I am Peter Knight and I appreciate the opportunity to appear on behalf of my client, the Reverend Luis Cortes, the founder and CEO of Esperanza, a nonprofit community development corporation supporting the low-income Hispanic neighborhood of Hunting Park in Philadelphia. Esperanza has an annual budget of $75 million, a real estate asset portfolio of $125 million, and more than 650 employees,. For over 20 years, Rev. Cortes served as a public interest director on the board of the FHLBank of Pittsburgh.

Director Thompson and FHFA staff should be congratulated for this **unprecedented** and **timely** review.

The question before us is how FHLBanks can use their GSE status, their capital markets position, **and** their network of members to meet our severe housing challenges. Once the review is completed, the FHFA should issue a series of regulations, supported by statute, to re-focus FHLBank efforts in affordable housing.

The FHFA should **challenge** the FHLBanks to address affordable housing with the same energy, commitment and skill they devoted to supporting a new bench mark interest rate, SOFR, to replace LIBOR. This multi-year, multi-FHLBank effort was not easy, but the FHLBanks accomplished this monumental task.

The **good** news is that FHLBanks are meeting their public purpose of providing liquidity to members. FHLBanks closed 2022 with a 133 percent increase in advances over year-end 2021. It has been reported that FHLBanks last week issued a record $304 billion in debt which no doubt supported an increase in advance levels over year-end figures.

The income generated by these advances as well as the higher investment income from a rising rate environment suggests that FHLBanks are on their way to a banner year of earnings. It is a **perfect** time for FHLBanks to consider new efforts to support affordable housing.

Esperanza's October 29 comment letter suggested a number of regulations. I will cover three today.

First, the FHFA should address FHLBank Mission.

The FHFA should use its statutory authority to define a mission that directs and empowers FHLBanks to develop products and services that address affordable housing credit needs, particularly in low income rural and urban communities. These efforts would be supported by a portion of the profits derived from government-supported lending and investments to build liquidity for long-term funding of affordable rental housing.

Second, FHFA should apply investment income from restricted retained earnings RRE to support affordable housing.

There must be a more equitable distribution of wealth generated by the FHLBanks' implicit guarantee and tax exemption.

When the REFCORP obligation expired in 2011, the FHLBanks moved to capture that income to build RRE, without any public discussion but with the support of the FHFA. Building RRE was one of the few options to build FHLBank capital and has proven to be the right move.

Today, the capital at FHLBanks is **well** above required levels, with RRE rising to over $6 billion. Based on the latest 2022 3rd quarter figures, the investment income from restricted retained earnings resulted in approximately $375 million of risk-free income for FHLBanks.

The FHFA should direct the FHLBanks to deploy the **investment** income from the restricted retained earnings to support **new** ways of meeting affordable housing challenges. If FHLBanks could initiate the building of these RRE **without** legislation and a formal rulemaking process, the FHFA would clearly be within its authority to issue a regulation and invite open comment now 12 years later.

This regulation would increase FHLBank financial support for affordable housing **without** legislation at a time it is desperately needed. It would **not** weaken the very strong capital position of the FHLBanks, while still allowing the payment of dividends to FHLBank members.

These funds should **not** be added to the AHP program but should provide credit support and other creative approaches to achieve the highest positive impact.

Finally, FHFA should direct FHLBanks to enhance liquidity for long-term funding for affordable rental housing

The FHLBanks, their AHACs and community investment teams should be proud of their affordable housing work to date. This regulatory initiative will build on their work.

The FHFA should direct FHLBanks to apply their market leadership and GSE status to develop approaches that **lower** the cost and **extend** the maturity of funding for affordable housing that supports tenants making between 40 and 60 percent of AMI.

The FHFA should **not** direct FHLBanks to undertake **explicit** programs but to devote significant time and resources to **identify** and **address** unmet needs. FHLBank ideas, expertise and ingenuity will be essential for success of these efforts.

The FHLBanks should **not** work in a vacuum, but seek out the insights and expertise of their AHACs, large members, small members, non-profits, state housing finance agencies, staff at the Office of Finance and nonmember capital market players. The goal of this effort should lead to replicable pilot programs. FHLBanks should be encouraged to support and borrow from successful efforts of other FHLBanks.

These efforts should address specific unmet needs such as long-term funding for small multifamily rental housing with 5-49 units or rental developments using single family housing stock such as the row housing prevalent in many communities in the Northwest and Midwest or manufactured housing found throughout the country.

FHLBanks should also consider targeted affordable housing investments which would represent a direct nexus between GSE funding and affordable housing. Other options might include providing credit support for affordable housing funding with letters of credit, the credit risk sharing mechanisms of the FHLBank mortgage programs, and establishing loss reserves.

In closing, on behalf of Esperanza and the community it serves, I want to thank the FHFA for conducting this review and you for your attention.