FHLBank System at 100: Focusing on the Future Roundtable Discussion — Philadelphia – 12-15-22

Please note that this transcript reflects corrections to inaccuracies in the real-time closed captioning in the roundtable video

Joshua Stallings: Good afternoon. My name is Joshua Stallings. I'm the Deputy Director of the division of Federal Home Loan Bank Regulation at the FHFA. It's hard to believe that just six weeks ago, we kicked off the second phase of our Federal Home Loan Bank at 100 initiatives. Today's round table, our sixth or seventh, depending on how you're counting, will cover membership eligibility, collateral requirements, and safety and sounds. Let me start by extending a warm welcome to our round table participants and to all who are watching on our live stream. In prior round tables, we discussed the bank's role in supporting affordable and and sustainable housing, in supporting the unique needs of rural and financially vulnerable communities, in supporting native and tribal lands and efforts to address the racial home ownership gap. In all these discussions, we also discuss trade-offs and how the effort and how the effect of these efforts, and the effect of these efforts on safety and soundness. As I mentioned before, today, we will ask questions about Federal Home Loan Bank system membership. I'd like to emphasize that FHFA is not taking a position at this time on what membership eligibility ought to be and what, if any, changes should be made. We will ask our round table participants to provide their best thinking on the types of entities that should be eligible for bank membership, and what some of the key eligibility criteria ought to be, and how membership should tie back to the mission and purpose of the Federal Home Loan Banks. We will further be asking our round table participants to offer their perspectives on the question of how. We expect to bring to light differing views and to delve deeper into some key points where there could be disagreement. And we hope to glean new insights from questions that you, on the round table, may ask each other this afternoon. The feedback we receive will inform any recommendations and actions as we continue our initiative moving forward. And I want to be clear that no suggestion or ideas should be considered off the table. That said, while we are open to hearing bold ideas, I also want to hear recommendations that could be implemented in the short term that can achieve meaningful and positive impacts. With that, I want to, again, thank our round table participants and all of our stakeholders for their continued interest in this initiative. Let me turn it over to Amy, who will review the rules of engagement. Amy.

Amy Bogdon: Good afternoon. My name is Amy Bogdon. I'm the Associate Director of Regulatory Policy and Programs in FHFA's division of Federal Home Loan Bank Regulation. I'm joined by my colleague Chris Bosland, our Chief External Risk Officer, who will be moderating the discussion today. We expect and hope that we will have an open and engaging discussion. No recommendations or views should be considered off the table, as Joshua had just said. And we encourage you to offer differing views about some important questions that we will be covering this afternoon. We also want this to be orderly, and as such, we'd ask that everyone turn your name placards like so to indicate that you like to make a comment or respond to a question. At some points, we will ask people in turn, and also to ensure that everyone has a chance to speak and that we cover every discussion topic. If someone is going long, we may, at some points, interject to keep the conversation moving forward. Second, the review is meant to bring forward the views and reasoned perspectives of Federal Home Loan Bank systems stakeholders and to highlight areas for future consideration. We ask that you not limit your responses to what would be possible under current conditions. Third, we will have a break about halfway through today's event. And finally, for the benefit of those participants on the livestream, the round table participants have been given a set of prompts that we will reference during the course of this afternoon's discussion. We will also have a disclaimer that we need to make you aware of, and I have to read this one verbatim. "We have organized this round table to obtain your input on the mission of the Federal Home Loan Banks, including input on several specific questions that were sent to you prior to today's meeting. 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 meeting would not take the place of any 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 the basis of a rulemaking. Anything said in this meeting, 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. Any questions we may have are focused on understanding your views and do not indicate a policy or legal position. Participants in today's round table may have a financial interest, whether direct or indirect on outcomes that may affect the Federal Home Loan Banks in their businesses. As Joshua mentioned, today's roundtable will be live streamed and on FHFA's website, excuse me, live streamed on FHFA's website and video recorded. FHFA may also prepare 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 round table." With that, I'll turn it over to Chris.

Chris Bosland: Thank you, Amy. You're supposed to do that in one breath. Good afternoon, everyone. Welcome. Thank you for participating in this. It's, I think, our sixth or seventh, as Joshua said, and after a number of round tables that people were very passionate about, I'm looking forward to having an issue where people don't feel very strongly about for today's topic. No, obviously, this is an issue that's garnered a lot of attention, at least since the 2016 regulation put out by the finance board, excuse me, finance agency. I'm dating myself. But the agency also put out an RFI several years ago, so we know folks have strong feelings about this and it's obviously important to this overall FHLB at 100 initiatives. I will say that obviously, questions of membership, the juicy stuff, most of the juicy stuff is really outside of FHFA's regulatory powers and ambit. There are certain things we may or may not do, but as picking up on what Amy said, for purposes of the discussion, particularly big picture thinking, we can kind of ignore the Bank Act for now and let's go back to square one and talk about policy rationales for the banks, for the systems, for the membership and so forth. We do plan, the director does plan to make recommendations where appropriate, where they require congressional action. But again, as Joshua said, we're looking for both things that may be big picture, but also things that we can implement. So, along the way, feel free to refer to that, but don't necessarily feel bound by the current statute. Then lastly, I'll just say the last part of the disclaimer is in discussing membership, and Joshua talked about, we're interested in your view, for those of you arguing for entities that are not currently members, I know others will feel on the other side. You shouldn't necessarily feel that just by asking the question that there's any preset determination. If we're asking, how could we let a certain kind of member in safely and soundly, that doesn't mean we decided to do that. We're just trying to get people's best thoughts on that. So, with that, I will say for folks on the streaming, we had an opportunity to meet beforehand, but for everyone else, I'm gonna ask it, everyone to go around, introduce yourselves. Would also be helpful to identify any involvement you currently have or in a prior role with the home loan banks, and particularly for those who are perhaps advocating on behalf of new types of members. If you have an affiliation that would obviously be relevant to that, it'd be helpful to, this isn't illegal, we're not gonna make you swear to it, but it would just be helpful from an informative perspective. So, Jim, why don't we start with you down there and we'll work our way around? Thanks.

Jim Vance: Good afternoon, Jim Vance. I am co-Chief Investment Officer of the Fort Washington Investment Company, which is the investment arm of the Western Southern Life Insurance Company, referred to as the Western Southern Financial Group. We're a life insurance company, mutually organized, founded in 1888, Fortune 500. In my role there, I'm responsible for the entire public equities portfolio and private equities portfolio. I also oversee mergers and acquisitions, and I oversee our investments in strategic venture capital and FinTech and InsureTech firms, which is also gonna be discussed. At one point in time, Western Southern did own a bank, Fort Washington Savings. We got out of the banking market after the great financial crisis, but we also had about close to a billion-asset bank with most of its branches in North Carolina. I am also the vice chair of the Federal Home Loan Bank of Cincinnati. And in my capacity, prior to being Chief Investment Officer for 25 years, I was treasurer of Western Southern, I formed the membership for six insurance companies in the Federal Home Loan Bank system, in the Federal Home Loan Bank of Cincinnati, Federal Home Loan Bank of Indianapolis, and also the Federal Home Loan Bank of of New York. And then recently, the FinTech side, we acquired Fabric Life, which again, is very much of interest at this, about how fintechs and startups could also be considered with our housing mission.

Joan Brodhead: Good afternoon. I'm Joan Brodhead. I'm the Chief Strategic Initiatives Officer for Community First Fund. We are a 30-year-old CDFI, community development financial institutions. We're based in Pennsylvania and cover about 16 counties in the eastern part of the state. We have been a member of the Federal Home Loan Bank. I'm thinking about 10 years. We were one of the first two or three CDFIs in the state that were able to have membership. We worked very closely with the bank as well as at a national level advocating for CDFIs to become members prior to the legislation changing. And I was sitting on the national board of the Opportunity Finance Network, which is the oversight and trade association of CDFIs during the time in which we were advocating for the addition of CDFIs. And I would say the other thing we have while not directly related to the Federal Home Loan Bank is that over the last several years, we've been creating and we have chartered a De Novo Credit Union for our institution, which compliments the commercial and small business lending that we have in our CDFI. This gives us the opportunity to open into the consumer market and we plan to have residential mortgages as a key product for us as the regulations move on and we can add that product. We are focused on urban communities and predominantly work in low-income communities. We've been identified as a low-income development credit union, and we're also a minority depository institution. So, we're looking at how we can continue to leverage our activity and access capital markets so that we can drive additional financing and responsible and affordable financing to low-income communities and individuals.

Laurie Goodman: My name is Laurie Goodman. I'm an institute fellow at the Housing Finance Policy Center at the Urban Institute. The Urban Institute is a Washington, DC based think tank. I founded the housing policy, the Housing Finance Policy Center at Urban in 2013, believing that everyone is entitled to their own opinion, but they're not entitled to their own facts. So, by trying to democratize data, I hope to facilitate better public policy, better public policy decisions. I'm also on several boards, including the board of a mortgage REIT and the board of a independent mortgage banker. The positions that I'm gonna be advocating today way predate any board membership activity. Thank you.

Anand Solanki: My name is Anand Solanki. I'm the Chief Financial Officer at Citadel Credit Union. Our credit union was founded about 90 years ago, and we serve everyone within the six-county area in Southeastern Pennsylvania, including the Philadelphia County. Our balance sheet is composed of over half real estate loans, so we are heavily enabling mortgage lending and housing affordability. And I'm here as a member of the Pittsburgh FHLB.

Pat McEnerney: Hi, I'm Pat McEnerney. I'm with Freedom Mortgage Company, a special advisor to the chairman and owner of Freedom Mortgage, Mr. Middleman. I've had 38 years in this industry, most of that at the Bank of New York, but I spent seven years at EverBank where we were a large Federal Home Loan Bank, an active member, and then spent at 14 years at Deutsche Bank. And I led a project where we assessed the ability of Deutsche to join the Federal Home Loan Bank system and then set up the involvement of Deutsche in the system through the use of an insurance company in 2008-2009. During my tenure at Deutsche, I was also very closely involved with the number of the Federal Home Loan Banks. Deutsche provides a number of services to the system and to its members. And I worked actively with the leadership of several federal loan banks on issues ranging from membership to new products. And my responsibilities here, we also had a degree of international activity and had the opportunity to see how the housing finance system operates outside the US in some great level of detail. At Freedom, we are one of the largest providers of mortgage loans in the US. We are the largest servicer of loans insured by the Veterans Administration. We are one of the largest originators and services of servicers for FHA-insured loans and in general, one of the largest lenders in the US. So, we bring to that the view of how do the providers of this type of financing can have some access to the system. Thank you.

Julieann Thurlow: I'm Julieann Thurlow. I'm President of Reading Cooperative Bank in Reading, Massachusetts. We're a mutual bank. We were founded in 1886, so just a couple years older than you, Jim. So, we've been a member of the Boston Bank for 25 years, I believe. I'm also serving this year's chair elect of the American Bankers Association, and I also serve on the board of the Mass Development Finance Agency in Massachusetts. My role at Reading Cooperative Bank, I love how you explained your portfolio. 50% of the loans that we write are for home mortgages, and the remainder of the portfolio is commercial lending, but predominantly for housing purposes. Thank you.

Byron Boston: Good afternoon, my name is Byron Boston. I'm president of Dynex Capital. Dynex is a 34-year-old old mortgage REIT. Our entire existence is focused on financing, housing-related and real estate assets. We have probably financed every type of asset in the housing universe, from servicing to residential loans, multi-family housing over 34 years. Loans have matured on our balance sheet, so I wanna emphasize that we are long-term holders of the REITs. So, when you think about the housing finance system, some originate, some service, but some of us have to hold and be able to manage the long-term risk of the assets. So, assets come on our balance sheet, and in many situations, they stay there over the years. My background, I've got a long background in this space. I started as a commercial lending officer with Chemical Bank in 1981, became a mortgage-backed securities trader in 1986 with First Boston. In 1997, I joined Freddie Mac in their portfolio. In 2004, I started my first company, which was a mortgage REIT, did an IPO with the New York Stock Exchange, sold it, and then this company, Dynex Capital, was a turnaround, and for the last 15 years, we have rebuilt Dynex's balance sheet. And what's fascinating is Dynex was one of the earlier innovators in the non-agency of mortgage universe in the late '80s and early 1990s. Fascinating to see the assets that they financed from anything from a single-family home to a manufactured housing to multi-family. Huge Litech lender between 1988 and 1998. So, the entire existence focuses on housing the American population. We enjoy it. I enjoy it personally. We find it just a fascinating role to play in the American housing finance system. And we talk about their purpose, Dynex, we don't have to, as I say, go away for a retreat to figure out what our purpose happens to be. We know what it is, we're focused, and we have been for 34 years.

Chris Bosland: Great, thank you. Thank you. Obviously, we have a tremendous breadth and depth of expertise here. Purely coincidental, I'm sure, that there's representatives from across the spectrum, just how these things work out. No, but I think we're gonna have a great discussion today. So, thank you all. At the first roundtable, which was focused on the mission of the home loan bank system, we noted that Congress has seen fit to refer to a mission to the extent that it has a dual mission of providing liquidity to member institutions engaged in housing finance, and then community economic development has not provided a lot more clarity on that. It's never defined those, and so that's part of the deliberations under this initiative. Several of the participants at that first roundtable made the point when we were asking them what do they think the mission should be? They said, well, actually, excuse me, the issue of who should be in came up as members. And they said, "Well, you can't really decide who the members should be as a normative matter unless you know what the purpose of the system is and what the mission is." So, I know this really isn't the focus of this per se, and I know most of you in your written comments are prepared to talk more about the specifics. But before we get into that, I thought we'd just go around and ask, again, blue skying or blank sheeting, however you wanna phrase it, what is the mission or what should the mission be of the home loan bank system? So, Julieann, I'm sorry to do this to you, but since you are one of the bankers on the panel, let's start with you as somebody who uses the system currently, and then we'll go from there.

Julieann Thurlow: Sure. As I look at our relationship with the Federal Home Loan Bank and speaking from that perspective, the stability that the Federal Home Loan Bank system provides to community banks to allow the continuous flow of credit, depositors are fickle. And they don't tell you in advance when they need the money. They don't tell you their story, but deposit flows in and out when you consider what happened recently. With all the stimulus that came in, banks were flooded with deposits. I can share with you, and I don't think it's any surprise that we are seeing significant deposit outflows at this time, and so our relationship with the Federal Home Loan Bank system right now is one of our closest relationships. We speak with them on a daily basis or connect with them on a daily basis. So, it really is ensuring that liquidity is available so that credit can continue to flow to our communities.

Chris Bosland: Okay, thanks. Laurie, do you have anything to add on this?

Laurie Goodman: Yes, so I mean, I'd like to re-echo everything that Julie says. Basically, the purpose of the home loan banks is to provide reliable liquidity to support housing finance and community development. They have to provide this through the cycle. There is no time when the home loan banks are more critical than during periods of stress. No one can forget the critical role that they provided in 2008 when advances ballooned to a trillion dollars or the critical role that they provided early in COVID. So, the idea of the home loan banks is to prevent liquidity crisis by funding solvent institutions who are critical to the housing finance system.

Chris Bosland: Thanks, Byron, do you have some thoughts on what the mission should be?

Byron Boston: Yes, sure. I am a big advocate of the US Housing Finance system, but we should really understand that what makes us unique within the global system, we're bringing capital from around the world through the United States to the American homeowner. The only way it arrives here is because of the real credit worthiness of the US government, of which you are a facilitator of this type of capital reaching to the American homeowner. So, as we sit here, this is a big moment in history. In my 40 years investing in mortgage assets or lending, there's never been a large time period a large government entity has not been a net buyer on a long-term basis of those assets. It either Freddie or Fannie or it's now been the Federal Reserve Bank. And at this point, Federal Reserve Bank does not want those assets. Now that'll flow through, whether it's a security that's on their balance sheet or it flow through the whole loans, it will flow through the system if they were to choose to relieve themselves of all those assets at one point. Someone has to own the assets, someone around this table will own, or some other entity will own these assets. I asked the question, what can the Federal Home Loan Bank's system do to help facilitate the long-term ownership of US housing financing assets? That is a very important good for the American population. So, with that in mind, I believe that the home loan bank system should be focused on those entities who have the ability to hold the assets over the long term. You're a risk manager. These are very risky assets who would make a 30-year loan to anyone that they can prepay at any point in time. It's a very risky asset, but we've done it very well as a country. And the type of financing and stability that the home loan banks can provide can play a huge role. So, I'm a little bit above just what are the exact requirements. Let's have the home loan bank system think about the role today, which is very different than it's been in the past, because the government entities that have played a large role, large balance sheet, Freddie, Fannie, and now the Fed, they're now exiting. None of us have been in the system where either one of these three entities has not played a role as a net buyer of these assets. So, you sit on a phenomenal bed of financing. Liquidity is extremely important. At Dynex Capital, we're experts in managing the risk, and I'm sure at some of your other institutions, you have expertise in managing the risk. A hundred percent of our assets are focused here. So, I'd like to see how, ask a bigger question, how can the home loan bank system facilitate the assets that are now on the Federal Reserve balance sheet to be held by private capital?

Chris Bosland: Thanks. Jim, as somebody who represents, somebody who's been in from the beginning, the insurance companies, what do you have say?

Jim Vance: Yeah, I appreciate that you're asking us this. I am really quite comfortable with the dephrasing of the two-tier mandate. And I think it's very analogous to the Federal Reserve Board. The two-tier mandate, for me, slight nuance. I'd say first, exactly what we said, liquidity. I think liquidity system. I think it's timely we're meeting here. Most of us at some point will watch "It's a Wonderful Life" in the next two weeks. And the whole movie's premised on the Bailey Brothers building a loan company and they have a run on the bank cause their deposits can't match the home loans that they put in the park that they were building all the houses on. So going back to 1932, liquidity, the key points of the system. I echo what Byron was saying. So, the liquidity of the system I think is the forefront. Same as the Federal Reserve, the key thing is inflation of money supply. Then there's the idea about what then was the secondary mandate, and I would nuance it more toward housing than jumping right to affordable housing, because the housing market, Zillow says he owes housing markets maybe 40 trillion in assets. Entire treasury bond markets, 17 trillion in assets. It's a massive market. All housing contributes to affordable housing because it increases the supply. Somebody has to sell a house to buy another house and through the chain. Now we can also focus a lot of assets on affordable housing. So, I really support all the initiatives within CDFIs and everything that people do. But I think the massive housing market, in echoing where Byron was at, that's what we're really focusing on. Same way that the Federal Reserve second mandate, unemployment. But you need to make sure that if you focus too much on GDP, you get too high of inflation. If you get too off on the housing market, you could screw up the liquidity portion of that. But having said that, affordability is important. The same way that Federal Reserve one looks at unemployment, looks at minority unemployment, and the underserved and also focuses on GDP. We also say, when Chairman Powell speaks, he says, "There's only so far monetary policy can go. We need to think of that in terms of housing." There's only so much that this is a funding matter and a matter for the Federal Home Loan Bank. It's a massive market, it's very complex. So, it's not necessarily all a funding matter. Congress plays an important role. The Health and Urban Development office does and FHA. So, the difference between the Federal Home Loan Bank system and the Federal Reserve, we try to have 10% of our income go to affordable housing. The Federal Reserve doesn't take the income off all those T-bells and agency securities and try to put it into paying for the education of the unemployed or other initiatives. So, we're already sort of supporting it. So, I feel very comfortable in that lens that that two-tier mandate and sort of in that tiering structure.

Chris Bosland: Thanks, they also have the advantage that they can create bank reserves, but that we don't have. But I did write down all I needed to know about banking, I learned from "It's a Wonderful Life." So, thank you for that. Anand, you have your card turned around. Go ahead.

Anand Solanki: Yeah, I also particularly like the double mandate and liquidity. I feel like as my fellow panelists have said, as an integral entity, let's say between the FHLB, the Freddie, Fannie, all of the organizations combined under the FHFA mandate have focused on liquidity. And I would even say that they're very successful in providing liquidity to the market as we've seen in the recent couple of years. And even not just in boom times. There is plenty of liquid to go round, but also, especially like Julie said, in tough times as well, FHLB is the, sometimes the sole provider of liquidity for the likes of the Sierra Credit Union as any other insured depository institution. The second part is where I feel like, going to your question about where should the FHFA be focused on, as a stated mandate, I think it is a good mandate as an execution or getting more done. I feel like there is opportunity on the community economic development angle to it. And what I mean by that, as an insured depository institution, particularly a credit union who serves many underserved, and we see folks from all walks of life. And what we see is that in addition to providing someone with a means, say in affordable housing, a lot more impactful would-be education and awareness, financial awareness, financial education. So how does that relate to FHLB? I don't know what the best execution could be, but as an idea, for example, for members like us, if the FHLB were to have certain requirements for community education, uplifting awareness camps, such that you, cause there's a lot of able-bodied and able-minded folks that are underserved. And I don't think it would be, the programs in Pittsburgh FHLB and all the FHLB, there are a lot of programs and grants and such that are going to these able-bodied people that, and then there are certain others who may not be able, I think the funding and the grants are probably better going in a sort of a reverse priority of who needs the most. And then, I know we do that, but there is a segment of the population that would certainly benefit from more education, more awareness that somehow FHLB were to include as a requirement of some sort of membership. That I would think would go a long way in addition to the programs.

Chris Bosland: So, capacity building, not just for the members, but also for the members to pass on to the communities that they serve. Fair enough. Joan, I see you have your card.

Joan Brodhead: So, I would agree with the liquidity, and I don't need to say anything more than my panel members have said, but I'd like to talk about the community development aspect and particularly mentioned earlier the racial gap for wealth and the racial gap in home ownership without going into too much data. The communities that we work in here in eastern Pennsylvania, well, Philadelphia is the one of the largest cities in the country with the highest level of poverty. Just about an hour away from here, a city of Reading, Pennsylvania is actually one of the most poor small cities in the country with a population of about 80,000. In some of the parts of the community, almost 50% of the census tracts is at poverty level. So, our focus is trying to drive good quality credit to individuals who want to become homeowners. One of the ways in which to try and really lessen that gap. And I think the Federal Home Loan Bank is uniquely kind of situated if in the mission, it's stated that community development and economic development is a portion of it. I think it keeps the focus there, it keeps the accountability there. And I think there's a great way for people to be creative these days in finding ways to not only help home ownership, but really build family wealth and family wealth, excuse me, wellbeing in their financial services. And the home ownership training, the home buyer training is a big part of that, but really keeping people in homes that they can afford and possibly pass that wealth on to the next generation, which is how we know wealth has really been transferred in this country.

Chris Bosland: Yeah, that's actually a recurring theme in these. The need, and I think maybe Jim, you addressed this as well, moving beyond the grant. I mean, the grants are important, but the sort of the activities of the banks could perhaps do more in the space of the commercial business with the members to advance things on a much larger scale. Pat, everyone, okay, I was gonna say everyone else has spoken and wanna get you in here.

Pat McEnerney: Thank you very much. Yeah, I think to reiterate what every panel member made is the dual mission makes perfect sense. The challenge with the dual mission is it's not very specific, and and it becomes real challenge as to what that dual mission can mean. What I turn the focus to is the role that the Federal Home Loan Bank has played in providing a reliable source of liquidity to the US housing system over 90 years. And to try to give that in perspective of what's evolved in that system over that time period, right? The Federal Home Bank, the Federal Home Loan Bank system was created before the FDIC was created, right? It existed before banks as we know them today existed. There's no such thing as an insured depository or a federally insured depository when the system was created. And what's evolved in the US has been this extraordinarily unique system to provide long-term 30-year fixed rate financing to almost everyone, right? And Byron had mentioned this, it is a very uniquely American scenario, and the Federal Home Loan Bank along the way has evolved in providing liquidity towards that system. But the systems evolved a lot since then. FHA followed the Federal Home Loan Bank system. The VA followed it by what, 12 years, right? Things that we think of as Ginnie Mae followed it by 42 years. Is that 42 years? Through our math, anyone with me? 52 years. Anyway, 36 years. Anyway, so 1968. And Fannie and Freddie came up in the 1970s, right? So, these are the kind of institutions that have evolved under the lifespan of the Federal Home Loan Bank system and has, during that time period, the Act and the amendments to the Act have expanded membership, but the Act themselves has never restricted membership. And if you look at that language, right? There are institutions named in the Act that I think all have a tough time defining what they are today, right? Building and loans, there's a homeowner something around there. I don't even know what that means, and I'm not sure how we would define that today, but it was clearly that even in the statement that President Hoover made in announcing the Act, he reads off this list of institutions and then says, et cetera, right? The intent was to provide something that would provide flexibility to support an evolving housing finance system. So, we think that that is probably core to what that mission is. Continuing in that way is core to what the mission should be of the system. Thank you.

Chris Bosland: Thanks. So, as we tip toe our way to the main event here, we talked mission, raises the question as we get to the types of entities that, I mean, how important is it though that we have a test or tests for who could be in? I mean, you were talking about et cetera, which suggests an open thing. But I'm curious, what do you all feel should be the test or the tests for membership as to how do we assess achievement of that mission or contribution to the mission? Is it collateral, is it assets, is it income percentage? And then just I'll see if anyone wants to weigh in on this. Okay.

Pat McEnerney: The Act has to meet tests, right? To make perfect sense, so to makes tests, I'm sorry, to make housing loans, how that's been defined in allowing members in has been quite broad, right? You made a loan, or you hold a loan, you passed the makes test, or it had at various times.

Chris Bosland: Well, I mean, to Byron's point earlier, is there a difference between making and holding and should that be a relevant consideration?

Pat McEnerney: I think it is important that that requirement be to either make or hold, right? It is providing liquidity to the system, and that is either to make or hold in a material way, right? I think that's central to what that should be. And I do believe the interpretation in the past has actually been quite broad. But yes, this broad or the ability to either make or hold and have that as a significant part of your business I think is important for a member.

Chris Bosland: Julie

Julieann Thurlow: So, I would add to the make and hold, capitalized, and regulated, so that there is something to back up. I know we'll be talking about collateral later on. And the safety and the integrity of the system is based on that safety and also the checks and balances. When we consider what just happened with FTX, there are very different standards with which certain organizations manage themselves and their organizations. So, making sure that anybody who enters is capitalized and regulated. And I would also say that they're beholden to CRA as far as the Community Reinvestment Act. That's a very good metric of whether or not you're meeting the needs of the community with which you derive your wealth.

Chris Bosland: Thanks, yeah, I noticed that in your written submissions about the CRA, and so I'd like to put a pin in that and come back to that. But I know that Byron was waiting to weigh in on the…

Byron Boston: Yeah, I think there's a, if I were to, again, I'm gonna always be speaking broadly from the housing finance system of the US. I think it's a huge advantage of our country. Do not take this for granted. It's not all over the world. So, I'm gonna start with a hierarchy. And if we use a chart at Dynex, happy to share it. On the right hand is where the money comes from. There's no one who has money. You know has money? It's the saver that who has money. So, we bring money through the saver, through those who buy our common stock or buy our preferred stock. But if I were to think from your seat, I'm gonna sit and say, "Okay, let's have a hierarchy." The most important person you need, well, it's not a true, it's not the most important, it's the various players. But you've gotta have someone to hold the long-term risk. A 30-year mortgage, whether it is in loan form or whether it's in in securities form, and one thing that has changed, I will introduce you Dynex Capital as a long-term lender in this space, but if you look at our balance sheet today, it's all securities, cause that's where we're choosing to take risks. They're more liquid. And in this day environment, we need more liquidity. So, I would like to just make sure we approach this from a broad perspective that takes into account what does the housing finance system look like today? And really prioritize long-term holders of the risk with the skill sets to actually manage that risk through multiple environments. I would also urge you to think about the world is changing and the world of risk, say, now for the next 20 to 30 years may look very different than the last 20 to 30 years.

Chris Bosland: Yeah, okay, and we'll get you, Jim, you're next and then we can get to Laurie. So, if I hear what you're saying, you're talking about, would it be fair to characterize that as an asset test, if you will, that regardless of whether it's in securities form or mortgage form or loan form but

Byron Boston: There should be an asset test to ensure that this entity is truly playing a role that's aligned with the home loan bank's system's mission of housing in America. They're really, truly playing a role, because here's what's going to happen for sure. You brought up FTX. Look, there's a lot of money in our financial system, always has been. You're gonna have bad players, all right? So, let's just assume that right off the bat. So, you'll have to start with the appropriate requirements. Someone will try to look like they have a tent that says housing on the outside, and there's something else on the inside. So, let's just start with that perspective. I'd like to say everyone's wonderful and kind and nice and honest, but that's not the way the system works. So yes, there should be an asset test that this entity is truly focused on housing-related assets and helping facilitate the housing finance system.

Chris Bosland: Thanks, Jim?

Jim Vance: Thank you. So, on the membership criteria, I think we're echoing, but I like where Byron was going. I think we start out with the phrase housing mission, which I think is important we use housing, but I think there's going to where Byron is, I think there's quickly another task within that is saying housing, I think most of us kind of jump to. You don't build a housing community without a surveyor laying out the meets and bounds. But I don't think that's really meeting the housing test of saying, well, we can't even start to get the lots to build the houses if it wasn't surveyed but doesn't really have financial assets. My son works for housing company. He builds houses and community developments. He's at Lowe's and Home Depot 90% of the week because something wasn't delivered. Most of those projects need plumbing products, roofing, drywall. We're not looking to try to get Home Depot and Lowe's theirs. This is where we're going, where Byron is, I think there is sort of a nexus something around financial assets. So, you are sort of shifting. It is a federal finance agency. It is sort of the financial assets that sort of kind of emerges out of that. You need sort of an asset to participate in finance, and that's where it sort of becomes a chicken and egg a bit into the collateral discussion. Sort of going also to where Julieann was saying too is I sort of like look at this a little bit like a lifeboat. We're gonna all talk a little bit here about membership. I kind of feel like a insurance company here since 1932. We're in the lifeboat already. I don't wanna be the person in the Titanic saying you can't come on. I'd love everybody to be on, but I'm sure I don't want insurance companies outside the lifeboat as a result of this. And I only want people in the lifeboat that aren't gonna capsize the lifeboat. So, from that point, then I kinda go to the next wave of criteria. And if I look at the ones who are already in and why the system is work, I do think maintaining transparent and audited financials. So there needs to be the ability to look at similarly disclosed information for comparability and affordability. You may have to maintain strong capitalization. There needs to be a sufficient, now it goes also, I'm not missing where Byron's at at actually the ultimate owning of the assets, but that's the asset side of the balance sheet. You also have to look at the net worth side of the balance sheet. Just say, what's the sufficiency of capital? So, we need to get our arms around what's the sufficiency of capital, and that sufficiency of capital for critical mass. And if you're gonna look at capital, that's the advantage of looking at state and federally regulated, because those have looked at capital, looked at risk over 50 or 100 years, over depressions and tech crisis in the RTC crisis in continental Illinois and all these different and great financial crises, looked at all these and learned from those experiences and said, "Okay, this is what happens. when a high yield bonds on a balance sheet and how much you should have in proportionality." And I think when we look at regulation, this really goes to the heart of your organization with the Federal Home Finance Agency. They recognize while the Federal Home Loan Bank is an SEC registrant, it does an exam of each FHLB every year. An exam and a regulatory review is different than just saying the transparency of documents for disclosure. And that goes back again to the nexus of the strength and health of the membership. So, if you thread through that it's primarily housing-related, membership-related, it seems like it's transparent, comfortability comparable to the peers that are already within the system. I think you're rhyming to where you can add to the inclusion and you're welcome on our boat.

Chris Bosland: Thanks, I still have the scars from SEC registration. Laurie, are the current tests sufficient for mission or not? What would you suggest?

Laurie Goodman: I mean, I sort of agree with, sort of make sense to provide liquidity to those that make or hold mortgages. I wanted to actually respond to some of the regulation transparency capitalization statements that have been made. The home loan banks have often pointed to the fact that they have never lost money on an advance in almost a hundred years. I look at that and say, "They're not taking enough risk." Obviously, you want institutions that have transparent financials that you can evaluate. You want them to be well-capitalized, but that doesn't mean all institutions have to be capitalized equally. And the home loan banks have a number of other tools under their control. So, in addition to admitting members, the home loan banks also have the right to set haircuts on the assets that they use as collateral, as well as setting the rates on their advances. And they could differentiate by types of members. I just wanted to react a little bit to the capitalization transparency and regulation statements by saying, yes, you definitely want transparency, you want them to be well-capitalized, but that doesn't mean everyone has to be equally capitalized because there are other ways to differentiate.

Chris Bosland: Thanks. You must have touched a nerve. Anand and then Joan.

Anand Solanki: So, I agree with the make and the hold. As an example, we get our advances from all of the real estate loans that we hold, that we pledge to the FHLB. So, the nuance that I want to add to what has been already said, I agree that for the makers or the holders, the standardization of oversight, the transparency of reported numbers, capitalization, all that is important. Maybe what else I would add to it, and maybe some of this is measured through all the metrics we mentioned so far is the stated intent or the objective of that institution. And what I mean by that is there are certain institutions that are certainly well-capitalized now and showing all their financials and whatnot, but they are speculative in nature. A lot of the speculation and the greed and the exuberance, irrational, all that we saw wasn't created or exacerbated by the books regulated and entities. The speculative side of it will drive a lot of that activity. So maybe there is an angle to say there should be, for whoever is willing or intending to be a member there is this stated objective returns. So, to sort of limit, it to non-speculative or non-highly risk-taking kind of entities.

Joan Brodhead: Yeah, I'm just really responding as a non-regulated entity that is a member. So, most CDFIs are not regulated. We do have a subsidiary that houses are US small business guaranteed loans, which are all commercial loans, not mortgage. And of course, our credit union is regulated, but when we became a member, the entity that became a member was not regulated. But we do have to still meet the tests and we've still had to prepare and present the information that way. And I think most large CDFIs that have been around for 30 years are doing just what you said, presenting financial information on a consistent basis. And I just wanna say that I think there are ways in which to assess an entity that's not regulated but treats its assets and treats its management in a way that you could be looked at by regulators. Policy-wise, we can write paper that doesn't conform to everything that consumer policy has, but we follow fair lending, and we follow that arrangement because of who we work with.

Chris Bosland: Jim, before we move on if you're really quick, gonna let you move back in.

Jim Vance: Oh, I thought you wanted to move (indistinct) say something. Yeah, so two things. One, if any way my comments were misconstrued, CDFI should absolutely continue remaining as members. That was not my intent.

Chris Bosland: In the boat.

Jim Vance: But the main point I wanted to say is on the, I thought it was a provocative thing in our pre-read about never having a loss and does that indicate proper risk-taking. As a wholesaler provider of liquidity, never having a loss is a very good thing. And I would also point to the securities lending market, which functions basically as a two party or tri-party repo. And in that, you pledge marketable securities with a haircut as a loan, and there's not been a loss in securities lending. People that participated in securities lending with Lehman Brothers as a counterparty did not have a loss. The reason that's important is if there is the chance of a loss, you radically change the pricing of that asset, albeit remote, but it changes the criteria. The fundamental problem of the great financial crisis was a AAA-rated security in that instance did not have anything close to default rate of a AAA-rated security. So, I appreciate the idea of this, but being a federally regulated system providing wholesale funding to other regulated counterparties is not really the time that I'm looking at what should be my loss ratio, like looking at credit card receivables. So, I think it's interesting, but I'm just really not that motivated on the loss argument to take more risk and potentially what are the consequences, because the members actually have capital at risk of this. I mean, our company alone has close to $ 200 million of capital at risk. So, we're not looking to see if we can take a loss on that investment. So, I appreciate that you nuanced it around the edges. Part of that's just priced in the advance.

Chris Bosland: Unsurprising, we may be running long, but Julieann, go ahead.

Julieann Thurlow: So, it was the same comment about the loss that actually had me chuckling. I started my career working for the FDIC during the banking crisis in New England. And I would almost say the Federal Home Loan Bank benefited from its policies because I knew of quite many of bank presidents that actually drove their notes into Boston. And those banks are no longer here. So, it's not that they didn't lose members, they just didn't lose the borrowing capacity because they marshaled the assets first. And how smart is that?

Laurie Goodman: Let me just mention that if you only make loans, let's just say at the extreme, you only make loans to borrowers who are never gonna default, you're right, you will have no losses, but you'll also make about three loans. There is an inevitable trade off.

Byron Boston: Chris, can I have one other thing?

Chris Bosland: Please.

Julieann Thurlow: This is great because, and I'm gonna latch onto Jim's analogy. Some of us are in the boat and some of us are not. And I sit here really on the outside almost like a joker, just kinda laughing and thinking about things from an intellectual perspective. I'm gonna express an opinion, you're not doing enough. That's my opinion. I think you should think again if you've ever read Jim Grant's book. So as an organization, I think you should think again and understand that the original rules were created decades ago. And you should consider where we are in history. We are at a monumental moment in the housing finance system. The government entities that all of you sit on top of which have held a huge amount of these assets, there is a huge stock effect that everyone has benefited from. They don't wanna hold them, and I don't believe they have to hold them. But we have a huge advantage as a country. We can borrow at unbelievable rates as our dollar is proving. This is a global issue. The capital by which our homeowners have is not just from American savers. So, I believe you should think again. I don't think you're doing enough, but in the boat versus outside of the boat, we were in the boat, to make sure everyone understands, we were in the boat at one point, and everyone came out. Okay, fine, we'll continue to go along. In March of 2020, we were borrowing money from the Shinsei Bank. We took our money back cause we didn't trust you, the FHLB. We took all our money back from any lender that we didn't trust. So, we do extensive risk management. So, we're a public company, so some of us are in the boat and some of us are not. And that's kind of a wrestling match here that we got. So, let's establish that. And this is a good debate for that reason. But I will say I don't think you're doing enough, and I think you should think again, but we gotta think about what does that look like. The safety and soundness is very important. Understand the real problems. Great financial crash was the state regulators when all these subprime loans are being made. I think we have to think a little broader about where we are in history though, and can we make this work? I love Laurie's example of you can really always get no losses, but there is something more we can do, but we do have to put our heads together to try to figure out exactly what that is.

Chris Bosland: Yeah, this is a recurring theme that we've heard from a lot of commenters. So yeah, I'm sure you're not particularly concerned about being on your own, but it is something we've heard from a lot of commentators and as well as the counterpoint. And Jim, another analogy that's gonna get overused, I think, and I'll try not to do it myself, but it does capture it. Before we leave the test issue though, I did wanna say, I mean, one of the things that comes up, different entities have, under the current statute, it applies and doesn't apply. How do you all react to the commentators who say this test should be a recurring test or ongoing test, whether if it's assets or whatever? There are certain cases where, under the current statute, where you just have to meet it at the application time. And after that, it doesn't really matter. Now, that doesn't apply to all entities, but a lot of people have said, "Well, this should be an ongoing test." And I think, before my time, I think the agency did propose that and ended up not going that way. But how do you all feel about that?

Jim Vance: I'll go.

Chris Bosland: Okay, Jim.

Jim Vance: I think it should be a initial membership test, and then that should be when it should occur. Before I get a little deeper in that, I just wanna say, going back to our prior comment, well, what I think is important about the Federal Home Loan Bank system, we were describing that making no losses because you choose very highly rated counterparties. We treat all members equally. It's the over collateralization that provides the safety net. So, you do not need to be JP Morgan to get the same terms as a 50 million asset financial entity. That's not where the selection process is occurring. It's in the structure. But on the membership test, I think this is important. It goes to what we've been talking about, about there is variability, and it goes to what Byron's talking about of when people that choose to hold long-dated assets choose to be long in the market. And you will have volatility for those that are able to hold long-dated assets, specifically on their relative appetite to hold it on the balance sheet. And remember what Byron said. It's a 30-year asset with a perpetual put option by the borrower to take the loan away. So, in a declining interest rate environment, they will choose to refinance, the collateral assets can substantially shrink exactly what they're designed for to help that retail customer. And you can temporarily have a shift in that asset mix of the exact assets that we're putting on and a 30-year promise that go away. And the volatility of that, and when you can replace those of that significance takes time, and the time to look at that and the need is not the time then, oh, okay, great. Now you have to reestablish membership at the exact point of what could be the liquidity event. So, I understand the importance of it as a toll gate. I think it works well as a toll gate, but at that point, then it's more of a function of, you have access by being a member with your membership stock. If you have the sufficient collateral as it's defined, then that continues your functionality. So, after you had joined, I think that would be sufficient.

Chris Bosland: Julie, go ahead.

Julieann Thurlow: So, I think I would agree with that is once you're a member, you're a member, as far as the organization, then it's governed by collateral. And I think this is probably the time to talk about the unrealized loss. I think now is the time to talk about the unrealized loss on an investment portfolio when you have periods of volatility hampering access to capital during a period of time. But for the interest rate and you're holding an asset to maturity to actually impair borrowing capacity, it doesn't help for the stability of the system.

Chris Bosland: And I hear that, and obviously, I understand we'll be talking about collateral a little bit. And obviously, that can have a big impact after the fact. And you can get some of the places there. But just to play devil's advocate, as Byron pointed out, not everybody's a wonderful, well-intentioned person or maybe not focused on the mission as much as we might like. And certainly, you can imagine situations where somebody might just acquire for the purposes. As a former FHFA director used to say, everybody wants cheap funding, but just for the purposes of getting in, purchase a portfolio of assets and then promptly sell it once the application goes through. Now they have access, they're in the boat. And the question is, does that not sort of make, just to be devil's advocate, does that not make a sort of a mockery of the test if that's the case? Go ahead, Jim.

Jim Vance: Well, there's a couple things. One, if you do become a member and you have your membership stock, there are, in the Federal Home Loan Bank system of Cincinnati, I'm sure with others, there are members that don't actively use the systems. There is the process of being in. I think one thing that's important is, a lot of members and insurance members in particular, this is a very important contingent utilization. We really use this very much in organizing around a backstop. Second, as a member, most of the Federal Home Loan Banks are organized that that is not particularly liquid. So, you can have your membership stock, but if you don't have the collateral, it can be stuck in the system for a number of years before you can even get your membership stocked back out. So, the idea about being in or out, I do find it's kind of paradoxical in our discussion cause the idea is, and I appreciate where Byron's going, we need to do more and we're trying to figure out inclusion at the exact moment that we're then applying a test about how to get out because you temporarily have a little bit of a reduction in collateral assets. Now, the idea about it, it's important to be a gatekeeper, be a policeman, get out bad actors. I think that's important. So, if you said, maybe there's a mechanism for recognizing that or a non-used entity. But in general, that contingent usage is, for a lot of people, the benchmark even before actually the usage.

Chris Bosland: Does anyone else wanna stick their neck out on this one? Pat, you keep turning that one line that goes back the other way.

Pat McEnerney: I know, I know. It's hard, it's hard. So, on the topic specifically of whether the tests should be ongoing, I don't think we feel terribly strongly about it, though we would think that it would make sense that the test be ongoing. This is to have access to the housing finance system. And if you're not a participant in the housing finance system, why do you continue to have access? And I'm gonna get myself in trouble now because I wanna put this one out there. The reason the Federal Home Loan Bank system did not take losses on advances is not because the system only financed high quality assets. It is not because the system only financed high quality counterparties. So let me go through. The Federal Home Loan Bank system in the late aughts was one of the largest providers of funding for pay option arms through players like Golden West, Countrywide Bank. The failure of those institutions was imminent, right? And it posed risk to the system, right? There was not, I don't think anyone in the room would argue that those are high quality loans, right? But that was financed by the system. So that's not why it didn't fail. And it's also hard to say that they only financed high quality credit institutions. Every year, banks fails. Banks have failed in great levels along the way. The reasons why the Federal Home Loan Bank system has not taken losses on that, I would suggest, is because the FDIC has a super lean on the assets of a bank. And when a bank fails, that's in a Federal Home Loan Bank member what happens is the FDIC generally steps in and pays off the Federal Home Loan Bank. It's not cause the institution was good, it's not because the loans was good, it was because there's another government institution that provides a guarantee. So, at the end of the day, massive losses were taken. Those were losses were taken within the FDIC. I challenge somebody to challenge my facts.

Chris Bosland: I will pause momentarily to see if anyone else wants to comment.

Laurie Goodman: I just wanna support what Pat said. That's absolutely right. And if you're only gonna let institutions in the system who have that super lean status, and I realize CDFIs do not, but if you're gonna let primarily institutions in the system that have that super lean status, you're not gonna do a very good job serving the market.

Chris Bosland: Thank you, let's turn here today and in the written comments, obviously, the market's changed. So now let's talk about members and who's in the boat, who's out of the boat. Who do you wanna throw overboard, or do you wanna just keep the crew you got? So, I don't know, I said I wasn't gonna overuse the analogy, but there you go. So, if you think that it's the right mix, just if you could explain a little bit more about why you feel that way would be helpful. But anyone, floor's open. Or I can call on somebody, but I know you all were opinionated in your written comments, so let's go. Okay.

Amy Bogdon: Laurie, you wanna start?

Laurie Goodman: Okay, I'll start. So, I mean, the original purpose of the home loan, the original purpose of the home loan bank system is to provide reliable liquidity to support housing finance and community development. And right now, the membership in the home loan bank system as determined by Congress is restricted to banks, insurance companies, and CDFIs. However, and the overwhelming majority of the advances is of course to banks. But I think it's real.

Jim Vance: I just wanna say credit unions and savings and loans too.

Laurie Goodman: Thank you, thank you. I'm gonna actually speak to non-banks, independent mortgage bankers. They're certainly critical to the mission of supporting housing finance and a source of liquidity that would remain in place during periods of stress would be very, very important. So first, I wanna make the point that non-banks are absolutely critical to the housing finance system. I'm a geek, so I'm gonna use some numbers. In October of 2022, non-bank originators or independent mortgage bankers originated 92% of all Ginnie Mae loans, 71% of all Fannie Mae loans, and 65% of all Freddie Mac loans as measured by dollar volume. This is up from 30 to 40% of each of these three categories in 2013. That is, banks have deemphasized mortgage lending, particularly government lending. And government lending is where the riskiest loans are concentrated. That is the non-bank do a better job of serving lower income borrowers and borrowers of color than the banks do. A couple of numbers will make this more clear. The median FICO score in October for agency mortgages was 731. 754 for GSE loans and 674 for Ginnie Mae loans. Within the Ginnie Mae universe, for non-banks, the average FICO score was 672. It was 697 for banks. In terms of LTVs, Ginnie Mae loans tend to have a higher LTV. The median is 696 and a half versus 680 for the GSE loans. For debt-to-income ratios, 39 for GSE loans versus about 44 for Ginnie Mae loans. And again, non-banks have a wider credit box in Ginnie Mae space than the banks do. When you look at the minority share of loans, FHA and VA do far more than the GSEs do. GSE Honda data for 2021 shows that of GSE loans made, 72% were to white borrowers, 5.3% were to black borrowers, and 12.4% were to Hispanic borrowers. For FHA loans, 50.7% were to white borrowers, 18.8% to black borrowers and 27.5% to Hispanic borrowers. So, the credit box is much, much wider. So basically, again, non-bank do serve 92% of the Ginnie Mae market. And non-bank servicing has also increased dramatically. In the Ginnie Mae market, it's increased from about 28% in 2013 to about 80% in 2022. Now, it's important to realize that non-banks are very vulnerable to liquidity shocks because they don't have a source of stable short-term funding for their originations or their servicing advances. Warehouse lines of credit are provided by banks, and they can be canceled during times of stress. And non-banks would likely be unable to replace that funding. Again, these are solvent institutions with liquidity issues. Servicing on government insured loans, particularly FHA and VA loans can become a real burden during times of stress. And non-banks are far more exposed to this risk than banks are. If delinquencies were to rise dramatically, and a few large or multiple small non-bank servicers were to fail, Ginnie Mae would have to transfer a good deal of servicing quickly. In addition, the risk would be transmitted through contagion. The failure of one player could cause counterparties to question the viability of others as the market struggles to absorb the mortgage servicing rights. The public purpose being provided by allowing non-bank as members of the home loan bank system would be to provide additional stability to the housing finance system. If you had the failure of a few large banks or multiple small ones accompanied by a fall in MSR values causing a liquidity crunch, mortgage credit, particularly credit to the riskier borrowers that is FHA borrowers would evaporate overnight. This would depress home prices in low income and minority communities that rely heavily on FHA funding, which would further increase defaults, creating the same type of negative feedback loop we saw in 2008. It would also create servicing chaos for many borrowers that would experience servicing transfers from failed institutions. So, giving non-banks home loan bank membership would ease their vulnerability to liquidity shocks, which is critical to the home loan bank's mission of providing liquidity to the housing finance system. I really believe this has to be accompanied by meaningful prudential regulation in this industry. I don't think it would affect the safety and soundness of the home loan bank system because again, as I mentioned earlier, the home loan banks could adjust haircuts and pricing to compensate for the additional risk. But certainly, when you have non-bank serving 92% of the most vulnerable borrowers, it screams for their membership in this system.

Chris Bosland: Thanks, there's a lot there and a lot to go on, a lot for folks to respond to before accepting the positive statement that non-banks represent a substantial part of the market. I don't think anybody argues against that. I mean, numbers are, as you said, we're not entitled to our own facts. I guess that as a normative matter, is that a good state of the world for the housing break? I understand the liquidity aspect of providing, given that that's the current state, providing liquidity to them to avoid liquidity squeezes that could spread contagion would increase stability. But overall, is that a good state of the world, or are we encouraging, are we treating the symptom rather than a cause that's driven? I mean, you used the phrase banks have deemphasized. I just wanted to press a little bit on that. Mortgage lending, is that something that happened exogenously? Are there reasons for that? And what's your view on that? I don't mean to...

Laurie Goodman: Yeah, so I mean, banks basically have deemphasized this lending because they fear the reputational risk. They paid huge fines because of the False Claims Act, as result of actions during the great financial crisis, and they've pulled back from the market. FHA has gone to great contortions to try to get banks back in this market. They've made a lot of changes. But banks aren't coming back into this market because they're very concerned about the reputational risk aspects of servicing riskier borrowers. And in fact, it's much more expensive to do that servicing. The mechanisms for buying delinquent loans out of pools are very different for GSE loans rather than FHA loans. When the GSEs buy delinquent loans out of, the GSEs themselves buy delinquent loans out of the pool when the loans are four months delinquent. And essentially, the mortgages sit on the balance sheets of Fannie and Freddie and the servicers are essentially reimbursed for their servicing expenses. By contrast, when a government mortgage defaults, the servicer not only loses the servicing income, but they're responsible for advancing the monthly principle and interest payments to the investors using their own funds as well as incurring the costs of servicing the loan until the default is resolved by the sale or some other mechanism, which puts a lot of pressure on servicers of government loans. Banks aren't happy about taking that risk. And in many cases, they don't do it very well. I mean, I think the banks have pulled back from this sector totally and completely. Again, they don't want the reputational risk. And I think we have to recognize the reality of who our borrowers are and how we serve them.

Chris Bosland: Fair enough. Julieann, I look to you as a banker. I mean, don't you wanna make money?

Julieann Thurlow: So, I would disagree with the argument that banks have actually walked away for concerns about reputation. The technology in the space and the investment in the space is significant. There are constantly changing regulations, and we do our best to be prepared and make those changes and make the adjustments. Community banks use their balance sheet to lend to their community. And a lot happens outside that space now. We're not happy that we are not originating over 50% of the residential mortgages in our marketplace. So, I would disagree with that. As far as FHA is concerned, I'm not sure what the reason is for banks not to be in that space as much, whether it's the audit requirements that were put in place a few years ago. I do know that there are some banks that saw that as a challenge based on the amount of volume that they were seeing as compared to the costs that were put in place on that front.

Chris Bosland: Next, Jim, then Byron and Pat.

Jim Vance: So, I think what's important is when we set this up and we talk about the originations by non-banks, they're not putting capital in. It goes back to what Byron was talking about. What's the source of capital? That's like saying that the car dealer builds cars. They don't. I mean, the cars are there, they sell 'em, but without Ford or somebody building the car, it's not there. The reason that the Ginnie Mae, Freddie Mac, Fannie Mae thing works is it works on a volume basis. To do all those loans and the technology, you can't understate. But just look at the general plumbing, to do all those loans at that level of volume, the primary acceptor is Ginnie Mae, Freddie Mac, and Fannie Mae. And then they're bought by other investors in the agency RMBS market. The originator automatically looks at it and disaggregates from the equation going exactly to your points. They don't wanna put the energy into the servicing. Fannie and Freddie don't wanna put the energy into the servicing. We're splitting up the actual 30-year mortgage holding it in one area. So, to do it at scale and to do it at volume, we've chosen to use these government entities to use the guarantees to do that, to repackage and hypothecate them into a later market. So, the origination stats are a function of that's great on the origination, but they don't actually hold them in large form. It's the other entities that are doing, and that's why we're disaggregating, servicing, origination, and capital. Second, cause I work on this in the FinTech space where we're looking to acquire firms, you cannot underestimate the importance that technology in place, the ease of use that Rocket Mortgage and others have had in this recent housing boom to be able to look and have an approved mortgage on an app, on a phone before you go, the convenience of doing that to be able to negotiate your home in a reasonable credit score works well. And I think part of the reason these numbers are so large too; it depends what community you're in. I mean, you can get a federally preferred loan that can be $800,000 in assets. I mean, depending on how you wanna work the numbers, they're doing a massive amount of what would be considered middle class housing in California, which would be very high-class housing in Cincinnati. So yes, the facts are absolutely correct that non-banks are doing a lot of originations, but let's not separate ourselves or divorce ourselves from the equation of the source of the capital and why the originators are or are not choosing to do servicing and why the agencies are choosing to or to not do servicing. And then lastly, because of the way the agencies step in, banks look at it as a pricing matter. They look for more money, the relative return that they can get in the other form of paper to keep on balance sheet or not or choose to package and sell off. It's a financing equation. The markets are efficient and the desire to make return is there. On the margin, yes. But that's not the primary reason that the market has continued to funnel and design a pipeline that works this way. You can't understate what Byron has said. We're the only country in the world that is a 30-year fixed mortgage. The entire treasury market for 28 years to 30-year maturity is 2%. People do not tend to hold, and a treasury doesn't have call feature. You have the call feature on top of it. You have to have someone who wants to have those assets. So, looking at the origination equation without looking at the capital equation is just, I appreciate the origination number, but if you don't have the source of funds, it doesn't matter.

Chris Bosland: Byron, you were next.

Byron Boston: Well, I go through the hierarchy of understanding, again, I'm gonna always start, just understand I'm gonna start from our housing finance system, how great it is. And now I will speak, look overboard. I'm outside the boat. (laughs) I'm gonna speak from outside the boat. At Dynex, all we do are mortgage assets. 34 years. Literally, that's all we do. Literally, in the residential sector, in the other related but still multi-family, this is all we do. So, I have a hard time understanding why we don't state, but I'm open to hear why, when you said eligibility requirements, and then should there be other members? Yes, I'm outside of the boat. I believe you should be financing more of us that are outside of the boat. We are regulated as a public entity. I would love to teach some risk management thought processes for you to, how do you judge? Because that becomes a challenge. Why do I judge that entity versus this entity? Then it comes down to how do you look at it. You brought up FTX, or numerous other people say, well, should I lend to that person or not? We didn't have a problem at Dynex in subprime crisis, and I stopped making subprime loans in 2003. So, we're a private entity, but when Freddie Mac came along with the multi-family program, we were one of the first buyers of their Triple B bonds and their IOs. So, there is a lot of activity that is happening outside of the boat. I would urge you to figure out how do you finance and bring liquidity to all of this activity that's happening outside of the boat. There's some way to get to some huge chunk of this activity. There's a lot of it. It's well-meaning, it's a 100% focused on housing or related assets. Again, you could look at Dynex and see for 34 years, this is all we've ever done. And other mortgage REITs are the same. But I also know that most people, if I went through and said, "Hey, do you know what a mortgage REIT is?" Most won't understand. Most also won't understand that only a certain percentage of these housing assets in the US are actually held with cash. Almost all of it is held with some type of leverage or debt or financing. You're either financing it with deposits, insurance policies, or at Dynex, we have short term financing, which we are experts in terms of managing. So, there's a different hierarchy of players, but we are not going, the Federal Reserve is not going to reduce their balance sheet of mortgage assets unless they're financed by someone with some type of leverage or debt. And you have the ability to influence that in the country. And I would urge you to think again about it.

Chris Bosland: Pat.

Pat McEnerney: Yeah, I want to take the chance to emphasize or extend on a point that Laurie made, because I think it really plays into this and it's worth repeating. The summary was FHA, what's that? I'm sorry. FHA, VA, and Ginnie Mae, which are 92% done outside the banking industry consists of FHA insured, VA insured, and USDA insured loans. So, to be clear, that every loan that goes into a Ginnie has a government guarantee behind it. And this system, and the role of the Federal Home Loan Banking system is into providing liquidity to the housing finance system. And that system's evolved, right? And that evolution has really accelerated, not just over the last 15 months, but even over the last 15 years, but even over the last 10 years. So, these loans that are guaranteed by federal agencies, it's not credit risk to the system. The challenges that that system faces today are ones of liquidity, and there's not a greater need that the federal homeland banking system can serve by providing liquidity into that process today, because the sources of liquidity, the banking system are no longer, for whatever reason, actively involved in that segment of the housing system. And that is the segment of the housing system that provides an extraordinarily large percentage or a disproportionately large percentage of loans to low to moderate income borrowers and low to moderate income communities, and communities of color and to borrowers of color.

Chris Bosland: Thanks. Anand, I'm gonna drag you in here. I hope it's not against your will, but in your written comments, you did have a perspective that said, particularly on the non-bank potential membership, you said they have a government support already. I was hoping you might elaborate on that.

Anand Solanki: Yeah, so as I was listening to Laurie's statistics and similar to Jim's position and the question you were asking Chris about, is the outcome driven by the things you mentioned that the banks and credit unions, like we said, we're here to make loans, real estate loans, so it'd be happy to make more of them. So, it's not like we're over half of our over five and a half billion. They're all mortgage real estate loans. So, I feel like the intent that the non-bank have shown so far, maybe some of the parallel that I can draw from the, you know, you mentioned some of the failed banks, Countrywide and such, the level of involvement that, I guess the size that has steadily increased of non-bank origin. Just on my way here on the radio, I was hearing, Laurie mentioned as a percentage of agency paper, but as a percentage of overall paper, somebody from Bloomberg said about half of the originations are non-bank. So, I don't know if that is because we don't, banks and credit union don't want to lend. It is because the non-bank are taking it away from the banks through various different means. I think you yourself mentioned the fair disclosure. There are claims that we monitor websites that are the front end of originating some of these loans. So, some of the bigger ones like Rocket and all, they have a singular website that then has a process of calling and closing and all that. But there are many others that we've seen in our day-to-day business that we monitor that are, to use loosely, shady front ends. And then they are going into a pipeline. We can't necessarily compete as a regulated entity with pipelines like that. So, I'm not so sure that, you know, the causality and the outcomes. I don't agree with the way that you'd portrayed it. I think it's different.

Laurie Goodman: So, let me actually give you the numbers, because I look at this every single day. So probably a little bit less than half of the originations are bank originations because about 30% of the market is bank portfolio originations. That is super high-quality loans. And when you look at the profile of the loans made by banks and held on balance sheet, they are super high quality. They are disproportionately jumbo loans. In many cases, over the Fannie and Freddie. Even high conforming loan limit in many cases over the standard loan limit, but less than the conforming limit. So that's 30% of your 100%. In terms of the agency market, the numbers that I gave you were the right numbers. And I think what's at issue is, when you look at what banks are doing in government lending space, what they're doing, and this is a business choice, and it's a business choice that they are more than, I mean, it's part of their business strategy, and that's fine. Everyone is entitled to their own business strategy. But what they're doing in many cases is taking the FHA or VA credit box and then putting additional overlays on top of that box. That is, FHA may permit a certain FICO score. But the banks want a higher FICO score in order to originate the loan. So, they're not keen on FHA lending to begin with and then they put overlays on top of that credit box.

Chris Bosland: Laurie, in your experience, is that coming from their pressure from their regulators?

Laurie Goodman: It's coming from the reputational risk issues, from the high cost of servicing delinquent loans and the reputational risk associated with servicing delinquent loans, because as you expand the credit box, you invariably have a higher probability of default. And I mean, I think everyone is working on sort of ways to cushion loss of one's home, and nobody wants to see borrowers lose their home. But the reason mortgage rates are where they are is because at the end of the day, this is secured lending and you're gonna have a certain amount of foreclosures. It's an inevitable part of the process, but there is a perceived reputational risk associated with that.

Anand Solanki: May I do a follow up?

Chris Bosland: Sure.

Anand Solanki: So just a follow up on, as I'm thinking further about what this has done, in a very short period of time and in my mind, we have, if I look at the percentage of non-bank originations and then all of that being put into the agencies, I feel like it's been a very short period of time that it has ballooned very quickly. I wonder what systematic risk we are putting on. You mentioned yourself that there is a potential liquidity or contingent liquidity issues. If some shock event were to happen, if those entities are servicing or if they have some role to play, whether this whole, the ballooning of or follow the assets in the collateral that agencies have put on, I don't know if we need to give some time before we open it even further, which is why my comment in the written that there has been sufficient or more than sufficient support provided by the agencies in enabling the growth. The models, the business models of the non-bank that I've seen at least, the little that I understand about them is that it's a volume business. They're not driven. The outcomes are great about the credit box and everything, but I don't believe they're driven by that intent. There is this notion of production. They are incenting. The investors that are there, they're trying to maximize the churn.

Laurie Goodman: Just to be clear, they're not setting the credit box. The credit box is being set by FHA, VA, the GSEs. All the non-banks are doing is originating to the standard set by that credit box. They are not themselves setting the credit box. And I just wanna emphasize that again that they're not taking market share from, that the banks have essentially abdicated that market, and they have basically left this sort of riskier lending with no one to originate the loans until the non-banks have come into the market, which is why you've had their huge expansion.

Chris Bosland: All right, we were gonna take a break, but Julieann, if you'll be quick, we'll let you in. Otherwise, they'll be mad at you.

Julieann Thurlow: So, I did like what Anand was saying though is that there is a source twice. There is a source and federal support for flow lenders. And a flow lender has a very short period of time where they actually have collateral to offer, and the safety and soundness of the system that is actually built, which is a Federal Home Loan Bank system. Yes, it's public purpose, but it is private capital and it's not subsidized by the federal government. So, I think maybe there's something else that could be built. And I think that's where we're talking here is if there is some other model, then without destabilizing the existing model, I think that's something where we can think more about innovating around what do you do for flow lenders.

Chris Bosland: All right, thanks. I mean, there's no good point to take a break, there's a lot of interesting stuff here, a lot of issues. But let's take a break now for 20 minutes. I'm seeing 2:35. So that puts us back here at about, what is it? Somebody do the math.

Amy Bogdon: 2:55.

Chris Bosland: 2:55, thank you. She's the economist. Don't ask a lawyer to do the math. All right, thanks everyone.

Amy Bogdon: When we left, we were talking about what types of entities should be eligible for membership. Is there anyone who had anything to add on that particular point that didn't get a chance before? Anyone we hadn't heard from? Okay, Pat.

Pat McEnerney: I just want to follow up on one of the things we started with down the path where Julie was saying, does there need to be a different structure for this? And this gets sort of outside of the realm of I think what can be done under the Act today, maybe not, but should one federal home, right? And the Federal Home Loan Bank system is now divided geographically. But if there was a Federal Home Loan Bank and every member of that Federal Home Loan Bank was a mortgage company, it becomes a bit of a self-regulating entity that way. I don't know if that's better or it's worse, but it's one of the things that you think about, right? It's a cooperative system, it's a cooperative risk system. Part of the on the boat-off the boat comments relates to guys on the boat who don't understand the credit risk of this, right? We talk about the capital. Mortgage companies actually have significantly more capital to assets than banks do, right? We operate at ratios of kind of a four to one, maybe a five to one for a highly leveraged one. But it's hard if you're inside those other institutions. And what we've had is a system that's evolved over 90 years. And the structure of that, right? The board members of the bank comes from the members. Well, that means the only people who are members on the board are people who work at banks or insurance companies. You can understand why they'd be hesitant to allow another entity onto the boat. So, make a 12th boat or recreate a 12th boat, right? And allow that 12th boat to consist of

Chris Bosland: Armada. - What's that

Pat McEnerney: No, it just needs its own boat. You had 12, now you got 11. You know how to make it 12.

Amy Bogdon: But I'd like to ask it in the other way around. What would these new members add to the system? Obviously, they would get a certain benefit from it, they might add some advances, but what would they bring to the system? Is that a question of me?

Pat McEnerney: Can I follow through?

Amy Bogdon: If you'd like to answer, but then I'll go to Byron.

Byron Boston: I'm happy to start. I'm happy to start. And I'll speak from perspective of a mortgage REIT, or in representing mortgage REIT council, NAREIT. We're gonna bring a lot of housing activity. We literally are aligned with the mission of the Federal Home Loan Bank. Everything we do is 100% related. We're regulated. So, we're public entities in almost every mortgage REIT. All of them, we're all public entities. So, we are regulated to start. We bring a lot of housing activity, a lot of long-term investors in the US housing finance system. And I believe that's really important is what's the focus of the entity, and that's aligned with the Federal

Home Loan Bank mission. As I listen to the the conversation, it made me start to say, "Well, wow, how much really is the Federal Home Loan Bank system really involved in the housing finance? Or is most of it away from you?" And I don't know the answer to that, but that was a question that popped in my mind as I listened to the conversations that took place. So, what are we bringing to the table? We're bringing a focus on the housing finance system, and more important, since we established the complexity of the products, we bring expertise, because our American housing finance system needs expertise for managing the risk of these assets over the long term. Remember, we're making a 30-year mortgage. It is prepayable, it is a complex instrument. So, we're bringing housing finance activity 100%. We're bringing expertise to the table for risk managing those assets. And we're bringing a willingness to sit down and chat about, well, whoa, what kind of rules can we come up with to make it work? (laughs)

Amy Bogdon: And are there any ways in which some of these entities would help push the envelope in terms of reaching more borrowers who are underserved, or not just taking the loans that are already being made, but in either reaching out to them, building more affordable housing?

Byron Boston: Yes, so when I joined Dynex in 2008, what was amazing, people were giving us back loans, and I was going out to look at the properties. They were literally innovators in the Litech space. So, there's a lot of innovation, and when I say innovation, it's just a willingness to attempt to lend to others who might not be lent to through the normal banking system that has happened. And you could argue, well, did it go too far with some of those entities who might have been the subprime space? Maybe so. But for the general innovation of who all gets a loan, part of the housing finance system will come from the traditional banking system. But a huge amount will also come from other financial institutions who are willing to take that risk and attempt to innovate to assure that there are more Americans that actually do have homes. That opportunity is always there. The entity that's going to take the risk will be those entities that are in our capitalist system that are willing to take that or innovate on the technology.

Amy Bogdon: To follow upon one of Joshua's points at the beginning, can I ask how?

Byron Boston: How would the innovation happen?

Amy Bogdon: Yeah, how might they do that?

Byron Boston: So, when I listened to the conversations earlier, I heard one person say, "Well, those guys, they've got that technology that allow." Well, who invented them? Who had the incentive to go and create the technology to try to produce loans in that manner? And so, look, I've got one bank account with one entity that is not one of the large traditional ones. The technology's phenomenal. I went and open one with one of the larger, more traditional well-known banks. The technology's horrible. Doesn't even compare. So that's where, that's how. So, we already talked about the technology at Dynex, specifically, the willingness to participate in new ideas sooner than something of the more regulated institutions might be willing to play. And we do have a track, a traceable track record that I could follow up and produce you some information to say, "Here, when we were doing these loans, others were not doing them." Or when Freddie Mac started there, the Freddie Mac K program, we were one of the first investors to buy their securities off of that program. It's not an either/or. A lot of what we've been talking about, it has to be either/or. And what I'm saying is I don't believe it has to be either/or. There's a broad range of of participants in our housing finance system that is serving a role. And so, when I try to galvanize you to say, think again, I'm saying, think broader, ask that question, let's have a follow up to say let's really be more specific about how that can work and let's take a look backwards in history and identify how.

Amy Bogdon: Thank you. Jim, I know you've been waiting.

Jim Vance: Pete raises great points. So just two things I would say, wanna remind we from 32 forward Federal Home Loan Bank has continued to evolve. So, if the original two were savings and loans and insurance companies, later in the 90s, commercial banks were added, then credit unions and now the CDFIs. So, we have continued to expand. But in the interest of time at our break, I did wanna say we kept using the phrase non-bank and without being provocative, every organization has the opportunity at its outset organize in the manner at which is to conduct itself. And at that choice, anybody could choose to be a bank or buy a bank. And they chose an organizational structure that wasn't a bank that provided deposits, access to the Federal Reserve and all the accoutrements that flow with the bank. It was either for a host of other reasons, potentially banking wasn't chosen. One of the things that, there are organizations that were formed as corporations that reorganized as REITs. For tax efficiency, there's a 90% takeout ratio, the treatment of double taxation. There's a lot of different reasons people organized. When liquidity was needed in the great financial crisis, the Goldman Sachs, the Morgan Stanleys of the world, saw the importance of liquidity and got into the banking business. And then from a FinTech perspective, they chose to expand it with Marcus to have a very large consumer bank. So, we see that evolution occurring. When Rocket Mortgage spoke to our national federal home loan bank conference, the founder said, hey, we had two, I think it was two or 400 mortgage banking offices. And he said, "No more. We decided, was in a meeting, we're not gonna go tech in office. We're shutting down the office. We're gonna take the gamble and go all tech." So, they went down an all-tech model, but without it, in an all-tech model, you don't have a deposit gathering system. You don't have your branch network. You're gonna have always function under more of a broker deposit manner. What is your source of funds? So, you've chosen your path and your liquidity parameters, and with your investor base, you were designed to do your return. So, in a mortgage REIT, the primary investor chooses to invest as an equity investor, and they're gonna make their money in return as an equity investor. That was the capitalization structure that they set the structure up in order to make a return, pay a very great dividends and awesome return. I'm a REIT holder on my personal portfolio, so I understand the role that it plays. But that was the design.

Amy Bogdon: I'd like to just turn back for just a minute to just the question of membership, and I don't know if we've had a chance for you to weigh in on this, Joan, on what types of entities should be members, whether we should preserve largely the status quo, or whether there should be some other types of members added.

Joan Brodhead: I probably have less experience with all the other players to really weigh in with different comments that have been made.

Amy Bogdon: But as far as the CDFIs have been one of the more recent types of members. And as a CDFI, do you find using the different products of the system, I think CDFIs contribute back in some ways. How do you feel about other groups contributing back and what they might add?

Joan Brodhead: Oh, as far as what they add, I do think from a CDFI standpoint, many CDFIs are very led on housing lending, and the access to the capital is the most tremendous. I think our capability of understanding how to work in markets where traditional financing has not worked well and has had more losses than not, I think the CDFIs can bring a lot of expertise and understanding of how to work with that market. A huge part of that capacity is we aren't driven, most aren't, not all, but many are nonprofit. So, we're not driven by a bottom-line profit, although we don't lose money. We can't lose money. (laughs) But we also, I think, understand that there are certain individual families that are not gonna fit into a traditional market, and we can really, I think, partner with other banks that cannot make it based on their, sorry, risk profile. And we would be able to work with those borrowers. Typically takes much more time. We do some residential lending in one of our organizations, and we're typically working with the borrower for 18 months to two years before they actually get the mortgage, cause we're basically bringing them forward. Many are immigrants not familiar with the US banking system, and they're becoming familiar with it. So, I think we bring that kind of expertise of how do you really penetrate the markets that aren't getting access and bring them along into the financial system?

Amy Bogdon: I think that's one of the things we have talked about as far as the mission in some other ways is how do you push the core business? Yes, there are the very beneficial affordable housing programs, but how do you push the that business as well? And Laurie, I know that you had some thoughts earlier about having some members that might be priced differently or treated a different experience. Right now, members that get in are generally subject to the same pricing because of the rules called 7J, the fair equal treatment or fair treatment, equitable I think is the correct term, of members.

Laurie Goodman: Yeah, so as Pat so correctly pointed out earlier, banks have this super lean, home loan bank basically has a super lean status with respect to bank players, which minimizes their losses. Obviously, the entities that we're talking about admitting you would not have that, and yes, insurance companies and CDFIs do not have that. Insurance companies have it to a greater degree than CDFIs, but by and large, they don't have it. But there are also not a huge amount of home loan bank lending. Banks constitute the bulk of the home loan bank advances. And if I said to you, well, if I said to you, you could double, you could triple your importance in this market, if you had a 0.0001% default rate and you tripled your role in the market, most people would say, well, gee, that's a really important trade off cause we're helping to prevent liquidity crises. So, what I was thinking, so my point was that hey, you can basically, conceptual possibility is charging either a higher rate or higher haircuts that is requiring more collateral from players who are a little bit more risky. I mean, basically, risk-based pricing is a tenant of the financial system, and there's no reason why it shouldn't be applied here. And if you could do differential haircuts to compensate for that or differential pricing, if you had a very small probability of loss and you charged a little bit more, you would more than compensate for that loss, and it would not compromise any member stock or anything like that. So that's where I was coming from.

Amy Bogdon: But if you did that, would the institution still benefit from membership?

Laurie Goodman: Absolutely.

Amy Bogdon: Would those terms work?

Laurie Goodman: Absolutely. So just to be really, in my point of view, membership is actually critical during periods of crisis. That's when it really comes into play. Normally, there's a market out there, and if your pricing is more expensive than the market most of the time, but you're there during periods of crisis, you have been a godsend to this market. So, the answer is absolutely. I mean, the way I see it is the purpose of expanding the base is to preserve the stability of the housing finance system, which makes, again, makes you critical during periods of crisis. And you see it when you look at when your advances have been made. And when people take out those advances, it's during periods of crisis.

Chris Bosland: I guess I would just ask those of you who are current members. I mean, how do you respond? I mean, 7J has been a bedrock principle in the system for many years. How do you react to that? I mean, there's some.

Amy Bogdon: Anand, you had your

Anand Solanki: Yeah, so I was actually trying to respond to Joan's comments about and your question about the CDFIs and if there are similar entities that may be beneficial, and they will benefit and eventually serve the purpose of FHFA. I personally believe that the addition of CDFIs was a good one. As I see, I made an earlier remark about the dual mandate and when there is the notion of community economic development as being a separate and sort of evolving effort, cause like I said, the liquidity part of it is fairly well-covered and well-done. But that part, the second part, the CDFIs play a good and important role. The thing I mentioned of the awareness and education, Most of them that I've seen, at least in our area, they have that as a proportion of their giving or of their effort. That's a big portion, which I think should eventually help with the community economic development through education and awareness. The other benefit that I see entities like CDFIs bring, and we may probably talk about it later, is on the collateral side, the small businesses in a local area. Again, for the second mandate of community economic development, small businesses make up a big portion of the economic wellbeing and passing on of wealth and the points that were made earlier that the CDFIs are very actively bringing that collateral in as well.

Amy Bogdon: Julieann, did I see you were ready to comment before? No, Okay. Moving on, there was one issue that had come up before was what about the use of conduits in the absence of a statutory change regarding membership eligibility? I think someone had suggested members be allowed to enter as conduits to allow entities that are ineligible by statute. Should that be permitted and why or why not? Anyone want to start?

Byron Boston: Well, I'm biased. I mean, we had an insurance company that allowed us into the system, and I'm gonna still speak from the perspective of those who are in the boat to look out and there's a lot of activity that's happening outside of the boat. And so, if that's the only route, and I don't fully understand how hard it would be for you to expand membership, but if that is the most convenient or the easiest way to allow more to come in who are actually involved in the housing finance system. I don't think what you set up before was bad, but I understand there are others who might have used the conduit who may not have really been totally focused on housing. And I think that's not good. I think you really should hold the line on whether they're focused on housing or not. I would rather just have the membership allowed. It would make more sense to me to do that. But again, the goal ultimately would be, are you furthering your mission by supporting housing? Laurie made a great point that many don't understand. The most important point moment is during the liquidity squeezes that will happen periodically. That's the most important moment, cause most times you just get through those periods and the housing system continues. And right now, we are in a transitioning period. The fed has served a role. Freddie and Fannie served a role before, and we are in limbo as a housing finance system. So, if that's the most expedient route and you can regulate it, then I would, and again, I emphasize that you can regulate it.

Amy Bogdon: I think that's the question, isn't it? If it can be, can it be appropriately regulated that entities would follow, would in fact be associated with housing and the types of housing that would further the reach of the system? Julieann?

Julieann Thurlow: So, I think we're at a little bit of a feedback loop, right? When you actually talk about a conduit and how you actually monitor the activities, because we did say we probably don't wanna be audited on an annual basis to find out whether or not we meet the eligibility requirements that we achieved 25 years ago or 100 years ago depending on the institution. And we certainly aren't gonna raise our hand for a new regulator at our financial institution. I think we have enough. And the concept of partnering with a financial institution, if you had a relationship and were pledging assets on behalf, but it does come back down to the safety of the system and whether or not there are assets behind it. I alluded earlier to the concept of, that there are non-bank lenders that are funding a flow but eventually are offloading an asset. And so, there is a point in time where you actually need to know where you're getting paid back and from what.

Amy Bogdon: You'd also said in your earlier comments, you had raised a question about a non-financial institution having access, and again, what authority, how could that be addressed? If the agency, what could the agency do since the bank act neither really authorizes the exclusion of an eligible entity. So, if an entity that were acquired by someone else, that entity is eligible, but money can go back and forth. And I think the broader question

Julieann Thurlow: I did raise that in my remarks.

Amy Bogdon: Could be generated, could be taken to affiliate relationships in general. What things should we be thinking about in terms of affiliate relationships and the parent entities and the affiliates?

Julieann Thurlow: **S**o, when you first asked the question, I was thinking about it as it related to Byron, but in my remarks, one of the comments that I made is we're seeing so many other fintechs and other financial organizations that have become very, very large by banks. So, what happens when all of a sudden, Amazon is a borrower of the Federal Home Loan Bank of Boston and becomes the biggest customer? So, we probably should be thinking as an organization about what happens when the owner of the financial institution now has access to the borrowing capacity of the subsidiary that they acquired and what are the implications, further implications for an unregulated very large organization when they start moving money from subsidiary to subsidiary?

Amy Bogdon: Pat. and then Jim.

Pat McEnerney: Jim, you go.

Jim Vance: No, you were there first. My apologies,

Pat McEnerney: Okay. So, I'll just say I'm not supportive of indirect eligibility. I think it has challenges. I understand the motivation of what we're trying to get to, but it clouds the entity is indirect, and I'm trying to understand parent to host of how I underwrite the member entity relative to the housing entity with the magnitude of the assets, how I understand the credit decision. Even if we went down the

Holdco discussion, which is a viable about an Amazon, Berkshire Hathaway through its insurance company could be a member, but it would join as an insurance company. It is a large organization with railroads in that, but you'd still underwrite it under the assets of the insurance entity directly. As Western Southern, we operate with a lot of statutory entities and a lot of banks holding companies have multiple entities. We make each one of those joints specifically as a member when they join. It is that membership, and the activity resides within that, the balance sheet, and those assets. That's the beauty of our statutory regulation. They protect our policy holders that we don't abnormally have one subsidiary earn all the income to the deficit of another subsidiary. And that other subsidiary bears the risk for those policyholders. So inextricably tying to that, this parent to host of indirect eligibility I think goes back to understanding then the criteria of membership, of what you're actually doing, your credit underwriting of. The other thing that's important for us representing the insurance industry, we understand what we are as insurance companies and as original members. We have a direct relationship with our policyholders. We're set up to do business with them. We have a retail relationship with them. We sold them either a life insurance policy or, I'm speaking on behalf of life. I'm not speaking on behalf of property and casual. We also do pension, relationships, their retirement assets. That is where our premiums reside. And when we were talking leverage, we really don't have leverage when the cash flow is created. It's 30 years later hopefully for people that they don't die that we're waiting to make their death benefit. Captives are a different animal. That's not really participating in the insurance industry. A captive is a mechanism. When I was at Eastman Kodak, we would set up captives cause we didn't want to bear all the fire insurance risk for our film factory on balance sheet, and we could put it in our own entity, self-insure it and sell other insurance off it. There's a mechanism of how much first dollar fire risk you wanted to bear on or off-balance sheet. It's different than saying Eastman Kodak was an insurance company. There was no actual customer there. You held it in that form. So, one of the concerns from an insurance perspective is there's been discussions about insurance companies as members and categorically, insurance companies should remain as members. I get concerned if this captive nature of creating this indirect eligibility in any way affects the definition of what has been members from the original intent of the statute to remain. And the other part I think gets hard is when you look at these member indirect eligible entities, the host entity that has membership versus the other end entity has the assets. They're widely disproportionate. You could have a 50 billion entity that's not the member that holds the collateral. That process of what that exactly means to the member entity in the fungibility is a different way of looking at understanding it in credit rate. If you look at the vast majority of insurance companies, most of us are at least rated by one rating agency like AM Best. Some of us that participate in the capital markets have multiple, but vast large percent have some rating, and that's not the case in the captive space.

Okay. Yeah, let me, I think there's a bit of a misnomer about ineligible entity, right? An insurance company's an eligible entity, right? It's an eligible under the Act. It's been eligible under the Act since 1932. The Act didn't clearly define what an insurance company was and left that regulation to the state. The only way that changed was the '16 rule, right? We just narrowed out, as I understand it, basically captives. That's fine. But they're eligible entities. The question of whether one can be a conduit for another or how that functions, right? I think Chase, finances loans have that come through Chase Home Mortgage, Chase Home Mortgage would be an ineligible entity. Are we suggesting that Chase can't find finance mortgages from Chase Home Mortgage because Chase Home Mortgage is an ineligible entity? Chase Bank doesn't make that much in the way of mortgage. Chase Home Mortgage does. Wells Fargo Home Mortgage makes loans. Not so much Wells Fargo Bank, right? It's those things, saying, I think we need to be intellectually honest about that and say these vehicles exist, they have affiliates that are non-bank, and what we're talking about is here's an entity which is eligible, an insurance company that would have an affiliate that would not be an insurance company that could have access to the system.

Jim Vance: I have to ask, are you saying that the Chase Home Mortgage entity's assets are gonna be used for Chase Bank as the assets for the advance? Cause that's not what occurs.

Pat McEnerney: Well, they end up going from Chase Home Mortgage to Chase. But that's also a viable alternative.

Jim Vance: They're acquired.

Pat McEnerney: What's that?

Jim Vance: They're acquired. They're not pledged by the actual assets of

Pat McEnerney: But that pledge, neither the pledge nor the guarantee are prohibited under the Act. Those are permissible under the Act. Today, it's only bank policy and regulatory approach that might impact that, as I understand. I'm probably talking that attorney causse the room is full of people from federal loan banks who probably know them, but I don't believe. Go ahead Chris and correct me.

Chris Bosland: No, I was just thinking we're going to 10:00 PM. (panel laughing)

Pat McEnerney: That's funny.

Amy Bogdon: I wanna ask one more thing and then we'll turn to the other set. Just under the existing regulations, the standards by which the financial condition of membership applicants are assessed differ depending on the type of institution in question. Should there be a common set of safety and soundness eligibility criteria across all member types? And if so, sort of generally, what should those be? And if not, why should they differ? Any thoughts on that?

Byron Boston: I have a strong opinion now. They should not be the same. And the reason is

Amy Bogdon: Get closer to your microphone.

Byron Boston: Oh, I'm sorry about that. The reason is, you write insurance policies, or you take deposits. That is a different entity than Dynex Capital, which you pointed out correctly, where we have shareholders who will leave a deposit with one of you. They will take an insurance company with another one, and then they'll buy my shares. And in all situations, the saver is where the housing finance system starts, and we must take care of that person. But we're different. And I believe you should approach us differently. I believe that we should be regulated differently, but regulation, nonetheless. So, we're public entity. So, we're regulated. So, I do think you should start first. And a lot of the conversations kinda either/or. And I'm from the perspective. It's not either/or. It's like, no, you can expand the boat, but just approach it knowing that the entities are different from the perspective that an enormous amount of the housing finance system happens outside of your boat right now. And it happens in different types of entities. If I use a boat and we have an ark, you got three animals on the ark. There's about a thousand of 'em standing on land. I'm just being goofy in that sense. And I know it's more formal environment. It shouldn't be that way, but just smiling. (laughs)

Amy Bogdon: Joan?

Joan Brodhead: I just wanna make sure, if you could say it one more time cause I think my answer is what I wanna say, but I don't wanna go down the wrong.

Amy Bogdon: Just in general, should there be a common set of safety and soundness eligibility criteria? Or how should they differ if you don't think that?

Joan Brodhead: So, I think there's probably very standard that everybody has to follow about being, creating an entity that uses other people's financial resources wisely in that safety and soundness, right? We, as a CDFI, may not get deposits from individuals, but we borrow money from many, many dozens of banks, and their expectation is they're getting their money back, they're not losing it. And then we turn around and lend that money to individuals, businesses, communities, and we expect that money to come back. And any losses we bear, we don't want the investors to take any loss from us. So, I mean, I think there's basic safety and soundness, and you can measure that on a common basis among many businesses. But then there's where is the difference, and how do you look at it? Our balance sheet isn't gonna look like your balance sheet, but there's gonna be similarities, right? And you can have, I don't know that it would be common tests of ratios and that type of stuff, but I think there is a way to underwrite to a common set of standards. But understand there has to be differences. And financial institutions do that all the time, right? We don't underwrite a home mortgage the same way we underwrite a small business loan, but we have common sets of underwriting criteria. So, I think a standard would eliminate more than it would benefit.

Amy Bogdon: Okay, I'll turn it to Chris who has a last set of questions.

Chris Bosland: Thanks. Sure.

Jim Vance: I think one thing we need to think about also when we're talking about the next wave of members is, if that next wave of members and we compare sometimes the CDFI, we should get a sense of what do we anticipate the relative scale of their membership presents after membership? We're a little quieter in the nature of where we're at, mortgage rates are huge, and their collateral eligible assets could be in excess of a hundred billion dollars. So that type of adjustment to the system under what credit apparatus or capital structure we understand them needs to be understand. I don't anticipate that we would anticipate under its current structure a CDFI system nationally could generate a hundred billion dollar increase into the system to understand the underlying credit that that would propose. So, understanding the particularities of saying it has the consequence of membership, but then understanding after the fact for a federal home loan bank, one, it's utilizing at its fullest capacity what credit exposure it does present to the balance sheet of the bank has not been something we've threaded through. We've only just said that you get in.

Chris Bosland: Alright.

Laurie Goodman: Let me just react to that statement. The purpose of the home loan bank system is to provide liquidity to the mortgage market. Saying we don't want institutions that are major players in the mortgage market to benefit from membership because it would strain the system. I mean, yes, you have to look at the impact, but that just does not make sense. I mean, we're talking about institutions that when the Act, when the home loan bank act was first passed didn't even exist. I mean, insurance companies when they were admitted to the system were huge holders of mortgages. They have diminished in importance very, very substantially through time. Other players have gotten much more important. I mean, I think you want the players that are important to the system to guarantee the liquidity of the system.

Chris Bosland: Yeah. Thanks, I did warn Jim that this question was gonna come up, and I'm glad you raised it, Laurie, because I was gonna raise it. So, the world has changed, Jim. I'll let you make the case for insurance companies again with a blank slate bank act.

Jim Vance: Sure.

Chris Bosland: If you all had to argue why you're in the boat, go ahead.

Jim Vance: Yeah, no, I just wanna say my prior comment, I'm not saying all people should be a member. What we're saying is if they have mortgage assets and came in as a member, the proportional size that they could use the system could be large relative to collateral. But we're saying that those members that would join, we don't have a consistent way of understanding the credit risk. So, the fact that you can make a hundred-billion-dollar loan, but you have a completely different capital and credit structure at least needs to be considered. And the same way that any counterparty looks at 'em saying, everybody should compete, participate in the system. You would just size a hundred billion of exposure relative to understanding its credit. Insurance companies. So as a member, I love them, and I would, when I look at the boat, I would say, we sort of look at the members like the Willy Wonka tickets. We were in the original Willy Wonka tickets. So, we sort of feel like we should be there. Everybody wants to be Willy, and nobody wants to be Veruca Salt. But that's not enough. One of the things that gets missed is how much insurance companies participate in the housing market. Goes exactly to what Byron says. We are the other than pensions, the only entity that needs to hold 30-year assets. It's exactly what our business has been set up on from inception. It's based on life contingency in people living 30 or 40 years. And our balance sheets are set up. If we never issued one more policy that we can meet the claims of every death claim for the next 30, 40 years, all those outflows are pre-funded under different risk scenarios. Our system today holds 6.6 billion of capital in the federal home loan bank system that we hold at risk that all this activity works right. We don't earn a competitive return on that 6.6 billion. We put all our assets at our balance sheet. We would probably rather hold reap paper than own federal home loan bank at six 6.6. The dividend yield is not worth it. Ours is the only membership that has a capital charge to hold our capital stock. So, we are crucial to the system. If we weren't in, you're gonna try to expand affordable housing with one of your largest advanced users that generates a lot of income to create affordable housing, to create the income and the capital that's a shock absorber to the system. The other thing that's unique about insurance companies that helps the system is because we're long-dated assets, we're not traders. Our balances are held against long-dated assets. So, you look at our balances, they adjust a bit, but most insurance members are consistent borrowers. Our balances tend to be in the rough order bag. They can go up 10 to 20. 10-ish percent as a group. A little bit of that's maturity of one's rolling off, but it provides a great glue to the system. We're a definite balance to large commercial banks that need liquidity, savings loans at another. So, we're a great mix in the asset mix. We're in the middle range. Now, where do we fit really in this housing cycle? We're huge in this housing cycle. Where it evolved is, it is very difficult for a multi-billion-dollar insurance company to place tens of billions of assets in the housing market in large quantity. We're not set up in a distribution system with a branch network to purchase $200,000 mortgages on a one-off basis. Everything that Laurie said about the setup of the system was designed over time for us to hold it in the RMBS market. It's much more simple and it goes exactly to our assets. There are times that we want long-dated assets, and that's why we like the longest data against our life portfolios. But in our annuity portfolios, we're more like a 5 or 10-based assets. Banks aren't set up that way. They have more shorter-term deposits. They should do exactly what they do. It's where we compliment the system. But insurance companies are integral to this that we provide this. The other one that's crucial to understand insurance companies is we provide life insurance and credit insurance for the underlying mortgage. If the person dies holding the mortgage, it prevents the bankruptcy on the mortgage because the proceeds of a life insurance company, we support the activity. We also are life insurance and are health insurance and are retirement insurance all support. A lot of people's mortgages go beyond the years of their job years. So, we're absolutely integral to the system. Now, the nature of the life insurance business, we purchase everything on a relative value basis. And what people don't understand is the bond market is basically was built on the backs of the insurance companies for over a hundred years. We are long-dated assets. If you look, long-dated bonds have always been bought. And that's the uniqueness Byron mentioned. But it's also in the corporate market. Long-dated bonds occur in the United States. Long-dated assets occur in banking in Europe. They don't issue in the same manner. That's what we do. But we have to look at that as a relative value trade. There are times we hold corporate bonds, but we're active in that. We use our advances. We are all part of the public purpose. We are in a consumer business. We do everything for individuals. We're large employers. All our agents, all the employees, we provide the need exactly in the driving of our assets to do this. We are supported by ourselves and our guarantee funds. So, we support our risk insurance. By paying our own premiums, we come up with the proceeds. When Executive Life went under in California last year, that was in 1991, our company paid off its last payment to cover that so that everybody was made whole.

Chris Bosland: Does anyone, I'm sorry to cut you off. We getting sort of late in the game, but does anyone want to respond to, Jim?

Byron Boston: There's not enough long-dated liabilities to finance our housing finance system. That's what I'm saying. You've got to get more entities because these REIT, to understand the system, you've gotta separate it. How much can the insurance companies take? How much can the banks take? How much can another entity, how much can mortgage REITs take? How much will foreign banks take? Foreign entities? It could be foreign central banks; foreign insurance companies can take but there's not. What has happened is there's far more debt has outstripped the financing, whether it's our government blowing opener deficit and bringing treasuries or whether it's mortgage assets. The population of our country has increased. There's not enough. So therefore, you are providing shorter term financing. You're not providing 30. I couldn't come to you and get a 30-year financing for my 30-year bond, can I? Locked, fixed. Probably not. It's gonna be shorter term. And that's what's very important to understand. We're taking this for granted. The Federal Reserve Bank's balance sheet is long-dated financing. And they're saying we want to move those assets into the private sector. Therefore, we need to have them financed. The X amount that will be taken from Jim. There will be X amount taken from Dynex Capital where long term holders of the asset. So much of the conversation are either/or. I am not talking from an either/or perspective. I'm saying there is a role for each entity. Each entity should be viewed differently from a regulatory, but it should be a common sense to say, "Well, wait a minute, how much risk is really here?" And it does differ by the entity, but it should be one of the core tenets of a lender. I want my money back. Am I going to get paid back? But the entities are different. And please understand the system as a whole. There's not enough long-term assets to finance 30 years, the amount of 30-year mortgages being made in our country.

Chris Bosland: All right, I see a lot of nodding. I don't think people are taking issue with that. I think you've sold them all. Let's move on quickly to collateral issues we've talked about a little bit. We said we'd get back to it, so I do wanna get back to it. Are there classes of collateral that the bank should take as a number of you address this in your written comments? Laurie, go ahead.

Laurie Goodman: Yeah. Yeah, I would argue that mortgage servicing rights should be eligible collateral. It's the major, it's a predominant asset class that a lot of the non-bank servicers own. It's currently not home loan bank eligible. Obviously, mortgage servicing rights exhibit substantial price volatility. However, there is, you basically lend rationally. You can put haircuts on it that acknowledge the fact that these are very volatile assets. And I would actually urge you to both extend membership to the home loan banks and allow for this asset class to be included with appropriate haircuts.

Chris Bosland: Julie.

Julieann Thurlow: So maybe to answer your last question a little bit, as far as supervision is concerned, I would prefer that the members in the system be subject to Prudential regulation. So that's a position from a financial institution. We do hold 30-year mortgages. All of us have different strategies and approach to our balance sheet, and the access to the Federal Home Loan Bank does allow us to manage our asset liability risk. The other two points as far as collateral are concerned is I do think that the policymaker should consider allowing access by allowing guarantees on SBA loan, small business loans to continue on the loans that are pledged as collateral. It is a quality asset that there's a fair market for, and currently, they are eligible as collateral, but they do lose their SBA guarantee, which that credit enhancement, the loss of that, it doesn't really make sense. And then as I mentioned earlier, the impact of unrealized losses in the investment portfolio, again, the asset health and maturity is worth the face value. Taking a haircut on and making that impairment to available collateral is also something I would encourage you to take a look at.

Chris Bosland: Thanks, but does anyone have a view on home loan banks taking MSRs as collateral even with haircuts?

Pat McEnerney: I think we support the position Laurie laid out. They are a real estate related asset. They are a critical part of the housing finance system. We talked about this, right? It's really all evolution. We've evolved to that's a critical part of the long-term holding, right? So, I think we have also made comments that, well, some of these things are transitory. Owning mortgage servicing rights is anything but transitory. It's a major long-term investment both in people and systems and capital in order to do that. So, financing or having the ability to finance that through the system would provide a significant benefit to borrowers who take advantage of these loans.

Laurie Goodman: But just thinking about the mortgage servicing rights and said haircut it more, if single family mortgages say have haircuts in the range of 15 to 20%, what kind of haircuts would you need for MSRs, and would anyone wanna pledge them with those haircuts?

Pat McEnerney: And the answer is there's a market out. There's a market-based structures to finance MSRs today. There's a market-based structure to finance Ginnie Mae MSRs that involves securitization. They have, by comparison to almost any other asset class, a very low level of leverage, but two to one kind of approach. Maybe a 60% leverage that you'll get on Ginnies, am I right? And that degree of financing, yes, would be attractive to the system and would keep a substantial amount of skin in the game among the players who operate as servicers.

Laurie Goodman: And the only thing I would add is, even if on a day-to-day basis, it's not the most attractive funding. And maybe you don't want it to be the most attractive funding on a day-to-day basis. During a period of crisis, that could prove invaluable.

Chris Bosland: But that might be exactly, I mean, on the borrower, I mean, on the person who holds the right side, but it could also be the most dangerous time for them to, the most need to get credit and then maybe the most risky point of the time. But there is a balance there.

Laurie Goodman: There's a balance and you can, they're not, even during periods of crisis when it's very hard, when the market seizes up, that's exactly when they're the most valuable. And again, there is always a haircut that works.

Jim Vance: (Inaudible)

Chris Bosland: Quickly.

Jim Vance: Yep. The part that I didn't get with the MSRs, if this were such a vibrant market that you could loan on, it would already be in the repo market. To my extent, people aren't using in the repo market. Of securities that we're adding, obviously, home loans need to absolutely be in there. It's what they need to be in. I tend to favor CUSIP assets, rated assets, assets that have a daily valuation, some type of secondary market. In Laurie's actual comment, she's pointing out the high volatility of the asset. So, what the part is, how do you do a hundred-million-dollar mortgage servicing loan and then it goes down to 20% in value and you need to shrink the loan at that moment by $80 million because its value is so volatile going exactly to the point. That's why it's a hard asset to use in an advanced scenario. I get the desire to do it, but what it presents to underwrite the credit, arm's length, people wouldn't lend under that criteria. It sounds neat, but I just don't get how it would work.

Laurie Goodman: Okay, so first of all, there is... So first of all, 70% of the mortgage market in this country is securitized. When you securitize a loan, you throw off an MSR. So, this is not a theoretical asset. And there are a couple of 'em out there, and aren't they cute? This is like a major part of the market. This is integral to the securitization process. And there is a market out there for borrowing against

Jim Vance: But it exists.

Unknown Speaker: The banks actually provide, the banks actually provide funding for

Jim Vance: Sure.

Unknown Speaker: For these assets. So, there is a lending market already out there.

Jim Vance: But all your comments are that they exist. Everybody who bought a plane ticket to come here today generated frequent flyer miles. That doesn't necessarily mean I'd lend on them. And I know that I could

Laurie Goodman: There's a market for that too.

Jim Vance: I know that I could cash them out, but there's not an active daily inter-day market that I know that the loan that is already outstanding adjusts on a daily basis to the value of that.

Laurie Goodman: Actually, there is a daily valuation for MSRs. And I'm sure, I'd really like Pat to answer this cause I'm sure you guys mark your MSR portfolio to market daily, if not even more frequently.

Pat McEnerney: Well, I think the more important thing is compare it to a whole loan, right? It has no different than the characteristics of a whole loan. A whole loan, a whole loan, that is not going to an agency security doesn't have a daily valuation, or it has the same type of daily value. Instead, it's valued based on its expected cash flows. Same applies to an MSR asset. And those type of whole loans, right? There's a tiny contradiction there in terms of, if it's eligible for pledge to a repo, does that mean it shouldn't be eligible?

Jim Vance: No, that works well because it says that.

Jim Vance: But a portion of the assets that are pledged are whole loans.

Pat McEnerney: Whole loans are posed the same issues of, how do you daily value a whole loan? Some of the advantages that the federal homeland system has provided is it provide financing for the types of whole loans that aren't necessarily as easily securitized.

Jim Vance: But the challenges of the whole loan are, one, whole loans have to be in this system. And two, the holder of the whole loan or the issuer of the whole loan has immediate transparency and was already eligible in the system. So, the regulated have a capital structure and a complete understanding too. In the MSR, we're trying to get the entity that's a non-bank entity that has the servicing rights to use that to pledge his collateral. That's different than saying did the original savings alone in the original collateral that was designed for the federal home loan bank system at the original DNA was supposed to be a home loan should remain as collateral and the entity that held it was the savings loan that was inherent and exactly in the DNA of the system. But the hard part on this is trying to understand how does this MSR change, and it changes materially at that time.

Chris Bosland: It changes, right. I'm sorry to cut this off, but I do wanna get to one other topic. I mean, I think we take the points and scenario that needs to be looked into. The Prudential regulation point. If we're gonna let people in, theoretically, again, don't read into that. But yeah, that'll be in the papers. I'm letting people in. It's a holiday time. I'm handing out membership. No. If we were to let, and obviously, the CDFIs are a little different, kinda, kinda not. How do we make up for the lack of prudential regulation? Laurie, you had one idea in your written comments, I don't know if there's others, but are there other, and we talked a little bit about, I mean, one way might be collateral, one way might be advanced, enhanced assets and capital tests. But I'm just curious, are there other ways we maybe be able to fill that gap?

Laurie Goodman: I mean, I would actually argue that for non-bank, you basically say, okay, here's home loan bank membership. And that happens in exchange for prudential regulation. Now, arguably non-bank already have prudential regulation. They're regulated at the state level. Most state banking authorities are really not expert regulators of these entities, I would argue, and sort of, if you're a national mortgage company dealing with 50 individual states is sort of a pain in the neck and doesn't produce the best results, I would argue. I would actually argue for a national regulator. And furthermore, I would argue that the optimal regulator is FHFA. I know that that's not at all on the table, but sort of the idea of a grand bargain of prudential regulation in exchange for home loan bank membership makes all the sense in the world. And Fannie, Freddie, Ginnie all have very, very substantial information on all these banks, all these non-bank servicers because essentially, it's required to deal with Fannie or Freddie or Ginnie, you have to provide all this information. So, making the FHFA the prudential regulator of these entities would be very rational to me.

Chris Bosland: Byron, go ahead.

Byron Boston: Again, I'm gonna go back to the diverse set of lenders in our housing finances and tailoring the regulation for the type of activity, type of asset that you're dealing with. And I'm thinking broader for what's best for our housing finance system. How should you really regulate it? I can't say that I think you should regulate Dynex Capital like you regulate Bank of America. And it's not a matter of size. It's a matter of what we really do. We are really focused 100% on just housing and just housing-related assets. So, I would urge you, when you say prudential regulation, it has a lot behind it to try to be a little more specific with the type of entities that you are speaking. But to have regulation, to have access and then have some type of oversight I think is correct. You're a lender. You want your money back, and we wanna keep our housing finance system safe. But part of the reason we're talking about is there any value in having a broader membership is because I think expanding the membership will actually make the housing system safer, to be honest with you. So, it's what kind of regulation, the word prudential regulation, I think we have to drill down and say, what exactly are we speaking of and why? But if the prudential regulation is what came out of the crisis for Bank of America and of these big entities that could literally bring down the system, I think we should think broader about specifically what that regulation looks like

Chris Bosland: Okay, so Laurie's solution to the prudential regulation problem is to provide prudential regulations. Are there any other ideas? And I don't mean, the only thing that gives me pause about that frankly is having to choose between your kids in a crisis. Do you save the Elmo Bank? But that's just me personally. I'm not saying,

Laurie Goodman: No, I would argue prudential regulation as a matter of course. And in fact, in many ways, I would argue that Fannie, Freddie, Ginnie and the warehouse lenders essentially provide that prudential regulation already. All you're doing is formalizing it in a form that the home loan banks can more easily access.

Amy Bogdon: So why wouldn't they just create their own bank then, if you're talking about having prudential regulation? Would that be another way of doing it? Having them do this through a bank instead of as an independent mortgage company?

Pat McEnerney: Amy, wanted to check I understand the question. You're saying have the

Amy Bogdon: Rather than set up like a whole new system of regulation, why not use the existing systems that already exist?

Laurie Goodman: Well, I mean, that's what I was actually suggesting is you've got regulatory, you've essentially, Fannie, Freddie, and Ginnie are essentially, they're not regulators per se. They are gathering the information that a regulator would gather. Well, you need to process it slightly differently, but that system is already in place. You've got systems that are tailored to these institutions. They are not banks. They've got a very different structure, and you've already got all the metrics to monitor them because Fannie, Freddie, and Ginnie need it for their daily business.

Chris Bosland: Julieann

Julieann Thurlow: So, I like where you're going as far as the prudential regulation. However, I don't feel that Fannie and Freddie or any of the agencies provide prudential regulation for their lenders. Prudential regulation goes and expands much further than that. So, when I think of safety and soundness examinations by the FDIC, by the Federal Reserve, by the OCC, much more significant as far as whether or not the entity itself is sound and operating appropriately in the space. If one were to go that route and one were to submit themselves to regulation, as all the financial institutions that are currently members are, then I would also suggest that they should also submit to following the CRA requirements and making sure that they're meeting the needs of the market area that they are serving.

Laurie Goodman: So actually, I have done a ton of research on that, and I will tell you that non-banks do a lot more than banks in terms of serving LMI borrowers, LMI communities, minority borrowers and minority communities. And I can show you the numbers. The difference is very, very substantial. And of course, the difference is so substantial because the non-bank lenders are those that serve the FHA market, which is where these borrowers are concentrated.

Anand Solanki: I still like the question you asked, cause that's exactly where I was headed in my mind is setting up a new regulator isn't easy or short term or cheap. And there are already this many regulators out there, and you are offering to be regulated. Why not, I mean, what would be your hesitation into being regulated by one of these entities?

Pat McEnerney: Actually, I think we're talking about something that's binary and then ignoring a lot, right? There's bank prudential regulation, right? And then there's state regulation which mortgage companies are subject to, and insurance companies are subject to, right? There's no greater prudential regulator other than a state regulator to protect policy holders for insurance companies. Now, what Laurie is suggesting is that for members who are actually active in the mortgage business, there's a substantially greater pool of data available to assess this type of risk than there is of the insurance industry, right? And that there's no federal regulator for insurance. It's state regulators. Some state regulators are stronger than others, some have better prudential rules than others. And I think what we would say, and what had to happen before is insurance companies were used to get access to the system. So, there is an existing regulatory structure. I think what Laurie's suggesting is that for this group of entities who are significant to the housing finance system, there's another layer of data that's available and another layer of control that's available that exceeds the regulation that would be required under the Act, which the state regulators clearly provide.

Chris Bosland: I guess I'm just trying to think, and we are just about out of time. So, I'll make this quick. If part of this is to, in the interest of stability where disintermediating, for lack of a better term, warehouse lenders, because the warehouse lenders pulling their lines presents some of the risk. If we are moving this to borrowing, to enhance the stability we're borrowing from the home loan bank, aren't we removing some of the market discipline and surveillance? And I'm sure it would vary case by case, but in hearing, we're moving them to the home loan banks. We're relying on them now to do the work. The information's already out there. Presumably, the warehouse lenders are using that. So, I mean, I don't wanna be glob about it. I am kind of curious, like it seems like there's a little bit of attention there.

Pat McEnerney: Fannie and Freddie have substantially more data than the warehouse banks have. The warehouse banks have our public data. There's the NBRF which is a substantial level of detail more akin to a call report or a focus report from the broker dealers, right? Is this level of detail consistent across the industry reviewed by them? So, there's a degree of control that's deeper, right? I think so there's two levels there. What do you need to have the right view into all the credit risk? You have that tool. What do you need to satisfy the version of the Act? And I think you have state regulation. So, let me go, your other point was, I think think back to the crisis of seven and eight, what happened? Banks were financing through a variety of ways and that dried up. Did it dry it up because the banks were bad? It dried up because the marketplace froze, and the banks were able to access the Federal Home Loan Bank system in 9, 10, at levels that were unimaginable. And that kept the system functioning. That's the kind of thing we're talking about here. It's not that it was a bad asset that the bank was making, but liquidity dried up, liquidity dried up for the banks and they have access. Now this segment of the system, which is material part of housing finance today, and a particularly material part of housing finance too low to moderate income bars and in low to moderate income communities does not have that backstop. So, the day that the banks wake up and decide, hey, there's some other crisis that prevents them from financing, that trickles down, that runs the risk of trickling down to this segment of the industry.

Chris Bosland: All right, well, the bad news is we are out of time. The good news is we are going to be having at the end of this process another opportunity to submit written comments so you can save your vitriol and constructive comments for that. No, but seriously, it is something we expect. Gentlemen made the point that the break that these round tables are starting to build on each other a little bit, and sort of the issues are getting a little bit more and more fleshed out. And so, we expect that you all will have responses and thoughtful things in response to what you may have heard here or at other round tables or wish to clarify. I know we did not talk, some of you raise even additional collateral type issues revolving trust funds and municipal bonds, which we ran out of time for. Julie, I did say we'd get back to your CRA idea and we did not, so I hope you can flesh that out in writing at the next time. So, I think we heard a lot of interesting things. Is there something about the differentiating long-term holders versus non? We heard an idea about possibly a separate bank by entity type. I'm not sure how. There's just something to think about. The joint and several may create an issue there. We'd have to think through, but that's certainly the kind of blue-sky idea we were looking for. Maybe modifications to 7J differential pricing, even more differential haircutting, which may, when we talk about mission, we may be able to do some greater differentiating based on mission activity. Could be something, a thought we heard about increased education and requirements for members to educate. So, I think these are all exactly the kind of ideas we're hoping to surface, so I do appreciate you all taking all this time on a holiday week in the rain here in Philadelphia. But there will be more round tables in the new year. We are gonna take a break and sleep for a few weeks. But seriously thank you all for your thoughts as well as your patience with us up here. So, thank you very much. - (audience clapping)