Draft Comments on Reform of the Federal Home Loan Financing System 10/18/22

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The eleven Federal Home Loan Banks - established by Congress in 1932 – “have total assets that exceed $1 trillion. They were conceived to support housing finance, but they no longer play that role.” So wrote Cornelius Hurley of Boston University in “Imagining Taxpayer Response to FHFA reform” in *American Banker* , October 7, 2022. Hurley pointed out:

“The Home Loan banks issue debt obligations in the hundreds of billions of dollars. They are the second largest issuer of debt after the U.S. Treasury Department. Their debt is subsidized by all taxpayers….

…because of the government guaranty, the Home Loan Banks offer below-market rates. Second, the Home Loan banks incur zero credit risk in lending to the banks because, even in the rare event of a bank failure, the Home Loan bank has a priority over the FDIC (and the taxpayer) in that bank’s receivership. The upshot is that it is cheaper for the banks to borrow from their Home Loan banks than from their own depositors.”

Depositors and taxpayers are subsidizing this pool of credit for all other banking operations. What about the original purpose of addressing housing issues?

It is one discussion whether having a large, protected, easily accessed pool of credit as the Federal Home Loan Bank system has become is a good idea. It is another to look at whether the system intended to provide for housing is adequately providing for housing.

This comment pertains to the second point. The commenter is not in the field of finance and can only suggest that the provision of the great easily accessed pool of credit be provided, if seen as needed, some other way than by removal of the value inherent in housing (perceived, emotional, monetary, societal). We need to have learned that lesson, not to let pure finance in its extractions take out such value, from the great Savings and Loan bust during the first Bush administration, requiring a massive bailout, which should have shown how far home loan banking had come from Bailey’s Savings and Loan in Frank Capra’s *It’s A Wonderful Life*; to the collapse that caused our Treasury Secretary to go to Nancy Pelosi on bended knee, and the second Bush to begin the second great bailout, that Obama continued as ARRA. Still, we mix the raw energy of money with the need for shelter and personal investment, personal responsibility for the future, the foundation of family wealth? It seems from the standpoint outside of the financial discussion that the lesson seems crystal clear: it is time to separate these two functions. As to how that can be done or even if there is a will to do it, this observer cannot say, being unfamiliar with the mechanisms in play.

But if we can separate them out it seems we can do a better job of devoting a measure of our wealth to good housing for all, and that we can achieve all manner of aims that beckon as real values, in our discussions, in our culture, and perhaps inhibited but resident somewhere, in our politics. It seems that there has to be a way that the financial wizards of this world can set up a system that would have as undiluted purpose, as originally intended, to help people create for themselves what’s needed, and to do so equitably. All it takes is the setting of this as firm purpose and the continuous maintenance of whatever wall of separation is necessary, to prevent the migration of values from where they originate and must be nurtured, to various pockets where they die, or gambling tables where they are lost.

If a system of finance for housing can be recreated, not just from what is, but first from our determination to realize the social aims we claim to value, it then becomes possible to plan out a transition to something that makes more sense. First we have to envision where we need to go. A reform of the loan system would not seem to have a real chance of happening if it does not deal in a fundamental way with the forces that warp the effort and divert it from its original intent. That original aim – to benefit the citizens of the US – must be strongly stated and the purpose of the system to be designed around that, with protections to ensure it stays that way. That is the lesson we should have learned and that is clear even to those who are not financial professionals who take a look at the system.

It may be that the continued use of the system for financial purposes other than housing is really only maintained by a general doubting by the public of itself and the trust that they are still placing in experts. That trust, foundational to the security of our economy, ought not to be tentative.

In general, a sense of loss of trust is feeding political resentment in this country. If financial experts visibly reformed the system in a way that dislodged it from unrelated investment – that would go a long way to rebuilding trust, a badly neglected and critical value underlying the performance and indeed the survival of all the systems on which we rely. The financial system is particularly sensitive to trust and the benefits of building it, even in a nonmonetary manner, cannot be measured but must be assumed to be great.

The following ideas are offered as examples of principles and goals that, articulated and followed, would help re-establish the purpose of the system and the trust in that system. It is recommended that the public beyond the financial experts already engaged with the system be part of a new discussion, so that the system which emerges is reflective of the many perspectives relevant to the purpose of reform. This requires active reaching out and engagement, convening and inviting, not just opening the doors.

The system should provide for as much housing as is needed.

The system should provide for sustainably developed housing.

The system should accelerate the development of less environmentally impactful housing.

The system should accelerate the transition of less safe to more safe housing.

The system should enhance the ability of communities to determine and shape their own development.

The system should strengthen the ability of families to build and maintain wealth and all residents to prosper.

The system should include means of helping residents remain in place when their communities improve.

The system should foster the development of shared amenities and ecosystem health.

The system should help build and maintain relationships: between residents, between residents and developers, with resources, with nature, and with government.

The system should promote the evolution of ever more healthy, equitable and sustainable communities.

These goals can be advanced through the setting of goals and conditions, the dedication of resources and training, the provision of incentives, and the convening of public discussions for constructive engagement between the widest set of stakeholders.

This is not an exhaustive list of the kinds of principles that need to be clearly re-established so that they take precedence over financial aims that have nothing to do with housing. By setting forth such principles, it becomes clear what flows from that. From the larger principles flow more specific objectives, or goals. Housing finance should:

* ensure that lead paint is removed from homes that contain it, or permanently covered and eventually properly managed for disposal.
* ensure that new homes are built to be energy-efficient and that existing homes are retrofitted to be energy-efficient.
* Assist homeowners in the most rapid conversion to clean power devices within homes and clean power supplied to them.
* Increase the ability of those renting to own and build equity in their own homes.
* Enhance the evolution of urban, town and regional planning to provide for development in which communities share value and decision-making.
* Foster the use of community land-trusts, agricultural cooperatives, and home maintenance service cooperatives and other innovative organizations to serve low-and middle-income communities.

From these more specific goals flow more targeted ones, some seemingly ancillary to the functioning of a home loan system, but which are part of a holistic approach that includes managing the context in which the system operates:

* In order to bring about lead-safe housing municipal inspections need to be performed, thus the system must also provide money to communities for this function.
* In order to promote the accelerated use of clean energy the financing must include assistance in technical assistance, provided in many languages, as well as assistance to communities and organizations to create bulk purchasing of clean energy.

To accomplish these ancillary tasks legislative mandates may have to be tweaked but it is hoped that the conversation that you have launched will not exclude that option.

It seems to an outside observer that only creativity is needed to devise a larger engagement with the related systems that are either barriers to be removed or opportunities to be captured, relating to the goals of the system. There are financing needs that can be met that will provide safe, equitable, environmentally sustainable housing for all, but they are not met by simply conducting individual transactions, but require engagement with other disciplines and stakeholders, and relate effectively to the whole system of systems in which a housing finance system operates.

Thank you so much for this opportunity to comment and good luck with your planning process.

Sincerely,

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