Federal Housing Finance Agency

Division of Bank Regulation

400 7th Street, S.W.

Washington D.C. 20219

Re: Federal Home Loan Bank Core Mission Activities and Mission Achievement

Thank you to the Federal Housing Finance Agency (FHFA) for issuing a Request for Information (RFI) regarding the codification of the FHLBank system’s mission and metrics/tools for mission achievement. We, the undersigned members of the CDFI-FHLB Working Group, are writing to provide information to assist in your decision making.

1. **Introduction**

The Federal Home Loan Bank system was established in 1932 to address a growing national housing crisis. In the words of President Herbert Hoover, the purpose of the system was “to meet the present emergency and to build up home ownership on more favorable terms than it exists today.” At its core, that remains the FHLBank system’s mission in the present moment. Whether as a source of liquidity or a tool of administrative capacity, the system must continue to serve the goal of affordable housing. But, just as the inner workings of the system have evolved to meet rising financial complexities, so too must its methods and metrics of mission achievement.

CDFIs are natural partners in this work with expertise in deploying capital to communities that need it most. To best take advantage of this partnership, we believe the intricacies of developing a missions and metrics rubric must maintain these three core principles:

1. An updated mission statement must contain specific commitments to affordable housing and community development activities targeted to address low-to-moderate income individuals.
2. The metrics used to measure each FHLBank’s commitment to mission must stretch across a wide breadth of their activities and not be limited to their AHP initiatives. Instead, such measurements must be a fundamental part of each FHLBanks collateral programs.
3. Lastly, measures of accountability to mission must be designed to incentivize each individual FHLBank to continuously innovate new ways to meet the need for housing affordability.

To best accomplish this, we recommend a metrics-based regulatory framework, that at least in some key elements, mirrors what already exists for other GSEs. We believe 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, pursuant to their mission. **We propose 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.** Such a regulatory system, elaborated upon further under Measurement Question Five, connects our recommended core principles in a mutually supporting nexus. Commitment to low-income individuals is supported by metrics that operate across both AHP AND collateral programming, and FHLBanks designing their own plans maintains an expectation of innovative approaches in both.

1. **Mission Statement for the FHLBank System (Mission Questions 1 and 2)**

Mission Question 1 and 2: A mission statement expresses an institution’s values while also providing a degree of organizational cohesion. A vague commitment to providing liquidity is not a mission statement and on its own provides no structural support to prevent mission drift. Therefore, it is imperative the FHLBank’s mission statement directly link liquidity to affordable housing and community development, making it clear that those are not separate functions, nor is the latter subordinate or secondary to the former. To clarify the scope of the mission, it must also be made clear that the work should be done across all income levels and that “affordable” is appropriately contextualized to meet different needs, particularly for low-to-moderate income communities. Additionally, the link between community development and multi-family investments should not go unmentioned.

1. **Measurement of Mission Achievement (Measurement Questions 1,2,3, 4, and 5).**

Measurement Question 1: The listed characteristics represent foundational qualities to meaningful metrics, and we particularly laud the included emphasis on transparency. The following wording did raise concern: “data required to produce the measures should be readily obtainable.” We request that “readily obtainable” be defined by the FHFA to include a degree of data gathering on the part of the Federal Home Loan Banks. This may include data that the banks do not currently collect but *can be* reasonably obtained. This subtle shift in wording will prevent passivity in data collection that would otherwise illuminate the degree of mission achievement within the FHLBank system.

Measurement Question 2: Yes, all activities in the CMA regulation should qualify as core mission activities. An addition to the core mission activity list should be supporting loans or investments under the Low-Income Housing Tax Credit (LIHTC) program. LIHTC is the most important resource for creating affordable housing in the United States today. Created by the Tax Reform Act of 1986, the LIHTC program gives [State and local LIHTC-allocating agencies](https://lihtc.huduser.gov/agency_list.htm) the equivalent of approximately $10 billion in annual budget authority to issue tax credits for the acquisition, rehabilitation, or new construction of rental housing targeted to lower-income households.

Measurement Question 3:

Racial disparities in homeownership are pronounced and ongoing. In the first quarter of 2024, the white homeownership rate was 74%, a full 28 percentage points higher than the Black homeownership rate of 45.7%. A similar gap in homeownership rates between white and Hispanic households was also documented with a homeownership rate for Hispanic households of 49.9%. For all other races, the rate was 57.5%.[[1]](#endnote-2) Notably, the nearly 30 percentage point gap between Black and white homeownership rates was of the same magnitude documented in 1970, shortly after the Fair Housing Act of 1968 was passed.[[2]](#endnote-3) One explanation for the gap includes disparities in mortgage lending. A review of the Home Mortgage Disclosure Act finds Black applicants are denied mortgage loans for home purchase at nearly three times the rate of white applicants. Likewise, Hispanic mortgage applicants receive denials at approximately twice the rate of white applicants.[[3]](#endnote-4) Given the persistence of the gap, and the ongoing mortgage lending outcomes, some measure of advancement towards racial equity on matters of homeownership must be included in the way the Federal Housing Finance Agency assesses the achievement of the Federal Home Loan Bank mission.

The U.S. Treasury Emergency Capital Investment Program (ECIP) Rate Reduction Incentive Guidelines offer a roadmap for incorporating racial equity metrics into the execution of a federal program and the pricing of capital for program participants. ECIP was authorized under the Consolidated Appropriations Act of 2021.[[4]](#endnote-5) The purpose of the $9 billion program was to ensure businesses and consumers, including existing and potential homeowners, had access to low cost capital to remedy the disproportionate effects of the COVID-19 pandemic on people of color and under resourced communities.[[5]](#endnote-6) [[6]](#endnote-7) Through the program, eligible CDFIs and Minority Depository Institutions have access to long term (15 or 30 years, or, in some instances, perpetuity) capital at very low interest rates (2.0%).

Each participating entity has the ability to achieve interest rate reductions of up to 150 basis points for achieving deployment thresholds.[[7]](#endnote-8) Deployment thresholds may be met through “Qualified Lending” and “Deep Impact Lending.” The U.S. Treasury provides definitions for each around serving people, places and businesses most in need. Importantly, all Deep Impact lending receives weights of two times that of qualified lending to incentivize investment in historically underserved people and places. Any mortgage loan or business loan made to a person who meets the U.S. Treasury definition of Other Targeted Population qualifies as Deep Impact Lending. In the ECIP application materials, Other Targeted Populations are defined as:

*“individuals, or an identifiable group of individuals, who lack adequate access to financial products or financial services. The members of Other Targeted Populations shall reside within the boundaries of the United States (which shall encompass any State of the United States, the District of Columbia or any territory of the United States, i.e., Puerto Rico, Guam, American Samoa, the U.S. Virgin Islands, and the Northern Mariana Islands). This shall include such population so designated pursuant to any regulation issued by the CDFI Fund, and includes* ***Black Americans, Hispanics, Native Americans, Native Alaskans residing in Alaska, Native Hawaiians residing in Hawaii, and Other Pacific Islanders residing in Other Pacific Islands. Asian Americans*** *are considered an Other Targeted Population for a CDFI if the CDFI Fund has previously made such a determination for that CDFI.”[[8]](#endnote-9)*

Any loans made to a person residing in a Persistent Poverty County, on an Indian Reservation or Native Hawaiian Homeland or U.S. Territory also qualifies as Deep Impact Lending.

As the FHFA considers how to measure and incentivize increased investment in housing and community development by the FHLB system, the U.S. Treasury Emergency Capital Investment Program offers an important lesson from which to draw. ECIP incentivizes participating institutions to engage in Deep Impact Lending, through a reduction in the cost of capital. Of most importance, the rate reduction is not predicated on conventional measures of risk which prioritize safety and soundness. Rather, the reduction is predicated on the demonstration of expanded access to capital to people and places that have been historically marginalized by the broader banking system. The FHLB should find ways to incorporate similar structures into the pricing of its capital to increase investment in housing and community development – particularly for people and places most in need.

Other responses to the sub questions posed by Measurement Question three include:

A). Yes, core mission activities should be weighed differently based on AMI and related factors. Specifically, activities (e) through (i) that primarily benefit households having a targeted income level, a significant proportion of which must benefit households with incomes at or below 80% of area median income, or geographic areas targeted for redevelopment by local, state, tribal or Federal government in which more than half of the residents in that area are 50% of the area median income or below should be given greater weight.

B). Not all advances should count as core mission activities or alternatively not be given equal weight. Greater weight should be given to advances that support affordable housing finance and community development.

C). FHLBank AHP contributions that exceed statutorily required minimum or voluntary program contributions that support affordable housing finance and community development that benefit households with incomes at or below 80% of area median income, or geographic areas targeted for redevelopment by local, state, tribal or Federal government in which more than half of the residents in that area are 50% of the area median income or below should be given greater weight.

Measurement Question 4: It is important that the acknowledgment of public benefit, whether direct or indirect, granted the FHLBank system be front and center in explaining the importance of mission achievement. The FHLB system receives preferential access to capital markets due to its GSE status, a feature and not a bug of its current design, with the intention being that such privileged access be to the direct benefit of housing and community development. How best to measure that advantage and its fulfillment to the mission is a fruitful topic for continued engagement with stakeholders.

Measurement Question 5: As to other potential approaches, we propose a system that mirrors the already existing regulatory structure for GSE’s utilized by FHFA (with important accommodations built into to acknowledge unique aspects of the FHLBank system). We believe 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, pursuant to their mission. We propose 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 30% of Area Median Income (AMI) to 80% of AMI, and up to 120% of AMI in high-cost markets, ensuring that AMA activities reach all incomes, not just higher incomes.

It is essential that the FHFA make progress on an overall framework so that the FHLBanks and their member CDFIs can more effectively collaborate on mobilizing, leveraging, and deploying mission-oriented capital into areas of need across all three mission categories.

1. **Member Incentive Program (Questions 1,2,3,4,5, and 6).**

MIP Question 1: First and foremost, the FHFA and FHLBanks should consider member investments that support housing finance and community development. Additionally, any investment that benefits low-income populations (ideally defined as they are by the CDFI Fund) should carry extra weight to accurately reflect a deeper impact on housing affordability. Lastly, members that use FHLB products to support affordable housing and Community development should be recognized for the deepest and most impactful commitment towards mission achievement.

MIP Question 2: In determining membership category threshold, we believe activity in housing and community development that supports AMIs 80% and below should receive the most credit. In addition, members financing community development that bolsters AMIs between 80-120% should also receive additional credit. In other words, a descending scale that incentivizes activity in low-to-moderate income levels. This could be measured relative to advances taken. For example, if a member lends $10M to support under 80%AMI populations and has advances equal to that $10M, they should get more credit than the member who lends $5M to support under 80%AMI AND $5M to support between 80-120% AMI. Regarding “the credit” received in this formula, that could take the form of a higher advance rate.

MIP Question 3: We believe that 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 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.

MIP Question 4: Additional benefits for members who show a demonstrated commitment to affordable housing and community development could come in the form of additional products. For example, FHLBanks could offer a top loss pool to assist with the deepest impact financing (i.e. supportive housing or extremely low income/deeply affordable housing). Such a product could be invested and grow over time so long as no losses were incurred.

MIP Question 5: Ensuring the FHLBank’s safety and soundness is paramount to establishing a long-term program to assist housing, especially low- to moderate-income housing, as well as a finance incentive program which can be sustained throughout all economic cycles. Based on affordable housing’s resiliency, most affordable housing collateral programs should be expected to function well compared to, if not better than, market rate collateral under various economic conditions. Regarding mission collateral discounted advances and grants, the programs and incentives, should be designed such that only current earnings or retained earnings, above the regulatory minimum capital levels and, should only be utilized to provide incentives. In addition, unsecured subordinated lending programs should not exceed the retained earnings above the regulatory minimum capital levels.

MIP Question 6: 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. Like the answer to Member Incentive Program Question Three, the member should certify that they are not engaged in such conduct on an annual basis.

Sincerely,

* NeighborWorks Capital
* cdcb | come dream. come build. / Rio Grande Valley MultiBank
* California Community Reinvestment Corporation
* The Community Development Trust
* Neighborhood Lending Partners
* Community Investment Corporation
* Momentus Capital
* Renaissance Community Loan Fund
* Disability Opportunity Fund
* Atlanta Neighborhood Development Partnership
* Pathway Lending
* Brazos Valley CDC
* Community Housing Capital
* Access to Capital for Entrepreneurs
* IFF
* NewWest Community Capital
* CLIMB Fund
* Clearinghouse CDFI
* The Florida Community Loan Fund
* Community Investment Corporation
* Low-Income Investment Fund
* Raza Development Fund
* Mercy Community Capital
* Cinnaire
* Inclusiv
* Massachusetts Housing Partnership
* Indianapolis Neighborhood Housing Partnership
* Self-Help Ventures Fund
* Massachusetts Housing Investment Corporation
* Access to Capital for Entrepreneurs
* HOPE Enterprise Corporation
* Enterprise Community Loan Fund, Inc.
* Housing Partnership Network
* FAHE

1. Zimmermann, Christian. “The latest on homeownership: race and region.” *The Fred Blog,* Federal Reserve Bank of St. Louis, 25, April. 2022, <https://fredblog.stlouisfed.org/2022/04/the-latest-on-homeownership-race-and-region/?utm_source=series_page&utm_medium=related_content&utm_term=related_resources&utm_campaign=fredblog>. [↑](#endnote-ref-2)
2. “Racial Differences in Economic Security: Housing.“ *U.S. Treasury*, 4, November. 2022, <https://home.treasury.gov/news/featured-stories/racial-differences-in-economic-security-housing#_ftn3>. [↑](#endnote-ref-3)
3. “Summary of 2022 Data on Mortgage Lending.” *Consumer Financial Protection Bureau*, 29, June. 2023. <https://www.consumerfinance.gov/data-research/hmda/summary-of-2022-data-on-mortgage-lending/#:~:text=In%202022%2C%20Black%20and%20Hispanic,were%209.2%20and%205.8%20respectively>. [↑](#endnote-ref-4)
4. “Consolidated Appropriations Act, 2021.” *United States Congress,* page 899. accessed 3, July. 2024. <https://www.congress.gov/116/bills/hr133/BILLS-116hr133enr.pdf#page=899>

   [↑](#endnote-ref-5)
5. “Emergency Capital Investment Program.” *U.S. Treasury*, accessed 3, July. 2024. <https://home.treasury.gov/policy-issues/coronavirus/assistance-for-small-businesses/emergency-capital-investment-program> [↑](#endnote-ref-6)
6. Tai, D.B.G., Sia, I.G., Doubeni, C.A. et al. Disproportionate Impact of COVID-19 on Racial and Ethnic Minority Groups in the United States: a 2021 Update. J. Racial and Ethnic Health Disparities 9, 2334–2339 (2022). <https://doi.org/10.1007/s40615-021-01170-w> [↑](#endnote-ref-7)
7. “Emergency Capital Investment Program Rate Reduction Incentive Guidelines.” *U.S. Treasury*, 11, August. 2021. <https://home.treasury.gov/system/files/136/Rate-Reduction-Incentive-Guidelines.pdf> [↑](#endnote-ref-8)
8. “Application Instructions for Emergency Capital Investment Program.” *U.S. Treasury,* accessed 3, July, 2024.<https://home.treasury.gov/system/files/136/ECIP-Application-Materials.pdf>

   [↑](#endnote-ref-9)