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Sub. H.B. 110
Opponent Testimony of Damon Allen
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Chairman Dolan, Vice Chair Gavarone, Ranking Member Sykes, and the members of the Ohio Senate Finance 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 625 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 and funded entirely by its member stockholders. 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 \$795 million awarded since 1990 with more than 99,000 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 almost \$93 million in Affordable Housing Program funds to Low-Income Housing Tax Credit projects in Ohio (with total developments costs of \$2.1 billion) and \$171 million in Affordable Housing Program funds to Low-Income Housing Tax Credit projects across the country (with total development costs of \$3.4 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.

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.

The proposed changes to Ohio Revised Code § 5715.01 and 5713.03 in Sub. H.B. 110 would adversely impact the affordable housing ecosystem in Ohio by increasing the operating costs of all affordable rental housing financed through the FHLB Cincinnati's Affordable Housing Program. By increasing those operating costs, most, if not all, of those projects would fail to conform to the FHLB Cincinnati's Feasibility Guidelines. This has two dramatic and adverse impacts. First, in accordance with federal regulation, the FHLB Cincinnati would be



required to demand repayment of its subsidy from the owners of those projects. Potentially all of the subsidy would have to be repaid. Second, future applicants to the Affordable Housing Program from Ohio would be denied access to this critical subsidy due to their higher operating expenses. The impact would be the lack of new affordable housing for Ohio and diversion of those funds outside of Ohio to increase the subsidy to communities in Kentucky and Tennessee.

The proposal in Sub. H.B. 110 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.

There is an affordable housing shortage in our state and the need for that housing that is only growing. Upsetting the delicate balance of financing and operational costs that allow these projects to flourish would have devastating effects on those most vulnerable Ohioans who depend on these projects to keep a roof over their heads. We must be focusing on creating more affordable housing in Ohio, not less. Therefore, FHLB Cincinnati must urge you to remove the proposed changes to Ohio Revised Code § 5715.01 and 5713.03 from consideration in Sub. H.B. 110.

