

October 31, 2022

## Comments re: “Federal Home Loan Bank System at 100: Focusing on the Future”

Fahe writes respectfully in response to the Federal Housing Finance Agency's (FHFA) request for comment on the future of the Federal Home Loan Bank System (FHLB). Fahe is a Network of 50+ organizations building the American Dream in Appalachia, and a Community Development Financial Institution (CDFI). Since 1980 Fahe has invested over \$1.32B generating \$1.69B in finance. Channeled through our Members and community partners, this investment directly changes the lives of 778,114 people in some of the hardest-to-reach places in Appalachia.

As builders, developers, preservers, repairers, and rehabilitators of affordable housing across Appalachia, Fahe Members are where the rubber meets the road for investments into housing – which includes those made by FHLBs. Appalachia is a diverse region composed of urban, suburban, small town, and rural communities, and our Members work with their respective FHLBs in all of those communities across the Appalachian portion of six states – Maryland, Virginia, West Virginia, Kentucky, Tennessee, and Alabama.

FHLB's provide access to essential capital, liquidity, gap-filling subsidies and homebuyer assistance, which has made it possible for many affordable housing projects to be completed that otherwise would not have been. Both the statutory requirements for FHLBs to make contributions to their Affordable Housing Programs (AHP), as well as their voluntary contributions to other programs, have been crucial avenues of support for local nonprofits. Especially in persistently poor areas, with broken housing markets, AHP funding has been critical for things like closing the appraisal gap in new construction.

But the world in which FHLBs were created nearly 100 years ago has changed dramatically; the primary difference is that we now face a national housing crisis. Decades of underproduction, aging stock, consolidation of ownership, rising costs, and general unaffordability have conspired to create an acute crisis in every corner of the country – urban and rural, low-income and not. A specific part of the general issue of housing affordability is the ever-shrinking pathway to homeownership, which affects even parts of the country where ownership has historically been the norm – like in Appalachia.

Federal investments into housing production and direct payments like rental assistance have shrunk, in real dollar terms, year after year since the 1980s. State-level governmental investments have been likewise anemic throughout much of Appalachia. While every dollar counts, and every funding stream is welcome, the simple fact of the matter is that nonprofit partners like Fahe Members are being asked to do more and more every year, while being supported and funded less and less.

As FHFA Director Sandra Thompson said at the opening of the September 29<sup>th</sup> listening session – “... there's more that the Banks *can* and *should* do.” An analysis conducted by the Homeownership Alliance compared the recent levels of profitability of the FHLBs and determined that the system's public benefit mission could be increased without endangering

safety and soundness. Fahe concurs with this assessment, and believes that we should use the opportunity provided by the FHFA, in the face of this national crisis, to dramatically expand the levels of investment made by FHLBs into affordable housing production.

As such, Fahe supports the imposition of a higher mandatory minimum contribution from FHLBs, that responds to the centrality of the mission of FHLBs, recognizes the acute need in the country for increased investment, and still maintains the safety and soundness of the FHFA system. AHP and other voluntary programs at FHLBs are some of the most over-subscribed programs in the community development and affordable housing industry; this speaks not only to the need for them, but their suitability to the need. With increased contributions from FHLBs, we should also protect the regional system for FHLBs that has allowed the development of these regionally-appropriate programs in the first place.

FHLBs should also expand the affordable housing supply at scale by building on existing partnerships with CDFI Members and advancing new CDFI-FHLB partnership opportunities. The CDFI-FHLB Working Group, which includes approximately 30 CDFI Members and representatives of all 11 Banks met in 2020 and found common ground on several fronts including the possibility of developing standardized products designed specifically for CDFIs that would be available in every region. They also discussed moving forward with several pilots. All 11 banks agreed with these preliminary ideas, but the effort paused during Covid. This process should be restarted in earnest and move forward as quickly as possible.

As also discussed by the CDFI-FHLB Working Group in 2020, FHLBs should develop and facilitate matchmaking opportunities between non-depository CDFIs and other bank members that are in need of CRA credit - an approach that could also be paired with Special Purpose Credit Programs. The system should facilitate increased access to capital and FHLB bank advances for non-depository CDFI Members by pairing them with CRA-eligible Members, many of which have excess capital that could address the non-depositories' needs while generating CRA credit. By putting non-depository CDFIs and CRA-eligible members together, both parties could benefit. This connection would be especially important for CDFIs working in economically disinvested regions like Appalachia, where on-the-ground institutions have limited CRA-derived incentive to make capital available. This lack of incentive negatively affects the ability of CDFIs to find investors for tax credit deals, so critical in today's development landscape, so dominated by the Low-Income Housing Tax Credit and others.

Finally, we reiterate the message delivered by FHFA Director Thompson, with which Fahe so strongly agrees – There is more that FHLBs can and should do. Most of that is to expand on the good work already ongoing, by expanding the scale of investment, and the strength of partnerships. We urge FHFA and Congress to require and incent FHLBs to deliver substantially more resources to affordable housing and community development programming, at a scale that is commensurate with the national need.

Fahe thanks FHFA for the opportunity to comment on the future of FHLBs, over the next 100 years of their critical service to the nation.