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

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

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 an 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, an 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 equity, bond financing, national Housing Trust Fund loans or grants, Community Development Block Grants, and foundation 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 2018 was $10,939 per unit, while the average rural subsidy per unit was $13,578.

Under the homeowner set-aside program, an 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 an FHLBank's aggregate annual set-aside contribution must be allocated to first-time homebuyers. The maximum grant amount per household is $15,000.

In 2018, the FHLBanks awarded $457.9 million under the competitive program to assist 30,604 households. In 2018, 89% of the competitive program units were rental units, down from the all-time high of 94% in 2016. Fifty-one percent of the rental units helped very low-income households with incomes between 31% and 50% of AMI and 27% served extremely low-income households, those with incomes less than 30% of AMI. Forty-three percent of owner-occupied units served very low-income households.

Between 1990 and 2018, the FHLBanks distributed approximately $5.0 billion in competitive AHP funds. This supported more than 709,000 units, 78% of which were rental units.

The homeowner set-aside program was authorized in 1995. Between 1995 and 2018, the homeowner set-aside program provided approximately $1.2 billion, supporting more than 202,000 households. In 2018, the set-aside program distributed $112 million to assist 18,667 owner-occupied households. The average set-aside subsidy per household was $6,002.

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 incomes less than 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. In 2018, total CIP advances amounted to $3.1 billion; $3.0 billion for housing projects resulting in about 26,000 housing units, 57% of which were rental units, up from 52% in 2017. Economic development projects were awarded $3.2 billion.

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. 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. 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 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.

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.

WHAT TO SAY TO LEGISLATORS

The FHLBanks are an indispensable resource in the work done 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, https://www.fhfa.gov/SupervisionRegulation/FederalHomeLoanBanks.