October 21, 2022

Director Sandra Thompson

Federal Housing Finance Agency

via web portal at FHFA.gov

Dear Director Thompson,

Thank you for the opportunity to comment on the Federal Home Loan Bank system. I served as a board member of the Federal Home Loan Banks of Seattle and Des Moines from 2007 through 2021, including serving as board chair of the Des Moines Bank from 2020-2021. The opinions expressed here are my own, and not necessarily those of the Federal Home Loan Bank of Des Moines or my current employer.

As a citizen and taxpayer of the United States, I wish to express my full and unfettered support of the Federal Home Loan Bank System. The system has evolved since it was established in 1932, and it can and should continue to evolve. While I don’t believe the system is perfect, it represents a rare institution that functions as it should and does so efficiently and with strong institutional and Federal Housing Finance Agency (“Agency”) oversight to ensure safe and sound operation. While I support the continued evolution of the system, I think any material change would jeopardize the current risk-benefit balance that has been achieved through years of fine tuning.

Much has already been written and said about the value the system provides to its members - members that are integral and critical to the economic success and well-being of the communities they serve. I won’t expound upon that point, except to say that I was employed by a member during the financial crisis and recession that started in late 2007 and was working in the division of my company responsible for funding and liquidity. I witnessed first-hand the efficiency and effectiveness of the Federal Home Loan Banks at providing strength and certainty in a highly uncertain world. I also had a front-row seat as a director of the Seattle Bank and can attest that the FHLBanks performed exactly as they are designed to for all members, without issue and did so safely. The FHLBanks continue to provide that strength and certainty today.

Speaking of the Seattle Bank, I wish to give my opinion about what led to its merger with the Des Moines bank. I have seen reporting that suggests the merger was necessary because of exposure to losses when the Seattle Bank’s largest member, Washington Mutual (“WaMu”), failed. When WaMu failed and its successor decided not to retain a borrowing relationship with Seattle, over night the Seattle Bank’s customer base became insufficient to provide enough business to simultaneously cover its costs of operations and achieve a level of mission-focused assets that would satisfy regulatory guidance. Merging with Des Moines solved those issues. To be clear, the merger was not the result of any losses suffered by the Seattle Bank as a result of lending to any member, including WaMu, as no such losses were incurred.

Finally, I will give my opinion on whether the Federal Home Loan Bank system is a good deal for taxpayers. The system does not represent a significant direct dollar cost to taxpayers. Instead, the taxpayers support the system by virtue of the implicit U.S. Government guarantee of Federal Home Loan Bank debt. In other words, the taxpayers are taking on risk. How great is that risk? I firmly believe that the Federal Housing Finance Agency is an exceptionally strong regulator, with appropriate and ever-strengthening regulation and oversight of the Banks. I have directly observed the passion and persistence of the Agency and it’s staff, and the similar passion and persistence of the FHLBank staff working in partnership with the Agency, to ensure that the FHLBanks are operated safely and soundly. Structurally, lending to members is highly collateralized and the FHLBanks are jointly and severally liable for each other’s debt. Given these fundamental structural strengths, I conclude that it is extraordinarily unlikely that taxpayers will ever need to incur a direct cost in support of FHLB debt, and therefore, given the tremendous financial stability benefit that benefits the entire U.S. economy, I conclude that the System is, in fact, an outstanding deal for the taxpayers.

To conclude, in my opinion, the System should be retained and maintained in more or less its current structure; the benefits to taxpayers and the U.S. economy far exceed the costs.

Sincerely,

James G. Livingston