HERITAGE BANK
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Federal Housing Finance Agency
Constitution Center
400 7th Street, SW
Washington, D.C. 20219

Re: FHFA's Comprehensive Review of the FHLBank System

Since it was established in 1932, the Federal Home Loan Bank System (FHLBank or System) has been a critical tool for banks and other federally insured depository institutions that are meeting the needs of their communities by providing funding for housing. As bankers, we have experienced times when the lack of liquidity has made it difficult to carry out our mission, but the FHLBank system provided the necessary funding for banks to provide housing loans. One such time was the financial crisis of 2007-2009. During that period of bank failures and struggles, the FHLBank System stepped up and continued to help provide funding housing. Even today, as liquidity in the financial system has dried considerably, we would not be able to provide adequate loans for housing without access to the FHLBank System.

We understand that all agencies and systems should be periodically reviewed to ensure that they are efficient and meeting their mission. While we believe that the FHFA reviewing the FHLBank System is entirely appropriate, we are concerned that some of the issues and potential solutions that the FHFA is considering will have severe negative impacts and could result in unintended consequences that will weaken the entire system.

The first concerning issue being discussed is opening up the FHLBank System to entities, such as REITs, FinTech companies, mortgage banks, etc. that are far less regulated than banks and the other depository institutions that are currently members of the System. The high level of regulation for depository institutions ensures that the FHLBank System can provide funding while taking on minimal risk due to the strength of the borrowing institutions and the high-quality collateral being offered by those institutions. Expanding the membership to lesser regulated institutions will add a significant amount of risk to the system. At best, this additional risk only adds cost to the members through higher priced advances to account for the risk. At worst, the additional risk weakens the entire System to where government intervention is necessary. During the financial crisis, the enterprises that took on additional risk, Fannie Mae and Freddie Mac, had to be rescued and are still in conservatorship to this day. The FHLBank System stayed focused on its mission and did not take on undue risk and remained strong through the crisis and is still strong today.

The second concerning issue is the increased reporting and monitoring of both lending activities and collateral that is being proposed. In particular, FDIC-insured Banks submit quarterly financial reports that are publicly available. The high level of regulation ensures that these financial reports are accurate and the collateral being provided by the Banks meets the requirements of the System for both types of loans and quality of the loans. Between the publicly available information, additional confidential information provided by regulators, self-reporting provided by Banks, and member collateral verifications (MCVs), the FHLBank System has more than adequate information to ensure that Banks are using advances to fund housing and providing the quality collateral that meets the System's mission. Adding additional reporting and monitoring requirements will substantially increase the cost for the depository institutions because no banking systems are designed to track fungible dollars to specific loans. This will result in manual processes that will substantially increase costs that will reduce the use of FHLBank advances and/or higher costs being passed on to borrowers.

Finally, through this review, we hope that the FHFA sees the need to expand the accepted collateral, especially to include digital signatures. Digital signatures are increasingly more accepted and desired in the normal course of business, so requiring "wet" signatures is becoming more and more outdated. Not only do our customers prefer signing documents digitally, but we also see the possibility of substantial efficiencies and cost savings that could be gained by not printing documents and requiring physical signatures on notes. Furthermore, in a society that is conscious of its impact on the environment, the amount of paper being used to gain physical signatures seems opposed to the societal norms. We feel that institutions that do use the FHLBank system are disadvantaged due to the requirement to obtain physical rather than digital signatures.

Overall, we are very pleased with FHLBank System and its efforts to provide low-cost funding to financial institutions that provide housing loans to the communities in which they serve. Throughout economic cycles, there are periods in which loan demand is strong but yet depository institutions struggle to obtain the deposits required to fund those loans. During those times, FHLBanks play a crucial role in keeping up the supply of loans, particularly home loans. We fear that some of the proposals being considered will weaken the System through the addition of higher risk members or will substantially increase costs through additional reporting and monitoring. We hope that the FHFA sees the value of modernizing the System by allowing digital signatures on notes and also the potential unintended consequences that will be the result of expanded membership and reporting.

Sincerely,

E. Kim Light
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