grants for New England Program (GNP)
- Jobs for New England (JNE)
- Helping to House New England (HHNE)

Outreach:

- Networking Events and Conferences
- Community Development Consults and Technical Assistance

How FHLB Boston Can Help



FHLB Boston provides:

- Flexible capital funding
- Long-term, subsidized fixed-rate permanent debt
- Partnership and technical assistance
- Lower transaction costs with AHP
- Expands business opportunities
- Long-lasting community assets
- Potential qualification for CRA credit

CRA Complement



- Regulated members using FHLB Boston's Housing and Community Investment Programs for community development projects may qualify for favorable CRA consideration when using one of our programs
- Program characteristics and priorities complement CRA and are designed to assist financial institutions in meeting the credit needs of their communities
- Access to the programs is a core benefit of membership

Other FHLB Boston Resources



CDA Extra and CDA

- Non-competitive, discounted advances are always available
- Many types of community development lending are eligible
- Economic development and small business lending
- Residential mortgages and multi-family

Jobs for New England Program



Economic stimulus program for New England



\$5 million in interest-rate subsidy
per year through 2018



Zero-percent interest rate to members for
low-interest loans to small businesses

Jobs for New England Program Terms



Up to \$250,000 in interest-rate subsidy
per member



One- to 10-year terms for Classic advances



First-come, first-served basis,
until funds are exhausted

Jobs for New England Loan Eligibility Criteria Reflective of SBA 504 Program

Job Creation & Retention

- Create one job for every \$25,000 borrowed in interest subsidy
- Preserve jobs that otherwise would be lost from community

Economic Development

- Revitalize community
- Stimulate community's business development
- Expand woman-, minority-, or veteran-owned business
- Upgrade facility to meet regulatory requirements

Other FHLB Boston Resources



Equity Builder Program

- EBP provides grant money to qualifying homebuyers to be used towards downpayment, closing costs and rehabilitation assistance
- EBP works well with your residential mortgage products
- The EBP is a separate set-aside of the FHLB Boston's Affordable Housing Program
- Approximately \$4.8 million available for 2016
- Second EBP application round opens on May 6 and closes May 27, 2016

A teal-colored rectangular area with a white silhouette of a house on the right side. The house has a gabled roof, a chimney, and a porch. The text is centered in white.

2016 Affordable Housing Program Overview

Affordable Housing Program



- Funded through 10 percent of the Bank's net earnings
- Provides grants and subsidized interest rates on advances for investment in affordable housing production and preservation that serves very low-, low-, and moderate-income families
 - CRA credit possible under the “service” test for applying for funds
 - May also receive additional consideration under the “lending” and “investment” tests for providing construction or permanent financing, or investing in Low Income Housing Tax Credits

2016 AHP Overview

- Approximately \$27.2 million of subsidy available
- Members and Sponsors partner together to submit application
- Member's role is essential in reviewing and underwriting the project
- Communication between the member and sponsor is key
- 2016 AHP Implementation Plan (3/18/2016 revision) is on Bank's website and critical to a successful application

2016: Key Dates & Applying

- Application Opens:
Monday, July 25, 2016
- Applications Due:
Tuesday, September 13, 2016 by 5:00pm EST
- Award Announcements:
Friday, December 16, 2016

To apply, please visit:

- <https://housing.fhlbboston.com>
- Other materials are available at:
http://www.fhlbboston.com/communitydevelopment/ahp/03_01_08_forms.jsp

2016 Round and Member Limits

- AHP Maximum (direct subsidy and advance subsidy):
\$1,500,000 per application
- AHP Maximum Grant (direct subsidy):
\$750,000 per application
- AHP Maximum for Homeownership (direct subsidy):
\$30,000 per ownership unit
- Member Application Limit:
None
- Member Approval Limit:
25% of subsidy available
- The AHP limits have been increased for 2016 only!



Member's Role in AHP

Member's Roles/Obligations in AHP

- Active applicant
- Underwriting/Analysis
- Financial responsibility for subsidy
- Agent for FHLB
 - Disbursement gatekeeper
 - No arbitrage
 - Secure AHP subsidy to project/property
- Lender/Investor
- Reporter/Compliance
 - Reporting
 - Help ensure compliance
 - Fraud notification
 - Watch List
 - Recapture (unlikely)
 - Maintain records

Member Underwriting Analysis



- Required regardless of the level of financial participation
- Members analyze and evaluate the sponsor/borrower:
 - Credit standing, development experience, performance track record
- Members analyze the initiative:
 - Physical and financial feasibility
- **Upload the underwriting summary or analysis and letters documenting your financial participation**
 - FYI: responses are confidential
 - FHLB Boston relies on the Member's evaluation.

AHP Basics

AHP Funding Types



- As a **grant** (direct subsidy)
- As a **loan** (subsidized advance)
 - A reduced interest rate loan made to the member to reduce the interest rate on the project's permanent debt
- As a **combination using both** a direct subsidy and subsidized advance

What is a Subsidized Advance?

- A reduced interest rate loan from FHLB Boston to member
- AHP subsidy is used to reduce the interest rate
- The member adds their spread to the AHP interest rate
- The member loans funds to the sponsor for the project
- The subsidized advance must match the term and amortization of the loan to the project
- Funds must clearly flow through to the project. Individual loans or combined loans may not exceed the standard market rate for interest, points, fees or spreads for similar loans

What is a Subsidized Advance?



- Terms of 10 to 20 years, with up to a 30-year amortization
- Interest subsidy is calculated based on an 18-month forward rate cost of funds and is a fixed amount which can not be changed
- Optional forward rate commitments for future disbursement are available with a mandatory take down
- Interest rate is not guaranteed. However, the rate, principal and term may be adjusted, if warranted

Subsidized Advance Example



The sponsor is in need of the following loan:

- Loan Amount - \$1,550,000
- Term - 20 years
- Amortization - 30 years
- Desired fixed rate for the project – 3.5%

Subsidized Advance Example

Requested Rate to Project	3.5%
Member's Spread	2.5%
Member's requested subsidized rate (Rate to project minus member's spread)	1.0%
FHLB Boston Cost of Funds (18-month forward look)	4.5%
AHP Subsidy Needed	\$289,987

How Does a Revolving Loan Fund Initiative Work?



- AHP may work with a program-specific or project specific RLF
- Must be an eligible and experienced Revolving Loan Fund
- Talk to us
- June 15 RLF Webinar
- See AHP Implementation Plan Attachment E for more details

The AHP Application

The Application – What's Evaluated?



Sponsor Capacity	AHP Eligible Uses
Project Definition	Feasibility
Affordability	Need for Subsidy
Project Readiness & Federal/State/Local Law	Current AHP Projects
Marketability	Member Analysis

Use of AHP Funds



Eligible uses:

- Acquisition, hard and soft construction costs, and rehabilitation
- Down-payment and closing-cost assistance, interest rate buy-down, developer fee, and certain home-buying counseling costs for AHP units

Ineligible uses:

- Nonresidential space, capitalized or other reserves, supportive services, operating costs
- Nonresidential items, such as: furniture, social services, and bank fees
- Predevelopment

Use of AHP Funds



Refinancing of existing single or multi-family mortgage loan:

- Is only permitted when the refinancing generates equity proceeds equal to the total AHP Subsidy (AHP interest rate subsidy and direct subsidies/grant) and these proceeds must only be used for purchase, construction, or rehabilitation of the AHP housing units
- See AHP Implementation Plan

AHP Scoring System

Donated Properties 5 Points (variable)	Empowerment 10 Points (variable)	Economic Diversity 5 Points (fixed)
Sponsorship 5 Points (variable)	First-time Homebuyer 5 Points (variable)	Second District Priority 5 Points (variable/fixed)
Targeting 20 Points (variable)	Rural 5 Points (fixed)	Community Stability 15 Points (variable)
Homeless Housing 5 Points (variable)	Member Financial Participation 15 Points (variable)	Subsidy Per Unit 5 Points (variable)

Member Financial Participation : 15 Points (variable)



- Up to 10 points awarded based on the ratio of member financial participation to total AHP subsidy requested
- Includes AHP subsidized advances, construction and permanent loans, investments, and other member grants
- Documentation is required
- Only member financing for the AHP-assisted units will be considered for points
- Minimum term of six months for construction financing and/or lines of credit

Member Financial Participation : 15 Points (variable)



- **Up to an additional 5 points for long-term member financial participation**
- Full 5 points for terms of 15 years or greater
- Points awarded on declining scale for terms between 5-15 years; 2 points for terms of 5 years minimum
- Financing must equal or exceed the total AHP subsidy requested (direct plus interest rate subsidy)
- Financing must be used to maintain points
- **Member underwriting, and commitment letter with conditions is required (in lieu of conditional commitment, term sheet or letter of intent may be considered)**

Member Financial Participation : 15 Points (variable)

- For variable/adjustable rates, the term for which the rate is fixed prior to adjustment will be used. The operating proforma should clearly evidence the potential shock to the interest rate anticipated in the adjustment year(s)
- The Member will be required to provide supporting documentation for their decision to offer a variable rate of interest and what impact this type of financing will have on the project feasibility
- If there is prior, existing financing in place from the member for the same project in this application, it may be considered for points in the Member Financial Participation category, at the sole discretion of the Bank, based on the remaining term of the loan. *(New in 2016)*

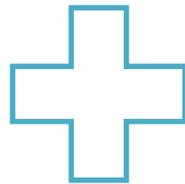
Member Financial Participation: 15 Points (variable)

- For multiple long-term loans, the principal and terms of the long-term financing will be combined using a weighted average for both the principal and the term
- If the loan principal of the longest-term loan exceeds the direct subsidy plus the advance subsidy, the points will be awarded based only on the term of that loan
- **Required for points:** Member underwriting-financing must clearly flow to the initiative, and the residential uses to demonstrate the member's participation in the initiative

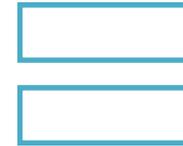
Member Financial Participation Example



\$2,000,000
construction
loan



\$900,000 20 -
year permanent
loan
(Subsidized
Advance)

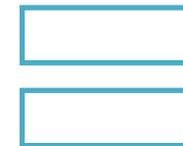


\$2,900,000
total member
participation

\$500,000
Direct
Subsidy



\$350,000
Interest Rate
Subsidy
(Advance
Subsidy)

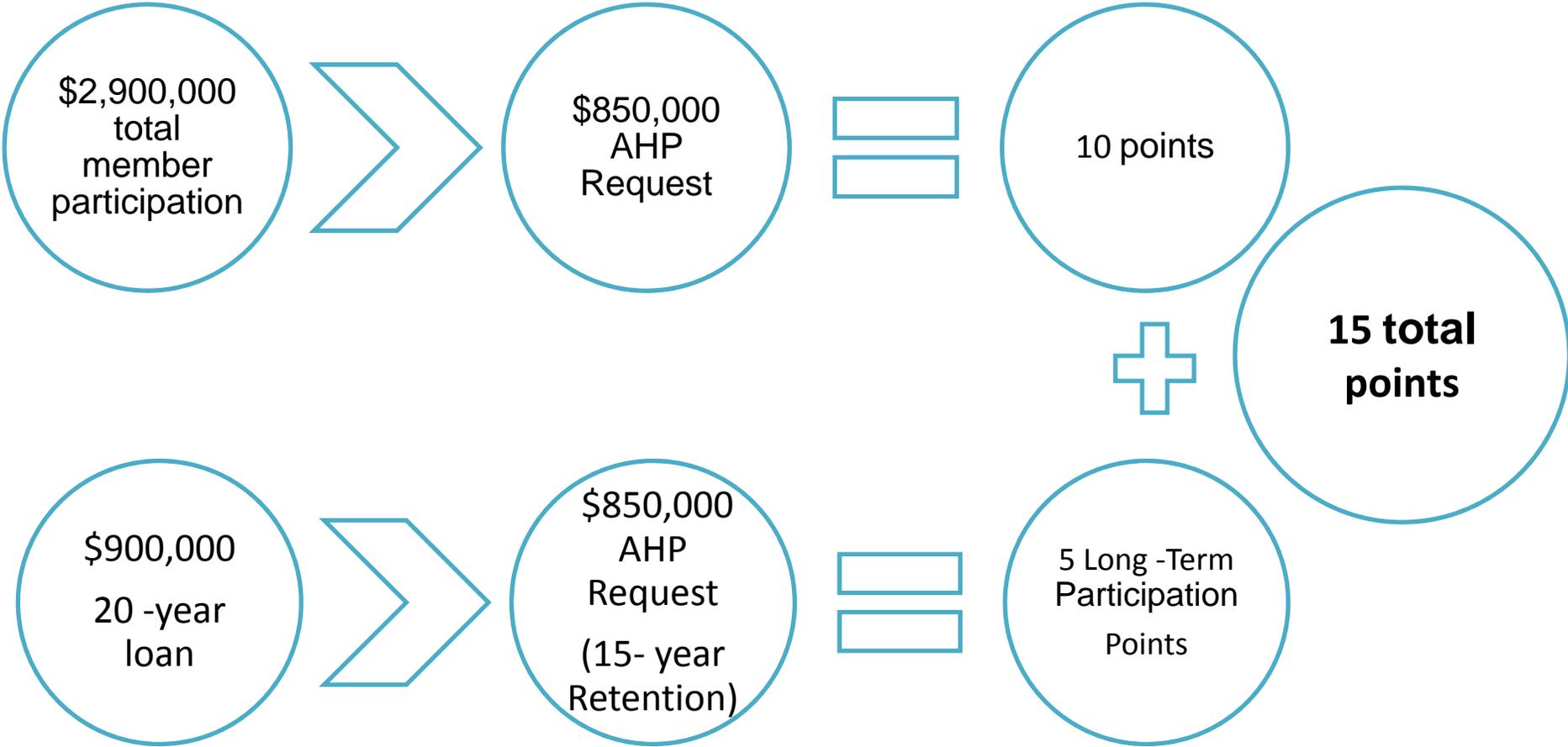


\$850,000
Total AHP
Request

Member Financial Participation Example



Score:



Issues Encountered in Member Participation Category



- Member underwriting is not submitted or is not detailed enough
- Member commitment letter/term sheet is not submitted
- Loan terms are not clear
- Rates are not clear, or if variable, not explained
- If doing long term permanent financing, the loan amount is not equal to or greater than the **total** subsidy requested

Development/Operational Feasibility- The Basics



- Provide detailed development and operating budgets
- Rental: Explain any nonresidential space and the source and uses of funding (AHP cannot fund nonresidential)
- Rental: 15-year operating proforma
 - Confirms positive cash flow and
 - Need for subsidy throughout 15-year retention period
- Homeownership: demonstrate need for subsidy, reasonable mortgage terms.
 - Sales price/mortgage amount cannot exceed TDC minus AHP grant and borrower's down payment
 - Separate calculation for below-market or zero-interest-rate first mortgages (Habitat-type initiatives)

Issues Encountered in Development/Operational Feasibility



- Detailed sources and uses budget not submitted
- Detailed source and use totals do not match
- Sources and uses entered into the application do not tie to the detailed budget submitted
- A different budget was submitted for AHP than to other funders
- 15 year operating budget was not submitted
- Trending factors are not realistic
- High DCR not explained well
- Operating reserve use not shown in proforma
- Feasibility threshold items not explained well

AHP Fraud Reporting



- All are responsible for reporting observations of fraud related to approved AHP initiatives, as outlined in the obligations under the AHP Agreement
- Some examples of possible fraud: Language changes in AHP Agreement, Mortgage and Note templates, undisclosed conflict of interest, fraudulent documents, falsifying application, project or budget information. failure to notify Bank of sale/refi/foreclosure, fraudulent Financial statements or audits
- May be intentional or unintentional
- Provide prompt written notice to the Bank
- Provide additional information as requested

AHP Retention and Monitoring



- Retention for Affordability (5 years Homeownership/15 years Rental)
- Standardized Retention Documents on FHLB Boston Website
- Income Calculation Methodology required
- AHP Monitoring and Reporting dependent on type of project
- [Website - www.fhlbboston.com](http://www.fhlbboston.com)
- Once awarded, Next Steps webinars/meetings are scheduled

Resources

- www.fhlbboston.com
- AHP Implementation Plan
- AHP Regulation: 12 CFR 1291
- HUD income limits:
<http://www.huduser.org/portal/datasets/il.html>
- LEED for Homes— www.usgbc.org
- Enterprise Green Communities --
www.enterprisecommunity.com/solutions-and-innovation/enterprise-green-communities/criteria

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Thank You!



If you need any assistance, please call us!