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**BOARD OF DIRECTORS:** Richard C. Walden, Chairman • James T. Ashworth  
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October 14, 2022

Sandra L. Thompson, Director  
Federal Housing Finance Agency  
400 7<sup>th</sup> St., SW  
Washington, DC 20024

Re: FHLBank System at 100: Focusing on the Future

Dear Director Thompson:

As president of CNB Bank Shares, Inc., the holding company for CNB Bank & Trust, NA (CNB), headquartered in Carlinville, IL, I am hereby submitting my comments in response to your call for a comprehensive review of the FHLBank System. CNB is a member of the Federal Home Loan Bank of Chicago (FHLBChi).

I have been following the recent debate concerning the relevance of the System, given its evolution over the past 90 years, including articles authored by Cornelius Hurley and William Isaac, as well as a white paper partially attributed to Daniel Tarullo. Their criticisms have been voiced again during your first three days of listening sessions, and challenged by a large cross-section of current stakeholders. My observations support the views of the latter group. Please allow me to combine your six discussion criteria into three, namely: 1) general mission, organization, and operational efficiency; 2) roles supporting affordable housing and the needs of rural and financially vulnerable communities; and 3) member products, services, collateral, and eligibility.

- 1) The Depression Era purpose for founding the System was to support mortgage lending by Thrifts and insurance companies, simply defined. Deregulation of interest rates and the subsequent collapse of the Savings and Loan industry resulted in growth of the System to admit commercial banks, credit unions, and CDFI's. The mission and purpose also expanded to support general community investment, of which affordable housing is a subset. Continued evolution is likely, however it is my opinion that the System is successfully achieving its stated purpose under appropriate membership definitions.

I am an elected member director since 2012 and am serving as the current Chairperson of the FHLBChi board. During my tenure I have also served as the Chairperson of FHLBChi's Affordable Housing Committee, and I can attest to the diligence and effectiveness of FHLBChi staff in marketing, funding, and monitoring their advances,

LOC's, competitive grants, and down-payment assistance programs. In addition, FHLBChi regularly enhances statutory requirements with new and well-received voluntary community investment programs. CNB is a thankful participant in all the above.

FHLBChi is appropriately staffed with seasoned and professional executives and support personnel who regularly review operational excellence, making changes as technology evolves. Additionally, there have been initiatives with other FHLB's to collaborate on certain processes, worthy efforts in my view that should be regularly explored, without losing regional focus on member needs. Detractors who describe the System as "deeply flawed" are sadly misinformed.

- 2) Since 1990 the FHLBanks have provided \$7.3 billion in affordable housing subsidies. It is disingenuous to criticize such support as insignificant, then suggest the co-op expand its reach to encompass bridges, roads, and climate. Such a dilution of the community investment mission would only exacerbate adequate funding of those needs, while exponentially expanding risk within the System. The Illinois/Wisconsin region of the FHLBChi covers a mix of urban, rural, and tribal communities, some affluent and many financially vulnerable. By providing liquidity through inevitable economic cycles, the FHLBanks support both the housing and community investment needs of their members' communities (including advances that help to create jobs and local infrastructure, without which there's less need for housing). Affordable housing is not separate-from community investment, it is integral-to it. And as local deposits ebb and flow, the unique co-operative nature of the System's liquidity support is critical to members being able to consistently meet loan demand.
- 3) The FHLBChi is member-focused. Members are community-focused. CNB was established well over 100 years ago, and has expanded into seventeen communities both organically and through acquisitions, consistent with the consolidation of our industry. Yet we remain locally-owned and managed. Our communities are primarily rural and ag-oriented, but we also have suburban locations in Cook County (Chicago) and St. Louis/metro-east. Not only have we benefitted from advances if and when needed, but we also participate in MPF mortgage financing products, community investment and down-payment assistance programs, and Letters of Credit supporting public deposits. The FHLBChi was quick and responsive with a COVID-19 Relief program early in 2020, which our CNB board match-funded. Irrelevant? I think not. In fact, I find it refreshing and appropriate that the FHLBanks haven't drawn attention to themselves in the public eye, instead allowing members to be the conduit and receive credit for community support.

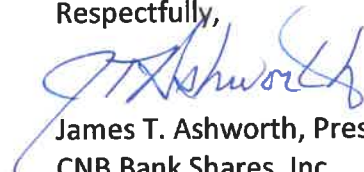
By the very nature of their business, FHLBank members place valuable collateral and retained earnings on their balance sheets. These components of assets and equity support the institutions through economic cycles, and reduce risk to the System when advances are drawn. The notion of expanding System membership eligibility to entities

that are weak in collateral and capital does not make good sense. The implicit government guarantee of FHLB funding is not a direct taxpayer subsidy for a System that has not taken a loss on an advance; yes, there were losses on PLMBS during the Great Recession, but those were covered by the retained earnings of the FHLBanks. This seeming lack of understanding by certain critics is consistent with their question: "Isn't deposit insurance from FDIC....enough of a taxpayer subsidy?" They should know that the FDIC insurance fund is paid for by premiums charged to the banks, not by taxpayers, and no insured depositor has lost money since FDIC inception.

Naturally, CNB reduced its use of advances during the pandemic as we were flooded with stimulus-sourced deposits, consumer spending slowed, and loan demand subsided. But now as the economy struggles to recover, our cash reserves have been depleted while loan demand picks up. Ours is a relationship business. We always prefer to fund and support lending activity with local deposits. Yet there are times when a FHLBChi advance is very useful to help with our balance sheet management. The FHLBChi sales and service personnel are quite knowledgeable as they help us to marry their products with our needs, especially as we endeavor to match-fund competitive loan terms.

In conclusion, the System works. Its currently defined mission and membership are appropriate. Perhaps there are more efficiencies that can be developed between the FHLBanks, but hopefully not through collapse of the regional nature of a System whose members are in tune with the needs of their communities. Yes, the System has in the past remained purposefully "under the radar"; now in the crosshairs of published and misinformed criticism, it's time the System tells its story: a story of consistent liquidity support for the decentralized US banking and insurance industries that are often defined as being the envy of the world.

Respectfully,



James T. Ashworth, President  
CNB Bank Shares, Inc.