October 21, 2022

The Honorable Sandra Thompson

Federal Housing Finance Agency

Constitution Center

400 Seventh Street, SW

Washington, DC 20219

Re: Federal Home Loan Bank System

Dear Director Thompson,

The National Housing Resource Center appreciates the opportunity to comment on FHFA’s comprehensive review of the Federal Home Loan Bank (FHLB) system’s mission and operations to ensure they are positioned to meet the needs of communities in the current market and the long term.

The National Housing Resource Center (NHRC) is dedicated to organizing housing counseling agencies to ensure that homeownership and rental needs are met among all communities through our congressional advocacy and community outreach work with financial institutions. We appreciate the critical work that the FHLBs have conducted, especially during tumultuous times in the American economy.

The Federal Home Loan Bank (FHLB) system has been a key source of liquidity and lending since President Hoover enacted the Federal Home Loan Bank Act of 1932. The purpose of the Federal Home Loan Bank system was to provide liquidity to financial institutions to encourage homeownership through long-term mortgages among American communities.

The Federal Home Loan Bank system has supported low-income housing and community development through a variety of programs, including the Affordable Housing Program, Community Investment Program, and the Community Investment Cash Advance Program. These programs are instrumental to our organization’s mission of promoting affordable, sustainable, equitable, and climate-resilient housing and community investment.

Today, the FHLB's members consist of approximately 6,800 banks and insurance companies. The FHLBs rely on public subsidy of all debt obligations that they issue, plus a statutory exemption from local, state, and federal taxes.1 The FHLBs generate revenue by borrowing at a low cost in a money market that gives them preferred taxpayer-subsidized rates. Therefore, the FHLBs are allowed to re-lend this money to their owner banks and insurance company members. With a minor markup, the banks receive a better rate than they would as non-members of the FHLB system. The public taxpayers provide an invaluable advantage to the FHLBs system, and your comprehensive review provides an opportunity to ensure that the current needs of the public are served.

The National Housing Resource Center has several recommended changes in your comprehensive review of the Federal Home Loan Bank system.

First, we would like to recommend enhancing the system’s transparency standards to reflect the practices and requirements of similar federal banking agencies. According to the Brookings Institute, additional oversight is needed for analysts to know the exact practices and requirements of the FHLB system.2 Public taxpayers are entitled to know the details of practices and requirements of activities because the FHLBs are publicly subsidized.

Second, we recommend additional public oversight to ensure that activities remain relevant to the needs of consumers in the housing markets, and not solely the profit of financial institutions.

Like other banks, the FHLBs are not immune to irresponsible lending practices at the cost of the public. For example, large banks like Countrywide Financial received advances to make subprime mortgages. 3 As a result, predatory lending placed the FHLBs at risk and facilitated inappropriate predatory lending which placed homeowners and ultimately the U.S. economy at risk. The risk of FHLBs' activities should be assessed in your comprehensive review.

Any evaluation of the FHLB bank system should include the role that FHLB members play in providing safe and affordable loans and in meeting the credit needs of underserved communities, including communities of color, low downpayment borrowers, single-parent households, immigrants, and people who work in the gig and/or cash economy. Multi-family funding by FHLB memberships should include clear rules that there is no discrimination by a source of income, including that Section 8 rental vouchers are actively accepted and encouraged and no discrimination against disability income or social security. For single-family housing downpayment assistance, housing counseling should be required.

We want to highlight that MetLife, JPMorgan Chase, and TIAA are among the top users of the FHLB revenue last year and they accounted for more than 70% of advances at 5 of the 11 banks.4 While the system is made up of thousands of banks, the large banks generate the most money from the current FHLB system.

Third, the risk of FHLBs should be examined and analyzed for activities that large banks conduct should be further examined for potential risks to the financial system, as mentioned in former Federal Reserve Governor Daniel Tarullo’s white paper.5

Furthermore, former Governor Tarullo recommends that “FHFA could revisit its regulations and supervisory guidance to ensure that FHLBs cannot engage in forms of maturity transformation that can intensify systemic liquidity drains during periods of stress.” This could strengthen the reliability of FHLBs in the long term. FHFA could further conduct regular consultations with other federal regulators to reduce any adverse impact that FHLB activities have on the missions of these agencies, under the support of the Financial Stability Oversight Council.

Fourth, we also want to recommend increasing funding for the Federal Home Loan Bank’s most impactful initiative, Affordable Housing Program (AHP). An increase in AHP program funding is necessary as the needs of low-income individuals increase as inflation and rising interest rates impact their homebuying process. We recommend that the FHLB commitment to the Affordable Housing Program be raised to at least 30% to support the public housing needs and reflect the public subsidies of the FHLB.

The Affordable Housing Program provides essential downpayment assistance, closing cost assistance, refinancing, rehabilitation, and construction funding to low-income individuals and families. Down payment assistance is one of the biggest factors that assist first-time homebuyers and especially people of color to become homeowners. Funding for the Affordable Housing Program is critical to advance racial and ethnic equity outcomes, as part of the White House’s Advancing Equity and Racial Justice Through the Federal Government initiative. We encourage increasing the shared profits that go into the Affordable Housing Program because it would help more communities of color become homeowners, addressing a major weakness in the homeownership marketplace.

We also recommend expanding the purpose of the Affordable Housing Program to include investments in disaster preparedness and climate resilience, energy efficiency, green retrofits of affordable housing, and related projects. There is a need for disaster recovery funding in communities that need help rehabilitating and constructing homes impacted by natural disasters. The modernized purpose of the AHP would help communities fund unmet housing finance needs. The availability of funding in disaster-impacted areas should take into account that disaster-impacted homeowners may have had income interruptions and existing impacted homeowners should receive maximum flexibility in forbearance, waiving late fees, deferring payments, principal reduction, and modifying mortgages to maintain affordability and sustainability.

During the listening sessions, many community bankers urged to resist making any changes to the regional structure of the Federal Home Loan Bank System. However, we would encourage modernizing structural changes to ensure a more coherent and fair system. We recommend modernizing the executive compensation system to reflect fair salaries in the public sector. We believe that the current executive salaries are excessively high compared to the salaries of other executives because the system is publicly subsidized and publicly overseen. The FHLBs executive salaries should be reviewed and changed to reflect comparable public service salaries.

Each FHLB should add at least three public interest independent directors, including those with experience in fair housing, fair lending, housing counseling, and affordable housing. This will help reinforce the public good mission of the FHLBs.

Lastly, we would recommend more inclusiveness of nonbanks and nondepositories as members, but only if there is a substantial increase in the Affordable Housing Program commitment to our recommended 30% or more. There is no shortage of capital available to nonbanks and nondepositiories and the only reason to expand access to the lower cost FHLB financing is if there is a much deeper commitment to the Affordable Housing Program.

In the current housing market, nonbanks provide the majority of loan originations for home loans. The inclusion of nonbanks would align with FHLB’s original goal to encourage homeownership. Recently, the Urban Institute found that FHLBs have had a diminishing role in the mortgage market. For the FHLBs to remain relevant to the needs of consumers, they should be inclusive of nonbanks to keep up with the demand for mortgages. Expanding membership eligibility to nonbanks and nondepositories could further housing finance and community development outcomes for the FHLB system. Expanded membership would also give the FHLB system a greater diversified member base. Under the supervision and prudential regulation of FHFA, an expanded membership base is regulated and overseen for the soundness of the system.

Homeownership is key for individuals and families to develop wealth, especially as inflation and rising interest rates impact low-income communities. We believe these recommendations would strengthen your agency’s mission and operations to help individuals become homeowners.

Thank you for taking the opportunity to submit comments.

Bruce Dorpalen

Cristy Villalobos-Hauser

**National Housing Resource Center**

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2 Tarullo, Daniel K. “How to Limit the Risks to Financial Stability Posed by the Federal Home Loan Bank System.” Brookings Institute. Brookings Institute, July 11, 2022. https://www.brookings.edu/blog/up-front/2022/07/11/how-to-limit-the-risks-to-financial-stability-posed-by-the-federal-home-loan-bank-system/.

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4 Berry, Kate. “Big Banks, Nonbanks Largely Absent from FHFA's Home Loan Bank Inquiry.” American Banker. American Banker, October 11, 2022. https://www.americanbanker.com/news/big-banks-nonbanks-largely-absent-from-fhfas-home-loan-bank-inquiry.

5 Berry, Kate. “Former Fed Gov. Tarullo Sees Systemic Risk in 'Irrelevant' Federal Home Loan Banks.” American Banker. American Banker, July 7, 2022. https://www.americanbanker.com/news/former-fed-gov-tarullo-sees-systemic-risk-in-irrelevant-federal-home-loan-banks.

6 Goodman, Laurie, and Karen Kaul. “Should Nonbank Mortgage Companies Be Permitted to Become Federal Home Loan Bank Members?” Urban Institute Housing Finance Policy Center. Urban Institute, June 2020. https://www.urban.org/sites/default/files/publication/102400/should-nonbank-mortgage-companies-be-permitted-to-become-federal-home-loan-bank-members\_0.pdf.