NATIONAL ASSOCIATION OF REALTORS®

March 24, 2023

Sandra Thompson
Director
Federal Housing Finance Administration
400 7th St. SW
Washington, DC 20024

Dear Director Thompson:

On behalf of the more than 1.5 million members of the National Association of REALTORS® (NAR), we thank you for your commitment to improving and modernizing the Federal Home Loan Bank (FHLB) system. We are pleased to submit our comments to the Notice regarding the FHLB system's Community Support Program and the opportunity to comment on members subject to review. We look forward to working with the Federal Housing Finance Agency (FHFA) and the FHLBs to reinvigorate their role in the housing finance system.

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.

The FHLB system was created during the Great Depression with the mission of supporting home ownership and stabilizing local communities, including affordable housing and other projects. While the FHLBs have been a vital resource for capital and development in states and localities for generations, we believe the time is now to look toward modernizing the current system and restoring its role in housing finance.

The country is in the midst of a housing affordability crisis, touching Americans across a wide spectrum of economic classes and backgrounds. Housing availability and affordability are at or near all-time lows, making it harder and harder for average Americans to have access to one of the greatest sources of generational wealth building: owning a home. While mortgage rates hovered around the three percent to four percent range only a year ago, they have now spiked to around seven percent. Current homeowners may choose to remain in their current home paying a significantly lower mortgage rate, thus reducing the flow of naturally occurring affordable homes for entry-level home buyers. And potential buyers will pay hundreds of dollars more per month than they were only a year ago for the same home.

Most economists agree that we will not see near-term relief as the Federal Reserve works to cool the effects of high inflation. Additionally, bank stability has been called into question following the failure of a number of medium-sized banks and weaknesses from other foreign mega-banks.

This perfect storm is creating more friction in what is already a very difficult housing market for potential buyers, one that continues to hammer minority buyers on an even greater scale.

According to NAR's Snapshot of Race and Homebuying in America, while the U.S. homeownership rate increased to 65.5% in 2021, the rate among Black Americans lags significantly (44%) and has only increased 0.4% in the last 10 years and is nearly 29 percentage points less than White Americans (72.7%). This represents the largest Black-White homeownership rate gap in a decade. Additionally, Black homeowners and renters are more cost-burdened than any other racial group where less than 10% of Black renters can afford to buy the typical home.

Fixing these problems will take bold solutions across a wide range of policies and agencies, both at the federal and the state level. One potential solution is the revitalization and refocusing of the mission of the FHLB system. The FHLBs' Congressionally-mandated mission of providing liquidity to support housing finance is a main part of the country's banking infrastructure. We believe this commitment to real estate finance and homeownership is an important membership requirement for FHLB members and should be maintained on an on-going basis. Additionally, access to the FHLB system should be expanded to new entities that are committed to this vision while retaining robust standards of safety and soundness in relation to the entities own business model.

To this end, NAR believes that the FHLBs' members should have an ongoing requirement to investment in real estate. Without this standard, an FHLB member could reduce or even eliminate its residential mortgage loan offerings without affecting its eligibility. Additional entrants may also exploit this loophole and benefit from the other advantages of the FHLB system, such as lower-cost advances and additional liquidity, all while forgoing the commitment to housing. For this reason, NAR believes that both the parent and any conduit should be held to this standard when entering the system and after.

REALTORS® believe FHFA can play a key role in opening membership to a broader range of participants while also ensuring safety and soundness from new entities with different business models. To do this, the following recommendations should 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 apply a more stringent mission test to new participants. If the parent of affiliates is not a real estate investment trust (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 (ATR) rule.

These recommendations are far from exhaustive, and we believe the FHFA should monitor the new entrants and their business models for compliance and regular checks of safety and soundness. A one-size fits all approach will not encourage the entrance of new players or maintain safety and soundness of the system. For example, a non-bank lender will have different market concerns than a traditional depository bank. A non-bank lender may find periods of stress when income-flows are reduced due to higher interest rates and a reduction in refinance volume while a traditional depository lender will have a more diverse asset portfolio as insulation from housing market difficulties and irregularities. On the flip side, a depository lender may feel constrained by an upsurge in cash withdrawals, as we have seen in the recent weeks, while non-depositories may benefit as capital flows to U.S. Treasuries, thus driving down mortgage rates and spurring potential loan volume, both in purchase and refinance.

While we understand this specialized approach is more difficult from a regulatory perspective, we believe that this is a necessary step in guaranteeing more entrants into the market and the greater likelihood of providing liquidity for affordable housing goals. A one-size fits all approach only restricts the potential for new participants and may even lead to a more vulnerable banking system in the event of a downturn.

NAR once again thanks you for this opportunity to discuss the FHLB membership. Together, REALTORS® believe we can all make a housing system that is safer, more affordable, and provides greater access to participants at a key inflection point in this current housing market. We look forward to working with the FHFA to support broad homeownership. If you have any questions or comments, please feel free to reach out to Matt Emery, NAR's Senior Policy Representative, at MEmery@Nar.Realtor.

Sincerely,

Kenny Parcell
2023 President, National Association of REALTORS®