

The Honorable Sandra Thompson  
Director, Federal Housing Finance Agency 400 7<sup>th</sup> Street, SW  
Washington, DC 20024

Dear Director Thompson:

As members of the Federal Home Loan Bank of Dallas, (FHLB Dallas) we cannot overstate the critical importance of the liquidity that FHLB Dallas and the Federal Home Loan Bank (FHLBank) System provide to their depository institution and insurance company members.

### **Reliable Daily and Backup Liquidity**

One of the primary benefits of membership in an FHLBank is access to “just-in-time” liquidity that supports a variety of funding needs in virtually all economic scenarios.

FHLB Dallas’ role as a primary liquidity provider is essential to many of our daily operations. Its advances are a stable, reliable and predictable source of funds, primarily due to the financial strength of the FHLB System.

- FHLB Dallas provides quick and easy access to on-demand funding, giving our institutions the ability to react quickly to new or rapidly changing situations.
- FHLB Dallas advances provide day-to-day and short-term funding that many of us rely on to offset funding needs associated with the timing of deposit inflows and asset funding outflows.
- FHLB Dallas has a transparent credit and collateral process. Retail deposit accounts and annuity products are core product offerings of our business. However, in virtually all instances, our retail customers own the option to withdraw funds, either daily or at maturity. Conversely, we know what to expect when it comes to the processes, pricing and structure of FHLB Dallas transactions. “Owning the option” lends a sense of stability to our institutions, particularly in times of economic uncertainty when volatility may be excessive on either the asset or liability sides of our balance sheets. Also, we understand that there is an ability to renew advances if we are in good credit and collateral standing.
- In many instances, FHLB Dallas’ long-term advances are the most effective source of long-term funding for asset liability management purposes based on cost, ease and reliability of access, clearly defined terms and lack of counterparty risk. For example, many of us have used FHLB Dallas advances to fund purchases or originations of residential mortgages or mortgage-backed securities and mitigated the associated interest-rate risk.
- Our traditional retail deposit and annuity products are core aspects of our businesses. However, the ability to attract those funds in a timely manner, in the amounts and under the terms that meet our needs, can be difficult at times. FHLB Dallas is an invaluable partner in providing liquidity lines of credit that can be accessed at any point in time.

We understand that the financial stability of the FHLB System and one of the initial reasons for its charter was a result of the catastrophic impact of bank failures and “runs on banks” that this country suffered during the Great Depression.

For any one of us to create such a liquidity pool would be impossible. Without FHLB Dallas as a backup source of liquidity, we would have to carry much larger amounts of liquidity which could jeopardize the

economics of our business models and, at a minimum, would greatly increase our costs of operation, a cost that would be absorbed by the consumer.

With FHLB Dallas, we have daily access to liquidity. Our availability is generally stable and in a well-defined range with a highly rated counterparty. In many instances we can pledge illiquid portfolios of assets such as single-family and multifamily loans and mortgage-backed securities, as collateral.

However, we would appreciate some increased clarity regarding our ability to pledge other types of collateral, such as municipal bonds that we invest in to support our local communities. In most instances, these bonds benefit ALL members of our communities, but the book value of municipal bonds pledged across the System was only \$17.5 billion in 2020. FDIC data indicates that banks held almost \$376 billion of municipal bonds on their balance sheets.

Requirements around pledging of municipal securities that benefit real estate, but also other important community needs, are also a challenge, as it can be difficult, if not impossible, to determine the percentage of bond proceeds that has been or will be used to finance real estate improvements versus community needs. Finding a detailed description of the exact use of bond proceeds is time-consuming and often unfruitful because bond documents are not drafted with this purpose in mind. Often only a high-level summary of the use of proceeds is included in an offering memorandum and the ancillary documents rarely provide additional useful information which is otherwise needed to make this determination under the mixed-use allocation test. Many securities contain a refinance component which may require vetting, as well.

Consequently, we respectfully request that the mixed-use allocation test for municipal securities be eliminated from the collateral framework and that members be allowed to pledge the full value of all municipal securities, mixed-use or not, that meet the real estate nexus test alone.

### **FHLB Dallas is there when we need them**

Not all of us use FHLB Dallas on a daily basis, but we know that in times of economic stress, as other sources of liquidity tend to contract, FHLBank advances remain a reliable source of back-up liquidity. Two recent scenarios include the 2008 financial crisis and 2020 COVID-19 pandemic. In addition, currently, as the Federal Reserve has increased interest rates to combat inflation, community banks have seen an outflow of customer deposits. As a result, our liability outflows have been unprecedented and unpredictable. FHLBank advances are helping to fill the gap left by those liability outflows, ensuring our continued ability to lend and invest in our local communities.

- FHLB Dallas advances have been a source of gap funding during an unpredictable deposit market
- FHLB Dallas has provided stability in a rapidly rising interest-rate environment over the past 12 months
- The System has successfully supported financial institutions during the last 12 months just as it did during the 2007-2008 credit crisis, and just as it did during the COVID-19 pandemic in 2020.

### **FHLB Dallas funding is an essential piece of the funding diversification puzzle we deal with daily**

In many ways, FHLB advances operate in a countercyclical nature to our other liabilities. They also provide us with the ability to hold quality assets, such as securities, during times of market disruptions

or greater than normal liability outflows. Simply put, they are there, cost effective, readily available and easily accessible when our primary sources of retail funding decline, sometimes in an unprecedented and unexpected way. Currently, there is no other alternative that can fill this void that could be implemented in any cost-effective manner without undue financial burden being passed on to our customers.

Thank you for this opportunity to discuss the important and vital liquidity function provided by FHLB Dallas and the FHLB System.

Sincerely,

*David R. Kapavik*  
David R. Kapavik (Mar 14, 2023 11:32 CDT)

Authorized Signature

SouthStar Bank S.S.B Institution

David R. Kapavik Print Name

President and CEO Title

*Ken Hale*  
Ken Hale (Mar 14, 2023 07:21 HST)

Authorized Signature

BOM Bank Institution

\_\_\_\_\_ Print Name

President & CEO Title

*Max S. Yates*  
Max S. Yates (Mar 14, 2023 12:41 CDT)

Authorized Signature

BankPlus Institution

Max S. Yates Print Name

Senior Executive Vice President Title

*Angel Reyes*  
Angel Reyes (Mar 14, 2023 11:43 MDT)

Authorized Signature

Centinel Bank of Taos Institution

Angel Reyes Print Name

President / CEO Title

*J. Mark Riebe*  
J. Mark Riebe (Mar 14, 2023 15:02 CDT)

Authorized Signature

TexasBank Institution

J. Mark Riebe Print Name

Chairman and CEO Title

*Randy Johnson*

Randy Johnson (Mar 14, 2023 15:00 CDT)

Authorized Signature

Texas Mutual Insurance Company

Institution

Randy Johnson

Print Name

SVP Investments

Title

*Michael W. Donnell*

Michael W. Donnell (Mar 14, 2023 14:48 CDT)

Authorized Signature

Chambers Bank

Institution

Michael W. Donnell

Print Name

President

Title

*Mark S. Marionneaux*

Mark S. Marionneaux (Mar 14, 2023 15:09 CDT)

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Bank of Zachary

Institution

Mark S. Marionneaux

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President/CEO

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