



March 29, 2023

The Honorable Sandra Thompson
Federal Housing Finance Agency
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RE: *FHLBank System at 100: Focusing on the Future*

Dear Director Thompson:

I am writing today as President and CEO of the Illinois Bankers Association, which represents over 260 banks of all sizes throughout Illinois. Nearly all of our member banks are also members of the Federal Home Loan Bank of Chicago.

I was privileged to serve in Congress for four terms and served on the House Financial Services Committee during that time. I also previously worked in banking. **But it wasn't until I was in my current role at the Illinois Bankers Association that I fully appreciated the value of the Federal Home Loan Banks. I also have come to view the FHLBanks as a success story for Congress,** which is not something this is said very often today.

Congress had the foresight to design the FHLBanks as regional cooperatives, meaning they are owned and run by their member institutions. This ensures that each FHLBank is focused on serving the liquidity needs of the members in their district. As a result, **the commercial banks and thrifts in Illinois that I work with view the Chicago FHLBank as a trusted advisor and partner in their success.**

The members own the FHLBank, they constitute a majority of its Board of Directors and, crucially, **it is their capital at risk that allows the FHLBank to generate the profits and fund all of their worthwhile activities, including their many affordable housing and community investment programs.**

To be successful, a cooperative needs to ensure members of all sizes are included and served. Borrowings from large banks provide the FHLBanks with the size, scale and profits needed to most effectively serve smaller institutions. It all works nicely together. **Limiting access to the FHLBanks from larger institutions will only shrink the System and reduce the profits available for affordable housing and other uses.**

Congress created the FHLBanks in 1932 during the Great Depression at a time when more than 1,700 thrift institutions had failed. Something needed to be done. Modeled on the Federal Reserve Banks, the FHLBanks were intended to stop further failures by providing liquidity for the mortgage loans thrifts held on their balance sheets. This was before the creation of the FDIC in 1933. **So from the beginning, a key purpose of the FHLBanks was to provide liquidity to stop bank runs, assure**

depositors that their money was safe and add stability to the financial system. Recently, we have seen FHLBank liquidity used for this same purpose, which has been an invaluable source of stability for banks and thrifts across the country.

Last week, the FHLBanks raised more money in single day for its members than in ever before. Bond investors around the world want and value FHLBank debt, particularly in times of market turbulence. **This is what Congress intended. Banks know they can rely on their FHLBank to be there when they need it the most.** Acting as a reliable source of liquidity is central to the FHLBank's mission and must be preserved.

The performance of the FHLBanks in the last 2 weeks conclusively puts to rest criticism that the FHLBanks are no longer relevant to their members or to the broader financial system. **FHLBank liquidity promotes housing finance and homeownership. Even when the funding is used for non-housing purposes such as small business or agricultural lending.** The economic development created by such funds helps communities prosper. It creates jobs. It creates growth, both of which are necessary for sustainable housing and homeownership.

A note about changing the mission and membership of the FHLBanks: During the review, there has been some debate about the mission of the FHLBanks. Is it to provide liquidity to members or must the funds only be used for housing? Some have declared the FHLBanks have a "dual mission" of liquidity and affordable housing. There has also been debate about whether to allow other entities such as independent mortgage banks and REITs to join the FHLBanks. **But it is important to remember that the mission and membership of the FHLBanks is determined by Congress.** Only Congress can expand, restrict or change it.

When Congress believes the role of the FHLBanks should be updated to reflect changes in the financial markets generally, it has never been shy to act. Significant revisions to the Federal Home Loan Bank Act were enacted in 1987, 1989, 1999, 2008 and most recently 2014. **In the absence of Congressional action, the regulator should proceed cautiously.**

For example, some have called for advances to only be used for housing. However, money is fungible. It is not possible to track how the funds are deployed by members. But **the mission of the FHLBanks has been largely determined by the collateral that Congress allows members to pledge. It ensures there is a connection between the advances and the how they are used. And Congress has expanded the list of eligible collateral over time.** Today larger banks, credit unions, insurance companies and CDFIs must pledge housing-related collateral, while smaller banks can also pledge small business, agri-business and agricultural loans. **This change has effectively expanded the FHLBank mission to support economic development, provided it flows through community financial institutions.**

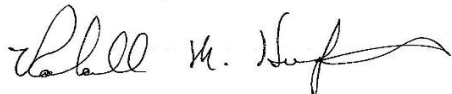
Similarly, **Congress has determined membership questions over the years by expanding the list of entities that are eligible to join the FHLBanks.** Thrifts and insurance companies were the original members, but Congress added commercial banks and credit unions following the Savings and Loan

Crisis, and later allowed non-depository CDFIs and privately-insured credit unions to join. Therefore, **my advice is to leave questions around membership in the FHLBanks to Congress.**

As the FHFA concludes this review process and determines if any changes are needed, I urge it to be cautious and thoughtful. **The FHLBanks are not perfect, and they can do more, but the unique structure that Congress created 90 years ago works well and has stood the test of time.** The FHLBanks have served their mission well since 1932 without ever requiring Congressional appropriations or a taxpayer bailout. That is a huge success by any measure. Their essential structure should be respected and preserved. **Major changes should be left to Congress.**

Thank you for the opportunity to present these views.

Sincerely,

A handwritten signature in black ink, appearing to read "Randall M. Hultgren". The signature is fluid and cursive, with a long horizontal flourish extending to the right.

The Honorable Randall Hultgren
President & CEO
Illinois Bankers Association
Member of Congress
Illinois 14th District
2011-2019