



MIDWEST HOUSING
DEVELOPMENT FUND, Inc.



July 8, 2024

Sandra L. Thompson, Director
Federal Housing Finance Agency
400 7th Street, S.W.
Washington Dc 20219

RE: FHFA's Request of Input: Federal Home Loan Bank Core Mission
Activities and Mission Achievement (the "RFI")

Midwest Housing Development Fund, Inc. ("MHDF") and its parent company, Midwest Housing Equity Group, Inc. ("MHEG") appreciates the opportunity to provide input to the Federal Housing Finance Agency ("FHFA") as it contemplates updates to the Federal Homes Loan Banks' ("FHLBanks") mission statement, methods for measuring and evaluating mission achievement, and financial incentives for members with a strong and demonstrable connection to the mission of the FHLBank System.

MHDF is a tax-exempt Nebraska nonprofit corporation and certified Community Development Financial Institution ("CDFI") founded in 2000. MHDF's mission is to promote sustainable community development and quality of life in the Midwest by providing resources for the development of affordable housing. Since inception, we have originated over \$220 million in loans and helped finance almost 10,000 safe, quality affordable rental homes in the Midwest. MHDF joined the FHLBank - Topeka 2018 as a CDFI member. At present, approximately 20% of our loans are funded by advances from the FHLBank - Topeka.

The need for safe, quality affordable housing continues to grow. MHDF is committed to helping the communities we serve meet their affordable housing needs. It is against that backdrop that we respectfully offer this input for FHFA's consideration.

The FHFA asked a series of questions in the RFI – our responses are below.

Mission Statement for FHLBank System

***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?*

The connection could be reflected this way: "The overall mission of the Federal Home Loan Banks is to provide reliable liquidity to all our member institutions, empowering them to deliver affordable housing and community development solutions. By supporting equitable, sustainable and resilient housing markets, the FHLBanks strives to foster economic growth and improve the quality of life in communities across the nation." Note that this is basically an amalgamation of the "Providing Liquidity" and "Supporting Affordable Housing" sections of the FHLBanks website (fhlbanks.com/mission/ - visited 06/26/24). In our version, we eliminate the "secondary" language of supporting affordable housing (affordable housing applies to folks at a wide range of income levels).

The second sentence of the mission statement reinforces the System's obligation to help the communities its members serve.

***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?*

No. Expanding the mission beyond liquidity and housing and community development might serve to dilute the impact of these critical mission areas.

Measurement of Mission Achievement

***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.*

Measures and metrics need to be relevant. This sounds obvious but the metrics and measures should directly and clearly align with FHLBanks' final mission statement. The tie between the mission statement and the chosen metrics and measures needs to be clear and convincing. Irrelevant, attenuated or tangential metrics and measures can skew the assessment and dilute the focus on mission-critical activities and challenge the credibility of the results.

Measures and metrics need to be flexible and adaptable to account for fast-changing market conditions.

Measures need to be actionable. Design the metrics and measures in a way that the results can inform decision-making and prompt actionable steps. This means that if a metric measurement indicates underperformance, there is a clear pathway or strategy for addressing the shortfall.

***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.*

For the most part, the CMA adequately captures the qualifying core mission activities with two exceptions (remove one and add one):

From our perspective, the "intermediary derivative contracts" do extraordinarily little to improve liquidity or directly support housing. To the best of our knowledge, no FHLBank directly creates derivative contracts but, instead, purchases the derivatives from a third party, adds a premium spread or fee and then sells them to a member. While this could be a convenience to the member, it does not improve liquidity or support housing and community development.

Voluntary housing and community development programs, which most FHLBanks provide to their members, should be specifically added to the list of qualifying activities.

***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?*

In developing a measurement of the FHLBanks Housing and Community Development mission, we believe that – much like the evaluation format already used by FHFA for other government-sponsored enterprises (“GSEs”) – the FHFA should expand the requirements for each FHLBank’s Targeted Community Lending Plan to include a plan for serving specific sections of the market. MHDF proposes the following mission categories: Single-Family Housing, Multifamily Housing, and Community Facility/Economic Development. We propose that each plan cover a three-year cycle and that the FHFA evaluate the progress of each FHLBank’s plan annually. In each FHLBank’s proposed plan, the FHLBank should propose and identify specific activities in its district that serve these mission categories. The FHFA should then evaluate each posited activity in one of three mission evaluation criteria aligned with different tools at the disposal of the FHLBank System: Advances, Acquired Member Assets (“AMA”), and Investments (including activities pertaining to AHP), all of which will be inclusive of relevant pilot programs.

The specific thresholds, and the figures that constitute those thresholds, must be tailored to each service region and are best determined by the FHFA but should apply to every activity undertaken by each FHLBank. For example, the FHFA should evaluate the FHLBanks on activities related to affordable housing across income spectrums from 60% of Area Median Income (AMI) to 120% of AMI, ensuring that AMA activities reach all incomes, not just higher incomes.

- 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 (as discussed below) be given greater weight?*

Greater weight should be given to those activities that serve lower income households and improve access to safe, quality affordable housing (both rental and ownership). Core mission activities involving CDFIs should also be given great weight. Uncollateralized investments with favorable terms made to Community Development Financial Institution (CDFI) members for housing and community development activities and AHP contributions exceeding the statutory minimum should be weighted more favorably as well.

- 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.)*

It does seem proper for all advances to count toward FHLBanks’ mission activity. However, the mission measurement system needs to be structured such that only providing results in a determination that a FHLBank failed to achieve its mission. Stated otherwise, simply making advances doesn’t cut it. The majority of the mission achievement measurement system needs to heavily weight the housing and community component. The specific thresholds, and the figures that constitute those thresholds, must be tailored to each service region and are best determined by the FHFA but should apply to every activity undertaken by each FHLBank. For example, the FHFA should evaluate the FHLBanks on activities related to affordable housing across income spectrums from 60% of Area Median Income (AMI) to 120% of AMI, ensuring that advances and activities reach all incomes, not just higher incomes.

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?

Depending on how FHFA structures the measurement system, additional AHP contributions could be reflected in a point system (e.g., 1 point for every 1% increase above the statutory minimum). Or it could be “extra credit,” pushing a FHLBank from average to outperforming (as another example).

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?*

One advantage the FHLBanks receive from their GSE status is access to favorable funding rates. The GSE funding advantage should be used to assess mission achievement (we'll call the measurement the “cost of funds advantage”). The GSE “cost of funds advantage” can be measured in two steps. First, compare the cost of FHLBank consolidated obligations (FHFA would need to determine the appropriate basket of issuances and tenures) to the cost of debt for non-GSE entities. Once the spread between the two is known, the second step is to determine how much of the “cost of funds advantage” is passed along to members that are focused primarily on housing and community development and whose advances have a direct nexus to housing and community development. The greater the amount of the spread that is passed along to these members (either in lower-cost advances or higher dividends), the higher the “cost of funds advantage” measurement metric.

In addition to access to favorable funding rates, FHLBanks enjoy an exemption from federal income tax (an advantage Fannie Mae and Freddie Mac do not share). FHFA should include a metric that measures the advantage of the tax exemption and what amount/percentage of that value a FHLBank commits to voluntary AHP funding, pilot projects or other mission-focused activity (expressed as the amount of money committed to the foregoing over the amount of federal income taxes that would otherwise be owed). A high ratio equals a high “use of tax-exempt status” measurement metric. Conversely, a low ratio results in a low “use of tax-exempt status” metric.

Measurement Question Five: *Are there other approaches FHFA should consider?*

No. The approaches outlined above are sufficient and manageable.

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?*

FHFA and FHLBanks should categorize the members into three categories. The top tier “Mission Oriented Organizations” are the members with at least two-thirds of their advances and activities supporting low- to moderate-income housing and community development. Mission Oriented Organizations receive the most benefit from the incentive program. The middle tier “Mission Supporting Organizations” are the members with at least 50% of their advances and activities supporting low- to moderate-income housing and community development. Mission Supporting

Organizations receive some benefit from the incentive program. But the benefit differential between Mission Supporting Organizations and Mission Oriented Organizations needs to be great enough to encourage members to remain in (or strive to achieve) Mission Oriented Organization status. The remaining members are regular members and are not eligible to participate in any incentive program.

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? 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?*

Loans originated, and loans held on balance sheet to low- and moderate- income restricted properties, should count towards determining plan achievement, with low-income loans counting for a greater amount. The lower the AMI population served, the greater the weight for that activity.

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? 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?*

Members should self-report and certify on an annual basis to their respective FHLBank, providing documentation where appropriate. Much of the data supporting a member's activity in housing, especially low- to moderate-income housing finance, is not publicly available data that a FHLBank can obtain without the member providing the data. FHLBanks should analyze the data provided and if irregularities are discovered, then the FHLBank may wish to perform an onsite review, similar to a collateral review for members. The annual reporting and certification should be gathered after each calendar year and, at that time, members whose engagement in housing finance and community development activities has shifted can be reassigned to a different category.

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

Those members with the highest level of support for affordable housing should receive the greatest benefit that a FHLBank might offer. Mission Oriented Organizations should receive discounted advance rates equal to .25% below the FHLBank's cost of funds. Mission Supporting Organizations should receive discounted advance rates equal to the FHLBank's cost of funds. Other benefits could include higher dividends and unsecured, low rate, long term loans, similar to the voluntary programs currently offered by the Dallas and Chicago FHLBanks. Mission Oriented Organizations and Mission Supporting Organizations could also receive improved collateral lending values (i.e., lower "haircuts") on collateral that is contractually committed (via a recorded land use restriction agreement or similar document) to house persons and families of low- and moderate-income.

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?*

Ensuring the FHLBank's safety and soundness is paramount to establishing a long-term program to assist housing and community development, especially low- to moderate-income housing, which can be sustained throughout all economic cycles. Therefore, the programs and incentives should be designed such that only current earnings or retained earnings, above the regulatory minimum capital levels, should only be utilized to provide incentives. For example, discounts on advances should not be given below the FHLBank's cost of funds unless funds are set aside from current earnings. Another example could include a limit that unsecured subordinated lending programs cannot exceed the retained earnings above the regulatory minimum capital levels. A final example is that improved collateral lending values should, likewise, not exceed the retained earnings above the regulatory minimum capital levels.

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?*

Members who obtain the benefits of such programs must not be engaged in conduct inconsistent with the public interest, such as predatory, discriminatory, or unfair practices. Similar to the answer to Member Incentive Program Question Three, the member should certify that they are not engaged in such conduct on an annual basis. And the FHLBanks could undertake an independent review of public records to monitor this as well.

MHDF and MHEG appreciate this opportunity to contribute to the development of FHLBanks' Core Mission Activities and Mission Achievement measurements and priorities. If we can provide additional information, please contact David Fisher, MHDF President or John Wiechmann, MHEG President/CEO.

Sincerely,



David Fisher
MHDF President

Sincerely,



John Wiechmann
MHEG President/CEO