July 15, 2024

The Honorable Sandra Thompson
Director
Federal Housing Finance Agency
Division of Bank Regulation
400 7th Street SW, 7th Floor
Washington, D.C. 20219

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

Dear Director Thompson,

The National Community Stabilization Trust (NCST) and the Homeownership Alliance are pleased to offer comments on the Federal Housing Finance Agency's (FHFA) Request for Input (RFI) on its review of the regulations that govern core mission activities and mission achievement under the Federal Home Loan Bank (FHLBank) System.[1]

NCST is a national nonprofit that supports families and communities by facilitating the restoration of distressed single-family homes, thereby strengthening neighborhoods and increasing access to sustainable and affordable homeownership opportunities. NCST offers a multifaceted approach to revitalize vacant and defaulted properties, further best practices for community development across the nation, and advance federal policies to support equitable homeownership.[2]

To ensure NCST's policy recommendations are rooted in the practitioner perspective, we manage a nonprofit-led advocacy coalition called the Homeownership Alliance.[3] The mission of the Homeownership Alliance is to increase access to homeownership to narrow the racial wealth gap, improve access to long-term affordable housing, and revitalize disinvested communities without gentrification. Together, NCST and the Homeownership Alliance work to pursue innovative solutions to provide low- to moderate-income (LMI) and historically disinvested communities increased opportunities for affordable homeownership.

The FHLBank System was established to provide reliable liquidity to financial institutions responsible for supporting home mortgage lending, as well as broader community investment.[4] Consistent with this

[1] Request for Input: Federal Home Loan Bank Core Mission Activities and Mission Achievement, (May 16, 2024). Federal Housing Finance Agency.
[2] Property Acquisition, (2024). NCST.
[3] Established by NCST in 2021, the Homeownership Alliance is a practitioner-led coalition of 20 CDFIs and nonprofit housing developers serving 16 states, (2024). The Homeownership Alliance
[4] 12 U.S.C §1421 (1932)

vision, the FHLBanks delivered significant mission benefits that advanced affordable homeownership and community investment as part of the broader U.S. housing finance system for its 6,800 members. Access to essential capital, liquidity, gap-filler subsidies, and homebuyer assistance has helped members to successfully design and execute a number of affordable housing projects nationwide.

FHLBanks serve as an invaluable source of capital for both depository and non-depository Community Development Financial Institutions (CDFIs) — expanding capacity for community-based projects within the nation's most disinvested communities. Upon securing FHLBank membership, CDFIs across the country are able to apply directly to the FHLBank's Affordable Housing Program (AHP) to receive a stable and reliable source of funding, allowing the mission-driven organizations to serve their greater networks through a variety of affordable housing programs, particularly for lower-income communities. In fact, the FHLBank of San Francisco reported that over a ten year period, its non-depository CDFI members submitted successful applications for $81.9 million in AHP grants to construct or preserve 7,353 affordable housing units.[5]

Despite these existing efforts, more must be done to better support CDFIs and other nonprofit organizations working to further homeownership opportunities for the communities they serve. While the FHLBank System once served as the bedrock of the nation's mortgage market, the financial institutions that the system was originally designed to support — the Savings & Loans market — no longer exists. In fact, the majority of home mortgage lending and related functions now occur outside of the parameters of the FHLBank framework, with 42% of FHLBank Members' reporting to have not originated a single mortgage in the last five years.[6]

Many community lending organizations — including those within the Homeownership Alliance — have cited several obstacles that have prohibited them from becoming official FHLBank members. This bars community lenders from taking advantage of the System's benefits and limits their overall ability to serve their networks at a time when affordable supply is severely constrained and housing prices continue to rise.[7]

Shifting Away from Mission

In 2007, FHLBs were producing nearly 81% of mortgages, with only 19% originating in the mortgage market.[8] Growth in the nonbank sector was found to have coincided with the rise in mortgage markets,

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[5] Mission Focused: How We Support Our Member CDFIs, (Sept. 2023). Federal Home Loan Bank of San Francisco.
[6] By the end of last year, 42% of the more than 6,400 banks, credit unions and insurers that could borrow from the system hadn't reported making a single mortgage in the past five years. How a Vegas Whale, and Many More, Tap Billions Meant for US Housing, (Oct 2023). Bloomberg.
[7] 98.8% of the 589 U.S. counties analyzed by ATTOM were less affordable in Q2 of 2024 compared to their historic affordability averages - slightly worse than the 98.3% level in Q1 of 2024 and *17 times worse* than Q1 of 2021. Home Affordability Gets Tougher During Second Quarter Across U.S. As Prices Shoot Back Up, (Jul 2024). ATTOM.
[8] More than mortgages: Hidden banks contribute to housing access, (Jan 26 2024). ABA Banking Journal.

and 2016 was the first year where mortgage companies originated more loans than banks.[9] As of 2022, mortgage companies accounted for over 61% of originations, with banks accounting for just 39%.[10] Rather than helping to originate mortgage loans, the FHLBank System now uses the majority of its resources to provide secured advances at discounted rates to its 6,800 Members, many of which are commercial banks or insurance companies that do not perform lending as a central activity.

As the FHFA appropriately acknowledges, the composition of FHLBank membership has largely shifted away from institutions with a strong focus on mortgage lending, at a time when the level of unmet housing and community development needs across the country has skyrocketed. [11] **There is a clear and growing need for the FHFA to implement sustainable reforms to the structure of the FHLBanks, and redirect these available resources back to disinvested communities to counter our nation's growing affordable housing crisis, especially for LMI communities.**

We applaud the FHFA taking the appropriate steps in efforts to combat this shortcoming through the release of *The FHLBank System at 100: Focusing on the Future*, informed in part by public comment from affordable housing stakeholders across the country.

Specific Responses to RFI Questions

Mission Question 1: *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?*

When Congress established the FHLBank System in 1932 through the Federal Home Loan Bank Act,[12] unique tax advantages were authorized to aid and advance its mission of providing liquidity for affordable housing and community development needs. The mission of the FHLBanks should be to do just that — provide support for unmet housing needs. Instead, the bank has pivoted to its current practice of providing below-market advances to members, many of whom only have a tangential relationship with housing. In order to correct this, the FHFA should require members to use any advanced funds for mission-focused lending in the housing and community development space.

Mission Question #2: *Are there components in addition to providing liquidity and supporting housing and community development that should be included in the mission statement?*

The FHLBank mission statement should include a commitment to not only broadly support unmet housing needs, but should also articulate a clear commitment or intention to serving underserved communities, including those within manufactured housing, rural housing, and Native/Tribal housing.

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[9] Ibid.
[10] Ibid.
[11] Request for Input: Federal Home Loan Bank Core Mission Activities and Mission Achievement, (May 16, 2024). Federal Housing Finance Agency.
[12] Federal Home Loan Bank Act. (July 22, 1932, ch. 522, §1, 47 Stat. 725.)

These communities face extreme barriers to affordable housing opportunities, and require additional resources from the FHFA and FHLBanks to ensure long-term, sustainable affordability.

Moreover, the Agency should take note of the particularly unique challenges faced by Native communities (including Native Hawaiian and Alaska Native Communities), and take meaningful action to address these inequities. Traditional financial institutions, like banks, have historically been hesitant to lend to Native communities because the assets are in control of the land— meaning if a loan defaulted, the bank cannot recapture the property. Moreover, because these assets often sit on Tribal lands, these loans are not eligible as collateral under an asset pledge to a FHLBank, leaving Native CDFIs extremely constricted when it comes to capital access.

There are currently 69 Native CDFIs certified by the Department of Treasury, and these lenders have proven to be a viable resource in mitigating these capital inequities because they can sufficiently identify Native needs and relate to historical concepts of Native culture.[13] These entities are well-equipped to address the ongoing challenges facing Native communities, which include but are not limited to:

- **Limited access to capital markets.** A recent study published by Freddie Mac and the Oweesta Corporation — a long standing Native CDFI intermediary that offers financial products and services exclusively to Native CDFIs and Native Communities[14] — found that per capita mortgage utilization in reservation communities is only 59% of the utilization rate in nearby off-reservation geographies.[15] Moreover, the Native CDFI Network found that 86% of Native communities do not have a single financial institution within their borders.[16]
- **High poverty and unemployment rates.** The poverty rate for American Indians and Alaska Natives sits at 25% compared with the US national average of 11.5%.[17] The unemployment rate for these communities has decreased overall the past few years, but still remains well above the national average at 6.1% compared to 4%.[18]
- **Minimal access to safe and affordable housing.** 34% of Native homes experience physical problems such as lack of heating, overcrowding, and no indoor plumbing, compared to only 7% of US households at large.[19]
- **Significant Homeownership Gaps.** Approximately 71% of white households own their homes compared to just 53% of Native Americans.[20]

[13] Opportunities and Challenges for Native CDFI Lenders: Innovative Mortgage Lending Solutions in Native Communities, (2020). Oweesta Organization and Freddie Mac.
[14] About, (2024). Oweesta.
[15] Introduction, Ibid.
[16] Creating Opportunities for Native Communities, 2023 Annual Policy & Advocacy Report, (2023). Native CDFI Network.
[17] Poverty rate in the United States in 2022, by race and ethnicity, (2024). Statista.
[18] Unemployment rate - American Indian or Alaska Native, (May 2024). Bureau of Labor Statistics.
[19] Opportunities and Challenges for Native CDFI Lenders: Innovative Mortgage Lending Solutions in Native Communities, (2020). Oweesta Organization and Freddie Mac.
[20] Opportunities and Challenges for Native CDFI Lenders: Innovative Mortgage Lending Solutions in Native Communities, (2020). Oweesta Organization and Freddie Mac.

Furthermore, the FHLBank mission statement should be explicit in its commitment to providing affordable housing and community development support beyond its minimum requirement set forth by the AHP Program, including the design and implementation of new CDFI-friendly loan products and innovative pilot programs.

Measurement Questions 1&2: *Should all activities in the Core Mission Activities (CMA) regulation qualify as core mission activities? 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?*

It is the firm belief of both NCST and the Homeownership Alliance that activities listed in the CMA that *have a direct impact on housing affordability* should qualify as core mission activities and be weighed more heavily toward CMA. Although FHFA's CMA regulation does not establish any measures of thresholds for mission achievement, activities should be weighed in accordance with the entity's mission statement — one that emphasizes direct support of unmet community development and affordability needs.

For example, the Acquired Member Asset (AMA) program — which allows the FHLBanks to acquire member assets, typically residential 1-4 single family mortgage loans, as a means of advancing their housing finance mission[21] — should be weighed more heavily to CMA when used to counter affordability challenges. Investments that benefit households specifically identified in the mission statement — including LMI and other underserved communities — should also carry a greater weight when being measured by FHFA. Activities that have little or no direct impact on these communities or housing needs at large should not count as core mission activities.

Measurement Question 5: *What other approaches should FHFA consider?*

FHFA should consider applying its pre-existing Duty To Serve (DTS) model to the FHLBanks, much as it is used by the Agency for the monitoring and compliance of Fannie Mae and Freddie Mac. Within this model, FHFA should require that the FHLBanks produce plans in which they set benchmarks within varying categories, including goals for loan purchases, loan products, outreach and education, and investment. This approach would encourage better service of underserved markets — including manufactured, rural and Native/Tribal housing — and enhance the overall quality and intention of the resources from the Banks.

[21] Acquired Member Assets, (2024). FHLBanks.

Member Incentive Program Question 1: *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?*

In determining a member's commitment to housing finance and community development, FHFA and the FHLBanks should take into account *which* communities their work impacts (ie. low-income communities, historically marginalized communities, underserved communities, etc.) and *to what extent* the actions impact said communities (ie. What percentage of the community was impacted? In what way was the community impacted? What is the calculated projected impact on the community, etc.)? Furthermore, the FHLBanks should consider the proportion of the members' total assets deployed in housing and community development, as well as the member's demonstrated support for a broad range of incomes.

Not only is this information pertinent when determining member action and commitment, but it is critical that FHFA prioritize tracking this data in order to understand and create effective policy that can meet the needs of these specific communities.

Member Incentive Program Question 3: *Member activity that supports housing finance and community development mission may change over time. How frequently should members be evaluated and classified as to their incentive category?*

Following the aforementioned suggestion of applying FHFA's pre-existing DTS Program to the FHLBanks for the purpose of compliance, a similar standard should be implemented by the 11 regional banks. Much like the existing DTS requirements for Fannie Mae and Freddie Mac, the FHLBanks should be required to submit strategic plans and subsequent goals for FHFA review every three years, subject to a public grading and progress assessment on an annual basis.

Member Incentive Program Question 6: *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 engage in any type of predatory, discriminatory or unfair practices should be denied access to FHLBank advances and grant programs. We also suggest the FHLBanks determine, on a case-by-case basis, whether or not the "inconsistent conduct" is ongoing so as to not unnecessarily penalize those who have demonstrated meaningful and corrective actions.

Additional Recommendations:

As the FHFA and Congress appropriately consider requiring heightened, mandatory standards and metrics for mission contribution by the FHLBanks, there are a range of mechanisms that the Banks could deploy to respond proportionately to the national housing crisis, while still focusing on local and regional priorities. We urge the FHFA and FHLBanks to consider implementing the following recommendations, creating more demand for core FHLBank products and services, broadening its reach to the most underserved communities, and strengthening the System's overall mission and credibility:

Create a FHLBank Reinsurance Pool to Offset Collateral Valuation Risk and Expand Non-Depository CDFI Members' access and Impact.

CDFIs have and continue to experience a number of obstacles that hinder overall participation in the FHLBank System, with collateral valuation methodologies and related "haircuts" applied to advance requests remaining a key issue. Haircuts — which are collateral discounts used in determining lending values of collateral[22] — were originally designed to offset collateral risk brought on by non-depository institutions. Haircuts range anywhere from 10% to 90%, and can severely limit lending and investment potential in LMI communities for entities that are known to incur minimal, and in most cases fewer, losses than depository CDFIs.[23]

To enable non-depository CDFIs to qualify for full advances while also adhering to important safety and soundness requirements that support a "zero loss" standard, we ask the FHFA to establish and fund a shared insurance/ reinsurance pool that would serve as a first loss back-stop on advances to non-depository CDFIs. Though these entities have a miniscule chance of failing, this mechanism would allow for valuation discounts to be eliminated or significantly reduced all while ensuring the FHLBanks adhere to their management standard of zero loss. The FHLBanks are certainly capable of redirecting some existing capital to this fund — especially given that they held 1.83%, or $23 billion, in excess capital in 2024 alone[24] — and the resources used to capitalize this pool should in turn count as a mission contribution in the year that the commitment is made.

The FHLBs should increase their minimum AHP Contributions to 20%.

In her April, 2024 testimony before the Senate Banking Committee, Director Thompson recommended that Congress amend the Bank Act to increase the statutorily required minimum funding contribution for the AHP from the current 10% to at least 20% of the FHLBank's net income from the previous year.[25] This proposal has also gained momentum in the Senate, largely thanks to Senator Cortez Masto's *Federal Home Loan Banks' Mission Implementation Act.*[26] We recommend the Agency place a greater and more immediate emphasis on this to the Congress as it works to reform the mission and metrics of the FHLSystem. NCST and the Homeownership Alliance will provide further comment on this issue ahead of

[22] Lending and Collateral Q&A, (Mar 2024). FHLBank Office of Finance.
[23] Advances: Affordable Mortgage Lending Guide, (2024). FDIC.
[24] Investor Presentation, (June 2024). FHLbanks Office of Finance.
[25] Written Testimony of Sandra L. Thompson, (Apr 18, 2024). Senate Committee on Banking, Housing and Urban Affairs.
[26] Federal Home Loan Banks' Mission Implementation Act, S.1684, 117th Cong. (May 18, 2021). Congress.gov.

the forthcoming RFI deadline on various ways to streamline the efficiency and operationality of the AHP application process.[27]

Each FHLBank should commit substantially more resources for Closing Cost and Down Payment Assistance, favorable financing, and innovations that overcome barriers for LMI homebuyers to purchase an entry-level home in difficult market conditions.

FHFA should require that the FHLBanks commit substantially more resources for Closing Cost and Down Payment Assistance (DPA) programs, including flexible funding for interest rate buy-downs and Special Purpose Credit Programs.[28]

A recent study from CoreLogic found that the average down payment amount has increased across all price tiers.[29] More alarming, the average down payment amount for low-tier homes — or homes priced at less than 75% of the median sales price — was $29,987, up from $27,011 year over year.[30] As the housing supply remains constrained and the cost of construction continues to grow, this barrier to homeownership will persist. As such, the FHLBanks should look to significantly increase their commitment and resources to DPA programs in order to provide relief to LMI communities while simultaneously generating additional mortgage origination and servicing opportunities for its staff and Members.

FHLBs should expand the supply of affordable housing at scale by building on existing partnerships with CDFI Members and advancing new CDFI-FHLBank partnership opportunities.

A number of organizations within the Homeownership Alliance are also members of the CDFI-FHLBank Working Group (Working Group) — a collaborative of over 30 CDFIs that are active members of the FHLBank System. This Working Group, which focuses on ways in which the FHFA can unlock more capital for communities in service of affordable housing and community development via the FHLBanks, has taken meaningful steps to identify opportunities for the Agency to scale existing programs and implement new pilot programs.

For example, Chicago's Community First Fund (CFF) is a $50 million revolving loan fund that provides direct support to CDFIs, community development loan funds, and state housing finance agencies in Illinois and Wisconsin.[31] This 10 year old fund supplies lower-interest-rate, long-term financing to help recipients expand their capacity for affordable housing and economic development lending, and provides organizations with resources they need to allocate funds according to the demands they see at the local

[27] Request for Input: Federal Home Loan Bank Affordable Housing Program Competitive Application Process, (June 2024). Federal Housing Finance Agency.
[28] Special Purpose Credit Programs set out unique standards and benefits to make loan qualification easier for people who are from underserved communities, (Apr 2024). Rocket Mortgage.
[29] Average Home Down Payment Reached All-Time High in 2023, (Mar, 2024). CoreLogic.
[30] Ibid.
[31] Community First Fund, (2024). Federal Home Loan Bank Chicago.

level.[32] As the Working Group will denote in its public comment, this fund does not dictate the ways in which funds must be used, so long as the goals and track record of the CDFI are consistent with the community development mission of the CFF.

This program has experienced zero losses, and is open to all CDFIs in the Banks district — not just existing Members. This pilot has not only encouraged enhanced CDFI membership within the Regional bank, but also allows the Chicago Bank to make investments into mission-critical activities that are otherwise ineligible as collateral for advances and would be subject to significantly burdensome haircuts.[33]

Similarly, the FHLBank of Dallas is rolling out a program called the Community Advancement Through New Opportunities & Partnerships Yielding Results (CANOPY) Program. This program, which is dedicated to non-depository CDFI members, is a $35 million loan fund that works to assist CDFIs in supporting underserved rural and LMI communities and populations within the FHLBank Dallas District.[34] This fund provides low-cost, unsecured loans for a term of up to 10 years at a 3% fixed rate, where borrowers enter into loan agreements with the Bank that define the terms of the borrowing arrangement.[35] Any nondepository CDFI institution that is an unrestricted member with the Bank is eligible to borrow, and the funds are required to be used specifically for the creation of affordable housing or economic community development.

Finally, the Dallas Bank created the Community Development Special Finance Program (CDSFP), which is intended to increase member support for single family lending.[36] In this program, the Dallas Bank provides a reduced collateral haircut (12%) to members that pledge single-family residential loans to income-qualified borrowers.[37] The FHFA should require that all regional banks instill a pilot program of this kind, and build off any successful results to create a more favorable environment for Members that pledge mission-based collateral.

Given the positive outcomes and potential of all of these pilot programs, FHFA should look to scale these models to the federal level to enable more effective housing and community development lending, as well as consider additional pilot programs that could experience similar or even greater success.

The FHFA should encourage or require each FHLBank to create an Affordable Homeownership Strategy and an additional dedicated funding stream specifically to ensure that more entry-level homes are produced and made available to LMI homebuyers.

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[32] Ibid.
[33] Ibid.
[34] CANOPY Program, (2024). Federal Home Loan Bank of Dallas.
[35] Ibid.
[36] Available Now: New Pilot Program That Supports Single-Family Housing Lending Activity, (Feb 2024). Dallas Federal Home Loan Bank
[37] Ibid.

According to Freddie Mac, the nation is experiencing a housing shortage by about 4 million units.[38] Without a major investment into the production and preservation of affordable homes, LMI families will continue to be locked out of the home sales market by institutional investors and other all-cash buyers, and will instead be forced to pay rising rents that their incomes cannot realistically sustain. As such, it is critical that nonprofit developers — including those within the Homeownership Alliance – receive additional subsidies from the FHLBanks in order to finance, build and price more starter homes that low-income communities can afford. To help ensure these resources are being used for homeownership projects, each FHLBank should allocate and award these dedicated funds as part of a broader affordable homeownership strategy — funds that are separate from their AHP funding pools and processes. This would not only have a significant impact on the widening homeownership gap, but would also support the System's overarching mission of reaching LMI communities.

The FHLBs should develop and facilitate matchmaking opportunities between non-depository CDFIs and other bank Members that are in need of Community Reinvestment Act (CRA) credits.

The FHLBanks should facilitate increased access to capital and FHLBank advances for non-depository CDFI members by pairing them with CRA-eligible Members, many of whom have excess capital that could address non-depositories' needs while simultaneously generating applicable CRA credit.

The FHFA should expand upon the Acquired Member Asset (AMA) Program to better address unmet housing needs.

There is not a single member of the practitioner-led CDFI/FHLBank Working Group that utilizes the AMA program within the FHLBank System, largely because borrowers cannot fulfill the over burdensome standards/reporting requirements of the product. As such, FHFA should consider designing a CDFI-focused AMA product accessible for community lending organizations. This product should take into consideration lower credit score and downpayment requirements, an intentional focus on LMI regions, and discounted pricing for mission-based activities.

CDFIs and nonprofit housing developers count on the FHLBanks to deliver needed capital and subsidy resources for housing investments in underserved communities. The system can and must do more to fulfill its public purpose mission and to address the nation's severe housing crisis today. We urge the FHFA to require and incentivize FHLBanks to deliver substantially more resources to support increased affordable homeownership opportunities at scale and commensurate with national needs, and call on the Agency to collaborate with Congress wherein a statutory change is required for these reforms. For any questions or points of clarification, please contact Elisabeth Coats, Director of Homeownership Alliance, at ecoats@ncst.org. We thank the FHFA for considering our recommendations.

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[38] America's Affordable Housing Crisis, (Mar 27, 2024). New York Times.

Sincerely,

The National Community Stabilization Trust (NCST)

The Homeownership Alliance