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Senate Bill 36
Opponent Testimony of Damon Allen
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Chairman Terhar, Vice Chair Roegner, Ranking Member Williams, and the members of the Ohio Senate Ways and Means Committee, my name is Damon Allen and I serve as Senior Vice President and Community Investment Officer for the Federal Home Loan Bank of Cincinnati (“FHLB Cincinnati”). FHLB Cincinnati is a regional wholesale bank providing financial services for residential housing and economic development to 646 member stockholders in the FHLB System’s Fifth District of Kentucky, Ohio and Tennessee. Eligible stockholders include banks, thrifts, credit unions, insurance companies and community development financial institutions. We are one of 11 Federal Home Loan Banks nationwide, a system created by Congress in 1932 to support housing finance. Our mission is to provide financial intermediation between the capital markets and our member stockholders in order to facilitate and expand the availability of financing for housing and community lending and investment and to help members expand their access to the mortgage markets. In addition to our mission in housing finance, FHLB Cincinnati also plays an important role in supporting affordable housing and economic development initiatives throughout our Fifth District states of Kentucky, Ohio and Tennessee.

We offer a range of programs to help our member financial institutions and housing partners build strong communities, whether it involves single-family housing, housing for special needs households, community infrastructure, or job creation. The Affordable Housing Program is our largest and most impactful initiative with more than \$704 million awarded since 1990 with more than 88,000 affordable housing units funded. Each Federal Home Loan Bank sets aside 10 percent of net earnings annually to be used as subsidies to finance development of affordable housing. The funds are made available only through financial institutions that are members of the Federal Home Loan Bank. Non-profits, local governments, community development corporations, for-profits, and other organizations (known as sponsors) seeking Affordable Housing Program funding must submit an application through a financial institution that is a member of a Federal Home Loan Bank.

Affordable Housing Program funds can be used to assist with the funding of new construction, acquisition, rehabilitation or any combination thereof for ownership and rental housing serving very low-, low- and moderate-income households. Very low-income households

are those with annual incomes at or below 50 percent of area median income. Low- and moderate-income households are those with annual incomes at or below 80 percent of area median income. The area median income guidelines are defined annually by the U.S. Department of Housing and Urban Development.

FHLB Cincinnati began offering grants and discounted loans for the development of affordable housing in 1990. Since that time, we have found a consistent and reliable partner in our three state housing finance agencies and the Low-Income Housing Tax Credit program that each agency offers. In most developments that we invest, the Low-Income Housing Tax Credit program provides a preponderance of the required capital to bring the projects to fruition. As such, it is a critical component of our successful investments in affordable housing. According to The Urban Institute, from 1987 to 2015, at least 46,000 Low-Income Housing Tax Credit transactions were completed to construct or preserve 2.3 million units across 38,000 properties across the country. To date, FHLB Cincinnati has disbursed over \$73 million in Affordable Housing Program funds to Low-Income Housing Tax Credit projects in Ohio (with total developments costs of \$1.7 billion) and \$141 million in Affordable Housing Program funds to Low-Income Housing Tax Credit projects across the country (with total development costs of \$2.8 billion). The Low-Income Housing Tax Credit program provides a level of confidence and comfort that the projects utilizing our Affordable Housing Program will successfully house low- and moderate-income families for a period of 15 to 30 years. Without Low-Income Housing Tax Credits and our Affordable Housing Program working together, many, if not all, of these projects would not have come to fruition.

Our Affordable Housing Program subsidized advances provide low-interest, long-term, fixed-rate financing to Low-Income Housing Tax Credit projects, which helps lower their debt service, thereby allowing low rents to make the housing affordable to low-income tenants. Fundamentally, housing construction and administration expenses remain the same for market-rate and affordable housing based on location. The lack of debt, or reduced debt, allows the projects to be operationally viable and affordable for a period of 15 to 30 years – and Affordable Housing Program grants fill the gap eliminating the need for debt. Furthermore, many sponsors would simply not be able to access the debt required to fund these projects without our Affordable Housing Program and Low-Income Housing Tax Credits.

SB 36's proposal for market rate assessment for taxation purposes could bring the entire program of affordable housing in Ohio to a halt. Projects financed through Low-Income Housing Tax Credits and our Affordable Housing Program are only possible because of these programs. These projects operate at narrow margins of profitability as the restrictive covenants



imposed by federal programs severely limit the possible rent and revenue from that income stream. By federal statute, affordable rental housing utilizing Affordable Housing Program and Low-Income Housing Tax Credits are prohibited from charging market-rate rents. Forcing affordable housing developments to be subject to valuations that are legally impossible to attain, dictate that the contract value approach is the only sensible model as market-rate rents are legally forbidden.

Valuation and taxation assessment at market-rate could also produce tax burdens that either exceed the profitability of a project, or so impinge upon its profitability so as to no longer make it a sound investment. In either scenario, the net result will be a reduction or potential elimination of the affordable housing marketplace in Ohio. The cascading effect of disincentivizing any of these federal subsidy programs would collapse entire projects. Each project requires assembling puzzle pieces of similar programs to fill funding gaps and should one piece disappear or become less valuable, it remains unclear if there would be any others available to bridge that shortfall. Therefore, FHLB Cincinnati must oppose SB 36 at this time.

