NATIONAL ASSOCIATION OF REALTORS®

October 31, 2022

The Honorable Sandra Thompson
Acting Director
Federal Housing Finance Agency
400 7th Street, SW
Washington, DC 20024

Dear Director Thompson:

On behalf of the 1.5 million members of the National Association of REALTORS® (NAR), I thank you for your efforts to support the nation's housing market and for engaging the industry on the appropriate role for the modern Federal Home Loan Bank (FHLB) system in the "FHLBank System at 100: Focusing on the Future" listening sessions. NAR looks forward to working with the Federal Housing Finance Agency (FHFA) and FHLBs to revive their role in the funding of home purchases.

The National Association of REALTORS® is America's largest trade association, including NAR's five commercial real estate institutes and its societies and councils. REALTORS® are involved in all aspects of the residential and commercial real estate industries and belong to one or more of some 1,200 local associations or boards, and 54 state and territory associations of REALTORS®. NAR represents a wide variety of housing industry professionals, including approximately 25,000 licensed and certified appraisers, committed to the development and preservation of the nation's housing stock, along with its availability to the widest range of potential homebuyers.

New Challenges, Old Mission

The housing market faces historic challenges. Mortgage rates surged from 2.89 percent in August of 2021 to 5.29 percent in August of 2022, an 83 percent increase in the cost of financing. However, median home prices rose from $368,200 to $396,300 over that same time frame. The net effect was a decline in NAR's affordability index of 39.5 percent. What's more, the sharp rate increase near three quarters of a point in late September is not factored into these calculations and further increases of as much as a full point are expected later this year as the Federal Reserve works to quell inflation.

Simultaneously, the gap between White homeownership and homeownership in communities of color remains stark. According to NAR's research, the U.S. homeownership rate climbed to 65.5 percent in 2020, up 1.3 percent from 2019. Although the homeownership rate for Black Americans also increased to 43.3 percent, it is still lower than a decade ago. Conversely, Asian Americans (61.7 percent) and Hispanic Americans (51.1 percent) all achieved decadelong highs in homeownership in 2020, but all lagged that of White Americans (72.1 percent). Furthermore, the homeownership gap between Black and White Americans remains stubbornly wide at 30 points with little improvement since 1970.

The affordability and racial homeownership are historic in nature and will face the market for decades to come. However, these challenges are also opportunities for the FHLBs to reengage in their namesake home lending mission.

nar.realtor (800) 874-6500 500 New Jersey Ave, NW
Washington, DC 20001

Improve the Affordable Housing Programs

The FHLBs contribute a minimum of 10 percent of their earning to their Affordable Housing Programs (AHP). While commendable, REALTORS® believe that this floor could be raised. Furthermore, the homeownership set-aside could have its maximum share of AHP funds raised and simultaneously raise the maximum direct household subsidy. The cap on set asides should be raised above $4.5 billion and indexed for housing inflation. Finally, the AHPs could be better engages to invest in activities that expand construction of entry-level and missing-middle home construction.

Membership Eligibility

The FHLBs' Congressionally mandated mission of providing liquidity to support housing finance is a critical element of the nation's banking structure. To this end, the commitment to real estate finance and homeownership is an important membership requirement for FHLB members and should be maintained on an on-going basis. Furthermore, access to the FHLB system should be expanded to new entities that adhere to this mission, but which can maintain robust standards of safety and soundness tailored to that particular entity's business model.

NAR believes that the FHLBs should have an ongoing requirement to investment in real estate. Without such a standard, an FHLB member could reduce or even eliminate its residential mortgage loan holdings without affecting its eligibility. Worse, perpetuating this structure could incentivize new entrants to the system to take advantage of this loophole and simply benefit from low-cost advances and liquidity without any commitment to real estate. For this reason, NAR believes that both the parent and any conduit should be held to this standard when entering the system and after.

Furthermore, rather than unnecessarily limiting participants in the system, the FHFA should develop and standardize risk management practices across the spectrum of system participants to remedy its safety and soundness concerns while still allowing new business models into the stem. To do this effectively, the following recommendations could be implemented:

- For transparency, the FHFA should require periodic reporting to the entrant's respective FHLB. This could include information on the entire counterparty including both the parent company and captive insurer, if one exists, to adequately assess financial health, investment strategy, and other risk metrics.
- FHFA could applying a more stringent mission test to new participants. If the parent of affiliates is not a REIT, FHFA should consider setting a simple, but heightened, asset (or income) test threshold. For example, FHFA could require that a significant percent of a parent's assets be real estate related, which would include both residential and commercial real estate assets.
- FHFA could apply a more stringent eligibility test to collateral by new member models, where collateral pledged for advances must be real estate related, and a higher standard of safety such as compliance with the qualified mortgage standard within the ability to repay rule.

The recommendations above are not exhaustive. The FHFA should tailor the tests, including periodic tests, to the unique structure of the new business models. For instance, non-bank lenders are more dependent on capital markets and income flows, yet they are less impacted by deposits and asset price changes, but the latter is not necessarily true of non-bank servicers. A more diverse FHLB system could benefit members through specialization, but a one-size-fits all framework for monitoring and ameliorating risk could undermine stability of the system and both the liquidity and low cost of capital benefits born by it.

An Even Better FHLB with a Renovation

Once again, thank you again for your efforts to support the nation's housing market through recent affordability challenges and in your efforts to engage a broader set of homebuyers. We look forward to working with the FHFA and FHLBs to responsibly reengage the Home Loan Banks on their mission to support broad homeownership. If you have any questions or comments, please feel free to reach out to Ken Fears, NAR's Senior Policy Representative at (202) 383-1066 or KFears@Nar.Realtor.

Sincerely,

Leslie Rouda Smith

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2022 President, National Association of REALTORS®