NATIONAL ASSOCIATION OF REALTORS®

Vince Malta
2020 President

Bob Goldberg
Chief Executive Officer

ADVOCACY GROUP

William E. Malkasian
Chief Advocacy Officer / SVP

Shannon McGahn
SVP Government Affairs

June 23, 2020

The Honorable Mark Calabria
Director
Federal Housing Finance Agency
Constitution Center
400 7th Street, SW
Washington, D.C. 20219

Dear Director Calabria:

On behalf of the 1.4 million members of the National Association of REALTORS® (NAR), I submit this letter in response to the request for input (RFI) on membership to the Federal Home Loan Bank system (FHLBs or "Banks"). NAR believes that an evolving admission test to the system could benefit the housing mission, while preserving the stability of the FHLB system, the relationships between the FHLBs and their members, and financial liquidity overall if tailored correctly.

The National Association of REALTORS® is America's largest trade association, including NAR's five commercial real estate institutes and its societies and councils. REALTORS® are involved in all aspects of the residential and commercial real estate industries and belong to one or more of some 1,200 local associations or boards, and 54 state and territory associations of REALTORS®. NAR represents a wide variety of housing industry professionals, including approximately 25,000 licensed and certified appraisers, committed to the development and preservation of the nation's housing stock, along with its availability to the widest range of potential homebuyers.

Homeownership is a central part of the fabric of the American dream and the FHLBs play an important role in achieving that dream. The FHLBs' Congressionally mandated mission of providing liquidity to support housing finance is a critical element of the nation's banking structure. To this end, the commitment to real estate finance and homeownership is an important membership requirement for FHLB members and should be maintained on an on-going basis. Furthermore, access to the FHLB system should be expanded to new entities that adhere to this mission, but which can maintain robust standards of safety and soundness tailored to that particular entity's business model.

Establishment of Mortgage Liquidity Mission

In 1932, the twelve FHLBs were organized under the Federal Home Loan Bank Act (Bank Act). They were tasked with providing a reserve banking system for thrift institutions to support their residential mortgage lending activities.[1] For many years, this structure provided low cost funding and liquidity that member banks and insurance companies used to support nearly a third of the mortgage market.

[1] See 12 U.S.C. 1423, 1432(a).

500 New Jersey Ave, NW
Washington, DC 20001-2020
(800) 874-6500
www.nar.realtor

Over the last four decades, the tremendous growth of the secondary mortgage market has led to fewer thrift institutions and insurance companies holding the majority of residential mortgage loans on their balance sheets. Simultaneously, the scope of the FHLB system has seemingly expanded over time in various ways to further the original goals of the Banks' proscribed mission.[2] Some of these expansions include loans for community development purposes, investments that support community services or area revitalization, and several Small Business Administration and Small Business Investment Company investment activities.[3] While not all of these new activities are directly related to the FHLB's original singular mission of providing housing liquidity, NAR understands they strengthen and diversify the banking environment and provide direct benefits to the housing industry by investing in and supporting communities.

NAR supports the mission of the FHLB system that, in its unique structure as a cooperative owned by its members, serves as an important source of capital and liquidity for its member banks. Furthermore, NAR opposes changes that reduce stability in the system or further limit the FHLBs or their members' commitment to real estate.

Reexamining Membership and the Commitment to Homeownership

NAR believes that the FHLBs should have an ongoing requirement to investment in real estate. Without such a standard, an FHLB member could reduce or even eliminate its residential mortgage loan holdings without affecting its eligibility. Worse, perpetuating this structure could incent new entrants to the system to take advantage of this loophole and simply benefit from low cost advances and liquidity without any commitment to real estate. For this reason, NAR believes that both the parent and any conduit should be held to this standard when entering the system and after.

The FHFA's standard must reflect the migration of many banks and financial companies to the originate-to-distribute model versus holding loans in portfolio. Under the-originate-to-distribute model, a member institution's year-end balance sheet may not reflect its full support for housing finance, particularly if the entity were to shift from holding a majority of its loans in portfolio one year and shift to selling them in the subsequent year. This ability to shift model allows the bank to support the liquidity of mortgage investment while managing their balance of rate and credit risk through the economic and housing cycles. The market has benefited from a falling rate environment for the last three decades, but this is likely to shift in the years to come, where this flexibility will be important for depository institutions in particular.

In addition, it is essential to understand the role that individual bank members play in their respective communities and how the proposed requirements would impact their ability to provide continued support of the FHLB's housing finance and community development missions. Only lenders and insurers that focus on the continued liquidity of real estate investments and commitment to homeownership should benefit from the low-cost funding that FHLB membership brings.

New Entrants to the System

Another potential change outlined in the request for input is allowing new entrants to the system. One such example is the recent influx of captive insurance companies that utilize access to the system's low-cost funds for their parent real estate investment trust (REIT) to purchase mortgage backed securities. NAR opposes completely eliminating captive insurers. As noted by the Treasury Department, and NAR agrees, many of the activities that REITs engage in are aligned with the FHLB system's core mission, and represent an important source of private capital that should be at the core of the U.S. housing finance system.[4] In addition to injecting private capital into the housing finance market, captive insurance members provide extensive liquidity for community development activities and the long-term reliable nature of FHLB advances allows consistent and competitive pricing for those activities and to home loan originators.

Rather than unnecessarily limiting participants in the system, the FHFA should develop and standardize risk management practices across the spectrum of system participants to remedy its safety and soundness concerns

---

[2] 65 Fed. Reg. 43969 (July 17, 2000)
[3] Id, and 75 Fed. Reg. 76617 (Dec. 9, 2010)
[4] Remarks by Counselor to the Secretary for Housing Finance Policy, Dr. Michael Stegman, Before The North Carolina Bankers Association, 2014 American Mortgage Conference, September 9, 2014.

while still allowing new business models into the stem. To do this effectively, the following recommendations could be implemented:

- For transparency, the FHFA should require periodic reporting to the entrant's respective FHLB. This could include information on the entire counterparty including both the parent company and captive insurer, if one exists, to adequately assess financial health, investment strategy, and other risk metrics.
- FHFA could applying a more stringent mission test to new participants. If the parent of affiliates is not a REIT, FHFA should consider setting a simple, but heightened, asset (or income) test threshold. For example, FHFA could require that a significant percent of a parent's assets be real estate related, which would include both residential and commercial real estate assets.
- FHFA could apply a more stringent eligibility test to collateral by new member models, where collateral pledged for advances must be real estate related, and a higher standard of safety such as compliance with the qualified mortgage standard within the ability to repay rule.

The recommendations above are not exhaustive. Furthermore, the FHFA should tailor the tests, including periodic tests, to the unique structure of the new business models. For instance, non-bank lenders are more dependent on capital markets and income flows, yet they are less impacted by deposits and asset price changes, but the latter is not necessarily true of non-bank servicers. A more diverse FHLB system could benefit members through specialization, but a one-size-fits all framework for monitoring and ameliorating risk could undermine stability of the system and both the liquidity and low cost of capital benefits born by it.

Homeownership continues to lag ten years after the great recession. Mortgage rates are likely to rise over the next decade exacerbating this issue in combination with supply constraints. Diversifying the FHLBs' base of participants in a safe and sound manor, while maintaining their mission focused on expanding liquidity for real estate and community investments will position the FHLBs to success in the future. Finally, in light of the efforts by regulators to ensure market liquidity and housing security for affected homeowners and renters, the FHFA should consider extending the comment period to allow for a more robust review of FHLB membership by market participants.

Conclusion

The FHLB system was founded with the critical mission of providing liquidity for real estate investment and later expanded to support community development. REALTORS® believe the standards for membership should reflect this commitment throughout the term of membership.

In addition, as the FHLB system considers accepting new business models for membership, new entrants must demonstrate this same commitment to providing liquidity for real estate finance and affordable homeownership opportunities. Finally, the FHFA can and should develop effective structures for evaluating and monitoring risk from these new entrants and tailor oversight to the unique structure of these entities and their parent companies.

Thank you for your time and consideration of this important issue. NAR looks forward to working with the FHFA to reshape the FHLBs' membership to continue its robust housing mission. If you have any questions, please contact Ken Fears, NAR's Senior Policy Representative for Conventional Finance and Lending Policy, at 202.383.1066 or KFears@Nar.Realtor.

Sincerely

Vince Malta
2020 President, National Association of REALTORS®