



**FEDERAL HOME LOAN BANK
OF CINCINNATI**

April 26, 2006

**Federal Housing Finance Board
1625 Eye Street, NW
Washington, DC 20006**

Attention: Public Comments

**Federal Housing Finance Board
Proposed Rule: Affordable Housing Program Amendments,
RIN Number 3069-AB26,
Docket Number 2005-23**

The Advisory Council of the Federal Home Loan Bank of Cincinnati has reviewed the proposed AHP regulation and offers the following comments:

Provide Greater Flexibility to the FHLBank Board of Directors to Modify Projects

The proposed regulation makes no changes in requirements related to modifying projects. There should be greater flexibility for an FHLBank's Board of Directors to modify projects under extraordinary circumstances.

For example, within the last year, the Board was faced with two projects which could not be modified within the existing regulatory provisions. For both projects, the only thing that had changed was that the member merged into an out-of-district member. The Board had awarded AHP advances to each project but the advances could not be disbursed through a non-member; however, the Board also could not modify the projects to make them all grant projects because the projects would not have continued to score high enough after the modification to still qualify for funding.

Nothing changed about the projects – the location, unit mix, sponsor, developer, AHP funding needed, and all other substantive elements of the projects were unchanged. The only change was the member. But because of the lack of flexibility in the existing regulation, the projects could not be modified and were, therefore, no longer eligible for funding. The proposed regulation offers no changes in the modification requirements or procedures.

For these two projects, the Bank formally requested a waiver of the relevant regulatory provisions. However, staff provided a “no action” letter instead.

Another project was approved for AHP funding in conjunction with HUD 202 funding. HUD's funding to the project was subsequently reduced due to federal constraints resulting from the government funding 2005 hurricanes. The sponsors and member sought a modification to

increase subsidy due to the loss of HUD funding, however, when rescored, the project fell below the funded range and the sponsor had no other options but to back away from the project. Due to the unique structuring of HUD 202 projects, there were no other funding options available and HUD was unwilling to extend the project timeline. The FHLBanks should not be hampered by the single modification caveat that a project cannot fall below the lowest scoring project.

The Advisory Council encourages the Finance Board to allow greater latitude to the Board of Directors of an FHLBank to modify AHP projects under extraordinary conditions, even if the modifications would not ordinarily be permitted.

Allow a “credit use” policy for determining the amount of AHP subsidy for which a member is eligible.

The proposed regulation would reverse a current provision and would prohibit an FHLBank from employing a “credit use” test to differentiate members’ eligibility for AHP subsidy. Those members who use the FHLBank of Cincinnati’s credit products more are eligible for more AHP subsidy, even though every member is eligible for at least \$100,000 annually. The Bank has successfully employed this credit use test to encourage members to use our credit products, and thereby contribute to the Bank’s earnings. Since the AHP subsidy is derived directly from the Bank’s earnings, the Advisory Council believes that those members who contribute more to the Bank’s earnings should have greater access to AHP subsidy. The proposed regulation would eliminate this long-standing provision and would allow all members to access the same amount of subsidy, regardless of their participation, or lack thereof, in the Bank’s credit programs. Eliminating the credit use test would prevent the Bank from using AHP funding as an incentive to encourage borrowing by members and might reduce the size of the AHP pool.

We would encourage the Finance Board to reconsider its position on this matter.

Clarify Requirements for Monitoring

The Advisory Council is concerned about the purported change from “prescriptive” monitoring requirements to what is described as “risk-based” monitoring. In the narrative to the proposed regulation, there is also reference to “outcome based” monitoring and a focus on “project outcomes” even those terms are not used or defined in the proposed regulation.

The Advisory Council believes that an FHLBank should be able to determine for itself what risks an AHP project faces and/or poses and how to monitor and manage those risks. The Council is concerned that an interpretation of the proposed regulation might guarantee nothing but examination findings. If a project has a negative outcome, will the examiners take that as evidence that the risk was not assessed properly?

Projects face difficulty and failure for many reasons, and neither the current regulation nor the proposed regulation gives an FHLBank any ability to intervene in any significant way. The Bank is required to monitor, but does not have sufficient tools to help stabilize a project. Some projects fail because of unforeseeable natural disasters – the outcome is failure but no reasonable risk assessment would have predicted it. Some projects lose marketability over a 15-year period. That is not something an FHLBank can foresee. And if the FHLBank determines that a project is at risk, what is the FHLBank to do? Neither the current regulation nor the proposed regulation gives an FHLBank the ability to intervene in a project in a way to mitigate risk or prevent failure.

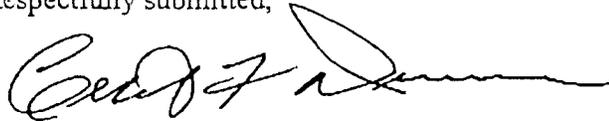
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If a project fails, despite increased monitoring, the Finance Board retains total control over whether funds have to be repaid from the project to the FHLBank or even from the FHLBank to the AHP pool from current earnings. If an FHLBank is to be more involved in identifying troubled projects, the FHLBank also needs more ability to intervene.

We encourage the Finance Board to reconsider its position, allow more flexibility in monitoring, and consider giving FHLBanks more ability to intervene to prevent projects in difficulty from failing.

There are other policy and technical matters on which the staff of the Bank will offer formal comment. We encourage the Finance Board to consider carefully these comments.

Respectfully submitted,



Cecil F. Dunn, Chair

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