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Rita: Ladies and gentlemen, welcome and thank you for joining today's conference, Federal Home Loan Bank Affordable Housing Goals Proposed Rule webinar. Please note that all participants line will be muted for the duration of this event. You are welcomed to submit written questions during the presentation, and these will be addressed during the Q&A. To submit a written question, use the chat panel on the right-hand side of your screen, choose "all panelists" from the send-to drop-down menu. If you require technical assistance, send a private note to the event producer. I, now, like to formally begin today's conference and introduce Danielle Walton, stakeholder relation officer. Please go ahead.

Danielle: Thank you Rita, and good afternoon everyone. This is Danielle Walton, with the Federal Housing Finance Agency. I want to welcome you all and thank you for taking the time to join us for this webinar.

On October 29th, FHFA issued a proposed rule on updates to the Federal Home Loan Bank Affordable Housing Goals. Joining me for today's webinar is Ethan Handelman, senior policy analyst in FHFAFHFA's Office of Housing and Community Investment, who will provide an overview of the proposed rule and respond to questions you may have.

As the operator mentioned, throughout this presentation, you can type your question into the submit a question box at the bottom right of your screen. Be sure to send to all presenters.

Once the webinar is concluded, we will make a recording available on fhfa.gov where you can also find the full proposed rule and submit your written question.

Before we start, I'd like to turn things over to Sandra Thompson, deputy director of the Division of Housing Mission and Goals, for opening remarks. Sandra?

Sandra: Thanks Danielle, and thanks to each of you for joining us on this webinar. FHFA has been working on changing the affordable housing goals for the Federal Home Loan Bank for some time now. We are so pleased to have published this proposed rule, so that we can articulate our views and receive your comments.

Since the First Bank Housing Goal Rule went into effect in 2011, there have been many changes in the mortgage market that we have had time to observe and consider. There are parts of the existing regulation that just do not work well and this is an opportunity for us to improve it.

We'd like the Bank Housing Goals Rules to achieve four objectives: (1) To be meaningful in its effect on affordable housing, (2) it needs to be achievable for the Bank, (3) it should be forward looking, and (4) the goal should be adaptable to the different bank districts.

We hope today's presentation of the proposed rule will be informative and helpful as you formulate your comments.

I'll, now, turn it over to Senior Policy Analyst Ethan Handelman to go into more details on the proposed rule. Ethan?

Ethan: Thanks so much Sandra. It's a pleasure to be with you today. We'll go right past my picture because it's not flattering, and we'll jump right into the substance of the rule.

A good starting point for understanding the proposed rule is the acquired member assets program, also called AMA. I promise you we'll get to the rule. It's important to understand the starting point because AMA is what allows the Federal Home Loan Banks to buy single family mortgages from their members. The housing goals apply to AMA purchases.

A few features of AMA are important to understand how the housing goals works. When a Federal Home Loan Bank purchases a mortgage from a member, the member keeps much of the credit risk while the Bank takes the interest rate risk and holds the loan in portfolio. There are several types of AMA programs used by different Federal Home Loan Banks.

As you can see on the pie chart, AMA purchases are a small part of the secondary mortgage market overall. Using 2017 data, we looked at Ginnie Mae, Fannie Mae, Freddie Mac, and Federal Home Loan Bank AMA purchases. That little purple slice at the top is 1%, that's AMA. Keep that in mind as we continue going through.

Also, keep in mind that AMA is a voluntary program. The Federal Home Loan Banks operate AMA programs at their discretion and they could cease purchasing mortgages entirely if they chose.

Now, to the statute. Section 1205 of the Housing and Economic Recovery Act of 2008, often called HERA, amended the Bank Act to add Housing Goals. The key portion of this brief section of statute are on the slide in front of you. Notice first, goals are required by statute. Second, goals must be consistent with the goals for Fannie

Mae and Freddie Mac, that's what the section 1331 through 1334 language refers to.

Goals also take into account that the Banks are different in several ways, tied to their unique mission and ownership structure. As I go through and explain the proposed rule today, you'll see how those differences connect to elements of the proposed rule.

What do we have now? The existing regulation took effect in 2011. One element of it is the volume threshold. If a Bank purchases more than 2.5 billion dollars in mortgages through AMA, the goals takes effect. If the Bank purchases less than the volume threshold, the goals do not.

There've only been three instances when a Bank exceeded the volume threshold, otherwise the Banks have been below the volume threshold and so have not had to address the Housing Goals.

When the Housing Goals apply under the existing regulation, they look just like the goals for Fannie Mae and Freddie Mac, as you can see listed on the screen. There are separate goals from mortgage purchases of purchase mortgages by low income households, very low income households and families in low income areas. There's a fourth goal for refinancing mortgages for low income households.

FHFA evaluates whether the Bank met or exceeded the market share within its district by comparing Bank purchases to market data collected under the Home Mortgage Disclosure Act or HMDA. Those of you familiar with HMDA know that HMDA data come out the next year. That leads us further in our discussion to some of the challenges with the current regulation.

The first challenge is the data lag. We were just talking about this with HMDA data. The Banks do not know the required level of mortgage purchases until the year after those purchases have been made.

The second challenge is that over time, the volume threshold has operated as an upper bound and upper limit on bank AMA programs. Banks below the threshold in effect, avoid the Housing Goals, while Banks above the threshold, face application of Housing Goals that AMA programs were not designed to and typically did not meet.

We mentioned already that AMA is a voluntary program. If the goals are too onerous, banks could choose to stop buying mortgages entirely. Goals also create regulatory uncertainty for the Banks, made worse by some of these other challenges.

Lastly, when FHFA evaluates goals performance, we compare all of the Bank's purchases, which can include loans from outside the district, to market conditions only inside the district. That mismatch can be more severe for some Banks than for others because the districts vary in many ways.

What are we aiming at? You heard Sandra address some of this already: The proposed rule aims to overcome the challenges we've just talked about. It aims to make the goals meaningful in that they encourage net new affordable home lending to households in need; achievable so that the Federal Home Loan Banks will continue with the AMA program; forward-looking so that the Federal Home Loan Banks know how to aim their activities within AMA; and lastly, adaptable to fit the needs of different Federal Home Loan Bank districts.

The proposed rule aims to encourage the Federal Home Loan Banks to make affordable housing part of their business plans for AMA mortgage purchases, so they can fulfill the obligation in the statute in a safe and sound manner. Keep these aims in mind as we continue stepping through the elements of the proposed rule.

Here's the one slide summary. If you take anything from this webinar, take this slide. Instead of four separate mortgage purchase goals, the proposed rule would create a single prospective mortgage purchase housing goal. Say that four times fast. Twenty percent of each Bank's AMA single family mortgage purchases must be affordable. We'll talk in a minute about what those criteria are.

The proposed rule would also add a small member participation housing goal that 50% of "AMA users," which means the members that sell mortgages to the Federal Home Loan Banks, must be small institutions using an existing definition of community financial institutions. If a Bank is below 50%, it need only make annual progress toward 50% the next year to be in compliance.

The proposed rule would also create a way for Banks to propose their own target levels for either the 20% purchase level, or the 50% small member level, or both. A Bank would have to justify its proposal and receive FHFA approval to use a different target level.

The proposed rule would eliminate the volume threshold. Goals would apply to all Banks using AMA.

The proposed rule will also simplify what counts toward goals. Currently, that's somewhat complex. To focus in, "AMA loans" is already defined in the AMA regulations, that means federally-backed loans could count if purchased through AMA. We'll talk a little bit more about that later.

What would count for Affordable Housing Goals under the proposed rule? The box on the screen shows you all of what counts. The rule would combine the four separate goal categories in the existing regulation with a single prospective mortgage purchase housing goal that includes loans to low income borrowers (that's the big green bucket), very low income borrowers (that's the smaller yellow bucket), or the borrowers in low income areas (that's the blue bucket) and you can see there are a couple of different categories within that blue bucket. We'll also talk more about those in a minute.

The statutory definition of low income areas allows loans to higher income borrowers to count towards the goal if those borrowers are in a low income census tract, a minority census tract, or a disaster census tract.

You'll see at the top the rule would treat purchase money mortgages and refinancing mortgages the same, right? They're all within the box. And all AMA loans could count including government-backed loans from FHA, VA and USDA if purchased through AMA.

This is my favorite slide. One way to understand how the proposed goal would work is to look historically at how the Banks' mortgage purchases fit the proposed goal. This chart shows the percentage of AMA loans that meet the criteria of the housing goal, Bank by Bank, from 2011 to 2017; that's why there are lots of different colors.

The dotted line that you can see on the screen is the target level, the 20% level in the proposed rule. Notice how for most Banks in most years, 20% was demonstrably achievable.

The chart shows three Banks below 20%. Without identifying any of the Banks individually, we can still see from the chart that the ones below 20% only started AMA activity in the last few years. The variation in performance likely results from a few features from the volume of AMA activity purchased by individual Banks, from different focuses by different Banks, from district level differences in the housing markets, and the fact that Banks under two-and-a-half-billion-dollar threshold are not motivated to meet the affordable housing goals.

If you want to access the full color version of this chart, it wasn't in the Federal Register because that's only gray scale. You can see the full color version here in these slides which will be available after the webinar. It's also in the version of the proposed rule on our website and in the fact sheet. There's lots of ways to see the goal full color chart.

All right. Let's switch gears and talk about the small member goal; its purpose and the definitions. There's a lot on the slide, so bear with me.

This goal focuses on the unique mission and ownership structure of the Federal Home Loan Banks, each of which is a coooperative owned by its members. Small institutions are central to that mission. What do I mean by small institutions? The proposed rule uses an existing definition of community financial institutions; those with total assets less than 1.173 billion dollars, which gets adjusted periodically for inflation.

For AMA loans, we talked about participating financial institutions or PFIs, which are Bank members approved to sell loans through the AMA programs. For many of the small PFIs, their Federal Home Loan Bank is their primary or even only way to access secondary market liquidity.

Small institutions we've found are observably more likely to sell mortgages through AMA that are to low income or very low income borrowers. When we compare using 2017 data, we found that 21% of the loans that small PFIs sold through AMA were to low income or very low income borrowers; that's the blue percentage you see on the screen. Compare that to the larger PFI numbers' only 17%, that's the green number. So, observable difference, that's part of the logic here.

To encourage the Banks to remain focused on serving small institutions, the proposed rule would set a goal that small members should be 50% of AMA users. If a Federal Home Loan Bank is below that 50%, it can show sufficient progress by increasing the percentage of small members by 300 basis points, that's the annual growth that I referred to earlier.

Let's look at how the small member participation housing goals would work with these data. This chart uses 2017 data to show how the Banks would have performed on this goal. You can see in the second column showing small members as a percent of AMA users that nine of the eleven Banks were above 50%, many of them well above. That's different than comparing to the entire Bank membership. Those numbers are in the last column, just for context, just to give shape here.

Not all Bank members use the AMA and this goal only compares to AMA users, not the entire membership. Small members, generally, are a much larger proportion of Bank membership.

Notice that two Banks were below 50% in 2017. That wouldn't mean they were necessarily missing the goal. If a Bank shows annual progress toward the goal, of 300 basis points, that is sufficient. The chart shows that Banks B and E would only need to add one new small member using AMA, all else being equal, to meet the goal.

There are a few other proposed changes in the rule to highlight. First, the Federal Home Loan Banks could be better able to meet the goals if they can count FHA, VA and USDA loans they purchased. The proposed rule would allow these federally-backed loans to count as long as they are purchased through AMA.

Second, the rule would eliminate the confusing current treatment of out of district loans. Remember, I talked earlier about the challenge where a Bank purchases outside of its district compared to market conditions within. The way we structured it, that's no longer a challenge.

Third, low income area loans could overwhelm the perspective mortgage purchased housing goal, unless we limit loans to higher income borrowers from counting towards the goal. So the rule proposes a cap on the number of loans to high income borrowers that can count towards the goal. We'll talk about that in a little more detail.

Remember those buckets from before, there is a slightly different version of them. It's an illustration of what could happen without a cap on higher income loans.

The existing definition of families in low income areas includes borrowers up to 100% of area median income in minority census tracts or disaster census tracts. It also includes borrowers of any income level in low income census tracts. This is the same definition that the Enterprise housing goals use.

Because the prospective mortgage purchase housing goal groups all affordable loans together, one category could potentially overwhelm the others. The blue bucket that you see on the screen represents low income area loans, the picture shows it potentially growing much larger than we saw in the previous picture. To deal with this challenge, the proposed rule would require that at least 75% of all mortgage purchases that count toward achievement of the prospective mortgage purchase housing goal, be for borrowers with incomes at or below low income.

Put differently, no more than 25% of the mortgages a Bank uses to qualify for the prospective mortgage purchase housing goal could be to borrowers above low income.

Note that the proposed cap would not prohibit the Banks from purchasing mortgages for borrowers with incomes above low income. Rather, it would simply limit the extent to which such mortgages could be counted towards the goal.

Before we switch to questions, I want to encourage you to comment. Comments are due January 31st, 2019, which will be upon us before we know it, so please start thinking now and we look forward to your questions.

Danielle: Hi Rita, can you remind the participants how they can submit a question?

Rita: Just a reminder, to submit a written question, use the chat panel on the right-hand side of your screen. Choose "all panelists" from the send-to drop-down menu.

Danielle: Thank you.

Ethan: All right, and thank you all for starting to type in questions. I see some on the screen here.

The first questions asks about the criteria for low income areas. The question, I'll read it out. It asks, "Why is it assumed that minority or disaster designated census tracks meet the definition of low income areas? Wouldn't it be more accurate to assign this designation based on local AMI compared to national AMI, thereby establishing race-neutral metrics in achieving objectives and helping all low income or very low income individuals?" This is a great question. One of the things to keep in mind with this rule is that the definition of low income areas is one that is already established for the Enterprise housing goals and is largely statutory in nature. We're working with those established definitions.

Also, remember that there are three different types of… three different criteria within the low income areas definition. One is tied to the minority population of a census tract, another is tied to a disaster designation.

The third is separate from those. It is simply about the income in the census tract and there are slight differences among those, but any of those three criteria are enough to make something a low income census tract.

All right. We have another question. The question is, "Do two- to four-unit properties count for the goal based on its number of units or do they count as a single loan?" They count as a single loan. This goes back to a longstanding definition of single family as one to four, which all I can say is that's an artifact of history.

We'll give it another minute for folks to think of other questions they have. While we're doing that, I would encourage folks to take a look at the full proposed rule. Certainly, the version on fhfa.gov has full color charts and graphs, which change the experience entirely. I highly recommend those.

There's also a fact sheet that was linked. You can find that on our website. It's also linked in the press release, which is a three-page quick intro; allows you to step into this concept.

I recognize that many folks who worked on housing goals in whatever context haven't thought about it in a Home Loan Bank context for quite a while. This is a little bit new and that's why there's a lot of time to think about it and comment.

Danielle: Well, it doesn't look like we have any other questions. Thank you so much Ethan, thank you Sandra for joining us. Actually, we do get one more.

Ethan: This is why we give people time. All right. The question is, "Please explain again the contribution of out of district loans toward the goal?" It's easy to answer, but I'll give some more context.

In the proposed rule, out of district loans count towards the goals, full stop, right? Whatever loans a Home Loan Bank purchases under AMA are what are evaluated. They're potentially in the numerator if they meet the criteria for prospective mortgage purchases housing goal and they're definitely in the denominator as long as they're purchased under AMA.

The comparison is to the regulation in the status quo, the existing regulation that we have now, which also counts those loans, but it makes a different comparison. When FHFA evaluates the housing goals, we compare all of a Bank's purchases which can be both in district and out of district, only to market conditions within the district; that's a bit of a mismatch and it's one thing that the proposed rule looks at. The followup is that it cuts both ways. It's sort of cuts all ways in the sense that under the proposed rule, all of a Bank's purchases are evaluated, and this makes it a lot simpler and in many ways a lot fairer in terms of the evaluation.

We have another question, "Can you discuss why FHFA is pursuing updating housing goals for the Federal Home Loan Banks now?" Great question. In terms of the timing, this is something we've been working on for quite a while. In terms of why now, this has been the result of years and months of work on the topic.

It's clear after… Since the first version of the goal, the first time the rule was created in 2010 and came into effect in 2011, since that time, we've had a chance to observe how they worked, how they don't work so well, and it seemed a good opportunity to update it and help them work better.

Danielle: Give it one more minute for any final questions.

Ethan: I think that's a good choice. Danielle, while we're giving them a minute, if someone wants to make a comment, they go to fhfa.gov how do they find where to comment?

Danielle: Good question, Ethan. If you go to our main page which is fhfa.gov, you can either search for the name of the proposed rule in the search box at the top or you can go under supervision and regulation, it's one of the tabs on the top bar, and then click on "rule making and Federal Register," and you'll see all of the rules that are open for comments.

Ethan: Great. What I will do is advance to the final slide which also has a direct link.

Danielle: Direct link.

Ethan: Those of you who registered for the webinar, will they get these slides in the email afterwards?

Danielle: Yes. Thanks for reminding. We will send these slides out to everyone who registered, and we will also post this on our website, a full transcript as well as the recording of this webinar.

If you have any other questions for us, if you go to that page, there's also contact information for the team here. Other than that, just a reminder, final reminder, that comments are due by January 31st, and that's all we have for you today. Thank you so much again for your participation and we hope you comment.

Ethan: Great. Thanks everyone.

Rita: Thanks for joining today's conference. The call has now concluded and you may disconnect.

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