National Council *of* State Housing Agencies

February 3, 2025

Clinton Jones
General Counsel
Federal Housing Finance Agency
400 Seventh Street SW
Washington D.C. 20219

RE: Comments/RIN 2590-AB24,

Dear Mr. Jones:

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) November 4 proposed rule to revise regulations addressing boards of directors and overall corporate governance of the Federal Home Loan Banks (FHLBs).

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 Proposed Rule would bolster these efforts by ensuring that FHLB leadership has the requisite experience and knowledge needed to navigate the housing market of the future. It also takes prudent steps to prevent conflicts of interest that could jeopardize the independence of FHLB board members and officers.

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.

NCSHA strongly urges FHFA's new leadership to continue these efforts.

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[1] NCSHA is a nonprofit, nonpartisan organization. None of NCSHA's activities related to federal legislation or regulation are funded by organizations that are prohibited by law from engaging in lobbying or related activities.

NCSHA supports the provision in the proposed rule that would require the FHLBs to proactively recruit independent directors with experience in areas of critical and emerging importance to housing finance. Specifically, the FHLBs would have to seek directors with experience in the areas of artificial intelligence, information technology and security, climate-related risk, Community Development Financial Institution (CDFI) business models, and modeling.

All the subject areas enumerated above are vital to the current housing market, and NCSHA supports their inclusion. We respectfully ask that FHLB add to these enumerated areas of qualifying experience and additional item related to working with state HFAs and familiarity with the federal and state housing programs they administer.

State HFAs are at the center of our nation's affordable housing lending market. They comprise a national network of mission-focused financing institutions with broad reach into underserved markets throughout the country. HFAs will be vital to any effort to address the nation's affordable housing shortage, both multifamily and single-family.

Given their consequential role, and partnerships with FHLBs as non-member housing associates, it is crucial that HFA perspectives be represented in FHLB governance.

HFAs: Responsible Leaders in Affordable Housing Lending

HFAs 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 2023 alone, state HFA programs provided more than $38 billion to nearly 135,000 homebuyers. The median borrower income for all HFA program loans in 2023 was $72,872, 90 percent of the national median income. Thirty-four 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 last 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. Last 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 $177 million in 2023.

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. One way to foster such critical partnership is to ensure that those with experience working with HFAs are involved each FHLBs' decision-making. Adding experience working with HFAs and familiarity with the federal and state housing programs they administer will allow this perspective to be heard.

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

Sincerely,

Garth Rieman
Director, Housing Advocacy and Strategic Initiatives