March 31, 2023

Ms. Sandra Thompson

Director

Federal Housing Finance Agency

400 7th Street, SW

Washington, DC 20024

Dear Director Thompson:

I submit this comment letter for your consideration in response to some of the themes discussed and opinions offered during the Federal Housing Finance Agency’s “FHLBank System at 100: Focusing on the Future” initiative.

Since 2020, I have served on the board of Needham Bank, a $3.6 billion community bank serving MetroWest and more recently, the city of Boston, Massachusetts since 1892. Currently I chair the Risk and Audit Committee and serve on the CRA, Nominating and Governance and Planning committees. Prior to joining Needham Bank’s board, I spent 38 years at the Federal Home Loan Bank of Boston including holding the position of Executive Vice President and Chief Business Officer from 2009 to 2019.

I remain passionate about the important role that the FHLBanks play in working with financial institution CEOs, CFOs, and other senior leaders to address liquidity, asset and liability management, mortgage finance, affordable housing, community economic development and community reinvestment act (CRA) strategies. The FHLBanks and their members are critical to the American economy helping rural, suburban, and urban communities thrive. My comments below draw upon my experience as a director of a community bank and as a seasoned financial services executive with deep knowledge of Home Loan Banks and how they function.

Throughout the “FHLBank System at 100” initiative, there has been robust discussion about the mission of the FHLBanks including what it is and what it should be. Some critics have posited that FHLBanks have strayed too far from their Depression-era purpose of supporting housing finance while others have suggested that they have not evolved enough to support the modern mortgage market. It’s natural that any organization created to meet the challenging times resulting from the Great Depression would evolve over time in response to needs not necessarily foreseen at their genesis.

FHLBanks are no exception to this evolutionary principle in that they have changed significantly over more than 90 years to meet the needs of the day sometimes through legislation and other times through regulation. Significant changes to membership eligibility, collateral eligibility, and even the development of the vital and lauded Affordable Housing Program, which has existed for more than 30 years, have fundamentally changed FHLBanks and how they serve their members and communities throughout America.

Just a few short weeks ago, we were witness to an important example of how FHLBanks as they exist today play an absolutely critical role in today’s financial services industry. Similar to their role during recent crises like the global pandemic and the Great Recession before it, FHLBanks were critical and reliable front-line sources of on-demand liquidity for member financial institutions nationwide during the deposit confidence crisis of March 2023.

When it was clear that high profile bank closures caused by steep deposit runoffs and speculation about where runoffs might occur next, FHLBank members across the nation turned to their regional FHLBank for on-demand liquidity. FHLBanks raised more than $300 billion in discount notes and bonds in record time to meet the surge in demand and ensure the stability of their members’ balance sheets as well as their own. The unique, self-capitalizing business model of the FHLBanks is designed to expand and contract in concert with member liquidity needs and that is precisely what happened during the deposit confidence crisis.

In my opinion, there is no other segment of the U.S. financial system that can simultaneously expand its collective balance sheet and deploy on-demand liquidity to all corners of the United States via banks, credit unions, and insurance companies in a safe, sound, and sustainable manner. FHLBanks and their business model are safe, sound, and sustainable because they have strong relationships with their members and intimate knowledge of the quality collateral they pledge. Any other organization providing liquidity would have taken far longer to accept and process collateral to lend against. Even financial institutions attempting to directly liquidate some of their assets would find it difficult and costly to do so during a crisis when financial markets regularly perform sub-optimally, if at all.

FHLBanks devote considerable time and effort building relationships with and evaluating the collateral pledged by the members in their unique regions. As a result, FHLBanks are not lenders members resort to; they are lenders that financial services companies across the country actively and continuously depend on, plan for, turn to, and incorporate into their financial and liquidity strategies. It is important for day-to-day business operations as well as in times of crisis.

Needham Bank has and will continue to rely on FHLBank Boston as a strategic partner and source of reliable, on-demand liquidity for years to come. Over its long history, Needham Bank has changed and evolved to meet the modern needs of its customers. Once known as *The Builder's BankSM* because of its expertise in serving Massachusetts builders and developers quickly and efficiently, the bank has now positioned itself as a bank for a broader set of builders: the dreamers and doers who make the communities in and around Boston better places to live and work even without lifting a hammer, pouring a foundation, or hanging some drywall. This transition was not without great debate and deliberation about what the communities Needham Bank serves needed most from the bank.

It appears that FHLBanks may be at a similar, but critical crossroad. Among those who call for FHLBanks to change are people passionate about what the FHLBanks already do who wish they could do more. The Affordable Housing Program is unique and powerful as it exists today. It provides critical financial support for desperately needed affordable housing rehabilitation and development throughout each of the eleven FHLBank regions.

FHLBanks are required to devote 10 percent of their annual net income to financially support future Affordable Housing Program investments. FHLBanks also invest much more than that minimum required commitment to housing, community, and economic development, including devoting millions of dollars to voluntarily created programs unique to the regions, members, and communities they serve.

While at FHLBank Boston in 2016, I was proud to be part of the launch of the Jobs for New England (JNE) program. JNE provides low-cost advances to members so they can offer low interest rate small business loans to companies, including those owned by minorities, women, and veterans. Since its inception, JNE has stimulated local economies by providing funding to expand businesses and create or retain jobs. Through 2021, JNE had funded $287 million in low interest rate business loans and led to the creation and retention of nearly 10,000 jobs at New England small businesses.

Innovative voluntary programs like JNE would not be possible if annual assessments for the Affordable Housing Program were increased significantly. That’s not to say that more could not be done by FHLBanks to support housing, community, and economic development in each of their regions. If, for example, the costs and burdens associated with administering and participating in the program were reduced, then more funding would naturally be available to financially support resulting projects. FHLBanks might also be able to commit to minimum annual financial investments in innovative voluntary programs that tackle housing and other economic issues important to their regions.

In closing, I commend you for encouraging and provided the opportunities for the robust discussions generated by the “FHLBank System at 100” initiative. Over their 90-year history, the FHLBanks have changed and adapted to meet the liquidity, housing and community development finance needs of member institutions and the communities they serve. It is clear that they serve an important modern purpose as they exist today. Recent history tells us that FHLBanks are vital and dependable partners for members and the communities they serve during all economic cycles. And, in financial crises like the March 2023 banking crisis and the Great Recession and the global pandemic that proceeded it, FHLBanks played a critical stabilizing role for the entire U.S. financial services industry.

While change and improvement are possible and perhaps warranted, please keep in mind the community banks and credit unions and the communities they serve who might not otherwise be able to exist and thrive without the liquidity and affordable housing, community, and economic development funding provided by their local FHLBank. The nation will not be well served by an industry of just a few large banks. Diversity of size, business model, and approach to serving communities throughout the U.S. is vital to a robust financial services industry. The FHLBanks are a critical resource to institutions of all sizes and varied business models.

I encourage you to listen closely to those who are based in the nation’s local communities as you give careful consideration regarding potential changes to the FHLBanks and how they operate. It is hard for me to fathom the idea that pundits from think tanks and academia know best how the FHLBanks should be positioned for the future. Throughout almost a century, the FHLBanks have been a critical and indispensable resource for our nation’s financial institutions. I urge you to make certain that continues to hold true as you consider what role the FHLBanks will play in the next century.

Sincerely,

M. Susan Elliott

Director, Needham Bank, Needham, MA

Retired Executive, Federal Home Loan Bank of Boston