



KIM REYNOLDS
GOVERNOR
ADAM GREGG
LT. GOVERNOR

JEFF PLAGGE
SUPERINTENDENT

March 13, 2023

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

Re: Comprehensive Review of the FHLBank System

Dear Director Thompson,

The Iowa Division of Banking (IDOB) appreciates the opportunity to comment on the Federal Housing Finance Authority's (FHFA) Comprehensive Review of the FHLBank System at 100. The IDOB believes any review of the FHLBank system should be cognizant of the many benefits this system currently provides to community banks, their customers, and the communities they serve. The system provides its members, including banks and credit unions, with funding for mortgages, liquidity to meet short-term needs, and funds for housing finance and community development. The IDOB urges the FHFA to recognize the central role the Federal Home Loan Banks have come to play in ensuring access to liquidity for community banks. The security the FHLB provides to community banks in this regard in turn promotes economic growth, including but not limited to housing development, in the communities they serve.

The IDOB recognizes and appreciates the FHFA's interest in reviewing the FHLBank system in a manner that acknowledges changes in the banking landscape while continuing to advance the goals of the system. Iowa is a state with a strong tradition of community and rural banking that focuses on agriculture, small business, manufacturing, and housing of all types, as well as community development. As the chartering authority and regulator of 235 Iowa banks, the IDOB is well-acquainted with the issues facing rural banks and communities. While many rural communities have stayed vibrant, others across the United States have experienced population decline over the last ten years, as well as discouraging trends in housing stock, infrastructure improvements, business development, job opportunities, and income levels. Iowa Governor Kim Reynolds launched the Empower Rural Iowa Initiative in 2018 to directly focus on these issues in Iowa, creating task forces that target problems—like housing shortages—present in many rural Iowa communities.

The FHLB plays an indispensable role as a liquidity provider in helping Iowa's banks contribute to that economic development, particularly in our rural communities. As Superintendent, I have noticed a series of recent events that are contributing to emerging liquidity challenges for Iowa banks. While loan demand remains strong, deposit balances are beginning to decline due to a confluence of factors like increased rate competition and the spending down of deposits, such as those received via the Paycheck Protection Program during the height of the Covid-19 pandemic. Iowa banks are simultaneously facing higher costs for core deposits due to both inflation and rising interest rates. And depreciation in the investment portfolios of our banks, due to the current yield curve and rising rates, would cause most banks to sell investment assets at a

loss in order to generate liquidity to meet ongoing loan demand if access to traditional liquidity sources such as the FHLB were restricted.

I have worked in banking for over 40 years, including 25 years as the CEO of community banks and nearly 4 years as Superintendent. My banking career began in 1978, a time when inflation was high and the economy was struggling, circumstances that caused some banks to restrict lending due to lack of deposit growth. I even saw one bank advertise in the local newspaper that loans were simply not available. Thankfully better liquidity options are now available and loan restrictions like that have not returned. But taking any new steps that would restrict the FHLB's ability to provide liquidity would aggravate these concerns, with significant repercussions on banks' ability to continue to make loans of any type. This threatens to restrict economic growth at a time we continue to recover from the effects of the Covid-19 pandemic. The community banks that rely most heavily on the FHLB for access to liquidity would be hardest hit by the effects of these changes—and that impact would resonate in the communities they serve.

The IDOB recognizes the indisputable importance of the FHLBank system's mission to promote home ownership by providing funds for mortgage loans, housing finance, and community development. And the FHFA's present review of the FHLBank system presents a real opportunity to take proactive steps to further the system's housing-related mission. But the IDOB strongly recommends that this review appreciate and preserve the system's equally critical mission to provide liquidity, particularly to community banks. These banks are essential to the continued growth and vitality of the communities they serve, particularly rural communities like those in Iowa where the community bank is often a key cog in housing finance, community development, and other economic activity. Recent events including the failure of Silicon Valley Bank on March 10 and Signature Bank on March 12 further underscore the continued importance of liquidity backstops like those offered by the FHLB.

The IDOB appreciates the opportunity to present these comments and encourages the FHFA to avoid any changes that would promote housing finance at the expense of the FHLB's historic role as a liquidity provider to community banks.

Sincerely,



Jeff Plagge
Iowa Superintendent of Banking