March 30, 2023

Director Sandra Thompson
400 7th Street SW.
Washington, DC 20219

RE: Request for Input on the *FHLBank System at 100: Focusing on the Future* (2023)

Dear Director Thompson and esteemed colleagues,

We thank you for your broad-based effort to gather extensive feedback on the Federal Home Loan Bank (FHLB) system to explore how it could better advance its mission of providing reliable liquidity to its member institutions to support housing finance and community investment. Our comments will predominantly focus on how the FHLB system should be improved to further advance affordable housing, and more specifically, what could be improved to better support shared equity homeownership models under the Affordable Housing Program (AHP).

ABOUT GROUNDED SOLUTIONS NETWORK (GSN)

Grounded Solutions Network (GSN) supports strong communities from the ground up by furthering housing solutions with lasting affordability and inclusionary housing policies to advance racial and economic equity. We are a national nonprofit membership organization of over 260 community land trusts, nonprofits, inclusionary housing government programs, and allies located in 46 states, Washington DC, and Puerto Rico that all support the creation and preservation of housing with lasting affordability. These models go by many names, such as “shared equity homeownership,” “community land trusts,” “below market-rate programs” or “deed-restricted housing.” [1] Our members and the broader field have created over 250,000 shared equity homes (aka permanently affordable owner-occupied homes) and approximately 150,000 permanently affordable rentals. We provide our members and the broader field with training, technical assistance, policy and program design, resources, research, and advocacy. GSN champions evidence-based policies and strategies that work. We promote housing

[1] Despite similarities in the name, for-profit or nonprofit "shared appreciation mortgages” are not designed to restrict the sales prices of homes or keep properties permanently affordable, and therefore, are *not* part of the shared equity homeownership landscape.

solutions that will stay affordable for generations so communities can stabilize and strengthen their foundation, for good.

ABOUT SHARED EQUITY HOMEOWNERSHIP

Shared equity homeownership is resale-restricted owner-occupied housing for lower income households that remains affordable in perpetuity. Because shared equity homes are sold at affordable prices significantly below their fair market value (resulting in LTVs between 50-80%), homebuyers are able to purchase the homes with very small down payments (e.g. 1%), access conventional mortgages with lower credit scores, avoid paying mortgage insurance, and have affordable monthly mortgage payments. And due to the resale-restrictions on shared equity homes, the homeowner is able to build wealth from principal paydown and some appreciation while the home remains affordable to subsequent lower income homebuyers, resale after resale. Through this self-sustaining model, a one-time subsidy to lower a home's initial purchase price results in a home that will forever remain affordable and provide endless lower income families with the ability to access and sustain homeownership. This stock of shared equity housing remains a community asset even when neighborhoods become high-cost, enabling racial and economic integration and access to high-opportunity areas.

GENERAL REMARKS

Grounded Solutions supports FHFA's goal of reevaluating the role of the Federal Home Loan Bank (FHLB) System. The FHLB System could and should do more to support affordable housing in this country, especially given the amount of public subsidy that they receive in the form of tax exemptions, a $4 billion line of credit from the U.S. Treasury, and the implicit backing beyond that limit that is extended to GSEs.

Given the publicly subsidized benefits extended to the FHLBs and their member banks, it is reasonable to expect they would provide comparable returns to the public.

In order to achieve this, GSN echoes the recommendations from the Homeownership Alliance convened by National Community Stabilization Trust and Americans for Financial Reform to improve the System, including:

- *Increase the amount contributed to the Affordable Housing Program.* The 10% dedicated to affordable housing is not sufficient and the FHLBs profitability would allow for a substantial increase[2]. Congressional action is required to raise this threshold in statute but FHLBs may raise this amount voluntarily. Any additional dedicated contribution should go towards the rehab or construction of affordable homeownership opportunities, especially those that are permanently affordable to serve family after family through shared equity homeownership models. This would enable the public investment in affordable homes to be preserved and serve more lower income homebuyers over time since the homes would remain permanently affordable to serve subsequent lower income homebuyers.

[2] The total AHP award amount in 2021 was $354 million; the combined net income across the FHLBs was $1.77 billion and $1 billion was paid in dividends to member banks.

- *Deepen the FHLB System's engagement in affordable housing.* In further support of the previous goal, FHFA might require – or strongly encourage -- that each Bank create an Affordable Homeownership Strategy that ensures growth in the number of entry-level homes that are made available to low- and moderate-income homebuyers, especially for people of color.

  The impact of any increase in FHLB support for affordable housing could be multiplied if directed towards programs supporting lasting affordability. Specific inclusion of shared equity homeownership, such as community land trusts, limited equity cooperatives, or housing with deed-restrictions designed for lasting affordability, would extend the FHLB System's impact even further.

- *Clarify the FHLB System's role and responsibilities.* The FHLB Systems was created to provide a public benefit, but how to appropriately realize that benefit has become less clear as FHLB has expanded its role in the lending landscape and affordability has become a perennial crisis. We encourage FHFA to develop guidance for FHLBs that clearly defines the role and goals of the FHLB System, especially in regards to affordable housing.

- *Expand tracking and analysis methods for FHLB activity.* A 90-year evaluation cycle does not provide the appropriate level of oversight on such an important institution. We encourage FHFA to improve methods of evaluating several aspects of FHLB operation. This includes regular evaluations of the amount of public subsidy the system receives, the administration of the FHLBs (including executive compensation), and regular evaluations of operational efficiencies. Larger down payments should be preserved to help family after family.

SPECIFIC REMARKS ON AFFORDABLE HOUSING PROGRAM & SHARED EQUITY HOMEOWNERSHIP

A large aspect of the FHLBs' Affordable Housing Program (AHP) is to enable access to homeownership through down payment assistance. We suggest that the deep affordability and community support that is inherent in the design of shared equity homeownership programs means they are better able to serve people of color and lower income families than traditional down payment assistance programs. In addition, the public investment is retained in the housing unit, which not only enables wealth-building from homeownership for the initial family but grants that opportunity to every subsequent buyer of the shared equity home. Therefore, we strongly recommend that FHFA works with the FHLB system to ensure that AHP can efficiently and effectively be used to increase the stock of shared equity homes across communities.

- FHFA should promote the FHLBs to design AHP scoring criteria or AHP Targeted Funds that would both meet community needs identified by the Banks while concurrently advancing the underserved markets in the GSEs' Duty-to-Serve Underserved Market Plans and their Equitable Housing Finance Plans. This would best align various resources and efforts regulated by FHFA to maximize the impact of AHP. For instance, financial institutions that have adopted Special Purpose Credit Programs (SPCPs) could be prioritized for Homeownership Set-Aside funds, or an AHP Targeted Fund could focus on scaling shared equity homeownership and resident-owned manufactured housing communities to increase access to homeownership for lower income residents and people of color.

- FHFA should require the FHLBs and their Members to do more to create partnerships with nonprofits that are led by people of color and serve communities of color, providing technical assistance and application support on AHP General Fund and Target Funds.
- FHFA should address barriers that render it very challenging for AHP funds to be used for shared equity homeownership or for helping lower income homebuyers purchase shared equity homes.
    - The current definition of "owner-occupied project" does not explicitly include shared equity homeownership. It should be made clear that shared equity homes, which create homes with lasting affordability, are considered owner-occupied projects.
    - Under AHP, repayment of AHP subsidy and retention agreement requirements need to be altered for investments in shared equity homes. In order for the AHP to support the creation of shared equity homeownership opportunities, the subsidy must be tied to the property and permanently retained so that the home can serve family after family.
    - Under the scoring criteria for the AHP General Funds, creating affordable homes for owner-occupancy should be a required criteria regardless of whether the Bank sets aside at least 10 percent of its required annual AHP contribution to Homeownership Set-Aside programs. Down payment assistance is insufficient to address the racial disparities in homeownership; deeper subsidization and increased production of affordable homes are vital for AHP to advance racial and economic equity.
    - The Homeownership Set-Aside program should permit participating FHLB members to partner with nonprofit shared equity programs and their homebuyers in order to use the funds to buy-down the purchase prices of homes. Currently, the down payments assistance flows to the homebuyer at closing. However, to enable shared equity homeownership, those funds would need to flow to the property to buy-down the price of the home.
    - When the Homeownership Set-Aside is being used to create a shared equity home, the subsidy amount should be increased in order to ensure that the affordable purchase price will be affordable for lower income households now and in the future.
- FHFA should issue guidance to the FHLBs and their members on how AHP, including Targeted Funds, can be used to support the creation of permanently affordable homeownership opportunities that serve lower income families, such as community land trusts, deed-restricted housing units, limited equity cooperatives, and resident-owned communities.

We believe the suggestions above would greatly increase the capacity of the FHLB System to increase the supply of affordable housing. We strongly believe that the FHLBs and AHP should be doing more to tackle racial disparities in homeownership, and the FHLBs need to be able to support growing the stock of shared equity homes in order to make a significant impact on the homeownership rate for lower income households and people of color.

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