

To: The Federal Housing Finance Administration (FHFA)
Re: FHLBank System at 100: Focusing on the Future (2023)
Date: March 16, 2023

To Whom It May Concern:

Affinity Plus Federal Credit Union (Affinity Plus) is a member-owned financial cooperative based in St. Paul, MN. We were originally formed by Minnesota state employees and have grown to over 250,000 members and over \$4 billion in assets. Affinity Plus is a Low-Income Designated credit union with a focus that includes providing and expanding economic opportunity and financial access to low-income communities, including rural areas. As a member of the Federal Home Loan Bank of Des Moines, we write you to provide input regarding potential changes you are considering for the Federal Home Loan Bank System (FHLB).

As was exemplified by the recent failures of Silicon Valley Bank and Signature Bank, liquidity is crucial to a financial institution. We cannot stress enough how critical the FHLB is to our ability to serve our members, including our low-income members whom the FHLB system was created to support. The FHLB provides Affinity Plus a reliable source of liquidity that is vastly more cost-effective and strategically more beneficial than our other sources. It allows us to portfolio mortgage loans that otherwise may not be approved. In addition to being a key strategic liquidity source, FHLB borrowings serves as a primary source of interest rate risk mitigation generally unavailable through the other liquidity options available to us.

Our membership in the FHLB has helped us improve financial access for low-income individuals and communities, including the ability to provide affordable financing for housing to low-income members. In addition to directly supporting housing, the liquidity provided by FHLB has allowed us to invest in organizations like Dora, which has a mission to expand financial access to underserved and underbanked persons; create new products such as our New American Loan Program, which provides loans for persons to help pay for the costs associated with obtaining U.S. citizenship; and expand services to underserved areas like the White Earth Reservation in Mahanomen, Minnesota. The FHFA has done a good job making sure the FHLB is a reliable source of liquidity for members like Affinity Plus. That said, we are concerned about some of the changes the FHFA appears to be considering.

As explained in more detail below, we think these changes would greatly hinder the FHLB's ability to be a reliable source of liquidity for members like us. This would in turn have direct and

indirect negative impacts on our ability to provide services like the ones mentioned above. Please consider the following in making your decisions regarding the future of the FHLB.

Large Member Eligibility

It is our understanding that the FHFA is considering revising member eligibility such that larger members would be either ineligible for, or subject to limitations in, FHLB membership. We caution the FHFA regarding such changes, which are likely to significantly reduce the stability of the FHLB in several ways.

Larger members provide stable pricing, broader collateral availability and material earnings for AHP disbursements. The fees and interest paid by larger members help stabilize FHLB earnings and provide a significant amount of operating capital and operating scale for the FHLB. Larger members are also key to establishing a stable global investor base for the purchase of FHLB fixed income securities. Additionally, larger members help mitigate risks by giving the FHLB a larger base for spreading risk.

Prohibiting larger members from being eligible would reduce stability, decrease operating scale and increase the costs for remaining members. Those changes would ultimately impact the very consumers the FHLB exists to help. We understand that there is wisdom in considering risk mitigation measures such as limiting the number of FHLBs that a larger member could be part of, however, even a change that just limits membership for larger members could have negative and unintended consequences. Please consider those possible consequences in making your decision.

Required Tracking of Advance Proceeds

We understand the FHFA is also considering requiring members to provide advance proof of the usage and deployment of funds. That the FHFA would put some sort of mechanism in place to track the usage of funds. For the following reasons we think the FHFA should avoid such a measure.

First, this would diminish the FHLB as a reliable source of liquidity, which will negatively impact the ability of members to fulfill the FHFA's mission of funding housing finance and community investment. If our lines through the FHLB were limited to only pledging Low/LTMI real estate loans, it would reduce our ability to be agile in managing our liquidity and interest rate risk exposure. As explained above, the liquidity the FHLB provides Affinity Plus is critical to our ability to offer affordable financing for housing and other financial products to low-income members and communities. If liquidity is negatively impacted, then so too will be our ability to provide the services like those mentioned above. Additionally, the FHFA's mission is still being met even if funds borrowed from the FHLB are not collateralized solely by Low/LTMI real estate loans

because the liquidity those funds provide helps us deliver services that fulfill the FHFA's mission. The ability to access the liquidity the FHLB provides is just as important to us in balance sheet management and determination of the scope of products and services offered as the actual use of that liquidity.

Second, we think such a requirement would be impractical and cost-prohibitive. The requirement would be impractical because the collateral and advance proceeds are fungible, which makes tracking difficult. This difficulty increases the cost of compliance, possibly to a point where it's cost-prohibitive. At a minimum, the increased compliance will increase the costs for members and ultimately low-income consumers, the very ones the FHLB is supposed to help assist.

Finally, the negative impact on liquidity will likely create safety and soundness issues in at least two ways. First, the reduction of available liquidity. Second, it would limit the ability for members to have long-term strategic borrowing sources to mitigate interest rate risk. Either of these issues will certainly draw the attention of prudential regulators (e.g., the NCUA) who might require financial institutions like Affinity Plus to increase pricing on, scale back on, or completely eliminate some of the products and services we provide to low-income members since those products tend to pose a higher perceived risk to safety and soundness. Again, ultimately it would result in a negative impact to low-income consumers.

Mission Asset and Collateral Tests

The FHFA is also considering subjecting FHLB members to ongoing mission-related tests regarding minimum housing-related or other types of assets. Requiring mission-related asset or collateral tracking on an ongoing basis would be problematic for mission viability, scalability and sustainability due to increased compliance costs for the FHLB. This increase in costs for the FHLB will in turn increase costs its members. These increased costs could make borrowing from the FHLB cost-prohibitive, which will either result in making such borrowing untenable or will increase the costs that must be passed along to consumers. Thus, negatively impacting the viability, scalability and sustainability of the mission.

Additionally, it could also hinder our ability to manage our loan portfolio and ultimately reduce the number of loans we can offer that fulfill the FHFA's mission. We sell loans to Freddie and Fannie. We turn the funds we receive into new loan offerings. Mission testing requirements would likely restrict us to selling to Freddie and Fannie only those loans underwritten to higher income members; we'd have to portfolio loans to low income members. This would result in elevated retention of credit risk and less funds available to turn into new loans, ultimately reducing capacity to grant loans that meet FHFA's mission.

Furthermore, the FHFA already receives data on pledged loans. Instead of using punitive measures, which will have the impacts mentioned above, the FHFA should consider an incentive

based approach. Through such an approach, the FHFA could reward FHLB members for doing more loans that meet the FHFA's mission.

Conclusion

Affinity Plus implores the FHFA to consider the potential negative impacts the measures above could have on liquidity and the FHFA's ultimate mission of providing housing financing and community investment. The recent bank failures alone should be enough to give the FHFA pause before implementing any of the measures above. Thank you for the opportunity to comment on this matter.

Sincerely,



Brian Volkmann
EVP – Chief Financial Officer
Affinity Plus Federal Credit Union