March 31, 2023

Sandra Thompson
Federal Housing Finance Agency Director
FHFA
400 7th St, SW
Washington, DC 20219

Delivered Electronically

Subject: FHLBank System at 100: Focusing on the Future (2023).

Dear Ms. Thompson,

Just over 90 years ago in the midst of the Great Depression Congress created the Federal Home Loan Bank System (FHLB). While the Farm Credit System was the first US Government Sponsored Entity (GSE), when it was created in 1916, the FHLB was the first housing GSE when it was created in 1932. FHLB was created to provide wholesale liquidity to finance both housing and economic development activities and since its inception has evolved while remaining true to its mission.

Serving 300+ credit unions across our six-state footprint covering three FHLB districts, Des Moines, San Francisco, and Topeka, the GoWest Credit Union Association (GoWest) welcomes the opportunity to provide comments after gathering input from numerous credit union members throughout our geographic footprint.

Housing GSE's

In the wake of the great depression, Congress recognized that the private sector and existing banking structures were ill-equipped to meet the needs and support homeownership in America. In fact, prior to the creation of the GSE system homeownership was out of reach for the vast majority of Americans. To purchase a home, required large down payments of approximately half the purchase price, while loan maturities were 10 years or less, and pricing varied wildly.

While the FHLB was the first housing GSE, it was certainly not the last. In 1933 Congress would create the Homeowners Loan Corporation (HOLC), which refinanced bank loans that were in foreclosure and helped stop the failure of the US banking sector. HOLC was wound up and closed down in 1954. In 1938, Congress established Fannie Mae, which held mortgages in portfolio creating an additional source of liquidity to support homeownership. In 1968, Fannie became a publicly traded shareholder-owned company. This model privatized Fannie's profits while maintaining the risk with the public. At the same time, Congress created a new model, Ginnie Mae, which was designed to expand funding for mortgages insured or guaranteed by other federal agencies; however; the outlined structure and available liquidity was not enough to offset the loss in home financing when Fannie was privatized. So, in 1970 Congress created Freddie Mac to securitize mortgages. Freddie would hold mortgages and create securities that brought additional private equity into the housing finance space. In the early 1980's Fannie would be rescued by the federal government, following the savings and loans crisis, where interest rates rose rapidly, causing rapid deterioration of Fannie Mae. Freddie Mac withstood the crisis, in large part, due to their securitization model, which spread the risk across a broader swath of the financial marketplace. In 1989, Freddie was turned into a publicly traded company. . During the Great Recession both Fannie and Freddie had all of their capital depleted, were conserved, and are back to being publicly held GSE's with profits being remitted to the federal Government.

While the other Housing GSE's have had a tumultuous history, the FHLB system has modernized and evolved but remained true to its mission, continuing to provide liquidity to it's member institutions, which capitalize the bank through required stock purchases that creates borrowing authority with Treasury. While this system can and should evolve, it is important to recognize the strength of the system and its more than 90 years of supporting a robust lending market that meets the modern-day needs of the American public.

The importance of the federal banking system and the GSE structures, which support liquidity cannot be understated. The Federal Government, through Fannie Mae and Freddie Mac, hold the vast majority of American home loans, even loans that they do not hold are generally underwritten to their standards. Moreover, their securities are trusted investments in the marketplace. Just as important is the FHLB system, which allows financial institutions to portfolio mortgages and pledge those mortgages as well as other highly marketable securities to create balance sheet liquidity. If the GSE system were to be disbanded tomorrow, the entire U.S. banking system could collapse.

Credit Unions

Two years after the Federal Home Loan (FHL) Banks were stood up, Congress passed the Federal Credit Union Act (1934). Credit unions' rise to prominence, in the U.S., came during the Great Depression as farmers pooled financial resources to purchase shared equipment, or a group of businesses came together pooling resources to create access to capital.

Similar to the FHLB system, credit unions have not strayed from their original mission, and to this day continue to provide their individual members with an alternative model. A model where credit unions utilize deposits to better the financial lives of members by investing in them with the intent of creating opportunity for their member-owners. This model has resulted in a system that is resilient and has withstood numerous economic cycles relatively unharmed.

Like the FHLB system, the credit union system is highly regulated. While credit unions do not always agree with the direction of the NCUA or the rules that the NCUA promulgates, the regulator actively engages with the industry and seeks an understanding of the impacts that new regulations will have. While we appreciate the FHFA for reaching out to outside stakeholders for input on evolving the FHLB system, we would strongly encourage the Agency to seek input internally, from the FHLB system itself, before considering significant changes that could have long-term impacts both internally and externally to the long-term viability and overall health of the U.S. financial system.

Are The Federal Home Loan Banks Focused on Their Original Mission to Promote Housing and Economic Development?

The FHLB system remains focused on its mission and is a large reason that homeownership rates have increased, across all demographics and income levels, over the past 90 years. The ability to inject liquidity in a consistent manner, and at a reasonable price, has resulted in consistent loan pricing for American households.

The partnership with FHL Banks allows member credit unions to meet the funding needs in their communities, and this is truer today as the FHLB system continues to offer access to liquidity even as other sources of liquidity such as member deposits are beginning to be spent down or are being moved to savings products offering higher yields. If this liquidity access was not available, it would make it much harder for credit unions to make loans and institutions would have to scale back on many services that their members depend as well as those that make a real difference in the communities they serve. While home loans are important in these communities, auto loans, personal loans, main street small business loans all benefit and improve communities. While some have argued publicly that the FHLB system has strayed from its focus on housing, a strong case canbe made that the FHLB system has evolved constructively and is able to safely support housing, while also supporting other lending priorities that promote overall economic development -- the second objective in the FHLB mission. While each FHL Bank works a little bit differently all require home loans to be a part of the lending mix in order to be a member of the bank with the ability to access the FHLBs liquidity. Many credit unions, particularly smaller credit unions, focus their lending on consumer loans. which still drives economic development in their communities. GoWest supports expanded access to allow federally insured institutions the ability to access the regional FHL Banks regardless of whether they offer home loan products, as many of these products support the second purpose of the FHLB system to promote economic development.

As an example, a small Oregon credit union was asked to maintain public funds, above the insurance limit, for a small public entity. The credit union only offered consumer loan products and an Oregon statute, at the time, required any institution that took public deposits to post collateral to insure those deposits specifically with FHLB. The small credit union had gone through the process to become a public depository, but because the credit union did not offer home loan products, they were unable to become a member of the FHL Bank and were precluded from holding public deposits for the small public entity, which reduced depository options for the community and stable deposits opportunities for the credit union.
While the Association does support expanding membership in the FHLB system we would limit that expansion to insured and regulated depositories. One of the key reasons that the FHLB system has been so successful is the transparency and regulatory partnerships that allow the FHLB system to trust financial institutions as counterparties. Shadow lenders, REITs and others that offer lending solutions outside of regulation would introduce risks to the system that the system was not designed for.

Furthermore, GoWest would be opposed to creating a regulatory requirement that mandates tracking advances to actual lending activity. This type of requirement would be impractical because advance proceeds are fungible and critical to a successful banking business model, and tracking would be time-consuming and cost prohibitive. In addition, tracking of mission-related assets would be expensive to monitor and would be in direct conflict with the existing Federal Home Loan Bank Act.

Affordable Housing Program

By law, each FHL Bank must establish an Affordable Housing Program (AHP) and must contribute 10 percent of its earnings to its AHP.
Under the Federal Home Loan Bank Act (FHL Bank Act), the specified uses of AHP funds are to finance the purchase, construction, or rehabilitation of owner-occupied housing for low or moderate-income households (with incomes at 80 percent or less of the area median income). Additionally, the purchase, construction, or rehabilitation of rental housing, where at least 20

percent of the units are affordable for and occupied by very low-income households (with incomes at 50 percent or less of the area median income). In order to meet this requirement, the FHL Banks are authorized to operate two programs:

1. Competitive Application Program - A financial institution member of a FHL Bank submits an application for AHP funds to the FHL Bank, on behalf of a non-profit or for-profit sponsor, and is evaluated in comparison to other applications under the FHLBank's scoring system. The FHL Bank approves the applications in descending ranking order, starting with the highest scoring application.

2. Homeownership Set-Aside Program – FHL Banks make grants available to their financial institution members, who provide the funds as down payment, closing cost, or counseling assistance to homebuyers, or as rehabilitation assistance to homeowners. Establishment of homeownership set-aside programs is elective for each FHL Bank. FHFA's regulation limits the amount of funds that a FHL Bank may allocate annually to its set-aside program.
3.

There is a perception that the AHP program should be easier to use and requires too much inefficient administration. In addition, while funds are sometimes leveraged, they could be leveraged further. Changes in regulation, directly led by the FHFA, would be helpful.

On the administrative side, making it easier and more efficient to apply, approve and deliver funds is imperative to future success. Secondly, providing members dedicated resources that are designed to help navigate these programs on a one-on-one basis would go a long way to furthering the objectives of the related programs.

Additionally, expanding the uses to better leverage the 10% set aside, would go a long way to deliver more impactful results. For example, a member institution could create a loan loss reserve with AHP funds that could help buy down the interest rate for a low or moderate-income household. In this example, a $1 million grant to support loan losses for low to moderate-income borrowers could be leveraged to help buy down the interest rate covering the credit risk portion of the loan. A typical financial institution with $ 1 million in loan loss reserves would expect that amount to cover losses for somewhere between $70 million and $100 million in credit losses on a home loan portfolio. This is just one example of how expanding the purpose of the program could have broader benefits.

Conclusion:

The Association appreciates the opportunity to provide comments and recommends the following:

- Expand Access to the FHLB to include all insured depositories regardless of lending mix.
- Do not require tracking of advance proceeds, mission tests, or collateral tests
- Improve the administration of the Affordable Housing Program
- Enhance the FHL Bank System as a means of supporting housing and community investment

Respectfully,

John Trull

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