Mark A. Willis

Senior Policy Fellow

NYU Furman Center

[Mark.Willis@nyu.edu](mailto:Mark.Willis@nyu.edu)

October 21, 2022

Sandra R. Thompson

Director

Federal Housing Finance Agency (FHFA)

Dear Director Thompson:

Thank you for soliciting comments as part of the FHFA’s Comprehensive Review of the Federal Home Loan Bank (FHLB) system. The views expressed below are my own and do not necessarily reflect those of New York University or the Furman Center.

Rather than comment on each of the six areas, I would like to make one overall observation: the FHLB system is a GSE and hence susceptible, as Fannie Mae and Freddie Mac proved to be, to taking unnecessary risks while it and its members hide behind and benefit from the implied government guarantee of its debt. Without sufficient guardrails, the FHLB system could, as a result, undertake policies/approaches that provide little or no public gain. Based on that concern, I offer the following:

1. How can the FHFA prevent the FHLB system and its individual FHLBs from pursuing growth for growth’s sake, a goal that should not be pursued without a clear public benefit?
2. What is the need for incurring the costs of maintaining 11 banks with their separate executive managements and duplicative functions when a system of regional offices might suffice?
3. What functions/products are essential for the FHLBs to be self-sustaining during both good and bad times in order for the system to be in reserve for alleviating, when necessary, stress in the housing industry/markets? Is it sensible to provide that support at a below-market rate rather than above-market as is offered at the Federal Reserve discount window? (More specifically, do institutions that already have access to the Fed’s facility need access to the FHLB system?)
4. How can AHP funding be best targeted, not just to great sounding projects/institutions (often also benefiting to a much larger degree from other government programs), but to fill gaps that would otherwise be unfillable from other sources?
5. More generally and fundamental, to what degree does the below-market-rate funding provided to members of the FHLB system reduce cost to homebuyers, renters, small business owners, etc?
6. How much risk to the public fisc and for what purpose is it appropriate for this government-backed system to undertake? The existence of the so-called super lien has, up to now, basically spared the FHLBs from losses on their primary program of advances to their banking members.

I look forward to learning more on these topics from your review. Regardless of the answers, careful consideration should be given to establishing guardrails comparable to those that proved necessary for Fannie and Freddie to avoid further privatizing of gains and socialization of costs.

Thank you for the opportunity to comment.

Sincerely yours,



Mark A. Willis