

October 18, 2022

Sandra L. Thompson
Director
Federal Housing Finance Agency
400 7th Street, SW
Washington, D.C. 20024

Dear Director Thompson:

I have had the honor of serving on the Board of Directors of the Federal Home Loan Bank of New York since December 2010, and as its Chair for the past five years. My experience with the FHLB NY started long before that, as president and CEO of FHLB NY member, Flushing Bank. As both a member and a Member Director, I have experienced both the external value of the Home Loan Bank and the internal efforts that make the FHLB NY, and the Federal Home Loan Bank System, a reliable source of funding for our nation's local lenders. As such, I am encouraged by the Federal Housing Finance Agency's similar focus on ensuring that this great System continues to be positioned to meet the needs of today and tomorrow, and I appreciate the opportunity to share my views on this most important effort.

The U.S. financial system has changed in the 90 years since the FHLBanks debuted. But the importance of reliable access to liquidity – and the need for safety and soundness in the providing of that liquidity – has not changed. That came through quite clearly over the three days of Listening Sessions that kicked off the *FHLBank System at 100: Focusing on the Future* initiative, with dozens of members from across the nation speaking to the critical nature of the funding their Home Loan Bank provides. That is also evident in rising Systemwide advance levels this year – borrowings that have returned to more normal levels as unprecedented federal funding draws from the market and financial institutions return to their trusted liquidity partner. This activity disproves claims made late last year that the FHLBank System had become irrelevant due to lower advance volumes during the pandemic. As a local lender, I know that access to dependable liquidity is always relevant. As a Home Loan Bank Director, I know that there is a delicate balance at the heart of the FHLBank structure, the preservation of which must be paramount in any enhancements made to the FHLBank System.

In his Listening Session testimonial, Thomas Vartanian stated that the structure of the FHLBanks is “brilliant”, explaining that “it’s a cooperative system, everybody has skin in the game, and all the decisions are made at ground level by local feet on local ground.” Indeed, the unique cooperative nature of the individual FHLBanks and the regional structure of the System encourages localized decision-making by those most knowledgeable of both the needs and the risks of the local market. To the extent that this initiative is able to identify opportunities to create efficiencies shared across the System, the System's regional structure should continue to support a national network of local cooperatives.

Equally important is the capital structure of the FHLBanks. The System has a public mission, but it accomplishes this mission with private capital. This is the ideal public/private partnership – private capital is leveraged to provide liquidity that benefits consumers and communities across the country, at no real risk or cost to the taxpayer. In fact, because FHLBank liquidity can be deployed with no increase to public debt or impact on inflation, it serves as both a consistent source of funding during normal market conditions and, as we saw in 2008 and most recently in 2020, serves in a valuable shock absorber role at the onset of a crisis – able to scale up or scale down, all without any negative ramifications to the broader economy.

The members' capital also plays a key role in the strong risk management practices of the FHLBanks, especially in the form of retained earnings. In my tenure on the FHLBNY Board, I served as the inaugural Chair of the Board's Risk Committee, for which the FHLBNY's retained earnings were a key focus area. Strong levels of retained earnings serve as an additional layer of protection for the FHLBanks – another buffer between the System and the taxpayer and one that, as its name implies, must be retained at strong levels in any future enhancements to the System.

Each FHLBank Board serves as a steward of our members' capital – both the Member Directors who own this capital, and the highly skilled Independent Directors who are experts in the fields of housing, law, risk management, technology and other key areas. Because of the cooperative nature of the FHLBanks and the System's regional structure, each Board is comprised of Directors who have direct ties to the communities each FHLBank serves.

In his remarks on the final day of the Listening Sessions, my FHLBank System Director colleague, F. Daniel Siciliano, Vice Chair of the FHLBank of San Francisco, stated that “a System with a strong emphasis on safety and soundness should, by design, not be expected to adapt to changing times quickly or smoothly but can instead, on reflection, evolve carefully.” I wholeheartedly agree with this assessment. At the FHLBNY, our Board is deeply involved in the Bank's strategic planning efforts – efforts that focus on ensuring that the Bank and the System are always relevant to our members, and responsive to their current and future needs. The *FHLBank System at 100* initiative is focused on the future, and it is through the careful and deliberate evolution of the FHLBank System that its stakeholders will all benefit from the continued stability of the System.

In recent years, and across all three days of the Listening Sessions, we have heard calls to expand the System's accepted collateral, its membership, and its mission. With regards to the potential expansion of FHLBank eligible collateral, it is important to note that assets differ significantly in their stability, volatility, potential obsolescence, acceleration of depreciation, and confidence in valuations at any given point in time. Additionally, to be effective as collateral, assets should be practically ownable and disposable in well-established markets. What makes the FHLBank System's currently eligible collateral so effective is the breadth and relative stability of its market, its well-established systems of valuation, and the ability to take ownership, and effectively dispose of, the collateral. To the extent that collateral eligibility is expanded, these key considerations should be retained to ensure that undue risk is not imposed on the FHLBank System through the underlying collateral that supports its debt franchise.

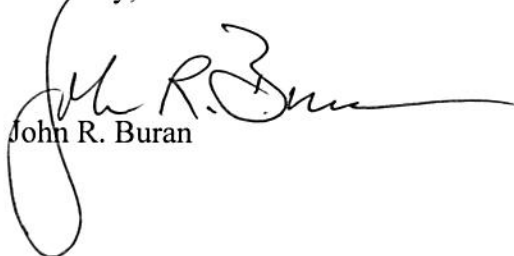
Of course, the true bedrock of the FHLBank System is its members, the prudential regulation of which provides the most important level of protection for our conservative, low-risk System. Just as the FHLBanks are strengthened by FHFA oversight, true prudential regulation of the FHLBank System's members creates a level of protection that collateral valuations or strong capital levels cannot alone provide. Any considerations towards expanding System membership must retain the balance that is provided by a membership that is prudentially regulated, with skin in the game.

Throughout history, we have seen instances where a successful institution expands into areas outside of its expertise, either stretching itself too thin or taking on too much responsibility, and crumbling under the weight of it all. Conversely, during his Listening Session remarks, Mr. Vartanian stated: "The Federal Home Loan Bank System represents the most successful story we can tell about the financial system in the last 100 years. They have fulfilled their mission laid out by Congress to the tee."

The FHLBanks have a narrow but critical mission: to provide on-demand liquidity to support housing finance and community investment in all economic cycles and operating environments. It is a mission that the FHLBanks execute on incredibly well, and one that they execute on every day. Executing on this mission requires that delicate balance that only a cooperative structure, whose members have local knowledge, are prudentially regulated and hold assets that support advances with strong collateral positions, can provide. To expand this mission into other areas – for example, climate and infrastructure initiatives or direct lending to small businesses – risks upsetting this delicate balance. The work that the FHLBanks do is vital, and they do it very well.

Thank you for the opportunity to submitting these comments. If you have any questions or would like any additional information, please do not hesitate to contact me. I am hopeful that, through this initiative, the FHFA, the FHLBanks and the System's many stakeholders will reach conclusions on enhancements that will ensure that the FHLBank System is a success story we will be able to tell for the next 100 years.

Sincerely,



John R. Buran