FHLBank System at 100: Focusing on the Future Roundtable Discussion – Athens, OH - 02-27-2023

Please note that this transcript reflects corrections to inaccuracies in the real time closed captioning in the roundtable video

LaRhonda Ealey:

Good afternoon and welcome. My name is LaRhonda Ealey and I am a senior economist at FHFA's Division of Federal Home Loan Bank Regulation. I am joined by my colleague Gwen Grogan, associate Director of Examinations at F H F A. Let me extend a warm welcome to you, our round table participants as well as those of you in the audience and those of you who are joining us online via our livestream. We are pleased to be in Athens, Ohio at Ohio University. This is the fourth of nine in-person round tables. We are convening in 2023. Our discussion today will explore federal home loan banks, the federal home loan bank's role or potential role in supporting underserved and rural communities with particular focus on challenges and opportunities in middle Appalachia. For the benefit of those joining us for the first time, today's round table is part of the Federal Home Loan Bank system at 100, focusing on the future initiative.

More information including the video recording and transcripts of today's and past events can be found on our website. I would encourage you all to visit our website to learn more and for updates. While our round table discussions are with a small group of stakeholders, we are live streaming this discussion so that we can reach stakeholders here far and wide and extend the reach to as many of you as possible. We also believe that it is critical to get out of Washington DC so that we have an opportunity to meet local constituents and to hear firsthand of the local and regional issues that are of concern so that we may share these on a national basis. We look forward to today's discussion and the feedback that we will receive from each of you. I'll now turn it over to Gwen who will review our rules of engagement.

Gwen Grogan:

Thank you LaRhonda. Rules of engagement, that sounds a bit more daunting than I hope the discussion is. We are looking forward to an open and engaging discussion. I had a chance to look at each of your bios and clearly your roots are deep and your experiences wide, so we're eager to hear what you have to say. There are no recommendations or views that you should consider off the table. We encourage you offer your unique experience about the critical issues that we will be covering this afternoon. Of course, we want this to be orderly so we have kind of a nifty way. When you want to say something, we'd ask you to just turn your placard this way and we will try to recognize everybody in order that you're called on. We would ask everyone to engage knowing that we may not agree on everything but disagreement I think is healthy and it also expands the knowledge and perspectives.

To ensure that everyone has a turn to speak and that we cover all the discussion points, if somebody goes a little long, LaRhonda or I may reel in the conversation a little. We'll talk for roughly half the time. Then we'll take a stretch break and come back for the benefit of those that are on livestream. Prior to today, the round table participants we're given a set of prompts. We'll try to address those during the course of this afternoon's discussion. And we also have a disclaimer that I might like to ad lib, but I've been asked to read that verbatim. So with that, I'll go through the disclaimer. We have organized this round table to obtain your input on the mission of the federal home loan banks, including input on several questions that were sent to you prior to the meeting. During today's session, FHFA will not discuss the status or timing of any potential rulemaking.

If the FHFA does decide to engage in rulemaking on any matters discussed today, this meeting would not take the place of a public comment process. The rulemaking document would establish the public comment process and you would need to submit your comments if any in accordance with the submission instructions in that document. FHFA may summarize the feedback gathered at today's session in a future rulemaking document if we determine that a summary would be useful to explain the basis of the rulemaking. Anything said at this meeting and that also includes reactions, nodding, eyerolling should not be construed as binding on or a final decision by the director of FHFA or FHFA staff. Any questions we have are focused on understanding your views and do not in indicate a policy or legal decision. Participation in today's round table may have a financial interest.

Participants in today's round table may have a financial interest whether direct or indirect on outcomes that may affect the federal home loan banks and their businesses. Today's round table will be live streamed on FHFA's website and video recording. FHFA may also prepare a transcript of today's session, which would include the names of all speakers and organizations they represent, if any. The recording and any transcripts prepared will be posted on FHFA's website and YouTube channel along with any materials being presented today or otherwise submitted in conjunction with this round table. Well, with that I will turn it back over to LaRhonda.

LaRhonda Ealey:

Thank you Gwen. So earlier during a lunch, Gwen and I had the pleasure and a chance to meet our round table participants and we learned a lot again from the bios that you submitted, but not all of those watching us today are aware of Vistage history and experience that you have in housing developments and the topics that we are discussing today. So I'm going to ask that you introduce yourselves. Also, please tell us your affiliation with the Federal Home Loan Bank system, whether that be in your current capacity or a former capacity. And we will start with Sara.

Sara Morgan:

Good afternoon. Thank you for having us here today. My name is Sara Morgan. I'm the Chief Investment Officer of an organization based in Kentucky called Fahe. We are a membership organization that serves the central Appalachian region and we have 50 plus members who are local community development organizations who focus on affordable housing issues from the entire gamut, from homeless issues to home ownership. Fahe was one of the first federal home loan bank members that were a CDFI. We were among the first in the early days and have always been considered the Federal Home Loan Bank of Cincinnati, a really important partner of our members in the work that they do. Thank you.

Jon Welty:

Good afternoon. I'm Jon Welty, president of Ohio Capital Finance Corporation and also EVP at Ohio Capital Corporation for housing where we're engaged in affordable housing on the lending side through OCFC, which is a CDFI and also a member of the Federal Home Bank of Cincinnati providing pre-development acquisition bridge loans as well as the user of the ZIF program, THEP programs. And then with regard to Ohio Capital Corporation for housing or a syndicator, both non-profits we're engaged in the communities of Ohio, Kentucky, parts of West Virginia, Pennsylvania to really facilitate a affordable housing using the loan and housing tax credit program is that primary vehicle and have done a little bit over 5 billion dollars of tax credit work in that space. As Sara said, I think we followed Sara as the member of the FHLB. I think we're the third member of the Cincinnati bank and I've enjoyed that very much. I also want to call out that I am a member director of the Cincinnati Bank and serve as the chair of the Housing and Community Development Committee. And the comments that I might make today are those of myself and Ohio Capital and do not reflect those of the bank, the board, or the housing committee. Thank you very much for having us.

LaRhonda Ealey:

Thank you.

Katie Kramer:

Good afternoon everybody. My name is Katie Kramer. I am the vice President at the Council of Development Finance Agencies. CDFA is based in Columbus, Ohio, though we work with state and local governments across the country helping them to understand how to finance economic development. We do that through a variety of different ways, including education, networking, research. We provide resources on hundreds of different development finance programs and provide direct policy and research guidance for many organizations across the country, helping them to understand from a bipartisan approach how you can use different development finance programs to encourage the type of activity you hope for in your community. We work on bonds, we work on tax credits, tax increment financing, revolving loan funds, many other different types of development finance tools that are both based in debt and equity to provide a variety of different types of projects.

That could be anything from main street development to affordable housing to infrastructure to manufacturing, and to many other different types of priorities that communities view in the guise of investment in economic development. For CDFA, I work in government affairs. I run several of our access to capital programs, including the CDFA Minority Capital Loan Guarantee Program and understand directly what it looks like to serve and acquire capital for underserved communities and appreciate the pressures that they face in trying to address their needs and access capital at the same time. I'm thrilled to be here and excited to join the conversation. Thank you so much for having me.

LaRhonda Ealey:

Thank you. Dave.

Dave Kreher:

I'm Dave Kreher. I'm assistant Executive director of People Self-Help Housing. We're located in Lewis County, Kentucky on the border of the Ohio River and been there tomorrow, will be 41 years and served as the executive director of the organization for 38 years. I've been a member of the Affordable Housing Advisory Council for nine years. Could never get that acronym right, but it was on there. And we have used the AHP program for about 20 years, gotten several awards over the years and also ZIF funding five times for streets and infrastructure for small subdivisions and also Carol M. Peterson Housing Fund, which has been tremendous for us and for Appalachia especially for providing repairs to elderly and disabled for home repairs. So I have a lot of time with everybody and I'm glad to be here today and it's been an honor. I'm going to be retiring one month from today and this is my last hoo rah, last chance to wear a suit and just good to be here.

LaRhonda Ealey:

Thank you, Dave. We're so happy you decided to spend your last event with us. We're honored.

Tammy Bobo:

Hello everyone. My name's Tammy Bobo. I'm the banker at the table. I'm with Hawking Valley Bank, which is right here in the city of Athens. We have offices in Colville, Albany and the Plains and not only serve Athens County, but also the adjacent counties of Megs and Washington. We recently hired a lender who's helping us extend our reach into Hawking Licking and Fairfield County as well. In addition to my role as president of Hawking Valley Bank, where I've been for 35 years, four in this role, I also am active with the Ohio Bankers League, with the government relations group, and next week we'll start a three year stint with the Federal Reserve Bank. We won't go through the lengthy acronym. It's a small bank advisory committee group. And what I hope today is to just talk about what it feels like in rural Ohio in terms of lending and how we're able to assist with affordable housing and what that looks like for the communities that we serve. And I'm also delighted to be here today. Thank you.

Martin Hohenberger:

Good afternoon. I'm Marty Hohenberger. I'm the director for the Center of Economic Development and Community Resilience at the Vorn Vet School here at Ohio University. Our team of faculty and staff works on a number of projects. We have a large portfolio of projects around the Appalachian region, working with communities providing technical assistance, things like economic impact analysis, strategic planning. We get into the workforce issues quite a bit and we are very much involved with community issues related to housing. So glad to be here.

LaRhonda Ealey:

Thank you. Thank you all for sharing. So just before we get started, just want to remind you again that this is your discussion. Gwen and I are simply here to facilitate and to keep it moving and to keep and to watch the time, even if we may direct a particular question to any single one of you, please feel free to chime in with any additions or piggybacks if you will, in order to do so. Just as a reminder, please turn your name card this way so that we know to recognize you. And with that said, let's get right into it. So we're here to talk about issues that are specific to rural communities and to Tammy's point, again, we are here to get a better understanding of that. And so we appreciate the diversity of experience and backgrounds that you all have. But the one thing in common is obviously the passion that you exude in your work for rural areas like the Appalachia region. So with that said, and given the touchpoints that you have as it relates to housing and community development from these different angles and spaces, can you share with our listeners what are some of the housing and community development challenges that are specific to the communities and the populations that you serve? And I think I'll start with Tammy.

Tammy Bobo:

Oh, okay. I have been with my bank, as I mentioned for 35 years. And part of that I did spend in the lending area. And what I'll say, I think that very often when we think about affordable housing, we sometimes think that means first time home buyers or potentially new young families. And I would say here that that certainly is true, but we also have a lot of social programs that are directly impacted. Integrated services is one of those. We have My Sister's Place, which is for domestic violence survivors is truly the word for that. We also have any number of others that are certainly worthy of a mention. Good Works is another that works with the rural homeless. And I just believe very strongly that there is a place for those folks to also be homeowners too, and that we need to figure out how to work together to make that happen.

I won't go into all my touchpoints at this point, but I will mention that here in rural Ohio, we still have a lot of infrastructure issues. Broadband is critical to being able to do business and have economic growth here. And that's something that we work through really every day. I also mentioned over lunch because why don't you talk over lunch about a sewer project. We also have a sewer project in the county now where homeowners are being asked to pay fees to tap into that. And those range anywhere from 1500 to $15,000. So there are very, very real infrastructure issues that we deal with.

And then when you get into regulatory and what that looks like for a developer, my friends at the OBL sent me a video clip to watch from a Senate housing hearing that had happened earlier in the month. And it spoke to issues that developers are facing. And the speaker who is the chief economist with the National Association of Home Builders brought up the five L's, labor, lots, lumber and supplies, lending, and legal and regulatory. And I think Marty may agree as well here in the city of Athens, sometimes just zoning becomes a real issue too. So those are the things that we're facing. Probably many of those are things that you've heard before, but figuring out how we can all jointly work together to address these issues, I think is really what we're all here about today.

LaRhonda Ealey:

Thank you. And Martin, I'm going to ask that if you can expand some more on some of the economic development challenges.

Martin Hohenberger:

Sure. Yeah. As I mentioned, some of the work that we do with communities is provide strategic planning. We help facilitate that conversation with communities. And one of the issues that comes up quite a bit is low inventory for housing. And it sometimes becomes a chicken and egg situation where the developers are really trying to understand what the market demands are and trying to figure out what that demand is requires developers to assume some risk. And so it's that balance between the two that always becomes the issue. The other thing that we're finding out is that with the advent of remote working, that's also contributing to the housing demand issue. People that are typically working in more of the urban settings and living in the rural communities are now saying, okay, can I work at home and still have that job and be able to provide? So the housing stock is definitely an issue that we come into with strategic planning for these communities.

LaRhonda Ealey:

Thank you. Jon, can you offer us more of a state perspective in terms of the challenges?

Jon Welty:

I can. So just recently it's been said that Ohio has a need of 250,000 units of housing. And when we look at what the network trying to crack, we can't do that collectively in this room, that's a much bigger issue. And on top of that 250,000, you've also got 400,000 families that are cost burden, of which many of those are paying over 50% of their income towards rent. So I think it's continuing to kind of compound where we're at. And now the past few months we're layering that on with higher interest rates, a harder ability to purchase a home, rents are continuing to go up. And we look at our homeless populations here, for instance, we have more homeless people that are working than we've ever had before. We have a longer time being spent in homelessness because there's not a place for the homeless person to go after they're in shelter.

So we're lacking that affordable housing as that next step. So if we think of going from homelessness to supportive housing to maybe tax credit workforce and market. We're not even filling that first cap yet. So we've got to continue to crack that nut. And then as I think of rural Appalachia communities that we're serving, it's just more exacerbated. And the word that keeps coming to my mind is access. So it's access to healthcare, access to housing, access to services, access to wifi, access to healthy foods, fresh food, food in general, are all those kind of components. And then as we talk about development, it kind comes down to in rural as well as in suburban areas where we've got the townships, we're trying to potentially keep out affordable housing. And it can come down to a handful of trustees that might say, that's not what we're looking for. We're looking for two units per acre as opposed to 40 units. And how do we begin to provide that touch angle assistance going back to the local townships to say, this is how we can do it and this is how it'll work and how it will actually benefit the overall community as a whole.

LaRhonda Ealey:

Thank you. Dave, you are from Kentucky, right?

Dave Kreher:

I've been here longer than I've been in Illinois where I was born.

LaRhonda Ealey:

Right, I'm sorry. So you are your agency that you represent. Can you talk about issues that are unique or specific to your area or add to even if the parallels, what you are facing and in addition to challenges, also any opportunities that exist as well.

Dave Kreher:

Okay. Well, I've got the privilege to be the end, the last agency to deal with the end recipient. So we have the people coming to us with their needs. We have the money that's filtered down from the Federal Finance Agency down through the federal home loan banks, down through the member banks, down to us nonprofits. We get to give the money out, we get to assess the situations and who needs us most. We gather those folks in and we do the work with the funding from the Federal Home Loan Bank. And it's wonderful because guess who the first people that get thanked for this are? It comes right back to us 30 years later, what it meant to have a bathroom that worked, what it meant to have a bathroom at all. So we're in a really good position, but we're also in a good position to know that bureaucracy tends to slow things down and you need to meet our people that are coming with needs, especially this time of year, people needing repairs, wanting new homes, needing a place to rent to meet those folks because that makes a whole difference in the whole situation.

You can get all those other steps are very important, but being able to see the end result is great. And we will say that we have built 370 new homes in Lewis County. The population of Lewis County, which is one of the larger ones in Kentucky land wise, has a population of 13,080 people. It's growing elderly population. The kids including mine, move to Ohio where they're better paying jobs. So there's the elderly left and the disabled, a lot of households in that situation. There's a lot of substandard housing and there's a 22% in poverty rate. And we've also done 1,060 home repairs in Lewis County in our 41 years. That comes out to 22% of the population, which is right in line with the 22.2% people living in poverty. I keep saying we can't keep up with substandard housing. They're making it faster and we can fix it.

Solutions are always the best would be providing new homes that are on a good foundation, not on a few rocks, but on Block Foundation, have good bones. And we have always pushed energy efficiency. We even have solar panels on some of our houses because utility rates go up and people have a very limited budget. So you can control how much electric you're going to be using with solar panels. So we do everything we can to make it affordable. But there is a growing gap right now between the cost of construction and what people can afford. Cause the cost of income has doubled over the last 40 years.

Cost of construction has quadrupled, so it's up here and it used to be here and that worked. So the early years we did a lot of transactions with the member bank providing mortgages, which was great. It got them involved and we got a lot of support on construction sites with the personnel in the bank and have been good friends. Several are on our board now and have really bought into that. And that has been very, very effective. And that was a new source of funding for us. That doesn't work anymore because the gap's way too large.

LaRhonda Ealey:

Yeah, Martin. Yes.

Martin Hohenberger:

Yeah. Dave, I was curious, as the housing stock was built out, were there market studies that were involved in what type of housing was built?

Dave Kreher:

Well, I can tell you because I've got one that I bought that was built in 1940s and there were sawmills. We have a lot of lumber coming out of there. We don't have any coal, thank God, but there's a lot of lumber. Everybody had their own sawmill and you can sawmill whatever logs you brought and you could get that very cheaply to build the new house. So you take two rocks out of the creek, you get a piece of lumber that's green and you span it across there and that's how big your house is going to be. And then you keep getting more rocks and more pieces of lumber. And if it comes up short, you've kind of joined them together halfway through. And so much the housing was built that way. It's a very, very poor area. And so people would make do with what they had.

There were what they call box houses, which is two by fours running this way with boards nailed up against it and newspaper on the inside to keep the cold air. You have kind of a paper mache thing. That was your wallpaper. We went through all those layers on my house. I've been working on it for 40 something years and it was the best you could be. So it was substandard right from the start. And market studies were so remote and far away from that sort of thing that I don't think there's any market studies that have ever been done. People migrated to that area, central Appalachia from Europe in the early years to get away from oppression and to be self-sufficient. And they've moved up in the hollers and they really remote areas and have continued to be there in their families. They can trace them back a hundred years in that county. And they spread. We got six different names, last names in the entire county. Seems like they're all connected together. So this, they value being self-sufficient and being out and away from the metropolis.

Martin Hohenberger:

Thanks.

LaRhonda Ealey:

Thank you. And Sara, I would like to just ask you to chime in given that your reach is definitely very, very wide.

Sara Morgan:

So I think one of the things I mentioned earlier is that Fahe is a membership organization. People Self-help Housing is one of our members. Dave was on the board 20 plus years ago when I first came to Fahe.

Dave is very humble and very unassuming, but don't be fooled by that. He has taught more people in the nonprofit network across six states how to build a quality house and how to put the financing packages together. And I think when we think about what opportunities are out here, I think we have to think about two things. One, the housing market is meant to serve people like those of us at this table.

The developer makes more when they build a bigger house because it's based on their profit is based on the price. The realtor makes more when they sell a bigger house because their commission is based on the sales price. The lender makes more when they make a loan, a bigger loan. So the market is driven to serve people at the highest price point, not at the entry price point. And so there's a network of non-profit developers across the region, and Central Appalachia is actually quite unique in Kentucky. The state housing finance agency has been to Fahe several times to say, y'all got a great network in eastern Kentucky. Who's going to serve Western Kentucky? You can't quite manufacture that. It's all based on how you support that capacity. And I really think we have to think about this differently. We have to think about how you incentivize the development of housing and the support of people entering housing at that entry level price point. How do you counsel them? How do you make sure they're prepared for home ownership? I remember the first time, I mean, I work in this industry, remember the first time I went for my first loan. They're like, what's an APR?

So we've got to educate people, we've got to help them along the way, and then we have to actually incentivize the development of that stock because we are huge, grossly, grossly short of what's needed. Thanks.

LaRhonda Ealey:

Thank you. Katie.

Katie Kramer:

I think I'm probably meant to give the national perspective. That's the only one that's left. I agree with so much that's been shared around. Can you hear me okay? Okay. So much that's been shared around the table, and I think that it's reflective of not just what we experience in rural Ohio, but in rural communities and underserved communities across the country. One of the things that I think is one of the underlying foundations and connectors of some of the challenges is yes, access to capital, but also.

PART 1 OF 5 ENDS [00:31:04]

Katie Kramer:

... Challenges is, yes, access to capital, but also understanding how capital works. I think that it's very hard for many communities to understand what type of capital programs are available to them to then be able to access the expertise needed to use those programs, and then to be able to actually raise enough capital to make the investments that are needed.

I think this is a statement that's especially critical when it comes to affordable housing, but it touches many other things in the world of economic and community development as well. That ecosystem needs affordable housing, but it also needs transportation. It also needs a safe place to work. It also needs a safe place to enjoy your community. All of those things are part of a healthy ecosystem of capital flowing to the places you live.

One of the things that I think is critical is being able to provide the liquidity that the Federal Home Loan banks provide as a foundation for just having capital flowing into your community, but then also being able to meet with your local leaders and helping them to understand what risk looks like and what's a healthy level of risk. And that number is not zero. There's a lot of risk that goes into borrowing money and taking a risk on your community and accepting what that feels like in coordination with the variety of different types of financing programs you need.

Many of the affordable housing projects that I've had the chance to be a part of and many of the economic development projects I've had a chance to be a part of have seven, eight, 12, or 15 layers of capital. For many people, that's daunting. They're not taught how those programs work. They're also taught to be fearful that there's certainly something wrong with that. I wish it could be that you could go to one place and get all of the money you need for your project. That system is not available to us. And so helping the local communities to understand a healthier approach to layering capital is an essential foundational driver to solve many of the other things that we've been talking about here around the table.

And this is true for under-resourced communities across the country and under-resourced could be very urban, or could be very rural. In many places that's even suburban because they haven't been collecting taxes correctly for two generations and now all of a sudden they don't have enough to be able to invest in the next wave of people moving to their community. So appreciating the liquidity that the Federal Home Loan Bank injects into the system to be able to even have conversations about where capital flows is a critical component of, I think, the essential things the Federal Home Loan Bank does.

It kind of lifts everyone up just a little bit to be able to then go out and meet with people like Tammy who have the opportunity to maybe make a loan or invest into a project. People like Jon who can layer a tax credit then on top of it. So understanding access to capital and understanding capacity building and education around the projects that we're talking about are just as important as being able to provide them to our communities.

LaRhonda Ealey:

Thank you. Some but not all of the issues that you shared involve the low inventory of housing, the need for enhanced infrastructure, including transportation as well as broadband access. I understand there's an increase in homelessness as well as the extended time that people spend being homeless and these people are working. Given also that we are covering issue rural issues; we are in Appalachia. I feel like I would be remiss if I did not ask you all to share some light on experiences with the opioid crisis and how that is impacting the housing situation here and the need or lack thereof, community development, and economic development. So I don't know who to call on specifically for that, but if anyone wants to chime in and provide some color on that, that would be great. Thank you, Sara.

Sara Morgan:

So I remember in Kentucky, [inaudible 00:35:54].

Thank you. I don't know if you remember how many years ago, probably 15 years ago, the state started a program called Recovery Kentucky, where a lot of the resources like the AHP program and home program from the Kentucky Housing Corporation and CDBG and all those pretty layers got diverted into building recovery housing, which was a bit of a rub for a lot of the nonprofits, but was really, really, really, really important work. I remember being at a group of caucus... When our caucus gets together, there are groups across the state. We were all in a room and there wasn't one person in the room who didn't have an immediate family member who was dealing with this issue. FHFA has gone on to invest... I would hazard a guess that it's just shy of a hundred million dollars into recovery facilities across the commonwealth and in Tennessee and in West Virginia.

Most recently, just to give you some flavor about what's happening. When the floods hit eastern Kentucky, it was a once-in-a-lifetime event and we've never... I worked flooding in the '97 when President Clinton came on a boat through Cynthiana. This is unheard of. Eighty percent of the houses of impacted were not in the floodplain. We immediately started activating resources for our organizations that are in Hazard and Whitesburg; the two communities hit hardest.

And one of the things we did is we worked with one of our partners who runs recovery centers throughout the whole commonwealth of Kentucky, and they have people graduating from their recovery work, who we then were able to connect to the Department of Labor funding to pay them to work in mucking out houses and our nonprofits who were boots on the ground, were actually providing the supervision of that labor to teach them how to do the work. They're gaining a work skill. They're getting paid and they're helping out their community. I just point this out as the... And the Federal Home Loan Bank of Cincinnati provided some funds for one of the groups, and so they just wrote a check one day because it was what was needed.

The ability for FHFA to understand that the resources that the banks are deploying in the communities are really, really, really important. And being a little more creative with how that works and a little less bureaucratic about it can help, especially when you have really strong partners who have years of experience doing this kind of work in communities.

LaRhonda Ealey:

Thank you.

Jon Welty:

And so just to follow up on that. A couple of things come to mind. We've done recovery housing projects with the Ohio Department of Recovery, and what we're doing there is bridging in capital. The department has capital, but the developer of the can't get that until they've actually built it; it's on a reimbursement basis. And we've been able to step in and really bridge that capital on very small projects.

We're talking one house that might have six people living in that. And these are super time intensive. There's no money to be made. And one of the baseline programs that we're using from the bank is the ZIF program, the zero-interest fund. So we're borrowing that money at 0%, we're passing it right back to the developer to build that out, and that's incredibly important in terms of that space. I'm looking at Tammy, and just across the river here, there's a project we did with integrated services and it has an AHP award on that.

What we ended up doing there was raising a dilapidated drive-through car wash and converting that into a three-story building that now has six residential units, people in recovery as well as then on the first story have a federally qualified health center. So we look at how are we doing that? The opioid thing is real. The need is real, particularly on the rehab side, and being able to then take that next step to make sure that people have a safe, decent place to recover and then move on is also critically important.

LaRhonda Ealey:

Thank you. Katie?

Katie Kramer:

Thank you. I think this conversation is so important from an economic development perspective as well. It affects so many families and real people. What that means then is it also affects your tax base. It makes it harder for people to work. It makes it harder for people to find a job. It makes it harder for people to have a home, which means they're then not necessarily paying property taxes and sales taxes and payroll taxes through their own paycheck. That makes it difficult to be able to raise enough capital in your community to invest in projects. It makes it even harder to increase to be able to raise capital because you can't necessarily show that in your community you have a strong and healthy balance sheet because not only are you not raising as many taxes as you once were with the money you are able to raise, so much more of it is needed for crisis intervention.

This is something that affects many communities in Appalachia. Sara, it affects communities where my family lives. And if you couple that with the lack of resources and the lack of knowledge to begin with, capital can't be the only solution, but you certainly need more of it in order to even try to tackle the challenge that you're faced with. And so not only is it the banks coming to the table, it's many other different types of capital providers including high net worth individuals in philanthropy coming to the table to be the ones who are sometimes guaranteeing loans and the ones who are sometimes helping with other types of social services that are needed in the community.

With the work that I do, I also serve as the president of the board of the Ohio Statewide Development Corporation. They are a nonprofit lender lending to real estate-based projects across the country using the SBA-504 program. Within that portfolio, there are several recovery centers that access both SBA financing, state financing, and local sources. The dollars they need to be able to serve the residents and the people as well as to be able to pay off their loans is debilitating. And so you have a crisis that doesn't just affect the individual people who are struggling with opioids, you also have a crisis of businesses not being able to earn enough money to serve them and to meet their basic business needs.

This is what I mean when I say more capital is needed in the system to address this. It is heartbreaking for many of the communities across Ohio that I have personal experience with. But I think in the work that we do at CDFA, across multiple different communities, this is something that they struggle with as well. And so I'm grateful for the opportunity to share that perspective.

LaRhonda Ealey:

Thank you. Dave?

Dave Kreher:

So Lewis County I'll say is the opioid addiction, the meth fentanyl has been just devastating and it's across income levels. It's not just all at the low level, but it's even more devastating at a low level. This time of year, you can drive around the county and you'll see hundreds of mobile homes that were built prior to 1976 with an inch and a half thick walls and rollout windows covered with plastic for years already. There are tons of them around there, and that's where most of the people who don't qualify... Well, there's a lot of available affordable rental housing that's subsidized for people, but if you have an opioid addiction or fentanyl, you can't get in. So your only choice is to live in the old mobile homes that'll disappear when March comes and leaves come out on the trees and everything. You don't see them as much, but they're very obvious right now.

And that is where folks then are congregating. So you have not only one person with a drug problem, but you might have four living there, where all the family is all kind of related and take them in. They're not on the streets. They're not under the bridges. People take them in. But to break habits like that, when you're around it all the time... District court news, oh my gosh. Drug. Drug. Drug. Drug. Drug. Drug. Drug. Same person. Same person. The same person over and over in jail, briefly back out, who's there to meet you? Okay, you are getting out of jail. You have nowhere to go and no place to live, you go right back to it. I mean, it's just a terrible cycle. And the only escape from it right now for the most part is you die of an overdose. Very sad.

LaRhonda Ealey:

Thank you for sharing your experiences and your perspectives. Before we transition to more specific questions and discussions about Federal Home Loan Bank support for rural communities, I just want to make sure, or ask, are there any other challenges or unique opportunities that we've missed so far? Yes, Tammy.

Tammy Bobo:

I would just add that... I'm going to push back a little bit, Sara, with how we make our money in that, certainly, we do make money on larger dollar loans, absolutely. But I'll say that particularly, for a community bank that might look a whole lot different. We have for many, many years, the entire time I've been with the bank and before that, we spend a lot of time on non-conforming loans, things that a larger regional bank wouldn't even begin to pick up. I think that there's a place for financing mobile homes and for financing those prefab kind of homes that we used to thumb our noses at that can be very well done and that can be of great value to those folks who are in need of affordable housing. I would just add that there are lots of things that standard banks, community banks are able to do to help fill those gaps as well.

Athens County certainly would appear to be very wealthy just by virtue of Ohio University, and that's really not the case at all. The median income in Athens, Ohio is $31,656. Now, that's a little bit dated. That's from 2020, but we all know what the economy looks like right now. So what was the number in 2020 is I'm sure financially even looks to be less than that given the current situation. So just think that there are lots of ways that we can help put people in homes that maybe aren't traditional stick-built housing. So just wanted to add that.

LaRhonda Ealey:

Yes, thank you. Jon?

Jon Welty:

I just wanted to bring some of that back in. As we talk about Appalachia, opioids, Ohio, and rural Kentucky, the needs that we talk about here are dramatically different from what you might have in Florida or in the Mississippi Delta or out West. And bring all that back to the bank that we have, the district, Ohio, Kentucky, Tennessee. It's serving the needs of our need as opposed to looking at elsewhere. So I think as we kind of broaden that context to make sure that we continue to think about the banks are serving the needs of our partners here as opposed to elsewhere and continue to remain focused with what we have going on within our three states.

LaRhonda Ealey:

Thank you. Dave?

Dave Kreher:

I was just going to mention that the manufactured housing industry is really pushing their limits as far as what they can do and how they can be a part of the affordable housing solution. And I've always been intrigued with new things like that. But every time I see them set into place, there's an 18-wheeler with a long crane, and I'm picturing these 24-foot wide modular pieces going up a road, the branches snap both sides of your window or your mirrors on each side of your pickup truck as you go straight up a hill.

You can't get those in there. They take bulldozers and drag the old mobile homes. They were not as wide and set them up, but it's a difficult project for the rural central Appalachian area as far as traveling from where they're being manufactured, number one. And number two, you can only get them into the cities and things. But definitely great technology. I think that's a part of the future for affordable housing and I hope that goes well. It's not a solution in remote rural areas though.

LaRhonda Ealey:

Thank you. So with that said, and keeping all that you have laid out for us in mind, we want to shift to talk more specifically about the Federal Home Loan Bank's current role in its support for rural communities. So what role... And you all have touched on this some in your intro comments, but can we be a little more specific when we talk about the role that the Federal Home Loan Bank system plays in supporting housing in your community or the communities that you serve? And I'm going to start back with Tammy.

Tammy Bobo:

Okay. I'll echo things that Katie had said in terms of helping provide us with much-needed liquidity. We are fortunate, at least in my bank right now, that liquidity is not an issue. We are, as an industry, bumping up against that now given the current situation, but knock on wood I'm still okay right now in that regard. I would say we do have a small Federal Home Loan Bank, secondary market portfolio. It has become smaller over time as we've opted to work with Fannie Mae a lot; seems to be a little less restrictive, not quite as onerous on some of the programs. Don't know if that's still true and may be an older bias that I have. But one reason that we moved more into the Fannie Mae market was because of some restrictions that were out there based on acreage.

While we are in Athens County, if we had a property that was over five acres, it became very hard to get an approval through the Federal Home Loan Bank with that. So we, over time, have just moved more into Fannie Mae. So I don't know if that's still true today, but I would say that that is something that I would ask that be reviewed are the programs and some of the rules and the application of those, particularly, in rural markets like we have because a lot of our properties down here are over five acres once you get out of the city of Athens. So I just would mention that.

LaRhonda Ealey:

Thank you. Sara?

Sara Morgan:

I think I would echo Tammy in the bank's primary purpose is liquidity. Liquidity to a housing market. And my comment earlier about the housing industry is really about not directed individually at a bank because we're a Fannie/Freddie seller servicer too. But really about the system and it's about how the systems work. And we have a system that allows access to both liquidity and credit based upon your credit score. Really the credit score of the borrower and the LTV of the loan. If we're trying to punch into a market that is not being served already, then we're going to have to think about it outside of the existing system. And CDFIs are meant to serve target markets that the regular economy isn't already serving. And so I see them as a great partner in vehicle, but I do believe they're going to have to be treated a little differently than traditional banks.

Traditional banks can make a loan without providing any sort of home buyer edge. Some banks may, or some may not. CDFIs have to; development services are part of who we are. And I think the underlying quality of the paper may not look as great because it may not have the perfect credit score, but we may layer some kinds of subordinate finance that provide down payment assistance and those types of things that help shore up the credit quality. And I think that if I were to make a recommendation to FHFA, it is can you work with your CD with the banks and their CDFI partners to actually look at that credit under a different microscope. Look at it based upon the asset class and how it actually has performed over time.

LaRhonda Ealey:

Thank you. Dave?

Dave Kreher:

So for us, the bottom line is dollars. There is never enough to meet the needs, and I would like to recommend that perhaps the affordable housing program, which has been run for a long time. Carol Peterson said it was a tithe of 10%. So if that could be increased to 15%, we'd have 50% more funds. That goes a long way in our area. That's a great start for closing that gap and making things affordable.

LaRhonda Ealey:

Thank you. What about community development? Katie?

Katie Kramer:

Great question about community development. As we're talking about liquidity, I don't know if we are to assume everyone knows what that term means. Should we provide some baseline information about that?

LaRhonda Ealey:

Please.

Katie Kramer:

So the Federal Home Loan Bank is chartered to be able to borrow money at treasury rates, which are the lowest rates available in our system of capital in the United States. Federal Home Loan Bank can then take those very, very low rates and pass them onto their member banks. Member banks are able to access dollars much more cheaply than they would from other capital sources. And when I mean much more cheaply, that means lower interest rates. What that means from a community development perspective is that when you have banks who can borrow money at lower rates, that means they can make loans to key projects ideally at lower rates.

Lower rates to the project can often mean the difference between a project happening and a project not happening for one key reason: you're borrowing money. You are going to ultimately have a monthly payment to repay that money. That monthly payment is going to include interest. That interest at a low rate might be $500 on top of your payment. That interest on a high rate might be $5,000. Being able to pay back the dollars for a project, whether the lowest possible interest rate means that the borrower, the project developer, is most likely able to hire more people because they have less money being spent on a monthly basis to pay back their loan. It means maybe more community amenities. Maybe there is a little bit more money available to develop the park next door or to contribute to essential infrastructure problems or needs in a community. Maybe it means that they can lower the ability for renters who are filling the ground floor retail in a project.

Those small businesses also then are able to pay less rent because the project developer pays less on a monthly basis for their debt because the bank pays less money to be able to have the money to lend because the Federal Home Loan Bank made it possible. There is such a long line of support that comes essentially from the Federal Home Loan Bank. Yes, they're chartered to be able to really focus on affordable housing, but the dollars that they have available that are directed towards community development, that are directed towards the ecosystem of the communities where those affordable housing units are being built is critical. They have a variety of different tools to be able to do that; the Federal Home Loan Bank, in addition to just allowing banks to be able to borrow money. They can also guarantee debt, meaning if you can't make your payment, the Federal Home Loan Bank will help you make your payment.

There are a variety of different types of measures that they have available that some of you have already talked about. I think the ZIF program is really cool. How many of you would like to be able to borrow money for free? I would like to be able to borrow money for free, for essential mission-driven projects in your community. Wouldn't be wonderful to have even greater access to the ZIF program where there are more ways to be able to borrow zero-interest dollars for critical projects. These are things that I think are part of what the Federal Home Loan Bank is trying to do when infusing community development into their banking decisions, in addition to just propping up the affordable housing and the availability of mortgages across the country as well.

LaRhonda Ealey:

Jon, you're nodding. I think you may have somewhere to add.

Jon Welty:

Well, I don't know about that. I think the critical thing about the Federal Home Loan Bank is it is the access to capital, access to liquidity. And as we look at that in the broader context, providing banks, CDFIs, credit unions, and insurance companies. With that, at the end of the day, once we can get to that piece of the sale and the income generated from that is really what's coming back down to funnel on that community development. We can call it community development, we can call it affordable housing, or however, we want to kind of define that, but that's kind of, at the end of the day, where that money is going and where it's so impactful. So the greater the flexibility that can be involved within that bottom line, get the money out the door, is I think where it really becomes critical. So I know we've got rules, regulations, CDFIs have them, banks have them, insurance companies, and everybody, right?

But to the extent that we can make it easier to use and more flexible, at the end of the day, I think there's a lot more power there in terms of how we can derive and leverage dollars on a daily basis, literally. And as Katie was saying, we look at interest rates, right? And I was thinking... Going back to an AHP disbursement. To the extent that a disbursement might take 30 days versus one day, that's 30 days of interest we're paying at a market level when we could have had that loan paid off on day one and the disbursement thing can continue and continue and continue. So if we're going out six months, that's a huge amount of interest a developer just had to pay and that's just costing money that we don't have. The deals are already tight, right? You get four layers, 18 layers, or however many you want to put on that lasagna. It makes it really hard. So speed and access are just critical.

LaRhonda Ealey:

Thank you. Dave?

Dave Kreher:

So I want to give a shout-out to the Federal Home Loan Bank of Cincinnati for their disaster relief fund that they created. And that should be a model for the AHP. Get the money there quick, get it there when it needs to be there, and not have to wait for it for a year or so until we get through all the hoops and things. If we could get that to happen... And it works. And there has been proof of this, certainly with the July flood down in southeastern Kentucky where hundreds of homes were lost and Federal Home Loan Bank was one of the first ones. There have been several homes completed already and-

PART 2 OF 5 ENDS [01:02:04]

Dave Kreher:
... there, there have been several homes completed already. How did they make that work? Well, there was a foundation that had gained in Hazard, Kentucky, right in the midst of all the flooding, that brought in millions of dollars. They've kicked into the pot, and then there was the FEMA buyouts, which was never anywhere close to what it should've been. Then the Federal Home Loan Bank filled the gap. There's several of these houses done already. Amazing.

LaRhonda Ealey:

Thank you. Martin?

Martin Hohenberger:
Yes. I wanted to add on what Katie mentioned about community development. All these things that we've talked about so far, the housing stock, the infrastructure issues, the workforce issues, the opioid issue all speaks to the quality of life for a community.

If you've got a sustainable quality of life and good quality of life, you've got a vibrant community and it kind of feeds on itself.

When any one of those things or all of them together bring the quality of life down, you start to see residents moving on to communities where they can get that quality of life. So, it's all tied together.

LaRhonda Ealey:

Thank you.

Gwen Grogan:
I wanted to introduce a topic about a population that we're looking at that we don't necessarily see as much activity at the banks. That's the Native populations.

Of course, I think of the Trail of Tears starting down in Tennessee, but now no federal recognized tribes.

I'm wondering what your experience, if any, has been in working with native populations and some ideas you could give us as we explore that.

LaRhonda Ealey:

Yeah.

Gwen Grogan:

Katie, you're nodding.

Katie Kramer:

That's for me. Okay. CDFA is able to work with many tribal governments across the country. Tribal governments are vastly different from one another. Just like California, Ohio and Rhode Island are very different, so are all of the many different Native American tribes in our communities.

Some of them understand capital and the capital system we have in the United States and the way we pay taxes and raise taxes and use that to leverage investment.

Some of them do not understand it. Some of them choose not to participate in that system, which is their right.

One of the things that's difficult is understanding how to be respectful of their sovereign rights and their sovereign capital, while also wanting to be supportive of the tribal governments that do want to grow or invest directly on land that they have or directly to the benefit of their tribal members who do not live on direct Native American land.

As we work with tribal governments, one of the things that they wish they could have more support around is the conversation around who owns the land and who's building on the land.

Many developers often want to own the land that they're building on. Native Americans, many tribal government leaders desire not to have other people owning their land.

So, understanding how ground leases can work more effectively as an asset, I think is incredibly important to this conversation. It's also incredibly important for being able to understand a different way of understanding collateral.

Most people put up $5,000 for their car loan. That's the collateral on the loan. They pay it off over five years. It's real cash and it's an understood asset.

Ground leases should be considered a form of collateral. Many Native American governments and tribal governments and Native American leaders would like to be able to work within that system that is built around the United States system of raising taxes and encouraging investment with those taxes, while also understanding or also appreciating that there's different ways to define collateral.

This is where I think the FHFA, where the Federal Home Loan Bank has great opportunities to be able to show leadership in recognizing ground leases as a strong source of collateral, as being able to recognize how lending can occur in communities of this nature, to grow the economic development, to grow infrastructure investment and to be able to see more capital flow through these communities as they direct it.

This is probably the number one issue facing most tribal governments, that we encounter and work directly with at CDFA.

We run a specific program in coordination with the USDA, around how tribal governments can invest in community facilities infrastructure.

What would it look like if they need to invest in a new government building, in a new hospital, in a new school? They don't necessarily have the resources to build that.

They would like to contract with other developers, others with expertise in those types of buildings and those types of infrastructure investments.

But they would also like to be able to think through different ways of meeting the collateral test and being able to meet the kind of debt coverage over time to pay off those loans for the investments that they're making.

I have probably reached the edge of my understanding of the policy in this area, so I'm going to pause and stop. If others have actually structured these deals, I would welcome you to add onto it from there.

Sara Morgan:

I have not structured a deal in this area. Let me be really clear. FAHE is part of a coalition of six CDFIs that serve the places of persistent poverty across our country, called Partners for Rural Transformation.

In that group there's FAHE, there's Hope Credit Union in the Delta, there's CDCB in Texas and the Colonias Communities Unlimited in the Black Belt, RCAC in rural west farm worker country and Oweesta. Oweesta is a native CDFI.

I would recommend that you meet my friend Chrystel Cornelius, who is the executive director of that organization. They are like FAHE, a membership organization of Native CDFIs.

In a trip that we took to Pine Ridge Reservation, which was very... It was very amazing for me.

I like to read. I like to absorb a lot of information. One of the things I learned from Chrystel, who is Native, is that the Native people don't like sharing their stories because the white people took their culture away when they...

So, it's really hard. But one of the other things she said was that they don't value the accumulation of wealth the way we do.

So, one of the things I learned was on their birthdays they give presents away. They don't get presents.

So, I think their financial system, their financial beliefs and values are different, and I think we need to talk to them directly. That's the point I was trying to make. I'd be happy to make an introduction to Chrystel.

Gwen Grogan:

Thank You.

LaRhonda Ealey:

Thank you. Speaking of different populations that the Federal Home Loan Banks could serve, are there any other niche or unique, different populations that the Federal Home Loan Bank system can better serve?

I know Tammy, in our discussion you've mentioned seniors. What are some of their unique challenges?

I believe this also, you can tie this into the infrastructure issue that you mentioned. Can you just provide our viewers and audience more insight and information about the sewer projects and the challenges that are specific to those homeowners and what, if anything, the Federal Home Loan Bank system could do to better support?

Tammy Bobo:

Sure. So a lot of our seniors have been in those homes much of their lives. As they've moved into a situation where they're no longer wage earners and on our fixed income that becomes more difficult to upkeep the property.

So, that's what we're seeing in terms of the sewer project. It's a mandatory project, so you do have to do a hookup and figure out what that looks like.

That's been difficult. We've received calls from our county commissioners on, can you help with this project?

There was some funding that was available, but the rules were so hard and the restrictions so small and even the income level so much higher than even some of our residents can meet to even qualify.

So, we've been doing small loans to help folks get into those properties and try to do it without taking a mortgage on the property.

I mean in some cases, as I mentioned, it's as little as $1,500. So, just small micro loans to get them hooked up onto the project. Those are the challenges that we're seeing.

There's a lot of older properties throughout the county. Some fall in disrepair with tax issues. We have a pretty heavy tax base here in our county.

Now what I'll say is, when they've fallen into disrepair and taxes go unpaid, we do have a land bank that does come in and take the property and try to rehab it and sell it, just because the property value next door to it has gone down as a result. So, there are a lot of moving parts to that. Seniors in particularly, we're trying to work through the project with.

Back to the Native Americans, we don't have... Athens County is predominantly white. We do have a bit of an international population just by virtue of the university, but even those are just small numbers.

So, it really is about how the lower income folks and those that are on the fixed income has been really what we're trying to most work through with this recent project.

I wish I had been able to give you numbers in terms of the age, but Athens is like a lot of other rural communities, in that it is an aging population.

Those are the challenges that we're seeing a lot of those folks meet right now or face right now, as the project and just property's going to seed just because they really don't have a means to rehab or invest in them, given age and no wage earners.

LaRhonda Ealey:

Thank you. Katie?

Katie Kramer:

I don't feel strongly about any particular populations that the FHLB doesn't serve. As a matter of fact, what I think I love about the system is something similar to what Jon shared earlier, which is it's designed on purpose to be as flexible as possible to reach regional decision making.

That's something that I would encourage continue to happen. That the people best equipped to make decisions about what types of populations should be served because of the FHLB, liquidity only can be made by the people who are living in those communities.

So, I would encourage the FHFA to keep the system as flexible as possible to be able to then give FHLB regional banks the ability to make those decisions in coordination with their own local member banks.

I think that there's a tremendous amount of creativity that occurs, and I've seen this directly at CDFA. When Tennessee comes up with a really cool idea, I assure you Arizona's going to find out and Idaho's going to find out.

To allow that local innovation to occur with the way capital flows to high places of need and populations of need is the best possible solution for how the FHFA can ensure that the FHLB is reaching as many people as possible.

LaRhonda Ealey:

Thank you. As we are coming up on our break, before we transition there, I have a question about factors or barriers that are preventing the Federal Home Loan Banks from playing a larger role.

So again, you've done an excellent job of outlining the various challenges that are faced in rural communities. Obviously there is a need.

What are some of the challenges that you see are preventing the Federal Home Loan Banks... I know there's been discussion about the red tape, so to speak, and the bureaucracy.

Would any of you like to add just some more detailed or some more depth to what you are referring to when you talk about the bureaucracy and how that can be a hindrance or a roadblock?

Dave Kreher:
I would say for us nonprofits to finance a new home, we will usually have USDA Rural Development funding, permanent financing. We will have HUD home program financing. And then we add the Federal Home Loan Bank federal funding to that.

That's three sets of acronyms and three sets of restrictions and federal register columns, one after another after another to keep track of, but that's what it takes. How can we all get on the same page?

LaRhonda Ealey:

Yeah. What about awareness of the federal... Oh, I'm sorry, Jon and Katie. I'm sorry.

Katie Kramer:

I never turned [inaudible 01:17:19].

LaRhonda Ealey:

Oh.

Jon Welty:
No, just picking back on Dave, it's the overall compliance burden. When we look at, I mean specifically at a tax credit project or affordable housing, the number of people involved in that when you've got private investors, you've got lenders. We've got the state agencies. We've got recovery housing provider. You've got the IRS.

The level of oversight on attached credit deal is huge. When I look at the overall amount of an AHP award going into an attach credit deal, we're in the 7%, 10% range of the total capital stack.

In that overall risk of what's going to happen to the AHP award versus the compliance, I think there's an imbalance. I don't know.

In our portfolio, we've done, I don't know, a hundred AHPs. There's no events of non-compliance. And if there is, it's certainly not willful or intentional.

I think the one thing that we've got right now in Ohio is a potential for real estate taxes to increase. County auditors may have the ability to use the sales approach as opposed to an income approach, based on affordable rents.

If that comes to fruition, I can guarantee you about all of the rural AHPs that we have done will be in non-compliance, just due to the real estate taxes going up, we'll be underwater, due to no fault of anybody's intention.

So, I think we just got to keep that in perspective of the overall, what we're trying to get to at the end of the day, the cost to get there on the compliance side, the oversight.

From us as nonprofits, as developers, as owners, as the bank, the bank staff, if we could redirect some of that capital that's being spent on compliance and put that into projects, housing, that would be huge.

Tammy Bobo:

I'll just add the parcel size again too, particularly in rural areas.

LaRhonda Ealey:

Okay. What about awareness? Marty?

Martin Hohenberger:

Yeah. I was going to add that piece. I think communication and awareness could be better, so that there's a better understanding of the utility of the program and how communities can access and leverage it.

LaRhonda Ealey:

Thank you. Katie and then Sara.

Katie Kramer:

How much time until you want to be able to take a break?

LaRhonda Ealey:

I'm flexible, so go ahead.

Katie Kramer:

Okay. I'll try not to soapbox. One of the things that I think when it comes to information and understanding what the Federal Home Loan Bank does, is that we need to understand who their customer is.

Their customer is not the home buyer. Their customer is the banks who are making mortgages to the home buyer.

So yes, they play an important role in the community, in making sure that there's money flowing in those communities. But I don't know necessarily that the Federal Home Loan Bank needs to be as universally understood in rural communities as the USDA.

I don't know that they need to be as universally understood as any of the local deposit organizations.

I think what's more important is that they are able to help as many people, as many banks as possible.

When they can help more banks, those banks can help more people.

So, my view of this is supporting the FHLB means encouraging them to do more work directly in communities.

It doesn't necessarily mean encouraging them to have a major national presence, so that everyone in the grocery store can talk about their FHLB loan.

I just don't think that that's the right way to use the resources of the FHLB. So, my recommendation to the FHA is to be able to think less about who needs to know who the FHLB is and more about, how much flexibility can we give them to be able to make investments in the places that need it most?

I don't know that I could necessarily tell you who owns my mortgage right now. That doesn't mean that I am not grateful for it, that I'm not paying my mortgage, that I'm not investing in my community.

I think, thinking through what the FHLB provides as a foundation is the most important part of the conversation here.

The other thing that I would recommend is understanding the difference between the FHLB, providing liquidity in general to the system versus the FHLB directly investing in projects.

Those are two different activities with two different congressional intents. So, I would encourage the FHA... I'm so sorry. I wish I could give a you guys a different acronym. I'd encourage the FHFA to be clear about how you view those two things as well.

The activities of the FHLB, to invest in member banks and to prop them up to make good local lending decisions is completely different than the FHLB using their letter of credit tool or their other investment tools to work directly in making a project viable.

Those decisions over here are entirely market driven and project driven by the community. Those decisions often require an act of Congress to be able to lift up how they use their letter of credit and how the IRS views their use of that.

We can get as technical as you'd like in this conversation, if you want, but my view in general to help you guys... I'm sorry. That was rude. To help your organization think through the best way to watch what the FHLB is doing, ensure that they're delivering on their mission for liquidity, is to understand those are two different types of ways to use money. We can talk more about that anytime you'd like.

LaRhonda Ealey:

How about after the break?

Katie Kramer:

Yeah.

LaRhonda Ealey:

We do hope that you get technical. Jon and then Sara.

Jon Welty:

Oh, one second.

LaRhonda Ealey:

Oh, okay. I'm sorry. Sara.

Jon Welty:

I'm sorry.

Sara Morgan:

Well, since Katie mentioned it, the two sides of the bank, which she just mentioned, one is... I think especially Cincinnati, which is the one I'm most familiar with, they do an excellent job of outreach, especially to their banks and the non-profits.

I meet with Judy Rose once or twice a year, and if I needed her, she'd come in a heartbeat. So I think they do a really good job to those of us who know them and use them.

But FHFA has three entities that you guys provide oversight, as I understand it. Now I'm going to show you my very limited knowledge, but it's the Federal Home Loan Bank system, it's Fanny and it's Freddy.

Now Fanny and Freddie have a duty to serve mandates, which says, you guys got to invest in rural places, you got to invest in rental and you got to invest in manufactured housing.

This is my limited knowledge, so if there is something and I'm missing it, I'd love somebody to tell me. But I don't see that FHLB has the same sort of mandate, and yet they provide access to liquidity to the market.

I believe you began, LaRhonda with, what are the barriers to them participating in the system? Zero tolerance for risk is the barrier.

I think if there could be some opening of that even on a pilot basis, that would be transformative.

I don't know how banks work, so I can't speak for banks, but CDFIs, I'm not a depository. I borrow every dime we turn around and re-lend. If I default to one investor, I'm SOL.

I've never defaulted to an investor yet. I did have a bank tell me that, "Yeah, and you're not Lehman Brothers either."

So it's like, I know there's a bunch of wiggle room in here, but I do think if [inaudible 01:26:17] could think about a pilot where they would open up and allow some additional risk players and there would be a reserve and all the things the rest of us lenders do, there's an opportunity for the bank system to go deeper. I believe the people at the banks would like to do that, some loan guarantees like the SBA.

LaRhonda Ealey:

Thank you. That's a great segue for our break and a preview of what we will be talking about in the next segment.

So again, we are looking to get more technical because in the second segment we will start to talk about the future of the Federal Home Loan Banks and talk some more about areas for opportunity, maybe in terms of manufactured housing or mobile homes and ways to better support the supply of affordable housing.

Maybe we can get into some more of this zero tolerance for risk. I'm sure Tammy may have some color to add.

Right now it's approximately 2:27, so we'll take about 22, 23-minute break. Let's reconvene at 2:45. Thank you.

Welcome back. We are now ready to get into the future role of the Federal Home Loan Bank system. I'm going to toss it over to my colleague Gwen, who will start the facilitation of this segment.

Gwen Grogan:

Thanks, LaRhonda. I think this is the best section of all, where I'm working with creative and problem solvers.

A lot of the questions that I had in mind as we went through the earlier sessions, you sort of touched on them, but I'd like you to dig a little deeper and talk about those.

If there's something else that we haven't touched on that you would like to talk about, that would be fantastic.

My first prompt is, let's explore where the banks may play a larger role, specifically thinking about rural populations and communities, if they are unmet or under met needs. Is there anything there that you think of?

Tammy, I was going to call on you earlier. You talked about rural homeless. On TV, a lot of times what we see are urban homeless. Can you talk about the maybe special needs related to rural homeless?

Tammy Bobo:

Well, certainly I believe we've touched on it with the opioid crisis. What we have found is a lot of that does relate directly back to drug use.

We also have some veterans in the community too, that have ended up with rural homelessness as well.

We have a really great nonprofit called Good Works. The founder with that is a great friend to the bank and has really advocated within our community. I mean he's made it his life's work, truly.

There's a new project with a build that's going up, that does work with now housing even families, because it's not even just a male or female that's homeless. There are entire family units that are rural homeless.

There is a place in the community for that. Good Works, that I'm somewhat familiar with, does work with getting these individuals back into becoming wage earners.

So, there could be a place there with, how do we then work on permanent housing for these families in particular, but certainly family unit or not?

So rural homelessness does again, trace back a lot to that opioid epidemic that we talked about earlier. But there are also lots of underlying factors that also play a role there too. Just mental wellness as well, plays a role in that too. So, just think that there's a place for that.

I'd love to make an introduction to Keith Wasserman, who is the founder and director of Good Works, who could certainly share a great perspective on projects that might be in play there that we could all partner on.

Gwen Grogan:

Thank you. Jon?

Jon Welty:

Yeah. I was just going to add on, when we tend to think of homelessness we're thinking about people on the streets, but when you go back to where that's stemming from...

We've been doing work with the healthcare system. Housing, healthcare, there's a complete convergence there of where we can do things together.

People are more disabled, they're more sick. There's a higher incidence of diabetes, hypertension, particularly in rural populations. All of that then leads to homelessness.

So if your parent is suffering and you've got a child in the school, they're not getting the care they need.

We know as that cycle goes down, the next stop is the jail, prison, because it's not getting better.

There's a way to be able to tie back a bit on the healthcare system too, is just to think how can we use all of these systems together at an environmental level to say, "Okay. If we can work on housing, we can work on healthcare."

It's been said, housing is the vaccine, which I believe is a true statement. If you have safe, stable housing, your outcomes are going to be far better in life.

So, just keeping that in the bigger context of the healthcare system, which has its own things going on, particularly in rural populations where hospitals are closing or they're being converted down to a care center as opposed to a hospital. Access, again is a large issue. All that's the beginning slide of homelessness.

Gwen Grogan:

Thank you. Okay. I'd like to switch stream and ask about... Some of you've talked about your experience with the AHP program and also the challenges that you faced in some cases.

I'm curious if there are any big picture considerations you would give toward changing or expanding, whatever that means in terms of AHP or other programs that the Federal Home Loan Banks offer?

Dave Kreher:

I could address that. In Lewis County as in much of Appalachia, a single-family home, privacy is all very important.

When you develop multi-family properties, as was done in 1970s in our county, it became the projects and was-

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Dave Kreher:

1970s in our county, became the projects and it was funded by USDA of Rural Development and people did not want to live there. They were right on top of each other all the time, they shared a parking lot. The kids were all playing together and things, they did have a small playground, but every time you went to the door or window on both sides of your building, either end of your apartment, there were more people right there. They're not used to that. That is not the preferred kind of housing. No AHP has been funding a lot of tax credit rental projects and that serves a lot of people with not as much funding as single family homes might require. But it also has that whole big layer that you all described that I would run away from screaming and yelling if I had to deal with one of those.

So it does take more, but it's more effective for remote rural areas to invest in single family homes, than to provide a 24 unit property with 30 parking spaces where drug dealing and loud domestic violence spats at night or something like that happen, and disturb the whole place. Those are so looked down upon and we tried it on a smaller level. We did maybe five or six units at a time and we got a lot of bad responses immediately from the community when we first got in around. And we've developed 150 rental units in our county and also managed and maintain those since we built them. That was over a course of about 25 years, so the smaller, the better.

We never did do a tax credit project, because that there are two in our area already. They both have bad reputations because of drug dealing and different things, hard to manage and it's just not the ideal thing that works in a county like ours, given the heritage and why people are there, and that whole family connection thing again.

LaRhonda Ealey:

Okay, Jon.

Jon Welty:

So you can say you look at the AHP, we started doing AHPs in I think 2000, and we were using Word Perfect, which doesn't even exist today. And the entire process from beginning the application through closeout, the big words there are flexibility or inflexibility really, right? The ability to provide the flexibility, the amount of time committed to get the application done, they are just huge barriers. And we could walk through those steps, but when we look at homelessness, for instance, we're talking about homelessness in AHP. I did a home HP project and it was designed for a shelter. Unfortunately, the AHPs aren't exactly designed for shelters, but our goal is not having people in shelters. So if our vacancy rate goes down, we have less people in shelter, which means we're now not in compliance. It's like this whole hurdle of like, well, we're trying to keep people out of homelessness, but yet we're non-compliant on the AHP side, if we did, if we met our goal.

So thinking through how can we be reasonable at what we're expecting sponsors to do. I think the various staffs that are administering the program, I believe they have their best intentions at heart, and they're trying to be as thoughtful and kind to the recipients as, let's make this easier to use, but they don't think they get that same level back from the FHFA. And it's like the disbursements and that cost of 30 days or 90 days, six months of waiting for an AHP to come through, that's a huge cost on a deal where you've got no extra money, and how can we relieve that?

It's likewise on the compliance burden. We've got all these various entities that are doing compliance and do we really need one more added barrier on top of that, when we view that at the overall risk lens of what is the likelihood that this is going to go bad? And I would also, I'm kind of joking to say it, but if you're going through all of the effort to put together an AHP, your goal is not trying to figure out how can we try to take advantage of a program. There's too much work there, with too much need, to try and take advantage and say how, okay, if I can make this happen, there might be recapture. That's never the focus. Our focus is how can we maintain what we're trying to do, keep that flexibility, do the housing.

We've got so many demands to meet. So I guess I'm just put all that out there, that flexibility's key, giving the ability to make decisions down to the staff at the bank level, that looks at what's reasonable, not doing overly burdensome compliance tasks. They're all just big keys and I think we can get there, but we need to have, I think the FHFA needs to provide that guidance back saying, you guys are doing a great job. You know what you're doing. The overall risk across the nation is not huge at these things going bad, and being mindful of that.

LaRhonda Ealey:

Thank you. Katie.

Katie Kramer:

Thank you. Wise words, Jon. I think everyone around the table, including the FHFA, understands that regulations cost money, and thinking through the right balances what we're meant to do. So I would encourage you to expand the affordable housing program, allow the FHLB to make more investments, but at the same time recognize what Jon said, the work of preparing and seeking approval and getting the highest scores possible to be awarded through the FHLB's evaluation system. There is no single project that is looking to do anything, but raise capital.

And so thinking through ways that the FHFA can recognize the intensity of work that goes into it, and also the commitment from the FHLB to be able to offer a program like that. So if you're to expand the amount of money or the percentage of funds or something along those lines into the program, I'd also encourage the FHFA to think through how can we have the right give and take, if we're going to make new rules for expanding the AHP, which I think is important, I would also look at how can we at the same time lower the burden on the FHLB reporting on it, as well as the end users reporting on it, because it doesn't quite work to increase the overall compliance and regulatory environment around the AHP and increase the amount of money the FHLB and the end users have access to.

Now you've spent the money twice when it's not there to spend. And so I hope that that's kind of a clear description of what I'm trying to say. We can certainly get into it more, but I would not recommend increasing compliance and increasing the percentage. I would advise that it should be at least a neutral stance on the compliance, if not finding new flexibilities within the compliance system, while increasing the investment capacity into the AHP program.

Gwen Grogan:

Thank you. So if we were not to mess with the AHP program at all, but think about other programs, innovating other types programs, whether they are affordable housing related, economic development related, or community development, I'd be interested in any of your thoughts on those types of programs.

Katie Kramer:

Sure. How long do we have?

LaRhonda Ealey:

Well, actually I would like for, I know and think Sara's comments, well, no, I'm sorry, Katie, since you have the mic, you mentioned letters of credit, right? Can you talk about that?

Katie Kramer:

Sure. We can talk about letters of credit. FHLB has a letter of credit program that they provide. It allows them to essentially use the strength of their balance sheet, the money that they have at their own banks, these are not member banks, this is money at the FHLB, to be able to use that to provide insurance on individual projects. It means, from a financial perspective, that a community could issue a bond, they could use that money to be able to invest in any number of different types of things, infrastructure, water, sewer, hospitals, building a variety of different types of projects. With the FHLBs letter of credit support onto a bond issuance, it means that the bond issuer can go to the bond markets, be able to attract investors to buy those bonds, and ask for lower rates in return. This is true for community and economic development projects like I just mentioned, but also for affordable housing projects.

There is so little insurance available in the bond market. It's by design meant to be a risk endeavor. Investors are buying bonds, knowing that there's risk associated with it. Buying the right bond means you might make a lot of money. Buying the wrong bond means you might lose money. But for some projects that are essential community drivers, there's a way to de-risk that decision just a little bit for the investor to protect everyone involved in the transaction. And these are essential community development projects. These are projects that are defined by Congress and the IRS, as essential community drivers. Things like small manufacturers, first time farmers, affordable housing projects, wastewater treatment facilities. When you issue a bond for those types of projects, being able to layer a little bit of insurance on it, means the investor is likely willing to buy that bond and accept a lower rate of return, because they know if the bond fails, the FHLB will help with the letter of credit to make them whole.

The letter of credit right now is available, and generally tends to be used in less creative ways, because Congress does not allow them to use it more creatively. For about two years after the Great Recession, Congress created a new way for the Federal Homeland Bank to use their letter of credit as a way to immediately infuse capital support in any way they possibly could to shore up our financial markets. That program became like a pilot program of two years. It gets to the de-risking that we were talking about, that an immense amount of impact was created by a whole set of community driven projects being able to access the bond market at low rates in a way they never had been able to do before.

Those rules sunsetted in 2010, and I think that being able to bring those rules back would make a huge difference to communities, to bond issuers. It gives the FHLB a way to use their immense financial strength in a new way. Yes, they can continue to provide liquidity. Yes, they can continue to be involved in affordable housing projects, but in the communities, yes, they can also use their financial strength to be able to help those communities invest in other types of projects. It's purely a mechanism for keeping the wheels of our commerce moving, without the FHLB having to make direct investment decisions.

So this is something that is a new way to support rural communities, a new way to support underserved communities. And I'll close with the financial reason why it's important. If you can lower the costs that you experience to pay back your bond, to pay back your loan, it means that there's more money available to do critical project work. In rural communities, especially building a hospital is a much more expensive proposition than in other places. This is just one example. It's more expensive, because your community is more remote. You have potentially fewer workers to help build the hospital. You have fewer taxpayers, which means you have less money available in your community for supporting the things that occur at the hospital, like fire and EMS going to the hospital. And so the whole system of having a remote community with people who don't live close together, means that your project is essentially more expensive.

This panel can't change that fact, but what we can do is make it so that rural communities and underserved communities who struggle with the high costs of their project, there's one way we can lower a component of that, which is we can make it easier for them to borrow money, which means they pay less to pay back their debt. This is something that can be incredibly impactful for the Federal Home Loan Bank, because what it means is they are just there as essential community development drivers, using the strength of the money they have without putting direct dollars into the project, but helping to encourage private investment into the project, helping to encourage more community members engaging in those projects.

To be able to do that, means that you can leverage the power of the Federal Home Loan Bank, without having to change a single thing about their structure. That part I think is pretty cool. It gives them even that much more flexibility to do direct project work in communities, beyond as the day-to-day liquidity decisions they're making with their member banks. And I'd be happy to provide more technical information if it's appropriate, but I think it's a good starting point for the conversation about better ways to support rural communities.

LaRhonda Ealey:

Thank you. Sara.

Sara Morgan:

So I'm going to ask a technical question. So in your hospital project, John's a developer, does Tammy's bank provide the collateral to Cincinnati so that Cincinnati will issue a letter of credit to John's project? Is that the way that works?

Katie Kramer:

Now, if you're building a hospital-

Sara Morgan:

I'm just trying to think about what does Tammy's bank offer as collateral to the bank? I mean, just do they offer the collateral?

Katie Kramer:

Yeah, the structure of our hospital project looks like this. The collateral is coming from probably a couple of different sources and not really Tammy's bank. It's coming from the project developer of the hospital. It's coming from the investors who are buying the bonds. They are going to buy the bonds. They are going to put forth the money up front to be able to construct this. The underwriter of the bond may also provide some collateral in that regard. The underwriter is a bank, but it's not Tammy's bank. It's a different type of project finance bank. The way that the FHLB comes into it, is by working in the structuring over here of all of what the bond capital stack looks like with the underwriter. It does not happen over here with the FHLB infusing liquidity into the member bank. It's actually working separately outside of this relationship, going directly over here to the project finance and structuring components of the individual thing that they're building. Does that help?

Sara Morgan:

So it's working outside of its member bank structure?

Katie Kramer:

Absolutely.

Sara Morgan:

Okay. That's all I need. Yep. Yeah, thank you.

Gwen Grogan:

Dave, I'm wondering, having been on the advisory council for nine years and I think nearly 40 years with a nonprofit in a local government area, if you have any specific ideas of innovation for our program?

Dave Kreher:

No, I think I'm all out of ideas, but I would say once again, if the AHP could be gotten out there to help meet the needs, whatever they may be, in the same amount of time that the Carolyn Peterson fund can get out, disaster relief ZIF funds, those programs all work tremendously well. I don't know the interior workings on how to make that happen, but if that could happen, I think that would make a really big impact in remote areas, especially for housing.

Gwen Grogan:

Thank you. Any other ideas, programs?

LaRhonda Ealey:

I know in Sarah's comment she mentioned goals. Can you talk some more about that and any ideas about what those goals may be, or what you think would be ideal? And also, and I'm going to ask for everyone to, or more of you, to think about this, rural representation on the bank boards. Is there enough from your experience, to meet the need... Is there enough representation there already to ensure that should the banks craft, or the system, craft these goals or design these goals, is there enough rural representation? Are you confident with the rural representation to ensure that needs that are specific to rural areas, particularly rural areas in middle Appalachia, Appalachia in general, would be represented in that decision making process?

Sara Morgan:

I don't know that I can speak to the rural representation, because I haven't perused the bank's board of directors at this point, Cincinnati's Bank's board of directors at this point. I do think, when we think about duty to serve as it relates to Fannie and Freddy, they have specific targets that they're trying to aim at, however weak they are. They're pretty weak. I think the notion of the Federal Home Loan Bank system, having a set of targets for how they invest in rural communities, would be really important.

Our banking system is no longer strictly bricks and mortar based. It is becoming very much on these things. And so the notion of CRA, which is very much where your bricks and mortar are, I mean, money's coming from other places. And so rural America in particular, doesn't receive the same kinds of investment that our big cities do, because of that bricks and mortar base. And I think the Federal Home Loan Bank system has the opportunity to play a leadership role there. But I do think it's going to come down to the zero risk tolerance is going to have to have some wiggle room.

Jon Welty:

Two things follow up on Sara, on the CRA side and also on the duty to serve side. Fannie Mae and Freddie Mac we got the duty to serve affordable housing. We benefited from having Fannie Mae investing in our equity funds under the duty to serve, we do a lot of rural areas. And fortunately, depending on how you want to look at need, they're able to meet that in different ways now. And those dollars that are coming into our equity funds specifically for LiTech, aren't necessarily targeted to rural communities anymore. And as we overlay that then with CRA, we talk about the Midwest as being a flyover state, or Midwest states, and we put that in the context of urban centers where you do have financial institutions and they do have high CRA needs versus rural populations where a lot of these institutions are pulling out from, and this area looks dramatically different.

So how do we, in the context of duty to serve CRA, continue to make sure that we can have investments driven into rural communities, is a huge key. And I don't have a great answer for that. But banks are still taking deposits from these areas. We need to ensure that these areas are receiving benefit back for that as well.

Tammy Bobo:

And I don't have an answer either, but what I want to just make sure that we understand is that there's, there can't be a one size fits all that the issues that we're facing in southeastern Ohio, Kentucky, wherever here in this rural area, is very different than what you'll see in Washington, than what you'll see when you go to one of the three big C's in the state of Ohio. And we just really need to be cognizant of that with the programs.

And as we've talked about, what the Federal Home Loan Banks may be able to do, community banks were everybody's hero back in COVID with PPP and those guaranteed loans. Why can't we do a similar program with the Federal Home Loan Bank with some loan guarantees? We talk about zero risk tolerance and what that looks like. I'd like to have some of those same guarantees too. So do with that what you will, but do the right thing.

Jon Welty:

I was just going to add, oh, I'm sorry.

Sara Morgan:

No, you go ahead.

Jon Welty:

We talked about the USD has a loan guarantee program, which is really helpful in rural areas, we continue to take that out. How could that kind of a guarantee, or is it insurance for CDFIs or general affordable housing, how could that look and how is that be funded is a huge thing too. But back to where we're at, keeping that locally, and we talked about what the board looks like, advisory council, those are representatives of our community. And I say community three states, and I think we've got to keep that in the context that this is who we're serving. We're not serving Seattle or Des Moines, we're serving three states here in the Midwest and I want to keep that framework for sure.

Sara Morgan:

I just wanted provide a little context of what I think Jon was saying regarding the Midwest being a flyover state. We went to develop, oh, sorry, I thought I hit it. We started, [inaudible 01:57:44] started syndicating tax credits several years ago, more than 15 years ago now. Because what we saw is, the developers who would, the syndicators who would look at projects in our state at this time, this was before Ohio Capital came down, were paying 80 cents on the dollar, where if they were going to Boston, they were paying a $1.10 per credit. It's not worth the same amount, because they had to fly in, and they had to drive three hours. So the value of the credits was different, because the place was so rural.

We ended up doing a development that was 32 units in three counties, three of the poorest counties in the nation, in Kentucky. And the units were targeting people with developmental disabilities. Every one of those units rented the first day they came online, which is unheard of because the mental healthcare provider was the one who owned the property and it was their clients that needed a place to live. And so there was a local context that really made that work. And any sort of flexibility we can create to support those kinds of places. But it starts with capacity for the nonprofit. It starts with capacity at the syndicator so that they'll come there. So it's multilayer, one fix doesn't create a system.

Katie Kramer:

To build on the capacity, which is part of what I was going to say. This is something that I think many rural communities struggle with, many underserved communities struggle with. Their brain trust doesn't live in their community. Their brain trust may have moved, their brain trust may be remote. This is part of what many boards struggle with to be able to find capacity in women leaders, in minority leaders, in rural leaders. And so I have found the bank, the bank's board is actually quite representative of the places that they serve, given the access to the capacity of the people that they serve.

I have found there's a tremendous amount of knowledge that can be shared from someone who grew up in a rural place, but doesn't necessarily live there now. And I think the bank's boards have done quite a good job of understanding where different perspectives are built and founded, and how that is then shared among their decision making power. To be able to require certain types of ratios on the boards of the FHLB, would be beyond the capacity of where I think the FHFA reaches. I would think that that necessarily detracts from the goal of having the FHLB system be as flexible as possible.

One of the things that is intriguing about a loan guarantee system, or a loan guarantee pool, is that that loan guarantee doesn't have to exist in Athens. It can exist in Pittsburgh. It can exist in Nashville and still be to the benefit of projects that are occurring in the region. It's a centralized place where a portfolio is created of a lot of different types of projects.

The loan guarantee program can be structured to be something specific to a project. It can also be structured as something supportive of the banks, as an institutional guarantee, not just a project guarantee. So it's one more way to be able to use the might and the financial prowess of the FHLB to reach more places without actually having to spend a single dollar. You can, with the loan guarantee program that I run, it's an $18 million loan guarantee program that's expected to leverage tens of millions, hundreds of millions of dollars of small business loans. The FHLB can do something very similar, having a small amount of investment and having their money go even further.

And I think that that's an intriguing and this intriguing suggestion, but also an intriguing way for the FHFA to be able to say, these are the things that we think that you should be able to do to become better risk takers, or to become stronger financial partners with your member banks, aside from being their liquidity partner. I think that's a tremendous role for the FHFA to be able to lift up some new creative ways to encourage the Federal Home Loan Banks to come to the table in a different capacity.

LaRhonda Ealey:

Thank you. Jon, to you.

Jon Welty:

There's an add, we should talk about the guarantee concept, which I think there's legs there. And I'm speaking as a member of the Cincinnati Bank, but if we're power that's being funded, I would normally make sure that whatever the capitals that we're putting in is staying within our district. I don't know how Tammy feels and I can't speak to it, but I don't want our money going out to San Diego, right? That money should be staying local, so we need to keep those rules in that context. There's-

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Jon Welty:

... thing local. We need to keep those rules in that context. No offense to Pittsburgh, but they've got their own back.

LaRhonda Ealey:

Thank you.

Katie Kramer:

No comment.

Gwen Grogan:

Are there partnerships that you think the banks should explore that maybe, as you look around, you didn't necessarily see that or that the FHA should explore? I guess I'd follow up with that in saying with respect to local governments, is there more that's needed to be done to partner with those organizations? Sara?

Sara Morgan:

Sorry. I seem to have an opinion about everything today. In rural places and particularly places of persistent poverty like Eastern Kentucky, they got a lot of really good people trying to do the best they can, but local governments don't have planning offices. Many of them don't have a center of economic development like Ohio University has. They don't have a university in the town. Capacity looks really different in rural America than it does in urban places. Capacity in Hazard, Kentucky looks like a nonprofit that's wearing four or five hats, whereas if you go into Chicago, there's one nonprofit that does the counseling and one that does the development and one that does the lending. It looks different, and often, it's funded by programs that have regular reoccurring sources of money.

Dave and many of the nonprofits in Kentucky got started because USDA had consistent money through the 502 direct program. They'd build a house, they'd get a family financially able and they'd sell the house that would pay them to go do the next thing, and so there became this system, and in local government, what you get is you get a change in administration every four years, so by the time the new mayor or the new executive got their feet under them, there's a rotation. That's not where the capacity lives in rural America. It's really with often the nonprofit providers of some sort of service in the communities.

Dave Kreher:

Yeah, it would be great to have y'all come visit and meet the end recipients. I think that would be more of a positive thing than meeting with local government.

Katie Kramer:

The question I'd pose back to you, an answer to your question is why would you desire to have the FHLB be in greater partnership with the local government? It's goes back to the customer issue. Excuse me. I don't necessarily see the FHLB's customer being the local government. The local government is working on the community development and the economic development goals and investments overall. That local government is meant to know who their capital providers are. I would encourage the local mayor to know who Tammy is to be able to talk through what are the capital challenges we face and who are the partners are that we need to bring to the table. The Federal Home Loan Bank is there to provide liquidity to the system. If they are to provide more support when it comes to project development directly, then they would be working in addition to, with their member banks, they would be working with the economic development corporations, the development finance agencies, community development corporations across the country to be able to prop up where investments are occurring in specific projects.

I don't know necessarily though that the mayor or the local leader or city council having direct connection to an FHLB banker, for example, is going to change the conversation about how capital flows in our community. I think that they, the FHLB, are actually already doing what they're meant to do, which is to prop up the local decision makers to do the work that's needed. I would love to hear from local government if they feel like they need a different relationship with the FHLB. It's been my experience that that's not a request of theirs, so as a result, I would hesitate adding new rules or new requirements to the FHLB in that regard until we hear differently that local government needs a stronger connection.

LaRhonda Ealey:

Dave, then Tammy.

Dave Kreher:

Okay. So in Lewis County, if the mayor wants to do a project or the county judge executive who's overall the county, the first place they're going to go is the community development districts, which in our area there are five counties and they're going to seek their assistance, which is a good thing.

Tammy Bobo:

I'll just say the mayor does know Tammy and he would be interested, I believe, in at least knowing more about the Federal Home Bank. I think I can speak for both of us when I talk a little bit about regulation and zoning, in the city of Athens in particular, is a barrier. It is a barrier for development here. I think that having local government more in tune, whether that is by virtue of you educating me better with some program when we talked a bit about education earlier, with better backgrounds so that I could have better conversation with what myself as a lender faces when it comes to particular projects could be beneficial, but I do think that local government does absolutely play a role.

How we communicate between one another and everyone understand what that role is and what the communication looks like is probably a different conversation, but zoning and regulation is absolutely a part of community development. I would say that yes, there is a role in some way and I don't know what that looks like and how we do it, but involving local government does have to happen because there are barriers to entry that they could help with.

Martin Hohenberger:

Yeah. I would agree. I think that the zoning issues all throughout the Appalachian region in Ohio are issues that are faced by communities, but to your point about awareness and communication, and I agree, Katie, that it's more the role to the banks, but I think it's still an awareness from communities to know the right questions to ask. Yeah.

Katie Kramer:

Martin, can you speak to the capital challenge that occurs because of the zoning restrictions? Does it mean that you can't build something in particular so therefore you can't fund it? Or is it that you can't even raise the capital for something and there's a barrier there for capital to even flow into a project?

Martin Hohenberger:

Yeah, I think it's more that.

Katie Kramer:

Okay.

Martin Hohenberger:

I think it's more that barrier, yes.

LaRhonda Ealey:

Also, Marty, since you have your mic on, I wanted to ask about in terms of capacity, the labor force. Housing supply is obviously an issue. Does this area have the workforce, even if the capital is flowing? Is the workforce here and ready to go? Let's say ideal world, put my economist hat on, [inaudible 02:12:49], the capital is flowing and the zoning restrictions are relaxed, there's this coordination. Is the workforce here? In your research in development, what are some of the solutions or things that have come up to possibly mitigate that? Then after that, if anyone can chime in as to how the Federal Home Loan Bank can then step in and be some type of facilitator directly or indirectly in supporting Tammy and her fellow institutions to bridge those gaps, if you will.

Martin Hohenberger:

Yeah, workforce is the challenge in terms of quantity, but it's also in terms of quality, the skilled workforce that's needed. Then that gets you to the point of what's our training and education system? How adaptive are they to those needs from the standpoint of a well-trained workforce? I think it's both quantity and quality... Is an issue.

LaRhonda Ealey:

Katie.

Katie Kramer:

When you think about a financing solution to the workforce challenge, one of the things that has emerged as a new financing product is a way to be able to carve out some funds specifically from banks engaged in the project, bond issuers engaged in the project, investors engaged in a project, specifically to train the workforce that's needed to build a project, but then also to work in that project afterwards. There is a role for the Federal Home Loan Bank as a financier to help think through the educational components of building the project that they're engaged in. There can absolutely be funds that are set aside, a percentage of investment for any given project that's geared directly towards supporting local educational institutions or creating a direct workforce initiative to be able to hire more local people or to be able to strengthen the skilled component of the workforce.

Just because the money arrives doesn't mean the project is ready to be built and doesn't mean that there's enough capacity in other ways in the community to see that project thrive. This is an area that can be modeled after ZIF, it can be modeled after AHP specifically geared towards the workforce surrounding those projects. This would be something that helps as if... A way a financier can be part of the workforce solution. They're not educators, they're not artisans, they're not incubators, but they could help be part of the financial solution to supporting those types of people.

LaRhonda Ealey:

Thank you. Dave?

Dave Kreher:

A couple of our nonprofits and members from FAHE in southeast Kentucky have started Recovery Kentucky, our recovery labor. We're looking for new and innovative ways and people coming out of recovery needs something to do, and so they work with the community colleges, which are really pushing trade skills. Some of their time is spent there in the schools learning the trades and then they're going out to the site, and what better to do than to have something constructive, and at the end of the day, you can see what you've done and you come back the next day and you do the next step and you come back 10 years after it's been completed and you tell your son, "I helped build this," and he comes back 50 years later and said, "Dad helped build that house."

It's something concrete literally, or wood depending, vinyl siding even, but it's something there that they can see and they're driven, because the addiction doesn't go away and to have something to do each day is really good, but they turn out to be some of the best help, just incredibly focused, and they usually get together in a housing situation where there's several recovering, so they hold each other accountable as well. That seems like just one idea that gets us labor for building homes.

LaRhonda Ealey:

Thank you. Sara?

Sara Morgan:

I would just add that there's a lot of support out there to train the workers. There's not a connective tissue to connect those folks necessarily with employment, and so I hear all the time from our members that they need more people in the construction trades. There's not a connective tissue to get folks from the local training course into those jobs, so what's happening in Kentucky is folks are getting trained by EKCEP down in Hazard and they're going to Bowling Green because that's where the jobs are, and we've got to figure out a way to make those connections happen locally, and then the other thing we have to do is we also have to overcome the other barriers that employers have to employee these kinds of folks, which are childcare, transportation. A lot of folks who are in recovery need time off to go deal with legal issues. How do employers know how to work with a not perfect employee because they have these challenges?

LaRhonda Ealey:

Thank you. Jon?

Jon Welty:

I was just going to say that we're struggling on the workforce side just within property management and affordable housing and those are some of the lower paying jobs within the entire housing spectrum. These people are moving on to market rate housing where they're going to be paid more and a different environment to work in. Those are issues that we're dealing with as a company. I guess they don't see the workforce and the FHLB, there is no workforce per se, so as we look at what the conversation is about, I'd want to continue to bring that back to what the mission is, and I don't see that necessarily driving into workforce specifically.

LaRhonda Ealey:

Thank you. As our time is winding up and we're drawing to a close, as I noted earlier, this is your conversation. We are here to facilitate it. We have been ending with a question where we ask you to think about the single most critical unmet or under met need for your community, in this case, rural communities. As you're thinking about that, also think about how the system can best assist in addressing that need. Of course, throughout the conversation, you have answered this question, but we do like to wrap up with that again and you giving us what you consider the most important unmet need or under met need and how the system can best address that. I'm rambling a little bit because I want to give you time to gather your thoughts and to think about how you want to wrap that up.

Also, in the meantime, if there's anything else that you feel is important to this discussion that we have not brought up, we ask that you do that too at this time to make sure that we've gotten those important topics that you wanted discussed. We definitely have heard a lot, appreciate your candor, your insights, all that you have contributed in our discussion today, and moreover, the work that you're doing in your community to meet the needs and to leverage the support and the resource and the function and mission of the Federal Home Loan Banks. Let's see. I'll start on this side. Sara, is that okay? We start with you.

Sara Morgan:

Well, I really appreciate being invited here. Thank you so much to FHFA for having all of us. I've also appreciated what I've learned from everybody here, so thank you all for sharing your words of wisdom with me, with all of us. I don't know that I can pinpoint the single biggest need. I think the system doesn't-

LaRhonda Ealey:

The top three?

Sara Morgan:

Development subsidy, a subsidy that makes the house affordable to the family and liquidity to the market.

LaRhonda Ealey:

Anything else you want to add? Details, specifics?

Sara Morgan:

No, I think that's good, but thank you. Thanks for having me.

LaRhonda Ealey:

Jon?

Jon Welty:

Yeah, thanks for the invitation. I also think it's important to recognize the banks themselves. They do an amazing job. The people, they do outreach in terms of just the entire system. I think it's an amazing group of people and how they operate and they need to be commended for that work. A couple of things, if I get three... No. First, do no harm. This is a really great organization. It's a great enterprise. They know what they're doing. It's flowing liquidity. It's doing all that. The letters of credit, the fee is generated off of that. The MPP being able to purchase mortgages. All that is what's making the system work, and I think the big thing here is just allowing for that additional flexibility.

People know what they're doing, we know how to do it, allowing that to continue on without the additional burdensome compliance regulatory rigamarole that happens. On the operating side, I would just suggest as we look at loans or ways that we can reduce the overall cost for community development activities, be it affordable housing, other community activities, federally qualified healthcare centers, and charter schools, et cetera. If there's a way to reduce maybe the borrowing rate if that's what we're going to be involved in, how could we get better access to capital for that? We haven't touched about bridge financing. We're heavily involved in that, but we're not allowed to use that as collateral within the system. Are there ways to think about that from the regulation?

I believe it's highly secure, something that we can be engaged on that piece, and then also just from the CDFI front, I know that we look different and we smell different, but that doesn't mean that we're bad or we're doing things that are not proper. We have our own set of rules and regs that we're living by, and I would ask that as we look at CDFIs in the global perspective, just keeping that in context as well, that we are funneling that money down to the bottom line mission and we really support the work of the bank partners and the other members of the bank that are allowing us to be involved, so thank you for that.

Katie Kramer:

I don't have a slam dunk answer. I have loved hearing the perspectives of all of you and the work you do on the ground. I exist in the policy world, so it's gratifying to me when I hear how it works for you every single day. I've always joked that nothing needs to change about the Federal Home Loan Bank except its name. It does more than provide home loans, and I think sometimes, that it's just a branding experiment gone wrong. It is a tremendously impactful institution and the structure of it reaches more communities more effectively than I see from many other financial institutions or financial structures. I think you're already doing just fine in that regard. The FHFA is doing exactly what it's supposed to do to prop up the FHLB to be as flexible and successful as they already are. I know that there are many communities, not just here in Ohio, but across the country, who have found tremendous access to a world of capital in a world of capital markets because of the FHLB that they wouldn't be able to do on their own.

LaRhonda Ealey:

Thank you.

Dave Kreher:

I want to speak on behalf of my fellow 50 nonprofits in Central Appalachia that have worked with us for years and we've all worked together, we're all competing for the same funds and we all share our secrets and what works the best so that we can all be the best, and the reason is we all have our mission of improving housing for low income families. That's why we're in the business. It's not about making money. It's about helping the families and what a rewarding job that is. The best gift for Lewis County would be to increase the AHTF from 10% to 15% as I mentioned earlier, and keep the 5% for single family homes, and we will continue to get the member banks involved in helping put those under roof and working together, and it's just a creative and very touching way to be a part of the mission.

Tammy Bobo:

I'd like to thank you as well for the invitation today. I guess what I would like to end with, and I know that you've already heard it and you got it, no one size fits all. Rural America is very different than urban America, and I think that pulling together groups like this can help illustrate that, that there are different demographics that make up each population. There are different types of housing too that need to be addressed and looked at. Some are single family, some are multifamily.

There's no... Back to what I originally said, no one size fits all. Liked the idea of the guarantees that we talked about earlier. I think that there's some legs there. Do want you to remember the developers and the barriers that are there just in terms of labor and just land to build on, lumber lending and regulatory that we talked about with Mayor Steve Patterson who does know me, to just really keep all of those things in mind just as you move forward. We're all in this together, and again, trying to do the best that we can for the communities that we serve, whatever those communities look like.

LaRhonda Ealey:

Thank you.

Martin Hohenberger:

I'd also like to thank you for the invitation. I guess what I'd like to close with is that we started talking about housing issues, and I think if you look at... We do a lot of work with communities, as I mentioned earlier, in strategic planning, so helping them figure out where they're at today and where they'd like to be five years from now. The two issues that really bubble up to the top that are very germane to, as I mentioned, quality of life issues, infrastructure is so important and so key. That's as broad as water and sewer and utilities and broadband, all those things that make up infrastructure impacts housing, impacts quality of life, and then also workforce, whether that's training capacity, whether that's the brain drain, losing our young people, moving out of the rural communities into more urban settings, and an aging population. We've got a lot of retirement, so that workforce that's coming up is smaller than what's leaving. Those are the two areas that I think really impact communities from a quality of life standpoint and vibrant communities, if you will.

LaRhonda Ealey:

Thank you. Anything else? Going once. Twice. Last chance. Okay. With that said, and in closing, thank you all so much for your thoughts and sharing your ideas today. They do provide great value to us and inform our understanding about the issues and challenges that are specific to your area. It's been quite eye-opening. Again, just super informative as we've gone across the country having these discussions. Certainly have learned a lot about your infrastructure challenges, whether it's sewage or needing access to broadband. Also, we hear you about the bureaucracy and how that is slowing things down, the needs of your homeless population and also the needs that are unique to... For those experiencing and recovering from substance abuse. I know we talked about opioid, but we do understand that substance abuse, it goes beyond just opioids. There are other issues that help promulgate crisis.

We also have heard lots of ideas, and I'll share a few, not all, but I think one common theme was flexibility. Flexibility by the regulator, flexibility in the use of AHP. Also, the administrative burden of AHP, and also flexibility with letters of credit. Thank you for sharing some ideas about innovation in terms of loan guarantees. We definitely hear you about the need for goals that are specific to rural communities. Also, we can't forget infrastructure and workforce and those populations that are underserved but are often not talked about a lot, such as the elderly and those that are on fixed income. Also, we didn't use the word a lot, but sustainability, Tammy, I think we understood you to be saying how even once you all are able to facilitate the purchase of a home or even getting into a rental property or a unit, that has to be sustained and there are cost to that that, for example, people on fixed income may not be able to handle, especially given inflation and increases in the cost of things.

We do hear you. We note your concerns again and your ideas. Thank you for giving us those. I would like to say that as this initiative or our outreach portion of the initiative is rounding out, we will close it with three listening sessions, March 22nd, 23rd, and 24th. Registration for those opens today, so please visit our website for more information. We have to give a shout-out to our FHFA team that is working diligently behind the scenes to make these events a reality. Even though you have seen Gwen and I in front representing FHFA, there is a team of people here in Athens as well as DC who are working very hard every day to bring a group of stakeholders like yourselves with diverse experiences and perspectives together and to make sure these conversations are had, are recorded and are also saved so that you can review them and so that others can go back and see them as well.

So with that said, we do encourage everyone to visit our website regularly for updates. Next, we head to Detroit on Wednesday where we will be discussing Federal Home Loan Bank member products and services. That will be part of a two-part discussion, and part two of that discussion will be held in Washington DC this Friday. Again, please continue to visit our website for the link to the livestream and please share the information with other stakeholders that you know so they can review past round tables, tune in to upcoming round tables, as well as sign up for our listening sessions. Thank you all very much. Have a wonderful afternoon and safe travels.

Sara Morgan:

Thank you.

PART 5 OF 5 ENDS [02:34:54]