

United States Senate
WASHINGTON, DC 20510

July 15, 2024

The Honorable Sandra Thompson
Director
Federal Housing Finance Agency,
Division of Bank Regulation,
400 Seventh Street SW, Seventh Floor,
Washington, DC 20219

RE: [FHLBank Core Mission Activities and Mission Achievement RFI](#)

Dear Director Thompson,

We appreciate the Federal Housing Finance Agency's (FHFA) request for information regarding the mission, metrics and member incentives for the Federal Home Loan Banks (FHLBanks). These questions are timely, necessary and important about the practices, mission and benefits of these evolving 92-year-old government-sponsored enterprises. We concur with the FHFA and the many commentators, academics and many others who demand that this trillion-dollar System greatly expand its investments in housing, especially housing supply and affordability.

As FHFA's staff considers how to ensure the FHLBanks and their members meet the housing and community development mission envisioned and expected by Congress, we offer these recommendations related to establishing a mission statement, metrics and member incentives.

First, FHFA should establish a clear mission statement for the FHLBank System that includes mission-related investments previously identified by Congress. Undeniably, Congress wanted the FHLBanks to meet the nation's housing needs, hence its founding in the depth of the Great Depression and the inclusion of the "Home" in the name. In addition, in 1989¹, Congress expanded statutory language to include community economic development. The Banks' also avail themselves to many taxpayer benefits including their status as a government-sponsored enterprise, monopoly powers, an estimated \$7.3 billion annual taxpayer subsidy, tax-exempt status and a line of credit from the Treasury Department. These taxpayer benefits only exist so that the FHLBanks can provide financing for their members to meet community needs, including affordable housing and community economic development. A final mission statement should incorporate a clear connection between liquidity for the public purpose of financing housing and community development in communities around the nation.

¹ "H.R.1278 - 101st Congress (1989-1990): Financial Institutions Reform, Recovery, and Enforcement Act of 1989." *Congress.gov*, Library of Congress, August 9, 1989, <https://www.congress.gov/bill/101st-congress/house-bill/1278>.

Second, FHFA, as part of its supervisory and regulatory responsibilities, must define and regularly measure core mission activities (CMA) by the FHLBanks and their member institutions. In its request for information, FHFA identified many of the multi-dimensional types of CMA any member of a FHLBank should meet in order to retain membership in the System and access to the benefits of the System including advances and dividends.

For member institutions, mortgage-backed securities and Treasury securities should not count towards core mission assets. Instead, member institutions should be measured on their individual mortgage loans with greater weight for loans below the median loan price of an area, special purpose credit programs, deed-restricted community land trust mortgages, loans for accessory dwelling units, loans for manufactured home loans and, resident-owned manufactured housing cooperatives and mortgages provided in rural and tribal areas. It is disappointing that not one FHLBank has ever accepted a deed-restricted mortgage as collateral despite decades-long success for community land trusts. In addition, greater weight should be provided to single-family mortgage loans that include federal subsidies, such as HOME funds from the U.S. Department of Housing and Urban Development (HUD) and Section 502 funds from the U.S. Department of Agriculture (USDA). Multi-family housing loans should also be considered CMA with greater weight ascribed to those projects developed with the Low-Income Housing Tax Credit (LIHTC), mortgage revenue bonds or other HUD or USDA assistance. Finally, climate finance should be considered including disaster resilience investments for single and multi-family homes, green improvements such as solar or insulation, transit-oriented development or other opportunities made possible through recent legislation.

While banks, credit unions, insurance companies and Treasury-certified community development financial institutions (CDFIs) should be measured for mission investments, community financial institutions (CFIs) and CDFIs should be assumed to comply with mission metrics. Only if a CFI has an unsatisfactory or needs to improve Community Reinvestment Act (CRA) rating or is subject to an enforcement action related to discrimination or unfair and deceptive practices should the FHFA implement a mission metric assessment. Any loan for which an insured depository institution receives CRA credit ought to be eligible collateral for a FHLBank.

FHFA should also include programs and investments that meet community needs as identified by the Affordable Housing Advisory Councils, Community Lending Plans and community leaders. For example, until recently, most FHLBanks had no or minimal investments on tribal lands. Many tribes lack access to financing for water and infrastructure funding; housing development; and community facilities such as schools, health care facilities and other civic buildings. The FHLBanks should help their members finance these investments.

Hopefully, Congress will soon pass a law allowing Treasury-certified non-depository community development financial institutions to provide the economic development loans that create jobs, meet health and educational needs and improve the infrastructure of communities, especially those in rural, tribal and underserved urban areas. Congress can change the law to allow CDFIs to join the System with CFI collateral and pledge non-housing collateral for advances.

FHFA should also consider recommendations about a more equitable distribution of the profits of the System towards mission investments. Clearly, due to the ongoing shortage of affordable housing and lack of investment in community development projects, 10% of net income is insufficient. Moreover, net income may not be the proper assessment metric. We ask FHFA to

consider alternatives to net income for this purpose. We recommend using a percent of the much larger taxpayer subsidy the System receives. This metric would reflect the public benefits provided by the FHLBanks and it would be far more objective and less responsive to manipulation than the current test.

In addition to assessing the member financial institutions, FHFA should also assess each FHLBank for mission investment. This assessment could include establishing a minimum percentage of members providing Community Investment Program (CIP) advances and Community Investment Cash Advances (CICA) along with a minimum amount of CIP/CICA, usage of letters of credit, participating in a mortgage partnership program including for multi-family loans, and sponsoring applications for the Affordable Housing Program (AHP) or other grant programs. FHLBanks should be assessed on their voluntary programs including expansion of AHP funds. FHFA should assess approved dividends, executive compensation and other FHLBank actions on the percentage of members that meet the mission criteria.

Third, after FHFA has developed the FHLBanks' core mission investments, it should develop clear incentives. Member institutions with outstanding CRA ratings should earn higher dividends than those with satisfactory CRA ratings. Member institutions that have provided CIP, CICA, letters of credit, participated in the Mortgage Purchase Program (MPP) or Mortgage Purchase Finance (MPF) programs or sponsored applications to AHP or other grant programs should also earn higher dividends than members who do not participate in these community benefits. Also, members who provide CIP, CICA, letters of credit or sponsor voluntary programs might receive lower interest rates or other incentives than members that do not. Elected FHLBank board members should be leaders in meeting mission investments. It is troubling when board members never use CIP, CICA, letters of credit or sponsor AHP applications.

Decades ago, executive compensation for FHLBank presidents was aligned with levels of affordable housing and community economic development investments. This practice should be renewed. Executive compensation for FHLBank executives should also be tied to the amount and percentage of member institutions using the FHLBank System for mission investments such as the percentage of members providing CICA/CIP; letters of credit allocated and distributed among regions, states, communities and tribal areas; the percentage of members using letters of credit; and the amount of voluntary program investment. By linking executive compensation to financing for low-income, urban, rural and tribal communities, the FHFA can dramatically increase the supply of low-cost and low-risk financing for housing and community development investments.

As your agency takes steps to strengthen the mission investments that Congress expected when it created the System² – and the reason why the public continues to subsidize³ the FHLBanks – we

² Buhayar, Noah, Perlberg, Heather and Weinstein, Austin. *A \$1.3 Trillion Home-Loan System Gone Astray Is Fighting an Overhaul*. Bloomberg, December 20, 2023.

<https://www.bloomberg.com/news/articles/2023-12-20/federal-home-loan-banks-why-lobbyists-are-fighting-housing-lending-reform?embedded-checkout=true>

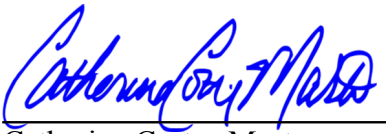
Cornelissen, Sharon. *An Unfulfilled Promise: Affordable Housing and the Federal Home Loan Bank System*. Consumer Federal of America, February 15, 2024. <https://consumerfed.org/an-unfulfilled-promise-affordable-housing-and-the-federal-home-loan-bank-system/#:~:text=Many%20of%20FHLBank%20members%2C%20including,in%20the%20last%20five%20years>

³ Congressional Budget Office. *The Role of the Federal Home Loan Banks in the Financial System*. March 2024. <https://www.cbo.gov/publication/60064>

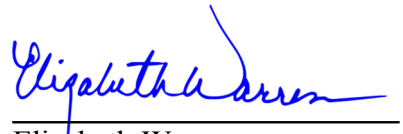
appreciate your consideration of these recommendations regarding core mission activities, mission achievement and mission incentives for the FHLBanks.

People all over the nation have expressed a deep desire to see the FHLBanks use their tremendous financial clout and depth of membership to provide assistance for affordable housing and community economic development in more robust and creative ways. We commend FHFA for encouraging local governments, tribal leaders, affordable housing developers, community economic development professionals, academics, journalists, bankers, policymakers and the public to think about how this trillion-dollar System could use its core products to provide long-term, fixed low-interest rate flexible capital for housing and community economic development investments.

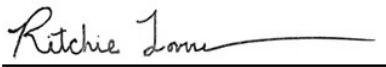
Sincerely,



Catherine Cortez Masto
United States Senator



Elizabeth Warren
United States Senator



Ritchie Torres
Member of Congress