NCSHA
National Council of State Housing Agencies

July 1, 2024

The Honorable Sanda Thompson
Director
Federal Housing Finance Agency
400 Seventh Street SW
Washington D.C. 20219

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

Dear Director Thompson:

The National Council of State Housing Agencies (NCSHA),[1] on behalf of the nation's state housing finance agencies (HFAs), appreciates the opportunity to comment on the Federal Housing Finance Agency's (FHFA) May 16 Request for Input (RFI) on the mission of the Federal Home Loan Bank (FHLB) System.

NCSHA commends FHFA for its continuing efforts to review and update the FHLB System to ensure that the Banks maintain their valuable place in our nation's housing finance system for years to come. The RFI will set the stage for these efforts by helping establish a clear mission for the FHLBs and setting benchmarks for measuring whether the FHLBs fulfill their mission.

NCSHA especially appreciates FHFA's focus on how the FHLBs can further support affordable housing and community development. This includes encouraging the FHLBs to increase contributions to their Affordable Housing Programs (AHP), considering regulatory changes to AHP, urging the FHLBs to develop "mission-oriented" collateral programs, fostering the development of FHLB pilot programs, and hosting a listening session with the FHLBs and community development financial institutions. Initiatives such as these are crucial in today's market, with working families facing an acute shortage of affordable single-family and multifamily housing options.

To further these efforts, FHFA and the FHLBs should explore partnerships with a proven national network of mission-focused financing institutions with a broad reach into underserved markets throughout the country: state housing finance agencies (HFAs). HFAs and the FHLBs have

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worked together for decades, but there is tremendous potential for more and deeper cooperation. We recommend that FHFA encourage and facilitate more FHLB-HFA collaborations as it continues its review of the FHLB system.

In addition, NCSHA has four specific policy recommendations that apply to the questions posed in the RFI. We will describe each recommendation in more detail in response to the applicable question:

- The Mission Statement for the FHLB System should explicitly enumerate a duty to support affordable housing and continue to explicitly include all FHLB members, including housing associates;
- The FHLBs should report annually on their activities with HFAs and other housing associate members, and FHFA should consider such activities when evaluating each FHLB's mission performance;
- FHFA should incentivize the FHLBs to provide liquidity for mortgage financing with down payment assistance; and
- FHFA should ensure HFAs are eligible for any added benefits offered through a tiered FHLB member incentive program.

Further, we would like to thank FHFA for supporting legislation to increase the FHLBs' minimum contributions to their AHP programs from ten percent of revenue to twenty percent. We look forward to working together to advance this initiative.

HFAs: Responsible Leaders in Affordable Housing Lending

HFAs are at the center of the nation's affordable housing system and are focused on meeting the affordable mortgage finance needs of the low- and moderate-income (LMI) homebuyers and renters in their states.

In total, HFAs have funded homeownership loans for more than 4 million working families. In 2022 alone, state HFA programs provided more than $28.1 billion to nearly 109,000 homebuyers. The median borrower income for all HFA program loans in 2022 was $59,427, 80 percent of the national median income. Thirty-eight percent of HFA program loans went to people of color and 39 percent to female-headed households.

The main HFA-administered rental assistance program supports renters with an average income of $13,500. Eighty percent of HFA financed apartments serve households earning less than 60 percent of their area's median income ($55,000 for a family of four). The primary development incentive HFAs administer, the Housing Credit, serves mostly extremely low-income people and drives virtually all affordable apartment development.

State HFAs are well run. S&P Global Advisors in November of 2023 reported a median rating of AA for the agencies and noted that prudent management "remains a cornerstone strength." A report from Moody's Investors Service at the same time came to similar conclusions and noted that "HFAs maintain very robust levels of over-collateralization on their balance sheets." A comprehensive report from Fitch Ratings found "HFA assets have increased by 17.3% and debt by 11.7% over the past five years."

HFA management and operational strength benefits the borrowers the agencies serve. HFA-financed home mortgage loans typically have lower levels of delinquency than Federal Housing Administration (FHA)-insured loans (even though HFAs serve much lower-income, lower-credit borrowers on average). The share of HFA-backed multifamily properties current at year-end has averaged 98 percent for the past five years.

HFA and FHLB Partnerships

To fulfill their missions, many HFAs have partnered with individual FHLBs, both in and out of their jurisdictions. Many HFAs have also joined their FHLBs as non-member housing associates. A survey conducted by NCSHA earlier this year indicated that each of the eleven FHLBs had collaborated with HFAs in some capacity.

More than 70 percent of HFAs reported doing business with an FHLB in the past five years, including 20 who took out advances. In addition, to FHLB advances to HFAs, the most common forms of HFA-FHLB activity include bond purchase agreements; FHLBs providing liquidity for HFAs to assist with bond swap transactions; FHLBs serving as warehouse lenders for HFAs; and FHLBs providing funding for HFA down payment assistance programs.

Several recent FHLB-HFA partnerships highlight how these collaborations benefit the HFAs and the FHLBs. Earlier this year, the North Dakota Housing Finance Agency announced a $5.1 million grant from the FHLB of Des Moine's Member Impact Fund, which included a $1.28 million match from BND capital. The funds will augment agency programs to ensure the availability of housing for low- to moderate-wage workers, the state's aging population, individuals with disabilities and persons at-risk of homelessness.

Last year, the Michigan State Housing Development Authority (MSHDA) announced a series of bond issuances that included $35 million supported by a standby bond purchase agreement with the FHLB of Indianapolis, for the specific purpose of lowering agency borrowing cost. The lower costs were passed directly to the low- and moderate-income households MSHDA serves through lower mortgage interest rates.

Other examples include the FHLB of Chicago coordinating greater support for housing counseling organizations serving minority and low-income home buyers through the Illinois Housing

Development Authority and Wisconsin Housing and Economic Development Authority and the Topeka FHLB pioneering its innovative electronic note transfer process in partnership with the Colorado Housing and Finance Authority. There are lots of similar examples.

HFAs also serve in leadership for their local FHLBs. Five current or recently retired HFA leaders serve on their local FHLBs' Board of Directors. An additional ten HFA executive directors serve on their FHLBs' Affordable Housing Advisory Committees.

Still, overall HFA-FHLB collaboration is limited in scope and has been declining in scale. As one indicator, FHLB purchases of HFA bonds declined from $1.6 billion in 2008 to $150 million in 2022.

There is tremendous untapped potential in FHLB-HFA partnerships, which if realized would allow the FHLBs to fulfill their public purpose by working with responsible partners with a long track record of success. We ask FHFA to do what it can to foster such cooperation.

Answers to Specific Questions

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?

According to current FHFA regulations, the mission of the FHLB system is to:

"…provide to their members' and housing associates financial products and services, including but not limited to advances, that assist and enhance such members' and housing associates financing:

(a) Financing of housing, including single-family and multi-family housing serving consumers at all income levels; and

(b) Community lending."

This statement does not explicitly mention supporting affordable housing. While it does state clearly FHLBs and their members should use FHLB financing to fund housing for households at all income levels, such a requirement is vague and could be read to include housing that is too expensive for most working families as long as it is theoretically "available" to them.

We suggest that any new statement make it clear that a core part of the FHLB System's mission is to support affordable and sustainable housing through advances and other financings. Given the many public benefits the FHLBs receive, including being exempt from federal income taxes and certain securities regulations, it's more than reasonable that such a public purpose be explicitly assigned to them.

In addition, we appreciate that the current regulations make it clear that providing financial products and services to housing associate members is part of the FHLB System's core mission. We ask that any revised statement continue to specifically mention FHLB activities with housing associate members to incentivize FHLBs to continue working with HFAs and other housing associate members.

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?

As mentioned above, while FHFA's current mission statement explicitly mentions their duty to work with housing associate members, such activities, while often valuable, have been sporadic and short-term. Further, it is hard to fully grasp the extent of the FHLBs' work with their housing associate members because there is no adequate data on such activities. The FHLBs' *2023 Impact Report* does not mention "housing associates" at all and includes only a single mention of state HFAs.

As part of measuring the FHLBs' mission achievements, NCSHA recommends that the FHLBs be required to report annually on their activities with HFAs and other housing associate members. Given the public-purpose mission of HFAs and other many housing associate members, such activities should factor in FHFA's measurement of FHLB's support for housing and community development.

Measurement Question Three (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?

A metric that weighs advances to HFAs and other FHLB members with strong mission focus higher would encourage increased FHLB support for affordable housing and community development at a time when it is badly needed. We suggest FHFA adopt such a weighting.

Further, FHFA should consider incentivizing the FHLBs to provide liquidity for down payment assistance by providing additional credit for FHLBs that engage in such activities. Such support could come from advances for funding mortgages that include down payment assistance, or the purchase of state HFA-issued mortgage revenue bonds (MRBs) or mortgage-backed securities that fund down payment assistance, which are explicitly permitted through FHLB Acquired Member Assets programs.

Expanding access to down payment assistance is the best way to expand homeownership opportunities for working families and close the homeownership gap between white households and households of color. Research suggests that saving up for a down payment is perhaps the primary barrier to affordable homeownership for low- and moderate-income families: more than two-thirds of renters cited saving for a down payment as an obstacle to homeownership, according to the Urban Institute. Given the strong need for and clear value of down payment assistance, it makes perfect sense for the FHLBs to receive credit for funding down payment assistance programs.

State HFAs' down payment assistance programs are proof that such lending can be done responsibly and effectively. HFAs are the largest provider of down payment assistance to low-income, first-time, and other underserved homebuyers. In recent years, more than 80 percent of HFA borrowers have received down payment assistance. HFAs on average fund about $1 billion in down payment assistance each year. This assistance allows many creditworthy families who do not have the resources to save up for a down payment the chance to purchase a home while also holding onto more of their savings.

In addition, any evaluation system should incentivize the FHLBs to provide liquidity for other products and initiatives designed to decrease the costs of homeownership for working families. Possible examples include subsidies for lower mortgage interest rates, shared equity and shared appreciation programs, and community land trusts. The FHLBs should strive to make any activity in these areas available to HFAs and other housing associate members.

Member Incentive Program

The RFI states that FHFA is considering publishing a rule that would require each FHLB to establish a Member Incentive Program. These programs would effectively operate as a tiered membership system that would offer increased benefits to members with the most housing and community development activity. Potential benefits could include discounted rates on advances or differential dividends on bank stock.

NCSHA urges FHFA to consider this proposal further, as it would incentivize FHLB member banks to increase their funding for housing and community development at a time when it is desperately needed. We also recommend that the program be structured in such a way that provides greater weighting to members' activities that finance housing that is affordable that low- and moderate-income households.

We also suggest that any such benefits offered not be limited to stock dividends, but be provided in the form of discounted pricing, more flexible collateral requirements, and other benefits that apply directly to the provision of financing for housing and community developments. Finally, given HFAs' strong public purpose and housing associate status, we suggest they qualify for the top tier of membership under any such system.

Lastly, we note that there is a statutory obstacle to the FHLBs providing more advantageous terms to HFAs that could make it harder for HFAs to take advantage of a Member Incentive Program.

Specifically, while federal statute permits the FHLBs to accept more categories of collateral from HFAs than from other housing associate members, the advances secured by such collateral must fund housing opportunities for households that meet the income limits for multifamily housing bonds (for rental lending) or mortgage revenue bonds (for home purchase lending).

While most HFAs' activities assist households within these income ranges, increasing housing costs have necessitated that HFAs expand their activities to assist middle-income renters and homebuyers. In some instances, HFAs have been specifically directed by their state legislature to take additional actions to support housing for a broader range of incomes. The current collateral requirements limit HFAs' ability to secure FHLB advances for such activities, despite their clear public purpose.

We ask that FHFA suggest that Congress adjust the law to allow FHLBs to accept more types of collateral for all advances to HFAs, as long as the HFA certifies that the advance will be used to finance affordable housing (with higher income limits) and/or community development.

Thank you for your consideration. We would be happy to discuss this with you at your convenience.

Sincerely,

Garth B Rieman

Garth Rieman
Director, Housing Advocacy and Strategic Initiatives