FHLBank System at 100: FHFA Listening Session 03-22-23

Please note that this transcript reflects corrections to some inaccuracies in the real time closed captioning in the Listening Sessions video

Karen Burk: Welcome to the FHFA wrap up 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 examinations in the division of bank regulation. I would like to extend a warm welcome to all of you and thank you for being part of our listening session. At this point, I would like to introduce director Sandra Thompson, who would like to welcome you all and provide you some opening remarks.

Sandra Thompson: All right, well, thank you Karen. Let me begin this wrap up session by thanking all of you for your invaluable input and assistance. We simply couldn't do this without you, and I'll have to tell you, when we started this a while ago, and I can't even remember how many months it's been, we certainly weren't expecting this level of interest, but we're so glad to have the input and participation from all of you. So I really do want to say on behalf of FHFA, thank you so very much.

I also want to take a moment to thank everyone who has been working diligently on this for the past six months, and Joshua Stallings in particular, who is our head of the division of bank regulation. He's been doing double duty working on all. I think you've been to almost all of these round tables except for jury duty, but I really just want to thank you. You jumped right off the plane and came right into a crisis and just want to publicly thank you and all the people in our division of bank regulation for the work that they've done to both support the round tables and these listening sessions that we've had around the country, as well as dealing with the issues of the past few weekends with the bank crises or bank failures.

We began this process last fall with a very pleasant surprise, and again, the interest in this initiative was so high that we had to extend our kickoff listening session from one day to three days. We more than doubled our plan number of regional round tables, and when you begin an initiative just like this one where you set large and ambitious goals, public participation like we've seen really isn't welcomed. It just is so essential and we want to make sure that the banks continue to be well positioned to serve the needs of homeowners, renters, and their communities today and in the years to come.

I'd like to share with you some of the recurring themes we've heard throughout the process to date. Overall, we've heard that the home loan banks are a stable and reliable source of liquidity, especially to smaller members who may not have access to other sources of funding, and especially during times of market stress. And this was clearly on display last week, as the home loan banks provided a record amount of advances to ensure that their members had the liquidity they needed in an uncertain market and a volatile market.

All that said, I do believe that there's an equally important second part to the bank's mission and that's the nexus back to affordable housing and community development, and we are hearing that in this area the banks could and should do more. We've also heard that we need to address challenges for those who've been historically underserved, including financially vulnerable communities, rural communities, and Native American communities. Also, CDFIs, we heard a lot at the various round tables about CDFIs, but just as importantly, we've also learned that many potential stakeholders are unaware of what the banks do and how they can be of use. So in order for the banks to reach their full potential, it's vital that we increase public awareness of the banks, their products, and their programs, particularly among those who would benefit the most. This is something that FHFA will address in the next phase of the initiative as we prepare our final report that will detail our findings and recommendations. Look forward to that report to be issued publicly later this year.

As for today's session, I am hoping to hear some ideas that are big and bold, but I also want to hear some recommendations that we can implement in the short term so that we can begin work as soon as possible. Lastly, let me emphasize again that there's no topic that's off the table and no decisions have been made yet, and when we started this process, one of the questions was, well, do you have the outcome already? And I think I've said that if I had the outcome, I wouldn't be having these sessions, we'd just announce what that was. So we really do think that this issue is so important, we wanted to get as much input as possible so that we could make some good decisions and good recommendations going forward. We're very eager to hear your feedback and I do want to thank each of you, all of you for your participation and for your valuable input. And with that, I'll turn it over to Karen. Karen, thank you.

Karen Burk: Thank you. Before we move forward with our agenda, I have a few important housekeeping items. We have organized this listening session to obtain input on issues relating to the federal home loan banks. During today's session, FHFA will not discuss the status or timing of any potential rulemaking. If FHFA does decide to engage in a rulemaking on any matters discussed today, this listening session would not take place of the public comment process. The rulemaking document would establish the public comment process and you would need to submit your comments, if any, in accordance with the submission instructions in that document. FHFA may summarize the feedback gathered at today's session in a future rulemaking document, if we determine that a summary would be useful to explain for the basis of a rulemaking.

Anything said in this session and that also includes reactions, nodding, eye-rolling should not be construed as binding on or a final decision by the director of FHFA or FHFA staff. Today's session will be livestreamed on FHFA's website and video recorded. FHFA may also prepare a transcript of today's session, which would include the names of all speakers and the organizations they represent, if any. The recording and any transcripts prepared will be posted on FHFA's website and YouTube channel, along with any materials being presented today or otherwise submitted in conjunction with the listening session.

Each speaker today will have eight minutes to speak. We will ask that you come up to the podium to deliver your remarks. We will remind you at the seven minute mark that you have one minute remaining. If you go over, I will unfortunately have to interrupt you. I hope not to have to do that, but I want to be mindful of everybody's time here today. With that said, I would like to turn it over to our first speaker, David Hunter, from the National Community Stabilization Trust, who will be followed by Michael Adelman from Ohio Banker's League. Thank you.

David Hunter: Hey, good afternoon, everyone. Thank you for the opportunity to speak today as part of the listening session and FHFA's comprehensive review of the Federal Home Land Bank System. I'm David Hunter, director of policy for NCST, it's the National Community Stabilization Trust. We're a nonprofit intermediary that works to increase and preserve the supply of affordable home ownership, single family homes for affordable home ownership and responsible rental, and to reduce the nation's persistent and unacceptable racial home ownership and wealth gaps.

Since our inception in 2008, we've facilitated the transfer of over 28,000 distressed single family homes for redevelopment by community buyers. We also created and managed the Home Ownership Alliance, which is a practitioner led collaborative comprised of 29 leading CDFIs and nonprofit housing developers across 20 states that advocate for more resources and better policies to increase affordable home ownership opportunities. So my comments today reflect both NCST's experience as a national intermediary as well as on the ground experience and practitioner expertise of Home Ownership Alliance members, including several that have participated in recent roundtables including CDCB and FAHE.

So the Federal Home Loan Bank system was created to provide reliable liquidity to financial institutions responsible for supporting home mortgage lending and community investment. The 11 federal homeland banks and their members have been strong partners of CDFI's and nonprofit housing developers over time and have delivered significant capital and mission resources for many affordable housing projects and community investment activities that would not have otherwise been financially feasible. However, recent bank failures have also highlighted not only the importance of the Federal Home Loan Bank system in providing essential liquidity to banks, but also that much of this liquidity is not being used for housing related investments or community investment activities today, which is the state of purpose of the system.

In the context of the ongoing and worsening housing supply and affordability crisis, and after taking into account statutorily mandated contributions of the banks to the affordable housing program as well as voluntary contributions to other initiatives, the sustained level of profitability within the system suggests that banks could increase their public benefit commitment without compromising system safety and soundness or other important member considerations.

In 2021, for example, and these are statistics we've all heard, mandatory contributions to AHP totaled 201 million and AHP Awards totaled 354 million, whereas the combined net income of the 11 banks totaled 1.77 billion and dividends paid to members totaled 1 billion. So from our perspective, the Federal Home Loan Banks can and should do more to advance their public benefit housing focused purpose and we call upon them to do so. As the FHFA and Congress appropriately consider requiring a higher mandatory mission contribution by the banks based on earnings generated, there are a range of mechanisms the banks could employ to respond more proportionally to the affordable housing and community investment needs going forward.

I'm going to focus on two change provisions that we urge the banks and FHFA to adopt and implement. These and other recommendations are detailed further in our comment letter that we submitted last October, but first provide expanded and more equitable access for non-depository CDFI members to advances for investments in underserved communities. The collateral valuation methodologies and haircuts applied to advanced requests for non-depositories today range from 10% to 90%, and they're a consistent obstacle to full participation by these members in core Federal Home Loan Bank offerings. While the policies were designed to offset credit risk, they also significantly constrained lending and investment in many underserved markets, thus limiting the overall mission impact and system reach where it's needed the most. To enable non-depositories to access full advances while meeting important safety and soundness standards, the Federal Home Loan Banks should establish and fund a reinsurance pool as a first loss backstop on these advances.

Bank resources such as retained earnings used to capitalize such a pool could count as a mission contribution in the year the commitment is made and offset any increase in mandatory minimum contributions above the current 10%. Second, FHFA should encourage or require each Federal Home Loan Bank to create an affordable home ownership strategy and a new dedicated funding stream to ensure that more entry level homes are produced and made available for low and moderate income home buyers, including first time home buyers and first generation home buyers.

This is key to solving the national housing crisis, for without a major increase in the production of affordable homes, many low and moderate income families will continue to be priced out of the market, including by institutional investors and all cash buyers and will instead be forced to pay rising rents that their incomes cannot sustain. To ensure that these resources reach home ownership projects that are prioritized locally, but that may not score competitively in the already over-subscribed AHP program, which award data show skews in favor of rental unit production over owner occupancy units by as much as four to one. Each Federal Home Loan Bank should allocate and award these funds separate from existing AHP funding pools and resources.

So in conclusion, the Federal Home Loan Banks are really important partners that non-depository CDFIs and non-profit housing developers count on to deliver needed capital and subsidy resources for housing investments in underserved communities. However, the system can and must do more to fulfill its public purpose mission and to address the nation's severe housing crisis today and growing affordable housing needs going forward. Thank you.

Karen Burk: Thank you. Our next speaker is Michael Adelman from Ohio Bankers League, and he'll be followed by Randall Hultgren from Illinois Bankers Association.

Michael Adelman: Thank you. Good afternoon. My name is Mike Adelman and I'm president and CEO of the Ohio Bankers League, and on behalf of our membership, which is inclusive of the banks and thrifts in the State of Ohio, we appreciate an opportunity to be at the table here and provide some remarks. On behalf of the OBL'S 170 members of which 98% of them are members of the Federal Home Loan Bank of Cincinnati and take part in every program the bank has to offer, we applaud the critical role you serve. Generally OBL, on behalf of our members, believes the Federal Home Loan Bank system is working as intended, designed to provide critical liquidity to banks of all sizes in all market conditions and advances growing in times of low deposits and shrinking when banks have increased deposits. The cooperative structure of regulated institutions allows the system to operate in a safe and sound manner.

Consumers are protected from the harshest impacts of economic volatility due to the liquidity backstop provided by the FHOB. This system has been tested many times over the Federal Home Loan Bank's 90 year history and it has proven time and time again to work under unprecedented economic times. Most recently, the Federal Home Loan Bank system and specifically the Federal Home Loan Bank of Cincinnati, have again proven more than capable of fulfilling its liquidity mission to members during the uncertain market environments as well as calmer cycles. Over the past two decades alone, the Federal Home Loan Banks have responded quickly and efficiently. In the Great Recession, the Covid pandemic and with the most recent crisis. They are a reliable, steady partner and a source of liquidity among other products and services in all types of economic environments.

The OBL urges extreme caution in considering any changes that would introduce unnecessary risks to the health of the system. Crucial to the banking industry is the stability of home loan bank system. The nature of the system is premised on the fact that all current members of the system are highly regulated and examined institutions. We are concerned that any proposed changes to membership will upset the safety and soundness of the current structure. Nonbank entities have long advocated for membership into the FHLB system. We believe until those lenders have similar capital and regulatory requirements, their entrance into the system will make it less safe and inviting unregulated entities who are subject to none of the same standards into the system under the auspices of increasing access to credit would undermine those inherent safeguards, excuse me, and risks, repeating the mistakes which led us to the last financial crisis and the conservatorship of other governmental sponsored enterprises.

There has been some discussion during those listening tour about reducing the number of regional banks in the system to achieve efficiencies. While that may be true, we believe a centralized system will harm some of the other stated goals, such as better addressing affordable housing. Ohio has a unique economy, from major metro areas, sprawling, rural farmlands and expansive Appalachia. We have individual needs that should be considered when addressing homeownership and economic inclusion. The idea of discarding the regional structure for the sake of efficiencies would all but ensure that affordable housing investments overlook the individual needs of the local communities. It would be impossible for a centralized program to know more about those local communities than the current regional system.

The Federal Home Loan Bank of Cincinnati has invested almost $1 billion into their affordable housing program to develop more than 102,000 affordable housing units. Some commenters have discussed the need to increase the statutorily required percentage of the Federal Home Loan Bank proceeds into the AHP. Why we believe everyone should be doing more to address the critical problem of affordable housing across this country, we caution the FHFA in increasing the percentage without carefully assessing unattended consequences.

AHP funds come from the Federal Home Loan Bank members' dividends. These are funds that would otherwise be paid out to those member institutions. If it is increased to an undue level, it could dissuade membership, thereby shrinking the actual funds that would be available for affordable housing. We do believe that there should be a review of the administration of the AHP and perhaps more efficiencies could be achieved, but we still believe that the regional nature of the system is important to address the actual local housing needs.

As far as big and bold, might I suggest not losing sight of all of the good the Federal Home Loan Bank system has done and is currently doing, and maybe the best approach would be modest tweaks of the dial. I am not convinced raising awareness with different constituencies really fits the mission, since lenders are the membership. I am grateful for this opportunity to share remarks on behalf of Ohio's banks and thrifts. I also express appreciation to LaRhonda and Gwen for being in Athens last month and taking seriously what the different panelists had to share. So thank you very much and appreciate this opportunity.

Karen Burk: Thank you. Our next speaker is Randall Hultgren from the Illinois Bankers Association, and he'll be followed by Russell McIntyre from CoreLogic.

Randall Hultgren: Good afternoon. My name is Randy Hultgren, president and CEO of the Illinois Bankers Association, which represents over 260 banks of all different sizes throughout Illinois, and nearly all of our members are also members of the Federal Home Loan Bank of Chicago. I was privileged to serve in Congress for four terms and served on the House Financial Services Committee during that time. I also previously worked in a bank, but it wasn't until my current role at the Illinois Bankers Association that I fully appreciated the value of the Federal Home Loan Banks. I've also come to view the Federal Home Loan Banks as a success story for Congress, which is not something that is said very often.

Congress had the foresight to design the Federal Home Loan Banks as regional cooperatives, meaning that they're owned and run by the member institutions. This ensures that each Federal Home Loan bank is focused on serving the liquidity needs of the members in their district. As a result, the commercial banks and thrifts in Illinois that I work with view the Chicago Federal Home Loan Bank as a trusted advisor and partner in their success. The members own the Federal Home Loan Banks and they constitute the majority of the Board of directors, and crucially, it's their capital at risk that allows the Federal Home Loan Bank to generate the profits and fund all of the worthwhile activities, including their many affordable housing and community investment programs.

To be successful, a cooperative needs to ensure members of all sizes are included and served. Borrowings from large banks provide the Federal Home Loan Banks with the size, scale and profits needed to most effectively serve smaller institutions. It all works very nicely together. Limiting access to the Federal Home Loan Banks from the larger institutions will only shrink the system and reduce the profits available for affordable housing.

Congress created the Federal Home Loan Bank system in 1932 during the Great Depression, at a time when more than 1700 thrift institutions had failed. Something needed to be done. Modeled on the Federal Reserve Banks, the Federal Home Loan Banks were intended to be to stop further failures by providing liquidity for the mortgage loan thrifts held on their balance sheets. This was before the creation of the FDIC in 1933. So right from the beginning, a key purpose of the Federal Home Loan Banks was to provide liquidity to stop bank runs, assured depositors that their money was safe and add stability to the financial system.

Recently, we have seen Federal Home Loan Bank liquidity used in this same purpose, which has been an invaluable source of stability for banks and thrifts across the country. Last week, the Federal Home Loan Banks raised more money in a single day for its members than in history. Bond investors around the world want and value Federal Home Loan Bank debt, particularly in times of market turbulence. This is what Congress intended. Banks know they can rely on the Federal Home Loan Bank to be there when they need it the most. Acting as a reliable source of liquidity is central to the Federal Home Loan Bank's mission and must be preserved.

The performance of the Federal Home Loan Banks in the past two weeks conclusively puts to rest criticism that the Federal Home Loan Banks are no longer relevant to their members or to the broader financial system. Federal Home Loan Bank liquidity promotes housing finance and home ownership, even when the funding is used for non-housings purposes such as small business or agriculture lending. The economic development created by such funds helps communities prosper. It creates jobs, it creates growth, both of which are necessary for sustainable housing and home ownership.

During the review, there has been some debate about the mission of the Federal Home Loan Banks. Is it to provide liquidity to members or must the funds only be used for housing? Some have declared the Federal Home Loan Banks have a dual mission of liquidity and affordable housing. There has also been debate about whether to allow entities such as independent mortgage banks and REITs to join the Federal Home Loan Banks, but it's important to remember that the mission and membership of the Federal Home Loan Banks is determined by Congress. Only Congress can expand, or restrict or change it.

If Congress thinks the role of the Federal Home Loan Banks should be updated to reflect changes in the financial markets generally, it has never been shy to act. Major revisions to the Federal Home Loan Bank Act were enacted in 1987, 1989, 1999, 2008, and recently in 2014. In the absence of congressional action, the regulator should proceed cautiously. For example, some have called for advances to only be used for housing. However, money is fungible. It's not possible to track how these funds are deployed by members, but the mission of the Federal Home Loan Bank has been largely determined by the collateral that Congress allows members to pledge. It ensures that there is a connection between the advances and how they are used, and Congress has expanded the list over time.

Today, larger banks, credit unions, insurance companies and CDFIs must pledge housing related collateral, while smaller banks can also pledge small business, agribusiness and agricultural loans. This change has effectively expanded the Federal Home Loan Bank mission to support economic development, provided it flows through community financial institutions. Similarly, Congress has determined that membership questions over the years by expanding the list of entities that are eligible to join the Federal Home Loan Banks.

Thrifts and insurance companies were the original members, but Congress added commercial banks and credit unions following the savings and loan crisis, and later allowed non-depository CDFIs and privately insured credit unions to join. Therefore, my advice is to leave questions around membership in the Federal Home Loan Banks to Congress. As the FHFA concludes this review process and determines if any changes are needed, I urge it to be cautious and thoughtful.

The Federal Home Loan Banks are not perfect and they can do more, but the unique structure that Congress created 90 years ago works well and has stood the test of time. The Federal Home Loan Banks have served their mission well since 1932 without ever requiring congressional appropriations or taxpayer bailout. This is a huge success by any measure. Their essential structure should be respected and preserved. Major changes should be left to Congress. Thank you for this opportunity to present these views.

Karen Burk: Thank you. Our next speaker is Russell McIntyre from CoreLogic and he'll be followed by Bill Bickle of Stockman Bank of Montana.

Russell McIntyre: Thank you. My name is Russell McIntyre. I am the senior policy analyst at CoreLogic, the nation's leading property information analytics and data enabled solutions provider. I'd like to start by thanking FHFA and the Federal Home Loan Banks, or the banks, as I'll be referring to them, for holding this listening session and keeping it on the calendar in light of all the recent challenges in the US banking system, which really has reinforced the importance of examining the role of the banks as a source of strength and stability for our nation's financial institutions in times like these, ensuring confidence in our regional banking system and providing much needed housing financing to communities across the country.

So as we reflect on lessons learned from the first century of the Federal Home Loan Banks system and project forward through the next 100 years, we need to ask ourselves, where should the banks focus lie? What issues should they and FHFA be concerned with in order to minimize risk and help their members, member institutions to meet the credit needs of communities across the country? Because there will be future crises to come, there always are, and we need to take steps now in the present in order to mitigate those risk in the future. And on that note, I'd like to spend my time discussing climate related financial risk, specifically physical climate related financial risk, which is an issue that strikes at the core of the bank's mission to provide their members with a reliable source of funding for housing finance, community lending and asset liability management as well as liquidity for member short-term needs.

Well, as natural hazards continue to increase in both frequency and severity, those short-term needs get compounded and they start to turn into long-term needs. Our local and regional banks are fully aware of this issue. In fact, we've seen many of them already making adjustments, taking steps like establishing the Climate Risk Consortium for regional banks via the Risk Management Association, but the time has come for us to do more. FHFA and the banks need to take action now to truly account for physical climate related financial risk. How? It all comes down to knowing the value of your collateral, including how physical risk posed by natural hazards might impact that value, and ensuring these risks are factored into sound credit risk management practices.

Physical losses to underlying collateral caused by natural disasters increasingly pose a material and growing financial threat to the bank's books of business, as they too often lead to an increase in delinquency rates and a decrease in borrowers' overall financial health. The only reliable way to calculate the probability and severity of these potential losses is by ensuring that all longer term funding provided to the bank's members has undergone rigorous climate risk assessments.

This is done by analyzing member portfolios under four distinct lenses, detailed property characteristics, accurate catastrophe risk models, up to date reconstruction cost data and complete insurance information, which will allow you to uncover potential gaps in coverage, under insurance, concentration risk and counterparty risk. Now, I could continue detailing the implications that physical climate risk has for the banks, but you're already well aware of them. It's been over two years since FHFA's original RFI on climate and natural hazard risk, and since then the FHFA and the banks have spent a lot of time researching those risks and learning about the data and analytical capabilities that currently exist in the private marketplace. In fact, CoreLogic is proud to have had the opportunity to present to many of the people here in the room on this very subject before.

So you already have some level of familiarity with this risk. You already know what data and models are out there and you probably have a solid understanding of the capabilities that exist in the private sector. So if you can indulge me briefly, I'd like to offer some actual recommendations for your consideration. Let's start with the affordable housing program because as we know, climate risk does not affect everyone equally and those hit hardest or too often low to moderate income communities and communities of color. Unfortunately, it would require an act of Congress to amend a lot of stuff about the AHP, however, something we believe that can be tackled without an act of Congress, thanks to the additional authorities and flexibilities provided as a part of the 2018 final rule, each bank should update its competitive application program to include a requirement to provide physical climate risk assessments of the projects and/or households that the funds will be used toward. And we recommend that the general scoring framework established pursuant to AHP regulation should be updated to include climate risk metrics against which those future applications can be measured.

As always, we recommend that AHP activities be coordinated with other federal or federally subsidized affordable housing activities. We encourage FHFA and the banks to continue contributing to interagency conversations to identify common metrics that can be used to assess climate related financial risk. Moving on to the community investment program and the voluntary community investment cash advance program and mimicking our first recommendation, housing and economic development projects proposed by bank members to be funded via the CIP and/or CICA programs should be required to undergo initial climate risk assessments. In tandem, we recommend the banks adjust their applications accordingly.

Unlike the AHP however, CIP and CICA funding is not subject to specific statutory funding contribution requirements. As such, we recommend that the banks commit to a review of how climate related financial risk are impacting the CIP and CICA funds that they've distributed in recent years and how those funds can be better targeted in the future to help account for increased climate risk.

Finally, in regard to the CICA programs, a general recommendation to continue working with your housing associates, aka state and local housing finance agencies, to address issues of climate related financial risk. All right, last two recommendations. The first regarding the community support program, which requires members subject to review to submit a community support statement every two years, identifying their community investment activities that meet the CSP standards. Those statement requirements should be amended to include a section where members can provide information on the impacts that climate related financial risk may be having on their community investment activities.

Finally, I'd like to touch on the recently established housing goals and the Acquired Member Asset program by very simply stating the banks should require a physical climate risk assessment for every single mortgage purchased under the AMA program. We believe strongly that this issue has to be addressed at a property by property level if we are to truly understand and mitigate climate risk, to individual homeowners, banking institutions, the banks and other housing finance counterparties. Thank you for the time. Thank you so much for conducting these round tables and listening sessions, and we look forward to working alongside FHFA and the banks as we move toward a safer and more resilient housing ecosystem. Thanks.

Karen Burk: Thank you. Our next speaker is Bill Bickle from the Stockman Bank of Montana, and he will be followed by John Klebba from Legends Bank.

Bill Bickle: Okay, good afternoon and thank you again for this opportunity to speak. I am Bill Bickle, chief credit officer of Stockman Bank of Montana, commenting on the behalf of our bank, and fortunately these meetings dovetailed with meetings we already had scheduled with our congressional delegation, so thank you for the efficiency. I will make my comments really from the context of our own bank here, which operates across the State of Montana, and to put these into context, share a limited number of statistics.

Stockman Bank is a privately owned community bank. We operate across the State of Montana, serving approximately 120 census tracts, 35 of which are low and moderate income, and importantly, 23 of them are also in addition distressed and underserved, and these census tracts are located primarily in our rural areas. We have $6 billion in assets, $4.5 billion in loans and loan commitments, and about 25% of our commitments are real estate related, residential real estate related, primarily workforce housing and moderate income and affordable housing.

In addition, when the real estate market was doing well, we were originating approximately $1 billion in secondary market real estate loans, keeping a portion with FHLB support on our own balance sheet, selling the remainder into the secondary market and hardly any of those loans were jumbo. The Federal Home Loan system provides critical support to our bank in two very important ways. The first is general liquidity support. Our bank's ability to make long-term funding commitments necessary to support housing, and particularly rural housing, requires confidence that our bank has access to reliable sources of liquidity in both good times and bad.

A particular example. On March 10th and 13th, very recently, as it became apparent that two bank failures were generating consistent systemic issues of liquidity to the banking industry, our bank moved to create $200 million in overnight liquidity by borrowing against loans held at the Federal Home Loan Bank and moving those funds into our Federal Reserve account. Although this precautionary need for liquidity turned out not to be necessary, the knowledge that our bank, which as a private bank does not have access to the capital markets, could quickly and efficiently liquefy long-term assets, gives us the confidence and the liquidity to commit to long-term assets such as housing.

The importance of this should not be underestimated, particularly for private banks and particularly for banks at the smaller end of the asset scale. From the perspective of a rural Montana bank, this support is critical and it is often provided at a critical time. Any changes in this role of the Federal Home Loan Banks should be carefully considered, particularly from the perspective of unintended consequences, and particularly when markets are not operating perfectly. The current system works, as was proven a few weeks ago, and we should be careful not to break that system. To reiterate the point, as my dad explained to me a very long time ago, if you break it, you now own it.

Secondary, I would like to point to is the support for our housing loan portfolio. As demonstrated above, our bank's commitments to the housing industry and the importance of housing in our communities is significant. The FHLB funding is an important component of our bank being able to originate and hold loans within portfolio for our housing assets. Although an asset holding test would not be an issue for Stockman Bank, it would be a concern to smaller rural banks who experience significant seasonal swings in their funding and loan demand. In addition, an asset test is unnecessary because the current collateral requirement ensures that lending is done for mission related purposes. Further restrictions only make the system less efficient and less responsive to community banks like our own.

Similar concerns arise when considering the proposal that advances be tied to the use of funds. While at times Stockman Bank may tie an FHLB advance directly to a specific loan, as a general statement are balance sheet functions on a more fluid asset base funded by a stable liability structure. Liability management, in our opinion, is the foundation to prudent banking and a more stable liability structure allows a bank to accept greater duration risk in its asset portfolio. In other words, longer lived assets. FHLB advances are an important part of the stable liability structure, and tying advances closer to loan activity would create instability in the structure, changing its emphasis from a portfolio management basis to a transaction management basis.

The final comment I will make addresses really the safety of the system, and we make this comment as a shareholder in the system and a shareholder of very long standing. One of the strengths of the FHLB system is that it is open to regulated institutions of all sizes, and as supervised institutions, we have developed acceptable standards of credit quality and documentation enforced by our regulators. Unregulated lenders serve an important role in the marketplace. Often they're underwriting greater risk, either in terms of credit quality or credit structure. That said, the loan collateral they may provide may present additional risk to the system, and our priority as a member of the FHLB system-

Karen Burk: One minute remaining.

Bill Bickle: ... with our bank's capital investment at risk, is that that system may create unacceptable risk for the system as a whole. In closing, I very much appreciate the opportunity to make these comments, for the system to hold this listening session and solicit a broad range of opinions on these very important views. Thank you.

Karen Burk: Thank you. Our next speaker is John Klebba from Legends Bank and he will be followed by Ryan Donovan, the Council of Federal Home Loan Banks.

John Klebba: Good afternoon and thank you for the opportunity to share my views today about the system. I am John Klebba and I begin today with a little bit of my background just to give you an idea of some of my relationships that I've had with the banking industry and the Federal Home Loan Banks system. I began my career about 40 years ago after graduating with a joint MBA and law degree from the University of Notre Dame and went to practice law with large Kansas City based law firms specializing in corporate and banking law and became a partner with the Lewis Rice law firm. My years of practicing encompassed the tail end of the farm crisis and the heart of the S&L crisis, and since Kansas City was and still is the home of the FDIC's Midwest regional office, there was plenty of bank regulatory work to go around.

I appreciated or I represented financial institutions of all sizes and in various levels of health, most of which survived, but some of which failed. For some of our commercial banking clients, we also counsel them regarding the potential benefits of membership in the Federal Home Loan Bank system when that was first available to them in 1990. In 1991 I left my law partnership to join my father at what is now Legends Bank, which his father had co-founded in 1913. As a matter of fact, last Friday we celebrated our 110th anniversary. I am now chairman and CEO of this roughly half a billion dollar rural community bank with 10 locations in Missouri. In my banking career, I've been fortunate to have been given the opportunity to serve the industry in many capacities, including chairman of the Missouri Bankers Association, a board member and member of many committees of the American Bankers Association, and now as a board member of the Federal Home Loan Bank of Des Moines, where I chair the Risk and Compliance Committee.

My rationale in boring you with all my past has established the fact that I have seen the system from a multitude of perspectives, from a banking law attorney on the outside, from the perspective of CEO of a 30 plus year member, and now from the inside as a five-year member of the Federal Home Loan Bank of Des Moines board. I congratulate the FHFA on undertaking a review of the system. Healthy organizations should periodically conduct 360 degree evaluations, and so this review should be a positive chapter for the system.

What troubles me about this, however, is that the genesis appears to be somewhat from an apocalyptic design of some individuals, although the events of the last two weeks, I would think, would may have brought many of them more clarity in the critical importance of the Federal Home Loan Bank system in the overall health of the US economy. Let me be clear, in my opinion, there is no need for major changes into this system. I'm sorry.

By and large, the banks work very well in fulfilling their mission with regard to housing finance, community development, financial industry liquidity and supporting low to moderate housing development. I believe the events of the last two week have again demonstrated the critical role the system plays when the financial services industry needs quick access to liquidity to assist in averting a crisis, especially when the capital market seize up or otherwise become dysfunctional.

Let me address a couple of things that have been proposed. First, there's been at least some discussion about tracking advances to specific housing related expenditures. This would invariably shrink access to advances and thus reduced funds available for lending for housing and other purposes because deposit growth often does not sync with lending demand. I specifically remember my dad and grandfather telling me of times when our bank had to restrict or stop lending because they did not have the deposits to lend while keeping sufficient liquidity on their balance sheets. Membership in the Federal Home Loan Bank system largely solved that problem, but if our bank, which is heavily invested in farm and home related loans, was not able to obtain advantages from the system in the event that our deposits began to decline, or because we did not have a new housing project we immediately needed the fund, we would clearly have to evaluate our liquidity plans and most likely have to put a halt or a slowdown on our lending. Other banks would have the same exact issue, which would restrict community lending for homes, businesses, and development.

On a related issue, some have suggested that members of the system be subject to ongoing mission related tests regarding minimum housing related or other types of assets. Let me begin by pointing out that this would be in direct contravention of the Federal Home Loan Bank Act as it now stands. Beyond that, it would likely require an expensive monitoring apparatus and would be problematic for mission viability, scalability, and sustainability. As a member, it could be incredibly detrimental to my liquidity plans, as I'd have to factor in the possibility of being thrown out of the system, possibly at a strategically inopportune time and thus not be able to access the Federal Home Loan Banks. The result would be less of our funds would be available for lending.

On another note, some have proposed [inaudible 00:47:55] large banks from the system. I suggest that there is no valid reason for this. As it is, these members are some of the most active users of the system. Even though limitations on their voting rights mean their influence on bank policies and board membership is substantially underrepresented relative their size and usage of the system, these large institutions' membership in the system actually helps level the playing field by keeping Federal Home Loan Bank debt costs lower to the community banks so that community banks borrowing costs are competitive.

Their participation helps stabilize Federal Home Loan Bank earnings, provides operating scale and are key to establishing a stable global investor base for the purchase of our securities. In addition, they add significantly to the profitability of the system and so contribute to the system's abilities support its AHP mission through mandatory and voluntary programs, given that it seems that by eliminating these large users, we would only be killing some of the geese that lay the largest golden eggs.

Expanding the membership base has also been proposed. Some of those mentioned include REITs, mortgage banks and captive insurance companies. From the perspective of a risk committee chair, I would suggest that most potential new member categories would carry with them significant risk to the system. Most are not subject to the same types, or in some instances any, prudential regulation as current members are and, and relatedly, they do not have the same level of risk appetite management.

Riskier members would dramatically increase the cost of running the system, especially if taking such members in would result-

Karen Burk: One minute remaining.

John Klebba: ... in realized losses. Increase for this would also result in materially unfavorable response from the financial markets, which would drive up the costs of the system's debt and negatively impact the system stability. In addition, most of these members would not have appropriate collateral to pledge. In conclusion, the Federal Home Loan Bank system works well in fulfilling its mission of delivering liquidity to members, institutions, to support housing and community lending and in supporting affordable housing and community development. Are there things that the system can do better? Yes, but I do not see a business case for dramatic changes to the system structures or operations. Again, I point to the events of the last two weeks as evidence of that, and while we are all firmly in this room reside in the financial world, perhaps we need to look at our medical brethren as we examine the Federal Home Bank Systems and begins with the principle of first do no harm. Thank you.

Karen Burk: Thank you. Our next speaker is Ryan Donovan from the Council of Federal Home Loan Banks, and he'll be followed by Joseph Pigg of the American Bankers Association.

Ryan Donovan: Good afternoon. Thanks very much for the opportunity to participate in today's listening session. The Home Loan Bank System has paid keen attention to the important process FHFA has undertaken these last six months, and we found the public feedback to be informative, enlightening, and affirming. Coupled with our ongoing dialogue with our members and other key stakeholders, this process has provoked a series of discussions within the system that's helped us more fully develop our vision for the future.

Through our unique liquidity products and other programs, the Home Loan Banks have been a cornerstone of financial stability and housing affordability in the United States for the last 90 years. The positive impact Home Loan Banks have had on housing finance in this country is indisputable. While the events of the past few weeks have shined a spotlight on the system, highlighting the role in providing stability and liquidity to community lenders that are so critical to our economy, the review process has reinforced in no small way the role we play day in and day out to strengthen communities, supporting affordable housing initiatives, small business development, mortgage loan origination, and many other programs.

In a post-pandemic high interest rate environment with the prospect of recession, our role has never been more valued by our members. Just as we saw during the pandemic, the great financial crisis and other periods of economic and financial instability, the importance of the Home Loan Banks system has most recently been highlighted during the current market disruption. When members turn to their district bank as a reliable source of liquidity, allowing them to provide the vital services to their communities.

To meet our members' needs, we provided a record level of liquidity funding despite significant market turmoil, and it's hard to imagine the disruption in the market had we not been there. Our efforts categorically helped restore confidence in the banking system by ensuring banks and credit unions had the funding they needed to meet deposit demands, and it demonstrated once again that we are a dependable, reliable, and stable lender to our members. They know they can count on us during all economic cycles.

The performance of the Home Loan Banks system just over the last two weeks renders hard to take seriously the views of those who would say the Home Loan Banks system has largely lost its relevance. That liquidity for private banks is a private benefit, not a public benefit. That Home Loan Bank operations are antithetical to the best interests of depositors and the public. The responsibility of providing our members with the liquidity they need to serve their customers, members and communities is a critical role. The Home Loan Banks perform every day. It's unquestionably a public benefit. Congress was wise to create the system and evolve its mission over time. Our members have definitively validated our purpose and mission through this review process.

If I leave you with nothing else, it's critical to understand that our impact isn't just felt in times of distress. We make a difference every day. Providing reliable liquidity helps people across the country access long-term well-priced mortgages, and it provides the funding that supports construction of affordable housing and helps people buy their homes. It helps make mortgage credit more available and less expensive. According to a recent University of Wisconsin study, Home Loan Banks help boost annual mortgage lending by $130 billion each year, and they help consumers save $17 billion in interest payments annually.

Since Congress added an affordable housing mandate to our mission in 1989, the system has collectively contributed more than has been required by law and the Home Loan Banks have become one of the largest contributors to affordable housing efforts in the United States, contributing an average of $330 million each year over the last five years. We support community economic development through lending for small business and development projects as well as voluntary support for small businesses and nonprofits. We are proud of the positive impact we have had for our members and through them, homeowners, renters, and communities.

Throughout this process, stakeholders and other interested parties expressed an overwhelming desire for us to do more. We agree. We recognize there is more opportunity for Home Loan Banks to impact housing affordability and community development in the United States. That is why we seek to strengthen the critical role the system plays in financial stability and housing affordability by improving the way that we serve our members, homeowners, and renters and communities, while maintaining the system's safety and soundness that's critical to its funding.

Our vision for our future is to build a more resilient and impactful system that continues to serve as a bedrock of US financial stability and support for our members, homeowners, and renters and communities. Building on our existing membership and their access to the system's products and services, we aim to enhance member service by addressing member frictions, including around digital collateral. To work with FHFA on reducing regulatory burdens associated with our affordable housing and community development programs so that the contributions that we make can go further and have an even greater impact, and to increase thought leadership in solving the affordable housing crisis.

We acknowledge the deep and complex challenge of housing affordability for both buyers and renters, and we also know that the Home Loan Banks system can't solve this alone. We all have a responsibility to help close the gap. We seek to enhance our contribution to tackle this challenge and we support simplification of the affordable housing program, a theme that was raised consistently throughout the review process. The comment letter we will submit in the coming days will outline specific ideas to enhance the impact of our contributions. We will also explore ways to increase utilization of community investment program advances to support, to enhance support for small multi-family housing, and to enable the facilitation of pilot programs and products.

Karen Burk: One minute remaining.

Ryan Donovan: To enhance our impact on community development, we're eager to engage the agency on innovative and safe and sound ways to increase CDFI access to funding, to expand the acceptance of community financial institution collateral and to increase low-cost funding for development projects through the community investment cash advanced program. By building on the strengths of the Home Loan Banks system that have served us well for 90 years and working with our members, FHFA and other stakeholders to enhance our impact, we can ensure the Home Loan Banks continue to deliver on their mission now and in the future.

As the listening phase of this process ends, Home Loan Banks are ready to get to work with the agency to ensure that our vision for the future is realized. Thank you for the opportunity to participate in this session. We look forward to additional conversations. Thank you.

Karen Burk: Thank you. Our next speaker is Joseph Pigg from the American Bankers Association, followed by Peter Knight from Policy Kinetics.

Joseph Pigg: Thank you. I'm Joe Pigg, a senior vice president with the American Bankers Association. The ABA represents the full range of America's banks, from the largest global involved banks down to the smallest community banks, including a couple of the previous speakers, who I am glad to share the stage with today. We appreciate FHFA's listening sessions and role in promoting a safe, stable, and effective Federal Home Loan Banks system. They are essential to the role that our members and the Home Loan Banks owners play in financing the needs of communities and customers across the country.

That has been, as others have noted, made very apparent in the last couple of weeks with the Home Loan Banks' role in ensuring liquidity for the financial system with the challenges that it's faced over the last couple of weeks, and that is something that the Home Loan Banks are able to do largely because of the comfort and knowledge that members have of the system. We've seen others have noted that the system drew down tremendous amounts of money in the capital markets to make that available. We've seen advances spike over the last few weeks, and that's even with the announcement of the Fed facility that offered very generous terms.

In talking with our banks, I've learned that that is because, again, that comfort and familiarity that banks have with the Home Loan Banks, that immediate access, and so we want to make sure that as we look at potential changes to the system, we don't do anything to disrupt that. A couple of the things that others have mentioned today and that have been talked about during these listening sessions that concern us that would potentially impact, that are limiting who could be members of the Home Loan Banks system of cutting out certain members of a certain size. We think that would be a terrible mistake because it would, one, inhibit that ability to access that liquidity on a rapid basis. It would also inhibit those banks' ability to serve their communities in affordable housing and community investment and other things.

We're also very concerned with proposals to somehow track advances. As others have noted, the current system works well. You have to have eligible collateral to pledge in order to borrow. If you don't use your borrowings to make eligible loans, you're not going to be able to continue to borrow. Adding another layer on top of that decreases the efficiency of the system and probably shrinks the system, again, inhibiting that ability to access the system for liquidity in times of stress. In short, the system is working the way that it was designed and intended, and we want to avoid taking any action that would upset that.

The director noted at the outset though that we are in an affordable housing crisis and that the Home Loan Banks can do more. We don't disagree with that. We think that that should be incumbent upon not just the Home Loan Banks, not just the Home Loan Banks members, but everyone involved in the financial system to do more in that space. So we would encourage FHFA to look at what they do in that space, in coordination, in consultation with others, with prudential regulators, through the FFIC or through other channels to ensure that there is a comprehensive and coordinated approach that doesn't fall to any one segment of the industry, but that encompasses the broad range of institutions, be it credit unions, FinTech's, or others that play a role.

We'll be filing comments before the March 31st comment period, where I'll detail some of this in more detail, but one of the things that we will highlight in that letter that we wanted to note and that I wanted to highlight today is we'll be providing data that shows despite the changing nature of the housing finance system and banks' role in that, we have strong evidence that shows that Home Loan Bank members, our members who take down advances but may not make direct mortgage loans, but fund warehouse lines to others who make those loans play an important role in the system. And so that is sometimes lost, I think, on the role that the Home Loan Banks continue to play and that banks continue to play, even if it's one step removed. So that's something that needs to be factored in and credit given as we're looking at this.

Playing cleanup here. So I want to make sure that I cover all of the bases. I also want to thank again the system, sorry, the FHFA for holding these listening sessions, and I would reiterate comments that were made earlier that the FHFA plays that important role, but also needs to recognize that the mission of the system, the membership of the system are decisions that are made by policy makers in Congress. We welcome a debate on that and looking at what changes might be needed there, but we hope that that would be in reserve to the role of policy makers in Congress to continue that. Whatever form this takes, whether it's through proposed regulation or through legislation, we look forward to engaging and continuing the discussions. Thank you again for the chance to be here today.

Karen Burk: Thank you. And for our final speaker for today, Peter Knight from Policy Kinetics.

Peter Knight: Thank you very much. My name is Peter Knight and I appreciate the opportunity to appear today on behalf of my client, the Reverend Luis Cortez, the founder and CEO of Esperanza, a nonprofit community development corporation supporting the low income Hispanic neighborhood of Hunting Park in Philadelphia. Esperanza has an annual budget of 75 million, a real estate asset portfolio of 125 million, and more than 650 employees. For over 20 years, Reverend Cortez served as a public interest director on the board of the Federal Home Loan Bank of Pittsburgh. Director Thompson and FHFA staff should be congratulated for this unprecedented and timely review.

The question before us is how Home Loan Banks can use their GSE status, their capital markets position, and their network of members to meet our severe housing challenges. Once the review is completed, the FHA should issue a series of regulations supported by statute to refocus Federal Home Loan Bank efforts on affordable housing. The FHFA should challenge the Home Loan Banks to address affordable housing with the same energy commitment and skill they devoted to supporting a new benchmark interest rates, SOFR to replace LIBOR. This multi-year Federal Home Loan Bank effort was not easy, but the banks accomplished this monumental task.

The good news is that Home Loan Banks are meeting their public purpose of providing liquidity to members. Home Loan Banks closed 2022 with 133% increase in advances over year-end 2021, and it's been reported that Home Loan Banks last week issued a record $304 billion in debt, which no doubt supported an increase in advance levels over year-end figures. The income generated by these advances as well as the higher investment income from a rising rate environment suggests that Home Loan Banks are on their way to a banner year of earnings. It's not a forward-looking statement, and that's just my observation. It's a perfect time. This makes it a perfect time for Federal Home Loan Banks to consider new efforts to support affordable housing.

Esperanza's October 29th comment letter suggested a number of regulations. I will cover three today. First, the FHFA should address Federal Home Loan Bank mission, should use its statutory authority to define a mission that directs and empowers Home Loan Banks to develop products and services that address affordable housing credit needs, particularly in low income rural and urban communities. These efforts would be supported by a portion of the profits derived from government supported lending and investments to build liquidity for long-term funding for affordable housing, affordable rental housing.

Secondly, FHFA should apply investment income from restricted retained earnings to support affordable housing. There must be a more equitable distribution of wealth generated by the Federal Home Loan Banks implicit guarantee and tax exemption. When the ref core obligation expired in 2011, the Home Loan Banks moved to capture that income to create and build restricted retained earnings without any public discussion but with the strong support of the FHFA. Building restricted retained earnings was one of the few options to build Federal Home Loan Bank capital and has proven to be the right move.

Today, the capital of Federal Home Loan Banks is well above the required levels with restricted retained earnings rising to over $6 billion. Based on the latest 2022 third quarter figures, the investment income from restricted retained earnings resulted in approximately 375 million in risk-free income for Federal Home Loan Banks. The FHFA should direct the Federal Home Loan Banks to deploy the investment income from the restricted retained earnings to support new ways of meeting affordable housing challenges. If the Federal Home Loan Banks could initiate the building of these restricted retained earnings without legislation and a formal rulemaking process, the FHFA would clearly be within its authority to issue a regulation and invite open comment now, 12 years.

This regulation would increase Federal Home Loan Bank financial support for affordable housing without legislation, at time it is desperately needed. It would not weaken the very strong capital position of the banks, while still allowing the payment of dividends to Federal Home Loan Bank members. We would suggest these funds not be added to the AHP program, but would provide credit support and other creative approaches to achieve the highest possible impact.

Finally, the FHFA should direct Federal Home Loan Banks to enhance liquidity for long-term funding for affordable housing. The Federal Home Loan Banks, their affordable housing advisory councils and their community investment team should be proud of the affordable housing work to date. This regulatory initiative will build on that work. FHFA should direct Home Loan Banks to apply their market leadership and GSE status to develop new approaches to lower the costs and extend the maturity of funding for affordable housing, particularly that housing that supports rental housing for those between 40 and 60% of AMI. The FHFA should not direct Home Loan Banks to undertake explicit programs, but to devote significant time and resources to identify and address unmet needs.

The Federal Home Loan Bank ideas, expertise, and ingenuity will be essential for the success of these efforts. The Home Loan Banks should not work in a vacuum, but seek out the insights and expertise of their affordable housing advisory councils, large members, small members, nonprofits, state housing finance agencies, staff of the Office of Finance and non-member capital market players. The goal of this effort should lead to replicable pilot programs. Federal

Home Loan Banks should be encouraged to support and borrow from the successful efforts of other Federal Home Loan Banks. These efforts should address specific unmet needs, such as long-term funding for small multi-family rental housing with 50 to 49 units, or rental developments using single-family housing stocks such as row housing, prevalent in many communities in the Northwest and Mid East, or manufactured housing found throughout the country. Federal Home Loan Banks should also consider targeted affordable housing investments, which would represent a direct nexus between GSE funding and affordable housing. Other options might include providing credit support for affordable housing funding-

Karen Burk: One minute remaining.

Peter Knight: ... with letters of credit, the credit risk sharing mechanisms of the Federal Home Loan Bank mortgage programs and establishing loan loss preserves. In closing, on behalf of Esperanza and the community it serves, I want to thank the FHFA for conducting this review, and thank you all for your attention today.

Karen Burk: Thank you. I have some closing remarks here by Joshua, deputy director.

Joshua Stallings: Okay, thank you. So I'm not going to bore everyone with my thoughts today because we do have more of this being done tomorrow in a virtual format and also on Friday. So I will just start by encouraging everyone to tune in for the next couple of days. We continue to hear the feedback we get. I want to just, again, thank everyone that came out today. I know there are a few other things going on, so that you took the time is appreciated. I also would say thank you to all those who have participated in our round tables to date, and even in the initial listening session. It has been an outpouring of feedback that we've gotten through this process, that was surprising but also encouraging. So with all that said, I'll just say thank you. Everyone, have a great afternoon and we'll see everyone again tomorrow. All right, thanks.