Esperanza
Strengthening Our
Hispanic Community

July 15, 2024

Sandra L. Thompson
Director
Federal Housing Finance Agency
400 7th Street, SW
Washington, DC 20219

RE: FHFA Request for Input: Federal Home Loan Bank Core Mission Activities and Mission Achievement

Dear Director Thompson,

Thank you for the opportunity to provide input on the Federal Housing Finance Agency's (FHFA's) request for input on Federal Home Loan Bank (FHLBank) Core Mission Activities and Mission Achievement. I submit these comments on behalf of Esperanza, where I have the honor of serving as its Founder and CEO. Since 1986, Esperanza (https://www.esperanza.us) has confronted poverty, disinvestment, blight, and lack of economic opportunity in the extremely and very-low income, Hunting Park neighborhood of Philadelphia. Esperanza operates as a nonprofit community development corporation (CDC) with an annual budget of $75 million, a real estate asset portfolio of $125 million, and more than 650 employees.

I have worked with the FHLBank System from several perspectives, including serving as a public interest director for over 20 years on the FHLBank of Pittsburgh board of directors. During this time, I served as Board Vice Chair, and chaired or served on most of the board committees, including those that dealt with audit, risk management and affordable housing.

For almost two years, the FHFA has led an unprecedented national conversation on whether or not the FHLBanks are meeting their public mission. This RFI is an important step in making FHLBanks relevant in the housing finance marketplace of the 21st century. Renewing the FHLBank mission should

- bring the public interest into FHLBank governance;
- effectively deploy the FHLBank cooperative business mode and enable FHLBank members to meet the affordable housing and community development needs of the communities they serve;
- require FHLBanks to develop thought leadership in developing new approaches to build liquidity for long-term funding for affordable housing that builds off their capital market strength; and
- level-set the relative value proposition between the private owners of the FHLBanks and the broader public interest.

Thank you for this opportunity.

Respectfully submitted,

The Rev Luis Cortes

The Reverend Luis Cortes, Jr.
Founder & CEO

Executive Summary of Esperanza Comment Letter

FHLBanks can significantly increase affordable housing efforts without weakening capital, meeting members' liquidity needs or paying reasonable dividends.

FHLBanks should support affordable housing with $2.5 billion in 2024 investment income from $28.7 billion in retained earnings, (based on First Quarter 2024 financial disclosures).

The Federal Home Loan Bank Act does not lay out a specific mission but the FHFA has the statutory authority to develop one.

Mission Statement

- The FHFA has significant regulatory authority over the FHLBanks and must direct FHLBanks to do more in affordable housing and community development.
- As cooperatives, FHLBank mission efforts will be delivered through members.
- The mission statement should lay out how FHLBanks will apply their market leadership and federal credit support to enhance liquidity for long-term funding for affordable rental housing through a number of new approaches.

Measurement of Mission Achievement

- FHLBanks should receive the highest credit for those activities with the highest impact.
- Metrics for measuring mission achievement:
    - development and member utilization of new programs and products, particularly capital market support for liquidity for long-term funding for affordable housing;
    - financial support as a percentage of the GSE benefit to support grants, mission-supporting loss reserves and credit enhancement as well as the costs associated with increased staffing devoted to developing and operating new programs;
    - the leverage and cumulative impact of new FHLBank initiatives; and
    - letters of credit that support long-term funding for affordable housing and community development
- FHLBank mission support should be at least 30% of the GSE benefit.
- The financial benefit of the GSE for each FHLBank and each FHLBank member should be calculated and made public.
- The mission and public interest examination rating should be a major factor in determining executive and board compensation

Member incentive program

- The FHLBanks have not regulated their members since 1989 and should not be expected to do so in 2024.
- Member incentives should support utilization of new FHLBank programs.
- Insured depository institutions and credit unions with assets below $10 billion should be deemed as meeting the requirements of the incentive program.
- Insurance Companies must do more to support affordable housing and community development.

An FHFA FHLBank mission statement as a foundation for FHLBank reform

FHLBank reform offers an important opportunity to direct the FHLBanks to develop new ideas and approaches to supporting liquidity for long-term funding for affordable housing. This should start a process where FHLBanks incorporate affordable housing and community development into their cooperative, regional business model.

New FHLBank programs should build on the FHLBanks' role as wholesale financial institutions and their low-risk business model. Reform should take care not to weaken the FHLBanks' ability to meet the liquidity needs of members. The health of community banks is tied to the health of the communities they serve. These new FHLBank efforts should offer new tools to community banks to meet the development needs of their communities.

The Current Housing Crisis

A crisis in affordable rental housing exists for working class families with significant unmet need. To address that need, we must come up with solutions using new capital market tools that provide long-term funding. The Low Income Housing Tax Credit (LIHTC), Section 8 and public housing are essential but do not come close to meeting all of the need. The Harvard Joint Center for Housing's 2024 report on rental housing presents the problem in stark terms.

- Rental assistance programs are not an entitlement and only serve one in four income-eligible households.
- 60 percent of very low-income households (8.5 million) were eligible for but did not receive rental assistance.
- In 2022, 65 percent of low-income families spent more than half their income on rent and utilities, an all-time high.
- New rental stock is unlikely to bring immediate relief to these households because the bulk of these units charge high rents.

To make matters worse, affordable rental housing supported by LIHTC and HUD programs are entering periods when they can be converted to middle and upper income rental housing. Again, the Joint Center reports:

- Affordability periods for more than 325,000 units will expire in the next five years, and
- Another 7,000 units are lost each year when owners use the tax code's qualified contract option to opt out after 15 years.

A more equitable FHLBank value proposition

The FHFA, as regulator of FHLBanks and stewards of the public interest should establish a more equitable distribution of wealth generated by the FHLBanks' implicit guarantee, tax exemption and other aspects of government support between the member/owners and the broader public interests. The public are not owners of FHLBanks in the traditional sense. FHLBanks are not publicly-owned utilities as some have suggested when restructuring Fannie Mae and Freddie Mac. However, under the current cooperative structure, the FHFA should ensure that the public interest is reflected in the governance and operations of FHLBanks.

The FHLBank value proposition has become too skewed in favor of the cooperative owners of FHLBanks over the public's interests. In the first quarter of 2024, FHLBanks paid $800 million in in first quarter cash dividends to members, an increase of 38 percent over first quarter 2023 cash dividends of $581 million.[1]

FHLBanks can make significant increases to their affordable housing efforts without weakening safety and soundness, weakening their capital position, diminishing the FHLBanks' ability to meet the liquidity needs of their members or to pay reasonable dividends.

Since the 1989 enactment of FIRREA[2], legislation responding to the savings and loan crisis, FHLBanks have been required to contribute 10 percent of net income to support the Affordable Housing Program (AHP), but they have shown they can support statutory payments of triple that amount. From 1989 until 2011, FHLBanks were also required to pay 20 percent of net income to contribute to the taxpayers' debt service on REFCORP bonds issued under FIRREA as part of the response to the savings and loan crisis. During that period of operating under two federal statutory financial obligations, the FHLBank System grew in size, met all capital requirements and paid dividends. Since 2011, that 20 percent of net income ($7.8 billion as of 3/31/2024) was directed by the FHLBanks (with no opportunity for public comment or input) into a sub-set of retained earnings that supports FHLBank income through investment of retained earnings which supports payment of dividends.

The FHLBanks have promised for several years that they would pay an additional 5 percent of net income into voluntary support of affordable housing. According to the first quarter, 2024 CFR, in the first quarter of 2024, FHLBanks contributed $199 million to the Affordable Housing Program (AHP) under the statutory requirement they contribute 10 percent of net income and $45 million in voluntary expenditures which would represent less than 3 percent of net income.

Retained Earnings Investment Income: A financial source for FHLBank mission initiatives

Income generated from the risk-free investment of retained earnings is significant. The first quarter, 2024 CFR shows that FHLBanks could significantly increase their support of affordable housing and community development by applying the investment income derived from their retained earnings to support affordable housing. All data below is as of March 31, 2024:

- FHLBanks held $28.7 billion in retained earnings (both restricted and unrestricted).
- The CFR states the FHLBanks' return on average equity (annualized) was 9.83 percent.

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[1] First Quarter 2024 Combined Financial Report (CFR) issued by the Office of Finance.

[2] Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA)

- FHLBanks therefore will earn in excess of $2.5 billion in risk-free investment income from these retained earnings in 2024.
- FHLBanks now have over $22 billion in excess regulatory capital and applying the investment income from retained earnings to support affordable housing would not weaken that capital position.
- Applying this $2.5 billion in investment income to supporting mission would likely reduce dividends from extremely high record levels, but it would significantly increase FHLBanks' support of affordable housing and community development.

Mission Statement for the FHLBank System

The Federal Home Loan Bank Act does not lay out a specific mission.

The Chairman of the Federal Housing Finance Board, the predecessor agency to the FHFA, tried to develop such a statement a quarter of a century ago. United strong opposition from the FHLBanks defeated that effort.

In the absence of a regulatory mission statement, the FHLBanks have self-defined their mission as one that focuses to a large degree on providing member value. The FHLBanks' CFR for year-end 2021 states, "The FHLBanks' public purpose is enhancing the value of membership for member institutions" which includes "the value of the cost differential between an FHLBank's advances and other potential sources of funds, as well as the potential for dividends."

The FHFA has significant regulatory authority over the FHLBanks and must direct FHLBanks to do more in the areas of affordable housing and community development.
The Housing and Economic Recovery Act of 2008, the statute that establishes the FHFA, directs the Director in § 4513(f) to consider the differences between the Federal Home Loan Banks and the enterprises with respect to "the Banks' mission of providing liquidity to members and the affordable housing and community development and any other differences that the Director considers appropriate."

This RFI represents the first formal steps in a process that will develop a regulatory mission statement. This mission statement, supported by existing statute, will be the foundation for future regulation and oversight of the FHLBanks.

> **Mission Question One:** 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?

As a GSE, the FHLBanks rely on the public's good will and support. If the FHLBanks continue to put the public interest behind the interest of stockholders and borrowers, the long-term value of the charter may be diminished.

The liquidity provided by FHLBanks provides an essential service to members who rely on that liquidity to manage liquidity risk; however, the use of the government-supported liquidity by the members should also show a benefit to the mission of supporting affordable housing. For example, a member can use an advance to match fund a housing or community development loan, use an FHLBank standby letters of credit (SLOCs) to support affordable housing or community development, or use FHLBank programs offered to members, apart from advances that can support member activities in their markets.

Under current regulation, there are no requirements on how FHLBank members use advances. There are no requirements that collateral pledged to support FHLBank credit products have any connection to affordable housing or community development. Members can take the cheap funding provided by the FHLBanks to increase their profitability, make acquisitions, reduce retail deposits or other uses.

The FHLBanks must ensure the connection between their liquidity and their mission is clear and the use of these products to support the mission is encouraged by actions of the FHLBank. Individual FHLBank members are not regulated by the FHFA, but FHLBanks are. The FHFA cannot directly force member institutions to engage in certain activities, but the FHFA can exert regulatory oversight over FHLBank efforts to develop programs and incentives to drive member mission behavior.

The FHLBanks have not been regulators of their members since 1989. It is not reasonable to expect FHLBanks to dictate member behavior, but it is reasonable to require FHLBanks to facilitate member mission-related activities through a number of programs, credit support and other activities. These FHLBank actions can be reinforced through incentives to encourage greater member utilization of these new FHLBank programs in addition to member actions separate and apart from utilization of FHLBank programs.

The FHLBanks' mission statements should:

- express the recognition that FHLBank liquidity must support the public mission with a goal of meeting unmet affordable housing credit needs;
- state that FHLBanks understand their obligation to ensure FHLBank products and services efforts are supportive of affordable housing and community development;
- acknowledge that FHLBanks, while privately capitalized, have a congressional charter that is supported indirectly by the taxpayers and that the fiduciary duty of FHLBanks' board includes serving the broader public interest;
- recognize that FHLBanks have a cooperative business model that means that the success of a FHLBank in meeting its mission obligations will be measured by member use of FHLBank products and services;
- present the FHLBank's thinking on what could be done to reinforce the link between liquidity and affordable housing and community development and how it will attempt to achieve results; and
- state that the compensation of FHLBank boards and senior management will take into account their successes in mission achievement and serving the public interest.

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

Yes. The FHLBanks' mission statements should go beyond advances and SLOCs to articulate the FHLBank's plans to foster and build liquidity for affordable housing and community development in other ways. These broader efforts should include use of the FHLBank's balance sheet, earnings, credit strength and the cooperative itself.

The mission statements should support the development of new products, services and targeted portfolio investments that increase support for affordable housing and community development. These may be supported with investment income derived from retained earnings and other sources of net income.

The mission statements should focus on the need to develop a broad range of programs and products that go beyond advances and letters of credit that the members can use to support the defined mission.

Finally, the mission statement should demonstrate how FHLBanks will apply their market leadership and federal credit support to enhance liquidity for long-term funding for affordable rental housing by a number of new approaches including

- leveraging their capital market strength (aided by the implicit guarantee) and the use of investment income derived from the investment of retained earnings to increase the liquidity of new funding instruments that focus on smaller projects;
- working with nonprofit developers serving minority communities;
- supporting bonds and long-term financing for affordable rental housing by using their GSE cost of funds to make portfolio investments;
- providing credit support for these bonds using SLOCs; and
- applying the credit risk sharing mechanisms of the FHLBanks' mortgage purchase programs to support new affordable housing initiatives.

Measurement of Mission Achievement

FHLBanks should receive the highest credit for those activities that will have the highest impact. At the top of the list are efforts that would increase liquidity for long-term funding for affordable rental housing that:

- Leverages scarce credit support dollars to the greatest effect,
- Develops uniformity in financial tools, and
- Offers flexibility to accommodate different market conditions and levels of subsidy.

FHLBank mission achievement should be assessed by metrics that accurately reflect the positive and potential impact of their work.

> **Measurement Question One: Are there characteristics other than those listed above that FHFA should consider in developing measures of mission achievement? Please provide the rationale for consideration of any other characteristics.**

FHLBanks should be assessed by a number of metrics that should include:

Development and utilization of new programs and products (in addition to more grants)

As cooperatives, FHLBanks deal directly with their members and not the beneficiaries of mission-related activities. The FHLBanks can only succeed and have the greatest impact if they develop effective new programs and those programs are used by members. While FHLBanks should be measured by their actions to develop and stand-up new programs, members should be measured and awarded on their participation in the development and utilization of these programs.

Financial support of new mission activities

A key metric for meeting unmet credit needs in affordable housing and community development is the level of applied financial resources generated by the GSE charter. Too much of the current subsidy involving the implicit guarantee of debt, the tax exemption and investment income supports member profits and does not support mission. The FHLBanks should get "credit" for funds used to support grants, mission-supporting loss reserves, and credit enhancement as well as the costs associated with increased staffing devoted to developing and operating new programs.

The effort to consider and develop a new approach to mission achievement

The initial efforts should start with an assessment of broader unmet needs that goes beyond the community impact needs assessments. This planning should consider the ways that FHLBanks could support these unmet needs, particularly by accessing capital markets to provide liquidity for long-term funding of affordable housing and community development.

FHLBank boards and senior management should seek the insights and expertise of their Affordable Housing Advisory Councils, large and small bank and credit union members, insurance company members, nonprofits, state housing finance agencies, staff at the Office of Finance and nonmember capital market players.

FHLBanks should be encouraged to develop new programs with other FHLBanks and to borrow from successful efforts of other FHLBanks.

FHLBanks should initiate new activities through the development of replicable pilot programs that could serve as proof of concepts that could be refined and tweaked while still small. The risk exposure of the FHLBanks could be managed through the use of loan or program loss reserves to absorb possible losses. The funds necessary to provide credit support could come from net income or the investment income derived from retained earnings.

The leverage and cumulative impact of new FHLBank initiatives

These metrics should assess and reward FHLBanks for developing new programs and initiatives with the greatest mission impact. Under current practice, too many AHP grants represent a small percentage of the capital stack for a LIHTC project and may not determine whether or not that project could proceed.

Staffing mission support

FHLBanks should be expected to devote existing and new staff resources to develop new tools for members to support affordable housing and community development. FHLBanks should get mission credit for staff expenses devoted to considering and developing new approaches to building liquidity for long term funding of affordable housing and community development.

FHLBanks should participate with other FHLBanks in considering and developing new efforts, but the staff resources contributed by each FHLBank should be accurately monitored and mission staff support credit should be allocated accordingly.

Development of credit enhancement tools and financial instruments that increase liquidity of long-term funding of affordable housing and community development

FHLBanks should receive mission achievement credit for supporting the development of liquidity for long-term funding for affordable housing and community development through initiatives that provide credit enhancement, establish loss reserves, or invest in risk transfer instruments. Member involvement in these efforts would leverage the FHLBank's efforts that should include SLOCs for affordable housing; loan loss reserves to support portfolio investments, and soft seconds held in portfolio.

FHLBank SLOCs should be at the top of the list of new FHLBank efforts. The letters of credit are very well understood by member banks that use them to reduce borrowing costs for affordable housing supported by tax-exempt housing bonds and to raise public unit deposits. Letters of credit that support long-term funding for affordable housing and community development would lower the cost of funding backed with the GSE triple-A credit rating, and expand the investor base among regulated financial institutions and institutional investors to create a broad market for these bonds.

The FHLBanks should receive mission achievement credit for the financial contribution of these efforts. It is quite possible that these expenses will support mission achievement more than simply applying those funds to grant programs. It is important that any financial support is clearly documented and provided to the FHFA under FHFA guidelines. Some form of this information should be made available to the public through FHFA reports.

FHLBanks should receive additional credit for developing new approaches that serve the needs of families at or below 60 percent of area median income.

> **Measurement Question Two: 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.**

The current Core Mission Activities (CMA) regime is too easy to meet and sanctions for noncompliance do not advance mission achievement.

All advances and SLOCs made to insured depository institutions and credit unions with assets below $10 billion should receive CMA credit. Advances and SLOCs made to large members that cannot be shown to support the affordable housing and community development mission should receive less credit than those that are mission related. Advances with a higher demonstrable mission focus should receive higher CMA credit than advances made to those members that cannot show that stronger mission focus.

Debt or equity investments that support mission should receive greater weighting than those that do not.

> **Measurement Question Three: 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?**

Please see the response to Mission Measurement Question 1.

Perhaps the CMA would be more effective if the definitions of activities eligible for CMA credit are significantly tightened up and the overall percentage of assets threshold is lower.

Advances to member insured depository institution and credit union with assets greater than $10 billion and all insurance company members with a higher demonstrable mission focus should receive higher CMA credit than advances made to members that cannot show that stronger mission focus. The use of advances by members that cannot show any mission focus should not be rewarded through CMA credit. The use of advances to upstream inexpensive funding to the holding company (in the case of insurance companies) of other related financial institutions should not be rewarded.

> **Measurement Question Four: 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?**

Without the implicit federal guarantee, there would be no FHLBank system. This implicit guarantee generates the value enjoyed by the FHLBank members. This guarantee also bestows upon FHLBanks the responsibility to look beyond the financial interests of their stockholders to the broader public.

System mission metrics measuring FHLBank housing efforts that are accessible to the public are limited. The core mission assets test attempts to do this, but that measure alone is inadequate. The FHFA should gather and report data that would provide:

- A listing of all the voluntary non-AHP affordable housing and economic development initiatives, the size of these programs, the cost to each FHLBank on an annual basis in terms of direct and indirect expense and the impact of those efforts.
- A comprehensive report on how FHLBanks apply the implicit guarantee to advance their mission. The data for each FHLBank should include member dividends as a spread over Fed funds; the dividend payout ratios; the spreads of advances over the FHLBanks' cost of funds; and other pertinent data.
- System-wide AHP grants broken out by state including in-district and out-of-district grants; the types of members who received the grants, broken out by assets and charter; the break-down between for profit and nonprofit recipients; the level of support to minority communities; and other factors.
- Insights on the differences between FHLBanks' distribution of the value of the implicit federal guarantee for each FHLBank by such metrics as advances costs, payment of dividends, and affordable housing support beyond grant awards and CICA levels.

FHLBank GSE Value

Ascribing a level of benefit emanating from the GSE status to each FHLBank would be an important piece of information to use as a metric to focus mission achievement. For FHLBanks, this broader value could include

- The level of debt issued on behalf of each FHLBank with a 40 basis point subsidy applied. This figure was in a Bank of America report as well as a CBO report.[3]
- The value of the tax exemption could be applied to each FHLBank.
- Some portion of the value of investment of member capital and all of the investment income supported by retained earnings should be applied.

FHLBank member GSE Value

The measurement of the value of the GSE subsidy that flows through to each member should be measured and publicly reported by the FHFA. This figure would also be a factor in measuring the mission support activities of each member. The subsidy benefit to each member could be the sum of the 40 basis point FHLBank funding benefit applied to the quarterly average of member advances and the quarterly dividends received by the members.

FHLBank Mission Value Measurement Threshold

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[3] A Bank of America report (Liquidity Insight, Squeezing a Balloon, January 29, 2016) is one of many papers and studies that covers the benefit to members of the implicit guarantee.

"The implied government backing allows FHLB to borrow at levels very close to Treasury yields even while the distribution shifts to very short-dated liabilities. This allows member-borrowers to access funds at rates lower than they would typically achieve in capital market issuance. Recent issuance trends suggest the difference in funding levels between large bank

Another approach to measure CMA would be a percent of financial support the FHLBank provides for mission-related activities supporting affordable housing and community development as a percentage of the GSE subsidy. The FHLBanks should report on the cumulative value of their mission support as outlined in the response to Question 1. This test should show FHLBank financial support to be at least 30 percent of the GSE subsidy income to receive a passing CMA grade.

> **Measurement Question Five: Are there other approaches FHFA should consider? Separately, FHFA is also considering ways to meaningfully incorporate mission achievement in its FHLBank examination processes, including the potential inclusion of a stand-alone mission and public interest examination rating.**

The FHFA should develop a stand-alone mission and public interest examination rating. This rating should be a major factor in determining executive and board compensation.

Board Governance and Mission Achievement

This is particularly important in assessment of FHLBank boards. Unlike publicly traded stockholder companies,[4] FHLBank stockholders hold a majority of FHLBank board seats which leads boards and management to focus largely on stockholder interests usually defined as the lowest possible all-in cost of advances and the highest possible dividends. The FHLBanks' CFR for year-end 2021 states, "The FHLBanks' public purpose is enhancing the value of membership for member institutions" which includes "the value of the cost differential between an FHLBank's advances and other potential sources of funds, as well as the potential for dividends."

The FHFA should update the examiner guidebook and board instructions on how to address the fiduciary duty of boards of these publicly- supported but privately capitalized cooperatives.

In assessing mission achievement, the FHFA should consider defining the fiduciary duty of boards and management to include the broader public interest that stands behind the implicit guarantee. Mission achievement as defined by the FHFA should be reflected in executive and board compensation.

Dividends and Mission Achievement

The FHFA should make clear that paying excessive dividends diminishes the ability of the FHLBanks to meet mission. The range of member dividends as measured by spreads over Fed funds has been dramatic over the past decade. The FHFA should ask each FHLBank board to justify their member dividends from a mission perspective. The FHFA should consider making these statements public.

[4] New York Stock Exchange and the Nasdaq require that the majority of members on the boards of listed companies be outside, or independent, directors.

Member Incentive Program

Member Incentive Program Question One: 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?

Following are possible factors to be considered in a member incentive program:

- insured depository institutions and credit unions below $10 billion in assets should be deemed as eligible for inclusion in the incentive program;
- member advance collateral that supports affordable housing and community development;
- member boards that include those representing community interests,
- member use of the new mission-focused tools and programs developed by the FHLBanks; and
- the percentage of the FHLBank member subsidy (see answer to Mission Measurement Question 2) that members apply in their affordable housing and community development efforts.

<u>Insurance Companies must do more to continue to borrow and receive dividends on the same terms</u>

Insurance companies should be subject to a special set of factors to make them eligible to borrow and receive dividends under the best terms.

All insurance companies that benefit from low-cost FHLBank funding should be part of this effort. Insurance companies are not covered by the Community Reinvestment Act (CRA) nor do they have to meet any minimum asset test upon joining. They are able to use the low-cost FHLBank funding to generate corporate profits[5] through spread enhancement.[6]

Insurance companies have been eligible for FHLBank membership since 1932. In 1997, only 13 insurance companies had borrowed less than 1 percent of total FHLBank advances. Since then, FHLBank insurance membership and borrowing has increased dramatically. Year-over-year growth of insurer membership in the FHLB system has been continually positive over the past 25 years, from 39 members in 1999 to 579 by December 31, 2023. Over the past ten years, an average of 27 new insurance companies have become members of the FHLB System annually.

FHLBank lending to insurance companies went from almost nothing in 2000 to almost 20 percent of FHLBank advances. According to data published by the Federal Reserve[7], 97 percent of insurance company advances went to life insurance companies who own 95 percent of FHLBank insurance company member stock. FHLBanks do not restrict how their

[5] https://www.wellington.com/en-us/institutional/insights/federal-home-loan-banks-opportunity
[6] https://www.westernsouthern.com/-/media/files/fortwashington/fhlbspreadbasedborrowingprogram.pdf?rev=5bb59cf0007c4825874803c0d763b997
[7] https://fred.stlouisfed.org/series/BOGZ1FL523169335Q

members use advances and as a result many of these insurance companies do little to support the affordable housing mission.

The FHFA has extensive experience in requiring one type of insurance company, mortgage insurance companies, to meet certain standards in order to be eligible to participate in GSE mortgage purchase programs.[8] The FHFA should use this experience and develop and apply meaningful mission-related requirements to allow insurance companies to borrow from FHLBanks at the terms they currently enjoy and to receive the same level of dividends.

Life insurance company mission achievement measurement should include their work with the FHLBanks to develop capital market instruments that support liquidity for long-term funding for affordable housing. The American Council of Life Insurers announced such an initiative several years ago, but it appears to have lost steam. Life insurance companies profiting from FHLBank membership should contribute fresh ideas and commitments to affordable housing.

Property and casualty company (P&C) members should be incentivized or required to provide increased and/or more flexible and/or subsidized coverage for affordable rental housing.

> **Member Incentive Program Question Two: 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?**

Financial support as a percentage of the FHLBank member subsidy should be considered as a metric as well as the use of FHLBank mission-related products.

> **Member Incentive Program Question Three: 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?**

Members should provide annual self-certification based on a questionnaire developed by their FHLBank with the approval of the FHFA. The FHLBank should conduct spot checks of these reports. Member insured depository institutions and credit unions below $10 billion in assets should be exempt from this process.

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[8] FHFA, in its role as Conservator of the Enterprises, developed eligibility requirements for private mortgage insurers that provide mortgage insurance on loans acquired by Fannie Mae or Freddie Mac. This was a key Scorecard item for 2015. On April 17, 2015, Fannie Mae and Freddie Mac published revised PMIERs on their websites. https://www.fhfa.gov/policy/fannie-mae-freddie-mac-private-mortgage-insurer-eligibility-requirements-pmiers

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?

Those members should receive a lower dividend (perhaps 70 percent of the dividend they otherwise would have received) with the amount of the reduction being applied to their FHLBank's affordable housing and community development efforts. Those members should also have a surcharge applied to their advances with that increase also being applied to mission activities.

Member Incentive Program Question Four: What additional benefits should accrue to members in each category?

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

The FHFA needs to encourage FHLBank consideration of new approaches to mission achievement. FHLBanks should start new efforts with replicable pilot programs that can be assessed and modified as they gain experience. FHLBank financial resources can be dedicated to provide loss reserves in a way that balances creativity with safety and soundness.

Member Incentive Program Question Six: 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?

Yes