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Community Action Agency • Rural Preservation Company

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

ATTN: Public Comments

To Whom It May Concern:

I would like to offer the following comments regarding the recent request for comments on the Federal Home Loan bank System. I offer these comments as the Executive Director of one of New York State's Rural Preservation Companies and as an agency that has used the rehabilitation and First Home Club portions of the FHFBNY. I am also the current chairman of the Affordable Housing Program (AHP) Advisory Committee for the FHFBNY, though these comments are not to be construed as either the position of the Bank or the other members on this committee, but solely our own as operators interested in improving and diversifying the impact of FHFBNY funding on affordable housing in our area. That said I would like to offer the following specific comments.

In general the effort to streamline and better group similar regulations would seem to be an improvement in clarifying like areas within the regulations. Efforts to better address the subsidy through Section Eight and to clarify how it relates to eligibility should reduce questions within this area. Requiring mandatory income adjustments again makes the program more consistent with other federal programs and keeps income changes within areas timely.

Regarding definitional changes that have been proposed in section A the addition of revolving loan funds and loan pools within the sponsor definition is of particular interest. This activity would allow greater flexibility of FHFBNY funding and in many cases allow for the ongoing use of FHFBNY funds for local housing activities. I think there is a need to better clarify how this might happen within certain activity areas (i.e. homeownership, rehabilitation etc.) and that the loan funds could be designated to entities other than the sponsor bank. This would allow for local non-profit revolving funds to directly administer and mix these funds with other resources to further housing goals. In many areas of New York there are existing funds with established expertise or certifications, such as Community Development Finance Institutions, that have long histories of commitment to affordable housing development and retention.

Regarding those items identified within section B. Clarification of the contribution calculation should reduce any confusion on the items allowable before the determination of this calculation. The section clarifying the allocation of contributions is needed within the overall program to ensure some parity over time for certain activities. The rule eliminating the ability of banks to borrow from future years' earnings should be continued with certain restrictions. This would prevent shorting future funding and yet allow some flexibility to round out meager years. There is often a need to maintain minimum funding within the district in years of reduced funding as there might be some need to restrict total usage of funds in good years. Maybe the allowance of some short term retention fund for this purpose would be helpful.

Section C clarifications seem to be appropriate and ensure access and understanding of the FHFB programs and requirements. Section D further clarifies the rules for Advisory Council operation and ensures participation of this board in the decision making within the bank. As an Advisory Board member of the FHFB of NY we have pursued these same operating criteria effectively for several years. It is very beneficial to ensure this same openness and clarity of function throughout the system.

Within section E the decision to separate the project subsidy determinations from the project feasibility determinations may offer some procedural opportunities for projects to be reviewed favorably, but it would seem in the end both these areas need to be brought together to offer a sound long term project overview. I am not sure that I understand how this rule change would impact the ability of the bank to support smaller and more heavily supported service projects as indicated within the proposed rule. If this is the goal of the program I think that this might be better accomplished by establishing separate rating criteria or by setting aside funding in an effort to encourage and support specific areas or smaller projects. As a rural area provider within New York State smaller projects are most often needed in smaller communities but these projects seem the most difficult to gain adequate support. Additional sections within this area continue the attempt to better utilize AHP subsidy for special needs and related projects. I would support these efforts, but think further clarification or guidance on how this works within the ranking and rating system needs to be addressed if not these regulatory changes may have little practical impact in furthering their intent.

The addition of revolving loan funds and loan pools to the allowable activities is of particular interest to our organization and a valuable new tool for many areas. The use of AHP as a lending fund would allow greater flexibility and ongoing usage by local administrators and further allow for better mixing and matching of funding for projects. I would like to see this activity mandatory for potential funding and then evaluate the demand for this type funding. My fear is that this highly productive use of FHFB funds would not be used in some areas for any number of reasons or just for administrative ease. This new funding activity is too exciting to not be encouraged throughout the system. If there is no project interest in this area no funds would be expended, but the opportunity would exist for various FHFB regions. Clear definition and/or guidance would be necessary to mandate how designated agencies would be used outside the project sponsor to further this effort. Most sponsor banks would not pursue direct administration of these projects as they often require additional client preparation or servicing.

In general the area of revolving loan funds offers a difficult challenge for FHFB funds by prohibiting funding for the necessary administration and servicing of the program. This limitation may, if not changed, make activity within the current context of the program unworkable. The purpose of revolving loan funds is to provide assistance to those persons not

able or qualified for more traditional financing. This often requires greater investment of the sponsor's time and at the very least AHP should permit the use of interest for servicing and related functions. It should also consider the advancement of sufficient funds to allow revolving loan funds to secure short term investment interest to be applied to the delivery of the loan fund. In my opinion, this is the most exciting new activity for AHP but without addressing the realities of the cost of program delivery it will be generally unworkable.

This section of the regulations also proposes the elimination of homeownership counseling as a requirement for AHP participation. Though this makes sense in some cases when potential homeowners do not require counseling, greater clarity on how and when this waiver may be used or some documentation of the decision to forego counseling needs to be determined or this may be waived as a convenience to the lender. Within the whole area of homeownership counseling the FHFB needs to establish a mechanism to fund and ensure that counseling occurs with households who need this assistance to ensure successful home ownership. The availability of these specialized counseling services in many areas is sporadic or simply unavailable, though their success in insuring success is well established. Additional funds are required within the First Time home club to include an AHP subsidy with these needed counseling services to help ensure successful homeownership. Further this counseling support from FHFB would assist in leveraging funding from other State and Federal sources by packaging AHP funds with other sources, such as Rural Development, HOME etc. In NY State, for example, there are several programs that have funding available but no assistance for counseling.

The regulations proposed for out of district projects is reasonable but should be restricted so that FHFB banking institutions cannot fund more than a percentage from out of bank area applications. Though the current banking world clearly warrants some flexibility for out of district projects, in areas, such as Western New York, we are served primarily by local banks as many larger banks have moved to better markets. The competitive environment needs to be regulated as these smaller areas cannot compete effectively with larger banks in more diverse and lucrative markets.

In section F, regarding the Homeownership Set-aside Program several items are addressed. In general the move to consolidate these regulations into single areas should remove confusion in locating and understanding regulations. The area of member incentives is of concern. In rural areas and some localities that are served by smaller, more local banking institutions that often lack the diverse market necessary to create broad market initiatives; this may create a disadvantage for participation. National and International banking institutions are more apt to have the ability to create special initiatives and financing programs in an effort to attract business or compete in select markets, though these programs are often available within their entire network. Local banks lack the market and organizational depth to create and market these specialized products within their smaller markets. Though in general I support the commitment of local incentives the reality may preclude projects in areas that need assistance but cannot compete because they lack larger more sophisticated banking systems and programs. I clearly support the combination of FHFB funds with Non-profit sponsors who harbor long term commitment to the creation of affordable housing and link FHFB programs to the local boards and communities that these groups often represent.

Section G proposes regulations for more effective monitoring of projects by FHFB. The use of monitoring by other funding sources within the project is clearly a relief to all involved as it reduces the workload of the bank, the workload of the sponsoring bank or organization, and

streamlines and reduces the need for multiple reports of the same issue areas. In our area rehabilitation is a high need program. Current bank policies require that each project be pre-approved and monitored individually. I would suggest extending the bank monitoring system in an effort to allow a program to be funded and draw funds as needed to complete a sequence of rehabilitation projects. Local sponsors are required to implement and run the program according to pre-established rules and operating procedures. Monitoring and compliance for the whole program can be determined through audits or agency reviews. Most Federal and State programs run in this manner. This allows local programs to move at their own speed and requires that they be responsible for ensuring compliance. As most projects mix or combine funding, this monitoring is consistent with the other sections that link monitoring to other programs with like eligibility and outcomes.

In general the move to allow FHFB regional banks discretion in determining their resource allocations via some methodology should allow for flexibility and targeting based on needs within the district. The clear role of the AHAC in working with bank staff and non delegation of this responsibility should ensure a successful process. The move to contract monitoring and less reliance on controlled processing and compliance will expedite, particularly rehabilitation projects funded through the FHFB system. Linking overall monitoring with monitoring required by other funding sources should reduce redundancy and workloads for all concerned without sacrificing project compliance or quality. Finally, the restructuring of the regulations to better combine similar areas of regulation and activity should make compliance areas easier to find and understand.

I greatly appreciate the chance to provide these comments and would welcome the chance to discuss any of these areas in more depth if questions arise.

Respectfully submitted,


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