



July 12, 2024

The Honorable Sandra L. Thompson  
Director  
Federal Housing Finance Agency  
Constitution Square  
400 7<sup>th</sup> Street SW  
Washington, D.C. 20219

**Re: Request for Input: Federal Home Loan Bank Core Mission and Mission Achievement**

Dear Director Thompson:

The Community Bankers Association of Illinois (“CBAI”), which proudly represents 260 Illinois community banks, appreciates the opportunity to provide our observations and recommendations to the Federal Housing Finance Agency (“FHFA” or “Agency”) regarding its request for information (“RFI”) governing core mission activities and mission achievement of the Federal Home Loan Banks (“FHLBanks” or “FHLBs” or “Banks”, or collectively, “FHLBSystem” or “System”) and which specifically requests input on updates to the mission statement, methods for measuring and evaluating mission achievement, and financial incentives for members with a strong and demonstratable connection to the mission of the FHLBanks.

CBAI was pleased to present at the two listening sessions offered by the Agency as it conducted

CBAI is dedicated to exclusively representing the interests of Illinois community banks and thrifts through effective advocacy, outstanding education, and high quality products. CBAI’s 261 members hold more than \$80 billion in assets, operate 860 locations statewide, and lend to consumers, small businesses, and agriculture. For more information, please visit [www.cbai.com](http://www.cbai.com).

its year-long review of the FHLBanks (Comprehensive Review) and we submitted two comment letters to the FHFA expressing our observations and recommendations about the Comprehensive Review. CBAI respectfully requests the Agency consider our position on the issues covered in the RFI, which are based on recommendations published in the report titled, *FHLBank System at 100: Focusing on the Future* (“Review Report”), and which will impact FHLBanks and the overwhelming majority of CBAI community bank members who are also members of the Federal Home Loan Bank of Chicago.

## **Initial Observations**

Throughout this regulatory review process which has culminated thus far in the FHFA’s May 16, 2024, RFI, CBAI has detected a troubling and unwarranted supposition by the Agency (and the critics of the FHLBanks) that more drastic changes are needed than were actually recommended by the vast majority of presenters and commenters who provided their thoughtful input during the listening sessions and in their comment letters. This supposition favoring more far-reaching changes and the direction of those changes was revealed in the Introduction to the Agency’s RFI in the very first paragraph.

“In the decades since the system was established in 1932, the composition of the FHLBank membership has shifted away from institutions with a strong focus on mortgage lending, and eligible collateral and has broadened to include non-housing focused assets. At the same time, the volume of unmet housing and community development needs across the country has risen.”

Yet, presenter after presenter at the Comprehensive Review listening sessions, and in letters from financial institution members as well as the beneficiaries of the profits of the Banks, enumerated the many valuable benefits they have received. They came to different and entirely justified conclusions and recommendations that are best described using the common vernacular, *Don’t mess with success*, and *Don’t try to fix what isn’t broken*.

**CBAI recommends the FHFA heed the thoughts and opinions of these many presenters and commenters and tread very carefully to not disturb with unnecessary changes to the Banks which have evolved over the past 90+ years to consistently serve financial institution members and the many organizations and individuals who have benefitted from the Banks’**

**contributions and many programs. Unwarranted changes will have serious implications and harmful consequences which must be avoided.**

As the FHFA considers the input it receives from the RFI, it should do so with the clear understanding that the FHLBanks exist in a broad ecosystem that includes the entire world in terms of financing and investing. The United States has a capitalist economic system where the private sector creates opportunity and wealth, the U.S. Congress makes the laws, and the role of the regulators, including the FHFA, is limited to ensuring the implementation of the laws and regulatory compliance.

It must be recognized that the FHLBanks are not responsible for creating or solving the problem of increased unmet housing needs and lack of community development. These are broader societal problems, and it would be ridiculously unfair to place the responsibility to address and solve these complicated problems on the shoulders of the Banks that have been responsible for consistently contributing enormous amounts of money and expertise to address these complicated and systemic problems.

Also, housing and community development do not exist in a vacuum but are part of a broad ecosystem, and they are dependent on and will only flourish in a thriving ecosystem. Changes made to part(s) of the system will have an impact, perhaps dramatic, perhaps negative, on the entire system. An ecosystem thrives where changes are made carefully, only when warranted, not driven by current expediencies, and are most successful when they are made at an evolutionary versus revolutionary pace.

For example, in looking at the ecosystem in the broadest possible terms, the FHLBSystem is the largest issuer of United States government securities behind the U.S. Treasury. Investors worldwide purchase FHLB bonds and the proceeds are used to fund the Banks fulfillment of their mission. The creditworthiness of these bonds is supported by the long-term stability of the Banks; their strong financial condition and results of operations; the joint and several liability of the Banks for the financial obligations of each other; and an implied U.S. government guarantee. Anything that is done to impinge on the desirability and supply of the FHLB bonds, which are universally viewed as safe, secure and highly liquid investments, will decrease their attractiveness to investors. The unfortunate consequences will increase the cost of advances to members, decrease the value of FHLB membership, lower the Banks' profitability, and ultimately reduce their contributions to statutory and voluntary contributions to affordable housing and community development.

**CBAI cautions the FHFA against ill-advised and revolutionary changes to the FHLBanks and urges the Agency to robustly vet any proposed changes and assiduously avoid harmful consequences resulting from changes that it implements on its own, proposes through formal rulemaking, or recommends Congress enact into law.**

## **FHLB Mission**

The mission of the FHLBs, as established in the FHLBank Act, is to provide stable and reliable liquidity to its members and support housing and community development. This mission was further characterized in the Housing and Economic Recovery Act to promote financial stability by providing a reliable, cost effective source of liquidity to its members and supporting housing and community development efforts throughout the nation. The mission is not overly detailed or prescriptive, and for good reasons.

The mission is also silent about whether one part of the mission should take precedence over the other. While they are both mission priorities it is undeniable that the Banks' providing liquidity and the other services to their members generate the profits that enable their support for affordable housing and community development. There are no contributions without profits.

This broadly stated mission permits important and necessary flexibility and creativity to adapt to a changing world (i.e., evolution). In addition, it encourages development and innovation, which is precisely what the Banks have been doing very successfully over the past 90+ years.

As the regulator, the FHFA's stated mission is to be "responsible for providing oversight of the housing government-sponsored enterprises (GSEs)," and "to promote their safety and soundness and ensure that the GSEs serve as a reliable source of liquidity and funding for housing finance and community investment." Their role as a safety and soundness regulator is very different than the role of the United States Congress which has the authority to change or clarify the FHLBanks' mission. Congress has exercised that authority in the past when it broadened (not restricted) membership to include commercial banks and when it expanded (not contracted) the types of collateral that certain members can pledge to secure their advances and other obligations to more fully utilize the Banks' products and services.

**CBAI believes the current mission appropriately states and has well-served the FHLBanks, the beneficiaries of their programs and contributions. There is no evidence that the**

**current mission will not contribute to the future accomplishments of the Banks as they successfully evolve to meet new and different challenges.**

**CBAI further believes that the FHFA does not have the authority to determine when and what changes should be made to the mission.**

## **FHLB Membership**

For the FHLBanks to provide support for housing and community development, the Banks must obviously exist and provide meaningful products and services to encourage members to invest their money to capitalize the Banks. CBAI directly and clearly stated this point about FHLBank membership in its presentation during the late March of 2023 listening session.

“And when I say members, I mean member-owners, the member-shareholders of the FHLBs. They are the financial institutions (large and small) that provide capital to their home loan bank and that capital is the foundation that makes possible all the good things that the FHLBs do. In fact, it’s no exaggeration to say that without members voluntarily investing in the capital of their FHLBs (and remember that membership is not mandatory) the Federal Home Loan Banks simply would not exist.”

The FHLBanks have developed a large, broad and deep membership base which is a source of strength for the Banks. The Banks have this strong membership base because they provide members with varied and valuable products and services. This large membership base must not be assumed and can easily be jeopardized by diminishing the value of membership. Synergy exists between members, the services they use, the profitability derived from members using those services, and the contributions to affordable housing and community development. Anything that is done to negatively impact members or membership will ultimately harm the Banks’ contribution to affordable housing and community development.

Yet, there has been unfortunate and disturbing talk about restricting membership in the FHLBs through more stringent requirements to become a member and ongoing requirements to retain membership. This is something that Congress has never done. In fact, Congress has consistently done the opposite, by expanding membership and the members’ ability to utilize the products and services over the 90+ year history of FHLBs.

The only time membership has been restricted was when the FHFA prospectively excluded new captive insurance companies from membership and removed existing member captive insurance companies over several years. CBAI opposed the exclusion and removal of these members of the Banks whose utilization of their products and services generated profits, a portion of which was used to support affordable housing and community development.

**CBAI strongly supports the existing initial membership requirements and opposes changing the terms for new membership and implementing any ongoing requirements for continuing membership in the FHLBanks.**

## **Liquidity**

The value of FHLB advances to financial institutions for liquidity purposes has been demonstrated repeatedly in good times but especially in times of financial stress. In terms of fostering financial stability, advances serve as a monetary rubber band, stretching in times of need and contracting when times return to normal. During the Great Financial Crisis and most recently after the bank failures in March of 2023, advances climbed sharply to enhance financial institutions' liquidity and to protect the financial system and our economy only to descend to normal levels after the financial storms had passed.

Lending to all members including institutions facing challenges is a necessary function of FHLBanks, so long as these institutions have sufficient collateral to secure their advances and the prudential regulators agree. To dispel any myths to the contrary, FHLBs do regularly communicate and cooperate with bank prudential regulators and assist them, as much as they are able to, in managing the comeback or resolution of a challenged financial institution.

The failures of Silicon Valley Bank ("SVB") and Signature Bank of New York ("SBNY") have unfortunately proved to be a convenient opportunity for misguided and misinformed individuals to criticize FHLBanks for making unwise advances. In reality, advances to these financial institutions were outstanding examples of how FHLBanks were critical to maintaining financial stability and providing the prudential regulators time and flexibility to affect the best possible outcome given the unfortunate situation caused by the mismanagement of the failed banks and the inexcusable inattention and inaction by their prudential banking regulators. Despite these unwarranted criticisms, these advances did not result in losses to any FHLBank.

Proposals restricting access to advances or directing the use of advances will diminish the value of membership, reduce profitability to the Banks, harm the financial system and our economy, and ultimately negatively impact the mission of supporting affordable housing and community development. Assessing the creditworthiness of an institution, or any other requirements imposed by the Agency, will potentially limit its ability to access advances. Even the remote possibility of curtailing future advances will degrade their value to a significant degree in the eyes of the banks and their regulators as a reliable source of liquidity, particularly in a time of financial stress. Advances must be contingent on having sufficient pledged and available collateral to secure those advances which can be used for any permitted purpose.

**CBAI urges the FHFA to do nothing that negatively impacts a member's ability to access fully secured advances.**

## **Dividends**

There has been criticism that dividends paid by FHLBanks are not connected directly to fulfilling the mission of supporting affordable housing and community development.

Everything the FHLBanks do is mission driven. Fulfilling their mission generates profits, and a growing portion of those profits benefit affordable housing. The FHLBanks' contribution to affordable housing is so substantial that they rank as the largest private contributor to this cause in the United States. The Banks' profits are also directed to community development and are used to further capitalize the Banks and enable them to grow while meeting their regulatory capital requirements. Finally, a portion is appropriately used to pay dividends to the members as a return on their investment in the capital of their Bank.

**CBAI believes that the appropriate equilibrium in the use and distribution of profits has been achieved and we strongly caution against changing the current income distribution mix which will have serious negative consequences.**

## **Performance Measurement**

The FHLBanks' reports and other publications make it clear that everything they do and have evolved to do is necessary for and in fulfillment of their mission. A strength of the Banks is their

individual boards of directors. Board members are drawn from their districts to provide necessary local knowledge which is the foundation for not only what products and services are offered by all the Banks, but also for what they do individually and uniquely for the members and for the recipients of the shared profits to support affordable housing and community development.

Overly detailed and specific goals and metrics for evaluating success in fulfilling the mission is a misguided approach, is unnecessary, and will only create a costly additional regulatory burden on the Banks. This approach could force conformity among the Banks, stifle individual Bank creativity and innovation, and would not be in the best interests of the Banks and certainly not be in the best interests of those who benefit from the many programs offered and supported by the Banks.

**CBAI believes, by any reasonable measure of success, the Banks are doing an outstanding job in fulfilling their mission without the need for additional bureaucratic requirements or costly regulatory burdens to justify their existence and performance. The Bank's strategic plans, periodic financial statements, and individual reports; together with the FHFA's annual reports on collateral and targeted mission activities, as well as its annual report to Congress, all clearly prove that the Banks' mission is being fulfilled.**

## **Incentives for Performance**

The FHFA is seeking input on how to more fully incentivize members to fulfill the missions of the FHLBs. That issue can be easily addressed because there are already incentives that have evolved over time and will continue to evolve at the individual FHLBanks without additional mandates. They are the result of the fully engaged and talented boards of directors and management of the Banks diligently seeking to serve their members and communities within their districts.

Membership itself in the FHLBs is the gateway to the many benefits offered by the Banks, and nothing should be done to deter members from joining or retaining their membership in the FHLBs. Once in membership, the products and services are designed so that they are used, the members benefit financially, and the profitability of the Banks generate funds and liquidity to be used to support affordable housing and community development.



For example, the Federal Home Loan Bank of Chicago has structured its dividends such that stock ownership to qualify as a member earns a lower dividend than stock used to support activities like collateralized advances. The Federal Home Loan Bank of Chicago offered post-COVID-19 grants to their members to use in their communities, zero-interest advances for COVID-related loans to assist small businesses, and recently increased the amount of funds available for donations to first-time homebuyers. Similar measures at other FHLBs are incentives for members to join and fully utilize the services of their Bank knowing that a reasonable portion of the profits for utilizing those services will benefit affordable housing and community development.

**CBAI urges the FHFA not to interfere with the current structure and successful evolution of member benefits and incentives.**

### **Don't Mess with Success**

CBAI fears that the perfect detrimental storm emanating from the Review Report and the RFI would be for the FHFA to be instrumental in placing restrictions limiting new membership and threatening existing members with ongoing requirements for membership; having the ability to limit advances based on ongoing underwriting requirements; controlling the use of those advances to a particular type of lending activity; interfering with current member incentives or actually creating disincentives; and creating mandates for increased profit allocations to affordable housing and community development, which will likely restrict the growth and capitalization of the Banks and decrease the dividends to the member owners.

While the impact of such harmful changes may not be immediate, these actions on the part of the FHFA either at its own discretion, by inappropriate rulemaking, or by recommending inappropriate laws passed by Congress, will start a *doom loop* with a declining value of the FHLBs for its members. The impact will tragically reduce the FHLBs' ability to provide a reliable source of liquidity to members and to support affordable housing and community development.

By ignoring ample warnings, policymakers including the FHFA, will be responsible for harming the FHLBs, their members and the many beneficiaries of their contributions to affordable housing and community development.

**CBAI urges policymakers, beginning with the FHFA, to ensure the important mission of**

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**the FHLBs will continue to be achieved in the future.**

CBAI thanks you for this opportunity to provide our observations and recommendations regarding this Request for Input. If you have any questions or need additional information, please do not hesitate to contact me at (847) 909-8341 or [davids@cbai.com](mailto:davids@cbai.com).

Sincerely,

/s/

David G. Schroeder  
Senior Vice President  
Federal Governmental Relations