NCSHA

National Council *of*
State Housing Agencies

October 31, 2022

Ms. Sandra Thompson
Director
Federal Housing Finance Agency
400 Seventh Street SW
10th Floor
Washington D.C. 20219

RE: FHLBank System at 100: Focusing on the Future

Dear Director Thompson:

The National Council of State Housing Agencies (NCSHA),[1] on behalf of the nation's state housing finance agencies (HFAs), thanks you for the opportunity to submit comments for the Federal Housing Finance Agency's (FHFA) comprehensive review of the Federal Home Loan Bank System (FHLB) system.

NCSHA commends FHFA for conducting the review. For the past 90 years, the FHLBs have played a vital role in our nation's housing finance system, serving as a reliable source of credit for banks and other FHLB members that have helped finance affordable mortgages for millions of working families. Further, the FHLBs have also served as a critical source of funding for affordable housing opportunities through their Affordable Housing Programs (AHP) and other activities.

The FHLBs' place in the housing finance market is particularly critical in today's market, with a severe shortage of affordable housing options and many low- and moderate-income families being priced out of the homeownership. This review will ensure the FHLBs can maintain their valuable place in our nation's housing finance system for years to come. NCSHA looks forward to taking part in the conversation.

As it considers the FHLBs' future, we urge FHFA to: 1) maintain the regional structure of the FHLB system, and 2) improve the ways in which the FHLBs can combine their affordable housing

[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.

activities with federal and state housing programs, including those administered by state HFAs, to better address the nation's affordable housing needs.

FHLB-HFA Partnerships

NCSHA represents the state housing finance agencies for all 50 states, DC, Puerto Rico, the Virgin Islands, and New York City. While HFAs vary in structure, they all share the common goal of financing affordable housing options for those who need it.

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 2019 NCSHA survey of HFAs indicated that each of the eleven FHLBs had collaborated with HFAs in some capacity. The most common forms of HFA-FHLB partnerships included FHLB advances to HFAs; 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.

HFAs also serve in leadership for their local FHLBs. Two 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 Committee. Conversations with several of these individuals informed NCSHA's comments.

Maintain the Regional FHLB System

One of the key strengths of the FHLB system is its regional structure. Currently, the nation is served by 11 individual FHLBs representing geographically distinct parts of the country. This allows the FHLBs to focus on the unique housing needs facing their communities, particularly through their AHP programs and other affordable housing efforts. The regionalized system also helps spark innovation, as the individual FHLBs seek to develop programs and services tailored to their districts. Each FHLB also has an Affordable Housing Advisory Committee, which assures that local voices play a role in each FHLB's decision-making.

While many aspects of the home lending market have become increasingly uniform across the country, the nation still faces a diverse array of housing needs that vary by market. Addressing the affordable housing crisis requires solutions to all these needs. Consequently, we call on FHFA to maintain the FHLBs' regional structure and resist proposals to consolidate the banks.

Explore How FHLBs Can Better Partner with Existing Housing Programs

The FHLBs have a long track record of support for affordable housing, most notably from their Affordable Housing Programs (AHP). Federal law requires each FHLB to contribute ten percent of their annual earnings to their AHP.

NCSHA supports increasing each FHLB's AHP contribution to 15 percent. We recommend FHFA consider the FHLBs' AHP contributions as part of its review and develop a recommendation for Congress to increase them. Additional funds dedicated to the FHLB's AHP activities are necessary to address our critical affordable housing needs. Raising the contribution percentage would not jeopardize the FHLBs' safety and soundness or ability to carry out their other functions and activities. Legislation to increase the AHP contributions to 15 percent has already been introduced by Senator Catherine Cortez Masto (D-NV).

The FHLBs use their AHP contributions to finance homeownership opportunities for low- or moderate-income households and the development and rehabilitation of affordable multifamily housing. The AHP programs serve as a reliable source of funding for affordable housing in their districts. From 1990 through 2020, the FHLBs used $5.6 billion in AHP financing to subsidize the development of nearly 600,000 affordable rental units and assist 162,000 homebuyers. A strong majority of these AHP-financed housing units have been affordable to very low-income households.

As important as AHP is, its overly rigid structure has made it difficult for HFAs to utilize AHP funds in conjunction with the federal and state programs they run. This can diminish AHP's impact by making it harder to combine it with other funding sources. While FHFA took steps in a 2018 rule to introduce more flexibility into the AHP program, more can be done to help AHP work better with existing affordable housing programs and initiatives.

One notable example is the Low-Income Housing Tax Credit (Housing Credit), which state HFAs administer in nearly all states. The Housing Credit is by far the biggest source of funding for affordable rental housing. Since its establishment in 1986, the Housing Credit has financed more than 3.6 million apartments for low-income households, adding more than 120,000 units to the inventory each year.

As our nation's affordable housing shortage worsens, the Housing Credit is more important than ever. At the same time, construction costs and surging interest rates have exacerbated the need for affordable sources of gap financing. An NCSHA-commissioned report released in September found that affordable developments have experienced unexpected cost increases averaging 30 percent, or much more in some cases, resulting in funding gaps ranging from $145,000 to $5.7 million.

AHP has and will continue to serve as a critical source of gap financing for Housing Credit developments. However, in our conversations with HFAs, they mention several features of the AHP program that make it difficult to utilize AHP with Housing Credit projects. These include application cycles that do not align with the Housing Credit award cycles; stringent underwriting and income targeting standards; and low award limits that do not meet project needs. In 2020, only 12 percent of Housing Credit projects received AHP funds (though the percentage was notably larger in some states).

In addition to the Housing Credit, there are many other critical federal housing programs administered by state HFAs, including tax-exempt private activity Housing Bonds, the HOME Investment Partnerships program, Project-Based Rental Assistance, HUD's Section 202 Supportive Housing for the Elderly Program, Section 811 Supportive Housing for Persons with Disabilities Program, and the United States Department of Agriculture's (USDA) Section 515 Rural Multifamily Program. HFAs also administer a number of state-level housing programs as well.

Taking steps to allow HFAs and other affordable housing stakeholders to better combine AHP funding with other federal and state housing programs will maximize the impact of the AHP program and, ultimately, expand housing opportunities for more households. We urge FHFA, during its review, to strongly consider how the AHP and other FHLB efforts can be better structured to partner with HFA programs, as well as other state and local affordable housing initiatives. We would be happy to provide more detailed recommendations as you move forward with your review.

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