Alfred M. Pollard, General Counsel
Federal Housing Finance Agency, Eighth Floor
400 7th Street SW
Washington, DC 20219

Attention: Federal Home Loan Bank Housing Goals Amendments, RIN 2590–AA82

Dear Mr. Pollard:

The National Community Reinvestment Coalition (NCRC) appreciates the opportunity to comment on the Federal Housing Finance Agency's (FHFA) proposal to change the housing goals for the Federal Home Loan Banks (FHLBs). NCRC is an association of more than 600 community-based organizations that promote access to basic banking services, affordable housing, entrepreneurship, job creation and vibrant communities for America's working families. As such NCRC believes that programs that finance affordable housing must be targeted carefully to ensure that lower income populations are served fairly and equitably with affordable homeownership.

The proposed prospective mortgage purchase housing goals is more consistent with the statutory mandate.

Notwithstanding the relatively small footprint that the FHLBs have in the secondary mortgage market, we believe the prospective or "benchmark" approach proposed for the FHLB mortgage purchase is more consistent with the statute than the current retrospective "mirror-the market" only standard. Congress directed FHFA to establish goals for the FHLBs that are consistent with those set for Fannie Mae and Freddie Mac ("the Enterprises") [1]. As with the Enterprises, we have argued that a prospective benchmark approach is most consistent with the statute and Congressional intent in establishing housing goals – that government-sponsored enterprises exercise some leadership in the market with regard to facilitating mortgage credit to lower-income families and communities[2]. The housing goals should also ensure that the FHLBs do not lag the market in making mortgage credit available to the lower-income families and communities targeted by the goals, since that outcome would be inconsistent with the statutory purposes of setting mortgage purchase housing goals.

Implemented appropriately, we also believe prospective mortgage purchase housing goals applicable to all banks without regard to the volume of mortgage purchases they make could encourage more FHLB purchases of mortgages to very low- and low-income borrowers and communities. It is worth noting that FHFA's current housing goals approach implemented in 2010 has failed to motivate any

[1] 12 U.S.C 1430c. The Enterprises are able to meet their housing goals by purchasing enough mortgages to meet either a prospective "benchmark" goals set by FHFA or by mirroring the market, based on a retroactive analysis of Home Mortgage Disclosure Act (HMDA) data. Though they currently have to meet the lower of the two – the benchmark goal or the market, we have argued that the Enterprises should be required to the meet the higher of the two goal targets in order to demonstrate leadership.

[2] 12 U.S.C. 4562(e)(B) directs FHFA to "establish targets for each of the goal categories" taking into consideration several factors, including "the ability of the Enterprises to lead the industry in making mortgage credit available." In setting annual targets for the FHLBs, FHFA is to be consistent with the Enterprises housing goals and should consider how the FHLBs can lead in making mortgage credit available, not simply mirror their district mortgage market, or lag it.

of the FHLBs to exercise leadership in the provision of mortgage credit to the lower-income families and communities targeted, despite all 11 banks purchasing mortgages. Only two banks have been subject to a housing goals analysis and both lagged the market in their districts in the retroactive analysis employed by FHFA in all four goal categories – mortgages to very low-income families, low-income families, families in low-income areas and refinances to low-income families. [3] The current approach has functioned in circumvention of the mandate in the statute that the FHLBs have housing goals and that they be consistent with those set for the Enterprises.

The prospective housing goals set should better reflect FHLB district markets and other statutory factors.

Because the FHLB mortgage purchases and performance vary widely, we do not support FHFA setting a flat 20 percent goal for all 11 banks. Each bank should have goals that are more reflective of the mortgage markets in the districts in which they are purchasing mortgages, and have a goal target that encourages them to exert leadership in providing mortgage credit to lower-income borrowers and areas targeted by the goals. Based solely on the 2017 data provided in Table 1, a 20 percent housing goals target would be too conservative for banks B, D, G, I, J and K which are now purchasing loans well in excess of that target. Perversely, a 20 percent target could be a disincentive and result in those six banks purchasing fewer lower-income mortgages or lagging the market in their district. Banks C and E would have to demonstrate more leadership to meet the prospective goal or propose an alternate goal level. For banks A and H, a 20 percent target would provide very little or no incentive since they would have to make little effort to reach a 20 percent goal.

Since FHFA already measures the size of the mortgage market as part of the process for establishing the benchmark housing goals for the enterprises, the agency should disaggregate the data by FHLB districts in order to facilitate the goal-setting process for the FHLBs. The agency could then set prospective goals for each of the 11 banks. Alternatively, FHFA could set a target range of benchmark goals for similarly-situated banks based not only on the performance and effort of the FHLBs in achieving the housing goals in previous years, but also other factors similar to those in 12 U.S.C. 4562(B) that are considered in setting goals for the enterprises (e.g. national and district housing needs; economic, housing and demographic conditions, including expected market developments; ability to provide some leadership in making credit available to the borrowers and communities targeted by the goals).

A single percentage goal is not an adequate incentive for bank mortgage purchases; however, a 25 percent cap on mortgages to higher income borrowers in low-income areas is appropriate.

NCRC's preference is that the existing four categories remain. They also align with the statutory requirement that the director set goals consistent with those set for the enterprises. In other words, the FHLBs would be required to meet the three home purchase goals (low-income families, very low-income families and families in low-income areas) and the one refinance goal for low-income families. The FHFA suggests that the retrospective method of using the Home Mortgage Disclosure Act (HMDA) data to set the FHLB targets for each of these four goals to equal market levels was too unpredictable for the FHLB banks since they would have to wait to the end of a given year before

[3] Federal Housing Finance Agency ("FHFA"), RIN-2590-AA82, Federal Home Loan Bank Housing Goals Amendments, https://www.fhfa.gov/SupervisionRegulation/Rules/RuleDocuments/BHG%20NRPM%20for%20web.pdf, p. 11-12; 2017 Annual Report to Congress, p. 29, https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/FHFA_2017_Report-to-Congress.pdf; 2016 Annual Report to Congress, p. 42, https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/FHFA_2016_Report-to-Congress.pdf.

they knew whether they would be in compliance.[4] However, this would be eased by making the goal-setting prospective.

Maintaining the four goals is important because they target various populations and neighborhoods each with their unique needs. If the four categories are combined into one goal as proposed by the FHFA, FHLBs could satisfy the goal by purchasing mortgages to subgroups that are easier to serve while making little effort to purchase mortgages to borrowers that are more difficult to serve (e.g. very low-income families).

If the FHFA declines to restore the previous goals and finalizes its proposed one goal, we believe that the targeting should be tightened to lessen the possibilities of subgroups being short changed. For example, refinances to families above 80 percent of area median income in low-income areas should not qualify for the goals. FHLBs would likely gravitate towards these refinances since the primary market makes a sizeable number of them particularly when mortgage rates are low. Along the same lines, we appreciate that no more than 25 percent of loans made in low-income areas to families with incomes above the low-income level (above 80 percent of area median income) will count towards the housing goals. Home Mortgage Disclosure Act (HMDA) data and FHFA's analysis here and elsewhere indicate that the mortgage market in both low-income areas and in high-minority census tracts has been moving towards borrowers with higher incomes in recent years. FHFA has observed that "the presence of higher income borrowers in lower income and higher minority areas may be a sign of economic diversity in those areas and may be related to the possibility of improved economic indicators for the community" [5]. However, as this notice acknowledges there is also evidence of gentrification and displacement of lower income households in these areas, including in markets where housing has become very expensive and where affordable housing is scarce. The proposed 25 percent limit is not too restrictive in that it will not cut off loans for non-low-income families. At the same time, it will preserve opportunities for low-income families, especially in areas that are gentrifying.

If a FHLB believes the prospective goal is not feasible, the FHFA would also allow a bank to propose an alternative goal.[6] The FHLB proposing an alternative must provide a well-reasoned proposal and analysis that describes why the bank cannot meet the prospective goal and why a lower goal is reasonable and still represents a stretch for them. It would be inappropriate to allow a FHLB to propose an alternative for unsubstantiated reasons. Alternative proposals must be subject to public review and comment before they are finalized.

The public data around FHLB mortgage purchases and housing goals performance must be improved and should be consistent with the agency releases about purchases and goal performance by the enterprises.

Whether FHFA opts for a single percentage goal or sets four separate housing goals, the agency must disclose more data annually about each bank's mortgage purchases; each banks goal-qualifying purchases; about goal performance overall and in the four categories. The paucity of annual and historical data about the FHLBs mortgage purchases and goal performance and lack of transparency is startling, particularly given the amount of data available about the enterprises mortgage purchases and housing goals performance. Even the scant performance data included in the notice of proposed

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[4] FHFA, RIN-2590-AA82, Federal Home Loan Bank Housing Goals Amendments, p. 9
[5] FHFA, Notice of Proposed Rulemaking, 2018-2020 Enterprise Housing Goals. See Table 4.
[6] FHFA, RIN-2590-AA82, Federal Home Loan Bank Housing Goal Amendments, pp. 10-11.

rulemaking is anonymous and fails to identify any of the 11 banks. Below is illustrative of some of the information and data made public and fairly accessible by FHFA about the enterprises purchases and goals in FHFA's *Annual Housing Report* and several other agency reports that are entirely absent about the FHLBs mortgage purchases and housing goals performance systemwide and for each of the 11 FHLBs:

- ✓ Volume and percentages of goal-qualifying mortgage purchases each year by each of the enterprises, and mortgage purchases for each of the four categories (i.e. share of FHLB mortgage purchases to very-low income families, low-income families, to families in low-income areas and refinances to low-income families);
- ✓ Acquisition profile data and corresponding shares of the conventional, conforming market (e.g. borrower income ratio, borrower race/ethnicity and gender, credit score, census tract income ratio, purpose of the loan, interest rate, loan-to-value ratio, purchase price, etc);
- ✓ Agency preliminary determination letters on housing goals performance, including whether meeting the goal(s) is feasible.

The summary information about the FHLBs mortgage purchases and housing goals performance included in FHFA's annual *Low-Income Housing and Community Development Activities of the Federal Home Loan Banks* and the *Annual Report to Congress* is inconsistent with the data provided about the enterprises and wholly inadequate for NCRC or other outside researchers to review and conduct any quantitative or qualitative analysis. What we do know is that collectively the FHLBs mortgage purchases totaled roughly $12 to $13 billion in 2017. There should be far more transparency about what the FHLBs are acquiring – systemwide and by the 11 individual banks.

FHFA should jettison the existing volume cap, and adopt the proposed counting rules that limit double-counting.

We appreciate that the FHLB is proposing to lift the $2.5 billion volume cap that has effectively served to exempt the vast majority of FHLB banks from housing goals requirements.[7] NCRC also appreciates that FHFA will not allow double-counting in the goals calculation.[8] The goal setting would be a pointless exercise of gaming and inflation if one loan to one borrower was double-counted simply because it matched more than one criterion (such as in a low-income area to a low-income borrower). Along the same lines, we support the FHFA's proposal regarding participations, including the pro-rata procedure when two banks acquire a mortgage jointly, as it would also prevent double-counting.[9]

We support the proposed small member participation housing goals.

Smaller community banks have an important role to play in the market. Often called relationship lending, their lending model relies more on personal knowledge of their customers and can offer flexibilities that more automated loan models cannot in terms of extending credit to underserved

[7] FHFA, RIN-2590-AA82, Federal Home Loan Bank Housing Goals Amendments pp. 11-12.
[8] FHFA, RIN-2590-AA82, Federal Home Loan Bank Housing Goals Amendments p. 64.
[9] FHFA, RIN-2590-AA82, Federal Home Loan Bank Housing Goals Amendments pp. 38-39.

populations. They are also disproportionately located in small rural communities, including economically distressed communities.

The proposed 50 percent goal is reasonable in supporting smaller banks. The FHFA suggests it may be too lenient in that nine of eleven banks are far above this threshold.[10] If the FHFA wants to be more aggressive in setting targets for the goals, we would suggest focusing more on the 20 percent target for the lower-income borrowers and areas because that target is the ultimate bottom line in terms of which populations are to be served by these goals. However, if the 50 percent small bank participation goal results in a significant fall-off of performance of the nine banks above that percentage, the FHFA could adjust it in future years. The agency could also set this goal by district or set a target range of goals for similarly-situated banks.

The asset threshold of $1.173 billion appears reasonable in terms of defining a small bank. The FHFA may want to make the thresholds consistent with the upper-end of small banks as defined by the CRA regulation. Intermediate small banks currently have an asset limit of $1.284 billion.[11] This adjusts with inflation annually.

Please contact Gerron S. Levi, Director of Policy and Government Affairs, or Josh Silver, Senior Advisor, if you have any questions on 202-628-8866. Thank you for this opportunity to comment on this important matter.

Sincerely,

National Community Reinvestment Coalition (NCRC)
727 Mgmt LLC
African Career Edu and Resources, Inc
Another Chance of Ohio
CAARMA Consumer Advocates Against Reverse Mortgage Abuse
California Reinvestment Coalition
California Resources and Training
CASA of Oregon
Chicago Community Loan Fund
Communities United For Action
Consumer Action
Delaware Community Reinvestment Action Council, Inc.
Edgemoor Revitalization Cooperative, Inc.
Empire Justice Center
Fair Finance Watch
Federation of Network Ministries
Financial Justice Coalition
GenesisHOPE
Georgia Advancing Communities Together, Inc.
Good Neighbor Foundation HOC
Grounded Solutions Network

[10] FHFA, RIN-2590-AA82, Federal Home Loan Bank Housing Goals Amendments pp. 26-28.
[11] Office of the Comptroller of the Currency bulletin 2019-1, Description: Revision of Small and Intermediate Small Bank and Savings Association Asset Thresholds, https://www.occ.gov/news-issuances/bulletins/2019/bulletin-2019-1.html

Habitat for Humanity of Michigan
Homes on the Hill, CDC
Housing Action Illinois
HousingWorks RI
Maryland Consumers Right Coalition
Michigan Community Reinvestment Coalition
National Housing Counseling Agency
Neighborhood Housing Services of Waterbury
New Jersey Citizen Action
Northwest Indiana Reinvestment Alliance
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R.A.A. - Ready, Aim, Advocate
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Woodstock Institute
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