FHLBank System at 100: Focusing on the Future Roundtable Discussion – Washington, DC- 03-03-2023

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

Chris Bosland: Good afternoon and welcome to today's event, A round table discussion on the products and services offered by the Federal Home Loan Banks and how well they meet the needs of members and the communities they serve. My name's Chris Bosland. I'm FHFA's Chief External Risk Officer and I'm joined today at the table by Craig Wadlington, principal Examiner. This is the 13th roundtable we've had as part of our Federal Home Loan Bank System at 100 initiatives focused on the future. For more information, including the video recording and transcript of past roundtables, as well as information on an upcoming listening session can be found on our website and I encourage you all to visit that to learn more. As usual, we are also hopefully live-streaming today's event to extend our reach to as many potential stakeholders as possible. We're having some technical difficulties, so I hope you're there, but we'll verify that in a little bit. So welcome to our round table participants and to those of you who may join us later. We look forward to the discussion today and the feedback that you give, which will certainly provide us a lot of information as we go forward with the initiative. So let me turn it over to Craig who'll review the rules of engagement.

Craig Wadlington: Thanks Chris. As Chris said, I'm Craig Wadlington and I'll be helping to moderate today's discussion. We expect and hope that we'll have an open and engaging discussion. No recommendation or view should be considered off the table. And we encourage you to offer differing views about some important questions that we will be covering this afternoon. We also want to make this orderly. As such, we will ask that everyone turn their name placard to the side when you would like to respond, so we will know to call on you. We will call on each of you in turn. We ask that everyone engage knowing that we will likely not agree on all points and in a respectful manner. To ensure that everyone has a long has turn to speak and that we cover every discussion topic, if someone is going long, we may inject to keep the conversation going. Second, this review is meant to bring forward the views and reasoned perspectives of Federal Home Loan Bank System stakeholders and highlight areas for further consideration. We ask that you not limit your responses to what would be possible under current conditions. Third, we will have a break roughly halfway through today's event. Finally, for the benefit of those in the audience, the round table participants have

been given a set of prompts that we will reference during the course of this afternoon's discussion. We also have to... Well, I have to read a disclaimer that we need to make you all aware of and will therefore read verbatim. We have organized this round table to obtain your input on the mission of the Federal Home Loan Banks, including input on several specific 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 FHFA decides to engage in a rulemaking on any matters discussed today, this meeting would not take the place of a public comments 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 at 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 a rulemaking. Anything said in this meeting, and that includes reactions, nodding, eyerolling should not be considered as binding on or a final decision by the director of FHFA or FHFA staff. Any questions we may have been focused on understanding your views and do not indicate a policy or legal position. 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. As Chris mentioned, today's round table will be live streamed on our website and video recorded. FHFA may also prepare a transcript to today's session, which would include the names of all speakers and the organizations they represent. 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 the round table. With that, I will turn it back to Chris.

Chris Bosland: Thanks, Craig. Glad you drew this short straw. So, as I mentioned, we have a great panel today. We've got representatives from across the spectrum. We've got current members of the Federal Home Loan Bank system. We've got a non-member housing associate, we have CDFI representatives and in at least... We've got non-member lenders and at least in this town, not sure Ted needs an introduction, but mortgage expert, Ted Tozer. So, we know who you are, but just so that everyone watching knows, I've asked you all to introduce yourselves. Just state any affiliation or familiarity with the Home Loan Banks. We have had some folks who don't really have any involvement with the Home Loan Banks, but it's helpful to give people a sense of where you're coming from. So, let's start with Tim and work our way around.

Tim Tuz: Sure. Tim Tuz, I work for Wintrust Mortgage and Mortgage Division of Wintrust Financial, which is a bank out of Chicago. And we are part of a

member of Federal Home Loan Bank of Chicago. Been a member for many, many years. I've been with Wintrust for 15 years and I run their capital markets division, specifically on the mortgage side.

Buzz Roberts: I'm Buzz Roberts. I head the National Association of Affordable Housing Lenders. We are an alliance of banks, community development financial institutions, including the low-income investment fund, some housing finance agencies, including the Massachusetts Housing Partnership and others focused on driving capital to affordable housing and inclusive neighborhood revitalization.

Todd Kopstein: Hi, my name's Todd Kopstein. I'm the Chief Executive Officer of Cascade Financial. We lend in manufactured housing and service manufactured housing. We are probably the only national lender that does all products, so we do FHAVA, Freddy. We do non-agency channel and non-agency mortgage. So, we do a little bit of everything. We've been in the business since 1999 and I'm not a member of a home loan bank system. We're not a member of a home loan bank system.

Ted Tozer: All right. I'm Ted Tozer, I'm a non-resident fellow at the Urban Institute. Prior to doing that, I was President of Ginnie Mae and then I was also a part of my bank I worked for prior Ginny Mae was a active member with the Federal Bank System as in both the MPP and MPF programs.

Mark Curtiss: Hi, my name is Mark Curtiss. I'm the managing director at the Massachusetts Housing Partnership. We are a non-profit public agency based in Boston, Massachusetts. And we are among other things, a multi-family affordable housing lender. We lend with bank capital as well as through the FHA MAP and FHA risk sharing programs as a housing finance agency. And we are also a Fannie Mae multi-family affordable housing lender and a housing associate of the Federal Home of Bank of Boston.

Daniel Nissenbaum: I'm Daniel Nissenbaum. I'm the Chief Executive Officer of the Low-Income Investment Fund. We're a national CDFI with offices across the country. We are approximately two billion dollars in assets under management including an affiliate. We're S and P rated, and we focus across a range of community development lending assets, primarily in affordable housing as well as in childcare. And our mission is to raise capital from a variety of sources and to increase the flow of capital into underserved communities and primarily to advance racial equity in our work. We are a member of the Federal Home Loan Bank, have been for some time, San Francisco branch. And my career has been in banking over 27 years or so, including stints at banks who were members of the Federal Home Loan Bank and where I had experience with the AHP program. Our use of the Federal Home Loan Bank has been somewhat limited. We have a working capital line of credit, a short-term line. And

we have not as much used it for long term permanent financing. Happy to be here and thank you for including us.

Chris Bosland: Great, thank you. And I'd also like to extend our condolences to Shruti Miyashiro who was going to join us today. Unfortunately, she's had a death in the family, so we send our condolences to her and her family. So just a quick roadmap. This is about member products and services. So, we'd like to start by identifying the products that services the banks currently offer, how members are using them, are they meeting the needs of the district? What are the obstacles? Are there gaps? And then after that we'll dig deeper into your brilliant ideas for ways the home loan banks could expand what they offer to meet the mission and the state of the market today. So, let's start with those of you who are current system members. Obviously on the commercial side, the main offerings of the banks include advances or what the rest of the world knows as loans and as well as mortgage purchase programs. And we'll spend some time talking about each of those. To a lesser extent, they also offer letters of credit. Maybe, I don't know if any of you have some familiarity with that. We could talk about that if so. If not, we'll move on. And then that's on the commercial side of the business. On the grant side, obviously there's the HP program and related optional programs that the banks have set up to meet district needs. So, Tim, let's start with you, since you're a member. Which products and services do you use and for what?

Tim Tuz: So AHP is definitely one of the programs that we have utilized over the years and fairly extensively. Over the past three years, we've funded 255 housing units for various different purposes, new construction, rehabilitation, or acquisition. Also, the Down payment Plus is something that we've utilized an annual basis and use up all of the allocated funds that we have for our charter and have benefited 364 eligible households that were low to moderate income households in our district. In addition to that, you mention letter of credit. Wintrust, specifically being community focused, we do a lot of banking and lending to various different small communities. And as part of that, in order to provide banking services for them or loans, we have to extend the letters of credit that go above and beyond the FDAC insurance in order to provide that lending.

Chris Bosland: And Dan, you. Daniel, you alluded to this in your introduction, but maybe just say a little bit more about how you guys use the bank.

Daniel Nissenbaum: Sure. So again, we use the bank for a working capital line of credit, short term in tenor. And I would say first, just to take a quick step back, we have very much appreciated our relationship with the Federal Home Loan Bank in San Francisco. I'm also a member, our organization is a

member of a working group that includes quite a number of CDFIs that have been engaged with the bank system for some number of years. And so that's been positive in that we've had those conversations and we feel like the bank system is interested in trying to figure out how to do more with CDFIs. Having said that, we have mostly limited our use to this short term, again, this short-term line of credit. Obviously, the rate is favorable. That is collateralized by mortgage-backed securities, in fact over collateralized by mortgage-backed securities. And so, for that purpose, because that's an opportunity cost for us as a CDFI whose mission is to frankly become as efficient and as effective as possible in deploying capital, it's less efficient for us to use a financing mechanism that requires us to take additional types of collateral and over collateralize what we think should be viewed as a fairly safe and sound use. I will also say that during the pandemic when the banks came forward with their emergency programs, which included 0% financing, that was extremely favorable, and we thought excellent in that offering and we took advantage of that. And that helped us serve our mission, and that helped communities that we're working in. We do about 150, 200 million dollars of financing a year. So that was really important. I'll just add one thing and then pass the baton. What we have not done is to use the longer-term advances for some of our longer-term lending. And so CDFIs often face this issue of only being able to borrow on a short term because of limitations from our capital sources. But our obligation in the community and the demands and needs of our borrowers are for longer term financing. And so, the onus has been put and the burden has been put on CDFIs to borrow short and lend long. And that is not necessarily something that we think should be something that's imposed on the CDFIs. So, our whole reason, our whole focus has to been to find access to long-term sources of capital in the markets. And we've done so with an S&P rating accessing the capital markets. I'm not sure who I should be looking at. So, I'm going back and forth. We've done so with the federal financing bank through the treasury program, specifically the bond guarantee program. But when we have looked at the FHLB's offerings on the long-term financing, there are limitations that have made that less effective for us and frankly unpalatable and frankly impractical. Those include, and I'll just touch on them because I'm sure we'll spend more time, the tenor of the offerings of the advances that we could get, the acceptable forms of collateral which do not include typical CDFI assets upon which many of our other lenders except and most notably and most acutely the advanced rates, or I should say the limits on advanced rate AKA the haircut. And then following that, the mark to market process that is applied to our collateral, none of which makes that a practical source for us. I hope I answered your question.

Chris Bosland: Yeah, thanks. And I do want to get back to the question in the longer-term advance, I think you're going to find a few other panelists have some thoughts that may jive with yours. But before we do that, I did want to ask, Mark you guys are not a stockholding member, but you're effectively as a non-member associate, what's been your perspective? Well first, I mean can you explain what a non-member associate is of the Home Loan Bank briefly and then you know what your experience is dealing with the bank?

Mark Curtiss: Sure. So, we are technically a housing associate of the Federal Home Loan Bank of Austin. And as you said, we're not a member, which means that we don't have the same kind of capital purchase requirements that a member has, which is both a good and a bad thing. But we have less access to the full range of FHLB Boston products as a result of not being a member. Our history with the Federal Home Loan Bank goes back many, many years indirectly. And let me talk about that for a minute because I think it's interesting. Our primary source of capital is from Massachusetts Banks, and we have both a state statute that requires when a bank buys a bank in Massachusetts that they need to lend to us a certain percentage of the assets of that acquired bank as a means to address community reinvestment needs in Massachusetts. And we borrow at the cost of funds. And we, from the get-go, 30 years ago, we set up the loan agreements that we use to borrow from the banks based on the assumption that the banks would use the Federal Home Loan Bank of Boston as a source of capital. And so, in terms of the pricing, the term, the use of those funds, our agreements were all and all to this day are structured so that it's easy to borrow from FHLB Boston. And so, one interesting aspect of this experience over all these years has been there have been very few banks, less than a handful, that have actively accessed Federal Home Loan Bank of Boston funds in order to fund their obligations to us. And we used those funds almost exclusively for first mortgages on affordable housing properties across Massachusetts. So, I often wondered what are the impediments from the bank perspective of accessing the Federal Home Loan Bank funds? Why wouldn't... Most of our loans, the vast majority of our loans are long-term fixed rate advances, which are not the easiest kind of loans for banks to make. So why wouldn't banks want to match funds using the access to that long-term credit that FHLB affords? And it's still a little bit of a mystery to me, but I think that some of our discussion today will talk about some of the impediments to that. So those have historically been balanced sheet loans from the banks to us. More recently, we became a housing associate in 2019 and that was... Our motivation for that was an effort by the New England housing finance agencies to put together a program with FHLB Boston, which I hope to

talk about a little bit later. So, we have limited experience directly as housing associate. We've borrowed one long-term advance so far.

Chris Bosland: Thanks. And before we go on, did you want to acknowledge, welcome the... I understand that the people online have... We are back up online, so welcome. I'm sure you're excited to be with us. So, I guess given that that's what the banks are currently offering and obviously there's some wrinkles here and there and we'll talk a little bit more about those. But overall, is this the right mix of products and services for today? Todd, any thoughts on that as somebody who's currently outside the system looking in?

Todd Kopstein: Well, I don't know about all the answers on what other products are missing, but clearly if the home loan banks are trying to stay true to providing financing or secondary market for affordable housing, they're clearly missing single family affordable housing in manufactured housing. Obviously, I'm a little biased, but if somebody's buying a new home under $200,000 today, they're buying a manufactured home, that is affordable housing and there is no means of financing that. The home loan banks, they do not accept it as collateral for advances, which to me seems crazy. There's certainly... What's been described to me is the concern is over risk and how do they manage risk? To me, that's straightforward, the private sector can do it. You have advanced rates; you have a lot of data over many years. Of course, we would be happy to provide it as would other participants in the market and then just comes a matter of putting an appropriate haircut on it. So again, I think they're missing that huge part of the housing sector, which is totally unsubsidized. And one of the issues today for people to find alone is that rates are too high in manufactured housing relative to agency mortgages. There's a huge gap in rate because there is no subsidy, there is no guarantee, and the home loan banks don't accept it.

Chris Bosland: Ted, from your seat, where do you see the mix? Is it meeting the current market or are there things that we're missing?

Ted Tozer: Well, there was a couple things that would kind of bring up. One is the concept that really for the housing purchase pro- or mortgage purchase programs, the MPP and MPM program really work. You've got to give the portfolio managers in the various banks the ability to shift interest rate risk to the capital markets. I mean to have them stick to only have whole loans on their balance sheet, I don't really know any real organization that really can effectively manage the prepayment risk on a mortgage effectively, especially if they're going to offer the member organizations pricing that's close to market, offering them 102, $103 prices, which they need to, to cover borrowers' closing costs. But I mean that was kind of a premiums... They've got to be able to, if they perceive

the interest rate duration of their portfolio is starting to shrink and they're going to lose money on those premiums, They've got to be able to offload that interest rate risk in the capital markets. So, you're really tying their hands to really be able to support their members without their authority to be able to issue mortgage back securities. And by issuing mortgage back securities, you're really not creating more risk because they still have the credit risks that they'd have, whether it's in portfolio or not. All we're talking about is taking that interest rate risk and saying, "Do you want to hold on a balance sheet or move to the capital markets?" And just give them that option. The other thing, I think it's really important for us to really look at around us is that in the last 10, 12 years, we've had a tremendous shift in the single-family housing finance world. We went from a program dominated by banks and insurance companies and with the great housing crisis in 2010, we saw a shift away from that to independent mortgage bankers. To today, over two thirds of all the single-family servicing is done by INBs and probably close to 75% of all new originations are held by INBs. And you were talking about affordable housing, probably closer to 90% because most affordable housing is done [inaudible 00:23:04] program and most of the banks and insurance companies have pulled out of their program. So, the thing is the federal banks then got to find a way to, if they truly believe in supporting single family finance, they've got... It's the elephant in the room. I mean it's... They're the backbone. And the problem is if you consider where the federal banks come from, their mission, in 1932 building loans were, they dominated originations, they dominated servicing, they were [inaudible 00:23:33]. All they did was mortgages. And they also had really unstable funding sources. You look at today, today's INBs are the savings loans, building and loans of 1932. And so, the question we need to look at is, is there any way for the federal banks to support them either from a standpoint of membership which has been a contentious or the concept of allowing, for example, member banks to take their INB loans and pledge them as collateral against advances. Really aggressive terms to encourage them to lend to INBs. Just different things. But the issue is we've got to deal with the elephant in the room because if you're going to have home loan in the name, you got to do those home loans. And if you're talking three quarters, two thirds of the industry, you're not going to support... That doesn't make a whole lot of sense. So those are the two things that kind of I would look at are things we need to deal with. And it's just the fact we've changed so dramatically. People... I think the average person on the street does not realize that the independent mortgage bankers are the backbone of housing finance. And also too, just want to give you an example of why it's so important is the largest reverse mortgage servicer and originator went bankrupt about a month ago. And they

went bankrupt simply for liquidity issues. It was a situation because under the Genuity program, they're required to buy loans out of the Genuity pool once they no longer have advances done about it. And the problem is with the bankruptcy courts backed up, they couldn't get their money from FHA. And then literally because their capital base was so small, their lenders pulled back on their financing and the lender went bankrupt. Not because they were insolvent, they had plenty of capital. The fact was they couldn't borrow any more money. So basically, one third of the lending capacity for senior citizens is gone now because there is no way that INB to get access to funding. So that's an example today of how we have a policy issue of trying to help seniors step into their equity to fund their retirements. Because most of them are not setting money aside for retirement has now been taken out because there's no way to help them. And again, the question is, why couldn't they pledge those FHA loans, they're insured, as advances to get the funding? Because they're fully insured, they're going to get paid. It's a matter of timing. Because sometimes it takes two or three years to get a loan foreclosed on after a person passes away or whatever. And these guys just don't have the balance sheet capacity to hold it on balance for two or three years. So those are a couple things I would bring up.

Chris Bosland: Thanks. There's an interesting idea about pledging the not independent mortgage bank loans as collateral. And of course, we did have a round table on membership issues a couple months ago, and I encourage folks who want to hear more about that to go visit that on the website. But I asked this question there and I realized it's taken us a little bit to the side here, but I'm going to exert my moderator privilege until they revoke it. I asked this question; I didn't get a real answer. And beforehand we were just chatting briefly, and you mentioned something that that's why it's in my mind is unarguably, the stats are what they are about origination today and so forth. But from a policy perspective, is that a good thing, from a stability of the financial housing finance system and what should policy be doing?

Ted Tozer: Well, the issue is you can say, whether it's good or bad. The question I have is I don't know what it's going to take to change it. My point is you can sit back and say, yeah, it's great to get all the big banks, but Wells Fargo's just announced they're winding down their mortgage operation. They're the last big bank that's in the mortgage business. So, the [inaudible 00:27:19] are moving in and I'm also hearing from the big banks that the Office of the Comptroller of the Currency really do not like them servicing mortgages. So, we got the right hand, left hand in Washington. So, the federal banks are going to say, "Well, we want to get the banks back in." But the bank regulators are saying that they really don't want the banks tightening up a lot of capital in MSR. So,

we've got a situation here where we have a very possibly dysfunctional housing policy. And the problem is the American people are losing because when we're pointing fingers here in Washington, we've got a situation of, we've got this group out there that are holding the housing finances together that there's no safety net for. And that's my concern is the American people to being held hostage. And because of the fact there really is no consistent housing policy here in Washington as far as people originating and servicing loans. So again, my point is, like we decided at Ginny Mae, it's like this started happening with Ginny Mae. We had this discussion internally and all of a sudden Chase was leaving. What are you going to do? But our issue is, what can we do? And we had to step up to support it because if we're not going to support it, nobody's going to land. And so, we made the decision back in 2011, 2012, they realize that it is coming, and we'll try to put our guardrails on to try to protect the program, but it's coming. And I think that's what Federal Home Loan Bank's got to do. It's really just, it's here. It's not coming, it's here. So no, how can you put the guardrails on it to make sure that you minimize the risk of the system as much as you can realizing for the next foreseeable probably decades. Because I just don't see the banks coming back in anytime soon.

Chris Bosland: Tim, I apologize, but you made a comment earlier beforehand, so I'm going to call on you just to offer your thoughts here and then we'll get back to the issue at hand. But I think... Should we be doing more collectively to try to get banks back into this business?

Tim Tuz: Yeah, I mean the one comment, I do agree with Todd and the ability to pledge INB loans from a warehouse bank that is offering that I think is a good idea and I agree with that. As far as membership to INBs, I mean I think there's a lot of challenges with that. And I think the question I think that probably should be answered is how do we get banks back into lending? And I think that's a much harder question to answer. It's a much harder thing to solve. The reason why banks sort of in many instances left is because of over-regulation and False Claims Act and many other issues that caused mortgage lending to be viewed very unfair.

Tim Tuz: That caused mortgage lending to be viewed very unfavorably by either regulator. The risk from reputation and public related to the financial crisis really caused a lot of banks to really step back and look at it, and overall try to understand, is this really bringing a benefit to the organization as a whole? And I think, from a risk perspective, I think banks are the ones that have the ability to withstand the headwinds that Ted referred to with this reverse mortgage lender. If the banks would be the ones lending that, they would not have the same challenges on having to wait and be able to hold that on their balance

sheet or get liquidity. And I think part of the issue that exists today, and maybe this is not a very popular opinion amongst mortgage peers, but the reality is that banks have to meet a lot of different CRA goals, banks have to meet a lot of fair lending goals that IMBs for the most part, do not have to, right? There are certain things that the IMBs do have to meet, but they're very small in comparison to what the banks have to do in order to meet those requirements to continue to grow. And I think from a risk perspective and capital requirements that the banks have to hold make banks much stronger to withstand a lot of those headwinds or a lot of those volatility that we've seen in the market, and we've seen over the past couple years, and especially last couple of years. We're seeing significant amount of consolidation happening in IMBs. Nearly daily or weekly we hear about IMBs either closing their doors or consolidating with other larger ones. So, it's one of those things that you have to be able to stand behind those loans, the same behind that risk if you provide that credit enhancement. And if an IMB isn't able to do that in long term, I don't see how that's a feasible business model.

Chris Bosland: All right, thanks. I see Todd has turned his card. So, Todd, you want to jump in, quick?

Todd Kopstein: Yeah, I think if you want to go down the route of allowing some kind of membership to IMBs, you then have to think about, what are the things that would help an IMB? And if you step back and say, what does an IMB do? Most of them have large MSR, they have warehouse, and then there's some others, much smaller subset that do non-QM lending. To me, if you're going to provide financing for non-QM lending, you're taking away the discipline from the private sector warehouses. You're allowing them to take more risk, and that ends up simply pumping up asset prices and presents more risk to the system. MSR financing is a real question, Mark, and it's debatable. That requires an increased level of sophistication for the home loan banks on a risk management perspective. Dramatically different than what they're doing today. And then last is the warehouse. And once again, back to the warehouse, you can debate that too, but once again, I think people take less risk when they don't have that insurance policy of the home loan banks, and there's some health around that. At the same time, obviously we have to provide some stability and balance to the housing market. So that one’s a fair debate as well. But I would say that if you're doing it to finance MSR, you're going to create some real risk out there. It's a very levered asset and it can move very quickly. And then obviously, on the speculative side, on the non-agency side, be very concerned by that too.

Chris Bosland: At the risk of this getting completely off track, but Ted and then and Daniel, and then we'll jump back.

Ted Tozer: Just want to clarify. The biggest challenge that IMBs have, and what the federal bank funding is for, is really for funding that really Todd didn't mention. The biggest challenge they run into is, when they create a [inaudible 00:34:12] security, they're the issuer of that security, and they have to make the advancement on the delinquent payments. So basically, what it is, they need to get funding for their interest receivable. It's not the MSR itself, it's interest receivable on the loans, because the issue they're running into is, they're going to make its advances that'll eventually be paid back by [inaudible 00:34:31] and VA. If the loan goes a foreclosure, they'll get paid back. But they've got this liquidity issue where all of a sudden, and right now we're not having any problems because liquid are down and so forth. But for any kind of major recession, that liquidity need to be able to make those advances, that's really the key. So, you could say it's tied to MSR, [inaudible 00:34:50] it's kind of an extraneous... It's part of the issue that the fact that when they're doing a [inaudible 00:34:56] security, they're basically creating MBS in that, they're the issue on, and they're responsible for all payments of bond holders, whether the underlying mortgage makes payments or not, and they just need some way to get this filler to make sure that they've got some liquidity to make those payments until they can get reimbursed, either by the BARB concurrent, or through the loss mitigation, whatever the process may be. But again, it's kind of like the reverse mortgage person. They're stuck with this advance they got to make, because they're got to make the bond holders whole, and they're holding that asset in their balance sheet and they'd be able to fund that asset they're creating, which is basically interest receivable. So just want to clarify, because the MSRs, I think the only any question is really a good financing vehicle in the private MSRs, where the problem is dealing with these advances is the big challenge they're running into.

Todd Kopstein: Daniel.

Daniel Nissenbaum: Thank you, Chris. I'm not going to talk about any of that, only some of which I understood. But I want the opportunity to just make a point and see if you want to entertain it or come back to it and maybe then ask for some help from the senator from Nall. But I want to make two points. One around banks and CRA, and the other about the left-hand, right-hand problem, because I think that's really resonant here. So, the quick point I want to make is that banks do not lend long, they just don't. For our work, mostly affordable housing, other educational facilities, they use CDFIs to a great extent as partners to cover geography, to cover product, to cover other areas. And I think it should just be recognized right now that CRA is under review, as everybody knows, for the short time period of 10 or 11 years. And while that is rushing to a closure, and it feels like that, it's going in the wrong direction for CDFIs. And I think to

build on Ted's point, there's a left-hand, right-hand problem here. Because the way that reg is shifting, community development will be de-emphasized. And in fact, a related point is that the investment test, upon which we rely for low-income housing tax credits or new markets tax credits to finance the projects that no one else is able to finance without that kind of a subsidy, that investment test is potentially completely subordinated, which by the way, not only gets to those investments but gets to grant that we rely on from banks to do our work. And so, we are facing this situation where there will be just a plain old diminution in the level of support for our work, and frankly, there is also no incentive for a bank to move up from a satisfactory rating to an outstanding rating. And so, those are challenges and real headwinds for us at this point. Again, also given that CDFIs and our whole industry is targeted to racial equity work, and so we see that stepping back. Banks now are also obligated to extend their assessment areas. So, where you had a bank with physical branches in 2, 3, 4, 5, 10 places, if they lend in other areas, they may now have 30 assessment areas for which they have no physical presence, and for whom we are great partners. So, at a time when the need is higher overall and disparities are only increasing, we are concerned about a real lack of support there, and this is a wonderful opportunity, we think, for a partner like the Federal Home Loan Banks to step up and step in a little bit more with support there. Because again, we're getting that support today from the Federal financing bank, we're getting that support on better terms. And I'll stop there. Thank you for allowing me to...

Chris Bosland: No, thank you. And thank you for getting us back on track because the long-term lending thing is where I wanted to go next. Buzz, I don't know whether you had a point on that. The only requirement in the system currently is, long-term advances can only be used for housing finance and other mission related purposes, but those are defined as five years or longer. So, there's one question about, is that the right term? It's an unusual term. I think most other things define long term as something shorter than that for accounting purposes and otherwise. But then it does beg the question, as several of you have alluded to, why isn't there more longer-term lending from the home loan bank? So, Buzz, you had your card turned, so maybe you want to address something Daniel said or any of that?

Buzz Roberts: I'll try to blend those two points together. It’s true, it's ironic, I think, that over the last several years, CDFIs have grown in number and also in depth. They've been borrowing billions from banks, and I'm not aware of any CDFI that has failed to repay any lender. The needs in communities and for affordable housing are certainly greater than ever before, and I think more broadly recognized. And yet at the same time,

the financial resources that fit what CDFIs need and what their communities need are getting harder and harder to get. And that's ironic, and it's not just unfortunate, but it's really hurting the people in communities that the system's designed to serve. Long-term financing is critical for affordable housing as well as other community development needs. That's because those borrowers are less able to withstand interest rate shocks that come with short term or balloon financing. And in order to keep rents low on rental housing or to be able to meet a commercial real estate or community facilities market where those borrowers are unable to withstand a big interest rate shock, means that long-term fixed rate money is critical to stability and actually adds to the safety and soundness of the entire financial system, as well as to the institutions like CDFIs, that are inter mediating it, and to the communities and people that are really the end beneficiaries of this. So that's critically important, but the Federal Homeland Bank system does not appear to be set up to meet those needs. In part because of the haircuts and the, as Mark mentioned, the inability to have matched financing. And I really do think that the federal home loan banks are adept at managing capital markets interactions. And that can be a critical fulcrum in providing liquidity to this affordable housing and community development system, that, as Dan said, the banks are really not set up to do. They can't do what Dan's organization can't do at scale, which is to borrow short and lend long. It's just too risky. So, this is a problem that is really separate and apart from credit risk, and something that the system should be able to figure out. Mark, you had your card turned.

Mark Curtiss: Yeah, so I'm really excited about this part of the conversation because I feel like the Federal Home Loan Bank system has extraordinary access to the kind of long-term fixed rate capital that CDFIs and housing associates and banks that are actively involved in affordable housing finance need to deliver that mission to help provide financing for low- and moderate-income residents. And it's surprising to me how untapped that incredible resource is. I looked earlier this week at the combined financial report that FH of A publishes on the federal home of bank system as a whole. And what I found was that, in the most recent reporting period, if you look at the percentage of the total fixed rate advances that are outstanding, less than 5% are with terms of, or remaining maturities, of five to 15 years. And only 0.3% of those fixed rate advances are for maturities longer than 15 years. And we all know in the community development field, in the affordable housing finance field, that terms of 15, 20 years or longer are what is really necessary to stabilize affordable housing over the long run. So, we're just missing this incredible opportunity to bring that access to capital to bear and to make a stronger impact. So, I'm excited about this conversation because

I feel like there is a lot that we can do to make that capital more available to CDFI's mission-based lenders and banks that really need this.

Chris Bosland: So, what do you think the biggest impediments? If there's demand for it, why aren't we seeing it? What's the biggest obstacles that you, see?

Mark Curtiss: Yeah, so a number of us are smiling because I think that you've heard this before. Certainly, one of the biggest challenges is the federal home loan banks and FHFA's current approach to collateral valuation, and what we call haircuts.

Chris Bosland: Once or twice we've heard about that.

Mark Curtiss: Yeah. Yeah, I'm sure.

Chris Bosland: And we have no hair left.

Mark Curtiss: And if this is a good time, maybe I can talk for a couple minutes about the New England Housing Program.

Chris Bosland: Sure. A couple minutes. Well not let's just keep it, not 15.

Mark Curtiss: Yeah, yeah, no. Very briefly and happy to talk about this a little bit more if it's relevant later in the discussion. In 2019, 2020 and 2021, we worked with Federal Home Loan Bank of Boston and later FHFA on a program that would allow six New England housing finance agencies to finance affordable housing, long-term, fixed rate advances from the Federal Home Loan Bank. And we were eventually stymied in that attempt to create a workable program, because even though we could deliver a hundred percent FHA insured collateral to the bank, that collateral ended up being discounted by 18% right off the top, and then with a risk of mark to market exposure, potentially doubling that haircut to more than 30 or 35%. And that level of capital requirement is absolutely inconsistent with the business plan. The way that CDFIs and housing finance agencies are capitalized. We're unable to close a gap that's that significant. And that's on the least risky collateral for multifamily housing that you can imagine. So if you're starting from a point where the simplest collateral that could be pledged, relating to affordable housing, can't be done, then how are we going to do just regular old long-term fixed rate, affordable housing loans or community development loans? So, I think that that's the starting point, is collateral evaluation and haircuts. And the risk avoidance within the system has made that too difficult.

Chris Bosland: Thanks. Ted, you've been very patient.

Ted Tozer: The only thing I was just going to mention is that, again, talking about the issue of the advancing, to me, if you really want banks to potentially

use advancing for long-term mortgages, you've got to have a call feature embedded in the advance that matches the call feature the borrower's got. Because until you do that, your advances are not going to help somebody doing a third-year fix, because you're in a situation where if a borrower this month decides you have to pay off the mortgage, make a big lump sum principle payment, they've got to be able to pass that through to pay down their advance. If not, they got a mismatch. And I think we see that more on the single-family side versus multi-family because I think multi-family has more limitations in when can pay things down than on the single-family side. Because that's what I hear from banks, is they don't have any really effective funding mechanism that matches the call from the feature that the borrower has embedded in their note mortgage. They don't have that embedded in any of their financing. So, the question we ask is, we have to do long term financing of mortgages? I think that's the reason why they do it, they can't find an effective financing vehicle.

Chris Bosland: That's helping. And judging from an informal poll of head nodding from your fellow panelists, you may have carried a majority on that one. But just again with respect to the... That's a significant point, no question, match funding. Is this, Dan, I think in your written comments we had something along these lines, but is this an area where some sort of written goals or targets is appropriate, long-term lending?

Daniel Nissenbaum: I think so, and I think that would really just create the impetus. So, I think top line, we do think, from a duty to serve perspective, similar to other government agencies, and that's I think the perspective here. We should take a step back as we're doing and look across the whole ecosystem of financing and the ecosystem of, how we're being supported by government sponsored entities or the government in various ways and just make sure this is similar, right? At the same level. And so, I do think that goals are one thing and reality is another. But at least it creates a more concrete opportunity for the banks to come together with CDFIs or other and do a couple things. One, literally work a little bit harder on products. Two, create more transparency about what the institution is doing, what the level of financing is. And frankly, down another level, another issue that we've all struggled with a little bit is a lack of certainty about how the treatment would be for a different type of financing. There's an opaqueness. So, for instance, we borrow on the line that I've described, and we pledge securities with ACCUSA. We have no idea when we pick a security, what that will be valued at, and we just sort of send that security in and we get an answer back, and we just don't know. And so, it would be very helpful, so I'm correlating now goals with some sub goals that would just force a little bit more transparency. So that's one of the other reasons why we think

the goals are important. But primarily, it just underscores the duty to serve.

Chris Bosland: All right. Anyone else have any... Buzz, sorry.

Buzz Roberts: Another element here is that the various federal home loan banks have very different standards. And so, if you are a CDFI located in a given place, you have to work with that one federal home loan bank. You don't have the ability to work with a bank that may have terms that fit your needs better. So, we've got, really such a wide variety of products and standards among the banks, that it's very hard to build a national system on this. And CDFIs or any other counterparty want to know that their partners are going to be reliable and predictable, and that's been hard.

Chris Bosland: And that's a tension we've heard, comes up on both sides. So, on the one hand, the sort of local flexibility of the individual banks and the sort of regional, your district banks sets its own... Versus the more national standards, there's always a balance there. I don't know if anyone has any other thoughts about that as they want to weigh in on. Go ahead, Mark.

Mark Curtiss: I just very briefly, it makes sense to me that the local Federal Home Loan Banks would be able to set their own credit collateral evaluation policies. But within a framework that is coordinated, there is some collateral. Treasuries, Fannie Mae, Freddy, MBS, FHA insured paper, that has the same risk no matter where you are in the country. And yet, if you look at the way that the different Federal Home Loan Banks value that risk, it is all over the place. So that to me doesn't make any sense. Certainly, the difference between a commercial real estate loan in Boise could be different than it is in Boston or San Francisco, and it may make sense for that bank to look at that valuation separately. But for a national product that has the same risk profile everywhere, it just doesn't make any sense.

Chris Bosland: Tim?

Tim Tuz: Yeah, I echoed that sentiment. I think I mentioned this earlier, but you know have federal home loan banks. It's a home loan bank that has no home loan product, and it's one of those things that, you can't have certain members in the country have access to a product and then certain members just because of where they're geographically located, have no access to an MPF product. It just doesn't make any sense. Win trust is structured very uniquely in the sense that, unlike most banks, we have 15 charter banks that roll up to one financial holding company. And I think us more than most understand the benefits that come with being separate. But even us, we have a lot of things that we have

centralized that, because of fair lending, because of many other things, we have to be equal in the product offerings that we offer to each of our clients regardless of which bank they happen to bank with. And from that standpoint, I think Federal Home Loan Bank really should be no different. That yes, there is benefits for knowing your member banks specific to that area, knowing the area that you lend in, knowing the type of needs in maybe that area that are unique in nature. But there has to be... Whether it's a mortgage product or advanced product or other things that are standardized, that are consistent, that you can rely on, and that aren't significantly different or don't even exist in certain parts of the country just because they don't need it. Because they meet their goals without having to deal with the complexities of having that product.

Chris Bosland: Thanks. Dan, I can't tell, you're half in and half out on your card. A whole point or a half point?

Daniel Nissenbaum: I'm all in on this issue. So very quickly, Chris, thank you. Back to your original question, because I think we are all looking to figure out how to be affirmative here, how to move forward, how to find solutions. So, point one, I do think the banks have reached back out to us in these conversations and said, "Look, we understand banks and we understand what would happen in a downside scenario. We're not sure we fully understand how CDFIs are resolved, right? Because we do not have a prudential regulator." And so, I think there's a real opportunity for us to work together on that. The fact is not many have, and that is telling for a bunch of reasons. So, I think that's one area of opportunity. I do think another is around credit enhancement, and I think there's a broader point here. It gets a little bit to what Ted was saying about just accessing the broader capital markets. And so if the federal home loan bank system is not going to be that market for us? Can they help us access other markets in the same way that our S and P rating allowed Lyft to go to the market through an investment bank and raise a hundred million dollars? Which by the way, for which by the way, there was 1 billion dollars of demand for that security, on terms that are pretty fantastic, frankly. So, I do think that gets to the last point, which is to calibrate and look across either other funders of CDFIs, or enhancers or supporters, S and P, the CRA banks, and look at CDFI performance and look at those track records. And I think there's a lot to say there. But is there some way, I'll stop here, for the Federal Home Loan Bank to consider a credit enhancement vehicle or pool? Is it using some of AHP grant funding? Is it increasing their overall contribution from 10% to something more, to allow us to access the broader market with some more limited participation from the Federal Home Loan Bank? And I think that would be very powerful. We'll all want this buy to be as large as possible. That

was in fact the intention of the bond guarantee program, which turned out to be not a bond and not a guarantee but could have been and could have created that opportunity for us. So, I just think there are interesting parallels there and great opportunity.

Chris Bosland: Yeah, thanks. I was actually going to ask you specifically about that because you had noted that in your written comments. And I think there's definitely things to explore there because then that and can be applied in a number of different ways. But you didn't have anything specific in mind in terms of structure or anything at this point. You're more just, there's got to be a way given the funds that are there.

Daniel Nissenbaum: Right. If I follow your question, Chris, in terms of other examples, bond guarantee or other, those are long-term permanent financing sources on terms that are favorable and work for the CDFIs. And the bond guarantee program, I think right now, I'm probably off, may be approaching a billion and a half in total assets, that that program has financed, with I think literally close to zero performance issues, losses, if at all.

Chris Bosland: All right, thanks.

Buzz Roberts: I would just add that the FHA insurance program that Mark referenced earlier has had virtually no losses. Every year gets reviewed under the credit reform act as generating a substantial negative credit subsidy inuring to the benefit of FHA, these are not necessarily risky assets. Sometimes folks look at CDFIs and they say, wow, you work in these tough communities...

Buzz Roberts: CDFIs and they say, wow, you work in these tough communities, you work with these poorly capitalized borrowers. You're serving low-income people. You must be hemorrhaging. And the reality is quite the opposite. So, there ought to be a way to look at this as the way the CDFI world and the CRA world do, which is about risk management, not risk elimination. And because if you really have a zero-risk policy that includes all the risks you don't know about and can't identify. And that is a recipe for paralysis.

Chris Bosland: Now. Thanks. And that is another recurring theme for these round tables and point out often that this is not your grandfather's mortgage market is not your grandfather's retained earnings in the home loan banks and so forth. So, Todd, you had your card turned, but you had your thunder taken or you

Todd Kopstein: No, I didn't want to take us too far off-topic. People were talking about standardization of advanced rates, standardization of policies, being able to access the products nationally. I think it begs the question, if a

lot of the home loan bank activity should be centralized and elimination of redundancies. So if you had one group, not just for an efficiency perspective or economies of a scale perspective, but also for the transmission of risk policy or regulatory policy, if you want to do one certain product, that way you can make sure that it's done well and easily just managing from a regulator, one institution or one group that's a shared service agreement with all the respective banks. So, to me, if you want to have a more sophisticated risk management policy, more sophisticated investment management policy, whether it's advanced rates or admission of members, you could standardize that by having one more well capitalized group that does that. Then they are distributed across the banks in at the bank level. You could have obviously other functions reach out to the community more or less have those same relationships and understand their members a little bit better. But to me in today's world, having all the redundant functions is crazy. And I think would eliminate a lot of these concerns that we have, that certain CDFIs or members around the country have different products.

Chris Bosland: Thanks. And I just was reminding myself, and I'll remind everyone of the eye rolling, nodding, that should not be binding on the agency in case I reacted one way or the other. I don't want to, anyone else want to weigh in on this?

Mark Curtiss: I've been noting every eye roll, so I'm in trouble.

Chris Bosland: Anyone else want to weigh in where Todd has boldly gone raising the de facto, if not dejure consolidation?

Buzz Roberts: I think a lot of these challenges have been successfully addressed in other contexts. As a matter of routine business, you often will have a lead underwriter with other underwriters and somehow, they're able to figure out a common basis for underwriting. And it doesn't mean that you only have a single underwriter. So, you could have in the analogy multiple federal home loan banks active in an area. But to have one or two really taking the lead and helping to rationalize some policies that other than everybody else can play by as well. And similarly in terms of managing interest rate risk in the capital markets. I mean that's what the housing finance system has been doing apart from the federal home loan bank system for decades.

Chris Bosland: Ted?

Ted Tozer: Yeah, I think one of the best examples I think that's out there as far as this idea of trying to, marshal, the resources for the system in one place is MPF because MPF basically put on Chicago and it worked out, again, from my perspective, it worked out well because when I got to Gen

May, I'd seen the whole concept that the portfolio managers couldn't lay off interstate risk. So, of the things they worked on was trying to get the federal banks to be a general issuer so they could lay off the interest rate risk. Well, it was so much easier dealing with one bank was trying to deal with 12 of them and having Chicago be the bank was kind the lead bank in the capital market. So, I think all the way through you can kind of specialize. So that way you've got all the processes, all you get the economies to scale too. The idea that all of a sudden, you're going to try to do something with a third party. Bringing the whole weight to the system to one transaction versus 12 small ones. You're getting a lot better execution. So just one example that I think and the MPF is a good example that works by already kind of sharing the same resource.

Chris Bosland: Thanks. No, I will point out there's only 11 now, so it's a lot easier.

Ted Tozer: Well that that's true. Consolidation doesn't make life simpler. That's true.

Chris Bosland: Okay, Mark.

Mark Curtiss: So, I have a mixed view on this because on the one hand I absolutely see the value and the virtue of having a single set of requirements, policies, approaches, programs, products across the system that's available to everyone. But I do also see the value of some autonomy with the individual federal home loan banks. I do think that there are many different markets in this country and that those markets have different needs. I think that's one of the things that Fannie and Freddie actually struggle with a little bit with a national platform is that it's harder for them to tinker with their products to make it work in one market or another market when they have to serve the whole country as one market. But I think the way that the system is designed, you can have the best of both worlds there. Each of the federal home loan banks brings strengths and creativity to the table. I think there is such an opportunity to share best practices, to explore, and innovate with programs that start at one bank and then with successful performance can be brought to other federal home loan banks. You don't want to deny access to capital or to products, but you do want to give the banks the flexibility and the innovation to do just that, to innovate, to experiment, to find what works, to take that experience and then to be able to apply it to the other banks.

Daniel Nissenbaum: Just want to make two quick points. Thank you. One is I think speaking for Lift, but I think also speaking for other CDFIs, I don't think we have a strong stake in the ground on consolidation. And I want to make sure that's clear. We have said, very clearly, we'd love to be able to work with different banks because that's where we may in fact be doing business. And I also think the point is really just about flexibility and

different mapping. And so, I may regret saying this, I'm not sure why, but if we're continuing to analogize, it's just interesting to think about the CRA banks, banks who are motivated by CRA who again choose to invest in CDFIs. They're not obligated to invest in CDFIs and so they do. But in many parts of their CRA obligations, one bank will originate, and another bank will purchase. And you do have different banks across the whole spectrum who have different levels of expertise. Wouldn't it be remarkable in some way if there was a CDFI secondary market within the Federal Home Loan Bank System that may differ from the CDFI window that Todd has proposed, which I like too, by the way. So, I that's actually I don't mean to be facetious. I think that would be interesting. And it's just another way to say have different banks, maybe some would have stronger presence here, stronger expertise in some ways, and that financing could be shared across the system. That's behind the curtain for us. As long as we have the access, as long as we have the products that we need, then I think where that capital goes and how that's shared could be an entirely different conversation.

Chris Bosland: Okay, thanks. We're getting close to a break, but in the interest of, I think if we break now, we'll may run over on later. I'd rather run over a little later now and break on time. But I want to shift quickly to the mortgage purchase programs a little bit more, do a little bit deeper dive there. Tim, I know you guys are big users of this. From a member's perspective, what are the advantages of this program vis a vis say Fannie or Freddie, selling to Fannie or Freddie? How do you decide? Because I think you said you do business with both the GSEs, the enterprises and the home loan banks. How do you decide which loans go where and why?

Tim Tuz: Yeah, I mean it's certainly evolved over the years. It hasn't always been the same, but over the past five, six years we've sold over three billion to Federal Home Loan Bank of Chicago. So, it's been through various market cycles. It's been a very beneficial program to Wintrust. I think there's a lot of different types of loans that normally get sold to Federal Home Loan Bank, but at the end of the day, a lot of it boils down to capital implications. So, the way that, and we currently engage in the traditional program, so for us, really the capital implications are pretty significant depending on the types of loans that we sell. So, we have to be very careful about running through that credit enhancement estimator, which by the way, when we first start started selling, we didn't even know what that is going to end up being. It was sort of trial and error and try to educate ourselves. Now there's some additional tools that Federal Home Loan Bank has provided, which are very beneficial to try to make that decision further upfront. I think we've sort of educated ourselves and learned in trying to figure out exactly what

those benefits are. What types of loans could benefit from being sold to Federal Home Loan Bank? In general, market conditions dictate a lot of that volume, but it tends to be lower credit risk loans. So, it tends to be the loans that generally have a lower credit enhancement rating from S and P. Which means that it's the lower LTVs, the loans that are implied by S and P to perform better, but still may have a somewhat significant loan level price adjuster from the other GSCs. One example of that is cash out loans. Cash out loans are pretty significantly dinged by Fannie Mae and Freddie Mac, however they're dinged not nearly as much from a credit enhancement perspective. So there there's certain other pockets, condos being another example that you can benefit because at hose LTVs of 75 to 85, there are going to be situations where Fannie and Freddie are going to hit you across the board. Whereas the credit enhancement is negligible, especially with a borrower that has significant compensating factors, high FICO score, low DTI, and other factors that mitigate a lot of that risk. So again, it's there. There's a lot of complexity in it, but I think also it really provides a lot of liquidity for a lot of the smaller bank, especially in rural areas that may not have access or the volume to have access to Fannie Mae and Freddie Mac, right? Instead of engaging an aggregator, which by the way there's a lot less of in today's environment, they can access that liquidity and still provide a very competitive product to their customer base and have a place to deliver that.

Buzz Roberts: So, Tim, if I'm hearing you correctly, it's the lower risk loans that are best suited to that program. But really that's more matter of price I think, than access to credit for the borrower is that?

Tim Tuz: So, if it was a matter of price, we would send all the ones that have the highest LLPAs to Federal Home Loan Bank, right? Because you're talking about getting the biggest benefit now. But you have to consider all of the other capital implications. So, for example, if your credit enhancement comes in at 20, 25 percent, you're talking about with the risk weighting holding nearly the same amount of capital against that entire loan. Which means that you might as well hold in your portfolio. So, it's one of those things that you really have to find a pocket that works because you can't just look at where am I going to get the biggest benefit from a low-level price adjustment perspective. You have to figure out where are you going to get the best bang for your buck so to speak.

Buzz Roberts: But for a home buyer, it sounds like they may get a better deal on a loan because of this. But there probably aren't a lot of home buyers who wouldn't otherwise be able to get a loan at all that are now able to get a loan because of this.

Tim Tuz: No, I think there, because FHLBs in many cases still follow Fannie Mae and Freddie Mac, DU and LP requirements from a credit perspective, what gets approved or where gets declined I think is for the most part ignored. Where I think it's going to be a bigger impact is for the bank itself. Sort of, what ultimately is going to end up costing them. Because Federal Home Loan Bank doesn't have low level price adjusters like Fannie and Freddy does, but they have pretty significant capital implications by originating one loan versus another. So, it's really up to that bank to figure out what is that really going to cost them an actual capital and figure out what is their internal low level price adjuster that they would have to charge that borrower for that cost of capital.

Chris Bosland: Ted?

Ted Tozer: It's interesting Buzz bringing up the question of credit access. Credit access I think really comes down to the point where it's not the conventional side of MPF, it's the government side. And if the foot on banks could work with the members to enable them to do more FHA and VA lending, I think it would be great from the standpoint, for example, when I talked when I was junior, maybe we got them approved, the general issuers, but the volume was not that great. And what I got from a lot of the members were to hire FHA DE underwriters or via automatic lenders. If you're only going to do a handful of loans, it doesn't make any sense. So, the question is, could the federal loan bank system somehow create a scenario working with FHA where they could actually offer the underwriting services to the members so they could have the FHA loan in their books and sell to sell it, but all the bureaucracy of dealing with FHA and get the loan approved and insured, they could offer that service to their members. So, if I'm going to do 20, 30 loans a year, it works because they're paying some sort of loan fee versus having to have the infrastructure themself to be able to do it and get some [inaudible 01:16:06] back to this cooperative type of function for both ever teams via business. Because I think both you got a great point because you look at the FICO breakouts of the average FHA loan versus average Fannie and Freddie loan, there's like a 30, 40-point difference between those. So, if you really want the members to do affordable lending, we got to find ways to them feel comfortable doing FHA and VA lending and servicing. And I think the federal banks could do that with their position now that they're genuine issuers. And now the question is what can they do to support them to do more of those loans?

Tim Tuz: Yeah's sort of creating a cash window.

Ted Tozer: Exactly. Well, it's not so much a cash window because it's not so much the idea of being able to deliver the loan, it's more of dealing with all

the bureaucracy at FHA and VA that they can run the interference for them. So, it's not so much, it's almost like a cash loan for the documentation. It's not the cash loan for the loan sale because the member banks are just telling me to bring staff on board that no idiosyncrasy of FHA lender. It doesn't make any sense because they're not doing enough loans. And then same thing with the rural areas you get with RHS to do with The Department of Agriculture, Rural Health Lending. They're not doing enough to invest in the staff and the infrastructure. So, if they could get there from the federal loan banks, we may be able to make some really inroads in the rural areas, underserved markets that these community bankers are in. But they just don't have the staff. I was talking to a bank one time, and they tried to get our underwriters approved by the FHA. And FHA is all about process, not about outcome. My underwriters know credit and they'll get the underwriter a good loan, but the problem is they're not following the FHA checklist. Because they, as a portfolio lender are used to outcome loans that are going to perform well. FHA doesn't look at the fact that you fill out the proper form and did you get the stuff right and it drives generators crazy. So, they gave up. So that was just a idea of a way of trying to help break into some of underserved markets with some of the infrastructures already there through the MPF program.

Buzz Roberts: It'd be a great way to get CDFIs into that lending too.

Chris Bosland: Mark, I want to get you in here, but what about Buzz's question? I mean, are these loans that wouldn't be made otherwise? Is it expanding the number the loans getting made or is it just loans that would otherwise be made in the, because they're at a high level paying the members to manage the credit risk that they take? They keep the good, low credit risk ones and sell to Fannie and Fred. So, if it's expanding the pie, that's a good. If it's sort of, now granted, I want to acknowledge the programs are relatively small compared to certainly Fannie or Freddie. But I'm just, is it a sort of an adverse selection thing here or is it actually?

Ted Tozer: It's more the pie because like I said, the average FHA loan tends to have about a 40, 50 base point lower credit because you're in a situation where you got a government guaranteed loan. So, whether you're selling it to Fannie, Freddie or whatever, it's a higher quality from a counterpart because you got a government guarantee on it. FHA guidelines or DTIs tend to be about five to 10 points higher for an FHA loan. So, FHA specifically, yeah, I think it's loans that are probably not going to get made if they're only underwriting to Fannie, Freddie guidelines because it's a situation where FHA was designed to try to help first time home buyers, designed for underserved markets. And that's not leveraged, that government program. You are leaving some

people on the sidelines and especially when it comes also to VA. I mean veterans, a veteran may get a loan somewhere else, but they're getting short-changed. The VA loan benefit is probably the biggest benefit they get probably besides healthcare. And it put them into a conventional loan instead of putting a VA loan. That's such a disservice to the veteran. So again, having these community bankers, putting the veterans to VA loans, that's one that's actually dollars and cents, but that could be caught. That could be saving the veteran hundreds if not thousands of dollars a year in payments by going to VA versus going Fannie or Freddie. So, I think leveraging the government programs is huge. I think to help a lot of these underserved markets.

Mark Curtiss: So, this is related to the issue of these more mission-based mortgages. We actually operate our first-time home buyer program. We've done it for over 30 years. It is focused on low- and modern-income home buyers, first time home buyers. And as a result of that and also just the way that we market the program over two thirds of the loans that we've made are to households of color. So, it's a remarkably impactful program. And our problem with the program is that we operate it in conjunction with about four dozen banks in Massachusetts. So, they originate and service those loans. We don't have an outlet for those mortgages and the program is too large for our banks to be able to sustain the pace of volume that we need over time, but it's way too small on the order of hundreds to a thousand loans a year, not tens of thousands or hundreds of thousands of loans a year. And so, for Fannie, for Freddie, it just isn't worth it for them. And we think that it's a great example of a product where a capital source in the middle who's got a more regional or local orientation. And that could be a bank that's working with the federal home of Bank of Boston or one of the other federal home loan banks to help to provide that capital. I just think that that's another area where supporting the innovation that's happening at the local level. We have 30 years of lost data. Our loan performance matches or exceeds is better than safer than prime mortgages. So, it's an extraordinary history, but we can't take advantage of that because we haven't figured out a way to provide long-term capital to and that liquidity that the banks need to be able to keep doing it.

Chris Bosland: Tim?

Tim Tuz: Yeah, I think just to kind of build in on what Todd said, I mean I think the government point is pretty significant. One because I think that's where it touches on loans that get made versus the doesn't get made. So having access to government program that you otherwise wouldn't have access to is pretty significant. So, having the ability to have that pool of underwriters or somehow have that credit decision be passed on FHLB side, similar to how maybe an aggregator does for non-

delegator, right? Somebody else makes that credit decision. Would be very significant. But I think to what Buzz said it did, it sort of does create a cash window because in many cases you can't have enough to create a pool of loans yourself. You may just have one or two or three that you originate in a month, but that's already something that you otherwise wouldn't have originated or wouldn't be able to extend that credit. And the other question, are these loans really wouldn't otherwise be made even on a conventional basis. Maybe they would've been made but they're getting a better deal than they would've otherwise. So, the borrower's is ultimately getting a better rate on that same exact loan versus what they would've gotten if we were just offering straight GC products without having access to FHLBC. But I think one of the biggest misses, and maybe this is going to go kind of onto the next question, but I think one of the biggest misses is that there's still a lack of servicing outlet for that government loan, right? To service a government loan still comes with a pretty significant cost and a pretty significant expertise that is further than even a conventional loan. And I think without having significant more options and liquidity to service that government loan, I think that's another impediment I think for some of these smaller banks to originate more of that product. I think currently, as far as I know, there's only one or possibly two servicers that offer that. And because of that, the value of the servicing they're passing along is significantly lower than what the market value is. And I think having some of that servicing be more uniform across the products and be more uniform versus best practice that the market normally sees. I think will hopefully bring more servicers into the mix and will want to actually service loans for FHLBC and will actually improve that value in the long run, but also provide a better priced option for those banks, those smaller banks, and rural communities to offer those products. Because currently if they are going to face against somebody else who's doing on a national scale, ultimately, they're not going to win that loan just because somebody's paying 20, 30 cents and a dollar for the MSR versus what it's really worth.

Chris Bosland: Daniel

Daniel Nissenbaum: Away from this conversation about the home products, home loan products, but an opportunity to say more generally or respond to your point about adverse selection. In terms of CDFIs, it's interesting. We live in a balance sheet entity level financing world. We are not animals who do a lot of assets that go into different pots of securitization. So, I think point one, in our financing, having said that, it's a risk share model in some ways and I think that should not be missed. Meaning when CRA banks finance us, we have an advanced rate that requires us to fund some part of that loan. And then separately, again, in the bond

guarantee program, there's a risk sharing feature. So, we're very sensitive. I just wanted to take that moment to say, say we are very sensitive about the quality of loans that CDFIs originate, and that is because we don't have the opportunity to originate and securitize into different places where one part of the world doesn't know what the other part of the world is doing for us. We are again financed at identity level. We are reviewed by S and P, we are reviewed by Treasury, which certifies us and continues to fund us with equity grants. So, if there's any doubt or concern about CDFIs and the quality of our paper, I just want to take that moment to reinforce that and say we definitely have skin in the game on the assets that we're creating and that should be valued.

Mark Curtiss: Great.

Chris Bosland: All right. Well, I think now might be a good time to take a break. We'll come back and discuss central expansions or other products for the next a hundred years, whether that's chattel or otherwise. But we'll do that after the break. We'll take a 20-minute break. So, I guess that puts us back at 3:02. I can do that math. Thank you. All right, thanks all.

Craig Wadlington: Welcome back everyone. Thank you. We were talking before we took the break about aim in products and I think as Chris alluded to, maybe we can talk about maybe some new products or kind of enhancements to products for the next, as he said, a hundred years. So, let's start, Tim, in your written comments, you had advocated for an AMA program to be expanded with the development of an ARM product. Maybe you can kind of talk a little bit about that and also you had mentioned something about the HP Down Payment Program.

Tim Tuz: Yeah, I think there's a couple of products that I think may be beneficial from first, from affordable standpoint. If there was a way to couple and sort of bundle the DPP Program, which I think is very, very effective in this instance, does provide loans to borrowers that otherwise wouldn't have qualified without it. I think if there's a way to sort of couple that with a first product, which obviously Fannie and Freddy already have. But something that maybe eliminates some of that credit enhancement burden that is fairly significant on those high LTVs and create some additional affordable lending opportunities, especially sort of developed for specific underserved areas. I think there's probably a lot of opportunity that potentially could both Federal Home Loan Bank and a lot of the local banks could benefit from. I think there's a lot of different other affordable products that I think CDFIs and many other kinds of fill a lot of that holes, but there's not a lot of liquidity for it for the banks other than portfolio. So currently Wintrust has several different products that we originate that's outside of the scope of GSCs that we

call our Portfolio CRA. And obviously we have to hold that obviously indefinitely on our books. But I think if there was an opportunity to have some access or liquidity for those types of products.

Tim Tuz: To have some access or liquidity for those types of products. I think that that could definitely be beneficial. From an ARMs perspective, I think that's one of those things that historically has always been believed that that's a bank product and banks should be doing ARMs, which I absolutely agree with. However, I think we've seen, especially for example, last year, when the rates skyrocketed significantly, the ARM market for the most part outside of portfolio really disappeared and there's really not a lot of liquidity in the secondary market for ARM business for a long, long time. But I think it provides a very good alternative for many borrowers that may not qualify for that 30-year fixed but have sort of a way to step into that for a shorter duration, especially if they're not planning to live in that home for the duration of 30 years, or they have an employment that requires them to move a lot, for example. So, I think ARM product sort of for a long time maybe had a little bit of a bad name through financial crisis, but I think in a current environment and with a lot of regulation that I think solved a lot of the ways that mortgage products were abused or done incorrectly, I think there's a lot of different safety nets that are currently in place to prevent that from happening again. So, I think ARM product really has been a very good alternative over the past year when the rates really are high, right? In an environment that we had in 2020 and 2021 with fixed rates being at all-time lows, our ARM product is not something that anybody would even consider. But an environment where we're touching 7% interest rates, having a competitive ARM product in the 5s would still be, I think potentially profitable, but also a good alternative to a certain borrower base. But I think there's just not a lot of liquidity in the secondary market, and I think FHLB potentially could be one of that liquidity sources, especially for banks that don't have capacity to hold a lot of those loans, smaller banks or banks that maybe don't have the capacity to keep them in the portfolio.

Chris Bosland: Okay, thank you. This is more maybe just for the group in general. What about multi-family type AMA products? Any thoughts on that? Anybody want to- I don't want to call on somebody. [inaudible 01:32:50].

Mark Curtiss: I'll start. Yeah, so I think on the multi-family side, can't emphasize this enough. Access to long-term fixed rate is critically important, 17 plus years, readily accessible, all the federal home banks at all times. That is a given. What we've seen in the market, and this is a fairly recent innovation or evolution, I guess you would say, two things come to mind. One is amortization. So, I think that most or maybe all of the Federal Home Loan Banks, it's awfully hard to find out what the terms

are for all of the Federal Home Loan Banks. I've tried. But I think that most of them have up to a 30-year amortization. What we are seeing in the affordable housing space is that amortizations of 35 years are far more common and, in our market, even prevalent for certain types of affordable housing financing and FHA will go out to a 40-year term and amortization, which allows just that little bit more leverage that makes loan amounts affordable for these deeply affordable projects. So that's one thing that I think the banks should consider based on market. Another is absolutely critical to the new production of affordable housing, which we know is a major challenge across the country. It is the ability to provide forward rate commitments so that construction lenders and equity investors are not taking rate risk during the riskiest portion of their investment period, which is the construction period. We are required to provide that by investors in LIHTC deals, for instance. And we have been happily providing rate locks of up to 24 months for several decades. But recently, the need has evolved again for longer rate lock periods. And that is a combination of some increasingly challenging projects or larger projects that have a longer period of time until they reach sustained occupancy. And that's one part of it. Another part of it is more recent, which is supply chain disruptions and the impact of COVID on the labor force extending construction periods from what they normally would be sometimes without a lot of notice during construction. And so, the ability to get a longer forward rate commitment, I would say 30 months should be a standard with the opportunity to get an extension of that for say, six months, which is something that we know Fannie is doing, for example. Those are several thoughts.

Chris Bosland: Go ahead.

Ted Tozer: This is kind of both for the multi-family and for the single because it's kind of talking about comments that Tim made before we left before the break. One thing I'd kind of throw out is that the federal and banks, through the NPA program acquire loans on a service release basis. The idea that not so much that again, they're going to put them in a balance sheet potentially, and literally they would just buy the servicing then hire a subservicer to pay a fee to service a loan for them. And that way, you get back to Tim's issue of people not having enough service capacity because that way, basically, the federal bank is building into their pricing, their interest margin they're going to make off that loan when and pay them for the interest margin on the loan. And then on the multi-family side, I think from the standpoint that Mark's talking about with the idea that you do an FHA multi-family, if they could do that, then at that point, I think you're in a situation where the MPA program, through the [inaudible 01:37:15] securitization process, you can

securitize that during the construction period. So, by doing that, you're in a situation that you could actually help Mark out a lot with that. Again, I'm not an expert in that area, but my understanding is the debts of Fannie Mae can be able to do it. You basically have, the construction is financed and then it turns into a perm loan once the work's done. So again, you inspect this concept, I really think that the MPA program, especially if you give it a little more latitude as far as being able to buy loan service released, get the multi-family spaces, single family, it could really be, I think the backbone of really the federal banks, supporting the affordable lending areas in a lot of ways and taking the risk off the CDFIs back and putting on theirs. Because again, inspectors will issue the CDFIs no matter who you are. You got this prepayment risk and if the federal bank can, through their balance sheet management as well as having this ability to securitize that they get uncomfortable, their prepayments could be heating up. You could have the best of both worlds in building this thing out with MPF and MPP really being the backbone of the process. Just an idea.

Benson F. Roberts: I agree with a lot of this discussion, and it makes me remember why we have a Federal Home Loan Bank system. It was because there were some real liquidity needs that lenders had that they couldn't solve otherwise. And so that's why the state admission and the regulations is all about financing affordable housing. But the practice has morphed because as other parts of the mortgage finance system have come in to address some of those earlier liquidity needs, the Federal Home Loan Banks have really shifted away from financing housing into providing liquidity for their members. So, I think we're now sort of out of balance in that way. It would be possible, I guess to curtail the liquidity function. But I think it would be much better to expand the housing finance function and to use the skills that the Federal Home Loan Banks have in terms of capital markets, interest rate management, those kinds of things, more so than in real estate credit risk per se. Others can manage the real estate credit risk, but they can't get over the hump. So, imagine how HFAs and CDFIs could grow into the mortgage origination business for multi-family as well as single family if they had a liquidity partner with the banks.

Chris Bosland: Daniel.

Daniel Nissenbaum: I'm going to swing for the fences. So, here's a couple of crazy ideas. Back to your first idea about what new products and ideas might be. I think focusing on this issue of securitization or of having the Federal Home Loan Bank system just be a conduit or allow for some securitization vehicles rather than just individual bilateral. So, one is asset pools. So rather than individual relationships where 12 people across 12 banks have to understand 12 CDFIs, what if there were different CDFIs that

originated paper into a pool that then the Federal Home Loan Bank could consider purchasing or managing? Because you would have diversification in a number of different ways by originator, by geography, potentially by type. There could be cross collateralization or cross default, but I'm not giving that up today. So, I do think that's something to consider. I do think the question of credit enhancement is the second one, and we were just talking earlier whether the Federal Home Loan Bank gives it or potentially gets it. That could be a potential ENT to this advanced rate issue. And I do think we should think about this. Maybe a little more tactically, and Mark has talked about it and only alluded to it, the LIHTC market, which is enormous and generates a lot of affordable housing, is the safest long-term permanent debt market you could possibly find is arguably well served by other providers, the GSCs, et cetera. But the GSC also have a box and there are places just outside of that box potentially. For instance, a nonprofit owner, who I understand has been precluded in some of those credit boxes or outside that box. Is there some place for that long term 15-year paper to sit? I wonder if we can't connect the dots around CRA and the FHLB. What if we go back to what Buzz talked about? Banks have provided through CRA, but through their own volition, billions and billions and billions of dollars of capital for CDFIs. What if banks were the originators that placed that paper into the Federal Home Loan Bank through a membership relationship. That way, the FHLB can rely on an originator that they can look to who knows us well, who has spent the time to know us well, who appreciates and gets the credit risk around CDFIs, and they put that paper into the FHLB and maybe even get CRA credit for that? I don't know, but I do think that's an interesting way to flip the script a little bit here and think about a way to help the bank deal with that potential and perceived credit risk. If I was really pushing, I would think about two other things, and one would be an unsecured product. If you're really asking us... I know, I know. I just thought I'd try.

Chris Bosland: [inaudible 01:43:35] Was the eye roll?

Daniel Nissenbaum: I know, but the problem was it was Todd, and it wasn't Chris. If you're really asking us where this market can be served, I would again commend you back to the banks that billions and billions and billions of dollars is on an unsecured basis on a full recourse entity level unsecured basis. And I do want to make a point related to this, that although it's our option to go to the FHLB, like it's our option to go to BGP, when and if we pledge our loans or pledge debt, that is something that constrains our ability to go get debt anywhere else because we have worked with those lenders for decades. They have come to accept who we are, know our performance records, et cetera, and finance us on an unsecured basis when we then call them and say, "Oh, by the way, I'm pledging out

some part of my portfolio to somebody else." That has actually, frankly, a chilling effect on our bank relationships. They give us a little bit of limit and they will recognize FHLB as a special. But if we want to grow and we want to scale and we want to do all the things Buzz is telling us and reminding us we need to do for underserved communities, that's an inhibiting factor. And I don't think a government-sponsored entity should be creating inhibitions on our ability to do that financing. So, by the way, my S&P bond financing is also unsecured. The last thing I would say, is there some way to think about that AHP pool as potentially some part of a PRI program related investment type of structure where it might either... Because you can give a grant and it can be used to fill a gap or do some other important things. You could also give that grant and have that used for leverage. And maybe there's a way to think about that on a revolving basis so that you could set a pot and it could go in and out and create leverage and then come back as our projects refinance as they typically and mostly do, most always do. But a long-term sort of fixed rate PRI type structure, don't even know if that's possible from an accounting perspective, might be just different and creative way to think about supporting us. Thank you for allowing me to go a little bit off the reservation, but there you go.

Benson F. Roberts: Just wanted to connect this back to an earlier comment, I think, Dan, that you had made, which was what about using AHP as a source of loan loss reserve. That's one point. A second is just in terms of risk averse culture. If there are really tight constraints on the Federal Home Loan Banks for the great majority of what they do, could there be more flexibility for a small sliver of what they do? Or do you have to have the same kind of rigidities throughout the entirety of everything? My guess is if we had 10 or 20% of a bank's activity with more flexibility, that would go a long way. And one last point, as we think about moving forward, we really need to have this mission focused not just with at the bank level, but also at FHFA. We do hear, and I've heard it too many times from too many banks to totally disbelieve it, that they're terrified that they'll do something great on the mission side and get clobbered by the safety and soundness examiners. And it doesn't take very many cases like that for word to get around and to have a real chilling effect on the entire system.

Chris Bosland: That's fair. Don't throw me in the briar patch.

Benson F. Roberts: It's great to set goals. I'm for goals for the Federal Home Loan Banks, but they're going to then need a long enough leash to go and meet those goals.

Mark Curtiss: So, I'm going to elaborate on that point a little bit more because I think it is so important. I think you have to start from the mission. And in the

regs, and I've got it right here, so I just feel compelled to read it because it's so short. Mission of the banks is to provide to their members and housing associates products and services that assist and enhance members' financing of housing, including single-family housing at all income levels and community lending. That's it. Completely focused on enhancing members and housing associates' ability to provide loans for housing and community development. And I think the system has clearly strayed from that mission. That is not what the banks and FHFA are all about focused on. I would argue that avoidance of risk seems to be really the hidden mission. There's talk on the Federal Home Loan Bank's website about asset management liability and liquidity as being a core part of the mission. So, I think we've got to get back to that fundamental mission, which is still so important today, maybe more important than ever in terms of the challenges that we face in housing and community development. And I just sit back, and I wonder, how do you turn that ship? How do you shift the focus, allow the creativity, all of the smart committed people that work at the Federal Home Loan Banks and work at FHFA? And I think it does get back to having some very strong set of goals that all of the Federal Home Loan Banks are expected to achieve, challenge them in those goals and make those goals across the spectrum of products and services that they provide. So, it's got to be on the AHP grant making side. It's got to be on the lending side. Show us what you've done to finance affordable housing. Show us what you've done to finance community development, have clear metrics for that performance. And then I think the regulatory part of it, the risk management part of it, falls into line a little bit more with the mission. If you are balancing mission and risk. I think that that's a much better recipe for having the system be more impactful than it is right now.

Benson F. Roberts: And that continues through the AHP, right? We went through a big process to update the AHP rules several years ago. I'm hearing from folks from users and from the banks, that process did not really go far enough that it's still a very constrained, very risk averse grant program. And if we're going to use AHP to sort of pry open some of the credit products, then it has to have that risk absorption capacity in the AHP that I'm not hearing exists. So instead, what we see is AHP money being spread around very thinly across a wide range of activities, but not enough to really make a difference, say in the development of affordable housing. It costs in this market could cost four or $500,000 a unit to build an affordable housing apartment. If we're getting $10,000 out of AHP, nobody's going to turn down that $10,000. But man, that adds a whole additional layer of complexity to the deal that already has too many financing sources in it and it's really not making a decisive difference. So, we ought to be looking for impact here a little better.

Mark Curtiss: And nothing that we are talking about here affects the critically important stability that the Federal Home Loan Bank system provides to banking industry and insurance and CDFI. That has to remain. I think that this is all growing the pie. It's expanding the impact in ways that are appropriate, that consider risk, that allow some risk, but manage that risk. Right now, there's not a lot of risk management on the product side that makes these products useful for us in the community development and affordable housing space.

Chris Bosland: Yeah. Yeah, I don't want to completely throw the AHP reg under the bus. We are aware that there are some compliance burdens that go along with that. I just would note that though, I don't have any pride of authorship or anything, I wasn't here. But a lot of those requirements grew out of experience, the hard way of money going out that they were trying to close loopholes to combat something that they had seen. So, I think that there was the best of intentions, but I think I take your points that, and we've heard this before, that the sum total of that is a burden given the size of the money that's at stake in a particular grant. Sorry.

Chris Bosland: Thank you. So maybe we could talk about other services, maybe the bank's training could provide to members, I think that some spoken to, about smaller members, rural members needing some training to maybe to do kind of servicing type considerations. Anybody have any thoughts about that?

Tim Tuz: Sure. Again, when it comes to an origination of mortgages in general, I think it's a fairly complex product and for a smaller organization it's probably more difficult to understand and figure out all of the regulation around tread, around many other things that have come out of the previous financial crisis. And I think there's been a lot of changes over the years that made mortgage origination process not simpler, but more complex. And I think training around that... I think for Wintrust, we're a larger organization with pretty high infrastructure related to cybersecurity, related to mortgage originating, everything else. But when you're talking about a smaller bank that may not be routinely as part of the process originating mortgages, there's certainly some level of exclusion for those small originators from regulatory burden. But you still want their customers to have the right experience. You still want them to have a competitive product. And I think for the most part, I see a lot of that outreach via member meetings and conferences already taking place. But certainly, I think there are a lot of relevant topics that can be added to the agenda that I think may not always be covered. So, I think some of that outreach probably needs to come from member banks and things they would like to see and things that maybe are not being covered or not being addressed. But I think affordable lending and

just products in general are probably at the forefront of a lot of people's minds on how we meet our CRA goals, how do we go out and reach the underserved markets, the underserved areas, the underserved borrowers. And I think to have that in conjunction with Federal Home Loan Bank to try to have a product to address those needs and to go in there directly to make that impact, I think would be beneficial specifically for those communities.

Chris Bosland: Thank you. Maybe Todd, your kind of manufactured housing, is there some things that maybe you would like people to know? It's kind of misunderstood. I think you've kind of spoke earlier about some of the misconceptions, I think about the risk involved, or is there anything else there that maybe should be considered?

Todd Kopstein: It's clear that it's the focal point of single-family affordable housing in the country. Obviously, it's impeded a little bit by zoning laws, which I'm not asking the home loan banks to address, which would be cool if they could. But not suggesting that. But when you look at the credit performance of manufactured housing, the probability of the default propensity of the default is the same as site-built, all else equal. And when you factor in the FICO score, DTI and some other down payment, so it's not a riskier product per se. Loss, given default, might be a little higher because of a loan size. It's really a loan size issue, not an asset issue. So, when loan sizes are a little higher or chattel for that matter, if you have to remove the home from private property, then you have a fixed cost. But that's really what it comes down to. So, there's this misconception that it's a riskier asset, it's very quantifiable, and the propensity default is not meaningfully different in any way from site built. So, I guess if you're worried about risk at the home loan banks, it's straightforward to quantify the private sector, does it already? We've done three securitizations in the private sector, actually in 144A market. So, we've come to market three times, one-time rated deal. So, the marketplace has spoken as to the risk profile. It shouldn't be that hard for the home loan banks to get comfortable, especially with all the data that we're happy to provide.

Tim Tuz: Yeah. If I can build on that with Todd. So, manufacturing homes, I think in general, if you think about it kind of pre-crisis, a conception because I think of some increased fraud levels related to manufactured homes, which I think have long been addressed and based on, we are originally manufactured homes across all of our products, conventional and government, FHA, V A, and we've seen absolutely no difference in performance versus single family homes, to echo what Todd said. But I think in addition to that, our ability to send manufactured home under the MPF program is new and nonexistent because the credit enhancement that gets dinged for just being a manufactured home is

like 20%. It goes perfect credit. It could be even a borrower putting 20% down, 30% down low DTI just because it's a manufactured home, it immediately spikes to levels where it doesn't make sense at all to ever send to Federal Home Loan Bank.

Chris Bosland: Have you had conversations with the provider about that? And presumably, if you've got data, I'm agnostic in the sense that I don't know what the data is, but to walk through whether that's justified or argued-

Chris Bosland: Walk through whether that's justified or [inaudible 02:00:04] ... I mean, have they engaged with you on that or is that something that...

Tim Tuz: I mean, the provider of credit enhancement in my understanding is S&P. So, I suppose we could go to...

Chris Bosland: I'm sorry. I meant the MPF provider. I'm sorry. In terms of the credit enhancement-

Tim Tuz: Not in a while, but we definitely discussed it years ago when we first noticed and sort of tried to back into the values but not recently.

Todd Kopstein: To make one further point on that, so I was talking both chattel and land home, but we are the largest financier of new homes through FHA and VA loans in manufactured housing in the market, in the country. And when we sell them into Ginnie Mae pools, we have investors, very large, fixed income investors that pay us in excess of site build because of the convexity characteristics, so the prepayment characteristics. The embedded option isn't worth as much to the borrower. And so not only is it just as good a credit product, but it has far better prepayment characteristics. It's easier to hedge. So private sector investors will pay up for them. So, to hear that you're getting dinged for them is counterintuitive. And recently obviously FHFA made an adjustment on low-level pricing LLPAs for manufactured housing. Presumably that should go across to home loan banks.

Craig Wadlington: Thank you. So maybe some pilot programs or we kind of talked about new products, but I don't know if anybody has some ideas about possible pilots that the banks could consider where... I think Chris got the easier part of this.

Todd Kopstein: Mike.

Chris Bosland: First half.

Ted Tozer: Well, I think it's back to Todd's point. Right now, like what Tim's saying is the [inaudible 02:02:02] housing that's going through MPF is conventional. The question is, why can't the FHA program that's going through MPF take manufactured housing? Because that way, like Todd's

saying, it takes the credit enhancement side off. At that point, FHA is the credit enhancer, it's not the federal loan bank. So again, it's about this issue of again, trying to expand the MPF programs as wide as possible and to take on as many different types of products that are available from the credit enhancers that are supporting the program. Whether it's the federal bank themselves for conventional or FHA or VA if they're government loans.

Craig Wadlington: So maybe we can talk about, I mean Daniel swung for the fences. Maybe somebody else wants to swing for the fences. I know we've talked about new ideas here, things like that. Anybody else [inaudible 02:02:54].

Chris Bosland: Mic.

Craig Wadlington: Yes. I was just going to say that Daniel swung for the fences, maybe somebody else wanted to give it a shot too. Todd, go ahead.

Todd Kopstein: Well, I'll take a swing. I'm not sure this is all that novel but obviously getting back to the mission of the home loan banks and the amount or the size of the AHP program seems inconsistent with the mission if you have 10% profits going towards AHP or the like. That does seem rather small. And to me the home loan banks serve as an insurance policy for times of crisis for the banking system. And so, for that right now, members, they have to put up capital and they get a reasonably high return on that capital whether through dividends or otherwise. That seems inconsistent with the ability to fund at government rates through the government. So, to me they should be paying or at least not making as much money and more of that money should go towards the mission, which is either a loss reserve fund or somehow just AHP grants that are a little bit looser to distribute. So, I guess my swing is that 10% should be a lot bigger at the detriment I guess of member capital returns.

Craig Wadlington: What kind of percentage would you think you'd be comfortable with?

Todd Kopstein: I mean you're asking the wrong person on that one. I'm not even a member. But-

Chris Bosland: It should be easy then.

Todd Kopstein: Yeah, it should be a lot bigger, but I'm not going to tell you what I think. I don't have a good answer for it. Sorry.

Craig Wadlington: Oh, thank you.

Daniel Nissenbaum: I think a swing is 20 and reasonable is 15. Let's go there.

Craig Wadlington: Yes, thanks.

Benson F. Roberts: Well, I'll take two swings. One at that question. I think 20 is the number. I mean, that was the total load when there was the REFcore payment and that was sustainable. It would always be possible in crisis times to dial back if necessary to safety and [inaudible 02:04:58] in the system. But yeah, it should be more meaningful. Second is, I was talking to a large rural CDFI that has been a member of the system and they told me they are going to end their membership and I said, "Why?" And they said, "We don't get anything out of it. The borrowing terms are unworkable for us, and we don't get anything else." Well what else could they get is a question I have. Obviously, we want to focus on giving a system that does meet their borrowing needs, but what else could be done? Well, CDFI fund does not really review the financial capacity of CDFIs. The federal home loan banks do. That can be a very valuable credential for other counterparties if it's a rigorous standard but flexible enough to recognize how CDFIs work. So, I think that's another value that the system could provide to CDFIs is to provide that proxy for credit capacity that CDFIs, many of which aren't able to get an S&P rating. It's too costly. They're not big enough. Not everybody's going to be a low-income investment fund in that regard. So, what other sources of sort of credit credential could they find? And it seems to be the federal home loan banks could really add value to the CDFI world in that way.

Ted Tozer: Again, since the whole question of IMB membership has been up in the air for a while, the question is encouraging the federal home banks with their investment portfolio to buy the high yield offering from IMBs with them doing their five- and 10-year notes that they're doing to try to lock in financing to... And it's rated. It's got QSIP, it's rated, and you know exactly what you're getting. And put those in their balance sheet and make sure you got liquidity there. Cause that way it helps the IMBs give a stable funding source. And again, it's not membership, it's actually holding them for their investment portfolio until we get the issue of membership being taken care of. And especially if they're willing to step in at times of uncertainty and make sure there's a liquid market. Because that's really the key. I mean the whole question's going to be is, when things are going, [inaudible 02:07:48] are up, if they'll step in to make a market for and use their portfolio, same with the feds done from time to time with their portfolio. Just step in and buy somebody's high yield bonds if there's a problem where they just can't sell them. Just again, the idea of putting liquidity into a kind of back door, they're not a member and they know exactly what they're getting cause it's been rated by S&P. They know what the rating is. So, it's not like you're asking them to do something that's completely off the wall. It's really a rated bond, it's just high yield because again, it's unsecured. So, it's this

idea of using their portfolios, trying to bring some liquidity to the IMB market.

Craig Wadlington: Mark?

Mark Curtiss: So, this is a broad idea but one that's well traveled. CDFIs, housing associates, banks we're all very comfortable in underwriting risk, managing risk, and taking risk. I think that the federal home bank system could do more to incentivize us to take risks in ways that benefit us. We're a Fannie Mae multi-family, affordable housing lender. We take a third of the risk [inaudible 02:09:08] pass to you on every loan that we make and we're very comfortable taking that risk. We don't get credit for that in the federal home loan bank system for that kind of an approach. It tends to be a, you pledge everything, or in our case as a housing associate, you don't have a direct pledge. And those are the two options. We don't get a benefit from delivering very low, no value loans. It's kind of like, this is the minimum haircut, and it can only get higher. It can't get any lower regardless of the experience of that collateral or the underwriting parameters. So, I think just being more sophisticated about risk and then more sophisticated about how that risk gets allocated so you have partners, originating lenders that are on the hook enough and Dan, I hope I'm not arguing against you, but that can really help access capital in ways that make you comfortable and that add a lot of value for us.

Tim Tuz: So, one of the programs I think pre Covid that FHLB had was a 3D product that was a pass through, through MPF extra to Fannie Mae. That program did Sunset, and we actually were just starting to see some pretty good-

Chris Bosland: I'm sorry, Tim, the 3D. What is that?

Tim Tuz: Yeah, so basically it was a product that offered a borrower a hundred percent financing product and it was specifically offered for us in the areas where we felt it could be used for CRA purposes for certain kind of borrowers. So, I think lately we've been hearing a lot about certain big banks rolling out a hundred percent financing programs for several different markets to address some of the underserved markets. And I think that that product we continue to service for the small amount that we are originally. I think we only did a couple dozen loans under that program before it was shut down. But I think if we're talking pilots or things that FHLB has done in the past and has done in my opinion, successfully, I think that is a product that because it was a pass through to Fannie Mae, there was no credit enhancement aspect of it, but we were able to leverage that for provide affordable lending efforts in certain communities.

Craig Wadlington: So, are there any other topics some anybody would like to bring up that we haven't discussed? Kind of open floor here and I know we've had a lot of-

Todd Kopstein: Worn out.

Craig Wadlington: But I-

Mark Curtiss: I'll say one or two little things.

Craig Wadlington: Sure.

Mark Curtiss: One thing we haven't touched on is just the ease of execution in doing things like match funding a loan. And we know that we and others, a number of the federal home banks, they kind of have their payment schedule and it can't be customized for the transaction. So, you can never entirely match funds. If you've got differing amortization schedules for long-term loans, that becomes a lot harder to manage for us. And so, we'd love to have the ability that every federal home of bank would allow customized amortization based on amortization from our borrower so that we could match fund through the duration of the loan. Talked earlier about forwards. Flexibility in prepayments I think is another big issue. We talked a little bit about that earlier, but with the FHA programs, I'm going to keep doing that, we've got a 10-year lockout period and then it's open after that. And the federal financing bank and purchasing those loans, they just do an analysis, and they price that risk of prepayment after year 10 into their rate. And that allows our borrowers a lot more flexibility to take advantage of the market environment after year 10 or meeting some rehabilitation needs to refinance. And we don't have that with the advanced products in a lot of the federal home banks without a very, very high premium associated with it. So that's another thing to look at.

Benson F. Roberts: Yeah, that 10-year lockout period works great for subsidized affordable housing, like low-income housing tax credit deals. It doesn't necessarily work that well for affordable multi-family properties that aren't deeply subsidized.

Mark Curtiss: Correct.

Benson F. Roberts: They need to be nimbler. Those are owners that aren't in the subsidized system but provide a huge share of the affordable rental housing in the United States. And not surprisingly, most of the federal policy system is geared around the subsidized system. It is not really responsive to what's sometimes called naturally occurring affordable housing or market affordable housing. Preserving that housing and keeping it affordable is critically important if we're going to solve our affordable housing challenges. And so it would be great if the federal home loan

bank system could be a good partner for that. And it's beautifully aligned to do that because its members are local lenders, they're very attuned to those local markets and they know how to underwrite those deals. But they also need a long-term fixed rate product with a shorter lockout period that's going to be attractive to a private owner that otherwise would just be getting a three- or five-year interest only product from their commercial bank because that's the only product that's available.

Craig Wadlington: Okay. Anybody else have any thoughts, final thoughts before I pass back to Chris? Go ahead.

Ted Tozer: The one last thing I was just going to mention is again and going to keep beating this drum of the IMBs. One thing too that's also possible also since the federal banks do issues around letters of credit, the question is somehow to do some sort of letter of credit for members lending to the IMB to kind of, again, create the stability in those funding sources. Again, it's kind of a roundabout way, but again, going back to the future, it's almost to some degree what the federal bank did back in 1930s when they created [inaudible 02:16:57] to some degree where you're kind of guaranteeing a bank will lend into a IMB and then basically guaranteeing that bank with some limitations, whatever it might be. But the idea that there's a reasonable chance that they protected it. So, because the biggest challenge you went into with an IMB, when things get bad, they have a committed line of credit, sounds great, but there's always fine print that they can pull that committed line of credit. So, if we can do something that enables them to feel comfortable and they don't have to pull that line of credit when things are tough, that will go a long way to bring stability to the IMB world because most of them are really well set now with committed lines of credit as well as the cash in the balance sheet. But if they lose that committed line of credit, then it's an issue. And I think here, even if it's your [inaudible 02:17:46] that as far as looking at the counterparty risk of IMBS and whether to include lines of credit or not. So again, I think it helps the whole system if there's some way to create some stability around how committed a committed line of credit from a counterparty with IMB is.

Craig Wadlington: Thanks Ted. Mark?

Mark Curtiss: Another quick idea. Once you've updated your collateral evaluation approach to reflect the true risk of the collateral that's being provided, find a way to offer a way for CDFIs, housing associates to borrow collateral from financial institutions, foundations to cover some of that remaining collateral gap that may exist. Some of it, I think that maybe banks should be able to get CRA credit for that. That that could be a otivation for them to be involved in certain transactions. That could be a

virtuous cycle where you're getting more collateral protection, banks are getting some credit for lending collateral and we're able to deliver that loan based on the access to capital that we have with you.

Chris Bosland: And I think frankly inviting one of the larger commercial banks to sort of step forward and figure out a partnership would make sense here hand in hand with a CDFI. I think that's a great idea.

Craig Wadlington: Tim?

Tim Tuz: So, Ted keeps being the drum of IMB, I'm going to beat the drum of servicing. So, I think one of the biggest changes I think is the uniformity in loan servicing, which will bring a lot more liquidity and in turn value for the MSR that is serviced for FHLB. I think having that to be a more attractive asset on the second secondary market, on the capital market, think would be very significant improvement. And I think that comes with making servicing of FHLB really in line with Fannie and Freddie loans and also having the same workout options for those borrowers, the same uniform ways that those payments are remitted, the same uniform maybe even technology to make sure that a lot of that is aligned, which would bring the cost down of loan servicing and hopefully bring more servicers to the table.

Craig Wadlington: Hey, lots of good ideas there. So given it's almost four o'clock here, I'll pass it back to Chris and we-

Chris Bosland: Yeah, I'm still thinking about Ted's idea of letters of credit and how that would be the capital charge to the members and now the home loan banks, it's an interesting idea. We usually do these round robins and ask somebody what's the biggest thing to do. But you guys, we've had some drum beating, but Dan, you've thrown out a lot of ideas at Mark. Let me ask you, if you had to pick one... We are the government after all. Our odds of doing it an ambitious thing may... Just hypothetically indulge me and say we won't be able to do a whole thing. But if you had to pick one, what would it be? What's the single most important thing you'd like us to walk out of here and do?

Daniel Nissenbaum: You want to go first?

Mark Curtiss: Go ahead.

Daniel Nissenbaum: Yeah.

Mark Curtiss: Or I can stall when talking-

Daniel Nissenbaum: Yeah, no, no. I know I wrote something in my common letter, which I can't recall now, but I do think the securitization and credit enhancement place is the place for us to focus. That's what I would say is the area of... So that's a pilot type idea for sure.

Chris Bosland: Great. All right, Mark. He didn't vamp long enough, but-

Mark Curtiss: I mean I would say a robust set of goals for the federal home loan banks covering lending and HP activity.

Chris Bosland: Ted, do you want to add anything more?

Ted Tozer: Again, probably the biggest thing... I think probably the easiest thing to do is again, give the MPF the ability to do the securitizations because again, I think it's opened up a lot of opportunities if they have a choice to keep them on balance sheet or transfer the interest risk of the capital markets, it opens a ton of potential, I think. So, I think given that ability for them to make the choice on both the conventional and the government side on what to do with their assets they acquire, I think will give them a lot of flexibility.

Todd Kopstein: As I said earlier, I think chattel, which is to say loans against a home without land pledged with it should be accepted as collateral for advances.

Chris Bosland: Buzz, anything?

Benson F. Roberts: I would say helping community lenders, including CDFIs to get through the doors at FHA on both the single and multi-family side. Easier would be a way to open up that credit, provide long-term fixed rate loans and without imposing any real credit risk on the federal home loan banks.

Chris Bosland: Okay. I thought you were going to say something very general. I was going to press you, but you got back to it. No, thank you. And Tim?

Tim Tuz: Yeah, I mean it's uniformity and servicing and maybe even ability to own MSR if we can bring a lot of that to the table so that way those small banks can be supported in FHLB through a sub servicing relationship could actually own the MSR.

Chris Bosland: Great. Well, we are at the end, and I do want to thank you all. I expressed that I had some concerns that we wouldn't get specific ideas, but this is exactly the kind of panel we were hoping to get where people provided specific ideas that we could consider and take back as we move this thing forward. We heard a lot. I don't want to necessarily endorse or reject, but the match funding and calls for increased transparency and public shaming goals. No, I'm just kidding. The shared services as harmonization, the idea of centralized expertise and providing particularly as to expanding access to Ginnie Mae programs and so forth. So, I think these are great. So obviously some things are within our power, some things are not. But this is going to be super helpful for our folks as we go forward and try to bring this massive process to some degree of forward motion. So, at that point, let me also

give a big shout out to the team. There's a bunch of people here, there's people upstairs. Those of you who've hosted events, you know that it doesn't happen by itself, and a lot goes into it. As I said, this is 13. We've got I think three next week in Wilmington, North Carolina, and Puerto Rico. And then we've got some other things. And then I think we're going to be Boston on Monday of the following week. And then there's some virtual ones about access from remote territories. So, we're trying to cover it. I think that's going to be it. I think we're going to hit, what was it? 19 total. Prime number. I was told had to be a prime number. I don't know why, but I guess it has something to do with cryptography and Bitcoin. I don't know. But I want to thank the team because they've done a tremendous job in pulling this all together. Again, I encourage you all to and folks on the web stream to check our website as we're posting updates on a weekly basis. We kick this thing off with a listening session. We will be doing the same to wrap this up after the last round table. And I believe the portal is now open for submitting written comments. So those of you who thought more about your earlier comments or have additional comments in response to any of the folks that you've heard speak, please submit more [inaudible 02:26:09] written comments and in particular any of the ideas that you all have brought up, if you have any greater detail or data, super helpful for us as we go forward. So, with that, I thank you all again for coming here on short notice and this has been great. And thank you all.

Craig Wadlington: Thank you everyone.