



July 15, 2024

Sandra L. Thompson
Federal Housing Finance Agency
Division of Bank Regulation
400 7th Street SW, 9th Floor
Washington, DC 20219

RE: Request for Input on FHLBank System Mission

Dear Director Thompson:

Thank you for the opportunity to comment on the Federal Home Loan Banks' (FHLBank) System mission statement, evaluation of mission achievement, and incentives for members strongly connected to FHLBanks' mission. The FHLBanks serve a critical role in supporting housing finance and community development, and, as the FHFA's *Focusing on the Future* report concluded, it is essential that the regulatory statement of the FHLBank System's mission reflects this role. As urgent unmet housing and community development needs persist, especially in low-income communities and communities of color that have experienced systemic disinvestment and mortgage redlining, the System must have a clear and unambiguous commitment to providing liquidity for fair and affordable housing and community development. Achieving this mission will require the FHLBank System to expand and improve the products and services available to mission-driven lenders working to close the racial wealth gap and support low-income people in building assets through homeownership.

We appreciate FHFA's attention to these issues and ongoing work to advance housing opportunity and community development through the FHLBank System. Although outside the scope of these comments, FHFA's guidance clarifying Puerto Rico's cooperativas' eligibility for FHLBank membership is a clear demonstration of the agency's commitment to advancing equity and economic opportunity in all communities.

About Inclusiv

Inclusiv is the national network of community development credit unions (CDCUs) committed to promoting financial inclusion and equity through credit unions. The Inclusiv network represents more than 500 community development credit unions serving more than 20 million people in predominantly low-income urban, rural, and reservation-based communities across 47 states, Washington DC, the U.S. Virgin Islands and Puerto Rico. Inclusiv channels capital to and builds the capacity of these institutions that are dedicated to serving low-income people and redlined and disinvested communities.

Inclusiv is also a nonprofit Community Development Financial Institution (CDFI) Intermediary. One of



Inclusiv's primary activities as a CDFI is providing a secondary market for high-impact mortgage loans, primarily loans to borrowers of color and/or borrowers in rural markets. To support that work, Inclusiv is a member of the Federal Home Loan Bank of New York and has sold mortgages—that have experienced no losses—to Freddie Mac, but continues to face barriers to selling to the Enterprises on an ongoing basis. As of March 31, 2024, the Inclusiv/Mortgage portfolio was comprised of \$28.8 million in mortgages, and homeowners with mortgages financed through Inclusiv/Mortgage increase their equity by \$21.5 million, an average of \$114k per homeowner. 76% of these mortgages went to low- and moderate-income homeowners, and 50% went to homeowners of color.

Inclusiv's extensive and successful track record of supporting high-impact mortgage lending to low- and moderate-income borrowers and borrowers of color is a clear demonstration that the FHLB System and GSEs must do more to support homeownership opportunity in underserved communities.

Address the Racial Homeownership Gap and Wealth Gap in FHLBanks' Mission Statement

The American housing system is built on a basis of structural racism: redlining and systemic disinvestment and displacement have prevented many people of color from building wealth and achieving financial stability. In 2023, just 45.7% of Black households and 49.5% of Hispanic households owned their homes, compared to 74.3% of white households. The disparity between Black and white homeownership is larger now than it was in 1960 (28.6 vs 27 percentage points). This persistent inequity is a significant driver of the racial wealth gap given homeownership's influence as a primary determinant of wealth accumulation. Addressing these historical harms and their lasting impacts on present-day homeownership and wealth building should be core to the FHLBanks' mission statement and activities as an entity with a housing finance and community development mission. Including supports for multiple pathways to homeownership, including shared equity models, lending to people with lower credit scores or ITINs, and expanded downpayment assistance and other programs to support homebuyers without access to generational wealth are all critical. Incorporating these elements into FHLBanks' regulatory statement is an important step in ensuring a more inclusive FHLBank System.

Focus Mission on Both Availability of Liquidity and Impact

The FHLBank System's current mission statement only includes providing liquidity for members to support housing finance and community development. Although providing liquidity is a critical function, supporting high-impact lending is also a vital component of supporting fair and affordable housing and community development. The FHLBank system can support high-impact lending with concessionary pricing for mission-driven FHLBank members, which often must operate under tighter margins in order to serve low-income communities.

Increasing the FHLBanks' mandatory AHP contribution from 10% to 30% would significantly increase funding available for fair and affordable housing, and until Congressional action is taken, additional voluntary contributions to AHP should be considered mission activities. However, increasing AHP alone



is not sufficient for the FHLB System to reach its full potential in addressing fair and affordable housing and community development needs.

Include Down Payment Assistance Grants as Part of Core Mission Activities

Down payment assistance (DPA) grants should be included as a core mission activity and assigned progress-tracking metrics, including both DPA-specific impact metrics and measures of how successfully FHLBank System members have combined DPA with their other programs, like AMA, to catalyze homeownership opportunity in their regions. Down payment assistance plays a central role in expanding homeownership and wealth building opportunities among low- and moderate-income people, who are less likely to have sufficient wealth to make a full down payment at the time of mortgage origination. Further, DPA grant funds are depleted early in the funding year, leaving many qualified borrowers without DPA funding. All FHLBanks should fully fund DPA applications out of retained earnings when grant funds have expired, as the FHLBank of Chicago currently does.

Increase CDFIs' Access to Capital for Fair and Affordable Homeownership and Community Development

CDFIs have a strong track record of advancing fair and affordable homeownership and community development, coupled with effective risk-management and strong financial performance. The FHLBank System's offerings for CDFIs are of uneven quality and are almost always less advantageous than programs available to mainstream banks, despite CDFIs' deep impact and strong alignment with the System's mission and goals. Key improvements needed include:

1. *Allow higher loan-to-value (LTV) mortgages to be eligible as collateral, particularly in cases where the loan has been successfully repaid over time.*

The current model of restricting collateral eligibility based on LTV at closing excludes many mortgages that are actually low risk, because their LTV ratio has decreased over time but their eligibility is still being determined by the LTV at the mortgage's close. This model especially restricts collateral eligibility for mortgages that include downpayment assistance, since borrowers who need downpayment assistance generally have higher LTVs at origination. Accepting loans that have been paid successfully for years, bringing their LTVs in line with FHLBanks' requirements, is a simple, low risk change that can support access to fair and affordable housing. Restricting program or collateral eligibility based on LTV at closing rather than current LTV inherently disadvantages mission-driven institutions that provide mortgages to low-income people who are more likely to require downpayment assistance and/or a high LTV mortgage to buy a home.

2. *Lower the credit score requirement and downpayment requirement for loans under the Acquired Member Asset (AMA) program.*

CDFIs' and MDIs' most high impact mortgage lending is aimed at making homeownership affordable for low-income people and people of color, who are more likely to have lower credit



scores as a result of discrimination in our financial system and lack the generational wealth that might enable another homebuyer to make a larger downpayment. These mortgages are critical to expanding homeownership in communities that have been historically redlined or excluded from wealth building opportunities. However, the current credit score and downpayment requirements of the AMA program render some CDFIs and MDIs unable to access its benefits because of the impact-driven nature of their mortgage lending. By adjusting these requirements and opening up AMA participation to these high-impact institutions, FHLBanks would be better fulfilling their mission of advancing opportunities for affordable homeownership and community development.

3. *Require FHLBanks to enact haircut pilot programs focused on targeted investment regions or first-generation homebuyers.*

Currently, in most FHLBank regions, CDFIs have haircut rates as high as 50%. However, in other regions, FHLBanks have created pilot programs with haircuts as low as 12% on collateral for loans to borrowers at targeted income levels. Expanding this type of pilot program would allow for more mortgage lending in hard-to-reach markets and help to bridge the wealth gap for low-income people in our markets.

4. *Purchase ITIN mortgages from CDFIs and MDIs.*

Many financial institutions have been doing ITIN mortgage lending successfully for decades, but for ITIN lending to scale, financial institutions need to be able to take these loans off their books and free up liquidity to make more mortgages. Supporting ITIN lending would advance FHLBanks' mission of community development by empowering immigrant communities to access homeownership and long-term wealth building.

5. *Let CDFIs borrow against the large amounts of unpledged collateral that bank and insurance company members of the federal home loan system have.*

Some FHLBank members have significant amounts of unpledged collateral at FHLBanks that may exceed the members' needs for collateral. Allowing large members to lend their collateral to CDFIs and MDIs engaged in high-impact mortgage lending would ensure that CDFIs and MDIs can access FHLBank System programs like AMA on an even footing with larger institutions. Bank members and insurance company members in states with broader state CRA laws could earn CRA credit for this arrangement, while high-impact lenders gain greater access to capital to advance their community development investment activities.

Align Metrics and Reporting with Existing Certifications Where Possible

We support the development of metrics to track and promote mission achievement, but measurements of housing and community development activities should align with those used for existing certifications, such as CDFI certification and reporting, to the greatest extent possible. This practice



would decrease undue burdens on mission-driven lenders, who already often face significant barriers to joining the federal home loan bank system.

Require Members that Receive Incentives to Meet Responsible Lending Standards

Any members subject to state or federal CRA eligible for the FHLBanks' proposed member incentive program should be required to maintain a Satisfactory or better CRA rating to remain eligible for these incentives. Members not subject to CRA should not have been subject to state or federal fair lending or fair housing enforcement actions in the prior two calendar years to remain eligible. Including a fair lending and fair housing requirement would incentivize further activity to promote fair and affordable homeownership and community development among FHLBanks' membership, while continuing to incentivize members already engaged in these mission-aligned activities.

Thank you for the opportunity to provide input on the FHLBanks' mission, measurements, and member incentives. For any questions regarding these comments, please contact Alexis Iwanisziw, SVP Policy & Communications, Inclusiv (aiwanisziw@inclusiv.org).

Sincerely,

A handwritten signature in black ink, appearing to read "E. Sheaffer".

Eben Sheaffer
Chief Financial Officer, Inclusiv