

Revised AHP Rating and Monitoring System

December 2, 2003

Since the early 1990s, the Federal Home Loan Bank of Boston has maintained a Watch List to monitor troubled initiatives in its Affordable Housing Program (AHP) portfolio. This list has included initiatives that have run afoul of regulatory issues, those in non-compliance with AHP rules, and initiatives deemed in danger of financial default.

However, beginning in June of this year, the Bank's Housing and Community Investment Department (HCI) revised its rating system for the initiatives approved under the AHP. The rating system now also assigns a rating of "4" to initiatives that have not been completed within two years of receiving AHP approval. As a result of becoming "4-rated" initiatives, these developments will appear on the Bank's Watch List.

The Ratings and Their Implications

As of early 2003, an AHP initiative receives a rating of "1" if it is in full compliance with the AHP regulations and HCI policies and procedures and if it has no reports or documents due to the Bank. An initiative receives a rating of "2" if it is in overall compliance but is missing some minor report.

Initiatives receive a "3" rating if development has not begun within two years of receiving approval for AHP funding *or* if development has started but has not been completed within two years of AHP approval. Initiatives also receive a "3" rating if the overdue document that caused its "2" rating was not received within 90 days of receiving that rating; if it was physically complete but the close-out monitoring was not finished within 90 days; or if it was missing required documentation such as a Semiannual Progress Report (SAPR), an Annual Compliance Certification (ACC), or a Periodic Monitoring Report (PMR). In addition, initiatives receive a "3" rating if they require special ongoing monitoring or have other deficiencies.

As a result of the changes to the Bank's AHP rating system, if the cause of an initiative's "3" rating is not resolved within 180 days, HCI automatically changes its rating to "4" and adds the development to the Watch List.

The Watch List and Its Implications

In the past, the Bank's Watch List has averaged a dozen initiatives, or roughly two percent of the Bank's AHP portfolio.

When an initiative is added to the Watch List, Compliance Manager Rodney Peterson notifies the member and the sponsor involved. The issues causing the "4" rating are described and an action plan and timeframe are established to guide the resolution of these issues. During this time, the Bank may require monthly progress reports, recapture disbursed subsidy funds, assign interest penalties, or deobligate any undisbursed subsidy funds. Additionally, the compliance

manager may recommend that a member or a sponsor (or both) be prohibited from submitting new AHP applications until all issues are resolved.

Once the issues causing a "4" rating have been resolved, the development's rating is changed accordingly, and the member and sponsor receive notification that their initiative has been removed from the Watch List. The Watch List is reviewed monthly by HCI, quarterly by the Bank's senior management, and twice a year by the Bank's board of directors.

Background Information

While most AHP developments begin and finish within the timeframe committed to in their initial AHP applications, some encounter difficulties. Over the years, the Bank has tried to provide reasonable extensions, particularly to developments that have experienced delays not of their own making.

However, a number of mortgage-financing programs approved several years ago have been unable to close mortgages to the targeted number of very low-income households agreed to in their applications. Meanwhile, the housing market has moved even further out of reach of these potential buyers. As a result, the Bank has worked with a number of members and sponsors to close these initiatives out and return the unused AHP funds to the Bank. These difficulties have also resulted in the Bank changing its disbursement policy for mortgage-financing initiatives. The Bank now disburses AHP subsidy funds on a reimbursement basis only, once a closing has taken place and the required documentation has been received.

Rental initiatives have also experienced delays, particularly due to failures to achieve zoning approvals. A number have been delayed by other funding sources that have not closed in a timely manner. Others have been delayed when final costs run higher than expected, requiring developers to seek additional funding. In most of these cases, HCI has granted extensions. However, when reasonable progress could not be documented, AHP funds have been deobligated and, in some cases, recaptured and reallocated to the current AHP alternates or the future AHP pool. The initiatives were invited to reapply to the AHP should they overcome all holdups.

The new rating system is designed to address issues as soon as they emerge and to preserve AHP funding for much-needed affordable housing that is ready to move forward. It is important to keep in mind, however, that the rating system should not be interpreted as a waiver of the Bank's rights under either the Affordable Housing Program Regulations of the Federal Housing Finance Board or the AHP Subsidy Agreements that members and sponsors have entered into with the Bank.

Questions may be addressed to Compliance Manager Rodney Peterson, at 617-292-9653, or First Vice President John T. Eller, at 617-292-9677.