Federal Home Loan Bank (FHLBank) Housing Goals Proposed Rule (83 Federal Register 55114 (November 2, 2018)) (Proposed Rule)
Federal Housing Finance Agency (FHFA) Webinar Sponsored by the National Housing Conference (NHC)
January 23, 2019

Attendees:

FHFA: Ted Wartell

NHC: David Dworkin, Tristan Breaux, various NHC members (online).

Summary: On January 23, 2019, FHFA staff participated in a webinar sponsored by NHC for various NHC member participants. The following is a transcript and copy of the presentation materials.

Note: Subsequent to the webinar, FHFA staff sent an email to NHC staff that read:

> David/Tristan – Thank you both again for hosting last week's webinar on the proposed FHLBank affordable housing goals rule. I wanted to get back to you with an answer to a question posed after the webinar about community land trust loans. Please provide the following response to the webinar participants. Thanks again. TW
>
> Thank you for your question about the treatment of community land trust loans for purposes of the FHLBank housing goals. FHFA has not addressed whether such loans would be eligible for purchase by a FHLBank under its Acquired Member Asset (AMA) programs. In general, the proposed rule would align criteria for the FHLBank housing goals with eligibility criteria for AMA programs, in that loans meeting the housing goals are a subset of AMA loans. You are welcome to provide a comment on whether purchases of community land trust loans should count toward the housing goals.

[START OF TRANSCRIPT]

Ted: Thanks so much, Tristan, David. Let me start – thank you to NHC for the opportunity to talk about the Federal Home Loan Bank housing goals proposed rule. Thank you, all for you, for listening in and for your interest and we hope your comments on the proposed rule, which I think you know, are due on the 31st, a week from today. We have spent – put a lot of effort into getting the word out about this rule, and I think the timing today is great. I think a lot of people have read it, are focusing on it, sort of – developing their thoughts as they put their comments together. So, I will go through a description of the rule and our thinking in the reason we did various things, and then have a lot of time for people's questions. One last thing, beforehand: I am, I want to thank Ethan Handelman and Mike Price and Danielle Safran for – they are really the ones who put this rule together for FHFA. They couldn't be here today; I am filling in for them but I absolutely want to acknowledge all the work they did on I think a very thoughtful proposal.

So, let me start. Hang on a second. Ok. So, we should be on slide two. So, before describing the proposed rule, just a little background about the acquired member assets program, also called "AMA." AMA allows the Banks to buy single-family mortgages from their members and the housing goals apply to AMA purchases. First, a few important points about AMA. First, the structure. When a Federal Home Loan Bank purchases a mortgage from a member, the member keeps the credit risk while the Bank takes the interest rate risk and holds the loan in portfolio. We will come back to the importance of that. Second, just quickly with the volume. AMA purchases are a very small part of the secondary mortgage market overall. The pie chart here shows market activity in 2017 and, as you can see, AMA purchases are about one percent of that total compared to much larger numbers you see there for Fannie Mae and Freddie Mac and Ginnie Mae. And then, the last point is, is that AMA is voluntary for the Banks. They operate AMA programs at their discretion and they could cease purchasing mortgages entirely if they chose to.

On the next slide, slide three, the housing goals are required by law. I think it's always important to look at the details of the statutory language when you're starting out. The goals were added to the Bank Act in section 1205 of the Housing and Economic Recovery Act of 2008, often called "HERA," and the language, actually, is pretty brief and this slide just shows some of the key portions of it. First, as you see in paragraph a), the goals must be consistent with the goals for Fannie Mae and Freddie Mac. Did you see there – that's what section 31 – 1331 through 1334 refers to. However, the language also says the goals [must] take into account that the Banks are different in several ways that are tied to their unique mission and ownership structure. So as we go through it you'll see how the proposal considers and addresses those differences.

So, on the next slide, let me start by describing the existing regulation, which took effect in 2011. One element of that rule is the volume threshold. The goals only take effect under the current rule if the Bank purchases [$2.5 billion or] more than $2.5 billion in mortgages through AMA in a year. If the Bank purchases less than that amount the goals are not in effect. As of today, the Banks have only exceeded that volume threshold three times. Otherwise the Banks have stayed below the threshold and so they have not has to address the housing goals. Second, under the goals categories, the categories are the same as for Fannie Mae and Freddie Mac, which are listed on the screen. There are separate goals for purchase mortgages for low-income households, very low-income households, families in low-income areas – excuse me one second – and then there is a fourth: refinancing, a goal for refinancing mortgages for low-income households. And lastly, under the current rule, FHFA evaluates whether the Bank met or exceeded the market share within its district by comparing Bank purchases to market data collected under the Home Mortgage Disclosure Act, or

HMDA, which is released, as many of you know, in the following year – the year after the goal applies to.

So, moving to slide five. When we start talking about some of the challenges with the current rule, that data lag – oh, I'm sorry, I'm so busy talking I'm not advancing the slides. Thank you, Tristan. So, altogether on slide five, that data lag, which I just mentioned with HMDA – because of the timing of HMDA, Banks don't know the required level of mortgage purchases for their goal until the year after the purchases have been made – an obvious challenge. The second challenge is that over time, the volume threshold has operated as an upper limit on the Banks' AMA programs. Remember the Banks below the volume threshold in effect avoid the housing goals, while those above face the housing goals. So, it has acted, as I said in effect as sort of – sort of a ceiling. I mentioned already that AMA is voluntary, so if the goals are too onerous, the Banks could chose to stop buying mortgages. And lastly, now this is a little technical, but it is important – or a little in the details – but under the current rule, when FHFA evaluates goals performance, we include all the Bank's purchases, which can include loans from inside and outside the district, to market conditions only inside the district, which is an obvious disconnect and we – in our analysis this was much more severe for some Banks than others, depending on – because the Banks use their programs in different ways.

Alright, so – [unintelligible crosstalk] – so I am being told – anyway, if you do have questions, I believe you can type them into the box that's available on the webinar. Is that accurate? And I absolutely would love to have as many questions as people have. What do I press here to advance the slide? [Inaudible]. Awesome. Alright. I'm getting warmed up here. What do I do to make it go back now? [Inaudible]. Alright, cool.

I am on slide six. So, the proposed rule aims to address the challenges I just described in the following way. Our main aims I would describe first as we want to rule to be meaningful in that they encourage – or the goals to be meaningful so that they encourage net new affordable lending to households in need. Two, also achievable, so that the Banks will continue with AMA. Forward looking, so the Banks know how to aim their activities within AMA – that's the data lags I mentioned. And adaptable to fit the needs of Federal Home Loan Banks' districts and the different ways they use their AMA programs – much more on that in a minute. The proposed rule aims to encourage the Banks to make affordable housing part of their business plans for AMA mortgage purchases, so that they can fulfill the obligation in the statute in a safe and sound manner.

So now let me move to the next slide and start to talk about what the rule actually proposes. So the first change is instead of four separate mortgage purchase goals, the proposed rule would create a single housing goal that is prospective, that the Banks know ahead of time. Twenty percent of each Bank's AMA single-family purchases must be affordable and meet the goal in a year. And I will talk more about those criteria in a second. Next, the proposed rule would also add another goal for small member participation. It would require that 50 percent of AMA users – the members that sell the mortgages to the Banks – be small institutions, and it uses the existing definition of "community financial institution." If the Bank is below 50%, it need only make annual progress towards the 50 percent during the year. The rule would also create a way for Banks to propose their own target levels, either the 20 percent purchase level or the small member level, and to do that the Bank would have to justify its proposal and receive approval from FHFA. The Bank – the proposed rule eliminates the volume threshold, so goals would apply to all Banks that use AMA, and the proposed rule would also simplify what counts towards goals, which is currently somewhat complex, to focus on AMA loans. That means federally backed loans could count if purchased through AMA.

Ok and slide eight. Ok now this slide looks at, in more detail, what mortgages would count towards the goals under the proposed rule. As I said in the last slide the proposal combines the four separate goal categories in the existing regulation into a single prospective goal that includes loans to low-income borrowers, which is the green bucket, very low-income borrowers (yellow bucket) or borrowers in low-income areas, the blue bucket. The statutory definition of "low-income areas" allows loans to higher income borrowers (above 80 percent AMI) to count towards the goal if they reside in low-income census tracts, a minority census tract, or a disaster census tract, and I'll talk more about that in a minute. The rule would also treat purchase money mortgages and refinancing mortgages the same and all AMA loans would count, including government-back loans from FHA, VA, and USDA.

Alright, moving to my favorite slide. So this slide is very important because it looks at how the Banks' mortgage purchases fit the proposed goal historically over time. This chart shows the percent of AMA loans that meet the criteria of the housing goal, Bank-by-Bank, from 2011 to 2017. And the dotted line you see there is the 20 percent target level in the proposed rule. You notice how most Banks, in most years – for most of them 20 percent was demonstrably achievable. The chart also shows three Banks below that 20 percent and without identifying any of those Banks individually we can see that those below 20% only started AMA activity in the last few years. This variation likely results from the volumes of AMA purchased by different Banks, different focuses by different Banks, district-level differences in the housing markets, and that Banks under the 2.5 billion – under the threshold – have not been motivated to meet the affordable housing goals.

Alright, a little bit more about the small member goal. This goal focuses on the unique mission and ownership structure of the Banks, each of which is a cooperative owned by its members. Small institutions are central to that mission. What do I mean by "small institution?" The rule uses an existing definition of "community financial institution," those with assets less than $1.73 billion, and that's adjusted periodically for inflation. For AMA loans we talked about "participating financial institutions," which are Bank members approved to sell loans through AMA. For many of the small PFIs, the Banks are their primary or even only way to access secondary market liquidity. We also observe that small institutions are more likely to sell mortgages through AMA that are to low-income or very low-income borrowers. When we compared data from 2017, we found that 21 percent of the loans small PFIs sold through AMA were to low-income or very low-income borrowers. Compare that to 17 percent for large PFIs. So to encourage the Banks to remain focused on serving small institutions, the proposed rule sets a goal that small members should be 50 percent of AMA users. If a Federal Home Loan Bank is below 50 percent, it can show significant progress by increasing the percentage of small members by 300 basis points during the year and I'll show you an example of how that plays out on the next slide.

Alright, so now we're on slide 11, which shows how the small member participation goal would work. The chart shows how the Banks would have performed on this goal in 2017. The second column here shows small members as a percent of AMA users and, as you can see, nine of the eleven Banks were above 50 percent – many of them well above 50 percent. That's different, by the way, than comparing to the entire Bank membership. Those numbers are in the last column. Just for context, not all Banks' members use AMA – and this goal only applies to AMA users, not the entire membership. But that wouldn't necessarily mean that the Bank was necessarily missing the goal. If the Bank shows annual progress towards the goal of 300 basis points, that's sufficient. So the chart shows that Banks B and E would only need to add one new small member using AMA, all else equal, to meet the goal.

Ok, slide 12 talks – lists a few of the other changes. The goals would be more achievable for the Federal Home Loan Banks if they could count the FHA, VA and USDA loans they purchased, and the proposed rule would allow that. The rule would eliminate the current confusing treatment that I described earlier about out-of-district loans and I'll talk more about this on the next slide, but the low-income area loans – because, well I'll talk about this more on the next slide, but to set it up, one concern we had was that the low-income areas loans could overwhelm the mortgage purchase goal, and unless we limit loans to higher-income borrowers above 80 percent AMI from counting towards that goal – so the rule proposes a cap on the number of loans to higher-income borrowers that can count towards the goal.

And I illustrate that on slide 13. So the existing definitions of "families in low-income areas" comes from – directly from the housing goals for Fannie Mae and Freddie Mac. Under that definition, loans to borrowers up to 100 percent of area medium income in minority census tracts to disaster census tracts counts towards the goal. It also includes borrowers of any income level in low-income census tracts. Because the mortgage purchase goal groups all the loans together, one category could potentially overwhelm all the others, and the blue bucket here represents the low-income area loans and the picture shows it potentially growing much larger than we saw in the previous picture. So the proposed rule would require that at least [75] percent of all mortgages to count towards achievement of the mortgage purchase goal be for borrowers with incomes at or below low-income (or 80 percent of AMI). Stated differently, no more than 25 percent of mortgages the Bank uses to qualify for the mortgage goal could be to borrowers above low-income. The proposed cap would not prohibit the Banks from purchasing mortgages from borrowers with incomes above low-income; it would just simply limit the extent to which those mortgages could be counted towards the goal.

Alright, so I wanted to leave plenty of time for comments, so, or questions – I'm sorry – and comments. So that, I think, finishes my summary of the proposal and some of our reasoning behind it. Let me just remind you again, comments are due by January 31st, which is next Thursday, and we very much would like to hear any comments or reactions that people have. Are there any questions?

Tristan: We will see. We will – you will all no longer see my screen, so hold on for just one second. And we will check with questions.

Ted: "Where can you find the deck?" You can – I can make it available to you, Tristan, and you can post it. Is that the best way to do it?

Tristan: We can send the deck out to attendees, if you're ok with that. We will make it available to those who registered for it.

Ted: Absolutely.

Tristan: If you send it, NHC will provide it. And then we have another question. Just for everybody's reference, in case you have another question, the question is "how are manufactured homes treated?"

Ted: "…both chattel and backed by real estate?" That's a great question. Manufactured homes backed by real estate certainly would, would be treated like any other. I don't know if, under the AMA program, Banks makes purchases for chattel. I suspect they do not. So that's – we have not thought through that question but I suspect the Banks are not purchasing those through AMA.

Tristan: Sorry let me make sure I'm not missing anything. Our slides weren't advancing at one point.

Ted: Well, if I were advancing them they were advancing. That was me.

Tristan: So we have, "are we able to determine if our Bank is one of the three Banks currently out of compliance with the proposed change?"

Ted: So, I would answer that this way – no, we did not include the names of the Banks on purpose. However, I mean I think it's important that the 20 percent that is in the regulation works for a number of the Banks, but it's also – you know – it was very important in structuring this – or, I should say as we work through it, we realize that the Banks view their AMA programs in very very different ways and so "one size fits all" is something that we struggled with. What we ended up with was the 20 percent in the regulation and the option for Banks for whom that 20 percent isn't really feasible for any number of reasons, like they're just starting recently, or for various conditions in their district, or what have you, that we had a process for coming up with a – for coming up with a process that was different from 20 but that still met our priorities which were that the AMA program should contribute in a meaningful way to affordable housing and should be feasible for the Banks. So, that's a long answer to your question, but no we're not, we left out names on purpose.

Tristan: "What about community land trusts and leasehold mortgages?"

Ted: Yeah, I just don't know, I don't – I apologize, I don't know the answer to that. Again, I don't know if those things are purchases that the AMA program is making but I will – I can take that back and I will relay the answer to you, Tristan, and we'll get it very quickly.

Tristan: And for the record, we want you to know that we know the individual who asked that question so we will follow-up with you on the answer to you – on your question. And it appears that I have run out of questions. If anyone else has any, please feel free to chat them at some point. I am going to give folks a few seconds.

Ted: Yeah, I mean, any loan that it purchased under AMA counts – you know – towards the goal, counts towards the percentage, but I don't know if those are purchases that the AMA makes.

Tristan: If there are any follow-up questions on the proposed rule change, or any policy questions that you all have, please feel free to email me directly, and my information is online, but for those who would like it, it is tbreaux@nhc.org. However, we will also send out contact information to everyone in a follow-up email to those who have registered for the webinar – some who did attend – so we can get those follow-up questions over to Ted and answer them as expeditiously as possible. Again, we will reiterate the fact that comments are due on the 31st, so if you do have any immediate questions, NHC policy communications staff will be monitoring emails throughout the weekend and so please feel free to email us throughout the weekend and we'll make sure your questions are answered – not that Ted is going to answer them over the weekend.

Ted: I might. I have before.

Tristen: We want to make sure we get as many questions as possible answered before comments are due on the 31st. And I do not see any additional questions and so, with that, we are going to close out this webinar. We appreciate you jumping on to hear FHFA on the proposed rule change and, with that, thank you so much.

[END OF TRANSCRIPT]

Division of Housing Mission and Goals

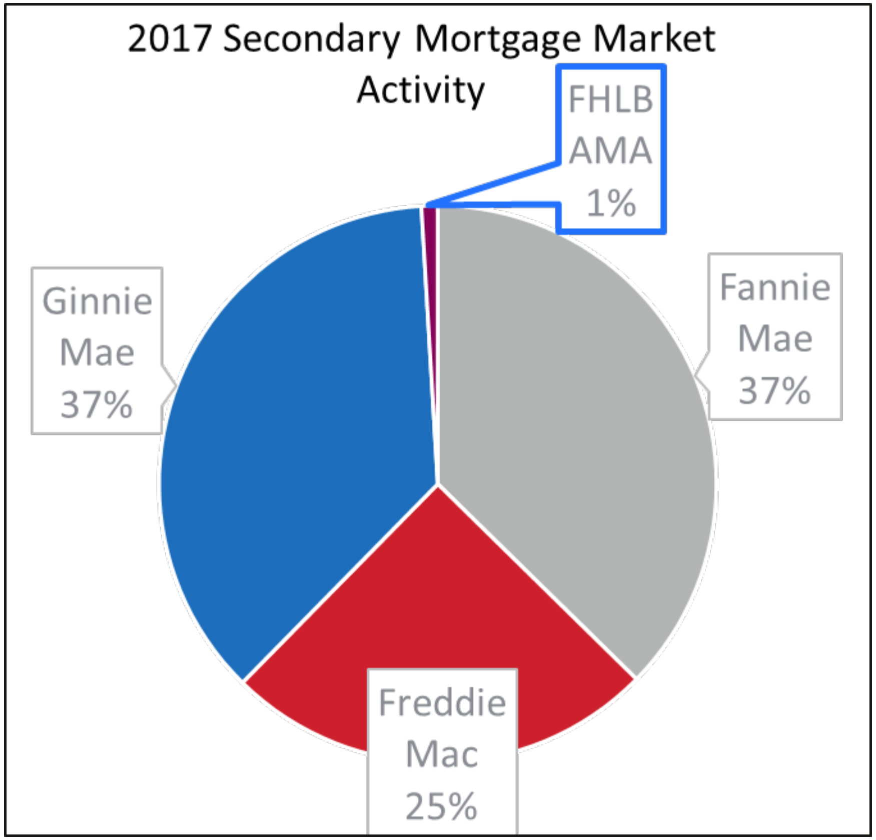
FHLBank Affordable Housing Goals

Webinar on Proposed Rule | January 23, 2019

Contact: Ethan Handelman, OHCI

AMA Program Overview

- Acquired Member Assets (AMA) allows FHLBanks to buy mortgages from members
  - Members keep much of the credit risk
  - FHLBank takes the interest rate risk, holds loan in portfolio
- AMA is voluntary, so FHLBanks can choose to buy mortgages or not and can opt in or out of the program
- Active programs: MPF, MPP
- Small overall volume: 55,990 loans in 2017



Statutory requirement

SEC. 1205. HOUSING GOALS.

``(a) In General.--The Director **shall establish housing goals** with respect to the purchase of mortgages, if any, by the Federal Home Loan Banks. Such goals shall be **consistent with the goals established under sections 1331 through 1334 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992**.

``(b) Considerations.--In establishing the goals…the Director shall **consider the unique mission and ownership structure of the Federal Home Loan Banks**." 12 U.S.C. 1430c

Current FHLBank Goals

- If the FHLBank exceeds the $2.5 billion volume threshold, goals take effect.

- Each FHLBank must meet or exceed the market share within its district for four separate goal categories:

  1. Low-income households, purchase
  2. Very low-income households, purchase
  3. Low-income areas, purchase
  4. Low-income households, refinancing

- Market share is based on HMDA data released ***the following year.***

Challenges in Current Goals Regulation

- Data lag prevents FHLBanks from knowing goals target in advance.
- FHLBanks keep AMA purchases below the volume threshold.
- AMA is voluntary, so FHLBanks can choose whether to participate.
- FHLBanks are uncertain about the consequences of failing to meet goals.
- FHFA has not imposed a housing plan on FHLBanks exceeding the volume threshold any of the three times this has occurred.
- Loan purchases including out-of-district loans are compared to in-district only market measures.

Aims of the Proposed Rule

The proposed rule aims for FHLBank affordable housing goals to be:

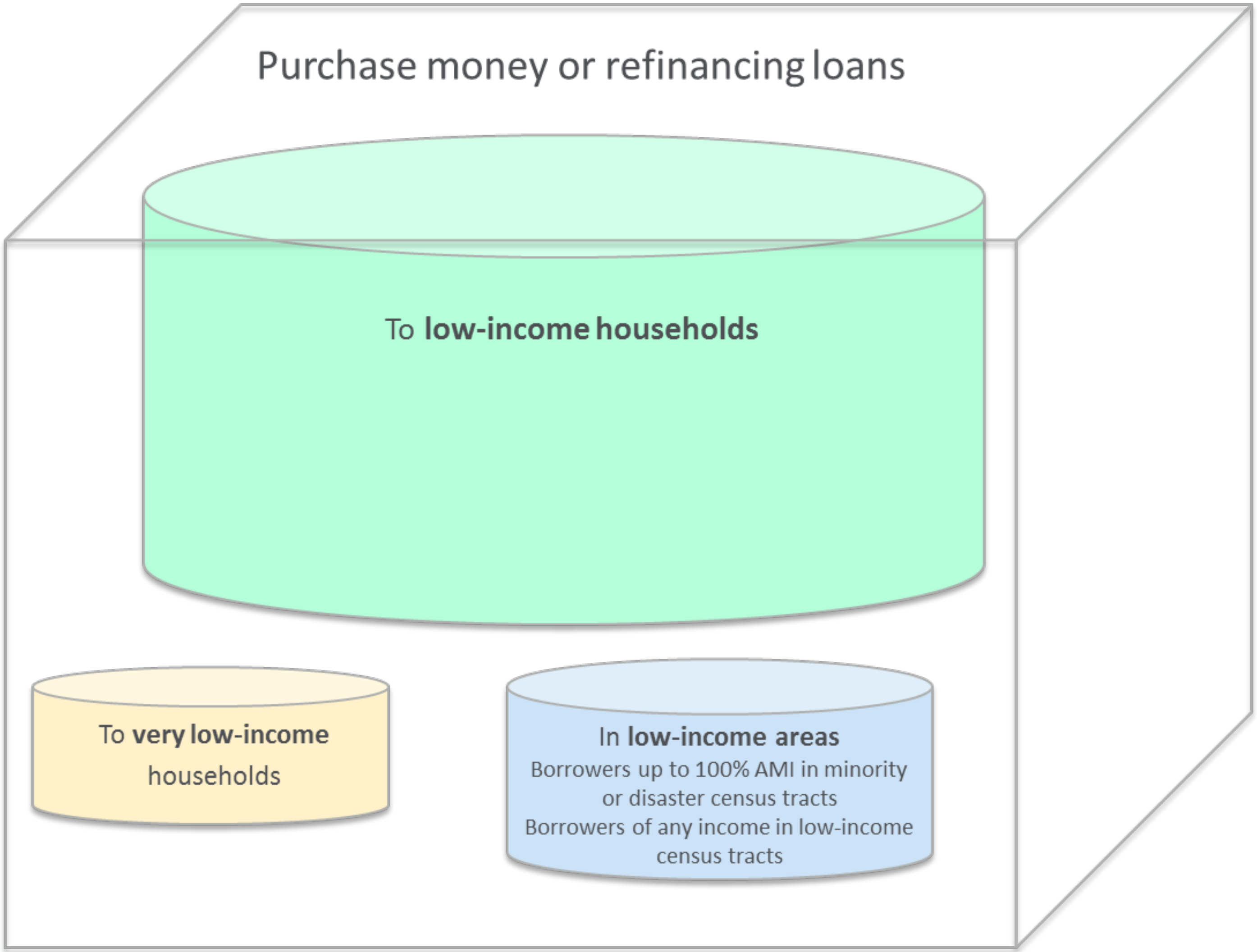
- Meaningful, in that they encourage net new affordable home lending to households in need
- Achievable, so that the FHLBanks will continue with AMA
- Forward-looking, so the FHLBanks know how to aim their activities within AMA
- Adaptable, to fit the needs of different FHLBank districts

Successful affordable housing goals should lead to the FHLBanks making affordable housing part of their business plans for AMA.

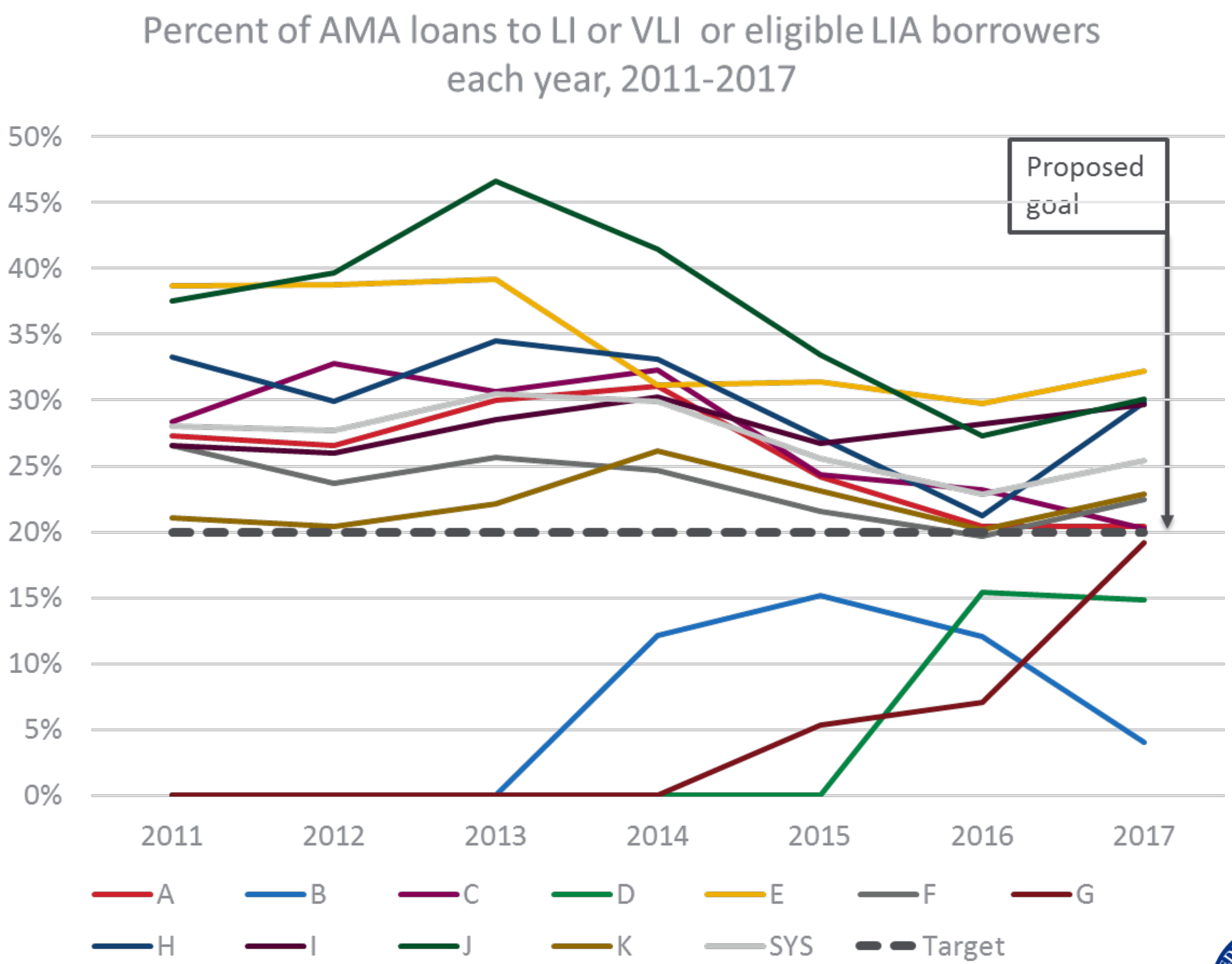
Proposed Rule in Summary

- FHFA would establish two goals for AMA purchases:
  1. Prospective mortgage purchase housing goal: 20% of each FHLBank's AMA single-family mortgage purchases must be affordable by any of several criteria.
  2. Small member participation housing goal: Small members (below $1.173B in assets) should be 50% of AMA users. Annual progress is sufficient if a Bank is below.
- FHLBank could propose target levels: Any FHLBank, for either goal, could propose its own target level(s), with justification, for FHFA approval. The levels established by FHFA take effect unless a FHLBank proposes an alternative for approval.
- FHLBank proposed target levels would replace the volume threshold.
- Simplify and expand eligibility: AMA loans, including FHA, VA, and USDA loans, would count toward goals.

What Would Count for Affordable Housing Goals



Past Performance on Proposed Goal



Small Member Goal: Purpose and Definitions

- Small institutions are central to the FHLBanks' mission as cooperatives
- FHLBanks report that small participating financial institutions (PFIs) value AMA for the high level of service
- Small PFIs, defined as community financial institutions (assets < $1.173B), produce more low-income home loans
- Small member participation housing goal: Small members should be 50% of AMA users
- Annual progress: If a FHLBank is below 50%, it can show sufficient progress by increasing the percentage of small members by 300 bps

Compare using 2017 data

21% of the loans **small** PFIs sold through AMA were to low-income or very low-income borrowers.

17% of the loans **large** PFIs sold through AMA were to low-income or very low-income borrowers.

Recent AMA Use by Small Members

Bank	Small members as percent of AMA users	Additional small member AMA users if needed to meet 3% incremental progress in 2018	Comparison: Small AMA users as percent of all members
A	67%	met target	1%
B	33%	1	1%
C	91%	met target	13%
D	95%	met target	23%
E	33%	1	0%
F	95%	met target	13%
G	91%	met target	10%
H	76%	met target	20%
I	84%	met target	17%
J	82%	met target	14%
K	75%	met target	9%
System	87%	met target	10%

Note: Bank E purchased AMA loans from only a few AMA users in 2017, so the percentage of all members rounds to zero.

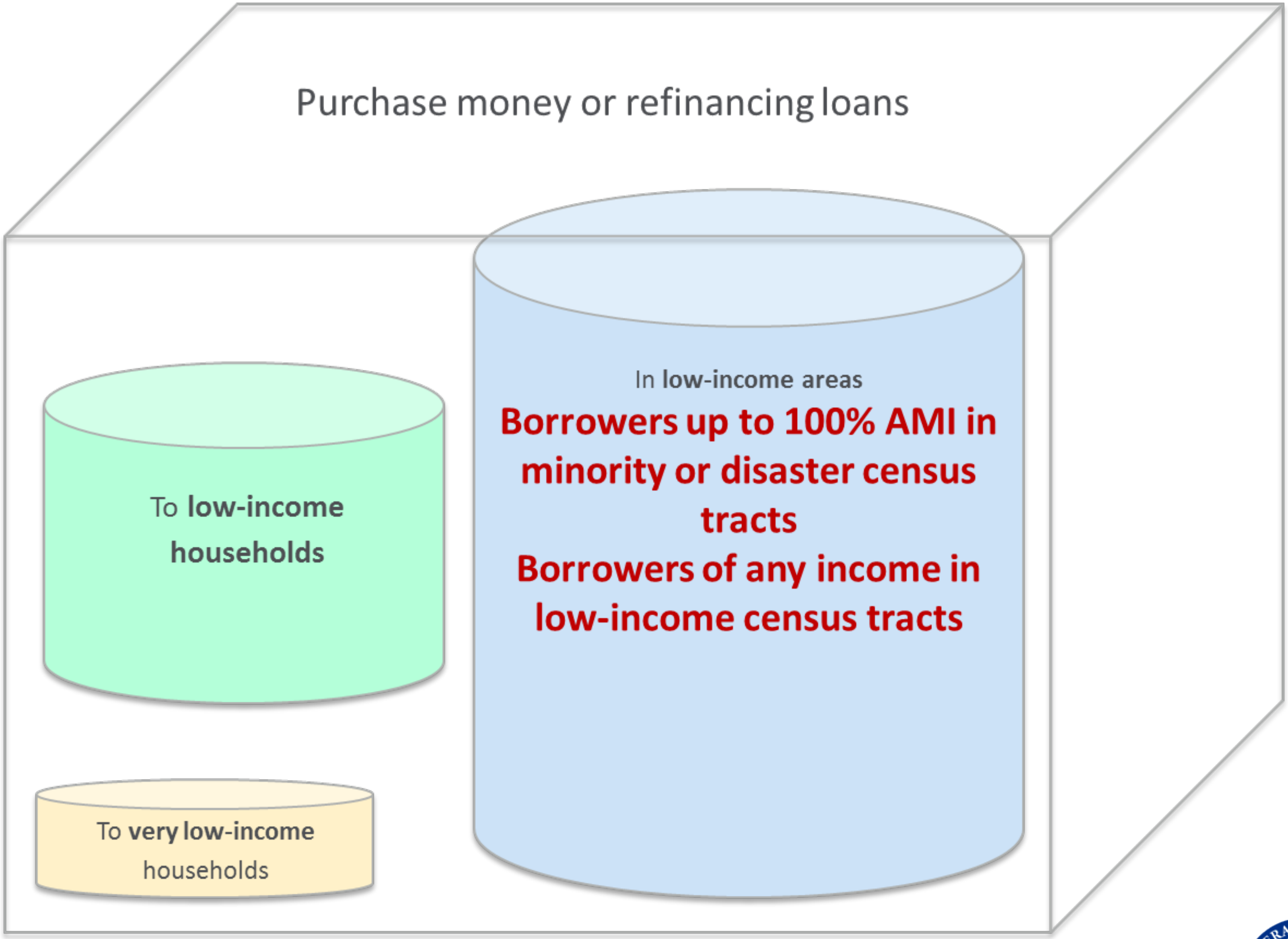
Target percentage	50%
Data year	2017

Other Proposed Changes

Retooling the FHLBank housing goals requires some adjustments and creates an opportunity for improvements:

1. FHLBanks would be better able to meet the goals if they can count FHA, VA, and USDA loans they purchase. The proposed rule would allow federally backed loans to count.
2. The rule would eliminate the confusing current treatment of out-of-district loans.
3. Low-income area loans could overwhelm the prospective mortgage purchase housing goal, unless we limit loans to higher-income borrowers from counting toward the goal. So, the rule proposes a cap on the number of loans to higher-income borrowers that can count toward the goal.

Cap on Loans to Higher Income Borrowers



COMMENTS

COMMENTS ARE DUE BY:

JANUARY 31, 2019

Comment at:
https://www.fhfa.gov/SupervisionRegulation/Rules/Pages/Federal-Home-Loan-Bank-Housing-Goals-Amendments.aspx

QUESTIONS?

COMMENTS

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