MBA
MISSOURI BANKERS ASSOCIATION

Missouri Bankers Association

October 24, 2022

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

RE: Comment Letter of Missouri Bankers Association FHLBank System at 100: Focusing on the Future
Via: https://www.fhfa.gov/AboutUs/Contact/Pages/Request-for-Information-Form.aspx

Dear Director Thompson:

The Missouri Bankers Association appreciates the opportunity to comment on the six areas listed in your announcement initiating a forward-looking review for the mission and service of the FHLBanks. The MBA appreciates your effort as a prudential regulator to gather this information. This review could inform Congress of needed changes, if any, in mission and service that meet the needs of customers and communities which is a key to safety and soundness.

The MBA and our members value and have the highest regard for the FHLBanks and especially our FHLBank Des Moines. We preface our comments by identifying four key-strengths of the FHLBanks. These strengths should always be maintained within the FHLBanks and membership.

1. Decentralized Structure.

   The FHLB system is a de-centralized regional structure with eleven independently managed FHLBanks. Each FHLBank necessarily develops expertise, knowledge and relationships that are unique to their communities to deliver the highest quality services.

2. Sound governance.

   The FHLBanks tap deep banking knowledge and skillsets provided by their member directors plus diverse skills, knowledge, and inputs that their member and independent directors collectively bring to the FHLBanks. Member directors are bankers who are steeped in business, finance, and legal risk management and thoroughly familiar with regulatory requirements. Independent directors are selected to bring relevant knowledge, skill sets and wisdom to the board. The banks are profitable, well risk rated, hold abundant collateral, and have strong membership support.

3. Prudential supervision and regulatory capital standards.

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The FHLBanks and their members all operate under prudential supervision and regulatory capital standards. The FHLBanks, members and regulators have developed prudential banking standards, policies, and practices over decades that are foundational for the FHLBanks and the members. Prudential supervision and regulatory capital standards allow the effective management of risk and response to financial stress.

4. Member ownership and community investment.

   As member cooperatives, the interests of the FHLBanks align with the interests of their members. The FHLBanks are accountable to their members. The ownership structure promotes profitable operations that in turn support substantial investments that the FHLBanks make in their communities though affordable housing and community development programs. Investing in communities served by each bank deepen the ties and knowledge of the FHLBanks for their members, communities, and regional economies.

The FHLBanks proved the benefits of their decentralized structure, their qualified, diverse, and independent leadership, prudential standards, member ownership and community investment when they responded to member needs in the 2008 financial crises and the resulting Great Recession. The FHLBanks served their members and communities when other GSEs and money center institutions locked-up or failed.

Feedback to FHFA Six Key Areas

1. FHLBanks' general mission and purpose in a changing marketplace.

   The FHLBanks serve their members: Commercial banks, insurance companies (that meet housing finance criteria), savings institutions, credit unions, and community development financial institutions. Primarily the banks provide liquidity to members that underpin housing in the United States.

   The MBA does not see any need or basis to change the FHLBanks mission.

2. FHLBank organization, operational efficiency, and effectiveness.

   Our opening comments above describe the governance, member ownership and community mission of the FHLBanks. Each bank has a board made up of member directors and independent directors. Each FHLBank is accountable to their communities through their members. As a result of these binding ties to their members and communities each banks' internal organization, operational efficiency, and effectiveness are continually optimized in response to the members and the communities served.

   The MBA does not see any need or basis to change the inputs and structures that continually operate to evolve the FHLBank organization, operational efficiency, and that determines effectiveness. These matters are primarily vested in the members and the FHLBank boards.

3. FHLBanks' role in promoting affordable, sustainable, equitable, and resilient housing and community investment.

FHLBanks' success in promoting housing and community investment is evidenced by the very resiliency, evolution and adaptation exhibited by the banks over their 90-year track record.

Each of the banks promote affordable, sustainable, and equitable housing and community investment through dedicated programs for community investment, affordable housing and down payment and closing cost assistance. In 2021 the FHLB Des Moines provided $119,700,000 for Missouri affordable housing that supported 15,014 units; and down payment and closing costs assistance of $14,900,000 that supported 3,321 units. Our MBA members and FHLB member banks serve as the conduits to draw these funds to their communities and to their customers. Many of these units not only sourced affordable housing but promoted local economies by providing essential housing to support work force development programs of the State of Missouri and its communities. These critical and beneficial state impacts can be reviewed at https://www.fhlbdm.com/about/state-impact/ for each of the Des Moines bank's states (13) and US territories (3).

These programs are in part mandated under the FHLB charter authority, but they are adapted, made efficient and effectively targeted by FHLBank *members*. No centrally planned, directed or rigidly legalistic program can match the impact of the FHLBanks' direct engagement of communities through their member institutions.

The MBA does not see any basis to change or compromise the FHLBanks' success in promoting affordable, sustainable, equitable, and resilient housing and community investment. Any change should only be as recommended by the boards of the various banks with input from their members.

4. FHLBank's status in addressing the unique needs of rural and financially vulnerable communities.

The FHLBanks and their member institutions are closely connected to their communities and address their unique needs in all markets, including rural communities and financially vulnerable communities *because the banks and members, and their leadership teams and employees live, work, play and worship in these communities.*

The most significant membership of the FHLBanks is made up of banks and savings institutions. The members are measured by and report their community and fair housing investments under such regimes as the CRA and HMDA, and the banks are compliant and well-versed in fair lending and equal credit opportunity requirements. No other housing industry participant or group is subject to, nor rises to the level of the FHLBank member banks in community and fair housing investments and assuring that every citizen has access to housing finance on fair and non-discriminatory terms.

The FHLBanks support their bank members in their mission, tasks, and objectives. The FHLBank of Des Moines also internalizes and practices the same community engagement and awareness as their member banks. See the "about" tab at: https://www.fhlbdm.com/about/corporate-citizenship/

The MBA commends the FHLBanks' commitment to their member communities, including the unique needs of rural and financially vulnerable communities. The FHLBanks' unique ownership *structure supports this critical service. The banks are effectively owned as much by their members' communities as by their members. The MBA does not see any basis to change or interfere with the FHLBanks' valuable services to rural and financially vulnerable communities.*

5. FHLBank's status for products, services, and collateral requirements.

   The impetus for changes in products, services, and collateral requirements should come from the members through the FHLBank boards. An example of the need for the banks and their boards to have primary authority is the recent issue presented using tangible capital in assessing a commercial bank's credit worthiness for purposes of issuing advances. I direct you to the October 18, 2022, letter submitted by the American Bankers Association and the Independent Community Bankers Association and their state sister associations including the Missouri Bankers Association. The FHLBanks know and are responsive to the urgencies presented and can readily adapt under the direction of their boards with prompt FHFA authorization.

   In this case prompt action to adopt Tier 1 capital in lieu of tangible capital will address FHLBank member concerns and will align the FHFA and FHLB system with the regulatory capital standard used by the Federal Reserve System, FDIC and OCC. This standard is closely and regularly reviewed and tested.

   As of the writing if this letter, we do not know if the FHFA will support the FHLBanks and their members as requested by ABA, ICBA and their member banks to avoid economic dislocation in our communities. This *boots on the ground awareness* of the issue and rapid response is one of the hallmarks of the FHLBanks and a key basis for their success and sustainability.

   The MBA supports the present status for products, services and collateral requirements, and products, services and collateral requirements be member and FHLBank determined and driven. The MBA urges to FHFA to move promptly to implement the adoption of the Tier 1 capital standard.

6. Membership eligibility and requirements.

   FHLBank members are prudentially supervised and regulated institutions. The FHLBanks themselves are prudentially supervised and regulated institutions. The foundation of the FHLB system rests on the bedrock of safety and soundness which leads to the banks' 90-year success story.

   Today, non-supervised, investor funded mortgage banking companies collectively have gained a majority position for housing loans in the United States. These entities do not operate under prudential regulation. They are not subject to regular compliance examination. They are not under community reinvestment requirements. They are not regularly scheduled and subject to consumer compliance examinations as are banks.

   Their market advantage is a result of low entry barriers and low regulatory and compliance burden that lowers costs and allows for rapid implementation of technology and unhindered product innovation. Mortgage bankers can also scale up or down or even exit the marketplace as conditions and legal risks dictate.[1] Such potentially transient lenders should never have membership level access to the FHLBanks.

Any expansion of membership should only include institutions under equivalent prudential supervision, regulatory capital standards, and documented compliance reviews consistent with current membership profiles. Acton otherwise would introduce undue and unbalanced risk into the system. In addition, non-supervised market participants that already possess a regulatory arbitrage advantage over FHLB members should not be extended membership status which would only further the imbalance in competition. These institutions also do not face the same entry barriers, prudential oversight and requirements, or community investment standards as bank members under the CRA, HMDA, fair lending law, equal access to credit laws and coming soon "section 1071" small business lending data collection.

The MBA does not presently support change to member eligibility and requirements.

Thank you for the opportunity to provide you these comments.

Sincerely,

Max Cook
CEO

Jackson Hataway
President

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[1] A Pennsylvania mortgage company (Trident Mortgage) owned by billionaire Warren Buffett's Berkshire Hathaway discriminated against Black and Latino homebuyers in Philadelphia, New Jersey. The DOJ and CFPB obtained the second-largest redlining settlement ever with the company setting aside $20 million dollars as part of an agreement to make loans in underserved communities. Buffet promptly closed Trident and the settlement lending agreement was outsourced. https://www.cbsnews.com/news/trident-mortgage-homeservices-berkshire-hathaway-warren-buffett-discrimination/