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

By Ryan Donovan, Council of Federal Home Loan Banks

The Federal Home Loan Banks (FHLBanks) are the largest source of private sector grants for affordable housing and community development in the country. Created by Congress in 1932, the primary mission of the 11 FHLBanks is to serve as a reliable source of liquidity for their member financial institutions, which include banks of all sizes, credit unions, insurance companies, and community development financial institutions.

Local financial institutions borrow from the FHLBanks to finance housing, community development, infrastructure, and small businesses in their communities. Successful execution of their liquidity mission not only helps FHLBank members meet the lending needs of their communities, but also helps facilitate the ability of the FHLBanks to provide grant funding for affordable housing initiatives across the country.

PROGRAM SUMMARIES

FHLBanks administer various housing and economic development programs.

Affordable Housing Program (AHP). The AHP is designed to help member financial institutions and their community partners expand homeownership opportunities and develop affordable rental housing for very low- to moderate-income families and individuals. The AHP is funded entirely through FHLBank earnings and each FHLBank is required by law to contribute at least 10% of net income from the previous year to affordable housing through the AHP.

AHP funds are available only through FHLBank members and must be used to either fund home ownership for households with incomes at or below 80% of area median income (AMI), or to purchase, construct, or rehabilitate rental housing in which at least 20% of the units will by occupied by, and affordable to, households with incomes at or below 50% of AMI.

AHP 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. Collectively, the FHLBanks must meet an annual minimum allocation of $100 million toward AHP funding. Since 1990 the FHLBanks have made available approximately $7.6 billion in AHP subsidies, assisting more than one million households.

AHP funding is available through two distinct programs – an AHP competitive application program that is generally geared toward development of multifamily housing, and an AHP set-aside program targeted toward individual borrowers and homeowners.

AHP Competitive. 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 criteria established 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. 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. Refer to individual

FHLBank websites for details.

In 2022, the FHLBanks awarded more than $187 million in AHP competitive funds, supporting 321 rental and owner-occupied housing projects and a total of more than 15,000 housing units.

AHP Set-aside. Under the 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 in the purchase or rehabilitation of a home. At least one-third of an FHLBank's aggregate annual set-aside contribution must be allocated to first-time homebuyers.

All 11 FHLBanks offered AHP set-aside funding in 2022, with total funding of approximately $79.2 million. In 2022, the maximum permissible set-aside grant was $26,070 and the average grant per recipient household was $7,686. The most common use of set-aside grants was to defray borrower down payments and closing costs.

The Community Investment Program. The FHLBanks' support of low-income housing and community development activities also includes the Community Investment Program (CIP). Through its CIP, each FHLBank offers below market rate loans to members for long-term financing of housing and economic development projects. CIP funds finance housing for households with incomes up to 115% of AMI or commercial and economic activities that benefit low- and moderate-income families, or activities located in low- and moderate-income neighborhoods.

In 2022, the FHLBanks collectively issued roughly $3.2 billion in CIP advances for housing projects and $330.2 million for economic development projects.

The Community Investment Cash Advance Program. The FHLBanks are also authorized to offer discounted funding for targeted economic development under the Community Investment Cash Advance (CICA) program. CICA funding is targeted to specific beneficiaries, including small businesses and certain geographic areas. CICA funding in urban areas is for targeted beneficiaries with incomes at or below 100% of AMI and CICA funding in rural areas is for targeted beneficiaries with incomes at or below 115% of AMI.

In 2022, the FHLBanks provided approximately $1.4 billion in CICA funding and approximately $8.5 million in CICA grants for economic development projects, such as commercial, industrial, and manufacturing projects, social services, and public facilities.

Voluntary Programs. The FHLBanks also individually provide funding for voluntary programs outside of their AHP, CIP, and CICA programs. Voluntary programs support housing and community development, job programs, financial literacy efforts, pro bono legal services, and offer support for small businesses, among other endeavors. Each FHLBank's programs are tailored to meet the needs in their respective districts.

In 2022, the FHLBanks collectively contributed more than $46 million toward their voluntary programs. Refer to individual FHLBank websites for details.

HOW THE FHLBANKS WORK

Each FHLBank is a privately capitalized cooperative owned by its members. The FHLBanks are located in Atlanta, Boston, Chicago, Cincinnati, Dallas, Des Moines, Indianapolis, New York, Pittsburgh, San Francisco, and Topeka. Their regional distribution enables each FHLBank to focus on the distinct needs of their individual communities. Over 6,000 lenders are members of the FHLBanks, representing more than 80% of the insured lending institutions in the country.

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.

Each FHLBank is operated independently and is supervised and regulated by the Federal Housing Finance Agency (FHFA). Each FHLBank is an SEC registrant, filing quarterly and annual financial statements. The FHLBanks are not supported by Congressional appropriations and taxpayers do not pay out-of-pocket expenses to keep the FHLBank System operating.

The funding provided by the FHLBanks to their 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 many ways, allowing each member to find a funding strategy that is tailored to its needs.

Members must pledge high-quality collateral, in the form of mortgages, government securities, or loans on small business, agriculture, or community development to borrow from their FHLBank. Members 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.

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.

BENEFITS OF THE FHLBANK SYSTEM

The FHLBanks support home ownership in multiple ways – by providing liquidity to the members to originate mortgages, by directly purchasing mortgages from members, by allowing members to pledge mortgages and mortgage-backed securities as collateral, and by contributing to their Affordable Housing Programs. By law, members must pledge mission-related collateral to borrow from their FHLBank. Single-family mortgage loans represent by far the largest category of pledged collateral – roughly 50% – followed by other real estate collateral (commercial real estate, HELOCs, single-family second liens, etc.) – roughly 20%.

According to a recent study conducted by the University of Wisconsin, the funding provided by FHLBanks translates into more than $130 billion of additional mortgage credit available each year and saves borrowers $13 billion in mortgage interest payments. On top of this, the funding provided by FHLBanks supports lending to small businesses, agricultural enterprises, and lending to consumers for everyday products and services.

The funding provided through the FHLBanks also helps level the playing field for smaller, community-based financial institutions. Such institutions naturally have different goals and priorities than larger institutions and without access to FHLBank liquidity, small financial institutions would have to rely on more expensive funding streams, such as raising new deposits, cutting expenses, selling assets, relying on brokered deposits, or accessing the credit markets. Additionally, unlike larger financial institutions, smaller members do not have direct access to the capital markets. They rely on the FHLBank for this access.

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.