July 8, 2024

The Honorable Sandra L. Thompson

Director

Federal Housing Finance Agency

400 Seventh Street SW

Washington, DC 20024

The mission of the FHLBank has been articulated extremely well through the years from the FHLB Act, which Congress enacted back in 1932. That act described what FHLBanks are authorized to do, what they are required to do, what they cannot do, and who can be a member and how members can access that system. This was in essence restated in the Housing and Economic Recovery Act: promoting financial stability by providing a reliable, cost-effective source of liquidity to their members and supporting housing and community development efforts throughout the nation and specifically right here in Kansas.

We are a $700 Million dollar financial institution serving many rural communities surrounding the Kansas City Metro. We have been active members of the FHLB of Topeka since 1994, when we were just a $50 Million dollar institution. As the reach of Kansas City jobs and commerce expanded, the need for home loan lending increased. Through out those 30 year of our partnership with FHLB, we used opportunities provided from FHLB Topeka to support home purchases in our area. Initially that was longer term advances along with our FHLB line of credit to help fund the loans or offset some of the interest rate risk and balance sheet risk longer term loans added. There was no source for this liquidity and stability outside of the FHLB of Topeka for a small bank like ours. A large percentage of our lending continues to be home loans. It is our desire that those customers, our neighbors and friends, have a local choice and for those loans to be serviced right here in their area.

Loaning in more rural areas had unique problems. Our area didn’t have enough sales to qualify in the early years for FNMA fixed rate lending, so FHLB provided the needed structure to help us. Then it was the types of properties that we were loaning on didn’t always meet the criteria to qualify for the long term fixed products due to too much acreage or other complexities not experienced in more suburban areas where FNMA was used to underwriting. FHLB continued to provide the needed liquidity and structure to help us.

The home loan borrowers in our communities deserved the same opportunities as our more suburban areas for long term fixed products. FHLB helped us provide the needed tools to provide those types of loans. With that help, there were more homes financed in our market. In the small towns of Paola, Osawatomie, Louisburg, LaCygne, Fontana, Lane, Elwood, Horton, Troy, Mound City, Greeley, Garnett and many more surrounding the Kansas City Metro.

As our communities grew, so did the local county, city and school districts. We took on more municipal deposit accounts and utilized Letters of credit from FHLB to support the needed pledging to help secure those funds and help those deposits remain in our area. Without that backing, those deposits would have gone to other areas or to the state. Without local deposits, the ability to loan money would have been even more difficult, as we need local deposits to fund local loans. FHLB fills those gaps.

Congress, NOT FHFA, should have the authority to change the FHLB mission. Congress, NOT FHFA should have the authority to determine when changes need to be made or to clarify the FHLBank mission.

Everything FHLBank does is following that mission. Please look at ALL liquidity functions, ALL affordable housing and community investment activities. Please look at all the member banks and the lending that they do as part of that mission. Without FHLB, those opportunities change and dry up. There is no one left to fill in the gap to provide affordable housing initiatives and liquidity to those banks providing affordable lending to those seeking home ownership.

We support the request that FHFA postpone considering any changes to the provision of FHLBank advances and the FHLBanks affordable housing goals until the Board of Governors of the Federal Reserve System (Federal Reserve) has completed its ongoing review of its discount window. Changes to the discount window could materially impact the demand for FHLBank advances, impacting the financial condition of the FHLBanks and their ability to satisfy affordable housing goals. Further, any changes to the provision of FHLBank advances and the discount window should be undertaken in close coordination between the FHFA and the Federal Reserve to ensure that FHLBank member banks do not experience any gaps in access to liquidity, particularly during times of financial distress. During both the 2008 financial crisis and the 2020 COVID-19 recession, the FHLBanks provided timely and substantial liquidity to their members, which supported the U.S. mortgage market and helped to minimize the impact of those economic downturns. Given the critical importance of FHLBank advances to the US mortgage market, the overall financial system, and to small bank’s like ours, we believe that it is critical that FHFA not make changes to the provision of FHLBank advances without fully understanding, at a minimum, how potential changes to the discount window could impact demand for FHLBank advances and how any changes to the provision of FHLBank advances could undermine the ability of FHLBank members to secure liquidity in times of financial distress.

Sincerely

Blake A. Heid

President/CEO

First Option Bank

Paola, Kansas