



## Federal Housing Finance Agency

### **ADVISORY BULLETIN**

#### **AB 2023-06: FHLBank Framework for Pilot and Voluntary Programs**

#### **Purpose**

This Advisory Bulletin (AB) provides Federal Housing Finance Agency (FHFA) guidance to the Federal Home Loan Banks (FHLBanks) about FHFA's expectation that each FHLBank's board of directors establish a framework that sets specific prudential parameters and operational standards for the FHLBank's development and implementation of, and reporting on, pilot programs and voluntary programs. Each FHLBank's board should adopt its pilot and voluntary program framework as soon as practicable, but no later than March 29, 2024.

#### **Background**

During the public input phases of the "FHLBank System at 100: Focusing on the Future" initiative, FHFA heard from stakeholders and other interested parties that the FHLBanks are effectively achieving one component of their mission by providing their members and housing associates a source of stable and reliable liquidity. FHFA also heard from stakeholders that the FHLBanks should do more to support the affordable housing and community development components of their mission, especially in addressing needs of underserved or financially vulnerable populations.

Based on this input, FHFA believes that the FHLBanks should develop innovative pilot programs, and offer voluntary programs, to increase prudently their support for affordable housing, equity advancement, and community development for underserved and financially vulnerable populations in their districts and other initiatives, including through the FHLBanks' core business activities. Pilot programs or voluntary programs could be designed, for example, to support increases in the supply of affordable single-family and multifamily housing, help close racial homeownership gaps, address residential climate resiliency improvements, or address other needs.

A pilot program or voluntary program must be permissible under applicable statutory, regulatory, or other legal authorities, and may not be used to circumvent existing statutory or regulatory requirements or FHFA guidance. Pilot programs generally would be new FHLBank business activities implemented with a small size and defined time frame and with the expectation that, after a given period, careful analysis of the benefits and drawbacks will be conducted and

considered. One intent of a pilot program is to “test and learn,” with some pilot programs being converted to more permanent and larger scale implementation, and others ending because they did not meet their objectives, or because the FHLBank identified alternative means of meeting the same objectives. Products, programs, and services implemented under established FHFA statutory and regulatory authorities<sup>1</sup> would not be considered pilot programs.

Voluntary programs generally serve to supplement the FHLBanks’ statutory and regulatory programs, and have included grants, down payment assistance programs, and special purpose credit programs.

## **Guidance**

### **Framework**

FHFA expects each FHLBank’s board of directors to establish a framework that sets specific prudential parameters and operational standards for the FHLBank’s development and implementation of, and reporting on, pilot programs and voluntary programs. The framework should be adopted as soon as practicable, but no later than March 29, 2024. The framework will apply prospectively to new pilot programs and voluntary programs offered after adoption of the framework. The framework should, at a minimum, include the following:

*Needs Assessment.* An FHLBank should identify the needs that could be addressed through a pilot program or voluntary program, for example, specific unmet affordable housing, equity, and/or community development needs of underserved or financially vulnerable populations in its district. The FHLBank should leverage the needs assessment conducted in preparing its Targeted Community Lending Plan<sup>2</sup> in identifying unmet affordable housing, equity, and community development needs, and other planning activities in identifying other unmet needs.

*Board-established Prudential Parameters.* Safe and sound operations are of paramount importance when FHLBanks consider the structural approach to developing, implementing, and reporting on new pilot and voluntary programs, products, or services. Therefore, when establishing a program framework, an FHLBank’s board should establish specific internal prudential parameters for the FHLBank’s development and implementation of, and reporting on, the programs. Prudential parameters to limit the FHLBank’s risk exposure to a pilot program should include, but are not limited to, the establishment of a (1) small dollar volume cap, and (2) specific sunset date. When establishing a prudential limit for a voluntary program, the FHLBank’s board should consider, at a minimum, a dollar volume cap.

*Board-established Operating Standards.* An FHLBank’s board should set specific internal operating standards, including directing FHLBank management to:

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<sup>1</sup> For example, AHP programs under 12 CFR part 1291, CICA programs under 12 CFR part 1292, and advance products under 12 CFR part 1266.

<sup>2</sup> See 12 CFR 1290.6(a)(5).

- Obtain a written legal opinion of counsel that a pilot program or voluntary program is permissible under applicable statutory, regulatory, or other legal authorities.
- Identify the goals of the pilot program or voluntary program and how the FHLBank will assess outcomes. Evaluate and document the FHLBank's potential risk exposure from the program. Identify what factors, if any, may trigger early termination of a pilot program or voluntary program.
- Evaluate FHLBank resource needs for implementing a pilot program or voluntary program, including staff, technology, marketing, and outreach.
- Receive approval from the board prior to the FHLBank offering a pilot program or voluntary program. Provide the board with periodic or milestone reviews and updates on a program, including a discussion of the prudential parameters and related risks. For pilot programs, as the sunset date approaches, management should provide the board with a written management assessment, recommendations for any next steps, and the rationale for those recommendations (including whether management believes converting a pilot program to a permanent program requires the submission of a notice to FHFA under the New Business Activity regulation).
- Develop a policy addressing the types of information that will be posted on the FHLBank's public website regarding a pilot program or voluntary program, such as the goals and a description of the offered program.

This AB does not apply to routine charitable contributions and sponsorships below a reasonable threshold established by the FHLBank's board.

#### FHFA Supervision of Pilot Programs and Voluntary Programs

*Submission of Adopted Framework to FHFA:* Each FHLBank's board should submit its framework to FHFA's Deputy Director of the Division of FHLBank Regulation (DBR) within 30 days of approval by the board. An FHLBank need not await FHFA approval or non-objection before implementing the framework.

*Notification to FHFA Prior to Offering Program:* An FHLBank should notify the DBR Deputy Director in writing prior to offering a pilot program or voluntary program. For Special Purpose Credit Programs, an FHLBank should notify the DHMG Deputy Director concurrently with the notification to the DBR Deputy Director. The notification should include, at a minimum, a description of the program, the goal(s) of the program, its dollar volume, its sunset date (if a pilot), confirmation of board approval of the implementation of the program, and a copy of the written legal opinion of counsel. An FHLBank need not await FHFA approval or non-objection before offering the pilot program or voluntary program.

*Notification to FHFA at Conclusion of Pilot Program:* An FHLBank should also notify the DBR Deputy Director in writing at the conclusion of a pilot program. At the conclusion of

Special Purpose Credit Programs, an FHLBank should notify the DHMG Deputy Director concurrently with the notification to the DBR Deputy Director. The notification should include, at a minimum: the written management assessment of the effectiveness of the pilot program that addresses the extent to which the pilot program met its goals; and management’s recommendations for any next steps and the rationale for those recommendations (including whether converting a pilot program to a permanent program requires the submission of a notice to FHFA under the New Business Activity regulation).

*Assessment of Frameworks and Programs:* As part of its regular supervisory process, FHFA will assess FHLBank pilot and voluntary program frameworks and individual pilot programs and voluntary programs in the context of risk management and safety and soundness principles, including governance practices.

### New Business Activity Regulation

FHFA’s New Business Activity Regulation defines a new business activity as “any business activity undertaken, transacted, conducted, or engaged in by [an FHLBank] that entails material risk not previously managed by the [FHLBank].”<sup>3</sup> The preamble to the New Business Activity Regulation states, “[w]ith respect to new activities that the [FHLBanks] commence after determining that they do not present new material risks, FHFA will assess the risks associated with those activities as part of its regulatory supervisory process, including examinations.”<sup>4</sup> Pilot programs and voluntary programs typically should not present a material risk to an FHLBank. However, there may be cases where specific pilot programs or voluntary programs may present material risks, in which case they would be subject to the requirements of the New Business Activity Regulation. An FHLBank should not use pilot programs or voluntary programs to circumvent the requirements for activities that would be subject to FHFA review pursuant to the New Business Activities Regulation.

FHFA has statutory responsibility to ensure the safe and sound operations of the regulated entities and the Office of Finance. Advisory Bulletins describe FHFA supervisory expectations for safe and sound operations in particular areas and are used in FHFA examinations of the regulated entities and the Office of Finance. Questions about this Advisory Bulletin should be directed to [SupervisionPolicy@FHFA.gov](mailto:SupervisionPolicy@FHFA.gov).

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<sup>3</sup> See 12 CFR 1272.1.

<sup>4</sup> See 81 Fed. Reg. 91693 (Dec. 19, 2016).