



Housing Finance & Regulatory Affairs

Jessica R. Lynch

Vice President, Housing Finance

jlynch@nahb.org

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Sandra Thompson
Director
Federal Housing Finance Agency
Office of the Director
400 7th Street, S.W.
10th Floor
Washington, D.C. 20219

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

Submitted via email to: [FHLBank Mission | FEDERAL HOUSING FINANCE AGENCY \(fhfa.gov\)](https://www.fhfa.gov)

Dear Director Thompson:

On behalf of the National Association of Home Builders (NAHB), I welcome the opportunity to submit comments to the Federal Housing Finance Agency (FHFA) regarding the Request for Input (RFI) on Federal Home Loan Bank Core Mission Activities and Mission Achievement. The Federal Home Loan Banks (FHLBanks) have been key components of the housing finance system since the FHLBank System was chartered as a government-sponsored enterprise (GSE) by Congress in 1932. NAHB is a staunch advocate of the FHLBanks and believes they have been integral to an efficient and liquid housing finance industry by facilitating financing of housing and community development. NAHB believes the FHLBanks' mission is clear and cautions that attempts to update or clarify the mission could lead to limiting or lessening the impact of the FHLBanks to the detriment of the housing finance industry.

NAHB is a Washington, D.C.-based trade association representing more than 140,000 members involved in the development and construction of for-sale single-family homes, including homes for first-time and low- and moderate-income homebuyers, as well as the construction, ownership and management of multifamily rental housing, including affordable rental housing. The ability of the home building industry to meet the demand for housing, including addressing affordable housing needs, and significantly contribute to the nation's economic growth is dependent on an efficiently operating housing finance system. The nation's housing finance system must offer home buyers in all geographic areas access to affordable mortgage financing at reasonable interest rates through all economic conditions and provide financing for multifamily housing development to support affordable rental opportunities.

Background

Following its comprehensive review of the Federal Home Loan Bank System that began in the fall of 2022 and concluded with a published report, *FHLBank System at 100: Focusing on the Future* (the report), FHFA is beginning to request input on how to respond to recommendations resulting from the intense and extensive review process. FHFA states that clarifying the mission of the FHLBanks and updating how FHFA evaluates their performance in achieving that mission was a fundamental recommendation from stakeholders included in the report. The report states that financial markets have evolved since the FHLBank System was established and

impacts to the FHLBanks and their members have affected the ability of the FHLBanks to serve their housing finance mission and raised concerns about how effectively the FHLBanks are achieving their mission to provide liquidity and support for housing finance.

Through this RFI and subsequent notice of rulemaking, FHFA intends to update and clarify the regulatory statement of the FHLBank System's mission to better reflect its role in the broader housing finance system.

Mission of the Federal Home Loan Banks

Though Congress did not provide an explicit mission statement for the FHLBanks in the Federal Home Loan Bank Act (Bank Act) or the Federal Housing Enterprises Financial Safety and Soundness Act (Safety and Soundness Act), both statutes include direction from Congress confirming a public policy mission. Together, the Bank Act and the Safety and Soundness Act establish the duties and rules for the regulation, governance, membership eligibility and access to the FHLBanks, as well as necessary authorization to provide support for housing finance and community development activities. In the RFI, FHFA refers to the Director's duty assigned by the Safety and Soundness Act to ensure that the FHLBanks operate in a safe and sound manner and carry out their statutory mission through activities authorized in and consistent with the Safety and Soundness Act and the Bank Act. This acknowledges a statutory mission, which can only be revised or redefined by Congress.

Further, the Housing and Economic Recovery Act (HERA) of 2008 refers to the FHLBanks' mission of providing liquidity to members and the affordable housing and community development mission.

The predecessor of the FHFA, the Federal Housing Finance Board (FHFB), established a specific mission statement for the FHLBanks that was codified in the FHFB's Core Mission Activities (CMA) regulation. The Final Rule effective May 31, 2000 states, "The mission of the Banks is to provide to their members and associates financial products and services, including but not limited to advances, that assist and enhance such members' and associates' financing of: (a) Housing, including single-family and multi-family housing serving consumers at all income levels; and (b) Community lending." FHFA interprets the mission statement as including two core objectives: (1) providing stable and reliable liquidity to their members, and (2) supporting housing and community development. The CMA also lists activities that count as core mission activities.

The liquidity objective of the FHLBanks is captured broadly by the reference in the CMA's mission statement to providing financial products and services, including but not limited to advances, that assist and enhance financing of housing. FHLBanks provide liquidity to their member banks through various products and services that offer member banks access to funds to support housing and community lending. Specific to that objective are long-term advances to member banks that are only to finance residential housing finance and to community financial institutions that also allows financing of small businesses, small farms, small agri-businesses, and community development activities. Short-term advances (less than five years) can be used by FHLBank members to support business operations, which allows them to better serve their communities. Collateral for advances is limited to fully disbursed, whole first mortgages on improved residential property (not more than 90 days delinquent), or securities representing a whole interest in such mortgages; (B) securities issued, insured, or guaranteed by the United States Government or any agency thereof (including without limitation, mortgage-backed securities issued or guaranteed by Freddie Mac, Fannie Mae, and Ginnie Mae; (C) cash or deposits of a Federal Home Loan Bank; (D) other real estate related collateral acceptable to the FHLBank if such collateral has a readily ascertainable value and the bank can perfect its interest in the collateral. In the case of community

financial institutions, secured loans for small business, agriculture, or community development activities or securities representing a whole interest in such secured loans may be used as collateral.

In addition to advances, the FHLBanks provide liquidity to member banks through Acquired Member Assets (AMA) programs that provide a secondary market outlet for mortgage loans originated by FHLBank members, standby letters of credit and the purchase of a member bank's mortgage-backed securities.

The FHLBanks also utilize numerous products and programs to support housing and community development. Through the FHLBanks' Affordable Housing Program (AHP) the banks provide assistance in the purchase, construction, or rehabilitation of owner-occupied and rental housing, including homes designed for seniors, the disabled, homeless families, first-time homeowners, and others with limited resources or special needs. The Community Investment Programs (CIP), and Community Investment Cash Advance (CICA) programs are directed at supporting affordable housing and community development through grants and subsidized advances.

NAHB Comments

NAHB is a reliable advocate for the FHLBanks and their broad mission that supports housing affordability, accessibility, and supply through providing their member banks access to lower-cost funds that finance the purchase and development of residential homes and community development. A profitable, safe and sound FHLBank System benefits all stakeholders. We believe the FHLBanks are particularly important to the success of smaller, community banks, offering access to products and services that often are not available to them from other sources that prefer to serve large financial institutions and thereby allowing smaller banks to compete with large ones. A significant portion of NAHB's single-family home builders and multifamily developers rely on their community banks for financial services, including acquisition, development and construction (AD&C) financing.

NAHB believes the regulatory mission statement of the FHLBanks is clear and the statutes governing what activities the FHLBanks can and cannot undertake, as well as what they are required to do under the mission also are definitive. The mission, as understood by the FHLBanks, has allowed them to be successful and offer significant benefits to their member banks. NAHB does not believe there needs to be a change to the mission, rather, we believe the broad nature of the mission gives FHFA and the FHLBanks plenty of room to expand activities that align with the regulatory and statutory mission requirements and comply with safety and soundness obligations.

As FHFA notes, the role of the FHLBanks has grown since they were established and so have the number of products, services and activities supported by the FHLBanks. While there have been regulatory and statutory updates applied to the FHLBanks, the mission has not changed. For example, in 2000, the then-regulator of the FHLBanks, FHF, authorized FHLBanks to establish AMA programs; HERA mandated that FHFA establish housing goals for FHLBanks that participate in an AMA program. Member eligibility changes in the Bank Act in 1989 and in HERA in 2008 allowed credit unions and non-depository community development financial institutions, respectively, to become members of the FHLBanks. Whether the changes have been in statute due to Congressional action or through action by the regulator, NAHB believes the changes have been in response to needs in the housing industry and have led to an increasingly influential and valuable FHLBank system within the parameters of the existing mission.

We have concerns that attempts by FHFA to establish an updated or clarified mission statement through the regulatory process will lead to limits or restrictions on access to the products, services and activities currently available to bank members or target advantages to support current political or public policy trends. FHFA has written it believes the FHLBank System's connection to housing and community development has become less direct, but NAHB believes an attempt to "reconnect" the FHLBanks to housing and community development by rewriting or clarifying the mission through regulation will impede a system that has served the housing industry very well for many years.

NAHB Recommendations

Mission Considerations

Any revisions to the mission should not disrupt the primary benefit to FHLBank members of collateralized advances to support funding of mortgage loans and housing- and community-related development. Advances not only benefit FHLBank members, but they are a key source of income to the FHLBanks. Interest paid on advances fund the FHLBanks' activities and is a determining factor of the FHLBanks' annual earnings and subsequent contributions to the AHP.

Advances by FHLBanks are available to member banks when other sources are not willing or able to provide the level of funding required by the market. The FHLBanks have demonstrated they are a stabilizing force during times of market distress, due in large part to their advances. Importantly, FHLBank advances are available much more quickly than funds requested from the Federal Reserve.

NAHB urges FHFA not to take any action to curtail advances, such as limiting the size of member banks that have access to FHLBank advances or limiting advances to large banks or banks that some may consider less involved in housing and community development. Such action would impact the profitability of the FHLBanks and their ability to meet the other aspects of their mission. All FHLBank members should have equal access to advances. Any changes to the current approach would need to be modified by Congress such as when Congress expanded eligible collateral for advances to community financial institutions. NAHB believes any restrictions to the currently allowable uses of both long-term and short-term advances would be counterproductive and interfere with the stable and reliable liquidity aspect of the mission's objectives.

- *We urge FHFA not to equate a profitable FHLBank system with a disconnect from their mission and not doing enough for housing and communities. A profitable FHLBank system is what allows the FHLBanks to support their mission and strengthen their relationship to housing and community development.*
- *We urge FHFA not to undertake any changes that will diminish the favorable cost of funds for FHLBanks that allows them to provide low-cost financing to their member banks for their housing activities or impairs their role in providing liquidity to construction and mortgage lending.*
- *Benefits provided by the FHLBanks through government statutes should accrue equally to all FHLBank members who abide by the rules of membership per the statutes and do not impose a safety and soundness risk to the FHLBank.*

Commercial banks have been originating a decreasing share of mortgage loans, which may lead to a diminished ability to access advances collateralized by mortgage loans and mortgage-backed securities. Banks also are experiencing significant increases in regulatory compliance costs. In a RegTech position paper, Deloitte writes, “Compared to pre-financial crisis spending levels, operating costs spent on compliance have increased by over 60 percent for retail and corporate banks.”¹¹

- *NAHB suggests FHFA consider asking Congress to expand the types of eligible collateral allowed for advances. This would increase liquidity at member banks, potentially encouraging use of the funds for increased mortgage lending, and provide funds to finance expanding regulatory compliance costs.*

Since 1990, the Bank Act requires each FHLBank to contribute a percentage of its annual net earnings to the AHP. The percentage has stood at 10 percent since 1995. The FHLBanks have agreed voluntarily to increase their contribution to 15 percent annually. NAHB believes this voluntary increase of 5 percent gives the AHP a significant boost in meeting the mission to support both housing and community development. However, certain restrictions and rigid requirements limit a FHLBank’s ability to structure the programs to best meet local and regional needs of their communities. For example, a FHLBank that establishes a Homeownership Set-Aside Program to make grants available to their financial institution members for downpayment and closing cost assistance, counseling to homebuyers, or rehabilitation assistance to homeowners is limited by FHFA’s regulation restricting the amount of funds a FHLBank may allocate annually to the program.

- *It is important to allow the FHLBanks considerable flexibility in how additional AHP funds are allocated in order for the individual FHLBanks to meet the specific needs of home buyers and homeowners in their communities as per their mission.*

Measurement of Mission Achievement

Congress created the FHLBanks and charged them with a public policy mission, which they must accomplish within the confines of what Congress has authorized and required them to do. Consequently, NAHB believes everything the FHLBanks do falls within their mission. The current core mission activities outlined in the CMA regulation should continue to qualify as core mission activities, including all advances.

FHFA has numerous means of assessing how the FHLBanks are meeting their liquidity mission. These include an annual exam of the FHLBank’s compliance with the Core Mission Activities regulation; the Housing Mission Report that describes the financial safety and soundness of the FHLBanks; and, the annual Report on Collateral Pledged to the Federal Home Loan Banks that includes an analysis of the collateral pledged by type and by FHLBank district. Each FHLBank develops or updates a Targeted Community Lending Plan annually that details housing and community investment needs in its district and also creates a Targeted Missions Activity Report that discusses the FHLBanks’ targeted mission activities to support low-income housing and community development. A FHLBanks’ housing goals performance is based on single-family whole loans purchased through their AMA programs.

¹¹ [The Future of Regulatory Productivity, powered by RegTech](#), Page 1

- *NAHB cautions that an additional reporting requirement to measure support for housing and community development activities should not place a compliance burden on the FHLBanks or their member banks. Users of community development and housing programs could be disincented to use the programs if reporting is considered time consuming and/or expensive.*

Conclusion

Thank you for this opportunity to provide input on the mission of the Federal Home Loan Banks.

Please contact Rebecca Froass at rfroass@nahb.org for additional information or to answer any questions you may have regarding these comments.

Sincerely,

A handwritten signature in black ink that reads "Jessica R. Lynch". The signature is written in a cursive, flowing style.

Jessica R. Lynch