



July 11, 2024

NORTH AMERICAN BANKING COMPANY

Federal Housing Finance Agency  
Division of Bank Regulation  
400 7<sup>th</sup> Street SW  
7<sup>th</sup> Floor  
Washington, D.C. 20219

Dear FHFA,

The undersigned represent members of the executive management team of North American Banking Company (Bank), a Minnesota state-chartered member of the Federal Reserve Bank of Minneapolis, located in Roseville, MN. We were established in 1998 as a de novo institution, and we currently maintain assets of approximately \$1.2 Billion. Our Bank has been a member of the Federal Home Loan Bank of Des Moines since February 2002.

Consistent with the mission of the FHLB (as codified by the Federal Housing Finance Board – FHFB) the FHLB of Des Moines has been a very important provider of financial products and services, to assist the Bank as a “Community Financial Institution” (with average total assets below the current statutory cap of \$1.461 billion), “in the financing of housing, including single-family and multi-family housing serving consumers at all income levels” and “community lending.” In addition, the FHLB of Des Moines continues to play a crucial role in providing liquidity for members like us, to support funding for our housing and community development activities, as well as providing support funding for our small business customers, as we are a “Community Financial Institution” as defined.

As such, we are strong proponents and supporters of the Federal Home Loan Bank System of the FHLB of Des Moines in particular. Therefore, we appreciate the opportunity to respond to your “Request for Input: Federal Home Loan Bank Core Mission Activities and Mission Achievement (RFI),” dated May 16, 2024.

We offer the following general comments in response to your RFI:

1. **The Introduction section of the RFI** cites from the FHFA-published: “FHLBank System at 100: Focusing on the Future (System at 100)” report, that “a key finding of the review was that the FHLBanks should increase their support for housing and community development. Clarifying the mission of the FHLBanks is an essential step in strengthening this support and implementing the recommendations in the Report.”

As the Federal Home Loan Bank Act, did not explicitly describe the mission of the FHLBank, rather the Federal Housing Finance Board (an FHFA predecessor regulatory agency), codified the FHLBanks' mission through its CMA regulation in 2000, and in light of the recent U.S. Supreme Court decision which overruled the Chevron deference doctrine, we do not support the efforts by the FHFA to "clarify the mission of the FHLBanks." Any clarification or restatement of the mission of the FHLBanks is the responsibility of the United States Congress, which is accountable to its voting constituents.

Furthermore, we do not support any efforts by the FHFA that would alter the types of institutions eligible for membership in the FHLB, or to alter the requirements for members to access liquidity and other products and services outside of alterations approved by Congress.

2. **In the opening statement of the Introduction section of the RFI**, the FHFA seemingly tries to establish a correlation between the facts that "FHLBank membership has shifted away from institutions with a strong focus on mortgage lending, and eligible collateral has broadened to include non-housing-focused assets" which has had the simultaneous effect of causing the significant "increase in the volume of unmet housing and community development needs."

As leaders in our communities who are closest to unmet housing and community development needs, we believe regulatory agency efforts to "clarify the mission of the FHLBanks" and to implement the recommendations of the "FHLB System at 100" Report would exacerbate those unmet needs, because those efforts would further restrict access to membership in the FHLBanks and would limit members' ability to access liquidity and other products and services used to meet the needs of our communities by those of us who are closest to those needs.

We further believe that clarifying the mission of the FHLBanks and implementing the recommendations of the "FHLB System at 100 Report" should fall well down the priority list of action items pursued to address the multi-faceted causes of unmet housing and community development needs across the country, relative to the following:

- addressing our country's legal and illegal immigration crises, which has decreased the supply of available housing.
- addressing our country's rampant drug and alcohol addiction crises, which has increased the number of unhoused.
- addressing our country's widespread shortage of mental health services which has increased the number of unhoused.
- addressing our country's inadequate support of our veterans, which has increased the number of unhoused.

- addressing the nation’s high costs of food and energy, which has disproportionately impacted those who are most vulnerable to unmet affordable housing needs.
  - addressing high interest rates, which has severely restricted access to affordable housing and the ability of first-time home buyers to purchase a home.
  - addressing the high costs of housing construction, zoning and regulation, which has negatively impacted the affordability of housing.
3. **The “Overview of Missions Provisions” section of the RFI** cites the Safety & Soundness Act’s requirement that the FHFA Director “take into account (the FHLBanks’) mission of providing liquidity to members.”

We would like to encourage the Director to update the 2008 baseline from which the CPI-U index used in determining the CFI Cap (currently \$1.461 Billion), to a more appropriate post-2008 level that reflects the significant consolidation and reduction in the number of financial institutions & FHLBank members in existence following the financial crisis of the ‘00s.

4. **The “Mission Statement for the FHLBank System” section of the RFI** contains the following statement: “One of the recurring themes expressed in the System at 100 Report is that there are two core objectives to the FHLBanks mission (a “mission” that was not defined in the Act of Congress – but through regulatory interpretation – see our point #1 above): providing stable and reliable liquidity to their members and supporting housing and community development. These objectives are not separate, and are instead related and overlapping.”

We believe the statements are separate and non-overlapping as written in the Federal Home Loan Bank Act, particularly as they pertain to CFI members, and they remain so until altered by Congressional action. (Sec. 1430 (a)(2)(B) of the FHLB Act).

The System at 100 Report recommendations seem to go to great lengths to try to inextricably link those two statements. If implemented, the recommendations would have the effect of reducing the volume of advances available to be made to CFI’s, that become non-CFI’s by virtue of being at or near the (low) CFI cap of only \$1.461 billion in average assets.

There are a significant number of community banks in this category, who may not have 10% of their assets in residential mortgage loans in order to maintain FHLB membership eligibility, but nevertheless support residential lending activities through their ownership of FHLB, Fannie Mae & Freddie Mac debentures and through their other traditional consumer and commercial banking product offerings to customers.

If member access to FHLB advances become more limited, by virtue of their agency securities holdings not counting towards the 10% mortgage loan threshold, it will create tremendous liquidity stress in the overall U.S. Banking system – and would create another financial crisis that would inevitably reduce the funding for residential housing and community development activities. FHLB members would be forced to curtail their lending activities due to reduced availability of advances.

Therefore, in response to the **RFI Mission Question One**: “How should the mission statement for the FHLBanks reflect the connection between liquidity provided by the FHLBanks and their support for housing and community development?”

We believe the mission statement should simply state that “an institution that is admitted to membership in the FHLBanks, by virtue of meeting the criteria for membership, is eligible to obtain long-term advances from the FHLBanks commensurate with the amount of eligible collateral pledged to the FHLBanks for purposes of fully securing the advance.”

In response to **RFI Mission Question Two**: “Are there components in addition to providing liquidity and supporting housing and community development that should be included in the mission statement?”

We believe the answer to that question should be a strenuous: “No!”

The incorporation of any (additional) component language in a mission statement would require interpretation of the will of Congress by the FHFA, with which we are in opposition as we state in our paragraph #1 above.

5. The “**Measurement of Mission Achievement**” section of the RFI describes several mission expectations (as developed and interpreted by the CMA and Finance Board in 2000) encompassing the FHLBanks’ roles in providing liquidity, supporting housing finance & community development, supporting programs that benefit lower income households & unmet housing needs, and conducting their operations consistent with the public interest.

The RFI notes that “the FHFA’s current approach to evaluating FHLBank mission achievement takes into account the provision of liquidity to members and housing associates but does not assess support for housing and community development activities.” The RFI contemplates the development, calculation, and implementation of a “core mission activities ratio” that would incorporate yet to be defined core mission activities in the numerator and FHLB debt securities in the denominator.

In response to **“Measurement Question Three (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?.....Should the type of collateral securing an advance be considered in evaluating advances?”

We strongly believe that **all** FHLBank advances count as core mission activities.

We emphatically believe there **should be no** limits or exclusions for advances or other activities involving members that have only a limited connection to housing and community development. Institutions that have met the criteria for membership in the FHLBanks, and whom have been admitted to membership in the FHLBanks, should be eligible to obtain advances from the FHLBanks, subject to the pledge of adequate collateral to secure the advances.

We also emphatically believe that **there should be no** additional consideration given to the “type of collateral” pledged in order to “evaluate” advances. If the collateral is eligible collateral under the law, and is in an amount sufficient to fully secure the advance, there is no need for any further “evaluation” before granting advances.

Any effort to limit or restrict the granting of advances to FHLBank members, such as those contemplated in the “Measurement of Mission Achievement” section of the RFI, would have the exact opposite effect of Congress’ stated objectives of “providing stable and reliable liquidity to their members and supporting housing and community development.” Inevitably, they would reduce the amount of advances (liquidity) provided to members, which in-turn, would reduce the overall levels of funding within the U.S. banking system that would otherwise be available to support housing and community development.

6. The **“Member Incentive Program”** section of the RFI contemplates the establishment of a “membership incentive program” that would “allow the FHLBanks to provide increased benefits to those members that demonstrate a meaningful commitment to housing and community development activity....these incentives could be contingent on a member institution operating consistently with the public interest, such as by not allowing members who are engaged in predatory, discriminatory, or unfair practices to benefit.”

We believe the products, services, and pricing offered by the FHLBanks, and utilized by its members, already provide sufficient incentives for FHLBank members to demonstrate their meaningful commitment to housing and community development activity. Creating an additional program via regulation is duplicative and unnecessary.

In addition, we believe that the implied concerns of the FHFA regarding FHLBank members conducting their operations consistent with the public interest are already being addressed through current regulatory compliance regulations, to which most FHLBank member institutions are subject.

We also believe that establishing an incentive program outside of FHLBank product offerings and pricing is unnecessary and unfair, as it would inevitably disproportionately benefit institutions that have a greater volume and frequency of opportunities in their local communities to utilize FHLBank advance liquidity products.

For instance, under any contemplated incentive program, it would be more likely than not, for an FHLBank member in an exploding suburban metro growth area, with lots of new housing construction activity, to have greater access to FHLB advances than there would be for a small community FHLBank member in a mature rural town to have.

Yet, it is these small community FHLBank members who are closest to the needs of the communities and it is these members who can most quickly respond to the needs of those communities in which they serve through products and services available from the FHLBanks. One need not look any further than to one week ago when the FHLB of Des Moines took steps to help its members adapt to serve their borrowers impacted by severe storms and flooding disasters in Iowa and Minnesota (see FHLB of Des Moines message to its members on 7/3/24). We do not believe an incentive program could be designed that could adequately accommodate, respond, and fairly reward an FHLBank and its members for providing this type of crucial community support.

Therefore, we do not support the establishment of an incentive program for the FHLBanks.

In conclusion, we believe proposing additional mission statements and regulations to be developed, interpreted, and implemented by the FHFA, outside of Congressional action, are duplicative, overly burdensome, and counter-effective in achieving the stated objectives of Congress contained in the "FHLB Act." As such, we do not endorse any such actions..

Sincerely,

Michael A. Bilski  
Chief Executive Officer

Bradley G. Huckle  
President & Chief Lending Officer

Joseph E. Polaczyk  
Chief Administrative Officer