



August 29, 2024

The Honorable Wally Adeyemo
Deputy Secretary
Department of Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Dear Deputy Secretary Adeyemo:

Thank you for meeting with us, the presidents of Federal Home Loan Banks (FHLBanks), to discuss the housing affordability crisis in our nation and the ways we can partner with the Treasury Department to address the nation's housing shortage and the broader issue of housing affordability. The chairs of the boards of directors of the FHLBanks have asked us to follow up on our meeting and your recent letter with proposals for working together to address the affordable housing supply shortage that plagues the nation.

The United States faces a housing crisis with a significant shortage of homes that are affordable for low- and moderate-income households. With a challenge of this scale, no one policy solution and no single entity can solve it. An effective solution requires collaboration among federal, state, and local governments, private developers, nonprofits, and financial institutions, and the FHLBanks want to be a part of the solution.

The FHLBanks, the largest source of privately capitalized housing support in the nation, have responded to this crisis by increasing our support for affordable housing and community development, agreeing to contribute 50 percent more than required by law this year. We expect to contribute approximately \$1 billion towards these efforts this year which support not only new affordable housing construction and development but also first-time homeownership and mortgage financing in rural, urban, and tribal areas. We have piloted new programs and want to continue to pilot new products and programs that enable our financial institution members to deploy capital to communities. We are focused on areas of greatest need and impactful outcomes and with the help of the Treasury Department and the Federal Housing Finance Agency (FHFA) we can amplify our impact. We want to increase access for Community Development Financial Institutions (CDFIs); facilitate deeper partnerships between FHLBanks, state housing finance agencies (SHFA) and housing associates (HA); and support comprehensive reform of the Affordable Housing Program (AHP). This will enable our dollars to have greater impact and increase the value FHLBanks deliver to all our community stakeholders.

The FHLBanks Want to Amplify our Impact

Since 1990, the FHLBanks have contributed \$8.3 billion toward supporting affordable housing and community development. Additionally, through the liquidity we provide to local and national institutions (banks, credit unions, insurance companies, and CDFIs) we increase the funding needed to allow our members to make construction loans, originate and fund mortgages, and invest in housing

and mortgage related assets, all essential to creating and preserving the supply of affordable housing for rent and for homeownership.

Last year, the FHLBanks agreed voluntarily to contribute 15 percent of pre-assessment net income to the AHP and discretionary programs supporting housing and community development. This increased funding level, which requires annual approval by each FHLBank's board of directors, is 50 percent more than what is required by statute.

In consultation with our boards and Affordable Housing Advisory Councils, we have initiated three dozen new programs since 2022 aimed at meeting regional housing and community development needs in FHLBank districts. These include programs to support homebuyers, expedite construction of multifamily rental projects experiencing funding shortfalls, expand downpayment assistance to middle class homebuyers, and enhance our lending and support for CDFIs, among other housing related initiatives. These efforts are described in greater detail in the 2023 FHLBank System Impact Report and in the individual impact reports published by the FHLBanks.¹ As mentioned, this year we expect to contribute approximately \$1 billion to these efforts, in addition to the broad support provided through our liquidity mission. Even with these efforts, we recognize there are additional ways in which our products and programs can be more impactful, and it will take concentrated commitments from the FHLBanks, FHFA, Treasury, and public and private stakeholders across our communities to make the changes that are necessary.

Proposals to Increase Support for Affordable Housing and Community Development

To position the FHLBanks for an even greater impact on housing affordability and supply, we propose the following:

1. Remove existing barriers to enhance the value we deliver to CDFI members;
2. Reform the AHP;
3. Increase support for state housing finance agencies (SHFA) and housing associates (HA);
4. Reform the Community Investment Cash Advance (CICA) program and the Community Investment Program (CIP);

Remove Existing Barriers to Enhance the Value Proposition for CDFI Membership

CDFIs play an important role in addressing housing affordability by providing financing, homebuyer assistance, and technical assistance, and by fostering economic development. CDFIs have been eligible to join FHLBanks since 2008, but only a few have done so because of the significant regulatory barriers and supervisory expectations that impact the benefits CDFI members can obtain from membership. These include higher haircuts on CDFI collateral because of the higher risk-profile CDFIs present, more challenging access to acquired member asset (AMA) programs and difficulty in valuing Low-Income Housing Tax Credit (LIHTC) collateral.

We hope Treasury and FHFA will support the changes necessary for CDFIs to better access the benefits of FHLBank membership, including:

1. Allowing the CDFI Bond Guarantee Fund to guarantee FHLBank advances to CDFIs;

¹ <https://fhlbanks.com/wp-content/uploads/2024/06/2023-Impact-Report-FINAL.pdf>

2. Allowing CDFIs to pledge Community Financial Institution collateral for advances;
3. Enabling CDFIs to better access AMA programs, including adjustments to the credit enhancement requirements of the programs both in amount and required collateral support so that it is practical for CDFIs to access the programs; and
4. Addressing how collateral lending values are determined for LIHTC loan collateral.

These changes would require action from Treasury, FHFA, and Congress, as well as from the FHLBanks. However, they are essential for enabling CDFI members to have greater access to the FHLBanks in funding community development initiatives and to utilize FHLBank liquidity to grow their own businesses. While the FHLBanks are actively working to create solutions to support CDFIs under FHFA's advisory bulletin for pilot programs, we are constrained by law and regulation as to the products and programs we can provide and the collateral we can accept.

We stand ready to work with Treasury, FHFA, Congress, and the CDFI community to remove the existing barriers.

Reform the AHP

The Federal Home Loan Bank Act mandates that FHLBanks contribute 10 percent of the previous year's pre-assessment income to current year's AHP, under current statutory requirements.

We have encouraged FHFA to address the overly burdensome requirements that prevent the majority of FHLBank members from accessing AHP funds and that reduce the value of an AHP award to community partners. We applaud FHFA for taking a first step by initiating a rulemaking process aimed at easing the AHP application burden.

The biggest impact will come from a comprehensive revision of AHP's regulatory framework to allow AHP funding to efficiently, consistently and effectively help ease affordable housing challenges. AHP is currently subject to 13 FHFA regulations and five advisory bulletins. Additionally, FHLBanks have received supplemental agency guidance and direction that is not codified in the regulations. The complexity of these regulations and the supervisory oversight complicates the application, funding, and monitoring processes for our members and the community partners who receive AHP awards. The unfortunate result is that smaller members are essentially shut out from accessing many of the programs. Moreover, because many AHP awards are part of the complex capital stack that is required to develop and preserve affordable housing, compliance with the AHP requirements, in addition to the requirements of each of the other funding sources, imposes costs that undercut the value of the award. The FHLBanks are eager to collaborate with FHFA on AHP regulatory reform so the dollars FHLBanks contribute to AHP are as impactful as possible.

Increase support for SHFAs and HAs

Partnerships with SHFAs and FHLBank HAs offer potential to bolster FHLBank impact on housing affordability but more needs to be done to sufficiently tap this potential. The FHLBanks will convene with SHFAs and HAs to explore enhancing funding support for their loan origination pipelines and share best practices.

We encourage FHFA to take the following steps:

- 1) Enhance the collateral eligibility regulations for HAs as the current regulations limit the eligible collateral types and lending values;
- 2) Allow SHFAs and HAs to utilize FHLBanks' CICA programs;
- 3) Open a portion of the AHP to encourage collaboration between SHFAs and FHLBanks to address housing needs in their district; and
- 4) Enhance FHLBank investment authority to acquire participation interests in multifamily transactions with SHFAs.

Reform the CICA and the CIP

The utilization of CICA and CIP is low due to the constraints imposed by the current structure. FHFA should consider modernizing the regulations and requirements governing CICA and CIP advances by:

- 1) Removing the requirement for loan origination within three months of funding;
- 2) Allowing FHLBanks to set member capacity based on a rolling three-year origination or longer-term average;
- 3) Allowing FHLBanks to set a low capitalization requirement for these advances to lower the overall cost of these advances;
- 4) Supporting FHLBank boards in creating broader special pricing programs for community needs;
- 5) Considering adding financing for workforce housing under the CIP-eligible categories; and
- 6) Allowing members to self-certify their eligible originations to reduce the documentation burden.

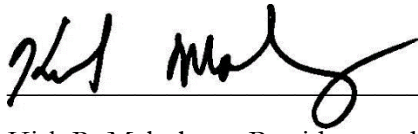
Conclusion

The liquidity provided by each of the FHLBanks to its members stands as the cornerstone supporting the largest source of private capital for affordable housing and community development initiatives in the country. During FHFA's recent review of the FHLBanks, nearly all stakeholders expressed their desire for the FHLBanks to provide more, not less, support. However, we are concerned that policymakers and regulators are sending conflicting signals to our members, proposing policies that undermine the FHLBanks' business model, which will result in less, not more, support for affordable housing and community development.


It is important to preserve the value proposition of the FHLBanks and we seek to avoid changes to the FHLBank System that would reduce net income and result in less funding for affordable housing and community development activities. Regulatory flexibility is necessary to address the current and future challenges to America's housing finance system and as we address local and regional housing market needs and differences.

Thank you for taking the time to engage us on how the FHLBanks can amplify the impact we have on housing affordability, housing supply and community development. We appreciate your consideration of our views and look forward to continued discussion with you and your team, FHFA, Congress and other policymakers on how we can work together to address these critical issues.

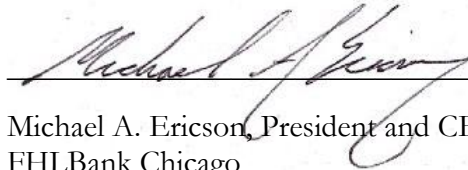
Sincerely,



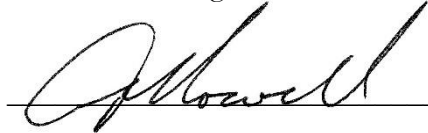
Kirk R. Malmberg, President and CEO
FHLBank Atlanta



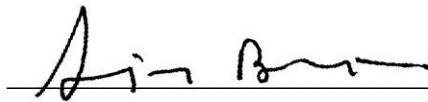
Timothy J. Barrett, President and CEO
FHLBank Boston




Michael A. Ericson, President and CEO
FHLBank Chicago



Andrew S. Howell, President and CEO
FHLBank Cincinnati



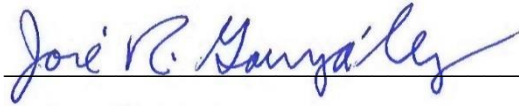
Sanjay Bhasin, President and CEO
FHLBank Dallas



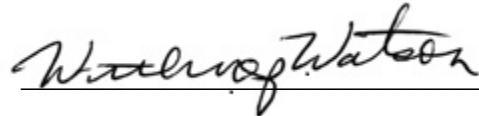
Kris K. Williams, President and CEO
FHLBank Des Moines



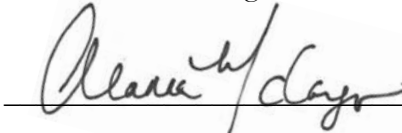
Cindy Konich, President and CEO
FHLBank Indianapolis



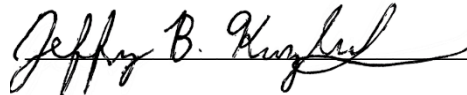
José R. González, President and CEO
FHLBank New York



Winthrop Watson, President and CEO
FHLBank Pittsburgh



Alanna McCargo, President and CEO
FHLBank San Francisco



Jeffrey B. Kuzbel, President and CEO
FHLBank Topeka

Cc: The Honorable Sandra Thompson, Director, Federal Housing Finance Agency