July 15, 2024

The Honorable Sandra Thompson
Director
Federal Housing Finance Agency
400 7th Street, SW
Washington, DC 20219

RE: Request for Input: Federal Home Loan Bank Core Mission Activities and Mission Achievement

Dear Director Thompson,

The Mortgage Bankers Association[1] (MBA) thanks the Federal Housing Finance Agency (FHFA) for the opportunity to respond to its' Request for Input (RFI) on Federal Home Loan Bank (FHLB) Core Mission Activities and Mission Achievement[2]. MBA understands that this RFI comes as a result of FHFA's FHLB at 100 Initiative which concluded that FHLBs should increase their support for housing and community development. While the RFI does not directly reference FHLB membership, MBA believes this key finding has a direct connection to our longstanding position that FHLB membership should be expanded to mortgage finance companies with a strong and demonstrable connection to the mission of the FHLBank System. Further, we believe expanding eligible collateral types and then aligning collateral standards across the FHLBs would also allow the FHLBs to better serve their mission. MBA understands that expanding both FHLB membership and eligible collateral would require certain adjustments to the current system and believes that these steps could be undertaken without jeopardizing the safety and soundness of the system.

The RFI notes that over the course of the FHLB system's existence, its membership base, the types of collateral that can be pledged to secure advances, and the FHLBs' product

[1] The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 275,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets, to expand homeownership, and to extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees through a wide range of educational programs and a variety of publications. Its membership of more than 2,000 companies includes all elements of real estate finance: independent mortgage banks, mortgage brokers, commercial banks, thrifts, REITs, Wall Street conduits, life insurance companies, credit unions, and others in the mortgage lending field. For additional information, visit MBA's website: www.mba.org.

[2] "Request for Input: Federal Home Loan Bank Core Mission Activities and Mission Achievement", (May 16, 2024), available at https://www.fhfa.gov/sites/default/files/2024-05/FHLBank-Mission-RFI-2024.pdf

offerings have expanded. Despite this expansion, the set of institutions currently eligible for direct FHLB membership does not include some of the biggest participants in housing finance that have a direct connection to the FHLB mission. The FHLB Act, as amended, provides membership eligibility for banks, credit unions, insurance companies, and community development financial institutions, among others.[3] This structure falls far short of reflecting the full scope of institutions that today play major roles in helping borrowers achieve homeownership as lenders, servicers, and investors.

A broader membership base would allow the FHLB System to better achieve its mission to stabilize the housing finance market and promote investment in local needs, including affordable ownership and rental housing. The share of residential mortgage originations by FHLB-eligible institutions has declined over the past decade, thereby reducing the role of the FHLBs in providing liquidity relative to the size of the market. A responsible expansion of membership eligibility to other non-depository institutions could reverse this trend. The existing framework for measuring mission achievement could easily be adjusted to account for variations in structure between these institutions.

I. Expansion of Membership to Key Players: IMBs and REITs

MBA has long supported the responsible expansion of FHLB membership eligibility to better reflect today's diverse providers of single-family and multifamily housing finance and community investment activities throughout the country. U.S. mortgage debt today is predominantly held in securitized form by global investors, not as whole loans on bank and thrift balance sheets. A more diverse FHLB membership would reinvigorate the system, expand access to credit, lower pricing, and increase choices for consumers. Specifically, expanding membership to institutions like Independent Mortgage Banks (IMBs) and Real Estate Investment Trusts (REITs), that are almost exclusively focused on housing finance, would naturally strengthen the FHLBs connection to housing and community development.

As the largest segment of single-family mortgage originators and a significant source of lending for multifamily housing, IMBs business activities are uniquely aligned with the mission of the FHLBs. They are typically monoline companies that focus on housing finance, which in many cases includes mortgage servicing as well as origination activity. IMBs' historic and current contributions to the mortgage market reinforce their importance in promoting homeownership and affordable rental supply throughout the country. IMBs are the predominant lenders of government-insured or -guaranteed loans – markets where IMBs stepped in to fill voids that were left in the wake of the Great Recession[4]. As a result, IMBs serve a disproportionate share of first-time homebuyers, low- to moderate-income families, and communities of color. Their business model allows global investment capital to be channeled into local housing markets, promoting access to credit at affordable costs to borrowers.

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[3] 12 U.S.C. §1424(a)(1).

[4] "The Rising Role of the IMB", available at https://www.mba.org/docs/default-source/policy/white-papers/21127_mba_imb_report_final.pdf?sfvrsn=4f7d570c_1

Mortgage REITs, by the very nature of their business model and tax structure, provide important capital to support single-family and multifamily housing, as well as commercial community development properties, throughout the country. To qualify for REIT status, mortgage REITs must both derive the vast majority of their income from real estate-related assets and distribute a similar majority of their taxable income to their shareholders, with federal taxes paid on those dividends rather than at the corporate level. By fulfilling this dual mandate annually, and through other requirements, mortgage REITs hold assets that are almost exclusively real estate finance-related in nature.

Home Loan Bank advances to mortgage REITs would provide liquidity for REIT mortgage portfolios to support stable funding for increased lending to a broader group of creditworthy homeowners than those served by the conventional mortgage market today. The private wholesale funding market has been less suited to supporting loans made to borrowers who fall just outside of the product and underwriting parameters defined by the Qualified Mortgage standard, and mortgage REITs have the ability to step in and fill that void. Based on their business activities, assets, and sources of income, most mortgage and hybrid REITs would almost certainly meet any tests established by FHFA or the individual Banks to ensure alignment with the FHLBs' mission. Their existence centers on housing finance and community investment in ways that make them dedicated participants in the mortgage market.

II. <u>Expanding Membership While Maintaining Safety and Soundness</u>

MBA acknowledges that expanding FHLB membership may require adjustments in the current methods of evaluating safety and soundness, as well as new authorities to monitor it. The FHLBs have a remarkable track record of success, having never incurred a loss on an advance in their nearly 90-year history.[5] The Council of Federal Home Loan Banks attributes this stability to several factors, including conservative underwriting standards and investment practices, strong credit monitoring policies, the collateralization of advances, acceptance of high-quality collateral, activity-based stock purchase requirements that are commensurate with borrowing levels, and the joint and several liability for aggregate obligations in the System.[6]

If membership were to be expanded, it would be important to establish a robust counterparty oversight framework that would enable FHLBs to directly assess the unique risk exposures to REITs and IMBs. MBA believes enhancements to the existing safety and soundness requirements, and collateral standards, can be developed in an efficient manner that strikes an appropriate balance to allow for responsible modernization of the FHLB system. For example, existing safety and soundness and consumer compliance examinations conducted by state regulators could be leveraged. Similarly, existing capital

[5] Council of Federal Home Loan Banks, "Safety and Soundness." Available at: https://fhlbanks.com/safety-and-soundness/.
[6] Ibid.

and liquidity standards used by Fannie Mae and Freddie Mac (GSEs) and Ginnie Mae could also be used in an enhanced FHLB framework.

A new safety and soundness framework for IMB and REIT members of the FHLB system should be carefully constructed to balance any new burdens with the benefits of joining the system while recognizing the extensive regulatory and supervisory framework that already exists for IMBs. Excessive costs will subvert the stability and mission benefits of modernization.

III. Eligible Collateral

The pledging of quality collateral to secure FHLB advances is the foundation of safety and soundness of the FHLBs. Under the existing regulatory structure, each FHLB may restrict the types of collateral that it will accept based on the credit profile of the borrower and the quality of the collateral, among other reasons. Each FHLB also maintains the ability to set collateral valuation procedures. We believe that while these procedures are important and well-intended, they result in variances that could negatively impact the FHLBs ability to serve their mission. Currently, some FHLB members that provide warehouse lines for housing related financing are unable to use those warehouse lines as eligible collateral. MBA believes harmonizing the acceptance of warehouse lines, which directly support housing finance activities, to all FHLBs, is a clear way to enhance members' alignment with the FHLB mission.

MBA also encourages FHFA to consider expanding types of eligible collateral as today's securitization-based mortgage market has created new types of assets that warrant consideration – most notably mortgage servicing rights (MSRs) and mortgage servicing advances. GSE servicing advances, for instance, are the first payment priority and receive cash first when loans re-perform, pay off, or are resolved through foreclosure. The significance and contractual and legal commitment to reimburse these advances is a clear indication of the value of this asset and demonstrates the potential for it to be used as a very safe option for collateral purposes. These assets warrant consideration as eligible collateral as they are critically important to the housing finance system and have a clear connection to the FHLBs mission.

MBA acknowledges FHFA's desire to clarify the mission of the System so the FHLBs are held accountable for serving their public purpose and enhance FHLB members connection to the mission. We feel it would be remiss to ignore opportunities for expansion that could greatly enhance the FHLBs connection to their mission. MBA understands the decision to include new member types and forms of collateral requires congressional action, however, these changes first must start with acknowledgment of their need, and public support from FHFA. The membership and collateral expansion outlined above would strengthen the

System's ability to make our housing and community development finance markets more resilient, improve the Banks' earning capacity, and provide greater support for their mission.

Thank you in advance for your consideration of these comments. MBA looks forward to continuing our partnership with FHFA on this and other critically important housing issues.

Sincerely,

Pete Mills
Senior Vice President
Residential Policy and Strategic Industry Engagement
Mortgage Bankers Association