

The Honorable Patrick McHenry
Chairman
Committee on Financial Services
United States House of Representatives
Washington, DC 20515

The Honorable Sherrod Brown
Chairman
Committee on Banking, Housing,
and Urban Affairs
United States Senate
Washington, DC 20510

The Honorable Maxine Waters
Ranking Member
Committee on Financial Services
United States House of Representatives
Washington, DC 20515

The Honorable Tim Scott
Ranking Member
Committee on Banking, Housing,
and Urban Affairs
United States Senate
Washington, DC 20510

October 31, 2024

RE: Federal Home Loan Banks' Affordable Housing Program Contributions

Dear Chairman Brown, Ranking Member Scott, Chairman McHenry, and Ranking Member Waters,

The undersigned organizations, representing a diverse group of housing stakeholders and advocates, are writing to express our strong support for Congressional action to require that Federal Home Loan Banks (FHLBs) devote at least 30 percent of their net income every year to support housing and community development, including no less than 20 percent on Affordable Housing Program (AHP) contributions. If enacted, such legislation would help boost our nation's housing supply and meet critical community economic development needs.

Congress chartered the FHLB system in 1932 as a government-sponsored enterprise (GSE) to support liquidity for fair and affordable housing.¹ Eleven regional banks manage over \$1.2 trillion in debt obligations of just over 6,500 members, who include commercial banks, credit unions, and insurance companies.²

The AHP was added to the FHLBs' 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 support affordable housing and community

¹ Consumer Federation of America. "The Federal Home Loan Bank System: A Chronological Review and Discussion of Key Issues." (Washington D.C., June 14, 2017),

<https://consumerfed.org/reports/federal-home-loan-bank-system-chronological-review-discussion-key-issues/>

² Federal Home Loan Banks. "Combined Financial Report for the Year Ended December 31, 2023." (Washington D.C.: FHLBank Council, March 22, 2024), https://www.fhlf-of.com/ofweb_userWeb/resources/2023O4CFR.pdf

development. Under FIRREA, each FHLBank must contribute at least 10 percent of its net income to its AHP. This has become an important source of support for affordable housing and community development around the country, including by helping non-profits, state housing authorities, developers, banks, and others finance affordable housing construction and downpayment assistance programs.

But the current 10 percent AHP levy, unchanged in more than 30 years, is wholly inadequate given widespread housing supply shortages, historically high rent burdens for workers and families, neglected community development needs in rural and Native American areas, and the System's own strong capitalization and profitability.

When Congress restructured the System in 1989 it also imposed a \$300 million per year levy to help pay interest on Resolution Trust Corporation (REFCORP) bonds, later changed to a levy of 20 percent of net earnings. This obligation ended in 2011 with the funds instead flowing directly to System capital. It is clear from this history that the System can easily afford a significantly increased AHP levy, and we strongly urge you to join our organizations in supporting it now.

The Congressional Budget Office estimated last year that the FHLB system receives an estimated \$7.3 billion in indirect government subsidies a year.³ The bulk of these subsidies come from the value of the GSE's implicit government guarantee of debt in capital markets, which allows the FHLBs to borrow at near-Treasury rates. FHLBs currently pass on most of the value of this discount to their member banks and insurance companies as cheap funding and generous dividends. The FHLBs also enjoy exemptions from local, State, and federal taxes, including from corporate income taxes. Given this large subsidy, taxpayers deserve to see more public benefits.

FHLBs are financially thriving, making a record \$6.7 billion in government-subsidized profits in 2023. They spent \$3.4 billion of these profits on dividends to their members that year, giving them an average return of 7.45 percent across the 11 Banks on a virtually risk-free government-backed investment.⁴ FHLBs increased their retained earnings by \$3.3 billion dollars last year, which showed that they could easily contribute more to housing, even without needing to lower dividends.⁵ FHLB Presidents also benefited from this windfall, earning on average \$2.9 million in 2023 – at least four times more than Federal Reserve Regional Bank Presidents.⁶ By all measures, this GSE is flush with cash and spending it to maximize private profits rather than public benefits.

Over the last two years, subject to public pressures, FHLBs have pledged to voluntarily devote an additional 5 percent of net profits to AHP contributions over the statutory minimum of 10

³ Congressional Budget Office, "The Role of Federal Home Loan Banks in the Financial System" (Washington D.C., March 7, 2024), <https://www.cbo.gov/publication/59712>

⁴ Federal Home Loan Banks. "Combined Financial Report for the Year Ended December 31, 2023." (Washington D.C., March 22, 2024), p. S-38 and S-39, based on weighted average dividend rate. https://www.fhlf-of.com/ofweb_userWeb/resources/2023Q4CFR.pdf

⁵ Federal Home Loan Banks. "Combined Financial Report for the Year Ended December 31, 2023." (Washington D.C., March 22, 2024), p. 46

⁶ Klein, Aaron, Kathryn Judge and Alan Cui, "How to Fix Federal Home Loan Banks" (Washington D.C.: Brookings Institute, August 8, 2024), <https://www.brookings.edu/articles/how-to-fix-federal-home-loan-banks/>

percent. However, they have fallen far short of these commitments. While FHLBs promised to spend over \$1 billion in AHP in 2024,⁷ during the first six months of 2024, they only spent \$378 million in AHP.⁸ Similarly, in 2023, they spent a meager 2.5 percent in voluntary contributions above their legislatively mandated amounts.

Given FHLBs strong financial performance, expanding their support of affordable housing and community development is practical and necessary, ensuring they remain aligned with their mission while addressing the housing crisis. In their August 2024 letter to the U.S. Treasury Deputy Secretary Adeyemo, FHLB Presidents stated they would not increase AHP contributions unless directed by Congress.⁹ We urge you to advance legislation to increase the FHLBs' statutory AHP and community development contributions to at least 30 percent of their annual net income, with at least 20 percent of net income going to AHP.

As the nation faces an affordable housing crisis, there is growing bipartisan consensus that the Federal Home Loan Banks (FHLBs) have drifted from their core public mission of supporting housing and community development.¹⁰ This critical juncture presents an opportunity to realign the FHLBs with their original purpose and ensure proper stewardship of taxpayer dollars. By refocusing on efficiency and accountability, these institutions can leverage their unique position to address nationwide housing shortages and help revitalize communities across the country.

Sincerely,

National Organizations

Consumer Federation of America

Americans for Financial Reform

Black Community Developers Group

CAARMA

Center for Community Progress

Center for Economic Justice

Center for Responsible Lending

Coastal Enterprises, Inc.

Community Opportunity Alliance

Consumer Action

Consumer Credit and Budget Counseling, Inc d/b/a National Foundation for Debt Management

Grounded Solutions Network

Housing Assistance Council

⁷ Council of Federal Home Loan Banks, May 7, 2024:

<https://fhlbanks.com/federal-home-loan-banks-anticipate-1-billion-in-support-for-affordable-housing-and-community-development-initiatives-in-2024/>

⁸ Federal Home Loan Banks. "Combined Financial Report for the Quarterly Period Ended June 30, 2024." (Washington D.C., August 13, 2024), p. 7

https://www.fhlf-of.com/ofweb_userWeb/pageBuilder/fhlbank-financial-data-36

⁹ Council of Federal Home Loan Banks, "FHLBank Presidents To Treasury." Letter August 29, 2024.

<https://fhlbanks.com/wp-content/uploads/2024/08/FHLBank-Presidents-to-Treasury-20240829-Final-Signed.pdf>

¹⁰ Cato Institute. "The Decline and Fall of the Federal Home Loan Banks." Cato Institute Blog, January 2, 2024.

<https://www.cato.org/blog/decline-fall-federal-home-loan-banks>.

Integrated Community Solutions, Inc.
Local Initiatives Support Corporation
The Leadership Conference on Civil and Human Rights
National American Indian Housing Council (NAIHC)
National Association for Latino Community Asset Builders (NALCAB)
National Coalition for Asian Pacific American Community Development (National CAPACD)
National Community Reinvestment Coalition (NCRC)
National Community Stabilization Trust
National Consumer Law Center (on behalf of its low-income clients)
National Housing Resource Center
National NeighborWorks Association
National Urban League
Oweesta Corporation
Rebuilding Together
United Food and Commercial Workers International Union
Woodstock Institute

State/Local Organizations

Affordable Housing Alliance
Catholic Charities Housing Services
Catholic Charities Housing Services - Diocese of Yakima
Community Service Network, Inc.
Desire Community Housing Corp
Financial Pathways of the Piedmont
Housing Action Illinois
Housing Channel
Metropolitan Interfaith Council on Affordable Housing
Morningstar Urban Development Inc.
Movin' Out, Inc.
New Hampshire Community Loan Fund
New Jersey Citizens
Northwest Side Housing Center
Olive Hill Community Economic Development Corporation, Inc
Parachute Credit Counseling, Inc.
Rebuilding Together of Greater Charlotte
Rebuilding Together Platte Valley East
Rebuilding Together Saratoga County
Rebuilding Together Colorado
Rebuilding Together Sheboygan County Inc.
Rebuilding Together North Jersey Inc.
Rebuilding Together Fargo-Moorhead Area Inc.
Rebuilding Together Henry County NFP
Rebuilding Together OKC, Inc.
Rebuilding Together Bayou
Rebuilding Together North Texas
Rebuilding Together of South Alabama

Rebuilding Together Central Alabama
Rebuilding Together North Central Florida, Inc.
Rebuilding Together Warner Robins
Rebuilding Together Charleston
Rebuilding Together Minnesota
Rise Economy
Trinity Empowerment Consortium
Winder Housing Authority

CC: All Members, Senate Committee on Banking, Housing, and Urban Affairs
All Members, House Committee on Financial Services