**FHLBANK SYSTEM AT 100: FOCUSING ON THE FUTURE**

**A COMMENT OF PATRICK E. CLANCY**

I am submitting this comment as I complete my sixteenth and last year as a public interest director of one of the Federal Home Loan Banks - Boston - and as I continue my fifty plus years as an affordable housing nonprofit developer and advocate.

The FHLBanks are today critical institutions supporting particularly community banks and contributing to affordable housing and community and economic development in their variegated regions around the country.

This comprehensive review comes at a time when the FHLBanks are in the strongest financial position in their history. And as this comment will highlight, they not only have the capital but are structured and have the capabilities to be far more dynamic contributors in these realms in the future. The challenge in this review is to see clearly that greater potential and design the best ways to encourage and support achieving it!

This comment will address, somewhat unevenly but in summary form, the six key areas in which the FHFA has expressed interest in receiving feedback. It will then return to the broader challenge of envisioning these important institutions as more dynamic players in serving these critical missions and make some preliminary suggestions.

MISSION AND PURPOSE

As you know, there is no coherent vision in FHLB legislation of what the mission of the banks is. Providing liquidity to its smaller members is the central mission of the FHLBanks in my view. And supporting and enabling all its members better to meet important and in many ways growing challenges for affordable housing and area community and economic development is in my view the other key mission facing the banks. In this changing marketplace, these needs point to the importance of refreshing and reinvigorating these institutions so their unique capabilities can be built upon to expand their contributions in meeting them.

ORGANIZATION, OPERATIONAL EFFICIENCY AND EFFECTIVENESS

Three aspects of the FHLBanks’ organizational structure are particularly meaningful and can be built upon in enhancing their value. The first is their REGIONAL nature. This enables them to focus on members and a finite variety of local environments in a way that the Enterprises have long failed to achieve. Second is their COOPERATIVE structure. Member banks as stockholders tie the banks’ interests to the strength of their members and enable their capital to expand and contract as their provision of funding does. And finally their DIVERSE GOVERNANCE enables their regional and cooperative nature to bear fruit. The strong combination of member, independent and public interest directors - and the dynamic voice of the affordable housing focused Advisory Councils across the system - provides direction attuned to the broader mission that here again has the potential to lead these banks to be and do more.

In my experience with the Boston Bank over these sixteen years, it has achieved an increasingly high degree of operational efficiency. One key to that efficiency is the fact that it is able to provide advances across a larger universe of members, enabling it to support the organizational capacity of the bank with broader lending programs that strengthen its efficiency in meeting its primary mission: liquidity for the community banks.

The skills of the professional staff of the Boston Bank are truly exceptional and they effectively carry out the central function of designing and implementing and managing the myriad of always evolving financial products they offer to meet member needs. The Boston Bank has also built an exceptional Housing and Community Investment staff that manages AHP and a number of voluntary programs highly effectively. Building out these capabilities further can be a key element of strengthening the value and impact of the institution in Boston - and I believe that this is the case across the system.

ROLE IN PROMOTING AFFORDABLE, SUSTAINABLE, EQUITABLE AND RESILIENT HOUSING AND COMMUNITY INVESTMENT

The FHLBanks’ liquidity provision for its members enables them to have ready access to capital that can enable funding of these investments. But the advances are not “traced” and limited to use for these purposes. Nor should they be: the central purpose of the liquidity provision is just that - and it would be drastically altered and limited by any such constraints on its members’ use.

The main role of the FHLBanks in funding these investments occurs, or course, through the Affordable Housing Program. This program has been a highly leveraged and effective one since its inception - primarily as a “gap filler” for affordable housing efforts utilizing other significant funding sources such as low income housing tax credits. The program has also engaged innumerable members more deeply in these efforts as the funding is provided through the member banks - and this has significantly expanded the universe of financial institutions now involved in the field.

Some of the FHLBanks have a history of providing additional funding for affordable housing and economic development through setting aside additional earnings for “voluntary programs.” I am proud of the Boston bank’s record in this regard and have been pleased to play an active role in them over the years.

Again, the last part of this comment will address the potential for the FHLBanks to do more in this regard and some ways to think about that challenge.

ADDRESSING THE UNIQUE NEEDS OF RURAL AND FINANCIALLY VULNERABLE COMMUNITIES

The limited lines of business the FHLBanks are currently authorized to carry out sets a constricted environment for addressing these needs. Nonetheless, I can point with pride to Boston’s management of its AHP program where management, with board support, has worked continuously and diligently over the years to assure that the program serves both typically smaller housing efforts in rural areas and developments in distressed communities. Either of these could easily have been neglected were the scoring system and the underwriting guidelines not regularly reviewed and adjusted as necessary to enable these needs to compete effectively for funding. And the Boston bank is currently at work on a potential additional voluntary program - a special purpose credit program - to assist underserved families of color to become homeowners. Here again, the FHFA as regulator merely asking this question can bring new energy and initiative to how the FHLBanks think about their evolving facilities and programs in these areas!

MEMBER PRODUCTS, SERVICES AND COLLATERAL REQUIREMENTS

As noted above, the array of financial products the FHLBanks have been called upon and allowed to provide under their statutory authority, regulatory oversight and with member input in my view well serve the rather narrow confines of their work. Again, I believe the system has the capacity to be of greater value in its products and services but changes to the framework for their operation would be necessary to achieve that.

MEMBERSHIP ELIGIBILITY AND REQUIREMENTS

Also as noted above, I believe the current membership rules give the FHLBanks an overall scope of financing activity to enable it to serve well its central mission of providing needed liquidity to smaller depository institutions. At the same time, I would caution that any significant expansion of membership could significantly change the systems’ operating characteristics - at an uncertain cost in a diluted focus that could vitiate much of the good work now done by the banks.

A CHANGING WORLD AND THE FUTURE POTENTIAL OF THE FHLB SYSTEM

There are many strengths the FHLBanks have that have long led me to the conclusion that they could be far more valuable players in meeting the nation’s critical needs for more affordable housing and expanded community and economic development resource programming to meet societal needs. Here is a list of several of them as noted in various places above:

* Their strong capital position;
* Their regional organization, which holds the potential for varied laboratories of change to undertake new initiatives in different settings;
* Their cooperative structure;
* Their diverse governance;
* Their highly skilled professional financial management; and
* Their operational efficiency.

In testimony at a future listening session, I look forward to sharing a variety of very specific thoughts on many aspects of what it would take to enable the FHLBanks to play a singularly strong regional role built on the above strengths. Programmatic areas of potential activity that I will discuss in further detail range from (i) enhancing member bank tax credit investment appetites by designing advance products tailored to those investments as collateral to (ii) facilitating increased affordable homeownership in varied market settings to (iii) stabilizing naturally occurring affordable housing by initiatives aligning member banks, capital, new owners and the public sector.

Some of the areas that the FHFA will need to address if it is to support this greater value include:

* Incentivizing and enabling the banks to expand their program development and collaboration capacities in targeted areas of activity;
* Encouraging more varied and creative approaches - of course as consistent with safety and soundness - in the design of basic financial products as well as in administration of AHP and “voluntary programs”;
* Enabling the banks to utilize their substantial excess retained earnings by set asides for special purposes without impacting earnings; and
* Challenging itself to become the regulator a more dynamic set of regional FHLBanks will need if they and the FHFA are together to expand the role, impact and value of the FHLB system.

I also look forward to describing and analyzing in detail a regulator-led transformation of a particular housing sector that exemplified the kind of enhancement to the value of the FHLBanks that is possible here - and one that I had the opportunity to be an active participant in.

I applaud the FHFA for undertaking this comprehensive review! I hope you will see the potential for the FHLBanks to become more robust and valuable as I do. And I look forward to sharing much more specific and detailed information in the months ahead.