The Affordable Housing Program and Community Investment Program of the Federal Home Loan Banks

By David Jeffers, Executive Vice President of Policy and Public Affairs, Council of Federal Home Loan Banks

The Federal Home Loan Banks (FHLBanks) are behind-the-scenes players that perform a vital role in the nation's financial system. These 11 regional cooperative banks provide reliable liquidity—*lendable funds*—to member institutions to support housing and community investment. Local lending institutions borrow from the FHLBanks to finance housing, community development, infrastructure, and small business in their communities. The FHLBanks were created by Congress in 1932; they are regulated by the Federal Housing Finance Agency (FHFA), the successor to the Federal Housing Finance Board. FHFA was created by the Housing and Economic Recovery Act of 2008 (HERA), and also regulates Fannie Mae and Freddie Mac. FHLBanks are the largest single source of funds for community lending.

PROGRAM SUMMARIES

FHLBanks administer two housing and economic development programs.

Affordable Housing Program (AHP). The AHP is designed to help member financial institutions and their community partners develop affordable owner-occupied and rental housing for very low to moderate income families and individuals. Projects serve a wide range of needs. Many are designed for seniors, persons with disabilities, homeless families and individuals, first-time homeowners, and others with limited resources.

FHLBanks must contribute 10% of their net income from the previous year to affordable housing through the AHP. The minimum annual combined contribution by the 11 FHLBanks must total $100 million. Member banks partner with developers and community organizations seeking to build and renovate housing for low to moderate income households. To ensure that AHP-funded projects reflect local housing needs, each FHLBank is advised by a 15-member Affordable Housing Advisory Council for guidance on regional housing and community development issues.

AHP consists of two programs: a competitive application program and a homeowner set-aside program. Under the competitive application program, a FHLBank member submits an application on behalf of a project sponsor. Each FHLBank establishes a point system to score applications based on nine criteria required by regulation. AHP competitive awards are made during scheduled funding rounds each year, starting with the highest scoring application until the available money is distributed.

Project sponsors partner with financial institutions to seek the competitive grants or low-cost loans. Applicants are encouraged to leverage their awards with other funding sources, including conventional loans, government subsidized financing, Low Income Housing Tax Credit (LIHTC) equity, foundation grants, and bond financing. AHP is a flexible program that uses funds in combination with other programs and funding sources, such as LIHTC equity and Community Development Block Grants. Each FHLBank provides training and application assistance. See individual FHLBank websites for details.

If rental housing is developed with AHP funds, at least 20% of the units must be reserved for and affordable to households with very low income, less than 50% of the area median income (AMI). Owner-occupied housing must be occupied by a household with income less than 80% of AMI. AHP is a shallow-subsidy program; for the competitive program the average urban area subsidy per unit in 2015 was $13,441 per unit, while the average rural subsidy per unit was $21,609.

Under the homeowner set-aside program, a FHLBank member applies for grant funds and disburses the funds directly to the homeowner. An FHLBank may set aside up to $4.5 million, or 35% of its annual AHP contribution, to assist low or moderate income households purchase or rehabilitate homes. At least one-third of a

Federal Home Loan Bank's aggregate annual set-aside contribution must be allocated to first-time homebuyers. The maximum grant amount per household is $15,000.

Between 1990 and 2015, the FHLBanks distributed approximately $4.2 billion in competitive AHP funds; this supported more than 638,000 units, 76% of which were rental units, 80% of which helped very low income households. Between 1990 and 2015, the competitive program supported nearly 151,000 owner-occupied units, 20% of which helped very low income households. In 2015, the FHLBanks awarded $237 million under the competitive program to assist 23,392 households.

The homeowner set-aside program was authorized in 1995. Between 1995 and 2015 the homeowner set-aside program provided approximately $865 million, supporting more than 153,000 households. In 2015, $85 million was distributed under the set-aside program to assist 13,000 owner-occupied households.

Community Investment Program (CIP). Each FHLBank also operates a CIP that offers below-market rate loans to members for long-term financing of housing and economic development that benefits low and moderate income families and neighborhoods. CIP finances housing for households with income below 115% of AMI, including rental projects, owner-occupied housing, and manufactured housing communities. Economic development projects must be in low and moderate income neighborhoods or benefit low and moderate income households. Between 1990 and 2015, the CIP funded approximately $56 billion in housing advances and approximately $7.5 billion in economic development advances, benefitting over 839,000 housing units, as well as community development projects in very low-, low- or moderate-income areas. In 2015 total CIP advances amounted to $3.2 billion; $3.176 billion for housing projects resulting in 39,000 housing units, and $60.5 million for economic development projects.

How the FHLBanks Work. The FHLBanks are member-owned cooperatives that provide funding for housing through all market cycles. Approximately 7,000 lenders are members of the FHLBanks, representing more than 80% of the insured lending institutions in the country. Community banks, thrifts, commercial banks, credit unions, community development financial institutions, insurance companies, and state housing finance agencies are all eligible for membership in the system. The 11 FHLBanks are in Atlanta, Boston, Chicago, Cincinnati, Dallas, Des Moines, Indianapolis, New York, Pittsburgh, San Francisco, and Topeka.

Each FHLBank has its own board of directors, comprised of members of that FHLBank and independent (non-member) directors. The boards of directors represent many areas of expertise, including banking, accounting, housing, and community development.

The primary purpose of the FHLBanks is to provide members with liquidity. In fact, the FHLBanks are the only source of credit market access for most their members. Most community institutions do not have the ability to access the credit markets on their own.

FHLBank loans to members, called "advances," are a nearly instantaneous way for members to secure liquidity. The FHLBanks go to the debt markets several times a day to provide their members with funding. The size of the entire system allows for these advances to be structured in any number of ways, allowing each member to find a funding strategy that is tailored to its needs.

In order to qualify for advances, a member must pledge high-quality collateral, in the form of mortgages, government securities, or loans on small business, agriculture, or community development. The member must also purchase additional stock in proportion to its borrowing. Once the member's FHLBank approves the loan request, it advances those funds to the member institution, which then lends the funds out in the community for housing and economic development.

Each of the 11 regional FHLBanks is self-capitalizing. During times of high advance activity, capital automatically increases. As advances roll off the books of the FHLBanks, capital is reduced accordingly.

During the financial crisis, the FHLBanks continued to provide liquidity nationwide to members for housing and community credit needs through an extremely challenging period of economic stress. As other sources of liquidity disappeared, and before the coordinated response of the federal government, the FHLBanks increased their lending to members in every part of the country by 58% between the second quarter of 2007 and the third quarter of 2008. Advances exceeded $1 trillion in the third quarter of 2008.

Member demand for advance borrowings continued to lower as members' outstanding loans decreased while their deposit base continued to grow—both as a result of the economic contraction. As of the end of the third quarter of 2010, FHLBanks advances outstanding totaled $500 billion. This was a decline from $631 billion in advances outstanding to start the year, and a decline from the high of $1 trillion in advances for the third quarter of 2008. However, one of the benefits of the FHLBanks' regional, self-capitalizing, cooperative business model is the ability to safely expand and contract to meet member lending needs throughout various business cycles.

FHLBanks are jointly and severally liable for their combined obligations. That means that if any individual FHLBank would not be able to pay a creditor, the other 11 FHLBanks would be required to step in and cover that debt. This provides another level of safety and leads to prudent borrowing.

FUNDING

No taxpayer funds are involved in the operation of the privately owned FHLBanks. The FHLBanks' Office of Finance, the clearinghouse for FHLBank debt transactions, accesses the global capital markets daily. FHLBank debt is sold through a broad, international network of about 100 underwriters.

FORECAST FOR 2017

Since the inception of the AHP a quarter of a century ago, affordable housing markets and community development environments continue to evolve, making it necessary to update the AHP regulation and the related compliance expectations. Advisory Councils for each FHLBank have called upon the FHLBanks and the FHFA to work together to modernize the regulatory requirements for AHP. FHFA Director Mel Watt has said modernizing AHP regulations is one of the agency's highest priorities.

Policymakers will likely begin some of the processes necessary to begin housing finance reform. Congress and the new Administration will take on tax reform as well as other initiatives that may affect financial institutions committed to housing and community investment.

Advocates should look at how any proposals would affect the FHLBanks. Advocates should remember that:

- The FHLBanks perform their role in the housing finance system without any congressional appropriations or direct federal assistance.
- The AHP is the largest single, private source of funding for affordable housing
- The FHLBanks are safe, sound and well managed.

WHAT TO SAY TO LEGISLATORS

The FHLBanks are an indispensable resource in the work by housing organizations to address the housing needs of low income households. They have several programs and products that help create strong communities. Their community lending programs can be utilized to help drive job growth at the local level. The AHP grants have remained a reliable and stable source of much-needed affordable housing funding, even as other sources of affordable housing funding have dried up.

The role the FHLBanks play in the financial system is vitally important. In any restructured housing finance system, the FHLBanks must continue to function as steady and reliable sources of funds for housing and community development through local institutions.

FOR MORE INFORMATION

Council of FHLBanks, www.FHLBanks.com

Federal Housing Finance Agency, http://www.fhfa.gov