September 29, 2022

Mr. Joshua Stallings
Deputy Director, Division of Bank Regulation
Federal Housing and Finance Agency
Constitution Center
400 7th Street, SW
Washington, DC 20219

Mr. Stallings:

I participated and presented on the FHFA listening session on September 29th. I wanted to follow up by providing my remarks in writing. They are attached.

Sincerely,

John P. Rigler
Chairman and CEO

FHFA – FHLB Listening Session

September 29, 2022

Thank you for allowing me to participate in this listening session. I served on the board of directors, of the FHLB of Des Moines, from 2012-2016. I have been a community banker for over 45 years. Reform of the Affordable Housing Program is long overdue. I have some strong and creative ideas on how AHP should be improved upon.

The FHLB system is in the commodity business competing with others who also provide access to credit. Selling a commodity, even cash, requires one to be lean and efficient relative to its competitors. FHLB system shrinkage has been quite significant in recent years. As system balance sheets have shrunk, earnings have shrunk, along with fewer dollars going into the AHP. FHLBs are no longer the low-cost providers of credit to banks, credit unions, and insurance companies. High governance, compliance and AHP costs have contributed to this. In addition to 10% of net income going to the AHP there are formidable additional costs to execute the program. Those costs create significant inefficiencies. Systems, IT, personnel, and compliance costs hamper the FHLB system from being competitive which reduces resources going into AHP. I suspect, when considering "all in" costs, they must approach 20% of net income. It is a big number which its competitors do not incur.

Banks, through their well-established, seasoned, and regulated Community Reinvestment Act (CRA) programs, could easily take over the AHP from the FHLB system banks. Banks have been obligated, supervised, and regulated under CRA for nearly 45 years. CRA programs have been federally regulated, tested and proven effective in serving the needs of their communities. FHLBs could simply pay that 10% of net income to CRA supervised institutions for distribution within their communities. Additionally, the FHLBs could relieve themselves of those formidable costs of administering the AHP. FHLBs would become much more cost effective and competitive in providing liquidity to its member shareholders. Their balance sheets would grow, earnings would grow, and Affordable Housing Program dollars would grow. Local financial institutions are much more prevalent in their communities and better focused on local needs. The FHLB of Des Moines has members in Honolulu, Anchorage, Seattle, Portland, Sioux Falls, Minneapolis, St. Louis, Kansas City, and every community in between those cities. Honolulu is 4,000 miles away, while Anchorage is 3,400 miles from Des Moines. Those local institutions understand their community's needs better than the FHLB of Des Moines. Those local institutions will invariably make better allocation decisions than any Affordable Housing staff sitting in downtown Des Moines.

Having those local, customer facing institutions allocate Affordable Housing Program resources will disarm FHFA's legitimate concerns that some entire states have NEVER EVER received an AHP grant.

Credit Unions, insurance companies, CDFI's are not subject to the Community Reinvestment Act. They may very well desire to participate in the AHP. They should be allowed to opt into the Community Reinvestment Act, in order to receive AHP grants. Existing federal regulatory oversight would assure compliance with CRA and AHP goals and objectives. Those credit unions, CDFIs, and insurance companies would not be required to opt into CRA and AHP obligations. Participation would be optional to them. Other institutions committed to CRA and AHP could receive those additional funds for deployment.

Thank you, I look forward to seeing a reformed, expanded, and more effective AHP in the future.

John P. Rigler II

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