**FHLBANK SYSTEM AT 100: FOCUSING ON THE FUTURE**

**A FURTHER COMMENT OF PATRICK E. CLANCY**

**MARCH 23, 2023**

As a nonprofit affordable housing developer and advocate and a sixteen year FHLB Boston Director, I submitted a comment last fall addressing the issues the FHFA identified for its comprehensive review. There, I indicated I would love to share more specific thoughts on what it would take to enable the FHLBanks to play a singularly strong regional role - particularly in the provision of affordable housing - by building on its strengths. And also to reflect on the challenges and opportunities and a past example of the key role the regulator can play in that transformation. Thank you for the opportunity to do those things today.

POTENTIAL FOR AN INCREASED ROLE IN AFFORDABLE HOUSING

First, I’d like to dive into just one of the many, many ways FHLBanks can utilize their unique strengths, expand their scope and help meet critical housing needs.

Most housing serving low income households in this country are not assisted and regulated housing but naturally occurring affordable housing, or NOAH. Yet a large part of that stock is unstable, at risk of deterioration on the one hand and gentrification on the other.

Almost two years ago, I proposed an initiative to FHLB Boston:

* Assess the seriousness of this problem in New England and the potential to address it;
* Engage consultants to expand its capacity and assign staff to study the problem and explore programmatic approaches;
* Identify potential long term, stable, mission driven owners to work with; places where substantial stock needs saving; banks and CDFIs active in affordable housing lending to this type of housing with capacity; and city and state agencies who share a concern with this stock;
* Select several potential owners and lenders - presumably through a competitive process - with whom the Bank commits to carry out a several year, 2000 unit program and to provide a 20% first loss guarantee;
* The selected owners would purchase rental units with plans in each case to improve them as necessary and stabilize their operations and tenancy over a three year period;
* Locally engaged lenders would provide the acquisition financing funded by advances and backed by the first loss guarantee and work with the new owners and fund improvements in combination with local and state public support.

My estimate is that - by providing the leadership to organize the effort, utilizing a very modest 6% of the Banks substantial retained earnings to fully cover the first loss guarantee position and managing a collaborative effort with all these critical participants - FHLB Boston could improve and stabilize 2000 units in a half billion dollar effort at an ultimate cost to the Bank of 1-2% of its retained earnings, or ten to twenty million dollars.

This is only one example of the many, many ways an activated, energized, reimagined and supported FHLB system can innovate to meet critical housing needs in different ways in its eleven regions around the country - in concert with its members and in more active direct engagement with CDFIs, HFAs, the affordable housing development community and local and state governments.

ROLE OF THE REGULATOR

Next. I want to tell a quick regulator story. When Bill Clinton became President and Henry Cisneros Secretary of HUD, the public housing stock in the country was in desperate need of massive overhaul. I was one of a number of people advocating change:

* Leverage the limited public funding available with private debt and equity; and
* Open up public housing improvement and operations to more dynamic public/private partnerships including private nonprofit and for profit affordable housing organizations.

HUD was the funder and regulator of these PHAs and it initiated a process of change in their functioning and a corresponding expansion of their capabilities that continues to this day and has had a transformative effect over the last thirty years.

It began with allowing and encouraging so called “mixed finance” in public housing revitalization, involved extensive technical support and assistance to agencies working to change, focused on socializing entire new ways of doing business and continued through a variety of HUD designed programmatic initiatives, from Hope VI to Choice Neighborhoods to the systemic change going on still today through the Rental Assistance Demonstration or RAD program

While there are of course differences, make no mistake: the FHFA role as regulator - and overseer of the use of the implicit federal guarantee that the FHLBank System enjoys - puts it in a key position from which it can actively help create a more engaged, dynamic FHLBank System.

This effort has already shown the power you have to do just that. It was your initial launching of these listening sessions and the regional round tables that created an environment in which the Boston Bank made the room to pursue my NOAH program concept and it is now engaging a consultant to expand its capacities to be able to do so. Don’t take that the wrong way: I’m not knocking the Boston Bank. They are a committed and busy group. I’m highlighting the impact you as its regulator have in shaping its behavior! Follow the HUD example and you too can stimulate huge progress in the work of the FHLBanks.

The central role of the FHLB System remains to provide liquidity to its members, with the community banks most reliant on it. The critical value of that liquidity, particularly in times of stress on the banking system, has been dramatically shown once again in this current crisis as before. As a houser, I urge you to reject the calls to track the dollars and limit advances to those that are used to fund housing! That would hugely constrain the banks and hugely limit their utility in meeting liquidity needs of their members - even though it may be a more reflexive response for a regulator concerned about housing.

I challenge you instead to provide the leadership for the FHLBanks to use their healthy, well capitalized position to do more in meeting our growing needs for affordable housing. Encourage regional initiatives. Incentivize the banks to expand their program development and collaboration capabilities. As regional entities, they can be key parts of new solutions needed for our growing housing needs and in the process enable smaller banks, CDFIs and others to do more and grow. Expand your own capacities to support new activities, as HUD did in my example described here. Continue to work to streamline the regulatory framework for AHP - and even to support its use in regional initiatives of the type described here.

One particular step that you could implement in the short term that can support “big and bold” initiatives over time has to do with the roughly twenty five billion dollars of retained earnings in the system. As you know, those balances are far in excess of funds needed even in this time of stress to protect against potential exposures. Creating a context that can enable the banks to use moderate amounts of this capital for the kind of initiatives described above - and to reflect this as something other than an operating loss that shows up on the income statement - could support initiatives at a level simply upping the AHP set aside will take decades to achieve.

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Were the FHFA to translate its “large and ambitious goals” for public participation in this process into establishment of similarly large and ambitious goals for the system, it could lead a transformation that would create a more dynamic system continuing to meet its central liquidity mission - but also central to regional innovation in affordable housing building on the strengths of these unique organizations in our financial system.

Let’s see where that can take us over the next ten years!