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July 15, 2024

Federal Housing Finance Agency
Office of the Director
400 7th Street, SW, 9th Floor
Washington, DC 20219

RE: FHFA Request for Input: Federal Home Loan Bank Core Mission Activities and Mission Achievement

Dear Director Thompson:

The Independent Community Bankers of America (ICBA)[1] appreciates the opportunity to comment and provide feedback on this request for input (RFI) regarding the Federal Home Loan Banks' (FHLBs) core mission activities and mission achievement. Community banks have depended on reliable and affordable advances from their respective FHLB for liquidity management as well as for funding home mortgage lending and community development for over 90 years. Over 98 percent of community banks nationwide belong to a FHLB, and these institutions represent a majority of the stockholders in the FHLB System.

Mission Review

The FHFA recently conducted a year-long study on the mission of the FHLBs and how well they have fulfilled that mission. ICBA and several of our member banks participated in that study, submitting multiple comment letters and sitting in on numerous listening sessions. FHFA released its final report entitled "FHLB System at 100" in late 2023.[2] The report contained over 50 recommendations, and this RFI seeks input on FHFA's plans to define and further clarify the mission of the FHLBs and to address incentives to member institutions to help the FHLBs fulfill that mission.

[1] The Independent Community Bankers of America® has one mission: to create and promote an environment where community banks flourish. We power the potential of the nation's community banks through effective advocacy, education, and innovation. As local and trusted sources of credit, America's community banks leverage their relationship-based business model and innovative offerings to channel deposits into the neighborhoods they serve, creating jobs, fostering economic prosperity, and fueling their customers' financial goals and dreams. For more information, visit ICBA's website at icba.org.

[2] https://www.fhfa.gov/sites/default/files/2024-01/FHLBank-System-at-100-Report.pdf

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Overall, the FHFA's report indicated that the FHLBs have carried out both aspects of their mission successfully for over 90 years and have done so in a safe and sound manner, through all economic cycles. **ICBA strongly cautions FHFA against creating additional requirements that raise the cost of or restricts FHLB advances to members in good standing and with eligible collateral. This will only reduce the availability of mortgage credit or community development funding in our nation's communities.**

Furthermore, ICBA believes the mission of the FHLBs is clear and does not need to be substantially changed or clarified. Congress defined the mission in 1932[3] and has further modified it in subsequent legislation, including through the Housing and Economic Recovery Act of 2008 (HERA). Section 1201 of HERA provides clarification between the FHLBs and the Enterprises. It states the following:

> "Prior to promulgating any regulation or taking any other formal or informal agency action of general applicability and future effect relating to the Federal Home Loan Banks (other than any regulation, advisory document, or examination guidance of the Federal Housing Finance Board that the Director reissues after the authority of the Director over the Federal Home Loan Banks takes effect), including the issuance of an advisory document or examination guidance, the Director shall consider the differences between the Federal Home Loan Banks and the enterprises with respect to—
>
> (1) the Banks'—
>
> (A) cooperative ownership structure;
> (B) the mission of providing liquidity to members;
> (C) affordable housing and community development mission;
> (D) capital structure; and
> (E) joint and several liability" [4]

As described above, Congress clearly defined its expectations of the FHFA Director's role and the FHLBs' mission. It does not indicate more emphasis on any part of the mission over the other. However, through this RFI, the FHFA is contemplating placing additional priority on the affordable housing and community development mission, potentially at the expense of providing liquidity to members. ICBA does not believe this was the intent of Congress in 1932 or 2008. Given that this proposal appears to run counter to congressional intent, we therefore question the Director's authority to make any change that would place greater emphasis on the affordable housing community development mission.

ICBA believes any changes to the mission of the FHLBs as contemplated by this RFI are outside of the FHFA Director's authority and can only be accomplished through congressional action. As a safety and soundness regulator, FHFA can certainly evaluate how the FHLBs are performing against their statutory mission, but there is no evident statutory authority to alter it.

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[3] https://www.govinfo.gov/content/pkg/USCODE-2020-title12/pdf/USCODE-2020-title12-chap11.pdf
[4] https://www.govinfo.gov/content/pkg/USCODE-2021-title12/html/USCODE-2021-title12-chap46-subchapI-partA-sec4513.htm#4513_1_target

Member Incentives

The RFI seeks input on the creation of certain member incentives that would allow members of the FHLBs the opportunity to earn additional benefits for engaging in activities that further the FHLB mission. Such benefits could include discounted advance rates or increased dividends on a member's FHLB stock. ICBA believes that all members who utilize FHLB advances engage in mission-related activities. Developing pricing structures or dividend levels that could provide one institution a competitive advantage over another is not authorized under the FHLB Act and could lead to some institutions taking on excessive credit risk through special credit programs to obtain advantaged pricing.

To avoid a potential unlevel playing field and unfair treatment among members, particularly for community banks and smaller institutions, ICBA recommends the FHLBs retain their current pricing structure for advances and to leave the current dividend structure in place.

The FHLBs are well-run, well-capitalized entities and should not be treated as if they are in conservatorship or have acted beyond the bounds of their charter. As such, the FHFA's primary role is as a safety and soundness regulator. This RFI and many of the recommendations in FHFA's report seek to expand FHFA's authority over the FHLB System. The unfortunate consequence of this approach is that it appears FHFA and the Administration is wielding the FHLBs to achieve a political agenda rather than to focus primarily on safety and soundness.

The FHLB system has worked well for over 90 years and has provided community banks with the needed liquidity to fund home mortgage lending and community development projects. In fact, because they do not have easy or affordable access to the capital markets, community banks are often active advance users and rely on the availability of advances as an alternative source of liquidity. ICBA strongly encourages FHFA to not disrupt the FHLBs' ability to remain a healthy, stable, and reliable source of funding of all its member-owners.

We appreciate the opportunity to comment on this RFI and look forward to working with FHFA in the future.

Sincerely,

Tim Roy – VP, Housing Finance Policy

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