



July 15, 2024

The Honorable Sandra L. Thompson
Director
Federal Housing Finance Agency
400 Seventh Street SW
Washington, DC 20024

Re: RFI: Federal Home Loan Bank Core Mission Activities and Mission Achievement

Dear Director Thompson:

The Illinois Bankers Association (IBA)¹ represents scores of Illinois banks and thrifts that are members of the FHLBank of Chicago. Through our members' experiences and through our collaborative partnerships with the FHLBank of Chicago, we readily recognize the economic opportunities that the FHLBanks create in our communities. We are writing in response to the Federal Housing Finance Agency's (FHFA) Request for Input: Federal Home Loan Bank Core Mission Activities and Mission Achievement (RFI) issued May 16, 2024 to express our confidence in the System's necessity and dynamic community impact.

QUESTIONS ON A MISSION STATEMENT FOR THE FHLBANKS

Q1: How should the mission statement for the FHLBanks reflect the connection between the liquidity provided by the FHLBanks and their support for housing and community development?

Q2: Are there components in addition to providing liquidity and supporting housing and community development that should be included in the mission statement?

The RFI states that the Federal Home Loan Bank Act (Bank Act) does not explicitly describe the mission of the FHLBanks. It also states that a mission statement should "reflect the purpose, intent, and overall objectives of the FHLBank System." We believe Congress clearly determined the mission for the FHLBanks when it established them. The Bank Act sets up FHLBank to lend to their members using a cooperative structure that ensures responsiveness to their members, which are also their shareholder/owners. The Bank Act clearly states which entities are eligible for membership and lists the types of collateral that members are allowed to pledge. Each of these factors directly relate to the purposes, intent and overall objectives that Congress intended to occur when establishing the FHLBanks.

Importantly, in the ninety-plus years since then, Congress has from time to time amended the Bank Act to reflect broader changes occurring within the financial services industry, the larger economy, and the housing marketplace. For example, they expanded FHLBank membership to include commercial banks and federally-insured credit unions in 1989, non-depository Community Development Financial Institutions in 2008 and privately-insured credit unions in 2015. Congress

¹ The Illinois Bankers Association is a full-service trade association dedicated to creating a positive business climate for the entire banking industry and the communities we serve. Founded in 1891, the IBA brings together state and national banks and savings banks of all sizes in Illinois. Over 52% of IBA members are community banks with less than \$250 million in assets, and over 75% of IBA members are community banks with less than \$750 million in assets. Collectively, the IBA represents nearly 90% of the assets of the Illinois banking industry, which employs more than 105,000 men and women in over 5,000 offices across the state.

expanded the types of collateral that community financial institutions can pledge in 1999. These changes reflect Congress' desire to update and modernize the mission of the FHLBanks by expanding the types of entities eligible to receive FHLBank funding and the types of mission-related collateral that must be pledged in response. The Bank Act and its periodic amendments make clear that changes to the FHLBanks' mission must come from Congress alone. As a safety and soundness regulator, the FHFA should evaluate how the FHLBanks are performing their mission, but it cannot create new mission requirements by "clarifying" their mission in ways that deviate from the Bank Act and diminish the purpose of the System.

As demonstrated by last November's report, *FHLBank System at 100: Focusing on the Future*, the FHLBanks have ably performed their increasingly important mission for over 90 years. Community financial institutions rely on their FHLBanks to provide stable, reliable liquidity day in and day out through advances, Acquired Member Asset (AMA) loans, letters of credit and other liquidity products. While many members use these funds for everyday balance sheet management and other purposes, this funding is vital during times of economic stress, particularly for smaller banks. The FHLBanks allow local financial institutions to rapidly and reliably pledge their eligible collateral for same day funds, which is crucial when economic conditions suddenly change, as witnessed recently when several regional banks failed in March 2023.

The nexus between the FHLBanks' mission and the liquidity they provide has always been ensured by the collateral Congress has determined to be eligible for pledging by members. Also, the mortgage loans sold by members to their FHLBanks through credit-risk sharing programs such as the Mortgage Partnership Finance Program directly support housing by allowing members who originate mortgages to sell their loans, thus freeing up capital while maintaining their customer relationships. Illinois banks and thrifts also use FHLBank advances to purchase single family mortgage-backed securities, providing liquidity to the MBS market and helping reduce home financing costs.

In short, the mission of the FHLBanks has been clearly established, and regularly updated, by Congress. We caution against regulatory clarification of the mission that might harm access to the FHLBank liquidity that allows Illinois banks and thrifts to serve the housing and community development needs of their communities.

QUESTIONS ON THE MEASUREMENT OF MISSION ACHIEVEMENT

Q1: Are there characteristics other than those listed on pp. 9-10 that FHFA should consider in developing measures of mission achievement? Please provide the rationale for any other characteristics.

Q2: Should all activities in the CMA regulation qualify as core mission activities? Are there items that should be added to or removed from the list of core mission activities? Please provide the rationale for any additions or deletions.

Q3: In developing multiple measurements, what additional aspects of mission achievement should FHFA assess? What additional measurements should FHFA adopt to assess support for housing and community development, including support for lower income households or other groups with identified needs?

- a. Should some core mission activities be weighted differently from others? For example, in assessing support for housing and community development, should advances or other activities involving members with a stronger mission focus be given greater weight?*
- b. Should all FHLBank advances count as core mission activities, or should there be limits or exclusions for advances (or other activity) involving members that have only*

a limited connection to housing and community development? How might this be measured? Should the type of collateral securing an advance be considered in evaluating advances? (Alternatively, this type of approach could be used for calculating one or more additional measurements.)

- c. How should an FHLBank's AHP contributions that exceed the statutorily required minimum or voluntary program contributions be reflected in the mission achievement measures?*

Q4: As discussed in the System at 100 Report, the FHLBanks receive certain advantages from their status as GSEs. Another approach to assessing mission achievement could tie measurement to the value of GSE status. If FHFA were to pursue this approach, how might the value of the GSE status be measured and how should mission achievement be compared to that value?

Q5: Are there other approaches FHFA should consider?

We believe all FHLBank activity is mission-related activity. The FHLBanks are designed to provide liquidity and term funding products to their member institutions. Doing so in the manner specified by Congress ensures that the mission is achieved. The FHLBanks are limited to performing only those activities authorized in the Bank Act, using the structure as established to provide liquidity products only to eligible member institutions, backed by collateral only as specified and allowed. Therefore, everything a FHLBank does is in fulfillment of its mission. As the FHFA measures how FHLBanks fulfill their mission, it must recognize that all liquidity, affordable housing and community investment activity furthers the mission as intended by Congress.

QUESTIONS ON A MEMBER INCENTIVE PROGRAM

Q1: What factors should FHFA and the FHLBanks consider in determining each member's commitment to housing finance and community development under a member incentive program?

Q2: What metrics and activities should be used to determine each membership category threshold? Are there housing- or community development-related activities that should not count or should be discounted in the calculation? Are there some that should count for a greater amount? How would flow business that might not be reflected on the member's balance sheet be reasonably considered?

Q3: Member activity that supports the housing finance and community development mission may change over time. How frequently should members be evaluated and classified as to their incentive category? Should the members self-report their level of housing and community development activity and provide documentation or a certification to the FHLBank, or should the measurements be performed by the FHLBank? What should the steps or process be for re-assigning members whose engagement in housing finance and community development activities has shifted, resulting in a change of category?

Q4: What additional benefits should accrue to members in each category?

Q5: What provisions should be required for each FHLBank's program to ensure it does not adversely affect the FHLBank's safety and soundness?

Q6: Should there be requirements that ensure members who obtain the benefits of such programs are not engaged in conduct inconsistent with the public interest, such as predatory, discriminatory, or unfair practices?

When evaluating each FHLBank member's commitment to housing finance and community development, it is important for the FHFA to recognize that the Bank Act requires all members to be treated fairly and impartially. This is an essential aspect of cooperatives. FHLBanks are allowed to take into consideration the creditworthiness of their members and the safety and

soundness of the FHLBank, of course, but generally members of a cooperative all receive equal access the products, services and benefits of the cooperative.

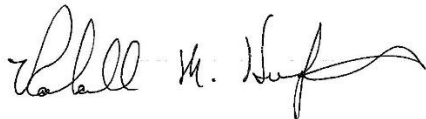
Additionally, Congress has already provided an incentive program by allowing community financial institutions (CFIs) to pledge a broader range of collateral than non-CFIs.

Finally, Congress has already provided "incentives" through legislation authorizing members to obtain discounted advances through the Community Investment Cash Advance (CICA) and Community Investment Program (CIP) programs. Further creation of incentive programs is not needed.

Conclusion

The Illinois Bankers Association appreciates the opportunity to provide these initial comments for your consideration. We look forward to further dialogue.

Sincerely,

A handwritten signature in black ink, appearing to read "Randall M. Hultgren". The signature is fluid and cursive, with a long horizontal flourish extending to the right.

Randall M. Hultgren,
President and CEO
Illinois Bankers Association