



**Federal Housing Finance Agency Request for Input:
Federal Home Loan Bank Core Mission Activities and Mission Achievement**

Submitted by: Affordable Housing Tax Credit Coalition (AHTCC)

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Background

The [Affordable Housing Tax Credit Coalition](#) (AHTCC) is a national trade association comprised of more than 270 housing organizations advocating to expand the development and preservation of affordable housing by strengthening the Low-Income Housing Tax Credit (Housing Credit), our nation’s primary tool for financing affordable housing. We thank Director Thompson and the Federal Housing Finance Agency (FHFA) staff for this opportunity to provide feedback on the Federal Home Loan Bank Core Mission Activities and Mission Achievement.

The need for affordable housing has skyrocketed—at the end of 2022, our country was **3.8 million homes short** of meeting the general housing needs of Americans¹ and **7 million homes short of housing needed to serve extremely low-income renters**². For this reason, the AHTCC is urging Congress to enact the Affordable Housing Credit Improvement Act ([HR.3238/S.1557](#)), broadly supported, bipartisan legislation that would increase our nation’s affordable housing supply by nearly 2 million more affordable homes than would otherwise be possible. While legislation to increase our nation’s affordable housing supply is sorely needed, the Federal Home Loan Bank (FHLBanks) System and its member institutions also can and should play a more significant role in facilitating the expansion of affordable housing production and preservation.

Clarifying the mission of the FHLBanks and updating how FHFA evaluates their performance, as recommended in the landmark [report](#), *FHLBank System at 100: Focusing on the Future*, is an important first step. We concur with FHFA that “the FHLBanks should find innovative ways to increase the production, rehabilitation, and preservation of multifamily housing, particularly smaller multifamily properties” and that “improving safe and sound access to affordable housing and investing in community development is an effective strategy for building strong and sustainable communities.” We support the report’s conclusion that FHFA should “work with FHLBanks to ensure collateral and advances are supporting housing and community development” and that “the system should also consider opportunities to expand its support of

¹ Up for Growth, *Housing Underproduction™ in the U.S.*, 2022. Available at: <https://upforgrowth.org/apply-the-vision/housing-underproduction/#:~:text=Housing%20Underproduction%20occurs%20when%20communities.need%20and%20total%20housing%20availability>

² National Low Income Housing Coalition, *The Gap: A Shortage of Affordable Homes*, 2023. Available at: <https://nlhc.org/gap>

housing and community development through pilot and voluntary programs and through greater involvement in multifamily activities.”

Call to Action

It has been the historical mission of FHLBanks to provide liquidity to the housing finance system. In doing so, membership in the FHLBank System provides significant financial benefits including access to government-supported capital advances that provide member institutions with liquidity at affordable rates. Additionally, members benefit from generous dividend payments from their FHLBank stock ownership.

As the *FHLBank System at 100 Report* describes in its “Appendix 2: Overview of the FHLBank System,” the housing finance system has evolved significantly over the past one hundred years and the FHLBank System, along with its membership and regulatory structures, have evolved multiple times to be responsive and relevant. Today, lower income Americans face unprecedented housing affordability challenges and large segments of the population are no longer able to afford conventional housing options. Institutional participation in the traditional housing finance system is no longer sufficient to meet the housing needs of lower income Americans. As the need for affordable housing continues to grow, it is timely for FHFA to clarify and emphasize the mission of the FHLBank System to specifically and proactively address affordable housing finance and ancillary business solutions. In this process, we suggest incorporating mission performance metrics that specifically set affordable housing unit production targets and/or encourage the development of member incentive programs that further the ability to finance and operate affordable housing. Given the diverse types of participants in the FHLBank System (depository institutions, credit unions, CDFIs, Insurance Companies), we suggest it is appropriate to develop nuanced mission achievement metrics and member incentive programs that reflect their unique roles in the industry. We also suggest that alignment with other regulatory structures, such as the Community Reinvestment Act, may amplify mission outcomes and reduce duplicative regulatory reporting requirements.

Summary of Primary Recommendations

We recommend that FHFA and the FHLBanks take affirmative steps to encourage the expansion of programs, incentives and collateral requirements to encourage *all* FHLBank member institutions including depository institutions, Community Development Financial Institutions (CDFIs) and insurance companies, to invest in, lend to, and/or provide other ancillary support to multifamily affordable housing. Specifically:

- 1) All FHLBank members, *including and especially insurance companies*, which are not currently subject to community development regulatory requirements (e.g., the Community Reinvestment Act (CRA) or CDFI certification), should be incentivized to invest in affordable housing as a condition of ongoing membership in the FHLBank system.
- 2) All FHLBank members that are Property & Casualty (P&C) insurance companies should be incentivized to underwrite and provide actuarially appropriate and affordable insurance coverage for multifamily affordable housing.

Expand FHLBank Insurance Company Members Investment in the Housing Credit

Many Health Insurance, Life Insurance, and P&C Insurance companies are direct participants in affordable housing finance as lenders and “economic” housing credit investors.³ However, according to National Association of Insurance Commissioners (NAIC) data, affordable housing represents a tiny proportion of their overall balance sheet investment volume. According to NAIC, insurance companies Schedule BA investments represent only 6.5% of US insurance company cash and invested assets. Schedule BA investments include hedge fund, private equity, and real estate investments (a subset of which include state and federal Housing Credits). Within the Schedule BA investment category, in 2021 only 1.7% was invested in the Housing Credit - \$4.517B by Life Companies, \$4.14B by P&C. In comparison, in 2020, Life Companies invested 4.97B in Housing Credits while P&C companies invested \$3.575B.⁴

Even modest increases in FHLBank insurance member company investments in the Housing Credit would have significant and positive impact on community development finance – helping to address inflationary pressures and increase the production, rehabilitation, and preservation of multifamily affordable housing.

Furthermore, Housing Credit investments are excellent collateral. According to the November 2023 CohnReznick Affordable Housing Credit Study, “Through its 37-year history, the housing tax credit program has established an impressive record for building affordable housing and delivering promised returns to investors. Most properties financed with housing tax credits are fully occupied, with healthy financial performance and extremely low foreclosure rates. Remarkably, despite the pandemic-related public health and economic challenges of the last several years, the data show that the housing tax credit portfolio once again proved to be resilient...The respondents to CohnReznick’s survey report a 0.50% cumulative foreclosure rate, with no new foreclosure reported in 2021 or 2022.”⁵ While Housing Credit investments may be less liquid than other types of collateral, such as CMBS, there is an active secondary market when the need arises.⁶

Engage FHLBank P&C Insurance Company Members to Support Affordable Housing

Beyond investing in the Housing Credit, we suggest that FHLBank P&C insurance member companies have a unique opportunity help address one of the most significant challenges facing affordable housing owners and developers today – namely, the rising cost of property and

³ We distinguish “economic” investors from depository institution investors that have some degree of investment motivation driven by compliance with the Community Reinvestment Act (CRA). According to CohnReznick, approximately \$24.5 billion in capital was committed to housing tax credit investments in 2022 and that CRA-motivated capital was the source for approximately 82% of that amount with the balance provided by Fannie Mae and Freddie Mac (approx. 7%) and non-GSE economic investors (approx. 11%). Source: [Cohn Reznick Affordable Housing Credit Study, November 2023](#)

⁴ Source: <https://content.naic.org/sites/default/files/capital-markets-special-reports-asset-mix-ye2022.pdf> and <https://content.naic.org/sites/default/files/capital-markets-special-reports-Sch-BA-YE2021.pdf>. Unfortunately, the NAIC Capital Markets Report in 2022 did not report on the LIHTC component of Insurance Companies Schedule BA-Investments.

⁵ <https://www.cohnreznick.com/insights/2023-affordable-housing-credit-study>

⁶ https://www.housingfinance.com/finance/positive-outlook-for-lihtc-market_o

casualty insurance. Escalating insurance premiums are a significant contributor to rent inflation and negatively impact rental housing affordability across the country.⁷ Affordable housing operators are particularly vulnerable to insurance premium inflation because they have limited ability to pass premium increases through to residents. Insurance inflation is a significant barrier to the development and financing of new affordable housing. This is further compounded by supply-chain disruptions and the run-up in interest rates and construction costs, thereby stressing development budgets to the breaking point. Rising operating costs in combination with high interest rates are making affordable housing transactions increasingly unfeasible. Given that many FHLBank member institutions are Property & Casualty (P&C) insurance companies, we believe this RFI, and any subsequent rulemaking, presents a unique opportunity to engage with insurance providers to support multifamily affordable housing consistent with the broader FHLBank mission.

We recognize that most FHLBank member institutions contribute to the housing finance ecosystem by virtue of their participation in the mortgage finance system by originating, purchasing, and/or securitizing multifamily and single-family mortgages and, in some cases, providing equity in the form of investments in Housing Credit partnerships or other community development tax credits. P&C Insurance companies play an additional and critical role in the housing finance system. Maintaining sufficient P&C insurance coverage is a baseline requirement of any permanent financing package or equity financing.

It is natural and appropriate that investors and lenders will require their collateral to be insured against risk; however, in “hard” insurance markets, as we are experiencing today, escalating insurance premiums are a significant barrier to the development and operation of affordable housing. Affordable housing operators are uniquely vulnerable to operating cost increases because income and rent restrictions impede their ability to pass operating expenses through to residents.

RFI Response

For ease of review, we have organized the following responses to FHFA’s RFI by Section (Mission, Measurement, Member Incentive Program) and Question number.

Mission Statement for the FHLBank System

Mission Question 1: *How should the mission statement for the FHLBanks reflect the connection between the liquidity provided by the FHLBanks and their support for housing and community development?*

⁷ According to Marsh’s Global insurance market index, as of the first quarter of 2024, US property insurance rates in the US have increased for twenty-six consecutive quarters and US Casualty rates have increased for 20 straight quarters. Since the beginning of 2020 US Property Rates have increased on average 13.5% each quarter and US Casualty Rates have increased on average 4.8%. <https://www.marsh.com/en/services/international-placement-services/insights/us-insurance-rates.html>

We believe that all FHLBank members should have minimum affordable housing goals regardless of size or institution type. Additionally, given that capital advance facilities along with the share dividend are the most important FHLBank member benefit, it is also appropriate for FHFA and the FHLBanks to consider aligning the mission goals so that they are proportional or at least relational to the size of the institution, the number of shares it owns in the FHLBanks and the member utilization of the capital advance facilities.

We recommend that FHFA update its mission statement to require FHLBank members show consistent, ongoing, demonstrated support for affordable housing in the form of direct lending, investment in Housing Credits, and/or supporting critical services necessary to execute and service loans and equity investments (e.g. facilitating more affordable P&C insurance coverage to affordable housing providers with limited options). The mission must emphasize ongoing and recurring participation in the affordable housing market – a one-time asset test is not sufficient to meet ongoing affordable housing needs.

Furthermore, as stated in the introduction, given the performance of affordable housing (Housing Credit financed rental housing, in particular) as an asset class, we suggest that investments in affordable housing should be treated as *preferred* collateral for the purposes of capital advances. Incentivizing affordable housing as preferred capital advance collateral is an excellent way to further encourage affordable housing mission goals in a manner that also furthers safety and soundness of the system.

Mission Question 2: Are there components in addition to providing liquidity and supporting housing and community development that should be included in the mission statement?

Providing liquidity in the form of direct investment and/or lending to affordable housing at competitive rates is important and should be emphasized as a mission priority. Additionally, there are other ways that FHLBank members can support community development through alternative and complementary business lines the members already pursue. As noted previously, many affordable housing owners are underserved by the admitted insurance markets. This is illustrated by dramatic premium increases⁸ and the large number of owners that are forced to purchase insurance policies in the excess and surplus markets.

Affordable housing finance as well as operations are significantly facilitated by insurance policies with affordable premiums and as such, FHLBank P&C insurance companies that take concerted steps to facilitate more affordable insurance policies for underserved stakeholders and/or underserved geographic markets should receive mission consideration. There are many potential tools, programs and creative strategies that FHLBank P&C insurance companies could leverage to facilitate more insurance policies, including: increasing underwriting capacity in underserved markets, voluntarily limiting rate increases for underserved stakeholders, offering incentive or discount programs, providing technical assistance, subsidizing loss mitigation

⁸ <https://www.nmhc.org/globalassets/research--insight/research-reports/insurance/ndp-nlha-housing-provider-insurance-costs-report-oct-2023.pdf> and <https://thenyh.org/wp-content/uploads/2024/03/Affordable-Housing-Insurance-Policy-Brief-3.16.24-Final.pdf>

programs, increasing funding for AHP, and/or investing in a managed fund that provides subordinate financing to offset investments in resiliency. Additionally, on top of current AHP mandates, additional supplementary voluntary contributions could be used to provide insurance related relief for in-service affordable housing transactions.

P&C insurance companies are uniquely positioned to facilitate community development through their underlying business of writing insurance policies. Their businesses are facilitated by the liquidity they can leverage through FHLBank capital advances. This provides members with a cost-effective and flexible facility to pay claims without having to sell investments prematurely.

Measurement of Mission Achievement

Measurement Question 1: Are there characteristics other than those listed on pp. 9-10 that FHFA should consider in developing measures of mission achievement? Please provide the rationale for consideration of any other characteristics.

As described in our response to Mission Questions 1& 2, we recommend that positive consideration for mission achievement be given for “other business” activities that are complementary to affordable housing loan and tax credit equity products. This should include products, programs, incentives, or investments that support the provision of affordably priced insurance policies for “underserved” affordable housing markets and/or stakeholders.

There are several methodologies that FHFA and the FHLBanks could consider in defining “underserved” for the purposes of this comment. For example, underserved market segments could include geographies where it is more difficult to procure policies. It could also identify specific housing typologies (e.g., permanent supportive housing, Section 8, etc.) that are underserved by insurance markets. FHFA and the FHLBanks could build on the methodologies that Fannie Mae and Freddie Mac have developed to identify underserved markets and/or leverage data from the Federal Insurance Office, National Association of Insurance Commissioners, or commercially available datasets that may further identify climate or other risks that inform insurance underwriting.

In general, when setting measures for mission achievement, FHFA should consider and give positive credit for ancillary and complementary business lines that FHLBank members may offer that support affordable housing finance. For ease of administration, FHFA may also wish to defer to established, complementary, and mission-aligned community development regulatory structures implemented by other federal agencies⁹ that may also govern the member entities. For FHLBank members that do not have a state or federally regulated community development

⁹ Depository institutions regulated by FDIC, Federal Reserve or OCC may be sufficiently covered by the Community Reinvestment Act. Likewise, the CDFI certification process administered by the Treasury Department’s CDFI Fund also has robust community development mission metrics.

requirement (e.g., insurance companies and credit unions), FHFA should consider developing minimum measures of mission achievement to ensure parity.

Measurement Question 2: Should all activities in the CMA regulation qualify as core mission activities? Are there items that should be added to or removed from the list of core mission activities? Please provide the rationale for any additions or deletions.

We encourage FHFA to prioritize affordable housing finance as part of its core mission activities and, to the extent possible, evaluate and incentivize its members to leverage resources derived from the FHLBanks to further this mission activity. Recognizing that money is fungible, it may be most expedient to tie mission goal target metrics to the deployment of funds in affordable housing investments, loans, or complementary activities¹⁰ over a defined evaluation period that has some relationship to funding derived from FHLBank resources such as capital advances and/or stock dividends.

Measurement Question 3: In developing multiple measurements, what additional aspects of mission achievement should FHFA assess? What additional measurements should FHFA adopt to assess support for housing and community development, including support for lower income households or other groups with identified needs?

Q3 Part a: Should some core mission activities be weighted differently from others? For example, in assessing support for housing and community development, should advances or other activities involving members with a stronger mission focus be given greater weight?

We suggest that both affordable housing lending and housing credit investments should be given greater weighting or emphasis within core mission activities. Given that each FHLBank has a defined geographic footprint, additional positive weighting could be given to affordable housing investments and lending in the FHLBank's footprint; however, since many members work across multiple FHLBank geographies and/or are members of multiple FHLBanks this approach may create complications. It may be more impactful if positive consideration was given for lending and investing in underserved areas irrespective of the FHLBank's footprint. For the purposes of this recommendation, FHFA and the FHLBanks should consider multiple factors when defining "underserved." This could include high operating costs areas (e.g., insurance premiums, property taxes, etc.) as well as areas where the tax credit equity market is shallower such as "non-CRA" markets, Rural Areas, or areas identified by housing or finance regulatory agencies as distressed or underserved¹¹, etc. Additional consideration may be given for financing projects with deeper income targeting, supportive services, or extended affordability commitments.

¹⁰ Complementary activities could also include providing credit enhancement of insurance products such as Community Based Catastrophe Insurance or capitalizing/credit enhancing shared risk pools or other affordable insurance solutions.

¹¹ For example, the FDIC, FRB and OCC publish an annual list of distressed or underserved nonmetropolitan areas for the purposes of CRA https://www.fdic.gov/system/files/2024-07/2024distressedorunderservedtracts_0.pdf?source=govdelivery&utm_medium=email&utm_source=govdelivery

Q3 Part b: Should all FHLBank advances count as core mission activities, or should there be limits or exclusions for advances (or other activity) involving members that have only a limited connection to housing and community development? How might this be measured? Should the type of collateral securing an advance be considered in evaluating advances? (Alternatively, this type of approach could be used for calculating one or more additional measurements.)

We recommend that FHLBank advances only count as core mission activity if the advance funds are used to directly finance or support defined community development (e.g., multifamily affordable housing) activities. Recognizing that money is fungible, leveraging other funding in similar amounts in approved direct community development activities or in managed funds within an appropriate evaluation period should be counted as core mission activity. As has been recommended in earlier comments, affordable housing credit equity as well as loan collateral to housing credit properties should also be given preferential weighting.

Q3 Part c: How should an FHLBank's AHP contributions that exceed the statutorily required minimum or voluntary program contributions be reflected in the mission achievement measures?

Voluntary increases in AHP contributions beyond the statutory minimum should be given positive consideration for mission achievement. This can be an impactful way for smaller member institutions that do not have the capacity, ability, or tax liability to invest in Housing Credits or to lend to multifamily affordable housing properties. Additionally, we strongly advise FHFA and the FHLBanks to select mission achievement measures that also encourage or incentivize tax credit equity investment and concessionary lending in underserved multifamily affordable housing.

Measurement Question 4: As discussed in the System at 100 Report, the FHLBanks receive certain advantages from their status as GSEs. Another approach to assessing mission achievement could tie measurement to the value of GSE status. If FHFA were to pursue this approach, how might the value of the GSE status be measured and how should mission achievement be compared to that value?

The GSE status of the FHLBanks lowers the cost of borrowing of member institutions to close to “risk free” US Treasury rates. The interest rate arbitrage provided by the GSE status provides a clear and measurable market benefit to member institutions. As such, it is appropriate that mission achievement measures could be tied to some percentage of the interest rate arbitrage benefit provided by the GSE status. Recognizing that the interest rate environment and yield curve changes over time, the advantage of the “GSE Status” is a dynamic metric that may increase or decrease over time. This can easily be reflected with dynamic mission achievement goals over periodic evaluation cycles.

Member Incentive Program (MIP)

MIP Question 1: What factors should FHFA and the FHLBanks consider in determining each member's commitment to housing finance and community development under a member incentive program?

We recognize that not all FHLBank members have the capacity to manage direct investments in affordable housing and furthermore that they may not have tax liability in any given year to utilize housing tax credits. As such, we encourage FHFA and the FHLBanks to provide alternative mission achievement evaluation pathways through the creation of Member Incentive Programs (MIPS) that provide concessionary gap-filling debt for affordable housing developments. These could be directly administered by the FHLBanks, the member institutions, CDFIs, or fund managers. In fact, there are several local models that the FHFA and the FHLBanks may consider replicating that some member institutions already participate in. These include the Life Initiative¹², the Property & Casualty Initiative¹³, and the California Organized Investment Network (COIN).¹⁴ FHFA and the FHLBanks could also consider modeling MIPS on other private-sector funded initiatives such as Amazon's Housing Equity Fund¹⁵ or the Chan Zuckerberg Initiative's Housing Affordability programs.¹⁶ Additionally, MIPS that provide capitalization or credit enhancement for mission driven insurance or reinsurance vehicles, including but not limited to Community Based Catastrophe Insurance,¹⁷ in underserved communities would also be valuable.

MIP Question 2: What metrics and activities should be used to determine each membership category threshold? Are there housing- or community development-related activities that should not count or should be discounted in the calculation? Are there some that should count for a greater amount? How would flow business that might not be reflected on the member's balance sheet be reasonably considered?

Volume-related mission achievement metrics should relate in some fashion to the economic benefits member institutions derive from the FHLBanks. Investments in the Housing Credit are an appropriate and preferred community development-related activity for depository institutions, insurance companies and for-profit CDFIs; however, consideration should be given to the tax liability of those institutions. Alternative pathways should be provided for institutions that may have limited tax liability in each evaluation period. Likewise, non-profit controlled CDFIs and Credit Unions should be provided alternative pathways that are more appropriate for

¹² Funded by life insurance companies domiciled in Massachusetts, The Life Initiative (TLI) was established to provide capital to projects that benefit low- and moderate-income communities and households and defines itself as a dual bottom-line fund. <https://lifeinitiative.com/>

¹³ Funded by P&C Insurance companies domiciled in Massachusetts, The Property & Casualty Initiative invests in community assets that contribute to the health and well-being of residents in low-income communities. <https://www.pcifund.com/>

¹⁴ The California Organized Investment Network (COIN) guides insurers on making financially sound investments that yield environmental or social benefits within the state in underserved communities <https://www.insurance.ca.gov/0250-insurers/0700-coin/>

¹⁵ Amazon's Housing Equity Fund provides below-market loans and grants to preserve and create affordable housing in the Puget Sound, National Capital, and Nashville regions <https://www.aboutamazon.com/impact/community/housing-equity>

¹⁶ The Chan Zuckerberg Initiative's Innovative Housing Finance Request for Applications invests funds that enable new approaches to financing the production and/or preservation of housing in California <https://chanzuckerberg.com/community/housing-affordability/>

¹⁷ <https://www.marshmclemann.com/insights/publications/2021/february/community-based-catastrophe-insurance.html>

their business structures, such as below-market construction and permanent and/or bridge lending. Across all member types, direct subordinate gap lending and/or contributions of resources to managed subordinate gap funding programs should be encouraged. In general, additional credit should be given for deploying resources to serve identified underserved affordable housing stakeholders, geographies and/or asset types.

MIP Question 3: Member activity that supports the housing finance and community development mission may change over time. How frequently should members be evaluated and classified as to their incentive category? Should the members self-report their level of housing and community development activity and provide documentation or a certification to the FHLBank, or should the measurements be performed by the FHLBank? What should the steps or process be for re-assigning members whose engagement in housing finance and community development activities has shifted, resulting in a change of category?

FHLBank mission measures should be evaluated and updated with some frequency. We suggest that a three-year evaluation cycle is appropriate. There could be additional synergies by aligning cycles with complementary regulatory evaluation cycles when they exist, such as Community Reinvestment Act evaluation periods, which are also typically three years. Self-reporting, particularly where there are overlapping community development examinations, as is the case with depository institutions covered by CRA, is appropriate and reasonable. FHLBanks could also perform periodic audits or assign them to another agency that is already performing a parallel review (e.g., FDIC, Fed, OCC) if mission goals align appropriately.

MIP Question 4: What additional benefits should accrue to members in each category?

FHLBank members that achieve or exceed mission goals could receive additional benefits from the FHLBank system including alternative collateral requirements, increased access to liquidity facilities, increased dividends, or less onerous reporting requirements.

MIP Question 5: What provisions should be required for each FHLBank's program to ensure it does not adversely affect the FHLBank's safety and soundness?

As stated in earlier comments, affordable housing as an asset class has an exceptional performance record. The goals, incentives and program concepts recommended above should not adversely affect FHLBanks safety and soundness. For example, voluntary AHP contributions are a function of FHLBank profits, which are calculated after earnings are retained for reserves. Likewise, mission activities discussed above are focused on FHLBank member investments and the management of their own balance sheets, which should not impair valuations of pledged collateral or restrict the FHLBanks ability to appropriate the collateral when necessary.

Question 6: Should there be requirements that ensure members who obtain the benefits of such programs are not engaged in conduct inconsistent with the public interest, such as predatory, discriminatory, or unfair practices?

While we do not have a detailed recommendation on this question, we do agree FHLBank benefits should not accrue to organizations that participate in activities that are not consistent with the public interest including predatory lending, discriminatory or other unfair practices. This should include organizations that categorically discriminate against affordable housing as an asset class.

Conclusion

We appreciate the opportunity to provide feedback on FHFA's Federal Home Loan Bank Core Mission Activities and Mission Achievement RFI. We welcome the opportunity to discuss these comments with you further.