Homeownership
Alliance

Federal Home Loan Bank System Policy Options Memo

Affordable homeownership in the US could be scaled up by a larger, more robust partnership between the Federal Home Loan Bank System (FHLBS) and Community Development Financial Institutions (CDFIs). The Federal Home Loan Bank System was created during the Great Depression to provide reliable liquidity to financial institutions for home mortgage lending and community investments. The 11 Federal Home Loan Banks are member-owned cooperatives that collectively borrow in the capital markets to make loans (called "advances") to members. This is an underutilized resource that should be tapped as a source of low cost, long term capital for homeownership lending and development by high-performing CDFIs. Many of the challenges that lenders and developers of affordable homeownership opportunities face could be solved with access to consistent sources of low-cost capital. This is exactly what the Federal Home Loan Banks could do.

The Federal Home Loan Bank System has a structure as a government sponsored enterprise (GSE) that is similar to that of the secondary market for mortgages, Fannie Mae and Freddie Mac. It is owned by private shareholders, yet it borrows in the capital markets at close to the Treasury rate because it is perceived to be supported by the U.S. government. The hybrid nature of these GSEs gives them public purposes and government regulation in exchange for the implied backing for their borrowings from the federal government.

Fannie Mae and Freddie Mac are supposed to serve public purposes through affordable mortgage purchase goals, Duty to Serve requirements, and an assessment on new mortgage purchases that funds the Capital Magnet Fund and the Housing Trust Fund. In 2020, Fannie and Freddie's assessment was $502.3 million for the Housing Trust Fund and the Capital Magnet Fund. "Duty to Serve" requires Fannie Mae and Freddie Mac to serve geographies and people not well served by the conventional mortgage market – rural areas, manufactured housing, and affordable housing preservation.

Similarly, the Federal Home Loan Bank System is required to contribute 10% of the prior year's earnings to the Affordable Housing Program (AHP), a grant program that supports affordable rental housing or homeownership. Last year's Federal Home Loan Bank System contribution to the AHP was $450 million. Most AHP funding is used for rental housing development. The System also has affordable mortgage purchase goals but it does not have a "Duty to Serve" requirement.

Over the years, membership in the 11 Federal Home Loan Banks has been expanded beyond commercial banks and savings and loans to include nondepository Community Development Financial Institutions (CDFIs), mission-focused lenders certified by the Treasury Department that provide financial services and finance community development for underserved people and places. There are 60 CDFIs that are members of the FHLBS because they can use advances to lower their cost of capital and thus expand their investment in low income communities. There has been some progress over the past several years in improving CDFI access to FHLBS capital, but challenges remain. Some CDFIs have demonstrated their financial capacity and mission orientation to their Bank partners, but more work remains to be done to improve understanding between CDFIs and FHLBs across the System. These efforts should continue because working with CDFIs can greatly increase the reach and impact of the System.

With CDFIs as partners, the 11 individual Federal Home Loan Banks should each create a new initiative on affordable homeownership, with particular emphasis on the homeownership challenges in each region. The overall themes that should link these initiatives are the racial wealth gap and geographies that lack access to capital for homeownership. The 11 Home Loan Banks all have the ability to use tools like advances to CDFIs working on the ground, grant making through the Affordable Housing Program (particularly the Targeted Funds), mortgage purchases and other means that can be tailored to meet the homeownership needs of different markets. This could unleash new creativity and partnerships to scale up nonprofit affordable homeownership to serve geographies and people shut out of the conventional market.