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

Re: FHLBank System at 100: Focusing on the Future

Dear Director Thompson:

Please accept my congratulations on taking on the very important challenge of reviewing the Federal Home Loan Bank system and positioning it for the future.

By way of background, I served for eight years as Connecticut's member director on the board of the Federal Home Loan Bank of Boston, the final two of which I was chairman of the board. My service on the board ended with my retirement from banking in December 2021 after a 40 year career that included service with two of the nation's largest banks, Continental Illinois and Fleet, and a leading community bank, Simsbury Bank.

The following are my observations on the key areas about which the FHFA is seeking feedback.

- The dual core missions of the Federal Home Loan Bank system – providing financial liquidity to members and supporting affordable housing development – remain relevant and critical to the changing US financial and housing marketplaces today and in the future. The US financial system is stronger and more resilient for the role that the FHLB plays among the private and governmental participants in the nation's capital markets. Access to affordable housing for all remains a national goal shared across party lines. FHLB banks contribute to addressing this challenge through the statutory AHP program as well as "above and beyond" programs offered by each bank that are tailored to the unique needs of their members and their local markets.
    - Any consideration of expanding the statutory mission of the system beyond liquidity and affordable housing should be governed by a shared belief that the system not be politicized. As a critical financial intermediary in the US financial system, adding mission mandates that are still under debate in the country and adjudicated by voters would only serve to undermine the system's ability to perform its core missions.

  - The FHLB's current dual mission, organizational structure, and GSE status is an elegant demonstration of the value of a well-structured public/private partnership to bring a market disciplined approach to member financial needs together with an important universally shared societal need.

- The FHLB system's organizational structure – with eleven privately capitalized and cooperatively owned banks with GSE status – provides unique advantages over alternative organizational structures to deliver on its two core missions. Requiring members to capitalize the eleven FHLB banks ensures appropriate oversight and stewardship by each banks directors of the invested private capital and management's effectiveness at achieving strategic goals while managing risks. The banks' conservative, collateralized lending posture ensures that members and investors are secure, respectively, in their access to funding and the banks' collective capacity to honor their obligations. This has been vividly demonstrated during periods of financial market stress during the past 20 years.
  - The current organizational structure has delivered reliable access to liquidity at reasonable interest rates even in the most severe financial market circumstances as evidenced most recently during the 2008/2009 financial market crisis and early days of the 2020 pandemic. The advantages also include both the statutorily required AHP program and the "above and beyond" funding of affordable housing and economic development initiatives by each bank.
  - In the absence of the FHLB system, it would be left to private capital market participants and/or the government to fill the reliable liquidity role that FHLB banks play for their members.
    - Private capital market participants experience periods of stress, sometimes of their own making and sometimes due to market conditions out of their control, that could limit their reliability or cost effectiveness as a liquidity source, especially during periods of market-wide stress. Further, there is no statutory or moral requirement for private financial intermediaries to support affordable housing.
    - The government, presumedly the Federal Reserve or US Treasury, could play the role currently played by the FHLB system. During the pandemic, the Fed's extraordinary monetary actions combined with the extraordinary fiscal actions taken by Congress and the Executive branch flooded the nation's financial system with liquidity and depressed demand for FHLB advances. With the passage of time, this excess liquidity is declining and FHLB advances are increasing. Is it appropriate or desirable for the Fed to make permanent a role it took on due to the unique risks to the economy posed by the pandemic? As a matter of public policy, the US economy has benefited from a well-regulated, private sector driven financial marketplace. To rely upon the Fed or Treasury would further entrench the government in activities that a well-regulated private sector driven financial market is better suited to handle. The Fed's appropriate focus should be on its dual mandate of price stability and employment.

- The FHLB's regional bank structure is the most effective way to ensure each of the eleven banks understand their local markets, tailor financial products and services to their members, and develop and deliver effective affordable housing and economic development programs through their members. Through AHP related activities, each bank develops a deep understanding of its region's affordable housing needs.
    - However, the US economy has grown at different rates in different parts of the country during the past 90 years. It is appropriate, therefore, to reassess the regions which are the responsibility of the eleven banks to ensure that the geographies for which they are responsible are appropriately aligned with the unique underlying regional affinities, economies and populations.
    - It would be a mistake to reduce the number of FHLB banks. Just as the consolidation of the banking industry over the past 40 years has resulted in the loss of many community banks and the benefits they brought to the local markets they served, significant consolidation of the FHLB banks would diminish the system's ability to tailor its offerings and engagement with members to unique regional differences.
    - There are opportunities for the eleven independent banks to achieve economies of scale in certain parts of their operations through a shared services model. Perhaps collaboration across the banks in areas such as technology, certain risk management activities, and certain administrative activities, for example, could be achieved without sacrificing the benefits of independent banks responsive to their regional members and markets.

- FHLB banks and their members benefit financially from the pricing of FHLB obligations due to their government-sponsored enterprise status and the implicit US government guarantee. However, FHLB banks compete with other financial market intermediaries as a funding source for its members. No member relies exclusively on FHLB for funding.
    - Member financial benefit of access to low cost funding and the dividends paid on their investment is currently partially offset by statutory AHP requirements and "above and beyond" affordable housing and economic development programs offered by each bank.
    - It is appropriate to recognize the financial benefit to the banks and their members of the GSE subsidy. However, there should be a robust financial analysis to support any change to the current "tax" on FHLB banks. The tax cannot be of such a level that FHLB funding becomes uncompetitive with other funding sources available to members.
    - The value of FHLB membership is not just the cost of funding, but also the reliability of funding. Reliable access to funding is particularly important to community banks, credit unions and smaller insurance companies that lack routine access to capital markets enjoyed by larger members. Note, however, that larger members also benefit from the reliability of FHLB access through economic and financial market cycles.

- Membership eligibility should be reviewed to assess the appropriateness of permitting other financial players in the single and multifamily home financing market to become members. Since the 1980's, residential mortgage financing innovations have transformed the way housing in the US is financed. The FHLB system should be available to market participants that contribute to a healthy housing market.

Again, congratulations in taking on this important review and thank you for the opportunity to share my views.

Sincerely,

Martin J. Geitz