

THE AFFORDABLE HOUSING PROGRAM AND COMMUNITY INVESTMENT PROGRAM OF THE FEDERAL HOME LOAN BANKS

By Sharon Cornelissen, Consumer Federation of America

The Federal Home Loan Bank (FHLBank) System was chartered by Congress in 1932 to help lower housing costs by supporting affordable liquidity for institutions engaged in home mortgage lending. Serving over 6,500 member institutions today, their members include commercial and community banks, insurance companies, credit unions, and community development financial institutions (CDFIs).

The Federal Housing Finance Agency oversees and regulates the FHLBank System. The Congressional Budget Office estimates that the FHLBanks receive around \$7.3 billion a year in government subsidies (see <https://www.cbo.gov/publication/60064>). These subsidies are not appropriated by Congress and do not appear in the federal budget. Rather, they result from the System's status as Government-Sponsored Enterprise (GSE), which offers FHLBanks unique regulatory and tax exemptions and the ability to issue debt at rates only slightly above Treasuries.

To better balance these public subsidies with public benefits, since 1989, Congress has required the FHLBanks to contribute a minimum of 10% of their net income annually to the Affordable Housing Program (AHP), which funds grants for affordable housing initiatives around the country. In recent years—after pressures by housing advocates—FHLBanks have contributed additional housing funds over this 10% floor (also called “voluntary contributions”), have added more CDFIs to their membership, and looked at additional ways to expand their housing and community development impact. Nonetheless, much of the System's potential housing impacts remain underrealized, creating real opportunities for local and national advocates to press the FHLBanks to step up.

How the FHLBanks Work

The Federal Home Loan Bank System is a government-sponsored enterprise (GSE) with 11 regional banks, located in Atlanta, Boston, Chicago, Cincinnati, Dallas, Des Moines, Indianapolis, New York, Pittsburgh, San Francisco, and Topeka. The FHLBanks are served by individual boards and executive leadership and together serve over 6,500 member institutions in their regions.

The FHLBank System receives many unique benefits as a government-sponsored enterprise, in exchange for fulfilling a public mission, making it distinct from a private corporation (but similar to GSEs Fannie Mae and Freddie Mac). The FHLBank System has a \$4 billion standing line of credit at the Treasury, is exempt from all corporate federal, state, and local income taxes, and has a “superlien” authority as a creditor, which allows it to recover losses before the FDIC and other creditors. GSE status also confers an “implied federal guarantee” on FHLBank debt, meaning that investors accept a lower return on issued debt as they assume that the federal government will never let the FHLBanks fail.

The main activity of the FHLBanks is to issue debt and lend those funds in the form of “collateralized advances” to their members. In exchange, members post housing-related collateral, such as government securities or mortgages. Members can use these funds for any business activity and liquidity needs, and advances have maturities anywhere from overnight to thirty years. Advances are more affordable than private-market alternatives: because of their GSE-status, FHLBanks can borrow at rates that are near Treasuries, and pass most of that subsidy on to their members.

Because of their shifting membership base and big changes in how mortgages are originated and securitized over the last few decades, FHLBank advance lending has become increasingly disconnected from housing and community development needs. Today, the largest banks and insurance companies (some private equity owned) have become the largest users of advances. They leverage FHLBank membership to boost their profits and enhance “yields” on investment portfolios. Small banks mostly rely on advances to improve liquidity and stave off bank failures, an issue that gained national attention in the wake of the Spring 2023 bank failures (see <https://www.gao.gov/products/gao-24-106957>).

Membership composition and advance use of the FHLBanks today no longer reflects who does mortgage lending. According to the Pew Charitable Trusts, between 2018 and 2022, independent mortgage companies (IMBs) originated 62% of home purchase mortgages, while community banks originated 16%, large banks 15%, and credit unions 7%. As IMBs are not members (and are non-depositories), this means that the majority of mortgages are originated today without direct access to FHLBank liquidity. Indeed, a Bloomberg investigation found that 42% of FHLBank members had not originated one single mortgage in the last five years.

Each of the 11 regional FHLBanks is capitalized through the stock holdings of its members and through accumulated capital from profits. Since 2008, the FHLBs have added billions of dollars every year in profits to their System’s capital as retained earnings. Currently, the System mostly uses these retained earnings as debt-free support for an investment portfolio to generate profits that largely go to members, in the form of boosted dividend payouts. However, these additional retained earnings present a great opportunity to further FHLBank System mission achievement: by leveraging them for housing and community development investments rather than for member profits.

Housing Programs, Subsidized Advances, and CDFI Membership

FHLBanks administer several housing and economic development programs.

Affordable Housing Program (AHP). Congress designed the Affordable Housing Program (AHP) to help member financial institutions and their community partners develop affordable rental housing for very low- to moderate-income families and to expand homeownership opportunities. The AHP was added to the FHLBanks’ obligations through the enactment of the “Financial Institutions Reform, Recovery, and Enforcement Act of 1989” (FIRREA), a recognition that the System had neglected its responsibility to adequately support affordable housing and community development. Under FIRREA, each FHLBank must contribute at least 10% of its net income to its AHP.

AHP funds are available only through FHLBank members and must be used to either fund homeownership 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 be 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.

AHP funding is available through two distinct programs—an AHP competitive application program that is generally geared toward the 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. Refer to individual FHLBank websites for details.

AHP Set-Aside. Under the Homeownership Set-Aside program, an FHLBank member applies for grant funds and disburses the funds directly to homeowners. 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.

While these programs can provide much-needed funds for local and state-level housing organizations, applicants report that the time-intensive and challenging application process is a significant barrier to engaging with the FHLBank AHP programs: an issue that both FHFA and FHLBanks have acknowledged and that would require regulatory reform.

Voluntary Contributions. Over the last few years, subject to public pressure, FHLBanks have pledged to voluntarily devote an additional 5 percent of net profits to housing and AHP contributions over the statutory minimum of 10 percent. Given that in previous years FHLBanks have fallen short of their stated commitments, it behooves advocates to closely monitor voluntary contributions of each FHLBank and ensure that promised dollars reach local housing needs.

With more flexibility than the statutorily required Affordable Housing Program, 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 (see <https://www.fhfa.gov/reports/fhlbank-targeted-mission-activities>).

The Community Investment (CIP) and Community Investment Cash Advance (CICA) Programs. The FHLBanks also offer the statutorily mandated Community Investment Program (CIP) and the voluntary Community Investment Cash Advance (CICA) program. These programs allow the FHLBanks to offer discounted loans or grants to members for targeted housing and community development projects that benefit low- and moderate-income families and neighborhoods. In 2024, the FHLBanks funded \$5.3 billion in discounted advances through CIP and \$2.6 billion through CICA: this \$7.9 billion amounts to just over 1 percent of total advances that year (\$737 billion), indicating that there remains much room for growth (see <https://www.fhfa.gov/reports/fhlbank-targeted-mission-activities/2024>).

Community Development Financial Institution (CDFI) membership. Community Development Financial Institutions (CDFIs) are eligible to become FHLBank members and to benefit from its collateralized advance lending and CIP and CICA programs noted above. In practice, many CDFIs have found it difficult to access advances, based on the FHLBs' risk-based pricing and the application of steep haircuts on the types of collateral that CDFIs tend to hold (see <https://www.fhfa.gov/programs/fhlbank-system-at-100-focusing-on-the-future>). FHLBanks have steadily expanded CDFI membership in recent years. At the end of 2024, 79 FHLBank members were non-depository CDFIs, which in total borrowed around \$381 million in outstanding advances (less than 0.1% of all advances).

What to Say to Legislators

The FHLBank System offers great potential to help meet local housing and community development needs. In its current form, however, much of that potential remains underutilized. Legislative and regulatory reform is needed to help this system take its place as a powerful tool in our housing ecosystem. Advocates may also benefit from building direct relationships with their regional Federal Home Loan Bank, in order to find ways to continue to improve its programs and expand its mission-focused footprint in the communities that they serve.

Advocates should urge legislators to:

- Raise statutory minimums on how much FHLBanks are required to support housing and community development needs—current legislation only requires FHLBanks to spend a minimum of 10% of their net income on AHP every year. Congress should require the FHLBank system to devote at least 30 percent of their net income every year to support housing and community development, including no less than 20 percent on AHP contributions.
- End FHLBank membership for insurance companies, notably those owned by private equity companies. Government subsidies meant for housing should not go to boosting the profits of insurance companies.

For More Information

Council of Federal Home Loan Banks,
www.FHLBanks.com

Federal Housing Finance Agency, www.fhfa.gov

Coalition for Federal Home Loan Bank Reform,
www.fhlbreform.org