

FHLBank System at 100: Focusing on the Future

OCTOBER 2022



FHLBANKS
A NATION OF LOCAL LENDERS



Dear Director Thompson,

On behalf of the Council of Federal Home Loan Banks, and with the unanimous support of the eleven Federal Home Loan Banks (FHLBanks), I am pleased to submit this letter as a response to the Federal Housing Finance Agency's (FHFA) review of the FHLBanks. The FHLBanks welcome the opportunity to listen to the suggestions from our broader stakeholders including our members, communities and thought leaders, and to chart a course for the future.

The FHLBanks' mission is to provide reliable short-term liquidity and longer-term funding to member institutions to support housing finance and community investment. By delivering on that mission, we play a central role in the United States' financial system – unlocking credit and home ownership in communities across the United States.

By performing our core function of providing members with reliable liquidity and funding support – acting as a shock absorber in times of crisis – we foster diversity and stability in the United States financial system. The FHLBanks' regional structure particularly supports smaller financial institutions, including banks, credit unions, community development financial institutions, and insurance companies, who would be limited in their ability to serve their communities without access to our liquidity and funding options. Our operations enhance home ownership through increased mortgage lending, support for affordable housing construction and rehabilitation through the Affordable Housing Program (AHP), and through voluntary grants for housing and economic development.

Our membership is diverse with different types of prudentially regulated financial institutions, big and small. This diversity enables the FHLBanks to be financially stable and reliable across all economic cycles while supporting contributions to the AHP and other, voluntary programs.

The FHLBanks' Government-Sponsored Enterprise (GSE) status, self-capitalized cooperative structure with joint and several liability, rigorous approach to risk management, and effective independent oversight by the FHFA, are key to our competitive debt franchise. This is core to our ability to serve our members across all economic cycles including in times of financial crisis.

As our members and their needs have evolved over time, so too have we, with investments in technology, changes to collateral standards and practices, enhancements to product offerings, and progress on diversity, equity, and inclusion. We do all of this with leading efficiency levels, while retaining the expertise needed to meet the complex needs of our members, stakeholders, investors, and regulators.

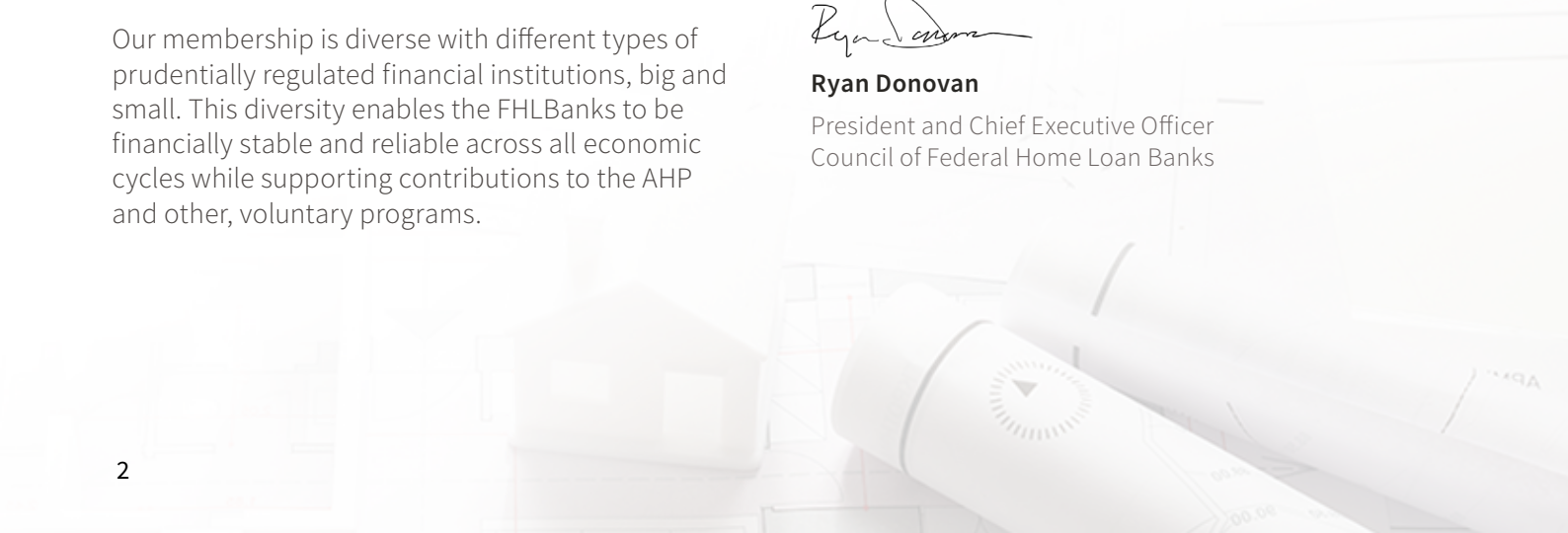
The FHLBanks have a positive impact on members and communities across the entire United States. This is underpinned by our ability to provide the products and services our members need, and to effectively manage our risk in a changing marketplace.

We are proud of the way the FHLBanks have evolved to meet the needs of local lenders and communities, and we see the FHFA review as a next step in that evolution. As the FHLBanks approach their centennial, it is appropriate to consider how our mission and role could be enhanced to meet the needs of today and tomorrow. Working together, we will ensure that the FHLBanks continue to fulfill our mission, support our members and communities, and strengthen our country for the next 90 years.

Yours Sincerely,

Ryan Donovan

President and Chief Executive Officer
Council of Federal Home Loan Banks





1 The FHLBanks support our communities by providing our members with reliable financing – unlocking credit and home ownership

Since 1932, the FHLBanks - eleven regionally based, independently operated, cooperatively owned and privately capitalized liquidity providers - have fulfilled their critical mission. This mission is to provide reliable on-demand liquidity and longer-term funding to support housing finance and community investment in all economic cycles and operating environments.

Our activities support housing directly, through mortgage programs and housing finance, and indirectly, by accepting housing-related collateral in exchange for liquidity and funding. Most of the eligible collateral pledged to the FHLBanks for member advances is housing related collateral which ensures our members are connected to the success of the US housing market.

The FHLBanks serve ~6,500 members – including banks, credit unions, insurance companies and CDFIs – across the United States. We play an essential role as a liquidity provider by offering three main products:

Advances: We provide advances to members for their liquidity and funding needs – originating an average of approximately ~\$5T a year across the 11 FHLBanks - from 2019-2021.

Letters of Credit: We offer members letters of credit to enable them to secure obligations, principally public deposits from state and local governments, that enable many smaller financial institutions to keep funding within their community. In 2021 we originated ~\$880B in letters of credit across the 11 FHLBanks.

Mortgage purchase: We purchase mortgages from members, especially smaller members, which provides them liquidity and helps them manage interest rate risk, prepayment risk, and credit risk. We often act as a conduit for smaller lenders to access Fannie Mae and Freddie Mac. In 2021 the FHLBanks’ purchased ~\$21B in mortgage assets across nearly 100,000 loans.

Our liquidity and funding support the unique structure of the United States financial system, where thousands of smaller, community lenders co-exist alongside larger, national institutions. Without access to our funding, financial institutions, particularly smaller ones, would be limited in their ability to lend to the communities they serve and would be more vulnerable to macro-economic shocks.

VOICE OF STAKEHOLDERS: The FHLBank System is a vital liquidity partner to financial institutions around the country, enabling them to provide real impact to their communities

“ The banks were in many ways the unsung heroes of the global financial crisis. ”

James Lockhart
Senior Fellow, Bipartisan Policy Center

“ If we didn’t have access to FHLB advances, we’d have to hold much more liquidity on our balance sheet and significantly reduce our lending in our communities. ”

Jason Meyerhoffer
CEO, First Federal Savings Bank (Idaho)



VOICE OF STAKEHOLDERS: The FHLBank System is a vital liquidity partner to financial institutions around the country, enabling them to provide real impact to their communities (cont.)

“ As a community banker, I viewed the mission of the Federal Home Loan Bank of Dallas as being that liquidity partner for us in community development. ”

Victor Pierson
*Chairman, President & CEO,
Moody National Bank*

“ Our Federal Home Loan Bank helps us to manage our liquidity easily with just a phone call. ”

Simone Lagomarsino
CEO, Luther Burbank Savings

“ The Federal Home Loan Banks have provided critical liquidity to credit unions, including many smaller community lenders that often do not have access to other sources of low-cost funding. ”

Aminah Moore
Senior Regulatory Affairs Council, NAFCU

Beyond providing liquidity, we invest in our communities. This investment comes from both a statutorily mandated contribution of 10% of earnings (as a floor) to the Affordable Housing Program, and additional voluntary programs. The AHP has two funding outlets, a competitive application program and a home ownership set-aside program. Between 2019-2021, the FHLBanks contributed \$885M in AHP.

In addition to the AHP, FHLBanks offer voluntary programs that create positive impact in their communities. Between 2019-2021, the FHLBanks contributed over \$190M to voluntary programs. These programs are tailored to the needs of each district and include support for housing development, homeownership, small businesses, and disaster relief. Voluntary programs have the flexibility to be created and deployed rapidly. In 2020, multiple COVID disaster relief grants were created, including programs that helped members participate in the Paycheck Protection Program (PPP) with confidence.

VOICE OF STAKEHOLDERS: The FHLBank System provides invaluable support to members to offer affordable housing to their communities

“ We’ve used affordable housing program grants in tribal communities for low-income housing tax credit projects, we’ve sponsored five AHP grants, totaling over \$2 million. ”

Jeff Bowman, *CEO, Bay Bank*

“ I’m here, first and foremost, to sort of reiterate how important this source of funding AHP program is. For us in our work, I would estimate that approximately half of our developments end up using this resource and it’s incredibly helpful. ”

Andrea Osgood, *SVP, Eden Housing*



VOICE OF STAKEHOLDERS: The FHLBank System provides invaluable support to members to offer affordable housing to their communities (cont.)

“ Here in our district since 2012, the Federal Home Loan Bank of San Francisco has funded over 40,000 affordable housing units, and **making over 5,000 borrowers achieve the dream of homeownership for the first time.** ”

*Tyrone Roderick Williams
CEO, Fresno Housing Authority*

“ Through a forgivable down payment program, **we were able to assist over 100 families in our communities, with more than a half a million in grants** to help them achieve their dream of homeownership. ”

*Michael Zahn,
CEO First Federal Savings Bank (Indiana)*

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By performing our core function of providing members with liquidity support every single day of the last 90 years - including as a shock absorber in times of crises – we underpin stability in the US financial system

Our members and their local communities rely on us to provide advances, which we do to the tune of trillions of dollars each year . These FHLBank advances fund economic activity in communities— home loans, business loans, real estate, and other lending. Access to the FHLBank System enables members to maintain higher loan to deposit ratios, resulting in more credit and greater impact in their communities. Through our access to the debt markets, the FHLBanks can quickly meet the liquidity and funding needs of our members. This enables our members to lend with confidence, knowing they have a source of reliable liquidity when the need arises. Leading rating agencies such as Moody’s recognize the ‘special role’ FHLBanks play in providing liquidity to the financial system, most recently demonstrated in Q1 2020 during COVID market distress .

The FHLBanks were designed to be dynamic through the self-capitalizing nature of member advance activity, expanding and contracting as the needs of member financial institutions and their communities change over time. This scalability was on display during the 2018-2021 period, where advances

originated fluctuated by approximately 250% in response to changing needs.

The FHLBanks act as a risk mitigant in the US financial system, often playing the role of a ‘shock absorber’ – providing members with liquidity when other sources may not be available. For example:

During the Global Financial Crisis, from Q2 2007 to Q4 2008, advances outstanding increased by \$258B (40%), helping support many smaller financial institutions. The FHLBanks were the largest source of crisis-related liquidity to the financial system until the Federal Reserve intervened in March 2008.

During the early stages of the COVID-19 pandemic, prior to Federal Reserve and legislative intervention, advances outstanding rapidly increased by \$158B (25%) in Q1 2020, the majority of which occurred in the last few weeks of March, 2020 . This shows the “first responder” status we hold in the market, helping create stability and security.

CASE STUDY: FHLBanks stepped in to rapidly respond to address community liquidity and funding needs during the COVID-19 pandemic

Developing new programs for the community

FHLB Cincinnati created the RISE Program, a dedicated offering of \$2B in six-month advances at 0% interest to support COVID-19 related assistance.

“ The **RISE Program was a tremendous help** to our bank as we worked around the clock **to keep paychecks in the hands of workers in the communities we serve.** Thank you FHLB Cincinnati for helping us help others. ”

J. Wade Berry, President & CEO, Farmers Bank & Trust Company

Enabling participation in Paycheck Protection Program (PPP)

Providing liquidity to our members supported the distribution of PPP during COVID

“ **Without (FHLB San Francisco), we wouldn't be in the Paycheck Protection Program.** ”

James Beckwith, President & CEO, Five Star Bank

The FHLBanks also support their communities when local crises hit. For example, we can offer effective and tailored support in case of natural disasters, such as hurricanes, storms, and wildfires.

CASE STUDY: FHLBank Dallas supported the recovery after Hurricane Katrina

Hurricane Katrina caused over \$150B in property damage. FHLB Dallas served as an important source of liquidity for local members in their time of need.

“ We were able to **help a lot of people with the funding that the Federal Home Loan Bank put out.** We wouldn't be where we are today as a community without the support of FHLB Dallas and so many other people and organizations who opened their hearts and wallets to help. ”

Brian North, SVP, Fifth District Savings Bank

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Our regional structure particularly supports smaller, community lenders – who would be limited in their ability to serve their communities without FHLBanks

The vast majority of FHLBank members are smaller financial institutions; ~95% have assets under \$10B and ~60% are Community Financial Institutions with assets under \$1.323B, for whom the FHLBanks act as a key pillar of financial support. This in turn allows our members to provide their communities with increased access to credit and housing. These smaller members include financial institutions serving rural communities and other underserved communities. Our smaller members consistently highlight the critical role the FHLBanks play in enabling them to stay competitive and offer credit to their consumers.



VOICE OF MEMBERS:

The FHLBanks are a reliable partner to smaller financial institutions



“ In times of disruption, having the Bank as a strong partner is even more essential. We’re dealing with pretty significant liquidity issues, and **FHLBank San Francisco advances are important to financing** on an interim basis – an absolutely necessary step. ”

James Beckwith
President and CEO,
Five Star Bank



“ Advances are an integral part of our wholesale funding strategy. They help us meet both short- and long-term liquidity needs. **For decades, our bank has turned to FHLBank Boston for funding because they are a reliable partner and offer ease of execution.** ”

Cristian A. Melej
VP, CFO, Hingham
Institution for Savings



“ [FHLB New York] treated our very small credit union (\$15 million in assets) and our Board of Directors the same way as they treat any other financial institution. It was a great experience and we are very thankful. ”

Mira Ness
President & CEO, NYU Federal
Credit Union, New York, NY



CASE STUDY: FHLBank Des Moines reaches Native communities with a CDFI partnership

“ Thank you to the Bank and the Foundation for helping to build thriving Native economies. Stay with us! ”

Audra Tonihka,

VP of Lending White Earth Investment Initiative

FHLB Des Moines began a 5-year commitment with Northwest Area Foundation by committing \$5M in 2017. Since then, 18 CDFIs have received grants. During 2021, these organizations made 385 loans to Native Americans within FHLB Des Moines district, creating more than 300 jobs.

Our mortgage purchase programs particularly support smaller institutions in lending to their local communities. On average, nearly 75% of mortgages FHLBanks purchase are originated by Community Financial Institutions.

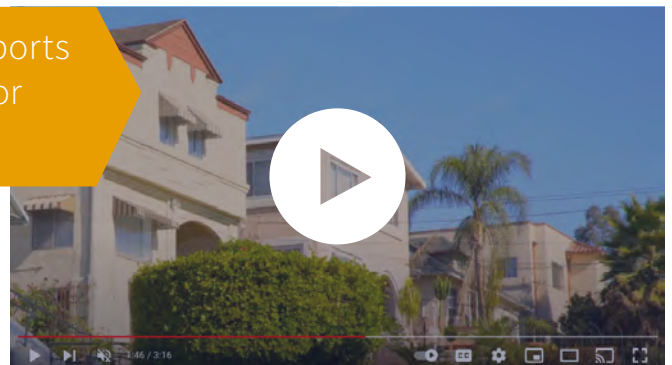
CASE STUDY: FHLBank San Francisco supports housing finance for communities in need for members such as Broadway Federal Bank

“ We aim to **serve the working poor**, and that’s our clientele. **If we didn’t have access to the banks** and that credit availability, we literally would be **out of business.** ”

- Wayne Bradshaw

Chairman of the Board,

Broadway Financial Corporation



[Click here](#) to listen to a story from one of our members

Community banks also leverage FHLBanks’ Community Investment Cash Advance (CICA) programs to fund projects such as commercial, industrial, manufacturing, social services, and public facilities that are critical to their communities. In 2021, the FHLBanks funded approximately \$1B in community economic development projects through CICA. The FHLBanks recognize that small businesses are the foundations of our communities and local economic development. Our voluntary programs include small business development grants, discounted advances, and soft/deferred loans that support small businesses in both sustaining and growing their operations.



CASE STUDY: FHLBank Indianapolis uses its Elevate grant to support small businesses

FHLB Indianapolis provided \$20K to Power Up LLC in 2021. Power Up LLC provides uninterrupted emergency power solutions to customers, such as hospitals and factories. Power Up LLC used the grant to send four employees to enhanced skills training and purchase new equipment for testing products.



Our smaller members play a key role in governance of the FHLBanks and help ensure our close connection to the communities we serve. Across the FHLBanks approximately 85% of member directors are from smaller financial institutions with under \$10B in assets. Each FHLBank also has an Affordable Housing Advisory Council, made up of non-profit and community leaders, who are actively engaged in housing and community lending. They advise their respective FHLBank on how best to support affordable housing and community economic development in their regions. Our regional structure and the diversity on our Boards and Affordable Housing Advisory Councils enable us to stay close to the needs of our communities and respond to local challenges.

CASE STUDY: FHLBank Boston created a Jobs for New England (JNE) program to help small businesses create and retain jobs



More than 130 members have applied for at least one of the various JNE programs – traditional, grants, working capital, and other programs since inception in 2016. The total includes 98 members with disbursed or current year approvals from the traditional 0% advance JNE program. JNE advances help to create or retain jobs and expand small businesses owned by women, minorities, veterans, or disabled persons. Ledyard National Bank in New Hampshire used JNE to help a veteran-owned bakery retain 44 jobs.

VOICE OF MEMBERS: Supporting rural members and communities

“ Since I came on board at Partnership Housing in 2012, we have completed 350 rehabilitation projects. Those range from \$5,000 rehabs to \$65,000 rehabs... **We partner with dozens of local, state and regional public and private partners, including Federal Home Loan Bank of Cincinnati, and its community lenders. These networks are very vital to our ability to serve our rural population.** ”

Cassie Hudson, Executive Director, Partnership Housing Inc



VOICE OF MEMBERS: Supporting rural members and communities (cont.)

“ There is no doubt **because of the seasonal nature of the crops we grow**, cotton, soy beans, rice, and corn, **we could not provide the liquidity necessary for our seasonal demand for funds**, which almost doubles during the growing season. The **advances we can access at the Home Loan Banks** allow us to make the longer-term loans for housing, farm equipment, and agricultural land that **supports our community**. ”

Fred Miller, Member of Board of Director, Bank of Anguilla, MS

Due to the nature of the ag business cycle, the **demand for funding can be inconsistent** throughout the year,” said Moore. “**We experience a great deal of line usage in the spring and summer, with pay-downs beginning after harvest** in the fall through the first few months of the following year. This cycle creates short-term funding needs on an inconsistent basis. **FHLBank Chicago provides exactly what we hope to provide to our client base:** ease of doing business, responsiveness, fair pricing, follow-up, and support. ”

Stacy J. Moore, President, The Peoples State Bank



VOICE OF MEMBERS: Support for smaller members such as the People’s Bank of Seneca - a \$360 million bank, in Seneca, Missouri

“ What makes our bank a little bit unique is that we’re majority owned by the Eastern Shawnee Indian Tribe of Oklahoma... **the Federal Home Loan Bank of Des Moines who we’ve worked with, is a true partner. They have been instrumental in our banks survival**, instrumental in our bank’s growth, and instrumental in what we’re now doing, which is thriving. ”

“ **We’ve also over the years, worked closely to be a sponsor with several local Native American tribes, as well as some groups that specialize in low-income housing and elderly housing.** And we’ve sponsored them, they’ve received grants that have truly made a difference in our communities. ”

Deron Burr, President & CEO, People’s Bank of Seneca

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Our support to members helps enhance home ownership through increased mortgage lending by smaller financial institutions, support for new housing construction, and customized voluntary programs

FHLBanks support home ownership in multiple ways – providing liquidity and funding for the overall financial system, directly purchasing mortgages from members, and contributing to the AHP, Community Investment Program (CIP) and voluntary programs.

Purchasing mortgages from members directly promotes lending and supports families throughout the nation to become homeowners. In 2021 we had over 1,000 member or housing associates approved to sell us mortgage assets and we purchased nearly 100,000 loans, with many coming from smaller lenders in rural communities who would otherwise not have the ability to offer these loans or offer them competitively.

“ The Mortgage Partnership Finance Program (MPF)[®] Program is essential to the continued success of our fixed rate mortgage lending program. The flexibility of the products offered, along with the competitive rates are what we value most through our partnership. ”

Mary Coy
Chief Executive Officer



“ The MPF Program keeps us competitive in the markets we serve through their unique mortgage products. The fact that we are able to retain servicing is an important feature that allows us to keep that ‘small town bank’ feel as we continue to develop customer relationships. ”

Joni Jorgenson
Vice President / Mortgage Lender



Each FHLBank directs 10% of its earnings to the Affordable Housing Program by mandate. AHP funds support low-income households as well as vulnerable populations, including the homeless, people with special needs, and people recovering from substance or physical abuse.

The AHP offers grants to fund single-family and multi-family construction and a set-aside program to help future homebuyers with down payments. Since 1990, the AHP has resulted in \$7B in grants and subsidized loans nationwide. In 2021, the FHLBanks supported over 30,000 housing units, granting a total of ~\$350M through AHP. Since inception, the AHP has supported the creation, rehabilitation, or purchase of almost ~1M affordable housing units, as of 2021. This has had a profoundly positive impact in supporting communities and vulnerable populations across the United States.

CASE STUDY: FHLBank Atlanta uses CIP to invest in communities

FHLB Atlanta advanced \$5M over 3 years to enable preservation of naturally occurring affordable rental housing.

“ The CIP rate allowed for a lower cost of capital, which we were able to pass onto the borrower with a dramatically lower rate to acquire these two properties. This was very helpful to the borrower since the **projects were the preservation of naturally affordable housing near the Bay area and preserved 58 affordable units.** We wouldn't have been able to provide the borrower with the rate they need to acquire the properties without the CIP advance. ”

Megan Marsick

*Senior Investment Manager,
Enterprise Community Loan Fund*

CASE STUDY: FHLBank Pittsburgh helps create affordable housing for rural communities

Monroe County, West Virginia is rural – there are no stoplights or fast-food restaurants in the entire county. In 2014, seniors represented ~16% of the county's residents, and most could not afford market-rate rents. A \$650K AHP grant was used to help develop 8 units of affordable housing for seniors and individuals with disabilities.

“ Bottom line, we could not have done this project without WVHDF [West Virginia Housing Development Fund] and FHLBank Pittsburgh. I cannot say enough about both organizations and their staffs. ”

Skip Heath, *Monroe County Council on Aging*



CASE STUDY: FHLBank New York helps create affordable housing for local Seniors

FHLB New York awarded a \$600,000 AHP subsidy to First Federal Savings of Middletown to provide gap financing for a redevelopment project in Goshen, New York. Five separate once abandoned buildings have been reconstructed into an affordable rental housing complex for senior citizens called Hearthstone. Hearthstone is now home to 92 very low- and low-income seniors, some with physical challenges.

The Hearthstone project qualified for AHP funding since the rehabilitation created rental housing specifically equipped for the elderly, where at least 20% of the residents earn at or below 50% of the area median income.

The AHP set-aside program offers down payment assistance, housing counseling, and rehabilitation assistance. In 2021, ~\$90M was provided to support ~13,000 households with an average subsidy just under ~\$7,000. These homeownership programs are made up primarily of first-time homebuyers, who accounted for ~80% of the program recipients in 2021. The average income among program recipients' households was ~\$45,000 with an income to Area Median Income (AMI) ratio of 59%

The CIP provides funding to members for targeted community development including housing finance, mixed-use projects, and economic development projects. In the last five years these advances were used for projects such as converting commercial buildings into low-income rentals, developing condominiums for underserved senior citizens, and creating living centers for at-risk veterans. In 2021, the CIP funded approximately \$1.7B in targeted housing and economic development, assisting around 8,000 households.

CASE STUDY: FHLBank Pittsburgh helps Ridgeline Children's Shelter use the Community Lending Program (CLP) to serve society's most vulnerable



“ The low-interest loan secured by West Union Bank through FHLBank Pittsburgh allowed us to get the funding we required to help more children and families throughout West Virginia with services so desperately needed. ”

Matt Rudder
CEO, Genesis Youth Crisis Center

Headquartered in Clarksburg, West Virginia, the Genesis Youth Crisis Center has been providing services to at-risk youth for nearly 40 years. Recognizing an acute local need for short-term emergency housing for young people, Genesis recently decided to purchase an existing building in Parsons, West Virginia, and renovate it into the Ridgeline Children's Shelter. Genesis approached West Union Bank for help with financing the Ridgeline project. West Union was able to secure a \$450,000 low-interest loan through FHLBank Pittsburgh's Community Lending Program (CLP) to support the cost of the project in its entirety.



The FHLBanks provide additional support beyond that required by the AHP, funding voluntary programs supporting homeownership in our communities. These programs offer grants for home repair, down payment assistance, housing development, and housing related service organizations.

VOLUNTARY PROGRAMS: FHLBank Dallas created the Housing Assistance for Veterans (HAVEN) program to help Veterans with housing related financing



U.S. Army Reserve veteran Jeffery Darrough, pictured here with his wife, Joyce, received a \$10,000 HAVEN grant from FBT Bank & Mortgage and FHLB Dallas for home repairs.

“ If I had not recieved the grant, I probably would have had to push back the repairs I needed. There is no way I could have gotten it all done at once. The HAVEN program took my worries away, and it was a tremendous blessing. ”

Jeffery Darrough
HAVEN recipient - Bearden, Arkansas

CASE STUDY: FHLBank Atlanta creates innovation in community programs - Heirs' Property Prevention and Resolution Funders' Forum

Heirs' property is family-owned land that is jointly owned by descendants of a deceased person whose estate did not clear probate. Heirs' property is a pervasive issue that disproportionately affects those in racial and ethnic minority, low-wealth, rural, and distressed urban communities, creating barriers to homeownership and generational wealth.

In December 2021, FHLBank Atlanta hosted the Heirs' Property Prevention and Resolution Funders' Forum. This one-day event was designed to facilitate connection between nonprofits and other organizations that presented pilot initiatives and targeted solutions to potential funders for the purpose of addressing and preventing the issue of heirs' property.

In August 2022, FHLBank Atlanta announced a grant funding of \$1M to organizations that submitted pilot initiatives during the Heirs' Property Prevention and Resolution Funders' Forum.



CASE STUDY: FHLB Des Moines helps its community support its disabled homeless population



Eden Village, a tiny home community that opened in Springfield in 2018, provides dignified housing and loving supportive communities of hospitality to our community's chronically disabled homeless population. It is a community supported by on-site support services including a psychiatrist, a psychiatric nurse, case managers, mental health providers and a community center where the residents can both work and interact with other residents, guests and volunteers.

“ For us at the Eden Village, an organization dedicated to tackling homelessness, we simply wouldn't be able to do what we do without FHLB Des Moines' help.

Our community of Springfield, Missouri, had long lacked the infrastructure needed to properly serve its homeless population. So, in 2010 our founders, a group led by Linda, my wife, and me, decided to tackle it head on.

That's when the idea for Eden Village was born – an idea that wouldn't have gotten off the ground without an AHP grant from FHLB Des Moines in partnership with The Central Trust Bank.

FHLB Des Moines “bent over backwards” to make sure we completed our application correctly, and sure enough we received \$750,000 to build our first Eden Village. ”

David Brown, Founder, The Gathering Tree



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The diversity of our current membership - across different types and sizes of regulated financial institutions - creates stability and resiliency for the FHLBanks and supports scaled contributions to the Affordable Housing Program and other voluntary programs

The diversity of our member institution types enables the FHLBanks to maintain more consistent advance volumes and avoid concentration risks across any institution type.

Membership diversity is important across different economic cycles as our members' funding needs meaningfully change. In March 2020, the greatest period of uncertainty in the COVID-19 crisis, depository institution advances outstanding declined sharply, but were partially offset by insurance company advances outstanding increasing by 16%, helping the FHLBanks operate consistently through this volatile period. Throughout the rest of 2020, depository institutions' demand for advances decreased as their deposits increased, while advance demand from insurance company members increased.

While ~60% of our members are Community Financial Institutions (CFI) with assets below \$1.323B, we also serve larger financial institutions. Our support helps these institutions provide financing to their customers, including for housing investment in the form of mortgages originated for their own portfolio, sale to the FHLBanks, or mortgage-backed securities. All these activities are necessary to support a well-functioning housing finance market. At the same time, these larger members increase the scale of the FHLBank System. This scale enables the FHLBanks to maintain an active presence in the debt markets, creating low borrowing costs and generating income, which supports larger contributions to the AHP and voluntary programs.

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As government-sponsored enterprises, the FHLBanks' self-capitalized structure, rigorous approach to risk management, strong governance, and independent oversight by the FHFA, underpin our position as responsible stewards of a competitive debt franchise

Our self-capitalizing, cooperative structure, with joint and several debt liability across the FHLBanks, aligns incentives and provides high levels of safety and soundness. Since our inception 90 years ago, no FHLBank has ever incurred a loss on an advance. Additionally, the perceived risk of the FHLBank System is critical to our ability to raise competitive financing for our members, supporting our net income and in turn AHP. To manage this, the FHLBanks carefully review their collateral practices and standards as well as membership to control risk and maintain competitiveness.

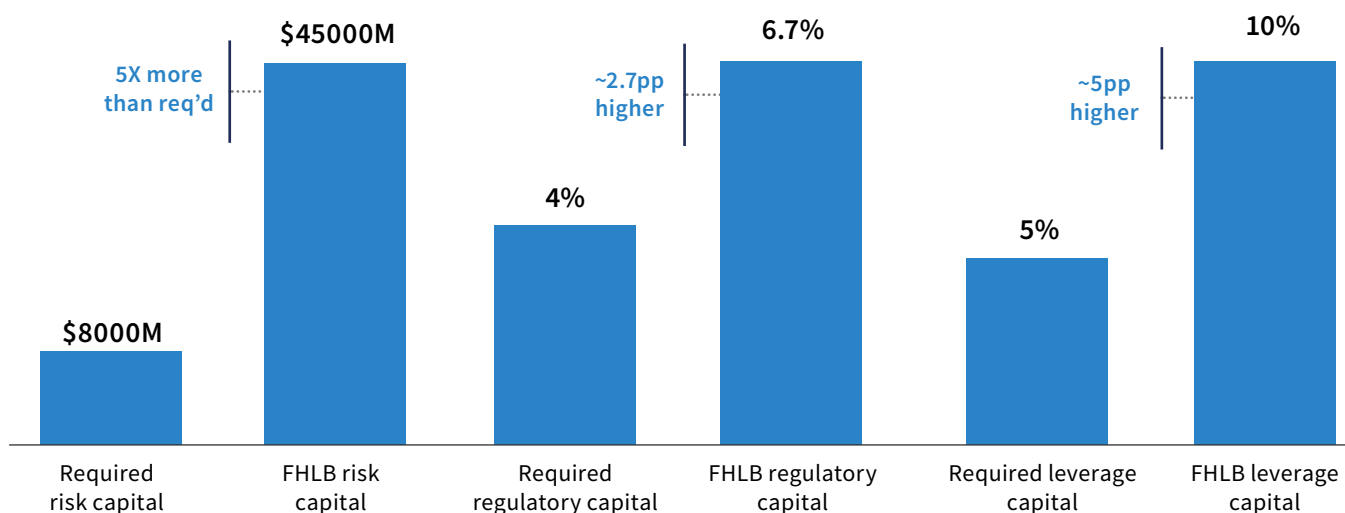
The FHLBanks have multi-layered governance structures made up of seasoned management teams, Boards of Directors (including member directors and independent directors), Affordable Housing Advisory Councils, and risk committees for each individual FHLBank and the system as a whole. This structure enables the FHLBank System to navigate the changing marketplace while delivering on its mission.



We require secured, fully collateralized lending, underpinned by strong risk management with robust audit and risk teams. Each bank dedicates around 15-20% of full-time employees (FTEs) to risk management through compliance, internal audit,

and risk functions. The FHLBank System maintains high capital ratios above requirements with ~5X risk-based capital, ~2.7pp higher regulatory capital, and ~5 pp higher leverage capital (as of December 31, 2021), and rigorous business continuity plans.

SNAPSHOT: December 31, 2021 capital position



In addition to strong FHLBank risk management, the FHLBank System is also subject to robust and independent regulatory oversight from the FHFA. The FHFA conducts in-depth annual examinations of each FHLBank and the FHLBanks’ Office of Finance to ensure we fulfill our mission by operating in a

safe and sound manner. Strong, independent safety and soundness regulation is viewed as critical by marketplace participants including debt investors, rating agencies, FHLBank members and their regulators.

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Our members and their needs have evolved, and we have evolved to serve them, with support for new processes and technologies, changes to accepted collateral, and progress on diversity, equity, and inclusion

The FHLBank System’s mandate has been revised and updated by Congress significantly over the last 35 years. These legislative acts expanded membership to commercial banks, credit unions, CFIs, and CDFIs. Classes of eligible collateral were broadened

to include small business and small farm loans. Additionally, an affordable housing component was added to the mission and subsequently expanded to include a “community development mission.”

LEGISLATIVE TIMELINE: Changes to FHLBank system



1989

Financial Institutions Reform, Recovery, and Enforcement Act expanded membership to commercial banks and credit unions and redefined the mission to include an affordable housing component



1999

Gramm-Leach-Bliley Act authorized the acceptance of new collateral and eased membership for Community Financial Institutions



2008

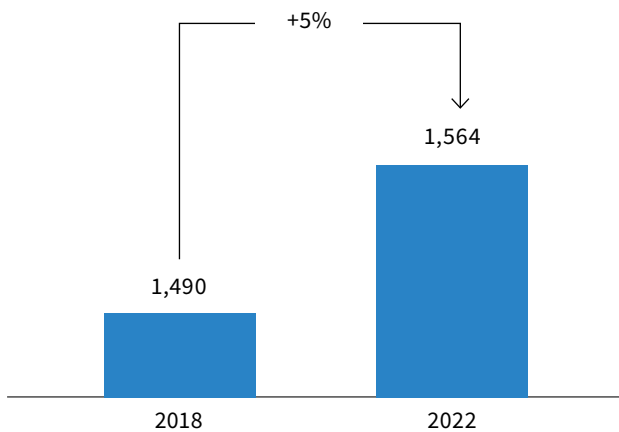
Housing and Economic Recovery Act expanded membership to Community Development Financial Institutions and adjusted membership criteria to include more CFIs



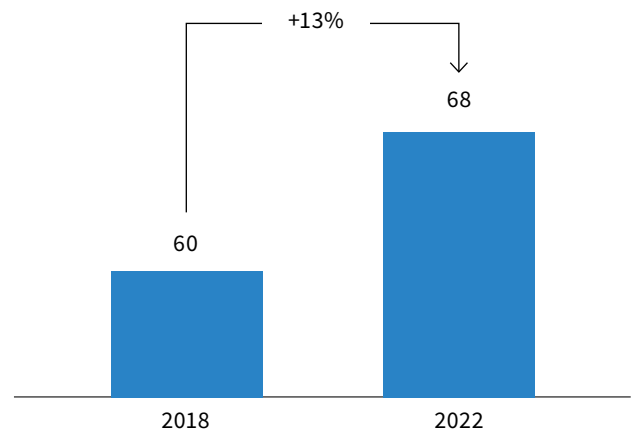
2015

Fixing America's Surface Transportation Act amended membership rules to allow privately insured (non-federally insured) credit unions access to FHLB membership, which the FHFA adopted in 2017 after a comment period

Credit Unions



CDFIs



Our membership has changed over time including growth among credit unions from 1490 to 1564, a 5% increase from 2018 to 2022, and among CDFIs, from 60 to 68, a 13% increase from 2018 to 2022. Additionally, through our corporate credit union members we support thousands more credit unions around the country. As of 2021, the vast majority (91%) of eligible depository institutions choose to maintain their membership in their local FHLBank and contribute to its capital base.

We have been a financial markets leader, including through the switch from the London Inter-Bank Offered Rate (LIBOR) to the Secured Overnight Financing Rate (SOFR), where we helped set the standards and timelines in industry groups such as the Fed’s Alternative Reference Rate Committee and the Swaps and Derivatives Association. Since 2018 we have issued over \$700B of SOFR linked debt, one of the leading financial institutions in these types of products. Additionally, in recognition of our members’ increased usage of digital loan technology, we created acceptance requirements and guidelines to standardize processes for members. This enabled the FHLBanks to begin accepting eNotes (i.e., mortgage loans that have an electronic signature and that can be legally transferred) as an eligible form of collateral from our members in 2021.

We have increased the types of collateral we accept following legislative changes (e.g., small business loans, small farm loans in 1999) and began lending to CDFI members to support community lending. As of December 31, 2021, we had ~\$290M of advances outstanding with Community Development Financial Institution members. We also expanded our advance product offerings to maintain our relevance to our members and to ensure the funding we offer members continues to meet their evolving needs

(e.g., Fed funds indexed rates, SOFR indexed advances, or specialty advance products that hedge interest risk exposure).

Evolution requires investment and the FHLBanks have made significant investments of time and money to enhance our member experiences and strengthen the resiliency of our technology. Across the FHLBanks we are deploying technology services like automated mortgage collateral submission, automated securities pledging, dynamic reporting dashboards, API integrations connecting data between multiple applications, and enhanced online member portals.

FHLBanks have also invested significant resources to expand our support for diversity, equity, and inclusion, with education roadmaps and commitments to fostering diverse supplier and business networks through various programs and initiatives. We have also created meaningful opportunities through our diverse dealers program, which currently has 20 participants, such as increased access to our debt programs, focused sales training, and co-marketing programs with investors. From 2012 to 2021 diverse dealer bond issuance increased by 633%.



CASE STUDY: FHLBank Topeka hosts a diverse supplier fair connecting businesses and creating impact

“ FHLBank (Topeka) has always been sort of a leader in that area. **Whenever I have a program coming up that has to do with diversity and inclusion, I will call on them because they set the standards for this community.** ”

Glenda Washington
SVP Entrepreneurial & Minority Bus. Dev.,
GO Topeka



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Our regional, yet lean structure provides deep links to local communities with leading efficiency levels. We maintain the expertise needed to deliver a leading mission-focused franchise that meets our members’ needs by recruiting and retaining purpose led employees

The FHLBank’s lean operating model allows it to deliver nationwide support with a competitive cost structure. Between 2017-22 we had cost-income ratios between 20-35, which is best in class among large financial institutions.

Where national scale is beneficial, we have adopted shared services structures. For example, debt issuance and financial reporting is run through the Office of Finance, and FHLBank Chicago runs the Mortgage Partnership Finance Program (MPF) for 6 FHLBanks. The FHLBank System has been increasingly collaborating across regions, developing new partnerships, and sharing operating best practices and knowledge to increase efficiency.

One of our key assets are FHLBank employees. They enable us to run an efficient operating model and provide the expertise needed to deliver a leading debt franchise that meets the liquidity and funding needs of our members, while maintaining our focus on risk and resiliency. Our employees are purpose-driven and have expertise in serving our members through all economic cycles, including financial crises like the Global Financial Crisis and the COVID Pandemic. The FHLBank teams bring a higher-than-average expertise; our average tenure of staff is over ~9 years compared to over ~5 years in the finance industry .

SNAPSHOT: FHLBank Chicago’s Mortgage Partnership Finance (MPF) program supports members in the secondary mortgage market

-  Custody
-  Master Servicer
-  Investor Accounting
-  Quality Control
-  Default Management



MPF Program
Portfolio Reporting
August 2022





CONCLUSION: Charting a course for the future

The FHLBanks play a critical role in the US financial system. By providing reliable liquidity and funding to our members – including in times of crisis – we support stability and diversity in the financial system, and support thousands of smaller community lenders. Our products and services enhance our members’ ability to provide credit to their local communities – supporting housing and community development. In addition, our contributions to the Affordable Housing Program and additional voluntary programs help thousands of people a year get into homes and help grow local economies.

The FHLBanks are grateful to the FHFA for the opportunity to participate in this review, and to hear from our members and broader stakeholders in the home finance ecosystem. We look forward to learning from the listening sessions and roundtables, and using these learnings to chart a course for the future. The FHLBanks have evolved over time, and we will continue to evolve to fulfill our mission.

APPENDIX: Coverage of FHFA topic areas

The FHLBanks’ general mission and purpose in a changing marketplace	Section 1, page 3 Section 7, page 17-19
FHLBank organization, operational efficiency, and effectiveness	Section 8, page 20 Section 6, page 16-17
FHLBanks’ role in promoting affordable, sustainable, equitable, and resilient housing and community investment	Section 3, page 7-10 Section 4, page 11-15
Addressing the unique needs of rural and financially vulnerable communities	Section 3, page 9-10 Section 4, page 11-15
Member products, services, and collateral requirements	Section 1, page 3-5 Section 2, page 5-6 Section 7, page 17-19
Membership eligibility and requirements	Section 5, page 16 Section 7, page 17-19

Note: Case studies and data (including system-wide aggregated data) are sourced from individual banks and Office of Finance. Each FHLBank is responsible for the financial information and underlying data. Quotes taken from FHFA listening sessions and other sources.



Thank you

OCTOBER 2022



FHLBANKS
A NATION OF LOCAL LENDERS