



October 19, 2022

Via Electronic Delivery to FHFA Comment Portal

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

Re: "FHLBank System at 100: Focusing on the Future" Request for Input

Dear Director Thompson:

The Illinois Bankers Association (IBA)¹ is writing on behalf of its members to discuss the "FHLBank System at 100: Focusing on the Future" project undertaken by the Federal Housing Finance Agency (FHFA). We are delighted to share our members' strong partnership with the FHLBank System, and particularly, the FHLBank Chicago (FHLBC). While the FHLBank System is perhaps the least visible GSE, it serves as a trusted and crucial partner for financial institutions in communities throughout Illinois and the country.

An Indispensable Community Banking Partner

Illinois consumers and businesses are fortunate to enjoy a thriving network of community banks, thrifts, and community development financial institutions (CDFIs). The FHLBC underpins and stabilizes these financial institutions and has worked for nearly a century to lift up communities in Illinois and Wisconsin by supporting traditional mortgage lending and providing stable, reliable access to capital. The FHLBC empowers Illinois banks and thrifts to expand services in their communities through advances backed by small business and agricultural loans, letters of credit to support housing projects and collateralize taxpayer funds, as well as a wide variety of community investment grants for affordable housing projects, down payment assistance, disaster assistance, capacity building, and other community support purposes.

The FHLBC played an especially critical role during the pandemic, when Illinois consumers and businesses relied on their local banking partners to meet payroll, secure real estate loans in a challenging market, collateralize municipal deposits, and keep our state's economy moving. Zero-interest rate advances, COVID relief, and targeted impact grants are just the latest examples of how the FHLBC steps up when needed the most.

The U.S. is unique in having a robust system of community banks that provide American consumers with a wide variety of choices and options for their financial needs. The FHLBank System plays an indispensable

¹ The Illinois Bankers Association is a full-service trade association dedicated to creating a positive business climate for the entire banking industry and the communities we serve. Founded in 1891, the IBA brings together state and national banks and savings banks of all sizes in Illinois. Over 52% of IBA members are community banks with less than \$250 million in assets, and over 75% of IBA members are community banks with less than \$750 million in assets. Collectively, the IBA represents nearly 90% of the assets of the Illinois banking industry, which employs more than 105,000 men and women in over 5,000 offices across the state.

role behind the scenes in preserving and strengthening local community institutions as they serve their customers and communities.

A Leader in the Midwestern Affordable Housing Ecosystem

Affordable housing investment is central to the FHLBanks' mission. Locally, the FHLBank Chicago's Community Investment programs provided more than \$45 million during the pandemic in affordable housing, community and business grants, and small business loans in rural and urban areas throughout Illinois and Wisconsin — including working with local banks to develop dozens of affordable rental units in Chicago, Peoria, and Taylorville, Illinois.

Further, the FHLBC offers a diverse suite of mortgage lending services, including access to the secondary market, direct investments in affordable housing construction projects, and accessible down payment and closing cost assistance to help income-eligible customers achieve homeownership.

The System's Structure and Membership is Critical to Its Success

The FHLBC and its peers are cooperative organizations, jointly owned by their members. Member institutions are direct shareholders of their regional FHLBanks and supply the capital needed for the FHLBanks to fulfill their congressionally chartered mission, perform their lending activities, and provide resources to meet regional affordable housing needs. This cooperative structure compels the FHLBanks to tailor their offerings towards the community needs of their region and ensures the stability of the System.

We understand that there is a desire by some parties to expand FHLBank membership to additional non-depositories, such as independent mortgage brokers, Real Estate Investment Trusts, financial technology (fintech) and cryptocurrency firms, or other businesses. Our members believe that the heart and soul of the FHLBank System is and should remain depository institutions. The System was intended to form a cooperative relationship with well-regulated, highly stable depository institutions, ensuring that these firms remain secure during economic crises and have the tools necessary to meet the needs of their customers.

Shifting the System away from this well-tested structure — and worse, towards the priorities of untested, unregulated, or illiquid players in the financial market — jeopardizes the FHLBank System's stability and its ability to serve local communities. Expanding membership potentially weakens the mission focus of the FHLBanks and creates unnecessary risks in the System following ninety years of soundness and strength.

Regional Focus Means Better Community Service

The FHLBank System is organized into regional banks, with separate boards of directors, management and staff. In Illinois, the FHLBank Chicago combines the expertise of local bankers with local community leaders who understand the housing and finance challenges of Illinois and Wisconsin. The regional nature of the System also allows for greater innovation and experimentation among the various FHLBanks than a unified national enterprise permits. This is a strength of the System that should be preserved.

The decentralized, cooperative regional bank structure is a critical driver of the System's success. It results in stable sources of capital and tailored benefits to banks and their communities through innovative product offerings and strategic affordable housing investments. Continued local control of the regional banks ensures that they are responsive to community needs in our rapidly-shifting financial marketplace.

Conclusion

The FHLBank System has served as a stable, proven partner for community banks, thrifts, and CDFIs through unprecedented economic cycles and seismic shifts in our nation's financial markets. It allows our member banks and thrifts to provide Illinois communities and families with affordable mortgage and small business loans through advances, letters of credit, down payment assistance, local affordable housing investments, and specialized mortgage lending initiatives.

We believe that the System's regional structure, its cooperative membership, and its continued focus on serving local, community depository institutions are the keys to its longevity and stability. The System has worked well for 90 years and nothing suggests significant changes are needed or desired. We urge the FHFA to celebrate the successes of the FHLBanks and to support and promote its current structure and mission well into its next one hundred years.

Thank you for your consideration of our comments, and please let us know if you have questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Benjamin Jackson". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Ben Jackson
Executive Vice President