

FHFA Initiative: *FHLBank System at 100: Focusing on the Future*
Listening Session #3
Comments by Richard Mroz

Introduction

- Good afternoon, and thank you for the opportunity to speak at today's session. I am Richard Mroz, an Independent Director on the Board of the Federal Home Loan Bank of New York.

Board Service Overview

- I first joined the Board of the FHLB NY in 2002, and now I believe I am the longest serving member in the System, but my tenure concludes this year when my current and final term ends.
 - I have seen our Bank and the System in good economic times as well as in times of crisis.
 - During my time I have served on all major committees, including Executive, Audit, Compensation, was an inaugural member of our Governance Committee, and currently serve on the Technology, Strategic Planning, and am Chair of the Housing Committee.
 - I also, separately from the Bank, serve on other corporate boards and have been an advisor in governance and am a Certified Director through the National Association of Corporate Directors.
- As my service to this Cooperative draws to a close, I am proudly doing what the FHFA is also doing with this initiative: looking back on the strong performance by and critical impact of the Home Loan Banks.
- But the purpose of this initiative, as my personal reflections are now turning, is to look forward and focus on the future of these vital institutions.
- But today let me keep focus on three important aspects of the Banks and the System
 1. The System as a flexible critical infrastructure that provides liquidity to main street America
 2. Corporate Governance and risk management of these enterprises and the System
 3. The important level of investment the System makes to affordable housing.

System Growth

- The year before I joined the Board, System advances stood at \$450 billion, \$58 billion of which was at the FHLBNY.
- In the 20 years since, I have seen System advances reach as high as \$928 billion, and FHLBNY advances surpass \$122 billion.
- That System number came in 2008, at the onset of the financial crisis. In New York, we hit our advance record in 2020 at the onset of the global pandemic.
- In both instances, at the start of a crisis, when other funding sources dried up and uncertainty reigned, local lenders across our District and across the country looked to their Home Loan Bank. In both times crisis the Federal Home Loan Banks were able to meet unprecedented funding demands from members when their communities needed it most – just as the FHLBs have done and as it was originally conceived.
- I have also been a Director long enough to realize that there are cycles to advance activity, such as what the System experienced last year, and which led to a small number of critics to question the System’s relevancy.
- But this is exactly how the Federal Home Loan Banks are designed to act - to seamlessly expand or contract based on member needs.
- And this is accomplished – by the nature of our capital; provided by our member-shareholders – unlike other government sponsored enterprises. The very nature of our System is driven by Purpose – not profit.
- Just as we were able to meet the unprecedented advance demand experienced at the onset of the pandemic and global financial crisis in 2020, so too we were able to handle the significant declines that followed, as prolonged federal stimulus and record levels of member deposits eased the need for funding.
- And today, we are able to meet the steady increase in advance levels experienced across the System throughout the first half of 2022, as members across the nation look to their reliable liquidity partner amid an increasingly volatile environment.
- For 90 years, the Home Loan Banks have served the needs of their members in all operating environments. The Home Loan Banks are critical during times of crisis, stable during calm markets, and dependable during all economic cycles.

FHLBank Governance

- Having served on our Corporate Governance Committee, I can tell you that strong attention to governance practices and processes is given throughout the institution. The Bank, as reinforced by the Board, has a critical duty to our members.
- Our members make an investment in their Home Loan Bank, and each Home Loan Bank in turn takes this role as steward of its members' capital seriously, managing the risk of its balance sheet with a focus on protecting this capital through a conservative, low risk profile.
- And unlike other enterprises and liquidity sources, the Banks are also responsible to manage a balance sheet and do so with robust governance and risk operations.
- The stability and strength of those balance sheets speaks to the strong governance practices of these institutions, and I know that every Director – whether a Member Director who has put up the capital, or an Independent Director like myself – takes this stewardship seriously.

Housing Mission

- While much of a Director's time is spent in the Board Room, some of the most rewarding time I have spent has been offsite - at groundbreaking and openings - of affordable housing initiatives that have been supported by FHLB NY grants.
- The FHLBanks and their members have a longstanding commitment to affordable housing.
- Since 1990, the FHLBanks have awarded approximately \$7 billion in grants to help meet the nation's affordable housing needs through the Affordable Housing Program ("AHP"), assisting nearly one million households.
- At the FHLB NY, through 2021, the AHP has supported nearly 2,000 projects with more than \$860 million in grants, helping to create or preserve nearly 97,000 units of affordable housing, leveraging an estimated \$15 billion from other funding sources.
- But those are just numbers. Anyone who has been at one of these events, toured these facilities, or met with the residents of such housing, can speak to the real impact of these dollars.
- At the Federal Home Loan Bank of New York, we know that a home is the foundation from which we grow - as individuals, families and communities.

- There is a tremendous sense of hope at these events; hope for the better life that a stable home can provide.
- But the AHP – which is funded with 10 percent of each Home Loan Bank’s annual income – is just the beginning of the System’s contributions to housing and economic development. Every Home Loan Bank has its own set of voluntary programs that go above and beyond the 10 percent of income, each tailored to the specific needs of their District.
- For example, at the New York Bank, we have provided disaster relief funding after hurricanes and flooding, have set up grant programs for local organizations impacted by natural disasters and the pandemic, and have funded zero-rate advances to support small business lending.
- As Housing Committee Chair which oversees the FHLBNY’s Community Investment and Affordable Housing activities, I am witness to the great attention that the FHLBNY gives to its housing mission.
- The mission is truly central to everything that the FHLBNY does, and something in which the entire staff – and Board – takes pride. This is a pride that I am certain is felt across the Federal Home Loan Bank System.

Closing Remarks

- It has been a tremendous honor to serve on the Board of the Federal Home Loan Bank of New York. And as my time on the Board winds down, I think of all my fellow Directors who I served alongside, and their comments upon leaving the Board. To a person, each has noted the professional and personal joy they got out of their role serving our cooperative.
- As I conclude my tenure it is with deep appreciation of the impact these cooperatives have been able to make over the past 90 years; and I am hopeful that they continue providing this vital role to the bank members; but more particularly to the people in our communities that they serve.
- So I offer a few suggestions for you to consider as you evaluate recommendations on the future of the Banks and the System
 1. Be deliberate in any changes that would drastically change the nature of the core focus of providing liquidity to qualified member financial institutions that serve local communities
 2. Consider any future changes to mission or programs and how that might affect the balance sheet of the individual banks as an ongoing business and if those changes expand potential risks to the banks and the system

3. Appreciate that the significant current level of funding to affordable housing and community programs - which comes directly from income of the Banks. And consider carefully suggestions that these requirements be expanded - which might have the unintended consequence of members reducing borrowings at the Banks.
- Thank you for the opportunity to provide these insights and I hope that this process will lead to conclusions that keep the FHLBs and the System strong and viable for the nation's financial system at large, for members, and for the communities they serve.

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