



# Luther Burbank<sup>®</sup> Savings

March 10, 2023

The Honorable Sandra Thompson  
Federal Housing Finance Committee  
400 7<sup>th</sup> Street, SW  
Washington, DC 20019

RE: FHLB System at 100 – Request for Comments

Dear Director Thompson:

I am writing on behalf of Luther Burbank Savings (“LBS”), an \$8 billion community bank that has been serving its customers throughout California for the past 40 years. The Federal Home Loan Bank of San Francisco (“FHLB”) has been an instrumental partner of LBS over this entire period. LBS’ primary business purpose is financing residential housing and over 90% of our assets are comprised of multifamily and single family residential loans and investments.

**We primarily utilize the FHLB as a reliable source of cost-effective liquidity providing consistent and efficient execution.** LBS maintains a portfolio of high-quality real estate loans pledged to the FHLB as collateral support for our advances. Access to FHLB advances are generally effectuated via a simple phone call, within five minutes or less, as needed. Although LBS typically uses first trust deed real estate loans as collateral for our borrowings, we appreciate the flexibility offered by the FHLB to also pledge government and agency investment securities as an alternate form of collateral.

**Most importantly, financing options offered by the FHLB, including long-term advances (i.e. 1 year to 30 years) and creative products, such as advances with prepayment symmetry and advances with embedded derivatives (interest rate swaps/caps) are not available to LBS from other sources such as the Federal Reserve Bank.** These FHLB product options are essential tools used by us for asset liability management. LBS has been steadfast in its commitment to the communities it serves, with a primary focus on supporting affordable housing. The products offered by the FHLB provide LBS the ability to hedge the interest rate risk associated with providing our customers with the volume and type of financing products they desire and require.

LBS is consistently ranked one of the top 25 largest multifamily residential (“MFR”) lenders in the nation, which is remarkable when considering our \$8 billion asset size relative to behemoths such as JP Morgan Chase and Wells Fargo Bank. MFR loans approximate 65% of LBS’ loan portfolio. At December 31, 2022, our MFR loan portfolio consisted of 2,749 loans secured by multifamily properties financing an aggregate of 37,681 housing units. Over 54% of our MFR loan collateral is located in low-to moderate-income (“LMI”) areas, reflecting the key role LBS plays in providing affordable housing options for minorities and LMI communities.

LBS' MFR loan program focuses on small balance loans secured by B and C quality projects, commonly referred to as "workforce housing." Workforce housing provides a place to live for so many individuals who do not possess the financial capacity to achieve home ownership. Particularly in California, due to the high price of housing, accumulating a sufficient down payment is a barrier to home ownership. It is nearly impossible for the average family to save the funds required for a down payment based on median household incomes, and the average price of homes. For example, in the Los Angeles Metropolitan Statistical Area ("MSA"), the area median income for 2022 was \$91,000 as reported by the Federal Financial Institutions Examination Council. In the same MSA, the median sales price for a home was \$920,000. A 20% down payment for the median sales price would be \$184,000. This would be very difficult to save for the family making the median income in this MSA. Furthermore, the annual income required for a borrower for the median home price in this MSA, for a Federal Housing Administration ("FHA") home loan, with a 96.5% loan to value ratio, would be approximately \$198,000 (assuming an \$887,800 loan amount with a 6.5% interest rate, a 45% debt to income ratio and no secondary debt). In this example, a borrower's principal and interest payment would be approximately \$5,600 per month, or approximately 74% of the median income in the MSA. In stark contrast to this income obstacle, the approximate amount of average rent per unit of multifamily properties in the LBS loan portfolio in the Los Angeles MSA (based on the most recent data available) is \$1,537. Finally, a large majority of the multifamily properties within LBS' loan portfolio are subject to state and/or municipality rent control ordinances. These ordinances provide greater security for tenants that are at risk of displacement due to a myriad of macroeconomic factors that are out of their control. LBS's commitment to its core MFR lending business supports the ability of many of our landlords to provide affordable housing options within minority and LMI census tracts. **Our ability to utilize FHLB advances as a significant source of funding for our business operations allows LBS to continue to further our commitment to affordable housing in our communities.**

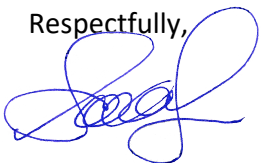
Our strong commitment to serve the housing and credit needs of minority and LMI communities extends to our single family residential ("SFR") lending program. SFR loans represent approximately 32% of LBS' loan portfolio. LBS has developed two innovative loan programs, created to expand access to underserved communities. Our Grow first-time homebuyer loan program is designed as a conventional, 30-year fixed, community-lending mortgage that offers flexible underwriting to qualified borrowers who meet specific income criteria or have properties that meet geographic eligibility criteria. Grow loans allow up to 97% financing without private mortgage insurance. Offered with the Grow loan, is our Daisy loan program which is designed as a down payment and closing costs assistance program. Daisy loans are offered for up to 2% of a home's purchase price with no interest charged over 36 months, and the loan is fully forgiven at the end of the term so long as the borrower continues to occupy the property as their primary residence and there is no default present. In 2022, LBS originated 104 Grow and 95 Daisy loans totaling \$48.3 million and \$945,000, respectively. As of December 31, 2022, we had over 160 Grow loans outstanding for \$68.4 million. Through our Daisy program, LBS has provided approximately 460 forgivable loans equating to \$4.3 million to assist first time homebuyers. In addition, we have worked closely with community organizations and the Federal Home Loan Bank of San Francisco ("FHLB") in underwriting approximately an additional 100 down payment assistance grants totaling \$1.7 million. **Given the interest rate risk associated with offering 30-year fixed rate loans to our communities, LBS would not be able to offer the Grow program and related Daisy forgivable down payment assistance loans without utilizing the long-term and creative advances provided by the FHLB.**

Additionally, LBS actively participates in the FHLB's affordable housing programs, including its "Workforce Initiative Subsidy for Homeownership" ("WISH") and the Access to Housing and Economic Assistance for Development ("AHEAD") grant programs. Our origination of WISH down payment assistance grants to eligible LMI households has helped working families and individuals make the transition from renting to owning their own home. We have underwritten 98 WISH grants totaling \$1.7 million. LBS' participation in the AHEAD grant program has helped LMI communities by addressing specific economic development needs of at-risk youth, seniors, veterans, and persons with disabilities. We are particularly proud and appreciative of the FHLB's support of the Caritas Village project in LBS' hometown of Santa Rosa, California. Caritas Village is a housing-focused service center providing emergency family shelter, homelessness case management, mental health services, educational and job development services and 128 units of permanent affordable housing for those in need. The FHLB has awarded Caritas village a \$1.25 million grant. Moreover, our direct contributions and participation in the FHLB's 2022 Empowering Black Homeownership matching grant program expanded the capacity of two HUD-approved housing counseling agencies in Los Angeles, California. With the direct assistance of the FHLB, LBS has also sponsored several grants supporting COVID-19 relief and California wildfire disaster and recovery efforts. **Without the availability of the various FHLB grant programs, LBS would not be able to provide the same level of sponsorship to these underserved populations that have been historically disadvantaged.**

In closing, the FHLB is a fundamental and critical part of LBS' business operations which principally focuses on providing housing opportunities to the communities that we serve. The FHLB is an important source of liquidity for LBS. The FHLB supports our asset-liability management strategies, and our commitment to affordable housing in the communities that we serve. The FHLB has been a dependable partner throughout our history notably supporting its members throughout challenging economic periods including the Great Recession and the COVID-19 pandemic. **Lack of access to the same level of support from the FHLB in the form of advances, creative financing products and grants would significantly restrict our ability to promote affordable housing and support programs that serve minority and LMI populations, and we believe that the services offered by the FHLB, and utilized by its members, demonstrate the FHLB's commitment to its principal mission.**

LBS appreciates the opportunity to comment on the FHFA's review of the FHLB. Please do not hesitate to contact me if you have any questions or I can be of any assistance at (310) 606-8970 or [slagomarsino@lbsavings.com](mailto:slagomarsino@lbsavings.com).

Respectfully,



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President & CEO

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