



IBC

International Bancshares
Corporation

July 15, 2024

Via online submission: <https://www.fhfa.gov/public-input/fhlbank-mission>

The Honorable Sandra Thompson
Director
Federal Housing Finance Agency
400 7th Street, SW
Washington, DC 20219

Re: Federal Home Loan Bank Mission Request for Input

Dear Director Thompson:

The following comments are submitted by International Bancshares Corporation (“IBC”), a publicly traded, multi-bank financial holding company headquartered in Laredo, Texas. IBC maintains 166 facilities and 256 ATMs, serving 75 communities in Texas and Oklahoma through five separately state-chartered banks (“IBC Banks”) ranging in size from approximately \$470 million to \$8.9 billion, with consolidated assets totaling over \$15 billion. IBC is one of the largest independent commercial bank holding companies headquartered in Texas.

These comments respond to Federal Housing Finance Agency’s (“FHFA”) Request for Input (“RFI”) regarding the Federal Home Loan Banks’ (“FHLBs”) Core Mission Activities and Mission Achievement. As noted by FHFA, the RFI is an outgrowth of the Comprehensive Review of the FHLBs conducted in 2023. The RFI reviews the statutory background and regulatory provisions in FHFA’s Core Mission Activities (“CMA”) regulation related to the FHLBs’ mission, and it requests input on updates to the mission statement, methods for measuring and evaluating mission achievement, and financial incentives for members with a strong and demonstrable connection to the mission of the Federal Home Loan Bank System (“FHLB System”).

General Comments

As an initial matter, IBC is concerned that the FHFA is undertaking its review of the CMA and general mission of the FHLBs without sufficient adherence to the Congressionally-mandated core mission and purpose. FHFA correctly notes that the current regulations related to the FHLBs’ mission were codified under the Core Mission Activities regulation in 2000.¹ Those regulatory changes were undertaken to implement changes mandated by statute in the Federal Home Loan Bank System Modernization Act which was included as Title VI of the Financial Services Modernization Act of 1999, also known as the Gramm-Leach-Bliley Act. While the FHFA has authority to update its

¹ See 65 FR 25267 (May 1, 2000) and 65 FR 43969, 43981 (July 17, 2000).

regulations and ensure mission compliance, if FHFA believes that changes need to be made to the FHLBs' mission, it can make recommendations to Congress for legislative changes. However, absent such action by Congress, the FHFA should not seek to unilaterally change the FHLBs' mission.

Furthermore, no changes that would undermine or de-prioritize providing housing market liquidity should be made to the FHLBs' mission. The FHLB System is essential to IBC's operations and IBC's work to provide appropriate housing financing to the communities it serves. The FHLBs' liquidity support absolutely cannot be replaced and its primary goal when created was to support the liquidity needs of the housing industry. Any new limitations on that role and any de-prioritization of that role to other goals and missions will be devastating to IBC and the housing market writ large. At a time when housing prices and accessibility are more and more out of reach for an ever-growing portion of the population, any decrease in the FHFA's liquidity support will be the final nail in the coffin of the home ownership dream. While home ownership is not the ultimate goal of or solution for everyone, creating a permanent renter class is not good for anyone or the American economy.

The original purpose of the FHFA and FHLBs was to provide liquidity to the home mortgage market. Like most regulator and government agency missions, this original purpose has been broadened, undermined, and twisted beyond recognizability over time. IBC believes that returning focus to the FHFA's and FHLBs' original purpose of mortgage liquidity should be the foundation of any review and revision of the CMA. Fundamentally, the FHFA and FHLBs should be primarily focused on providing the necessary market liquidity in order to serve the overarching need to support housing access. This liquidity is vital to the banking industry and its goals of providing community support and access to housing.

Specific Comments

Mission Statement for the FHLB System

Question 1. How should the mission statement for the FHLBs reflect the connection between the liquidity provided by the FHLBs and their support for housing and community development?

While the FHLBs have a dual mission to provide liquidity and support affordable housing, it is the provision of liquidity that makes it possible to meet the affordable housing mission. Without a primary focus on market liquidity, the mission of supporting affordable housing access is not attainable. Simply put, it is impossible to ensure access to affordable housing without first providing the necessary liquidity in the market to support such access. By providing liquidity support and focusing on that prong as the primary mission, FHLBs naturally ensure the success of their mission to provide support for affordable housing. IBC and other banks and market participants rely on the FHLBs' provision of liquidity to support their robust engagement in housing finance. Without such liquidity, many banks would be faced with a choice: continue supporting affordable

housing finance despite economic risk and loss (and thus face increased regulator scrutiny regarding safety, soundness, and risk management and oversight), or decrease (potentially terminate) products and services focused on affordable housing financing. The latter choice will clearly result in a decrease in the availability of and access to affordable housing, which will undermine the second prong of the FHLBs' mission.

Greater liquidity increases the availability of and demand for housing financing, and providing such financing increases income to both banks and the FHLBs. This income allows banks and the FHLBs to increase their capacity to support housing and community development. It is a complete cycle, in which liquidity forms the base starting point. Without liquidity, the cycle remains stagnant and housing accessibility and affordability suffers. Congress has mandated that the FHLBs contribute ten percent of their net income to affordable housing programs, and the FHLBs have voluntarily increased that contribution to fifteen percent. While the FHFA may wish to incentivize the FHLBs to make greater contributions or to undertake efforts to increase income, such efforts should be informed by the market as a whole and should not come at the expense of housing and financing liquidity in general. Incentives should not upset the FHLB System in ways that might put some members or FHLBs at a disadvantage or incentivize the FHLBs to undertake actions that jeopardize safety and soundness in an effort to increase income. The FHFA's stated interest in increasing the FHLBs' efforts toward affordable housing should not come at the expense of any individual member's ability to access the FHLBs' liquidity as long as they meet the collateral and membership requirements.

The FHFA has already undertaken comprehensive and commendable recent actions in requesting input on improvements to the processes for members of the FHLBs and project sponsors regarding Affordable Housing Program funding. Improvements to processes and refinement of proven (and clearly authorized) programs will result in better outcomes than seeking to redefine the FHLBs' entire mission or to shift the focus of the FHLBs away from their *primary* mission of providing liquidity to the housing market as a whole.

Question 2. Are there components in addition to providing liquidity and supporting housing and community development that should be included in the mission statement?

No, and the fact that this is a question is concerning to IBC. As discussed, the FHFA's and FHLBs' mission is Congressionally-mandated in legislation. While the FHFA is free to regulate the way in which it and the FHLBs accomplish this mission within the confines of Congressional delegation, it cannot unilaterally change the mission without Congressional action. The dual mission of the FHLBs is clear: to provide liquidity and to support housing and community development as delineated in statute. It is not within the authority of the regulator to add elements or components.

Measurement of Mission Achievement Measurement

Question 1. 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 consideration of any other characteristics.

IBC strongly urges the FHFA to remove any metrics that would impose reporting requirements on members of the FHLBs or lead to a restriction on advances to such members. Both of these outcomes would undermine the FHFA's mission of liquidity in the housing market because they would increase costs on and reduce liquidity to members of the FHLBs, thus removing available funds that could be used to provide housing financing. Neither the FHFA nor the FHLBs should become de facto regulators of members of the FHLBs by imposing reporting requirements tied to FHFA or FHLB use or participation. The FHFA should also not include metrics that involve tracking advances. The existing requirement to have eligible collateral to allow continued borrowing already sufficiently ensures that advances are used for mission related purposes.

Question 3. 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?

IBC reiterates that the FHFA should prioritize the primary underlying purpose of the FHLB System – *the provision of liquidity to member institutions*. Indeed, the need for such priority was recently clearly evidenced as the FHLB System was an unambiguous and critical source of liquidity during the 2023 Silicon Valley Bank spawned banking crisis. Additional metrics should not discourage, disincentivize, or adversely impact FHLBs' ability to meet their core mission of providing reliable liquidity to its members.

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?

IBC strongly opposes the weighting of core activities. Members and the communities they serve have different needs based on their geographic markets, community and customer demographics and socio-economic factors. Members should not be treated differently based on a weighing of eligible activities. Weighing eligible activities of members would run counter to the *primary function* of the FHLBs to provide liquidity to all eligible members. So long as members have collateral to support their borrowing from the FHLBs, they should be able to borrow on equitable terms. Distinctions should not be made based upon the FHFA arbitrarily weighing a member's activities.

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.)

Again, IBC strongly believes that the FHFA should not treat members differently or make artificial, arbitrary distinctions among members. Like mortgage applicants, all eligible members should be treated equally. The existing requirement that members have eligible collateral to pledge for FHLBs' advances is a sufficient and effective measure of mission adherence. As currently structured, if a member does not lend for mission-related purposes, they will simply have less eligible collateral to pledge for further borrowing. This is an elegant solution to encourage members to focus on mission lending to support further liquidity access. Limiting or stopping advances to eligible members with sufficient collateral to back their borrowing would be an improper exercise of power by the regulator that would run counter to the statute. It would also undermine the *primary purpose* of the FHFA and FHLBs – to provide liquidity to the housing market.

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?

Voluntary contributions that exceed the statutory minimums are commendable. But the FHFA must be cautious not to overly incentivize such contributions in a way that would ultimately undermine its primary mission of providing housing liquidity. Rewarding excess contributions may lead to ever increasing expectations from the FHFA that the FHLBs continue to increase their "voluntary" contributions. This expectation would almost certainly shift the focus away from the FHLBs' main liquidity mission, as well as incentivize the FHLBs to take greater risks (to the detriment of safety and soundness) in order to increase income to further increase their "voluntary" contribution levels.

Question 4. 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?

IBC absolutely opposes valuing FHLBs based on their status as GSEs. The FHLBs (along with Fannie Mae and Freddie Mac) obtained their GSE status *through statute*, not regulatory prerogative. That status does not require valuation by a regulator. The FHFA's role is to ensure that the relevant GSEs are safely and soundly carrying out the duties assigned to them, not valuing their worth. The "worth" of any given FHLB or other GSE is, at most, a determination for Congress to make. This is an issue that can, and must, be addressed not through regulation or regulator action, but rather through statutory changes by Congress if the "value" of a GSE is found lacking. Furthermore, applying this "value" concept to the FHLBs without applying the same to Fannie Mae and Freddie Mac would create an unlevel playing field between GSEs within the same

industry. Furthermore, the FHFA's report does not adequately capture or articulate the full benefits, including the value of increased liquidity in the housing market, of the FHLBs to the taxpayer. The value of the FHLBs to act as a moderator and even hand in times of financial stress and market upheaval and the value of stability to the broader financial system that the FHLBs provide all result in significant value to members and taxpayers. These considerations are not currently acknowledged by FHFA.

Member Incentive Program

Question 1. 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?


IBC does not agree that additional incentive programs are needed or are justified from a public policy standpoint. If the FHFA is determined to implement such programs, it must provide more detail on why such incentives are necessary, as well as allow for public input on such incentives. The Affordable Housing Program is a Congressionally-mandated incentive program, and creating other incentive programs that are not mandated by statute opens the door to the politicization of the FHLBs. Additional incentive programs would be an ad hoc, non-statutory exercise that exceeds the FHFA's Congressional purpose and mandate and would merely reflect the desires of the then-current FHFA leadership. These ever-shifting incentives would introduce even more uncertainty and chaos into the housing finance market, which would undermine the FHFA's *primary mission* of ensuring liquidity in the housing market. The incentives would change depending upon leadership agendas and would not be reflective of the statutory purpose delineated by Congress.

The RFI states that the purpose of establishing a member incentive program would be to allow the FHLBs to provide increased benefits to those members that demonstrate a meaningful commitment to housing and community development activity. Simply put, this would exceed the FHLBs' statutory mandate. The very clear statutory mission of the FHLBs is to provide their members with liquidity to support affordable housing and community development. So long as members meet the requirements for membership and are able to provide the necessary eligible collateral to borrow from the FHLBs, members should have equal access to FHLB liquidity. The FHFA has no mandate to make itself the arbiter of what constitutes "meaningful" housing and community development, and the effects of such an undertaken would have severe consequences on the market. Taking this position would create differing tiers of FHLB membership, and such a structure is simply not contemplated in the applicable statute.

IBC appreciates that the FHFA is seeking stakeholder and public input before proceeding with any regulatory proposals regarding its mission. However, absent a clear directive from Congress requiring changes to the mission of or incentives provided to the FHLBs, the FHFA should exercise extreme caution that it does not exceed its regulatory mandate when proposing changes or undermine its primary mission: *providing liquidity to the housing market.*

Thank you for the opportunity to share IBC's views on these matters.

INTERNATIONAL BANCSHARES CORPORATION

A handwritten signature in blue ink, appearing to be 'DENIXON', is written over the company name.

Dennis E. Nixon, President and CEO