COMMERCIAL BANK

March 15, 2023

RE: FHLB Advances

To Whom It May Concern:

The Federal Home Loan Bank has been and has become more vital to community banks over the years. It has always been a source of additional funding, but with brokered deposits competing for Bank's deposits, it has become a partner for Community Banks.

As a former regulator for 7 years and about 25 years at Commercial Bank, the FHLB is a great partner. While I have heard talk about requiring tracking usage of funds, I am not sure of the practicality of it. Most community banks do not borrower funds to put directly into specific loans, overall. We do not. For example, as of December 31, 2022, we had $32,996M of first lien home loans on our books out of a $168,228 portfolio or about 19%. Additionally, we have over $3.7M in HECL (with over $3,000M unfunded) along with $485K of second lien home loans. These numbers tend to rise when rates rise as Bank rates are typically better than bond rates i.e. secondary market.

The point I am trying to make is these loans are typically longer term assets as far as amortization than commercial credits. While we might not borrower to fund these, we do when using them as funding needs arise. That could be for more loan activity or deposit needs in the short term. Either way, we use the money to help fund home loan and home loan activity, even if not when the loan closes. When we make an advance, it goes to our Federal Reserve account for our cash needs, not a specific loan to match and is figured in our total costs of funds and this is how we price along with competition.

Another topic I hear about is to let other non-bank entities borrow from the FHLB such as REIT's, FinTechs and some insurance entities. While they would all benefit, it would place the FHLB system more at risk as the FDIC now back stops losses with Banks and the system was set up to keep a healthy Banking System. By allowing these entities into the FHLB, it allows non-bank competitors get cheaper funding than they could normally on top of access to capital that most traditional banks do not have. It would actually tip the scale and make the long term position of the banking system weaker, in my opinion.

I do not have an opinion on whether more types of collateral should be used, but I do think wet signatures should be acceptable. Long before COVID-19, the word was moving this way. Since then, all forms of electronic signatures have become common. I would think, at a minimum, they should be acceptable on renewals. Selling of collateral would not be impacted by the lack of 'wet signatures'. It seems odd that electronic notary's are acceptable for the deeds of trust and mortgages, but not the signatures. I do believe this needs to be looked into for a best resolution possible for the industry moving forward

Ongoing mission-related tests regarding minimum housing or related assets depends on what that means. From my years in banking, individuals want long-term fixed rates and they also want them low. That is why individuals get home loans on the secondary market. When rates rise or they do not qualify, at the time of application, is when they look at our internal products as an option. Once they do meet the qualification, they will refi into the secondary market. Many times this is due to lack of income for two years, lack of employment history or other items that disqualify them from secondary market. They do qualify in 6 to 12 months and go secondary. I think the problem with this testing is the misunderstanding that an advance will fund an individual loan. This is not the case. It provides funds to the institution so it can have funds due to timing of needs. Like I stated earlier, if you already have loans funded with deposits and you have some loan activity, you may want to have an advance for cash management, but not one to one for that loan and residential lending is already on ones books. If the desire is track every penny, I really don't see how that can be done effectively or efficiently. Banks have call reports that have outstanding balances and unfunded balances for home loan activity that should suffice.

As far as large member funding, while they may have advantages to funding smaller institutions do not, they due provide scale that does lower costs to the smaller banks. The FHLB system was set up for Banks and they are banks and should be allowed to participate.

Sincerely,

Nathan G. Bartlett
Executive Vice President