

## United States Senate

WASHINGTON, DC 20510

COMMITTEES:  
APPROPRIATIONS  
COMMERCE  
HEALTH, EDUCATION,  
LABOR, AND PENSIONS

December 7, 2023

Mr. Michael Ericson  
President & Chief Executive Officer  
Federal Home Loan Bank of Chicago  
433 West Van Buren Street  
Suite 501S  
Chicago, Illinois 60607

Dear Mr. Ericson,

I write to you out of concern for the affordable housing crisis across the nation and in Wisconsin. Over the last year, the Federal Housing Finance Agency (FHFA) has conducted a review of the Federal Home Loan Bank (FHLB) System. On November 7, 2023, the FHFA released a report sharing its findings, *FHLBank System at 100—Focusing on the Future*.<sup>1</sup> Over the coming months, as you work with the FHFA to implement the recommendations of the report, I encourage you to continue leading the way among the 11 regional Banks in offering innovative programs to address the affordable housing crisis facing so many areas of Wisconsin today. I am encouraged by the progress you have made working with my staff and housing leaders in Milwaukee to develop financial products to serve first-time homebuyers who face barriers to accessing credit in markets increasingly dominated by large, out-of-state investors. I am hopeful that your efforts will bear fruit next year.

In the nearly one hundred years the Banks have been in existence, much has changed in mortgage markets. As a result, the FHLBs' connection to the housing markets they were designed to serve has become less direct. The recent review conducted by the FHFA—intended to clarify the mission of the FHLBs—included solicitations of written input from the public as well as multiple listening sessions throughout the country. A frequent request from participants in the roundtable discussions was for the FHLB System to play a more active role in addressing the acute affordable housing crisis facing many parts of the country.

In Milwaukee, the affordable housing crisis has been exacerbated by out-of-state investors buying up single family homes. These investors are particularly attracted to urban centers hollowed out by the decline in manufacturing jobs, which provides buyers with ready access to cash the opportunity to buy many properties cheaply. As of last year, out-of-state landlords owned over 7,000 single family homes in Milwaukee, up 50 percent since 2017 and 476 percent

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<sup>1</sup> Federal Housing Finance Agency. "FHLBank System at 100: Focusing on the Future." 7 Nov 2023. Accessible at: <https://www.fhfa.gov/PolicyProgramsResearch/Programs/Pages/FHLBank-Focusing-on-the-Future.aspx>

since 2005.<sup>2</sup> Out-of-state investors typically rent their properties for well above what a homeowner would pay in monthly costs. According to an analysis by Marquette University and the Milwaukee Journal-Sentinel, out-of-state investors have almost exclusively targeted majority-Black neighborhoods in Milwaukee.<sup>3</sup>

While rental homes are an important part of meeting affordable housing needs, they should not come at the expense of first-time homebuyers looking to provide for their families, root themselves in a community, and build wealth. Unfortunately, the phenomenon in Milwaukee pits deep-pocketed and sophisticated investors against middle- and low-income families seeking homeownership. Homeownership is the most common way families build assets and wealth, yet homeownership rates have not recovered from the Great Recession, according to the 2020 Census.<sup>4</sup> Black homeownership rates nationally are below the rate in 1968 when housing discrimination was first made illegal with the Fair Housing Act.<sup>5</sup> In Wisconsin, Black homeownership rates have declined to 23 percent, the third-lowest in the nation.<sup>6</sup>

As you work to implement the recommendations in FHFA's report, I believe that the FHLB of Chicago has an opportunity to expand its role by working with lenders in Wisconsin to provide unique and innovative financial products to first-time homebuyers or mission-oriented organizations that seek to compete with out-of-state investors for properties in their communities.

The Community Development Alliance and Acts Housing are two organizations working to create a loan product for graduates of their homebuyer counseling programs, which are approved by the Department of Housing and Urban Development. These are prospective borrowers who—for any number of reasons—may not be eligible for traditional mortgage financing. The loans would be originated and serviced by Acts, which maintains the relationship with the borrower, but would be sold to banks in the region seeking credit from their regulators for lending within their communities under the Community Reinvestment Act (CRA).

The recently finalized Community Reinvestment Act (CRA) rule will increase the demand for exactly the kinds of loans that Acts and others in Milwaukee are looking to do.<sup>7</sup> The rule will evaluate banks on their lending to low- and moderate-income borrowers, with special emphasis on smaller loans. Currently, Acts and other lenders are limited by their scale and the lack of

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<sup>2</sup> Gousha, Mike and Johnson, John. "In the competition for Milwaukee's neighborhoods, out-of-state landlords remain a concern." *Milwaukee Journal-Sentinel*. 10 Nov 2022. Accessible at: <https://www.jsonline.com/story/news/solutions/2022/11/10/out-of-state-landlords-remain-a-concern-for-milwaukee-neighborhoods/69627460007/>

<sup>3</sup> *Ibid.*

<sup>4</sup> U.S. Census Bureau. "Homeownership in the United States: 2005 to 2019." Press Release. 21 Mar 2021. Accessible at: <https://www.census.gov/newsroom/press-releases/2021/homeownership.html>

<sup>5</sup> Bailey, Nikitra. "Testimony before the House Committee on Financial Services." *Center for Responsible Lending*. 10 Mar 2021. Accessible at: <https://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl-testimony-nikitra-bailey-hfsc-hearing-10mar2021.pdf>

<sup>6</sup> Bayatpour, A.J. "'We have to do more,' Wisconsin has nation's 3<sup>rd</sup> worst African-American homeownership rate." WKOW. Accessible at: [https://www.wkow.com/news/digging-deeper/we-have-to-do-more-wisconsin-has-nation-s-3rd-worst-african-american-homeownership-rate/article\\_b9d44d0b-7188-5e7e-bb00-a9fd112a6d4d.html](https://www.wkow.com/news/digging-deeper/we-have-to-do-more-wisconsin-has-nation-s-3rd-worst-african-american-homeownership-rate/article_b9d44d0b-7188-5e7e-bb00-a9fd112a6d4d.html)

<sup>7</sup> Federal Deposit Insurance Corporation. "Community Reinvestment Act." *Final Rule*. 24 Oct 2023. Accessible at: <https://www.fdic.gov/news/board-matters/2023/2023-10-24-notice-dis-a-fr.pdf>

access to a reliable secondary market, but with help from FHLB Chicago and its members, they could increase their scale to a level that could turn the tide in Milwaukee's neighborhoods.

The FHFA report noted that the agency will soon begin "requiring the FHLBanks to establish *mission-oriented collateral programs* that could improve their support of safe, sustainable housing finance and community development products *that lack a reliable secondary market outlet*" (emphasis added). While the timeline for this requirement could be over a year away, I am encouraged that it so closely mirrors your efforts with my office and Acts Housing. I hope that you will take the FHFA's proposed requirement as encouragement and not let an impending rule delay your efforts to spearhead the development of an innovative mortgage product and a reliable secondary market for its loans.

While I am greatly encouraged that you are working with FHFA to implement the recommendations of the report, I also recognize that solutions are needed now in Wisconsin. The lack of affordable housing is getting worse as interest rates are kept stubbornly high, pushing traditional mortgages out of reach for so many in our region. In closing, I want to offer my office as a resource to work with you, the FHFA, and the many mission-oriented lenders and affordable housing advocates in Wisconsin towards our shared goal. Together I believe we can increase access to affordable housing that would allow low- and moderate-income families to buy homes and begin living their American Dream.

Sincerely,

A handwritten signature in blue ink that reads "Tammy Baldwin". The signature is fluid and cursive, with the first name "Tammy" and last name "Baldwin" clearly distinguishable.

Tammy Baldwin  
United States Senator