Karen Burk: Good afternoon. Welcome to FHFA's Public Listening Session on Federal Home Loan Bank System at 100: Focusing on the Future. My name is Karen Burk. I'm Associate Director of Safety and Soundness Examinations in the Division of Bank Regulation, I would like to extend a warm welcome to all of you. Thank you for being a part of our listening session.

At this point, I would like to introduce Joshua Stallings, the Deputy Director of Division of Bank Regulation. Thank you.

Joshua Stallings: Okay. Thank you, Karen. As some of you probably surmised, I'm still relatively new to the Deputy Director position, with just a little over a month in the seat. With that said, I am not new to the Federal Home Loan Banks. And I'm looking forward to the Federal Home Bank System at 100: Focus on the Future initiative moving forward.

Let me say thank you to everyone that will be participating today, and tomorrow, and on next Tuesday. I think the interest in this initiative has proven out to be something of value. And we really look forward to all the commentary that we'll be getting from all participants.

This is the first step of this important effort, and I know I speak for all of the FHFA when I say we are here to listen. Now for opening remarks, let me introduce someone who was quick to understand, it was time for the agency to engage stakeholders to ensure we position the system appropriately moving forward. The Federal Housing Finance Agency Director, Sandra Thompson. Director.

Sandra Thompson: Good afternoon, everyone. And thank you, Joshua. And thank you, Karen. A big thank you to all of the speakers here, and the attendees for -- and the people that are joining us virtually, for being a part of our Federal Home Loan Bank System at 100: Focusing on the Future listening session event.

I'm glad to see so many groups and individuals take an interest in this particular initiative. In fact, interest has been so high that we've extended today's listening session into a three-day, three-part event. And I don't have to tell you all how important these listening sessions are. What we do and say here will affect countless stakeholders and individuals and communities all over the country. So it's vitally important for us here at FHFA to hear from a variety of perspectives that span the housing, mortgage, and community development industries.

The Home Loan Banks are important and they have a critical role in supporting affordable, equitable and sustainable housing and community development. Now many called into question the Banks' relevance when advances declined, I think they were at their lowest levels last October or November. But the banks do remain a critical source of liquidity for their members, especially during times of market stress. And especially for small and community banks that often don't have access to other sources of low-cost funding.

The Home Loan Banks also support low-income housing and community development by offering a number of programs to their members, including the AHP, or the Affordable Housing Program, the Community Investment Program, and the Community Investment Cash Advance Program.

But there is more that the banks can and should do. It's been a very long time since we've had a thorough look at the mission and purpose of the Home Loan Banks. And as we approach their 100th anniversary, now is as good a time to do that as any. We have to ensure that the banks are well positioned to serve the needs of today and tomorrow and for the next 100 years.

I've asked my team for a comprehensive review and analysis of the Home Loan Banks so that they may need -- meet the needs of today and tomorrow. Now we've done targeted reviews in the past, but we have not done a holistic view or taken a holistic approach. And so this is going to be a very comprehensive review.

But a critical part of this process is to make sure that we hear from stakeholders so that we can take into account the input that you all provide as we make decisions and recommendations. No review of the banks will be complete without your thoughts and views as we examine everything from the bank's membership base, operational efficiencies and effectiveness. And to more fundamental questions about their mission, purpose and organization in a rapidly changing marketplace.

Your input on the banks' role or potential role in addressing housing finance, community and economic development, affordability, and the unique needs of rural and financially vulnerable communities and other related issues, are going to inform our actions at every step of the process. So this is an opportunity to consider where the Home Loan Banks are performing effectively, and where there are opportunities for change and growth.

And lastly, but importantly, I do want to stress that we're here to listen. We're here to learn, and no decisions have been made. We're here to map the future of the banks, not to announce it. These listening sessions are just the beginning of our effort to gather stakeholder input.

Starting in the fall, we're also going to host regional roundtable discussions across the country, to hear from stakeholders about local issues and concerns, and to hear how and where the banks can do more to support those issues and concerns.

We really appreciate you taking the time to join us. And we look forward to your comments. And certainly we'll be taking them into consideration as we start and finish this process. And now I'll turn it back over to Karen. Thank you.

Karen Burk: Thank you, Director Thompson. All right, before we move forward with our agenda, I have a few important housekeeping items. During today's session, FHFA will not discuss the status or timing of any potential rulemaking. If FHFA does decide to engage in rulemaking on matters discussed at this meeting, the rulemaking document would establish the public comment process. And you would need to submit your comments, if any, in the course of the submission instructions in that document.

FHFA may summarize the feedback gathered at today's meeting in future rulemaking document, but we -- if we determine that a summary would be useful to explain the basis of a rulemaking.

Also, please keep in mind that nothing said in this meeting should be construed as binding on or a final decision by agencies or their staff.

Finally, we are recording this session and will also prepare a transcript of the meeting including your names and organizations that you represent. We'll post the recordings and the transcript on the FHFA website and YouTube channel along with any materials that our presenters use today.

Each speaker will have six minutes to speak. For in-person presenters, we will ask that you come up to the podium to deliver your remarks. For the virtual presenters, please turn on your cameras and unmute yourself. We ask when you're not speaking, please mute and turn off your video.

We will remind you at the five minute mark that you have one minute remaining. If you go over time, I will unfortunately have to interrupt you. I hope to not have to do that, but I do want to be mindful of other's time.

Thank you for your cooperation and for sharing your perspectives with us today. With that said, I would like to turn it over to our first speaker. Ryan Donovan, joining us from the Council of Federal Home Loan Banks, who will be followed by Ron Haynie, joining us from the Independent Community Bankers of America. Thank you.

Ryan Donovan: Thanks, Karen. Good afternoon. The Federal Home Loan Bank System is a mission driven, community centered, member focused system that works. For 90 years the Home Loan Banks' 11 regionally based independently operated, cooperatively owned, and privately capitalized wholesale liquidity providers have fulfilled a critical mission to provide on demand liquidity to support housing finance and community investment in all economic cycles and operating environments.

Fulfilment of this mission has supported housing, jobs and economic growth across the country, and underpins the stability of the financial system. We do this through our 6,500 members, the banks, credit unions, insurance companies and CDFIs that are critical to local communities.

Over the course of this listening session and the subsequent roundtables you'll hear from these members about the impact they're able to have, because of their participation with the regional Home Loan Bank, as well as the concern they have regarding potential changes that could impact them. Their story is an exciting story of relevance and impact.

The activities of the Home Loan Banks serve our overarching goal to encourage homeownership and community development by providing liquidity to the U.S. financial system. This liquidity principally comes in the form of collateralized loans or advances available to our members, a critical service the banks have been able to deliver without loss or failure for over 90 years. Our members can use this funding to support housing and mortgage finance, small business and job growth, community and economic development, and general balance sheet management.

Currently, the system has over 500 billion outstanding and it's designed to be elastic, to grow and to shrink based on our members' needs. This strengthens the nation's financial system by ensuring that financial institutions of all sizes have access to reliable liquidity in all market conditions.

Participation in a regional Home Loan Bank empowers our members to do what they do best, serve their customers, members and communities in all parts of the country. Successful execution of our mission allows Home Loan Banks to do more to support affordable housing in their regions. Each Home Loan Bank is required by law to contribute 10% of its earnings to the Affordable Housing Program. And most Home Loan Banks make voluntary contributions in addition to the statutory requirement, and they may also engage in other community investment programs as well.

Meaning that AHP is the floor not a ceiling on our commitment to addressing housing affordability. AHP supports low, very low and extremely low households as well as vulnerable, vulnerable populations, including the homeless, people with disabilities and special needs and people recovering from substance or physical abuse.

Since 1990, AHP has delivered more than $7 billion in grants and subsidized loans to affordable housing initiatives across the country, supporting the creation, rehabilitation or purchase of nearly one million affordable housing units.

To maximize the impact every dollar -- of every dollar invested through AHP, about two-thirds of the funds are used in concert with federal or federally subsidized affordable housing activities. And as a result of our efforts, communities across the country benefit from financial investment, permanent jobs and expanded revitalization efforts.

The AHP and other programs mean that Home Loan Banks don't just have an impact through their members, they have a direct impact on the communities within the regions they serve.

As member owned cooperatives, the banks are restricted to serving their members and they have a fiduciary responsibility to treat all members equally, regardless of size. Our services help level the playing field by providing a vital link to the capital markets for thousands of financial institutions of all sizes. All vital to the well-being of their communities, and many of which rely on the advances as the only way to manage interest rate risk and liquidity risks.

Our regional structure benefits our members and enables local communities because it allows the Home Loan Banks to know their members and their communities well, to understand their needs and deliver products, services and support that's relevant to them.

Concurrent with this process, the Home Loan Banks are taking time to consider and develop a vision for the future. We do this bearing in mind a few guiding principles.

First, the regional nature of the Home Loan Banks is essential to our continued success --

Voice over: One minute remaining.

Ryan Donovan: -- and communities and it must be maintained. Current members should have continued access to their regional Home Loan Bank. And finally, any changes to membership or structure should enhance the value and impact the Home Loan Banks have without adding unmitigated risk to the system.

As the agency moves forward, it's critical to keep in mind that the members of the Home Loan Banks, the people and the communities that they serve, will be the most impacted by any changes the agency or Congress may make.

We're excited that so many people have signed up to participate in this session and we look forward to hearing the stories our members will tell about why they're members of the Home Loan Bank, how they use the bank and the impact that they're able to have because of their participation in the bank. Thank you for holding this session and considering our views.

Karen Burk: Thank you. Our next speaker is Ron Haynie from the Independent Bankers of America, followed by Kenneth Fears of the National Association of Realtors.

Ron Haynie: Well good afternoon. I'm Ron Haynie. I'm Senior Vice President of Housing Finance Policy at the Independent Community Bankers of America, or ICBA as we're known in town. And I appreciate the opportunity to participate in today's listening session, and to provide ICBA's position regarding the Federal Home Loan Bank System, as part of FHFA's review of the Home Loan Bank System at 100: Focusing on the Future.

Over 95% of ICBA's members belong to their regional Home Loan Bank. In fact, many of our members participate on their boards and in committees. So to plan for the future one should certainly review and understand the past and the present state of things with the Home Loan Banks, which is the goal of these listening sessions.

I'm sure you will hear many stories of this positive impact that the Home Loan Banks have made in communities all across this country. And how they are a critical source of liquidity that have made and continue to make happen so many important community development projects. The Home Loan Banks have been a key part in helping community banks drive economic development and housing in the communities they serve for 90 years.

So as such, we would urge FHFA to first do no harm to a system that's safe and sound and fulfills its mission today. Community banks and the Federal Home Loan Banks have enjoyed a long and successful relationship over the last 90 years. Community banks provide that local knowledge, that local contact with builders, small businesses, economic development officials, community lenders, and community leaders.

While the Home Loan Banks provide the liquidity needed to get these projects done. The system expands and contracts as needed depending on the level of activity in a particular market, and the level of bank deposits needed to meet the lending needs in those communities.

And while some have suggested that the system doesn't meet the needs of today's market, our members who provided the capital to the system would suggest just the opposite. The system does work, and it works very well.

One of the main reasons that the Federal Home Loan Bank System has worked so well for 90 years is that the Home Loan Banks deal with insured potentially regulated depositories, banks and credit unions, CDFIs and insurance companies. These are entities that have capital and a balance sheet capacity to hold the eligible collateral in either whole loan form or securities, which can be used to secure an advance.

In the case of a failure of a member bank or credit union this collateral can easily be liquidated by the Home Loan Bank and the advance repaid.

Further, in the case of a bank or a credit union failure, FDIC and NCUA have provided the Home Loan Banks the ability to liquidate -- seize and liquidate that collateral that secures that advanced prior to the full resolution of a troubled institution. That shields the Home Loan Banks and its members from a loss.

While insurance companies are not federally regulated, or at least for the most part, the Home Loan Banks have worked with state insurance regulators to obtain similar agreements. Even during the worst of the 2007 financial crisis, the savings and loan crisis of the 1980s, the recent pandemic and all the various recessions and market challenges over the last 90 years, there has not been a failure of a Federal Home Loan Bank, and taxpayers have not been called on to support the system through a bailout.

The ability for community banks to access advances during times of economic stress, or when there are opportunities to increase lending, participate in a local project, help first time homebuyers, it's critical to our members as they work to serve our -- their communities.

This is why ICBA is laser focused on keeping the Federal Home Loan Bank System safe and sound, by dealing with only prudentially regulated institutions and allowing only certain types of collateral, which can be readily sold, go a long way to keeping the system safe.

The introduction of non-regulated entities and esoteric and volatile forms of collateral will lead to increased risk within the system. Including the possibility of losses or even a failure of a Home Loan Bank, thereby increasing the cost for all who use it.

While those losses and costs obviously are shared by all the members throughout the system, those increases in costs and those losses will fall the hardest on the smallest institutions that depend on the system. And those institutions do not have the access to the capital markets or other sources of wholesale liquidity.

The Federal Home Loan Banks must remain a strong, stable reliable source of funding for community banks. And as such, ICBA will oppose any changes that compromise the system's regional and cooperative nature, that permit non-depository entities that are not prudentially regulated --

Voice over: One minute remaining.

Ron Haynie: -- to access Home Loan Bank programs and services and consolidate the system, without the grassroots leadership of its member owners.

ICBA supports changes that can improve the operational efficiency of the system, such as making it easier for bank members to pledge collateral with electronic signatures. As well as initiatives that would prudently help increase the amount of affordable housing support in rural and small town communities.

I'm sure FHFA will hear many good suggestions from the current members and users of the system throughout this listening session, and the regional roundtables to come. ICBA appreciates the opportunity to participate in today's listening session. And we look forward to working with FHFA and all the stakeholders involved as this review moves forward. Thank you all.

Karen Burk: Thank you. Our next speaker is Kenneth Fears from the National Association of Realtors, followed by Joshua Yurek, Midwest Housing Development Fund.

Kenneth Fears: Good afternoon. My name is Ken Fears, I'm a Senior Policy Advisor for the National Association of Realtors (NAR). On behalf of our 1.5 million members across the country, as well as our president, Leslie Rouda Smith, I want to thank the FHFA Director, Sandra Thompson, as well as the FHFA staff for raising this very important issue at a critical juncture for our housing industry.

As most on this call are very well aware, the industry is faced by tremendous affordable -- affordability pressures with nearly tripling of mortgage rates for the last 18 months and tremendous price pressure due to a historic shortage of housing stock, some estimates between 4.5 and nine million units.

At the same time, there remains a yawning gap between homeownership for white Americans as well as community -- in communities of color. And this has only been exacerbated for some groups in the wake of pandemic.

These challenges present an opportunity for the Federal Home Loan Banks to reengage in their primary mission of home lending. We appreciate the opportunity and the first thing that that Realtors recommend the FHFA reengage on are, excuse me, the Affordable Housing Programs.

The Affordable Housing Programs, as you know, provide important liquidity and support for underserved communities. However, many realtors believe that the maximum share of homeownership set asides should be increased. In addition, the cap should be increased beyond 4.5%, excuse me, 4.5 million to reflect the sharp increase in inflation, as well as mortgage rates.

Finally, the FHLBs' mandated contribution of 10% should be increased so that the contributions that go to the homeownership set asides don't offset support for the rental side of the market.

Furthermore, the FHLBs should be encouraged to engage increasingly on -- to support the construction of housing stock at the entry level in this middle portions of the market. In terms of supporting the -- their depository base in a rising rate environment, the Federal Home Loan Banks will be called on to support depository institutions who will be faced with a dual edged sword of managing rate risk as well as credit risk.

Consequently, they should endeavor to engage in activities and products that will enable their members to offset -- offload this credit risk as their sister organizations, Fannie Mae and Freddie Mac do, in the credit risk transfer markets.

In addition, they should be encouraged to endeavor to provide support for expanded role for the members of the FHLBs to engage in the ESG, or securitization of ESG bonds.

Finally, NAR believes that the membership of the FHLBs should be expanded to incorporate additional financial institutions that have played an increasing role in providing support for housing and home lending. This includes REITs as well as insurance companies.

However, realtors believe that the FHFA should be empowered with the regulatory authority and tools it needs to provide the transparency critical for providing safety in this critical market. This would include enhanced liquidity and capital roles as well as the power to enforce best practices for these entities based on their own unique business model so that they don't in turn destabilize the Federal Home Loan Banks in this critical source of funding for the housing -- home lending environment.

Finally, all entities either new or existing or those that would become eligible for Federal Home Loan membership, should pass a stringent eligibility requirement at the time of acceptance, as well as on an ongoing basis. Once again, realtors thank the FHFA for raising this critical issue at a very important junction in our housing industry. And we look forward to a collaborative engagement on this topic.

Karen Burk: Thank you. Up next we have Joshua Yurek, from the Midwest Housing Development Fund, and he'll be followed by Glen Simecek from the Washington Bankers Association.

Joshua Yurek: Ladies and gentlemen, good afternoon. Thank you for the opportunity to present at today's listening session. My name is Joshua Yurek, and I'm the Vice President of Government Affairs for Midwest Housing Equity Group and Midwest Housing Development Fund.

Midwest Housing Development Fund is a Nebraska nonprofit corporation exempt from federal income tax, pursuant to section 501(c)(3) of the Internal Revenue Code. We're also a community development financial institution (CDFI), and a member of the Federal Home Loan Bank of Topeka.

Formed in 2000, our mission is to promote sustainable community development and quality of life in the Midwest by providing resources for the development of affordable housing. More specifically, we provide nontraditional debt financing to affordable housing developments throughout the Midwest. We've made more than $150 million in loans, helping finance thousands of safe, quality, affordable rental homes.

The needs of the Midwest are many. As it relates to affordable housing, there's a great need for both preservation and new construction. The Federal Home Loan Banks have historically played a strong role in promoting affordable, sustainable, equitable, and resilient housing.

However, we believe they can do even more without compromising the safety and soundness of their operations. Today, I make three specific recommendations that will increase the Federal Home Loan Banks' role in affordable housing, recommendations that FHFA is well suited to implement.

First, treat community development financial institutions as equal members of the Federal Home Loan Bank System. Too often CDFIs are viewed as riskier members of the Federal Home Loan Bank. The common justification is that CDFIs can't give a blanket lien on all their assets. This argument ignores the fact that the underlying collateral still must qualify in order to take an advance.

We are not suggesting collateral exceptions. Rather, CDFI advances as a percentage of assets, should be the same as those percentage of assets applicable to banks.

In addition, CDFIs should not be hit with lower lending values on the same pledged collateral. Quality qualifying collateral is quality qualifying collateral, regardless of whether it's pledged by a bank, or a CDFI.

Second, allocate more money to the AHP program. We recognize that the Federal Home Loan Bank Act requires 10% of profits be allocated to the AHP program, and we appreciate the $352 million of 2021 AHP contributions made by the Federal Home Loan Banks.

Nonetheless, FHFA should encourage the member banks to allocate an even higher percentage. Across the country, worthy applications for AHP dollars consistently exceed the funds available. In a review of the Federal Home Loan Banks' balance sheets suggest that these entities have plenty of retained earnings and are well capitalized. It's time to put more of the Federal Home Loan Bank profits to work for affordable housing development, especially considering the banks do not pay federal income tax.

Third, we ask that FHFA and the Federal Home Loan Banks align their affordable housing underwriting criteria with that of the broader financial system. One example, the Federal Home Loan

Banks exclude the value of federal low-income housing tax credits from the appraised value of collateral. This is out of step with the Federal Reserve, the OCC and the FDIC.

The LIHTC market, at 36 years, is well established with plenty of liquidity. Multibillion dollar secondary market transactions occur on a regular basis. The tax credits should be included in appraised value.

Another example is we need consistent treatment of soft financing debt when calculating loan-to-value limitations. Examples of soft funds often improperly included in LTV analysis include home funds, CDBG funds, and affordable housing trust funds. The rest of the financial system --

Voice over: One minute remaining.

Joshua Yurek: -- views these funds for what they are, important financing sources with soft repayment requirements that do not impair the first lienholders collateral value. We encourage FHFA and the Federal Home Loan Banks to take the same approach.

In sum, three recommendations today. Treat CDFIs as equal members of the Federal Home Loan Bank System, allocate more profits to the AHP program, and align underwriting requirements with those of the broader financial system. Thank you again for letting me present today. I appreciate your time, and especially your consideration of our suggestions. Thank you very much.

Karen Burk: Thank you. Our next speaker is Glen Simecek from the Washington Bankers Association, and followed by Michael Zahn from the First Federal Savings Bank. Thank you.

Glen Simecek: Good afternoon. I'm Glen Simecek, the President and CEO of Washington Bankers Association, and I appreciate the opportunity to provide comments as part of this listening tour.

My comments are based on feedback from the member banks of the Washington Bankers Association, as well as more than 15 years of having worked for the Federal Home Loan Bank of Seattle and later the Federal Home bank of Des Moines.

I've seen firsthand the benefits that the Federal Home Loan Banks can provide their members during times of crisis. The Federal Home Loan Banks were instrumental in providing liquidity during the uncertain period early in the pandemic. And then, obviously the financial crisis of 2008, but also the dot com meltdown of the early 2000’s, and the Asian financial crisis in the 1990’s.

And while bank failures occurred over this period of time, the Federal Home Loan Banks worked closely with regulators to facilitate orderly transitions, if a bank merger were necessary, and ensured that public and businesses that rely on these banks were largely unaffected.

They also reduced the risk to taxpayers from a disorderly liquidity event, such as the one that occurred with the failure of Lehman Brothers in 2008. The 2008 financial crisis was a watershed moment for the financial services industry and the Federal Home Loan Banks as well.

We saw firsthand how nontraditional lenders, and in some cases banks, deviated beyond traditional and prudent lending practices to introduce systemic risk. The proposals to expand membership to nontraditional members has the potential to introduce similar risks. While these nontraditional members may offer attractive short term advance opportunities, many lack the robust oversight that banks, credit unions, traditional insurance companies and CDFIs are subject to.

My members and I believe that the role of the Federal Home Loan Banks is to buffer crisis and we're concerned that nontraditional members will introduce more volatility, rather than helping the Federal Home Loan Banks protect depositors and small businesses.

I would also note that the financial markets are currently experiencing a once in a life -- once in a generation effort by the Federal Home -- Federal Reserve to tamp down inflation. Now before we return to a period of instability not seen since the 1970’s and 1980’s, this process will introduce significant uncertainty for our industry, and will dramatically affect returns for financial firms of all types, including those currently seeking funding from the Federal Home Loan Banks.

As we see the Federal Reserve Bank shrink their balance sheets, rates rise and housing prices potentially cresting, I'm concerned that the Federal Home Loan Banks will again be called upon to support deposit taking institutions and cannot afford to be distracted by adding a risky new business segment, particularly those without FDIC or NCUA oversight, that can increase the risk of loss to long standing shareholders.

Critics have commented that advanced demand is low right now. However, this ignores the unprecedented liquidity that has been introduced to businesses and consumers throughout the pandemic, and it is now being withdrawn.

I also want to compliment the Federal Home Loan Banks on behalf of my members. In preparation for this statement, several of my members commented on the convenience Federal Home Loan Bank membership provides them, as well as the communities and the customers that they serve.

The ability to conveniently access -- or increase or decrease advances is a tremendous advantage of meeting the needs of those businesses or homebuyers that rely on their banks, credit union and CDFIs.

Additionally, services such as security safekeeping, enable the bank to conveniently and efficiently hold collateral to pledge to the Federal Reserve, their states and in the municipalities they serve, and provide letters of credit for. Consideration should be given to changes in the banks' Affordable Housing Programs. However, I believe that before increasing the amount of AHP contributions, the programs should be evaluated to identify opportunities to streamline those processes.

I recall the incredibly burdensome obligations that were imposed on the Federal Home Loan Banks to evaluate score and monitor grant applications. In some cases, the cost of administering the grant exceeded the grant themselves. Any proposal to increase the amount of the AHP set aside should first result from savings achieved by streamlining the program rather than garnishing more of the member owners' capital to fund the program.

I believe there's opportunities to modernize the Federal Home Loan Bank System to enhance its sustainability going forward, and consideration should be given to identifying and removing potential barriers to consolidation.

I was part of the management team of the Federal Home Loan Bank of Seattle that merged with the Federal Home Loan Bank of Des Moines to form the largest Federal Home Loan Bank in the country. The merger clearly demonstrated the ability of one Federal Home Loan Bank to serve multiple geographies. The merger was particularly noteworthy as it was accomplished with that template to follow.

By combining multiple states into one Federal Home Loan Bank, the states will enjoy more, excuse me, the Federal Home Loan Banks will enjoy --

Voice over: One minute remaining.

Joshua Yurek: -- more regional diversity, improve scalability by spreading fixed costs to more members, and the ability to weather times of low advanced demand without resorting to large investment balances. The FHFA and Congress ought to identify opportunities to reduce barriers on board size and governance to more readily facilitate the consolidation of Federal Home Loan Banks. I appreciate the opportunity to contribute to this process and look forward to this dialogue going forward. Thank you.

Karen Burk: Thank you. Our next speaker is Michael Zahn from the First Federal Savings Bank, and he'll be followed by Jerry Konter of the National Association of Homebuilders.

Michael Zahn: Good afternoon. I'm Michael Zahn, President and CEO of First Federal Savings Bank located in Huntington, Indiana. We're a $425 million community bank that has served Huntington in the surrounding communities for over 110 years. We've been a member of the Federal Home Loan Bank since 1936.

Like most banks, our business model has changed over the years as our industry has changed and evolved. How we serve our customers and communities look much different today than it did when I began my banking career over 25 years ago, and I am a third generation banker.

One constant has been the support and partnership with the Federal Home Loan Bank of Indianapolis. The Federal Home Loan Bank has given us the opportunity to help our neighbors realize the American dream of homeownership.

In the heavily commoditized mortgage loan industry, in rural communities like the ones we serve, sometimes borrowers don't fit perfectly into the secondary market underwriting box. It doesn't mean that they're bad. It just means that they don't fit in a standardized underwriting system.

As a community bank that has the ability to portfolio loans and has since our inception, we were able to get these families into homes. We're able to do this due to the partnership with the Federal Home Loan Bank of Indianapolis who provides us the necessary liquidity to support our portfolio mortgage lending.

As we've evolved over the years as a bank, so has the Federal Home Loan Bank. Not only has the FHLB been there for our mortgage lending operations, we are now able to partner with them on commercial lending as well.

As a small community bank, we work with more of the mom and pop commercial customers. The Federal Home Loan Bank allows us to continue to meet their needs as they grow, thrive and exhibit the entrepreneurial spirit.

The strong relationship we have with the Federal Home Bank is due to the fact that they are in our backyard. I feel the current regional system is invaluable as our needs may be different than the needs of other banks and other areas of the country. Indianapolis understands our markets and understands the banks in Indiana and Michigan in which they serve.

I am fortunate to have friends within the industry who are currently -- who were and who also have previously served on the Federal Home Loan Bank Board. My father previously served as a board member of the Federal Home Loan Bank. This local representation gives our institution access, if there are concerns, but more importantly ensures the Federal Home Loan Bank is meeting the needs of its members responsibly. Losing that regional aspect of the current Federal Home Loan Bank System, in my opinion, would be detrimental to the members.

Our partnership extends well past liquidity for mortgage and commercial lending operations. Through the Federal Home Loan Banks' affordable housing and community investment programs, we've been able to help hundreds of families with housing needs. Through a forgivable down payment program, we were able to assist over 100 families in our communities, with more than a half a million in grants to help them achieve their dream of homeownership.

In addition, we were able to secure almost $3.5 million in grants from Federal Home Loan Bank through the Community Investment Program that helped fund five projects that created over 800 housing units.

These programs are invaluable to rural communities like the one we serve, and could mean the difference between that community thriving or dying. I'm hopeful my comments reinforced the value of the regional Federal Home Loan Bank System that has stood the test of time for almost 100 years. I appreciate the FHFA arranging this listening session and allowing me the opportunity to participate. Thanks and have a great day.

Karen Burk: Thank you. Our next speaker is Jerry Konter from the National Association of Homebuilders, and he'll be father -- followed by Robert Broeksmit of the Mortgage Bankers Association. Thank you.

Jerry Konter: Good afternoon. I'm Jerry Konter, the Chairman of the National Association of Homebuilders. And I'm a single family and multifamily builder and developer from Savannah, Georgia.

NAHB has been a strong supporter of the Federal Home Loan banking system. The system is a reliable source of liquidity for participating members, institutions and offers considerable value to homeowners, renters and communities through each banks' ability to focus on the unique needs of the region it serves.

Housing markets throughout the country face different housing challenges and have varying requirements and diverse opportunities. The regional structure of the system has contributed to the ability of each Bank to be innovative and responsive to the regional housing markets.

For instance, banks have expanded programs designed to help their members sell mortgage loans in the secondary market. These programs include the Mortgage Partnership Finance (MPF) program and the Mortgage Purchase Program(MPP). Those innovations and additional lending opportunities should be encouraged. NAHB appreciates the Federal Housing Finance Agency's focus on the Federal Home Loan Bank System. This review is happening at a critical moment for housing markets.

The persistent shortage of housing has caused an affordability crisis for millions of Americans. Yet homebuilding and home sales are slowing due to rising interest rates. In fact, NAHB is forecasting 2022 to be the first year since 2011 to record an annual decline in single family home building as a housing downturn continues.

While tightening monetary policy will weaken home sales in the short run, in the long run homebuyers and rentals -- renters will continue to face significant affordability challenges due to limited housing supply that cannot meet the long term demand for new households. Only additional building can solve this problem.

With this in mind, rising interest rates do not only affect the cost of borrowing for the homebuyers, on the supply side of the housing market, rising rates also increase the cost of developing and building new housing, further exacerbating the supply shortage.

About two-thirds of home construction is debt financed, so higher interest rates increase one element of building a home. NAHB urges FHFA to take this opportunity to work with the banks to enhance their visibility and expand their role in increasing the housing supply as a means of addressing housing affordability.

For example, the banks should be encouraged to do more to support acquisition, development and construction lending and multifamily loans. It is time to consider programs similar to the MPF and the MPP program for A, D and C financing to homebuilders and multifamily loans.

Another program the banks are using to assist consumers is the Affordable Housing Program, or the AHP. Through the AHP, banks provide options to assist low and moderate income consumers seeking to purchase, construct or rehabilitate owner occupied housing. We believe the banks could be encouraged to do more through the AHP and the areas of purchase, construction and rehabilitation of rental housing for low income households.

The regulation of the mission and safety soundness of the Federal Home Loan Bank System should reflect the uniqueness of the system's mission and its cooperative operating structure, charter type and other characteristics. This should be done while ensuring consumers benefit from the system's government sponsored enterprise status.

We urge FHFA not to undertake any changes that will diminish the favorable cost of funds for the Federal Home Loan Banks, or impair their role in providing liquidity to construction and mortgage lending institutions. Major changes should not be overtaken too quickly. The potential for unintended consequences increase if changes are not fully developed and vetted by stakeholders.

The banks should continue to serve as a key liquidity source for institutions providing housing credit. NAHB looks forward to submitting written comments. And I want to thank you all for the time you've allotted in NAHB to testify -- to give testimony today. Thank you.

Karen Burk: Thank you. Our next speaker is Robert Broeksmit from the Mortgage Bankers Association, and he'll be followed by Joseph Pigg from the American Bankers Association. Thank you.

Robert Broeksmit: Thank you to FHFA Director, Sandra Thompson, for holding this listening session on this very important issue. MBA is the national association representing the real estate finance industry with over 2,000 member companies. MBA has long supported the responsible expansion of FHLB membership eligibility to better reflect the diverse providers of single family and multifamily housing finance.

Any such expansion should be undertaken in a manner that promotes safety and soundness through appropriate risk management practices and counterparty oversight. I will focus today on maintaining safety and soundness, the benefits of a diverse Federal Home Loan Bank membership and expansion of membership to independent mortgage banks, or IMBs and real estate investment trusts.

The FHLBs have a remarkable track record of success never having incurred a loss on an advance in their nearly 90 year history. Positive features of the system that helped achieve this result should remain in place. As today's housing finance market is dominated by the securitization process, however, any comprehensive review of the FHLB system should also include examining how the FHLBs can perform their critical mission as a liquidity backstop by rethinking the type of securitization related collateral members can pledge.

One of the primary strengths of our housing finance system is the diverse nature of its providers of capital, financing, and origination and servicing activity. These functions are performed by depository and non-depository institutions of vastly differing sizes and business models, including domestic and foreign investors.

This diversity generates stronger market competition and produces greater choice, lower pricing and more favorable loan terms for consumers. The set of institutions currently eligible for direct FHLB membership does not reflect the full scope of institutions that currently play critical roles as lenders, servicers and investors.

A more diverse FHLB membership base would enhance many of the consumer benefits noted above. The FHLBs could provide liquidity to strengthen the single family and multifamily housing finance and community investment activities of a broader set of institutions, expanding access to credit on affordable terms for borrowers.

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 in the market. A responsible expansion of membership eligibility to other non-depository institutions could reverse this trend, making the FHLBs more effective providers of liquidity across the market.

Increased diversity in eligible members would also benefit the FHLBs. New classes of members would increase demand for advances, increasing FHLB earnings while reducing concentration in advances to any particular type of institution.

Much of diversity and market participants bolsters stability for the housing finance system in the aggregate, such diversity would have a similar effect on the stability of the FHLB system. IMBs and REITs are particularly well suited to attain FHLB membership. They both primarily engage in housing finance activities and maintain robust financial, operational and risk management practices.

IMBs are critical players in the housing finance system, originating more than half of single family loans. IMBs are uniquely aligned with the mission of the FHLBs. They are typically monoline companies that focus their business on mortgage origination and servicing. IMBs contributions to the mortgage market reinforce their importance in promoting homeownership.

IMBs are the predominant lenders of government insured or guaranteed loans. Markets where IMBs stepped in to fill the void that was left after the Great Recession, and thus serve a disproportionate share of first time homebuyers, low to moderate income families and communities of color. Their business model channels global investment capital into local housing markets promoting access to credit at affordable cost to borrowers.

This is particularly important as MBA and the entire industry seek to address housing affordability and the racial homeownership gap. IMBs would be required to abide by several existing FHLB requirements and safeguards and are also subject to robust regulation, supervision and licensing requirements by state regulators.

Loan officers at IMBs are licensed and subjected to stringent continuing education requirements. The quarterly financial and annual lending data that IMBs submit to their regulators could be made available to FHLB counterparties.

FHFA already sets capital liquidity and net worth requirements for IMBs that conduct business with Fannie and Freddie, and these requirements are an appropriate starting point for FHLB counterparty standards.

Mortgage REITs provide capital to support single family and multifamily housing, as well as commercial properties, and hold assets that are almost exclusively real estate related. Based on their business activities, assets and sources of income mortgage --

Voice over: One minute remaining.

Robert Broeksmit: -- REITs would almost certainly meet any tests related to alignment with the FHLBs mission. Mortgage REITs can be safe and sound counterparties for the FHLBs provided they meet minimum requirements instituted by FHFA. Mortgage REITs will be subject to the existing safeguards in the FHLB system.

Mortgage REITs that are publicly listed also must adhere to SEC requirements including quarterly and annual financial reporting, and additional reporting as determined necessary by a particular FHLB could be implemented. The business activities of these currently excluded entities are strongly aligned with the FHLB housing mission, and FHLB membership could provide added resiliency to the housing finance system if these entities could participate as members.

MBA strongly supports the responsible expansion of FHLB membership in a manner that promotes the FHLBs mission and strengthens the system safety and soundness. Increased diversity in FHLB members would more accurately reflect the breadth of institutions that contribute.

Karen Burk: Thank you. Our next speaker is Joseph Pigg from the American Bankers Association, followed by Brandon Lorey of the Bank of Clark County. Thank you.

Joseph Pigg: Good afternoon. I'm Joe Pigg with -- Senior Vice President with the American Bankers Association. The ABA represents the vast spectrum of banks in the US from the very largest banks down to some of the very smallest community banks. And our membership is also mirrors that of the Federal Home Loan Banks themselves.

My comments today reflect the long standing positions developed by ABS Federal Home Loan Bank committee and ratified through our leadership. Our view is that the Federal Home Loan Banks are working as intended and designed, providing critical liquidity to banks of all sizes and especially to community banks, in all market conditions. With advances growing in times of low deposits and shrinking when banks have increased deposits as we saw recently during the pandemic.

The cooperative nature of the system fosters a safe and sound working environment where the -- each member in each Home Loan Bank is looking over the shoulder of the other to prevent them from taking undue risks, while still allowing for innovation. Programs like the Affordable Housing Program and other Home Loan Bank programs such as the Community Investment Program fund vital and significant investments in affordable housing and other community development needs. And the regional nature of the system also provides benefits that help to identify and address localized needs in each bank district.

Some of our members have raised concerns over the years about the AHP costs, as was addressed by another commenter earlier today. And we do believe that there can be a review of the administration of the AHP, and other programs, and perhaps more efficiencies could be achieved.

Still we believe that the regional nature of the system is important in that regard, as I mentioned, so that we -- and we would resist the idea of centralizing the Affordable Housing Programs into a single entity.

There's been some discussion about membership in the system. One of the notes that I would make here is to remind everyone that membership is set by statute. And so any significant changes in membership of the system must be approved by Congress, or determined by Congress, and that the cooperative nature of the system is premised on the fact that each of the members of the system are at this point, highly regulated, examined institutions, and any changes that would be proposed to that should not upset that cooperative nature, and the safety and soundness that the current structure brings.

Similarly, the value proposition of the Federal Home Loan Banks needs to be considered when looking at potential expansion of things like the Affordable Housing Programs. We certainly agree and recognize that more needs to be done by the Home Loan Banks, by banks generally and by everyone involved in addressing the critical problem of affordable -- housing affordability in the country.

We applaud the Home Loan Banks for their engagement with members of Congress in discussing these issues and trying to find solutions. But as I mentioned, we think that again, that value proposition has to be recognized. That the AHP with funds that come from the members dividends, that would otherwise be paid to the members dividends, if that is increased to an undue level, it could dissuade membership in the system, thereby shrinking the actual funds that would be available for affordable housing. So we hope that a reasonable balance can be achieved as we look at those issues.

I want to thank FHFA for undertaking this process. We think that it's an important one and a prudent one as the system approaches 90 years. And as it moves to 100 years, and on a personal note, there's nothing that brings your own mortality into view when realizing that I have been working on online bank issues for fully a third of the system's existence.

So we appreciate being asked to speak today. Look forward to working in a collaborative manner with the FHFA and the Federal Home Loan Banks and their members --

Voice over: One minute remaining.

Joseph Pigg: -- as we find our way to possible recommendations and approaches. Thank you.

Karen Burk: Thank you. Our next speaker is Brandon Lorey from the Bank of Clark County, and he'll be followed by Eric Chader of Freedom Mortgage.

Brandon Lorey: Good afternoon everyone. And, again, thank you to the Federal Housing Association for allowing a little bank like mine to speak up here. This is really fantastic. So I'm President and CEO of Bank of Clark County. We are a true community bank, we've been in existence for about 141 years this year. We serve the Shenandoah Valley and into Loudoun County in Northern Virginia. So truly, two different aspects of what you consider. We have both very rural, and certainly some of the more urban areas.

We've seen tremendous growth, as I'm sure some of my other community bank counterparts have over the last few years. I joined the bank in 2019, right before the pandemic. Great time to start a new job. And we were $820 million, we've grown to almost $1.5 billion. And that's in large part due to the partnership we have with the Federal Home Loan Bank.

In my career I've been fortunate enough to work with three different -- fortunate or unfortunate enough if you're my wife and had to move -- but with three different of the Federal Home Loan Banks, Des Moines, Boston, and now Atlanta.

And I can tell you firsthand that the importance of having that regional break -- regional breakout is so critical and has been so critical for us. As you know, the different regions just have very different needs, you know, in -- not all rural and not all urban areas are the same.

So the Bank of Clark County has been a member since 1994. You know, we look at them regularly as a part of our liquidity management, our strategic planning. We're a current borrower today. We have not been immune to the outflow of some of the deposits that the banking system is seeing now. And with our growth, you know, certainly taken advantage of that.

We have $350 million more of capacity, which is a nice, you know, thing to have in your back pocket. We use it for -- to collateralize our public funds, yet another way that we're able to put back into the community. And we are starting -- I'm starting for the third time now with the third different Federal Home Loan Bank, the Affordable Housing Program.

Which has been just an absolutely fantastic program for us. I tell my folks that we're only as strong as the communities we serve. And it's really our duty to make sure that we're there all the time.

And so I just can't overstate the importance of the Federal Home Loan Bank for timely and reliable liquidity. If we look back at the beginning of the PPP program, we really had, you know, no idea of what was coming, we're able to very quickly grab $50 million, because we didn't know, we ended up doing $150 million in total PPP. But -- and as it turned out, we didn't need that liquidity, but you never know. And you know better to be safe than sorry.

The access, as I say to the Affordable Housing Program through the Federal Home Loan Bank has been critical in each of the markets I've worked in. And as I say, it's always been this part of our strategic planning and our outcome modeling, it just -- it's been such a great partnership. And it provides true flexibility in our balance sheet management. And I suspect that that's the same with all of our other banks. The liquidity just allows us to throw that money back into the system at a much more readily available part.

Now for the selfish part of this as to what I think we should be looking at in the future. Some of it may be a bit unpopular, so I'm going to apologize up front. And I wouldn't be a proper banker without talking about rates. Would love to see some maybe some longer term and more attractive, advanced pricing. Simply because, again, you know, being able to leverage that to put back into the community on a longer term is certainly helpful.

And then leveraging the memberships that the Federal Home Loan Bank has with other community banks, and sharing best practices around how to get that afford -- the Affordable Housing Programs really up to speed. I know in a couple of my other institutions really struggled right off the bat, and so talked to some other members and figured out exactly, okay, here's how you really need to deploy it. And I'm sure -- I know that we're not the only one who talked to other CEOs that struggle with that. And I think the Federal Home Loan Bank is in a unique opportunity to really share those best practices across the institutions.

Additionally, as a community bank, you know, vendor management, the regulatory burden of vendor management is not, is not light. And you know, we don't have the resources of the mega banks. And so you know, the expansion, if you talk about expansion of what Federal Home Loan Bank can do, you know, what other things can they offer so I don't have to go to someone else for my correspondent banking service, someone else for my small business swap business, someone else for facilitation of participations with small business. It would be great to see if we could consolidate some of that within the Federal Home Loan Bank System.

I would say from an expansion overall of the program itself into allowing other nonbanks into the market, I would certainly support that as long as it can be done in a way that would in no way negatively impact the liquidity and help that --

Voice over: One minute remaining.

Brandon Lorey: -- it provides to the other banks. And then lastly, I do want to applaud the Federal Home Loan Bank and the pilot programs that they've put in place with the digital signatures on the collateral that is such a big piece of what we're trying to do, is we're trying to eliminate paper, we're trying to be more efficient. We're trying to keep up with the big guys. And so I really do, thank Federal Bank for that. And again, thank you for letting me speak.

Karen Burk: Thank you. Our next speaker is Eric Chader from the Freedom Mortgage, and he'll be followed by Christopher Whalen from Whelan Global Advisors.

Eric Chader: Good afternoon, happy Thursday. On behalf of Freedom Mortgage, we applaud the FHFA and Director Thompson for leading this conversation and seeking input from all stakeholders on how the Federal Home Loan Bank System should evolve to best serve the needs of today's US housing finance system.

Since its inception 90 years ago, the Federal Home Loan Bank System has served as a critical source of liquidity to support housing. When Herbert Hoover signed the foundational Federal Home Loan Bank Act in 1932, he said, “its purpose is to establish a series of discount banks for home mortgages, performing a function for homeowners, somewhat similar to that performed in the commercial field by the Federal Reserve Banks through their discount facilities.”

I’d to emphasize the word for homeowners. At inception, it was recognized that the true mission of the system was for the benefit of homeowners, not particular institutions of a particular type. Hoover's statement went on to say that, "building and loan associations, savings banks, insurance companies, etc., are to be eligible for the -- for membership in the system."

In the 90 years since the Act was signed, the US housing finance system has evolved, highlighted by the dramatic changes over the last 15 years. The roles of building and loan associations and savings banks have been assumed by others, with nonbank mortgage companies as the source of most newly originated mortgage loans and other organizations like MBS REITs, serving as primary source of longer term capital.

We believe the original mission and purpose of the Federal Home Loan Bank System is still highly relevant today. But the institutions which best serve as the most effective delivery mechanisms for that mission have expanded and evolved.

For conventional and government insured and guaranteed loan programs, the role of nonbank mortgage companies is dominant. According to Ginnie Mae's global market analysis report, the percentage of agency purchased and government insured or guaranteed mortgage loans is approaching 80%.

Through a few key programs, the Federal Home Loan Banks have done an admirable job in challenge -- channeling, excuse me, channeling profits and funds for the support of affordable, sustainable, equitable and resilient housing and community investment.

However, by excluding the direct and indirect participation of nonbank mortgage companies in the Federal Home Loan Bank System, these key market participants, which provide financing for the majority of the government's housing programs are excluded. The results are the risk of limited liquidity, higher costs to these important market segments that impact, excuse me, that impact the cost of mortgages for borrowers that get financing through those institutions.

When looking at just the government insured and guaranteed mortgage programs at the FHA, VA and USDA, the essential role of the nonbank mortgage company is even more pronounced. Around 90% of the loans in these programs, which are heavily focused on affordable home financing for first time homebuyers, veterans, low to moderate income and underserved communities and minority borrowers, are provided by nonbank mortgage companies.

This is up from around 30%, less than a decade ago. In 2021, according to HMDA data, these loans serve minority homebuyers and communities and low to moderate income homeowners at a level one and a half to two times greater than conventional loans. And these loan types today are almost exclusively provided by nonbank mortgage lenders.

In the wake of the Great Recession, nonbank mortgage lenders have filled a critical gap left behind by the exit of commercial banks in the government insured and guaranteed origination space. Permitting independent nonbank mortgage companies to access Federal Home Loan Bank System is fully justified based on the critical role that they continue to contribute to the US housing finance system, and will help the Federal Home Loan Bank System to fulfill its continuing mission more effectively.

Providing liquidity for these key segments of the current housing finance system requires a broader view of the assets which the Federal Home Loan Banks finance, and a broader interpretation of membership, both of which we believe have already -- are already permitted under the Act.

Nonbank mortgage lenders who drive the housing system of today are less dependent on sources of permanent financing, a role well served by the GSEs and by Ginnie Mae. But as delivery mechanisms for these programs various forms of inner -- interim and short term financing are required.

Funding advances of amounts due from government insurance and guarantee programs, financing loans originating pending -- originated pending sales to the GSEs and Ginnie Mae, and participation interests and the cash flows from these mortgage loans are roles the Federal Home Loan Banks can serve in the modern mortgage financing system.

Allowing memberships by reversing some of the restrictions placed on insurance company memberships, provides a path under existing law --

Voice over: One minute remaining.

Eric Chader: -- to allow key participants in today's housing finance system with access to the Federal Home Loan Bank System.

Lastly, we believe that when -- while President Hoover and Congress may not have conceived how the US housing finance system has evolved from 1932 to today in the 21st century, they did have the wisdom to conceive a durable mission vision that is still relevant today. And to understand that some degree of flexibility would be needed for the system to fulfill that mission for homeowners.

Again, Freedom Mortgage thanks Director Thompson and the FHFA and staff for opening up this conversation. And we look forward to participating in the robust upcoming discussions to help enhance the achievement of the critical mission of the Federal Home Loan Banks.

Karen Burk: Thank you. Our next speaker is Christopher Whalen from Whalen Global Advisors, and he'll be followed by Cornelius Hurley from the Boston University.

Christopher Whalen: Good afternoon everyone. And I want to thank Director Thompson and FHFA for starting this discussion. I'm going to focus my comments today on the capital markets, which is where I work. I'm an adviser to many Ginnie Mae issuers. I also work with a broker dealer in New York that finances and trades TBAs in the mortgage market. So we have a very good perspective on how things are working or not.

First, I would say that, you know, this is a very timely discussion, but it's not going to change anything that's going to happen in the next 18 months. And I think, unfortunately, there's going to be enormous pressure on both the banks and the nonbanks, as we go through what could be a long recession and a long period of elevated rates.

The primary rate on one to four family mortgages is up almost 500 basis points in the last six months. So, you know, the risk that people have to manage in the markets today is just extraordinary. And the day to day movements are extraordinary.

I think just is an opening, you know, again, I'm not going to repeat any of the past comments, particularly Bob Broeksmit, who I think did a beautiful job of summarizing the case for expanded membership.

But you know, it's foolish to think we can ignore the people who do most of the servicing in the market, both for bondholders and for banks. And then, you know, just kind of throw them to the wolves.

At the present time, the Fed is causing the large banks to back away, we just had Wells Fargo depart all correspondent lending, but particularly government lending. And the larger warehouse lenders, Flagstar, Chase, really don't own the asset, they don't want to. So increasingly, financing in the government space is problematic. And I think it behooves us to have the Home Loan Banks address the entire market.

Now I've had the pleasure of working with Home Loan Banks in the past. And what I would say is that I think there's a case for, as part of this review, to kind of look at what the Fed has done operationally with credit, and capital markets activities. They do it through the Fed in New York. They concentrate the expertise.

You already see that in the Home Loan Bank System, there are certain banks that have decided to focus on certain areas. Chicago, for example, and Des Moines was mentioned earlier. And they're all very good. But I think there's a case for looking at the new group of potential members to nonbanks based on their needs, based on their use case. They are mostly selling loans into pools that are going to go in the securities. They are not typically going to hold individual loans for periods of time, maybe take them into portfolio or whatever. They don't do that, they sell loans.

So that use case I think can be managed very nicely by the Home Loan Banks. It's not that difficult. And, you know, let's face it, they've got a great record already. But if we added some of the expertise, perhaps from the GSEs, as they wind down and get rid of all their corporate debt and basically become conduits, maybe there's a case to start concentrating more expertise in the Home Loan Banks and really make them the backstop.

The other thing I wanted to say just because everybody always digs in and takes the old positions in this discussion, bank versus nonbank. Is that, you know, the commercial banks are not going to give away their nonpaying business. They are warehouse lenders to nonbanks, they call the escrows for nonbanks. They do the payments for nonbanks. They sell the nonbanks insurance sometimes.

So there's a multiplicity of touch points between the commercial banks and the nonbanks that I think, you know, frankly, they're not going to lose. They don't want to lose that business. This is nice commercial lending business.

So I would look at the Home Loan Banks as the backstop. It’s the place that people can look as we did in the ‘30s as we did in 2009, as we did in 2020, when the Home Loan Banks were the only game in town. And we have to protect them and strengthen them because that is the most important role of all, the fact that they're there.

But would nonbanks really use them that much? No, I've asked most of the issuers I work with, they would like to have it, they would like to use it a little bit. But it depends on how efficient it is. Because, you know, a nonbank wants to turn their bank line two or three times a month. Okay, that's how they work, they want to get those loans in a pool and sell them at the best premium they can get, go on to the next thing. That's how they make money.

And if you look at the more efficient commercial banks in the space, Western Alliance, Flagstar, the rest of them, they do the same thing. They are very -- almost like nonbanks, the way they address the market.

So if you look at the long term trends, which is that banks have been increasingly unwilling to do government lending, they don't even really want to do high -- low FICO high LTV lending in a conventional space. If you look at the statistics, the bank portfolio is pristine.

Voice over: One minute remaining.

Christopher Whalen: So I think, you know, banks and the nonbanks should look at working together instead of fighting, and look into ways to increase and strengthen the Home Loan Banks, which I think are one of the great examples of success in government in this country in the past century. And how do you do that? You get them to make more money, you bring them more business, you manage the risk, and I think overall we'll have a better market. Thank you.

Karen Burk: Thank you. Our next speaker is Cornelius Hurley from Boston University. After he speaks, we will take a 15 minute break. And James Lockhart from the Bipartisan Policy Center will be our first speaker when we return from break.

Cornelius Hurley: Thank you. And thank you all for your patience. Director Thompson wherever you are, members of the FHA staff, FHFA staff, I commend your vision in calling us here today. This endeavor signals significant change in the Federal Home Loan Bank System.

You have identified the issues that matter most, mission, membership, collateral, efficiency. But the most important of these is mission. Today's mission raises two significant issues. First, is the FHLB system achieving its mission? And second, is the current mission suitable for 2022 and the years beyond?

Now Mr. Donovan, our first speaker who I met today and I'm looking forward to having a working relationship with, representing all 11 banks, pointed out in a recent article that system advances are used among other things for general balance sheet management purposes.

Let us be clear, members use advances to enhance their earnings. Advances can be used for anything. They can be used for automobile loans, they can be used for commercial loans, they can even be used for the CEO’s bonus. The upshot is that there is no connection between system advances and housing finance.

Now in the coming days, and today, you have heard much about the Affordable Housing Program. AHP is admirable. However, it is a quota. It's a byproduct. It's an afterthought. It's not a key feature of the system’s operations. It should be.

Also, as you've heard today, AHP is woefully inadequate. What I want to know is why so many FHL Banks treat AHP as a ceiling, rather than the floor that it is. What I want to know is why FHLB lobbyists work so hard to prevent that quota from being raised by Congress.

In 2021, the FHLBs paid out five times in dividends to their members than what they contributed to AHP. Why isn't that ratio reversed? Isn't the access to cheap funding that FHLBs provide reward enough to being a member of a Federal Home Loan Bank?

And if that's too much for the members to tolerate, consider this. The present value of the government's guarantee of hundreds and hundreds and hundreds of billions of debt is worth itself many, many billions of dollars. It is the value of that subsidy that should be the yardstick by which affordable housings is measured.

Consider this too, member banks today choose to pay interest to their Federal Home Loan Bank rather than pay interest to their own depositors. Thus aggravating the existing economic inequality gap that we are all aware of. This is a feature of the system. It's not a bug.

So to answer the first question, is the system fulfilling its mission? I say, emphatically no. Now the second question, what should the mission be, is more challenging. Some would shrink the system and make it just available to community banks. Some would consolidate the 11 banks into one, two, three or four. Others would eliminate it entirely.

But to echo what some of the other speakers have said today, I have a different approach. Homes are served by roads, bridges, sewer systems, electricity, schools, a broadband, what we call infrastructure. And what is the value of a home if it is not affordable?

Recovering from the ravages of Hurricane Ian, is not an AHP issue. It's a systemic issue.

Voice over: One minute remaining.

Cornelius Hurley: Now the reason for this comprehensive review is not to heighten taxpayer awareness. Although it does. It is not to make minor adjustments, although it will. You will determine what must be done. But the border of your legal authority need not be the border of your imagination.

I urge you to explore what can be done. The late Senator Robert F. Kennedy famously said, some men see things that they are and ask why. Others dream of things that never were, and say why not? My banker friends, see the Federal Home Loan Banks and they say, and I quote, don't mess with success. I say we can. And we must do better.

Karen Burk: Thank you. Well, this brings us to an early break. We're going to take a break until 2:10 p.m. So and then, following our break, James Lockhart will speak, followed by David Brown. Thank you.

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Welcome back, as a reminder, we are recording this session, and will also prepare a transcript of this meeting, including your names and organizations that you represent.

So our next speaker is James Lockhart from the Bipartisan Policy Center, who will be followed by David Brown from the Gathering Tree, doing business as Community Home Lender.

James Lockhart: Good afternoon, and thank you, FHFA for having this meeting on a very important topic. I found the sessions this morning very interesting.

As you know, I was the last director of OFHEO and the first director of the Federal Housing Finance Agency. And I had the pleasure of welcoming in very turbulent times the Federal Home Loan Banks and their very important mission into the new agency.

Some may remember, I used to do a lot of slides. This is my only one today. The FHLBanks' mission is to provide their almost 6,600 members with a reliable source of funding for housing finance, community lending, and asset liability management, as well as liquidity for members' short term needs.

The Banks were in many ways the unsung heroes of the global financial crisis, despite too many of them having over invested in those toxic triple A private label mortgage backed securities. So did Fannie and Freddie for that matter.

As I was researching my upcoming book, America Underwater and Sinking, Time to Surface, I ran across a 2017 Federal Reserve paper that had a phrase that I used for the title of my chapter on the Federal Home Loan Banks.

The key quote is, “during the early part of the financial crisis, the Federal Home Loan Bank System played an important role as a lender of next to last resort” -- that's the title I used -- “by providing funding collateralized by mortgages and mortgage related assets to banks, thrifts, insurance companies and credit unions.”

The Banks did play a critical counter cyclical role even before the lender of last resort, the Fed, sprang into action. Advances peaked at over $1 trillion, 14 years ago this month. The banks continue to play this counter cyclical role when needed with COVID and even today.

As an example, over the last five years, advances have ranged from $350 billion to over $800 billion. The concentration of the members’ advances and the lenders, is an issue that has to be considered going forward for the banks.

The counter cyclical liquidity provider function is a fundamental part of their mission, coupled with the ability to provide asset liability management through the use of derivatives. This is especially important given the complexity of the 30 year fully prepayable mortgage.

The Office of Finance, which does the borrowing for the Federal Home Loan Banks and publishes the system’s annual report, was another unsung hero, as was the great FHFA team.

After I left FHFA, I joined W.L. Ross, and we invest in a handful of troubled banks. I served on the boards of two of them. And so I saw the importance of the Federal Home Loan Banks from the other side. I hasten to add, our banks all survived and helped rescue other banks.

We also invest in a handful of nonbank mortgage originator servicers, one of which tried to become a member of the bank of the Federal Home Loan Banks through a captive insurance subsidiary. That was shut down.

With well over 50% of the mortgages now originated by nonbanks, I believe the issue of membership for nonbank mortgage originators should be reconsidered. However, without the super priority over the FDIC’s claims, which was something that Sheila Bair really mad at me about, the advance mechanism -- we must be careful for the advance mechanism to be carefully structured for nonbanks to ensure that they're overcollateralized and that the nonbank has adequate capital.

Another thought is if conservatorship ever ends, maybe Fannie and Freddie should be members of the Federal Home Loan Banks. Obviously, the housing market has a great run since the global financial crisis, maybe too great. Housing equity has almost tripled from then to about $28.5 trillion, while mortgage debt is up only less than a third.

But there is a real big downside. And that is affordability is now at a 16 year low, almost reaching the peak of the last housing bubble. There has been a double whammy to affordability with mortgage rates now over 6.7% and massive housing price increases. But they're starting to fall. So we're in for some pretty rocky times going forward.

Creating affordable housing is very challenging with land prices, zoning restrictions, inflation and NIMBY. I'm in favor of fixing, improving what the banks already have, rather than creating new untested --

Voice over: One minute remaining.

James Lockhart: -- programs. The place to start is Affordable Housing Program. Should the banks look at simplifications and better practices and then seek more conformity? Especially for hard to serve communities? Should the 100 million minimum annual requirement be raised over time? Should the 10% of earnings be raised over time?

A last and probably unpopular thought, as it was when I proposed it way back in 2019, should the banks contribute to a joint rainy day fund to back up their capital? Thank you.

Karen Burk: Thank you. Our next speaker is David Brown from the Gathering Tree, doing business as Eden Village, and he will be followed by Marty Miller, Office of Rural and Farmworker Housing.

David Brown: So I have been totally over my head these talks today. [mic issues] So we became comfortable around homeless people. And we opened a drop in center for the evening to let homeless people get off the street for a few hours. And also for us to get to know them, to understand homelessness.

And so as a result of that, my thinking about homelessness is 180 degrees of what it was 12 years ago. We believe the root cause of homelessness is not drug addiction, it's not alcoholism, it's not homeless -- it’s not incarceration in the prison system, it's not mental illness. We believe the root cause of homelessness is a catastrophic loss of family.

Think about that for a minute. If I would sit down with each one of you, I bet we could find somebody that's homeless in your family or extended family, or would have been homeless if it hadn't been for the family. I have a son that would have been homeless for a portion of his life if it had not been for us.

And so your perception of homelessness begins to change when you bring it home like that. You might say, oh, I remember when I was a kid and Uncle Joe lived with us for about a year. Well the fact was, Uncle Joe was probably homeless.

Five years ago, after -- or about five years after running our drop in center, we were going home one night, and our friends trudged off into the woods and we home to a nice warm house, and my said -- wife said, what we're doing is not a solution. This is not solving the problem.

And so our dream of the tiny home village, which is what Eden village is, it's a tiny home village that houses chronically disabled homeless persons. That dream became our dream. And we found some other home -- other villages that were doing the same thing.

We had no experience, no expertise. I was an orthopedic surgeon, my wife was a nurse, and then a realtor. And we were going out to raise $3 million on an idea that had never been done before. You can imagine there our angst with that.

However, a person that joined us and helped us and he's now our CEO had worked with Community First in Austin, Texas, which is a similar project, but much bigger. And he had the expertise. So together, we put together some committees to begin to raise money and learn how to construction -- to construct this village.

Fortunately, I went to a birthday dinner one evening shortly after we started this process, and Russ Marquart, who was the president of Central Bank of the Ozarks, a member bank of the FHLB, asked what I was doing, and I told him. And he said, let me get you in touch with the Federal Home Loan Bank of Des Moines. And so he did.

So the result was I stepped my toes in the water to fill out their application. And I'd never applied for a grant of this size at all. But I can tell you that the staff at Des Moines were so helpful, not only in helping me put that grant together in the proposal, but after I submitted it, they helped me tweak it, which is not a great word these days. But we tweaked that grant so it'd be a very acceptable grant.

The -- I've never applied for a grant where they helped you after you submitted the grant. The result was we received $750,000, that was the tipping point for our Eden Village project, our first project. We had raised enough money that tipped us and over allowed us to construct, and eight months later we opened Eden village.

Since then, we have been the recipients of $2.5 million, one for Eden Village II, which we've constructed and Eden Village III, which is under construction. Needless to say, the Federal Home Loan Bank affordable housing grant was critical in us being able to do that. The ripple effect it’s made a major difference in Springfield community.

It's changed perceptions of people locally. We have financial support from all over the local community. And the Federal Home Loan Bank obviously has kind of caps all of those off. We get great media coverage. We have volunteers in the thousands that come on our village. If you spend a day at Eden Village, your perception of homelessness will change. You will no longer see that person as a homeless person, but as a person without a home. And there's a huge difference in that.

On any given night, we house more than 100 people that don't -- that are not sleeping on the street now. We have reduced the chronically homeless population by 25%.

But the ripple effect goes beyond Springfield, Missouri. We now have 11 cities in ten different states that have -- that we have licensed to begin construction of Eden village. The one most far advanced is in Wilmington, North Carolina, which will open sometime later this year.

And so part of what we offer them is Eden Village in a box. But what that means is we walk them through this process. They don't have to reinvent the wheel. And one of the major things we do is we walk them through the AHP grant process, and that's huge.

So all you Federal Home Loan Bank people out there be looking for Eden Village applications, and give them money that they need, they will do a great job with it. I can't enough --

Voice over: One minute remaining.

David Brown: -- and appreciation for what the AHP grants and Federal Home Loan Bank has done for us, for our homeless friends and for our community. Our dream is that Springfield will be a city where no one sleeps outside. Thank you Federal Home Loan Bank, and that dream.

Karen Burk: Thank you. Our next speaker is Marty Miller from the Office of Rural and Farmworker Housing, and he'll be followed by Robert Zimmer, TVDC on behalf of Community Home Lenders. Thank you.

Marty Miller: Hi and thank you. My name’s Marty Miller. I'm the Executive Director of the Office of Rural and Farmworker Housing, and I'm joining you today from Yakima, Washington, which is in the central part of Washington State. In the northwest corner of the United States.

We're a 501(c)(3) rental multifamily housing developer and CDFI. We serve rural communities and hard to serve populations, including farmworker housing, low income seniors, workforce housing, and more. A common characteristic is that these -- the communities in which we work are all -- have very low area median incomes. And as a result, hard debt is not largely a viable source because affordable rents cannot support the debt that's required.

As a result, soft debt and grants, including the Affordable Housing Program, are critical to addressing our growing affordable housing needs. And there are opportunities for improvement. I'd like to focus my comments on the AHP program, and issues we see as limiting its impact.

First, the level of investment by the AHP program is not materially impacting affordable housing efforts in our experience. Second, the rigid application of regulations are inhibiting development and innovation. And third, the FHLB's priority is to remain in the good graces of FHFA and that can discourage innovation, and exercising reasonable discretion in an ever changing economic and housing environment.

Let me elaborate on a few of those points. First, the level of investment. At up to $750,000 per project, unfortunately, that has not kept pace with construction costs. It's a gap filler that is not keeping up with the gaps. By your own figures, that represents in -- in the best cases up to 15% of the average development costs. Based on our experience, it's closer to 5% or less of development costs.

The associated AHP reporting requirements are as, or in some cases more onerous than many of the primary source -- financing source’s, despite the far smaller investment.

The interpretation of rules and regulations is also a hurdle. FHLB's cost analysis and comparisons are based on models that do not adequately capture local trends. As an example, using the average development costs identified by the Des Moines bank in 2021, the -- the average cost per unit was $150,000. In our experience in Washington state, it's close to double that.

Innovative solutions in areas like farmworker housing and transitional housing for homeless do not align well with conventional rental property underwriting and face heightened scrutiny and frequent misunderstanding.

Another point -- a reality of in the development budget -- in the development process is that budgets continually change, especially in our current environment. And those changes are often met with significant scrutiny and ongoing requirements for justification.

In extreme -- in an extreme example, one homeless provider, operating during the pandemic, was required to return a portion of their AHP award because the reserve levels that they funded exceeded the amount anticipated in the application. While there was tacit acknowledgment that the higher reserves would benefit the development, the fact that it was at odds with the FHLB regulation, overrode that reasonable accommodation, and the funds were required to be returned.

I will close with a few suggestions as we move forward. First, that I'd recommend an increase to the maximum award to something more meaningful, like at least $2.5 million. Second, if the AHP remains a gap filler rely on the other public funders to provide primary underwriting, rather than expanding a redundant bureaucracy. Relying on those federal programs for underwriting and compliance would be a good start.

And finally, if FHFA and the FL -- FHLB system want to meaningfully impact affordable housing efforts, particularly in rural communities like we serve, and I would note that your engagement and investment are desperately needed, then focusing on compliance --

Voice over: One minute remaining.

David Brown: -- and the rigid application of regulations will, at best, maintain the status quo. What is needed is increased investment, reduced bureaucracy and collaboration with local housing providers. That's our best path forward. Thank you for the opportunity to comment.

Karen Burk: Thank you. Our next speaker is Robert Zimmer from TVDC on behalf of Community Home Lenders. And he will be followed by Eddy Edwards from Lake Superior Community Development Corp.

Robert Zimmer: Thank you. Community Home Lenders of America, thank you for this forum today. And we have a narrow, relatively speaking, but very important policy idea for your consideration.

The early phase of the pandemic brought a dramatic surge in Federal Reserve purchase activity, including an acceleration of MBS purchases in a very short period of time. The scale and speed of which we had never, never witnessed in US mortgage markets.

This resulted in a sharp and rapid decrease in mortgage rates, of course, but which in turn created a major deterioration in the value of the routine pipeline hedges utilized by many lenders in the industry.

The result was mortgage bankers experiencing margin calls on their hedge positions that threatened to deplete cash on their books. In a more normalized market if interest rate changes over time, these fluctuations do not bring accelerated rates of margin calls. Lenders are able to properly time the settlement of both their loan sales and hedge positions to match cash flow and liquidity needs. Retiring the hedges once the related mortgage loans are closed and sold. And this is generally 30 to 60 days as everyone in the industry knows.

However, since the hedge positions deteriorate at such a rapid pace, the dealers who held these positions demanded the cash losses via margin call paid right away, prior to the lender closing both their hedge positions and of course, the underlying mortgage loans.

So to be clear, never heard of before, zero out of 100 analysts said the Fed was going to buy these at the pace they did. Not an issue of undercapitalized lenders short on cash. Nor did these stresses have anything to do with how well lenders had managed their underwriting, managed their balance sheets or their business. The sharp and novel Federal Reserve action presented an externality that no lender could have modeled nor foreseen. It was an unprecedented Fed action.

And this next point is key. If you remember nothing else today, because I know you want to get out of here by 4:00 p.m. If you remember nothing else, the irony is that the lenders' corresponding pipeline of mortgages was increasing in value, at the same time as the deterioration of the pipeline hedge, it was solely a difference of cash coming in and going out, and it had zero -- nothing to do with valuation, nothing to do with the business.

Thus, it makes sense for the FHFA to contemplate and direct the creation of a new Home Loan Bank program that would authorize current members of the system, depositories engaged in warehouse lending to independent mortgage bankers, to make short term advances to cover this sort of rare event. Advances could mature in 120 days and be paid off by the IMBs very similar in concept to Fed funds lent to stabilize the short term needs of banks.

And of course, if necessary, the underlying mortgages could be used as collateral. This is directly in line, by the way, with the Home Loan Bank mission for housing, and involves current members, not new members.

While the situation brought on by the pandemic resulted in a decrease in rates that precipitated these margin calls, any rapid change in rates up or down could have similar effects. A dedicated advances system that recognizes short term dislocations from Federal Reserve actions or unexpected global events makes sense.

Now you might ask, don't IMBs have the ability already to contact their warehouse banks and access liquidity for this exact situation? The answer is they do in theory, but in the practical world, such as spring 2020 event, does cause squeezes all along the plumbing. And some warehouse banks, not surprisingly, became more conservative and had to prioritize their own deployments of liquidity. So this solution, a dedicated vast program would ameliorate this concern.

Now some might say the solution here is to simply increase capital levels or liquidity requirements for lenders using pipeline hedging. Why don't we do that? They might say that with too rapid rate changes in three years' time the IMB models are vulnerable and need to change.

The answer is that higher capital or liquidity requirements for unicorn external events that no one could foresee, that had never happened before, and that will naturally resolve quickly in a short period of time. So higher capital liquidity events are a blunt instrument with blunt instrument costs. They will, by their very nature, reduce both lending levels in the universe of community lenders available to American families looking for safe mortgage products.

Generally, capital and liquidity requirements are suitable to protect investors, consumers and markets from more common risk events, or to protect the market against inefficient or frankly flawed lenders, none of whom I represent by the way.

We don't want to raise capital or liquidity for rare external events, affecting solid well manage lenders, unless we agree that consolidation of the lender market is good public policy, as opposed to many community lenders serving Main Street America.

In the interest of time, and all I wanted to do was to not get the voice of God here saying one minute remaining. In the interest of time -- although that's better than the voice of God saying you have a margin call.

In the interest of time --

Voice over: One minute remaining.

Marty Miller: We would certainly consult with the Home Loan Bank, FHFA, industry participants, anyone with an interest here on the specifics at a later date. I appreciate the opportunity to speak with you today. I've enjoyed meeting industry peers I haven't seen in a while, who are both better informed and better looking than me. And on behalf of the Community Home Lenders of America, I urge you to consider this idea carefully. Thank you.

Karen Burk: Thank you. Our next speaker is Eddy Edwards from Lake Superior Community Development Corp, and he'll be followed by Glenn Brooks from Leon Weiner & Associates.

Eddy Edwards: Good afternoon ladies and gentlemen. My name is Eddy Edwards. I'm the Founding Executive Director of Lake Superior Community Development Corp. It's a Native CDFI, certified by the US Treasury since 2009, and a 501(c)(3) operating here in Michigan.

Lake Superior Community Development was created by the Keweenaw Bay community, a federally recognized tribe, based out of the Lawrence Indian Reservation in the Upper Peninsula of Michigan.

The mission of Lake Superior Community Development is to increase the assets and self-sufficiency of Native families in Michigan through homeownership and entrepreneurship activities. I am also a three term councilman for the Keweenaw Bay Indian community, a federally recognized Indian tribe.

I'm going to talk today about access to capital and how -- what that means in Indian country because we're a lot -- a little bit different than most. Access to capital to meet our mission is critical. For most

CDFIs it is especially a difficult issue in Indian Country, where land ownership issues such as land held in trust by the federal government for the Indian tribe. And it's common for tribes to build homes on trust land, so it creates problems.

A lot of banks and systems are unfamiliar with tribal court systems and that has proven to be barriers to the secondary market and overall investment in reservation communities. So many in Indian country have been unable to access enough capital to make a difference. And we at Lake Superior Community Development know that the Federal Home Loan Bank System and particularly the Federal Home Loan Bank of Indianapolis, has helped change that dynamic in Indian country in Michigan for the better.

We sought membership in the Federal Home Loan Bank of Indianapolis four years ago to resolve this very difficult issue. And through the pandemic, which has slowed us down, we at Lake Superior Community Development can now report that our membership in Federal Home Loan Bank of Indianapolis has proven successful.

We are the smallest CDFI at the Federal Home Loan Bank of Indianapolis, but we have been treated like we are one of the biggest. We thank all the staff at the Federal Home Loan Bank of Indianapolis because they have expressed a true interest in helping us at Lake Superior Community Development meet our mission.

The Federal Home Loan Bank of Indianapolis has opened up their Affordable Housing Program and their Community Investment Program to us so that now we can access this capital and can deliver it to Indian country in Michigan.

For example, we have participated in the Federal Home Loan Bank of Indianapolis' Elevate Business Grant Program, where over the last three years, we have been able to bring over $100,000 of funding -- grant funding to Native owned businesses on the L'Anse Indian Reservation in the Upper Peninsula of Michigan. That's huge for us in this tiny little town.

Every spring we encourage other Native owned businesses in Michigan to apply to this great business program. One example, is a Native owned -- a woman owned, she's Native and she's a woman, and she owns her own business on the reservation here and it's called Backroad Organic Supply. She was awarded an Elevate Grant. She was able to build a hoop house and is -- now she's providing healthy foods to the community on this reservation, and that's a good thing.

Another example is our participation in the Federal Home Loan Bank of Indianapolis’ Neighborhood Impact Program, the NIP, that provides home repair grants to low income households. And in the last three years we have delivered over $350,000 worth of home repairs to over 50 Native households in Michigan. Thus improving the living conditions of those homeowners who would have struggled to afford these repairs that are made, including new roofs, windows and new furnaces are very common.

Just recently we were able to help a 76 year old tribal elder replace his windows to help him and his wife survive the cold winters in the Upper Peninsula of Michigan. He was so happy that we were able to improve his and his wife's living conditions.

We, at Lake Superior Community Development, have now raised our game to the level where we can participate in the Federal Home Loan Bank of Indianapolis’ community investment program, where we have pledged mortgage collateral to gain access to low interest capital, that we can use to meet our mission.

And that's the name of the game is getting access to that capital. So now we are using that capital to support our -- to support our affordable housing efforts and then it starts with the credit building efforts. We have a credit building program, so we're using that to help our clients better participate in our economy by having better credit scores.

We're also using that capital to create a down payment assistance loan program where homebuyers can access some help to close on their dream -- their home -- the home of their dream. We are of course also going to use the capital to provide more mortgages so we can increase access to affordable housing for Indian country in Michigan.

Lastly, we are now positioning ourselves to help tribal governments in Michigan get access to the --

Voice over: One minute remaining.

Eddy Edwards: -- Federal Home Loan Bank of Indianapolis’ Affordable Housing Program, where we can leverage funds like the Indian Community Development Block Grant and Indian Housing Block Grant funds to build more affordable housing in Indian country and Michigan.

We really look forward to that. And lastly, I want to thank -- thank you, the Federal Home Loan Bank of Indianapolis for partnering with us to bring in much needed capital to the Indian country. They have become a true partner of Indian country and Michigan. [Inaudible], thank you very much [inaudible].

Karen Burk: Thank you. Our next speaker is Glenn Brooks from Leon N. Weiner & Associates, and he will be followed by John Rigler, President and CEO of Peoples Bank.

Glenn Brooks: Thank you. Good afternoon. My name is Glenn Brooks, and I am the President of Leon N. Weiner & Associates, Inc. I am also an independent director on the board of the Federal Home Loan Bank of Pittsburgh. And finally, I'm a proud member of the National Association of Homebuilders.

My firm, LNWA, is a vertically integrated affordable housing company. That means that we develop, build, manage and own affordable multifamily rental housing. We have operations in nine states, three of which are in the district served by the Federal Home Loan Bank of Pittsburgh. My firm has utilized the Affordable Housing Program to help fund numerous affordable apartment complexes.

Obviously with that background, my remarks will focus on the system's impact on affordable housing and community development. The current structure of the system has proven to be effective, as my examples will show.

With respect to the system's organization, operational efficiency and effectiveness, I want to point out that the regional nature of the system allows banks to respond to the unique needs of their district through voluntary community investment programs.

For instance, in 2016 FHLB Pittsburgh quickly created a program funded with a portion of that year's Affordable Housing Program money to assist West Virginia communities impacted by flooding. That program was effective and delivered financial help to impacted areas very quickly.

I'm a former member of the FHLB Pittsburgh's Affordable Housing Advisory Council, or as we call them AHACs. So I would be remiss if I did not point out the effectiveness of these councils. I point out that collectively the system has 165 affordable housing and community development experts from across the country that serve on these councils. They enable the banks to receive real time advice to better respond to current and changing market needs that are unique to each region of the country.

I know that now as a board member, I respect AHAC members and rely on their advice to make decisions with respect to the affordable housing programs.

With respect to the Banks' role in promoting affordable, sustainable, equitable and resilient housing and community investment, that role is paramount. I point out that member banks have been able to help their communities through the Affordable Housing Program, or as it's known, AHP. As you know, AHP requires a partnership between housing sponsors and bank members.

AHP creates tremendous financial leverage, and often is the critical last piece of capital necessary to complete the capital stack on affordable housing developments. AHP is a unique funding source since it is administered by each bank individually. Each bank absorbs the cost of providing specialized staff, analytics, the technology that increases the ability of the program to respond to community needs.

In addition to AHP many banks have voluntary programs that provide flexibility to serve unique needs of each district. The Federal Home Loan Bank of Pittsburgh has a program called Home for Good that supports the homeless in our district. It's a partnership with each of our state housing finance agencies. These partnerships have allowed the bank to meet the needs of organizations dealing with the homeless without the addition of any infrastructure or in-house expertise. Home for Good has been well received in each state and has been a tremendous success.

And finally, I want to tell you about Pittsburgh’s special voluntary grant program which utilizes the regulatory AHP application and scoring structure. During the pandemic, Pittsburgh recognized with that was significantly lower advances, the resulting lower AHP amount would create a financing gap -- source gap that needed to be filled. Pittsburgh's board and management team responded with a voluntary $10 million. The voluntary grant was flexible and used to meet only in district needs.

That voluntary grant encouraged increased member participation, 27% more members submitted applications and of those applications 90% of the applications supported in-district projects. Versus 77% in 2021.

As for the system and how the banks address the unique needs of rural and financially vulnerable communities, I would point out Pittsburgh's program that helps meet the need a financially vulnerable communities. It's a voluntary program called Banking on Business, or BOB. It funds eligible small businesses that lack sufficient equity or cash flow to meet normal member lending needs. It's been very successful and help members make loans that they could not otherwise have made. And more importantly, it creates and preserves jobs for small businesses.

For 2022, Pittsburgh added a new wrinkle to the BOB program by introducing a new special purpose credit program. The new prayer -- program that we call Banking on Business Inclusion and Equity, or BOBIE, is the set aside of BOB funds targeted to minority and women owned small businesses. BOBIE is intended to meet the needs of under-representative small -- underrepresented small businesses by offering more flexible terms that are otherwise available under BOB. And it's aimed to be more favorable to minority and women owned small business borrowers.

Finally, I've seen firsthand for over 17 years, nine years as an AHAC member and eight years as a board member, that the bank system and their members --

Voice over: One minute remaining.

Glenn Brooks: -- have a long standing commitment to affordable housing. Since 1990, the banks have awarded approximately $7 billion, that's B, billion -- that’s billion with a B, in grants to help meet the nation's affordable housing needs through the Affordable Housing Program, assisting nearly a million households.

In conclusion, as an affordable housing professional, I've experienced the bank's positive impact on affordable housing creation and preservation. The regional nature of the system allows each bank to focus on the needs of their communities, and react quickly when necessary. I appreciate your time this afternoon.

Karen Burk: Thank you. Our next speaker was John Rigler, and he’s not able to -- he's not available at the moment. So we're going to move ahead to Glen Messina from Ocwen Financial and he'll be followed by Joseph Armstrong, Reliable Auto Sales. And so for speakers that are still on the list for the -- for today, please just know your time has moved up six minutes. Thank you.

Glen Messina: Thank you, and thank you for the opportunity to provide observations and recommendations regarding the future of the Federal Home Loan Bank System. I applaud Director Thompson and the FHFA for conducting this review and seeking industry input on updating the Federal Home Loan Bank System to address the substantial evolution of the housing finance system since the Federal Home Loan Banks were established nearly a century ago.

Before I discuss specifics, maybe some brief background on myself and Ocwen Financial. So I'm Glen Messina, President and CEO of

Ocwen Financial. Ocwen, through its operating subsidiary, PHH Corporation, is a nonbank, originator and servicer of both forward and reverse mortgages.

We are a top 15 correspondent lender, the fourth largest reverse HECM mortgage originator, the 14th largest servicer and seventh largest sub-servicer, that includes banks and nonbanks.

We currently hold the highest performance awards in the top tier servicing category from Fannie Mae, Freddie Mac, and HUD. And we are dedicated to supporting homeownership, and assisting homeowners who have challenges meeting their mortgage payments.

Since the financial crisis, we have private -- provided over 1.5 million borrowers with non-foreclosure alternatives and have forgiven over $19 billion of mortgage debt.

During the COVID pandemic, we consistently delivered superior operating performance against independent benchmarks for customer service, and exiting borrowers from forbearance with the reinstatement plan or loss mitigation plan in place.

Turning to the Federal Home Loan Bank System, we have seen enormous changes in the housing finance ecosystem in the last century. Depository institutions no longer conduct the majority of mortgage -- residential mortgage lending and servicing, and the majority of mortgage loans are securitized in the capital markets.

Ocwen supports the expansion of Federal Home Loan Bank membership to include independent mortgage banks, as well as expanding the definition of eligible collateral to include assets reflective of today's housing finance system rooted in securitization.

We believe that expanding eligible membership and products will improve the Federal Home Loan Bank System's ability to support homeownership, particularly in underserved communities, and lower systemic risk in the housing market more generally.

We believe nonbanks provide an important role in the US housing finance system. When the Federal Home Loan Banks came into existence, banks, thrifts and insurance companies originated and serviced virtually all mortgages in America. Today, the Urban Institute reports that nearly eight out of ten agency mortgages are originated by nonbanks.

Similarly, Inside Mortgage Finance reports nonbank service more than half of all mortgages, as measured by servicing portfolio unpaid principal balance. Furthermore, studies show that nonbanks provide a disproportionate share of lending to first time borrowers, low income communities and communities of color, which make nonbanks uniquely aligned with the mission of the Federal Home Loan Banks.

The increasing prominence of nonbanks and housing finance highlights the importance of rethinking eligible membership and eligible products of the Federal Home Loan Bank System provide liquidity and stability to the housing market and the critical segments served by nonbanks.

The Federal Home Loan Banks can be a source of stability in the nonbank mortgage sector in times of financial market dislocation. The creation of the Federal Home Loan Bank System resulted in greater liquidity and support for federally insured financial institutions originating residential mortgage loans during a variety of market dislocations.

The typical nonbank business model works efficiently and effectively through a robust system of credit facilities sourced through the broader financial markets. However, in times of market dislocation, such as in 2008, nonbank access to credit can be temporarily disrupted, even to finance high quality government or Freddie Mac and Fannie Mae backed assets such as loans, servicing or servicing advances.

Given the importance of nonbanks and securitization to the US housing finance system, expanding the membership and related products would enhance the stability of the housing market through times of crisis, which will particularly benefit underserved communities that rely most heavily on nonbanks for support.

We recognize the enhanced oversight of nonbanks would be necessary to ensure the safety and soundness of the Federal Home Loan Bank System. In addition to 50 states' supervision, --

Voice over: One minute remaining.

Glen Messina: -- federal regulation, and oversight from Fannie Mae, Freddie Mac, and Ginnie Mae, the Federal Home Loan Banks and FHFA should have sufficient oversight authority to ensure nonbank members have risk and financial management capabilities comparable to current Federal Home Loan Bank members.

As importantly, product serving nonbanks should emphasize high quality assets such as agency eligible loans, servicing and servicing advances.

To close, we believe that the Federal Home Loan Banks have been an essential source of stability in past housing crisis. We believe that by building the foundation to support the broader mortgage market, the Federal Home Loan Banks can better fulfill its core mission. And that such expansion can be done in a safe, sound manner focusing on appropriate oversight and strong collateral. We thank Director Thompson and the FHFA for this opportunity to speak and look forward to continued engagement on this issue. Thank you.

Karen Burk: Thank you. All right, we are ahead of schedule and having a couple of people that are not quite yet available. So we're going to go ahead and move ahead to David Parr from HomeStreet Bank.

David Parr: Once again, good afternoon, I'm David Parr, Executive Vice President Director of Commercial Banking at HomeStreet Bank. We're a 101 year old institution in Seattle, Washington. It's my pleasure to speak on behalf of HomeStreet in support of the FHLB.

HomeStreet Bank has been a member of the Federal Home Loan banking system since 1986. Our association with the FHLB has allowed us to support the communities we serve through the programs that have made us -- have been made available to us. Without these programs, HomeStreet would have been not able to offer many of the products and services that have benefited our customers and communities over the years.

Moreover, FHLB plays a critical role in providing liquidity to the banking system. That has never been more evident during the Great Recession, when other traditional sources of liquidity to community banks were no longer available. Because of those strong relationships with member banks, the regional FHLB banks were able to support community banks through a very difficult period. The support was a critical factor in avoiding many potential liquidity driven bank failures at the time.

In fact, HomeStreet Bank was one of the potential failures due to unfortunate -- a very unfortunate high level of residential construction lending prior to the financial crisis. And here at HomeStreet, we will never forget the pivotal role that FHLB Bank played in helping us maintain strong levels of liquidity to demonstrate to our customers, our ability to continue to be there for them. Today HomeStreet is a thriving successful institution having grown fourfold since that time.

We would like to share with you some detail with some of the FHLB programs we have benefited from over the years. HomeStreet has utilized the FHLB Affordable Housing Program, the AHP, to place families in homes that they could not have otherwise afforded to purchase them.

Through the program. HomeStreet has received over $7 million to fund our HP projects. Through HomeStreet sponsorship, our FHLB Bank awarded Habitat for Humanity of Seattle in King County $436,700 for critical repairs for qualifying homes. These funds provided for critical home repairs in King County on 24 owner occupied homes that sort of low -- low income seniors, other homeowners, with an area medium income of between 50 to 80%.

These families were unable to set aside money to pay for repairs such as roof replacement, exterior refurbishment, ramps and accessible modifications, or general preventative upkeep. Through the FHLB HomeStreet offered letters or credits to members of the community to support their business or individual needs. Specifically through AHP, HomeStreet is able to issue letters of credit to small home builders, which allows them to build the infrastructure needed to support the building of new homes.

The FHLB Public Fund privatization program provides HomeStreet with additional sources of funds to support loans for single family and multifamily projects in our communities.

And since joining FHLB, HomeStreet has made extensive use of FHLB advances that support its growth, which has allowed HomeStreet to continue to fund single family and multifamily loans during periods where loan demand has outpaced deposit growth.

With access to funding, liquidity has been a critical factor in allowing community banks such as HomeStreet to continuously serve and support our communities. Thank you for the opportunity to speak on behalf of FHLB. We appreciate the time, we'll be submitting our written statement in addition to these oral comments. Thank you.

Karen Burk: Thank you. Our next speaker is Dirk Meminger from Sauk Valley Bank.

Dirk Meminger: Thank you. Yeah, I'm Dirk Meminger, President and CEO of Sauk Valley Bank, we're in Sterling, Illinois. We operate in three counties, roughly in Northern Illinois, one county in southern Wisconsin and by and large represent rural communities. All of my comments will respond to my interaction with the, the Chicago bank, and I'll try to speak here to some of your key areas.

First general mission and, and purpose. One of the -- one of the experiences and we, we appreciate that and it's an understanding of mission and certainly the cornerstone is low and moderate income housing. But I think beyond that is, is an availability and still a focus on community and economic development.

You know, if we're building houses in communities without, without economic opportunity and basic infrastructure, you know, I don't know how far, how far that goes. So we, we try and stay focused on, you know, a broader mission, still certainly focused in the housing sector.

But this brings up one of, one of the avenues, or one of the responses that we saw from the Chicago bank during the COVID shutdown was an immediate response to push out grant funds to small businesses. And we, we were able to turn money around to small primarily retail businesses and in smaller rural communities. And I tell you, it was beyond a nicety. It's a lifeline in many cases,

So that, that was a timely response, that we very much appreciated to support the small business community. Specific to affordable, sustainable, and equitable housing, we operate in a few areas there. One of our communities is roughly 50% minority. It's a younger community.

In and around that community, we've utilized large volumes of down payment plus money to assist first time homebuyers to really clear one of the major hurdles of entering homeownership, which is with that down payment. So again, we're, we're a fan of that program, and it's worked very successfully for us.

We have an investment in a CDFI. And aside from LMI housing and revolving loan funds, another area that, that we're very pleased with is the Home Loan Bank has supported us with a couple rounds of capacity building money, really to allow us to do the deep dive, take the time to assess needs in, in the communities. And if those needs aren't being met, why not and how can we respond to it.

One of the things that came from that was our contractor capacity building program where we're helping trades people really, really develop on the business side of things and, and it becomes a win-win. We're helping for small businesses that then are turning around and assisting our low and moderate income homeowners with, with smaller renovations, additions or whatever. And again, we're just appreciative that we've got that partnership that allowed that to come about.

We utilized the AHP program, we've utilized it successfully. We've got a redevelopment in Sterling, a building downtown, various floors had been vacant some for decades, they now contain 20 low and moderate income units. They're full. And there's a waiting list. So for us, AHP has, has been successful in that funding stack. We always welcome access to more funding, we'll certainly try and put it, put it to use. But it's a success story for us.

We also utilize community advances. Yes, it's a matter of liquidity, but another, another factor I think to consider, particularly in rural communities, it's not just a matter of funding and saying can I fund this project, it’s is that project going to occur? Can the capital and resources be attracted to a rural community?

So long term fixed rate funding sometimes becomes quite important, right. It allows an incentive, if you will, for that capital, those resources to come to that community. Whether it's -- whether it's building or redeveloping housing, or whether it's in the small business sector, the ability to provide long term financing, I think is a great asset. And we've appreciated again, that partnership with the Chicago bank.

As far as addressing unique needs in rural communities, I've touched on some of that. But with another item is letters of credit. And we utilize LCs with our municipalities. Again, a lot of our municipalities, more rural communities, you know, they don't necessarily always have people beating down the door to service their needs. And, and we are able to develop long term relationships. It's not just a depository relationship, we're working -- we’re taking down bonding, debt certificates, really it is a true relationship.

But we can maintain that without really impacting negatively that liquidity position of our balance sheet, because we can utilize those letters of credit to support our municipalities. And again, I would say support our infrastructure, right. If we're going to build, we want to build on a solid foundation. I think the other comment that are an area I'd like to respond to is just in a more macro level. And that is --

Voice over: One minute remaining.

Dirk Meminger: -- the liquidity backdrop that the Home Loan Bank provides. They're always there. They're dependable. They're reliable. We pass our stress tests because we can turn and rely on the Federal Home Loan Bank.

The other comment I would make is you can tell, we -- we've worked since 1986. We have relationships in Chicago, I feel they know me, they know my team, they know our communities. And I, I value that relationship. I value the regionality. And frankly, I think that provides for a relationship and a touch and feel that we very much appreciate and I think has been deployed successfully in our communities.

So I, I thank you for this opportunity. And I, I thank you for your willingness to listen as you go through your, your information gathering and deliberation.

Karen Burk: Thank you. So we are ahead of schedule, and we are working on getting a couple of people set up online. So we're going to go ahead and move forward with our speaker here in the room. Next up is Dave Hanrahan from Century Savings Bank. Thank you.

Dave Hanrahan: Unlike the Federal Home Loan Banks, I'm ready. I'm ready even though it wasn't scheduled. Director Thompson and Associate Director Burk, thank you very much for the opportunity to comment today. My name is Dave Hanrahan. I'm President of Century Savings Bank, a small, mutually owned community bank founded in 1865, and located in South Jersey.

I had originally planned to make comments on two topics today, but having had the opportunity to hear my preceding speakers, I've decided to add a third. My points today are going to be on membership eligibility, the FHLB's responsiveness to local needs, and some myths about why and how a member institution like mine uses FHLB advances.

Starting with membership eligibility. Just about all of the prior speakers have described the critical role played by the FHLB system in providing low cost and reliable liquidity. I will not try to echo at length those sentiments, I can't out talk Joe Pigg from the ABA. He said it better than I can. I'll simply add my voice to that chorus of voices for the importance of that mission of the Federal Home Loan Bank System.

I believe the fact that the FHLB's membership is limited to prudentially regulated institutions underpins the system's ability to be such a reliable and low cost provider of liquidity. It concerns me when, like today, I hear calls for expansion of membership.

It's no accident that, as I understand it, the FHLB system has never taken a credit loss in 90 years. As a lender who makes credit decisions all the time, I wish I had a record like that, and I do not.

I'm afraid that by expanding the membership to non-prudentially regulated institutions, there could be a threat to that unblemished record. Such a threat could quite possibly drive up the cost of borrowing and operational costs of the FHLB system, which of course could increase the cost and/or availability of funding to members, and in turn the cost to homeowners and main street businesses.

I therefore ask FHFA to please consider cautiously and carefully any proposed expansion of the membership base and the potential unintended knock on effects on the cost and reliability of the system.

The second thing I'll comment on is FHLB responsiveness to local needs. My bank is a member of FHLB New York. And I want to give you an example of their responsiveness. A few years ago, Adam Goldstein, the Chief Business Officer of FHLB New York, came down to Vineland to pay me one of his regular visits. We met at a diner because we're from New Jersey. And Adam asked me the question, what else do you need?

In front of us at the diner were paper placemats, you know the kind with ads on the front and blank on the back. So I turned one over, and I sketched out all the important things FHLB New York does for us, the AHP program, reliable funding, etc.

But I said you know what we could use, we could use an advance targeted at local small businesses who want to be able to borrow at low fixed rates.

Adam listened. Thanks to his listening and his advocacy and thanks to the leadership and responsiveness of Jose Gonzalez and the rest of the FHLB New York team, late last year they rolled out the Business Development Advance program, a first of its kind for FHLB New York. I'm proud to say that my little bank was among the first participants in it.

And it enabled us to borrow money under terms that we could lend out to a local manufacturer in South Jersey, who installed more than $1 million worth of high tech equipment upgrades in his facility. Which created efficiencies for his business, energy efficiency savings, because of the newer equipment, without harming any jobs. Because he now keeps more work in-house and has better quality jobs for his guys. It was a perfect example of a win-win-win between FHLB and my little bank, and this customer of ours that benefited.

So my second ask for FHFA is that you continue to regulate the banks in a manner that permits them to innovate in the way FHLB did in this case. And I'm sure there are equally compelling examples --

Voice over: One minute remaining.

Dave Hanrahan: -- that other members of other FHLB banks could rattle off. In my remaining 45 seconds, let me address a couple of myths. It's not true that member banks take advances to enhance their earnings. It's not true that we choose to take advances and pay interest to the FHLB instead of our depositors. I'm a relationship lender.

I also like relationship deposits for that reasons. But sometimes I don't have enough relationship deposits, or sometimes there's a mismatch on ALCO, and I need to be able to borrow for five or ten or 30 years to match the funding on a fixed rate commitment I've made on the other side of my balance sheet. That's why we take FHLB advances to help with that. Thank you very much for the opportunity to comment.

Karen Burk: Thank you. All right, we have a participant that is joining us online David Reiss from the Brooklyn Law School.

David Reiss: Thank you for this opportunity to speak with you all. This review is called the Federal Home Loan Bank System at 100 Focusing on the Future. It is a bit of a misnomer, of course, as the system is only 90 years old. But the name of the review also signals that the next ten years should be a period of reflection regarding the proper role of the system and our broader financial infrastructure.

Just as the name of the review process is a bit misleading, so is the name of the Federal Home Loan Bank System itself. While it was originally designed to support homeownership, it has morphed into a provider of liquidity for large financial institutions. Banks like Chase, Bank of America, Citibank and Wells Fargo are among its biggest beneficiaries. And homeownership is only incidentally supported by their involvement with it.

As part of the comprehensive review of the system, we should give thought to at least changing the name of the system, so that it cannot trade on its history as a supporter of affordable homeownership.

But we should go even farther and give some thought to spinning off its functions into other parts of the federal financial infrastructure, as its functions are redundant with theirs.

It was not always the case that the system supported homeownership in name only. For the first decades of its existence. The Regional Federal Home Loan banks lent to their thousands of member depository institutions, mostly savings and loans, and in return for those loans, the members gave residential mortgages to their Federal Home Loan Bank as collateral.

Because of their special relationship with the federal government, the Federal Home Loan banks could borrow at lower rates in the national credit markets, and then turn around and lend those funds to their members.

Joining a Federal Home Loan Bank gave its members indirect access to capital markets so that they could borrow to improve their liquidity and increase their home lending. This was not otherwise possible for most of the system's members in the middle of the 20th century. The system thus freed up members' capital so that they could meet the increased demands for withdrawals by depositors and could continue to originate new mortgages.

The system required members to limit their customers to their local communities, thereby tying each of their fates to that of its community. After the S&L crisis hit in the 1980s, Congress dramatically changed the mission of the system. Among many other financial reforms, the 1989 Financial Institutions Reform and Recovery Act opened up membership in the Federal Home Loan Bank System to more types of depository institutions, among them commercial banks.

Commercial banks then began using the system to obtain advances that fund -- funded almost all types of financial assets, not just housing. Although the 1989 law established two Affordable Housing Programs, the Federal Home Loan Bank System was no longer focused on homeownership financing, as it had been during its early years. Rather, it had become just one of many financial sector lending facilities.

This was crystal clear within a decade. In 1998, then Treasury Secretary Rubin, stated that most of the system's investments "do nothing to support residential mortgage lending or otherwise advance the system's public purpose".

The Federal Home Loan Bank System has moved away from its mission of primarily supporting homeownership to one of primarily helping financial institutions with their liquidity needs. The system is clearly in need of reform, or at least a name change.

There is a strong argument that the system has veered so far from its original mission, that it should just be terminated. Its liquidity function should be assumed by the Federal Reserve, and its affordable housing and community development function should be taken over by other components of the Federal Housing Finance system as part of a more general congressional housing finance reform plan.

The financial industry as well as affordable housing advocates may find much to criticize in a proposal to terminate the system. The financial industry benefits from having multiple funding options of which the system is just one. Liquidity providers such as the system and the Federal Reserve have different technical requirements to access their programs. They have different philosophies about their appropriate role. They have different leaders and staff. All of these differences can play out differently at different times, particularly during a financial crisis.

During the 2008 financial crisis, many members found the system services more attractive than those of the Fed. Financial institutions will not give up this alternative without a fight.

Affordable housing advocates will also be concerned about any proposal that threatens subsidies pointing rightly to political forces that seek to shrink support for all types of affordable housing subsidies. Why, they may ask, should even the relatively small subsidies provided by the system be exposed to cuts? Such advocates might prefer a plan to rededicate the system to its original purpose, providing liquidity to financial institutions that provide mortgage credit.

Given that most financial institutions no longer really specialize in housing finance, this approach would not address the system's inherent problems. Congress has to balance these concerns regarding the legitimate functions of the system. Comprehensive reform of the entire Federal Housing Finance infrastructure is the best way to do this.

This is a better approach than engaging in piecemeal reform that may primarily benefit a subset of industry players like the current power users, users of the systems lending facilities. What is not an acceptable path forward is to allow the system --

Voice over: One minute remaining.

David Reiss: -- and its members to exploit its reputational benefits that are mostly based on what is now the ancient history of the system. Thank you for your attention.

Karen Burk: Thank you. Our next speaker is Micah Gursky from Tamaqua Area Community Partnership.

Micha Gursky: Thank you. Hi, I'm Mike, I'm from Tamaqua, Pennsylvania. It's a small Appalachian anthracite coal town in northeastern part of the state. I grew up in Tamaqua. For 16 years I served on our local town council, for eight of them as president. For the past 27 years, I have worked with a local nonprofit charity community development group called the Tamaqua Area Community Partnership.

We have -- never have had any full time employees so I moonlight as the executive director. My day job I work for the St. Luke's University Health Network, which is a hospital system. I work at the miners campus in Coaldale, Pennsylvania, and I serve as the Rural, Rural Health Clinic administrator, the largest clinic is in, in my hometown of Tamaqua.

In 2005, the Tamaqua Area Community Partnership participated in the Federal Home Loan Bank of Pittsburgh's voluntary program called Blueprint Communities, which in my almost 30 years' experience is one of the very few programs that actually invests in local capacity and underserved and particularly rural communities, but also urban communities.

It was that Blueprint Communities Program that introduced me to the Federal Home Loan Bank, and the whole Federal Home Loan Bank System. And, and actually it introduced us to the Affordable Housing Program, which we have used successfully in our historic district, in our downtown. Two of the developments that we've done since then are a block from my home. They're actually the envy of the community, because they're really nice units.

At the end of this year, I'm going to finish my third, three-year term with the Affordable Housing Advisory Council for the Federal Home Loan Bank of Pittsburgh. Having served nine years now with an organization that, in 2005, I frankly knew very little about and probably really, honestly never heard of.

And I know that there's 90 years of experience with the Federal Home Loan Bank System and there's been a lot said today, and there'll be a lot more said. And I can only tell you what I know. I know that like me personally and my wife, the loan that we got in Tamaqua was, was because of the access for that -- our bank has to, to make those loans. Because when those loan decisions are made, and there's no -- and there's, there's difficult access to, to funds, it's going to be places like Tamaqua that are going to be on the wrong side of that decision. Because we're not exactly a hot market. We bought our first house for $32,000.

I know that many people in my community are hungry for more affordable housing developments, high quality, affordable housing. And so that AHP program is really popular. I know that the FHLB that I've worked with gets input from people like me, from communities like mine, from certainly from a very diverse and focused AHAC. And then also from their member banks.

I do know that that that Blueprint Community Program, that voluntary program, has helped my community and it's helped a lot of other communities. I know that another voluntary program that the bank has, the Home for Good program has helped the homelessness organization in my county. The executive director has talked about how flexible and unbelievably flexible it is compared to the other funding that they get. And so they really like that.

I know that the people from West Virginia who were helped with that one time voluntary program to help address flooding, they're probably like me, they probably never heard of the Federal Home Loan Bank of Pittsburgh, or the Federal Home Loan Bank System. But I guarantee you, their banks did, that relationship with those member banks, because they knew to go to their co-op for quick help to help respond to that flooding.

And I know that, you know, I know that when Tamaqua, the community that I come from, we wanted to open up a coffee shop to help people in recovery to provide employment opportunities. I know that it was the Community Lending Program that make -- that made that happen. So our small local bank could lend us the money at their cost of borrowing, and make -- literally make something happen that wouldn't have otherwise happened.

And so, and I know it was that membership -- that member relationship with the bank that brought the bank board and AHAC and the president of the bank to my community to actually see the coffee shop up and operating. Because of that deep member relationship.

I guess all I can say is that I see it working. I see it in my community, I see it in Tamaqua. Whether it's the Community Lending Program or the Affordable Housing Program. But also for me with, with my mortgage, and my neighbor who went from a rent to own situation to a nonbank loan, to now she's fully banked. And I guarantee you that the only reason that she got that loan was because there was easy access to the funds to be able to do that.

I've seen the program work, I like that it works. It's a bank co-op that keeps the money flowing through our communities. And it -- that equal access for banks of all sizes, for all regions, for every geographic area, urban and rural, in the footprints. I think that's really important. It's a level playing field. And it really engages the member banks. And really, that's the point of contact for all of the activity that happens.

And most importantly to me, it keeps that money flowing in Tamaqua, so that my friends and neighbors can continue to get loans so that they can own their homes. I know it's really hard to look back on 90 years, as you're looking forward on the next 100 years. That can be very challenging.

But, you know, and it used to bother me that I never heard of the Federal Home Loan Bank of Pittsburgh or the Federal Home Loan Bank System. But you know, the more I -- the more I've been involved, the more I think that's probably a good thing. When I think of some of the federal agencies that I -- and federal -- federally supported programs, and initiated programs that I am familiar --

Voice over: One minute remaining.

Micah Gursky: -- not always that -- that's always in a proud way. And so I think the success of the Federal Home Loan Bank System over the years is a good testament. And the evolution over the years has been a good testament to meeting those specific needs, for those specific members, for those specific communities so that we can continue to do what we do. So thank you, and I really appreciate the opportunity to present here today.

Karen Burk: Thank you. All right, we have a final speaker and then Deputy Director Stallings will join us for some closing remarks. So the next speaker is John Rigler from Peoples Bank.

John Rigler: Good afternoon. Yes, my name is John Rigler, I'm Chairman and Chief Executive Officer of Peoples Bank, which is headquartered in the Des Moines metropolitan area of Iowa. I've been in the business for 45 years. My first 20 years were with a large national bank and my last 25 -- most recent 25 years have been with a smaller community bank.

I have served on the Board of Directors of the Federal Home Loan Bank of Des Moines from 2012 to 2016. And I appreciate this opportunity to join this listening session.

Obviously from all the speakers today, there are a lot of things that can be discussed about the Federal Home Loan Bank. I'd like to focus my comments on the Affordable Housing Program. As I think how the Federal Home Loan Bank System deals with affordable housing causes a number of other performance issues to be dealt with and addressed throughout of the system.

The Federal Home Loan Bank System is in the community -- in the commodity business, competing with others who provide access to credit. Selling a commodity, even cash, requires one to be lean and efficient relative to its competitors. Federal Home Loan Banks' shrinkage has been quite significant in recent years, and as system balance sheets have shrunk, earnings have shrunk and fewer dollars have gone into the Affordable Housing Program. We all know that, we all understand that.

In my view, the Federal Home Loan Banks are no longer the low cost providers of credit to many banks, credit unions and insurance companies. High governance costs, high compliance costs, high affordable housing costs have contributed to this.

In addition to the 10% of net income going into affordable housing, what doesn't get talked about very often are the formidable additional costs needed to be expended to execute the Affordable Housing Program. Those costs create significant inefficiencies. Systems, IT, personnel, clients, costs hamper the Federal Home Loan Bank from being as competitive as it could be. And it reduces resources going into the Affordable Housing Program.

I've asked many times what those additional costs are of the Affordable Housing Program. No one has ever been able to tell me what they are. But from my time on the board of the Federal Home Loan Bank of Des Moines, it was obvious they're quite significant. So I'm estimating, perhaps incorrectly, that another 10% of net income is devoted to the execution of the program. So unless somebody comes up with a better number, I'm thinking 20% of the bottom line of the Federal Home Loan Bank System goes into grants and the execution and the administration of those grants.

In my opinion, banks through their well-established, seasoned and regulated Community Reinvestment Act, or CRA, programs could easily take over the Affordable Housing Program from the Federal Home Loan Bank Systems -- System. Banks have been obligated, supervised, regulated under CRA for nearly 25 years. CRA programs are getting federally regulated, tested, proven effective and serving the needs of their communities.

Federal Home Loan Banks could simply pay that 10% of net income to CRA supervised institutions for distribution within their communities. Additionally, the Federal Home Loan Banks could relieve themselves of those very formidable costs of administering the Affordable Housing Program.

Federal Home Loan Banks would become much more cost effective and competitive in providing liquidity to its member shareholders. Balance sheets would grow, earnings would grow, the Affordable Housing Program dollars would grow.

Local financial institutions are much more prevalent and better focused on local needs. The Federal Home Loan Bank of Des Moines has members in Honolulu, Anchorage, Seattle, Portland, Sioux Falls, Minneapolis, St. Louis, Kansas City, and every other community in between those cities.

Honolulu is 4,000 miles away from Des Moines. Anchorage is 3,400 miles away from Des Moines. Those local institutions understand their community's needs better than the Federal Home Loan Bank of Des Moines. Despite the wonderful efforts from the talented people that they have dedicated to executing the programs. Those local institutions will invariably make better allocation decisions than any affordable housing staff sitting in downtown Des Moines.

Having those local customer facing institutions allocate Affordable Housing Program dollars and resources will disarm the FHFA's legitimate concerns that some entire states have never ever received a nickel of Affordable Housing Program grants. Credit unions, insurance companies, CDFIs and banks or -- not banks --

Voice over: One moment remaining.

John Rigler: -- credit unions, and CDFIs are not subject to the Community Reinvestment Act, who may very well desire to participate in the Affordable Housing Program. They should be allowed and encouraged to opt into the Community Reinvestment Act in order to receive grants.

Existing federal regulatory oversight would assure compliance with CRA, Affordable Housing Program goals and objectives. Most credit union, CDFIs and insurance companies would not be required to opt in, but they'd have that option to.

The Federal Home Loan Bank has worked well. And we use them. But it could do better. It could be more effective if it were more competitive in its services. I want to thank you. I look forward to seeing a reformed, expanded and more effective Affordable Housing Program, which gets more Americans into secure housing, which is what we're supposed to be all about. Thank you.

Karen Burk: Thank you. It looks like Joshua you have plenty of time.

Joshua Stallings: Okay, so I think we're supposed to wrap it at 4:00 p.m., so I have 33 minutes if I got it right. Yeah, so once again, let me -- on behalf of the entire agency, myself, the Director and everyone else working on this initiative, we want to thank everyone for their time today, their comments.

You know, from my, from my cramped hand of notetaking, I would say we heard quite a bit related to missions and -- mission and purpose, membership, products, efficiency, and the affordable programs. We got comments ranging on almost all the topics that we were looking for commentary on.

We also heard quite a bit of appreciation for what the system is doing, but some ideas for where things could be better. This is -- this is the purpose of what we're doing here today. And this is the purpose of what we're going to be doing tomorrow and again on Tuesday.

So I'll encourage everyone to come back again, virtually tomorrow when we pick this back up. And then again on Tuesday when we -- when we conclude, conclude activities and hear from the rest of the speakers. I, I will tell you I'll be listening just as intently through the rest of the speakers that we still have as I was today.

But thank you all for, for those that came in -- that came in person an extra thank you for being here. I know that it was a bit of -- a bit of a journey for some of you. And we really appreciated your, your efforts to be here to, to share your, your stories with us today.

So once again, thank everybody for their time. I'm going to cede back 30 minutes so everyone can get, get home a little bit earlier. So thank you all very much.