

MEMO



To: Federal Housing Finance Agency
From: Summit Bank
Date: July 12th 2024
Re: Comments on FHLB System at 100

The defined mission of the FHLB system (along with Fannie Mae and Freddie Mac) is achieved by “Operating in a safe and sound manner to serve as a reliable source of liquidity and funding for housing finance and community investment.” Clearly, the former is a pre-requisite for the latter, which creates an implicit requirement for ongoing assessment of the FHLB to ensure that its policies and operations reflect changes to and the constant evolution of the banking industry conditions in which we all operate, with failure to do so representing a mission failure. Many of the proposals outlined by the FHFA are intended toward achieving this pre-requisite, and as such, we generally support these efforts.

The focus of these comments will address the end goal of the FHLB mission, i.e. to serve as a reliable source of liquidity and funding for housing finance and community investment. Community financial institutions are critically important to the US financial system. Many of the 6,500 FHLB member institutions rarely borrow from the FHLB system, however it is precisely *the ability to access liquidity when needed* that is what makes the FHLB system so valuable to these institutions and thus the US financial system as a whole. If the availability of funding, either as part of an institution’s regular operations, or as part of its contingency funding plan, is curtailed or placed in doubt, institutions will inevitably respond by restricting lending to the communities that they serve, which would also represent a mission failure by the FHLB and the FHFA.

The following is a summary of Summit Bank’s comments on the *FHLB System at 100* report and the FHFA proposals based upon the Agency’s findings following their comprehensive review. The commentary addresses each of the salient themes that the ICBA has identified as being particularly relevant for community banks:

1. FHFA to evaluate FHLB Banks based upon a measure of mission achievement – A well designed system of metrics that allowed for discounted advance rates based upon volume of housing and community development activities should be weighted toward number of loans rather than total dollar volume which will encourage smaller institutions to fund smaller projects and dissuade gaming of any such system by larger institutions.
2. FHFA plans to take steps to ensure members continue to support the FHLBank mission – This proposal requires additional clarity as to which financial institutions would be subject to a bright line 10% of assets test. Blanket requirements stipulating the asset mix of financial institutions will have disparate impact on thousands of financial institutions in the US driven by differences in the impacted institutions’ lending activities and the local competitive and economic conditions that

they face. Summit is strongly opposed to any such bright line test as they will almost certainly create unintended consequences.

3. Recommendation to Congress to consider amending the Bank Act to at least double the minimum required annual AHP contribution – Summit is strongly opposed to any such measure, as it ultimately will result in limited community lending and thus mission failure which is the primary theme of these comments.
4. Expanding membership to the FHLB system – The cornerstone of the safety and soundness of the FHLB system is that it is a network of banks that lend to highly regulated financial institutions. This creates an environment of safety redundancy, which exponentially improves the risk profile of the entire system. Allowing non-banks with relatively limited regulatory oversight to borrow from the FHLB increases risk to the system with difficult to measure benefits to member community development activities.
5. Possible consolidation of FHLBanks – The precise number of banks in the FHLB system is relatively unimportant provided that the system banks have the personnel, technology and operating resources to serve the 6,500 member institutions when they are needed.
6. Strengthen member risk management – As noted in Comment 4) the FHLB system, which has operated for 100 years without a single lending loss, works so well because of the regulatory framework that each and every one of its borrowers is subject to. Any additional regulatory overlay would not increase this benefit.
7. Adding climate resiliency efforts into the core businesses of FHLB member institutions – Summit views any such mandate as “mission creep” and thus is opposed.
8. Deny advances to members without positive tangible capital – Summit likely differs from the positions of the ICBA on this topic as we support such a policy as it represents what we consider to be a prudent lending practice that we’d like to think all banks would employ, i.e. to consider a borrowers actual capital position rather than its apparent/presented position with the differences between the two the result of an arbitrary accounting methodology election.