Esperanza
Strengthening Our
Hispanic Community

October 27, 2022

Sandra L. Thompson
Director
Federal Housing Finance Agency
400 7th Street, SW
Washington, DC 20219

RE: The FHLBank System at 100: Focusing on the Future

Dear Director Thompson:

Thank you for the opportunity to provide input on the FHLBank System at 100: Focusing on the Future. I submit these comments on behalf of Esperanza, where I have the honor of serving as its Founder and CEO. Since 1986, Esperanza (https://www.esperanza.us) has confronted poverty, disinvestment, blight, and lack of economic opportunity in the extremely and very-low income, Hunting Park neighborhood of Philadelphia. Esperanza operates as a nonprofit community development corporation (CDC) with an annual budget of $75 million, a real estate asset portfolio of $125 million, and more than 550 employees.

I applaud the initiative that starts this dialogue with key stakeholders and potential new partners that can result in a more vibrant FHLBank system better able to meet the economic challenges of today and tomorrow. I have worked with the FHLBank System from several perspectives and served on the board of directors of the FHLBank of Pittsburgh as a public interest director for over 20 years. During this time, I served as Board Vice Chair, and chaired or served on most of the board committees including those that dealt with audit, risk management and affordable housing. From my first appointment in 2002 to my last day of service in 2021, I am unaware of any discussion that asked this question of FHLB system contributors. The importance of input from nonmembers in this effort cannot be overstated.

On the board, as an independent director, I was always in the minority. I was an unabashed advocate for increasing financial support for affordable housing which comes largely through the mandatory 10 percent of net income support for the Affordable Housing Program (AHP). Member directors are attentive to FHFA regulations and the duty of care and duty of loyalty that are the foundations of corporate governance. This focuses boards on the fiduciary duty to members. Boards are almost prohibited from supporting a meaningful increase in the AHP above the statutory minimum. The FHFA should refocus FHLBank governance to ensure a greater return to the broader public of more of the value derived from government support that results in so many financial benefits to members. To do so necessitates a regulatory refocus from the FHFA and a mandate to the boards to take on the affordable housing mission beyond the 10% statutory contribution.

I should note that the FHLBank of Pittsburgh has taken a number of positive initiatives such as Banking on Business, Blueprint Communities and Home4Good. These are good examples of how a FHLBank can leverage its relationships throughout its district in positive ways that do not cost anywhere near the statutory AHP obligation of 10 percent of net income. I know that FHLBanks can do more. It is my hope that this process will lead the FHLBank system in that direction.

Executive Summary and Recommendations

- The FHLBank system works very well in delivering member value, but falls short in its affordable housing mandate. **Most** banks focus on only the 10% statutory mandate.
- The rental housing crisis will not wait to ruin lives, disrupt families, and weaken low-income communities across the country. "Focusing on the Future" must result in more than legislative recommendations that may or may not be enacted by Congress.
- In my FHLBank work, I have seen the political power of FHLBanks and their members' overriding focus on protecting their financial interests in their government-supported cooperatives. A meaningful legislative AHP increase will be difficult, if not impossible to achieve.
- The Housing and Economic Recovery Act of 2008 empowered the FHFA with significant regulatory authority that the agency must exercise to direct FHLBanks to do more in the area of affordable housing as a key element of the FHLB Mission.
- Safety and soundness cannot be an excuse to ignore affordable housing. FHLBanks can do more without increasing risk if these efforts are designed and implemented correctly.
- Legislative recommendations:
    - Increase the AHP obligation to 30 percent of net income which will restore the statutory direction of net income to levels that FHLBanks operated under from 1989-2011; and
    - Change governance to reduce the self-direction of government-supported value to the members.
- Regulatory recommendations supported by existing statute:
    - Develop a clearly-articulated mission for FHLBanks supported by existing statute. This mission should reflect market changes and the FHLBanks' capacity to support liquidity for affordable housing (especially low income rental housing). This would be a mission worthy of the GSE status and implicit guarantee. It should serve as the foundation for future FHFA regulation of the FHLBanks.
    - Direct the FHLBanks to deploy the income generated from the investment of the restricted retained earnings (RRE), currently $265 million a year, as an additional tool to address the affordable housing crisis. These funds should not be added to the AHP program but provide credit support and other creative approaches to leverage the positive impact of these limited resources (see Attachment 1)
    - Review member director election regulations to develop greater diversity of skills (specifically a commitment to very low income affordable housing and economic development), and race.
    - Refocus examiner guidance to encourage directors to consider the statutory mission and the regulated entity's best interests in terms of broadly serving market needs in addition to member interests.
    - Include affordable housing mission achievement goals (beyond providing value to members) as part of FHLBank executive compensation.
    - Commission research on ways to improve the regional FHLBank structure.
    - Gather and publicly report data to assess mission support by each FHLBank.
    - Direct FHLBanks to apply their market leadership and federal credit support to enhance liquidity for long-term funding for affordable rental housing.

The FHLBank value proposition has changed over the past decade.

With the expiration of the REFCORP obligation in 2011, without any public discussion, the FHLBanks moved to capture 20 percent of net income to build RRE with the support of the FHFA. At the time, the FHLBanks were in a weakened position and the FHFA had few tools at its disposal to increase FHLBank capital. There was a real concern about the impairment of FHLBank stock. The use of the expired REFCORP funding for safety and soundness was one of the few options to build FHLBank capital. It has proven to be the correct move over time.

Today, the capital at FHLBanks has grown to well above required levels and RRE have risen to over $5.8 billion. The FHFA should now use its statutory authority to re-direct the mission trajectory and the member value proposition, by directing the FHLBanks to devote the investment income on the restricted retained earnings to support new ways of meeting affordable housing challenges. This action would represent a marginal move to establish greater balance in the allocation of public and private benefits of the implicitly guaranteed[i], tax-exempt, privately owned GSE. It also will increase FHLBank financial support for affordable housing without legislation at a time it is desperately needed, without weakening the very strong capital position of the FHLBanks, while still allowing the payment of dividends to FHLBank members.

This action would increase FHLBank support for affordable housing by over $265 million based on second quarter levels of RRE and average return on equity[ii]. The funds made available by this change should not just be added to the AHP program but should provide credit support and other creative approaches to leverage the positive impact. This proposal is discussed in detail in Attachment 1.

I. The FHLBanks' general mission and purpose in a changing marketplace

The FHLBank business model is built on the implicit federal guarantee and is fairly simple.[iii] FHLBanks and their members have self-defined their mission as providing inexpensive funding to members and paying dividends on their stock. The argument is made that FHLBanks are privately capitalized and therefore should be left alone to maximize value to the members. This ignores the value of the implicit guarantee which is an existential factor when considering the FHLBanks.

A. The FHLBank mission defined

The statute: There is no specific mission laid out in the Federal Home Loan Bank Act. The statute establishing the FHFA indirectly suggests the FHLBanks' mission by directing the Director in § 4513(f) to consider the differences between the Federal Home Loan Banks and the enterprises with respect to— the Banks' mission of providing liquidity to members and the affordable housing and community development mission and any other differences that the Director considers appropriate.

The regulations: (CFR § 1265.2) state "The mission of the Banks is to provide to their members' and housing associates financial products and services, including but not limited to advances, that assist and enhance such members' and housing associates financing: (a) Financing of housing, including single-family and multi-family housing serving consumers at all income levels; and (b) Community lending."

The FHLBanks' view: In the 2021 CFR, page 11, the FHLBank mission is stated as enhancing the value of membership by providing inexpensive funding and dividends.[iv] Where is the housing imperative? It has been reduced by most banks to what is called the 10 percent AHP "tax".

B. The federal government's implicit guarantee supports FHLBank member value and should dictate a greater public-serving mission

Without the implicit guarantee there would be no FHLBank system. This implicit guarantee generates the value enjoyed by the FHLBank members. This guarantee also bestows upon FHLBanks the responsibility to look beyond the financial interests of their stockholders but to the broader community.

A Bank of America report (Liquidity Insight, Squeezing a Balloon, January 29, 2016) is one of many papers and studies that covers the benefit to members of the implicit guarantee.

> "The implied government backing allows FHLB to borrow at levels very close to Treasury yields even while the distribution shifts to very short-dated liabilities. This allows member-borrowers to access funds at rates lower than they would typically achieve in capital market issuance. Recent issuance trends suggest the difference in funding levels between large banks and FHLBs could be as much as 40bp. By issuing debt via the GSE banks reduce their borrowing costs compared to tapping capital markets directly."

C. The FHLBank mission focus could be changed through regulatory action

The federal implicit guarantee must be used to provide greater support to address unmet market needs. There must be a more equitable distribution of FHLBank wealth generated by the implicit guarantee between inexpensive funding and dividends for members on the one hand and support for affordable housing on the other.

The FHFA should use the statutory authority to consider "other differences the Director considers appropriate" to update the mission to reflect the FHLBanks' unique regional structure and their ability to tailor products to support member activities that address local market challenges. This should be designed to encourage and empower FHLBanks to use their significant levels of capital to develop and deliver products and services that meet local unmet affordable housing credit needs in low income rural and urban communities.

CFR § 1265.2 establishes the FHFA's position that advances assist and enhance such members' financing of housing, including single-family and multi-family housing serving consumers at all income levels. The FHFA should ensure that this element of the regulations is enforced.

The FHFA should develop a clearly articulated mission for FHLBanks that is supported by existing statute. This mission should reflect market changes and the need for support of affordable housing (including rental housing for low income tenants) that is worthy of the GSE status and implicit guarantee. The mission should be the foundation for future regulation and oversight of the FHLBanks.

II. FHLBank organization, operational efficiency, and effectiveness

A. Board elections

The FHFA should consider board elections as it develops a set of legislative and regulatory proposals. By statute, a majority of members come from member officers and directors and are elected by the members in each state.

While statutory governance changes may be necessary, the FHFA should examine the regulations governing member director elections to develop greater diversity of skills (specifically a commitment to very low income affordable housing and economic development), and race. There needs to be more independent directors to support racial equity and affordable housing needs.

B. Board governance regulations

The FHFA should consider new examiner guidance[v] and regulation that directors consider the statutory mission and the regulated entity's social interests beyond member interests.

C. Executive compensation:

The FHFA should consider ways to use its authority over the approval of executive compensation to add meaningful mission achievement goals other than advance products and serving their members.[vi] A review of all the FHLBanks' individual 10K discussions suggest no goals on mission-related activities (other than holding events to educate members on these programs). Stronger mission-targeted compensation incentives would create movement in the right direction.

Such action would follow the initiative of former Federal Housing Finance Board Chairman Bruce Morrison who required FHLBank CEO incentive compensation to reflect the level of CICA advances in incentive compensation. This resulted in a significant increase in CICA advances.

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

The cooperative business model makes it very difficult for FHLBanks to allocate more resources to support affordable housing and economic development. Members elect the boards and expect them to put the interests of the stockholder/borrowers first and to meet the statutory minimum in affordable housing. The tension between affordable housing and member financial interests are well evident in the FHFA's listening sessions.

On the first day, one FHLBank member advocate stated that increasing AHP comes from "funds that would otherwise be used for dividends." Another referred to increasing AHP as "garnishing the members' capital." On the second day of the sessions, another FHLBank advocate said that increasing the AHP assessment would deter FHLBank voluntary programs.

Over the past 10 years, FHLBank voluntary programs represent a fraction of the costs represented by the 10 percent of net income statutory obligation for the AHP. System voluntary contributions to the AHP were $4 million in 2021, $1 million in 2020, and $2 million in 2019. [vii] I express my appreciation that in 2022, FHLBank of Pittsburgh voluntarily increased support for affordable housing programs by $9 million. This level of funding should occur every year at **every** bank. Our board's action makes a strong case that such an increase will not weaken the bank and that the AHP statutory increase should be encouraged by the FHFA.

FHLBanks state in their financial disclosures that they are closely monitoring legislation that would increase the AHP.[viii] As speakers in the public listening sessions noted, there is tension between increased AHP obligations and members dividends. Member dividends are not part of the FHFA mission whereas providing for affordable housing for all income levels is.

As mentioned earlier, the FHFA should support legislation to increase the statutory contribution to the AHP from 10 percent of net income to 30 percent. In addition, the FHFA should direct that the income generated from the investment of the restricted retained earnings should be another source of additional financial support to leverage this important effort. This would provide $265 million based on second quarter numbers. These funds should be used to provide the greatest leverage and impact on supporting capital for low income rental housing.

A. Increase transparency for FHLBank housing efforts

System mission metrics measuring FHLBank housing efforts that are accessible to the public are limited. The core mission assets test attempts to do this, but that measure alone is inadequate. The FHFA should gather and report data that would provide more detail on housing mission support. This data could lead to the development of meaningful FHLBank mission goals and improvements. Perhaps the mere existence of these reports would spur individual FHLBanks to do more. These reports could include

- A listing of all the voluntary non-AHP affordable housing and economic development initiatives, the cost to each bank on an annual basis and the impact of those efforts.
- The cost of funds of all the FHLBanks is the same, they all manage to the same risks, and they all offer the same narrow suite of products. FHFA should publish data that presents a more comprehensive report that would show how the FHLBanks apply the implicit guarantee to advance their mission. These data for each FHLBank could include dividends; the spreads of advances over the FHLBank cost of funds (and the relative costs of those advances to private sector funding options); the dividend payout ratios; AHP allocations as a percentage of assets, advances, and total capital; and other pertinent data.
- Metrics should be developed to better assess the distribution of the value of the implicit federal guarantee for each FHLBank and a measurement of the core member benefit as well as a broader measurement of affordable housing support beyond grant awards and CICA levels. These data should be published on a quarterly basis at the time the CFRs are released.
- The FHFA should report annually on system-wide AHP grants broken out by state including in-district and out-of-district grants; the types of members who received the grants, broken out by assets and charter; the break-down between for profit and non-profit recipients; the level of support to minority communities; and other factors.

B. A new approach to FHLBank affordable housing efforts

FHLBank efforts should be additive to community efforts to meet the challenges of the affordable housing sector. New innovative approaches should not rely as heavily on providing relatively small support to projects. According to a FHLBank report on the AHP program, Enhancing Lives, Impacting Communities: The Federal Home Loan Bank System, AHP grants provide approximately 6 percent of the total funds used to develop AHP projects.[ix]

LIHTC projects are critically important to meeting the nation's housing challenges, but LIHTC is significantly oversubscribed. The AHP should not be an appendage to LIHTC.

FHLBanks should devote significant staff resources to develop meaningful ways to use their capital market strength (aided by the implicit guarantee) and leverage the range of FHLBank relationships to develop creative new approaches to support housing, particularly those that assist minority communities combat gentrification.

Ideally these new efforts would be developed through collaborative joint FHLBank initiatives that work with non-profit affordable housing practitioners and FHLBank members. These efforts should focus on smaller projects with the FHLBank providing greater funding per project than under current practice.

C. Develop FHLBank credit support initiatives

The FHLBanks should apply their market leadership and federal credit support to develop new methods to provide long-term financial resources for affordable low income rental housing. Working individually or collectively, FHLBanks should work with large members, small members, and nonmember capital market players to explore ways of lowering the cost and extending the maturity of capital supporting affordable housing.

These FHLBank efforts could include

- Working with non-profit developers serving minority communities
- Supporting bonds by using their GSE cost of funds to make portfolio investments
- Providing credit support for these bonds in a number of ways that bear exploration including letters of credit. Credit support would
    - Lower the cost of funds providing stable funding for income-targeted affordable housing.
    - Create a liquid market with manageable risks for institutional and socially motivated investors; and
    - Expand the investor base among FHLBank member financial institutions and insurance companies including other social impact investors.
- Establishing joint mechanisms to credit risk support that could involve the support of FHLBank members including the insurance industry, large banks, and housing associates.
- Applying the credit risk sharing mechanisms of the FHLBanks' AMA programs. The FHLBanks' experience and expertise in this credit risk sharing should be applied to new affordable housing initiatives that build on the success of the AHP program.

Conclusion

In conclusion, I was privileged and am proud to have served on the board of the FHLBank of Pittsburgh for close to two decades. My colleagues all knew and know of my desire to increase the level and scope of the AHP. Some will be upset at what they would consider a "taking of their profit" but the profit is created by the government implicit guarantee and therefore should have a greater AHP share. As I consider the issues raised by the FHFA's review of the system, I am struck with how much more the FHLBanks can and should do to support affordable housing.

I leave with these thoughts:

- A trillion dollar GSE is apparently unable to explore increasing affordable housing efforts during a national crisis. The system works very well in delivering value to members and it hasn't had enough internal advocates to explore its affordable housing mission beyond the "tax."
- Safety and soundness should not be used as an excuse to do no more for affordable housing. Because of the interpretation of safety and soundness, and the concern that an experimental program in AHP might have "regulatory push back" by FHFA, there is a reluctance to move forward on many thoughts and ideas. The FHFA needs to create regulatory space for new approaches.
- Safety and soundness will not have to be compromised to do more affordable housing if done correctly.
- Except for the occasional voluntary program, other than the statutory obligation to apply 10 percent of net income to the AHP (which many members refer to as a tax), the system has mostly ignored its affordable housing mandate.
- Affordable housing should be part of FHLBank long-term plans.
- Earnings and dividends are not shared with the broader public interest though they are generated by public mechanisms.
- Increasing liquidity for affordable housing should not be stifled by a focus on quarterly dividends or the cheapest funding for members.

I know the fine people I have met at the FHLBanks and the Council of FHLBanks can do better. With the firm direction of the FHFA operating under existing statutory authority they will.

While many may view this as a critique of the system, I am hopeful it will be seen as a document that points to a greater relevance of our FHLB System, where liquidity, affordable housing, and dividends, are safely and soundly provided to meet the needs of both our communities and FHLB members.

Thank you.

The Reverend Luis Cortés, Jr.
Founder & CEO
Esperanza

Attachment 1

Direct the investment income from Restricted Retained Earnings (RRE) to support investment in low-income rental housing

The taxpayer value proposition of the FHLBank cooperative has changed over the past decade.

With the expiration of the REFCORP obligation in 2011, without any public discussion, the FHLBanks moved to capture 20 percent of net income to build restricted retained earnings. At the time, the FHLBanks were in a weakened position and the FHFA had few tools at its disposal to increase FHLBank capital. There was a real concern about the impairment of FHLBank stock. The FHFA's approval of RRE was the right thing to do at the time given the weakness of the system.

Since that time, the capital at FHLBanks is well above required levels. It is time to apply investment income from RRE to support affordable housing. This will represent a marginal move to establish greater balance in the allocation of public and private benefits of the implicitly guaranteed, tax-exempt, privately owned GSE.

This action would increase FHLBank support for affordable housing by over $265 million based on second quarter levels of RRE and average return on equity[x]. The funds made available by this change should not just be added to the AHP program but should provide credit support and other creative approaches to leverage the positive impact.

This action will increase FHLBank financial support for affordable housing without legislation at a time it is desperately needed, without weakening the very strong capital position of the FHLBanks and still allowing the payment of dividends to FHLBank members.

A. The REFCORP debt service obligation

- Before the enactment of the savings and loan clean-up legislation, the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA"), each Federal Home Loan Bank was required to carry a reserve account equal to 20 percent of its net income until said reserve account showed a credit balance equal to 100 percent of the paid-in capital of such Federal Home Loan Bank.
- FIRREA repealed the 20 percent reserve requirement and replaced it with the requirement that the FHLBanks pay for a portion of the interest payments paid by taxpayers on debt issued by REFCORP equal to $300 million per year until 2030.
- The Gramm-Leach-Bliley Act amended the Federal Home Loan Banks' REFCORP obligation to require each Federal Home Loan Bank to pay 20 percent of its net income per year after AHP contribution and to allow for the Federal Home Loan Banks' total REFCORP obligation to end earlier than 2030 if such variable payments exceeded $300 million per year.
- On August 5, 2011, the FHFA certified that the FHLBanks' REFCORP obligation has been fully satisfied.

B. The weakened FHLBanks in 2009/2010

- In early 2009 Moody's was projecting that eight of the twelve FHLBanks would fall below regulatory capital requirements due to unrealized market value losses on residential mortgage bonds (private label mortgage-backed securities).
- A March 2010 Congressional Research Service Paper, "The Federal Home Loan Bank System and Resolution of a Failure" pointed out "According to preliminary, unaudited 2009 financial reports, four FHLBanks reported significant preliminary net losses at the FHLBanks of Boston, Chicago, Pittsburgh,

and Seattle. According to the FHLBank Office of Finance, most of these losses were due to declines of fair market value of certain assets."

- The FHFA's report to Congress dated May 2010 said "The condition and performance of six of the 12 FHLBanks are less than adequate. At these FHLBanks, the principal supervisory issue is private-label mortgage-backed securities (MBS) investments. Half the FHLBanks incurred credit-related impairment charges of more than $200 million on private-label MBS in 2009.
- The FHFA had consent orders with the FHLBanks of Chicago and Seattle.

C. The Joint Capital Enhancement Agreement (JCEA) and RRE

- On February 28, 2011, in anticipation of completion of their REFCORP payment obligations, the 12 Banks signed the JCEA.
- On August 5, 2011, the FHLBanks individually amended their capital plans to divert the 20 percent of net income that had previously gone to pay part of the REFCORP debt service into a new category of retained earnings, restricted retained earnings (RRE).
- On August 5, 2011, the FHFA approved the FHLBanks' amended capital plans.
- As noted in an SEC filing by FHLBanks describing the JCEA "The Agreement is intended to benefit FHLBank members and investors in FHLBank debt by further strengthening the balance sheet at each FHLBank and by creating an additional buffer on each FHLBank's balance sheet to absorb losses. The Agreement is intended to provide additional protection for each member's capital stock investment and to enhance each FHLBank's capacity to continue to meet its consolidated obligations, for which all FHLBanks are jointly and severally liable."
- At the time, there was a significant need for the FHLBanks to raise capital and there were few tools at the disposal of the FHFA.
- There was no public discussion of this at the time. At an October 12, 2011, hearing of the House Financial Services Committee former FHLBank regulator Bruce Morrison said "A choice was made to invest those funds in a retained earnings account. It could have been invested in the affordable housing program or in an economic development fund similarly. I don't know that anybody has asked for that to happen. I regret that it wasn't done, because I think those funds were being used for public purposes. And they have now been diverted to essentially private purposes by building up the capital of the banks. I don't think there is anything wrong with building up the capital of the banks, although I have questions about the capital structure. But I think that the banks were able to discharge the public function with 30 percent of their earnings, and I think it is disappointing that we have lost some of that."
- While RRE cannot be used to pay dividends to the FHLBank stockholders directly, RREs do facilitate greater dividend payments to members.
    - restricted and unrestricted retained earnings (that can be used to pay dividends) are treated equally as capital, so the existence of the restricted retained earnings enables FHLBanks to pay higher dividends out of unrestricted retained earnings than they otherwise might be able to pay if that 20 percent of net income was being applied to some other need.
    - FHLBanks make a substantial percentage of their income from investing capital. The income derived from investing the RRE can be used to pay for dividends.

Endnotes

[i] "Three provisions in the Federal Home Loan Bank Act are especially important for creating the perception of an implicit government guarantee of FHLB consolidated obligations. First, the U.S. Treasury is authorized to purchase up to $4 billion of FHLB System debt securities. Second, FHLB debt securities are considered government securities under the Securities and Exchange Act of 1934. (This status means that the securities can be used as collateral for public deposits, can be bought and sold by the Federal Reserve in open-market operations, and may be held in unlimited amounts by federally insured depository institutions.) Third, FHLB debt securities are eligible for issuance and transfer through the Federal Reserve System's book-entry system, which is also used by the U.S. Treasury. As with Fannie Mae and Freddie Mac, market participants have to come to view FHLB System consolidated debt obligations to be implicitly guaranteed by the U.S. government despite explicit, legally prescribed denials in offering materials. This perception allows GSEs to borrow at favorable interest rates in the hopes that most of these savings are passed on to customers." The Federal Home Loan Bank System and U.S. Housing Finance, W. Scott Frame, Working Paper 2016-2, January 2016

[ii] 2Q CFR 2021: $5.822 billion in retained earnings and average return on equity of 4.56%

[iii] In 1998, Assistant Treasury Secretary for Financial Institutions Richard Carnell testified before the House Subcommittee on Capital Markets, Securities, and Government Sponsored Enterprises making these points that remain relevant today.

- "Each FHLBank is cooperatively owned by its members. Thus, it has two ways to pass along to its members the federal subsidies inherent in the System's government sponsorship: first, in the pricing of the products it offers; and second, through the dividends it pays from its net earnings. The principal benefit of the System's government sponsorship is ready access to capital market funding at rates lower than those paid by even the most creditworthy private borrowers."
- "When a FHLBank advances those funds to a member, it may pass through this benefit by charging a low rate on advances. Alternatively, it may charge a market rate for advances and then distribute the excess spread earned to all its members through the dividend paid on its stock."

[iv] "The FHLBanks seek to manage their primary objective of fulfilling their public purpose by enhancing the value of membership for member institutions. The value of membership includes access to readily available credit and other services from the FHLBanks and the value of the cost differential between an FHLBank's advances and other potential sources of funds, as well as the potential for dividends received on a member's investment in an FHLBank's capital stock."

[v] FHFA Examination Manual: Roles and Responsibilities of the Board of Directors and Individual Directors

> (Page 4) "Directors of an FHLBank owe their fiduciary duties of care and loyalty to the FHLBank and its members."
> "The board sets the strategic objectives, establishes the risk appetite, and directs the conduct and affairs of the regulated entity in furtherance of its statutory mission"
> "In general, duty of care requires that directors act in good faith and in a manner that the directors reasonably believe is in the regulated entity's best interests, based on an analysis of available information.
> "Duty of loyalty requires that directors exercise their powers in the best interests of the regulated

entity and its shareholders rather than in the directors"

(Page 7) FHFA regulation directs member board members to focus on the value to the members. The fiduciary responsibility and the "Duty of loyalty" of a FHLBank Director should include taxpayer and broader economic interests.

[vi] As noted in the 12/31/21 CFR (S-13), the FHFA has authority over compensation: Regulations Governing the Selection and Compensation of FHLBank and Office of Finance Employees (S-13)
"a significant percentage of an executive's incentive-based compensation should be tied to longer-term performance and outcome-indicators";
"a significant percentage of an executive's incentive-based compensation should be deferred and made contingent upon performance over several years."

[vii] 2021 CFR (F-58) "an FHLBank's board of directors may elect to make voluntary contributions to the AHP" and then notes that System voluntary contributions to AHP were $4 million in 2021, $1 million in 2020, and $2 million in 2019.

[viii] 2021 CFR (page 103) which addresses legislation that would increase required levels of affordable housing and economic development support: "Legislation has been introduced in the U.S. Senate and House of Representatives that, if enacted in its proposed form, would require that the FHLBanks set aside higher percentages of their earnings for their affordable housing and community investment programs than is currently required under law. ….Increased contributions to the FHLBanks' Affordable Housing Programs would result in less net income being available for other purposes. The FHLBanks continue to closely monitor these proposals and developments."

[ix] https://fhlbanksmultiplierstudy.com/national-report