



July 15, 2024

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

Delivered Electronically

Subject: Request For Input: Federal Home Loan Bank Core Mission Activities and Mission Achievement

Dear Ms. Thompson,

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 a 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.

Background

The FHLB system remains focused on its mission and is a significant contributor to the fact 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 FHLBanks allows member credit unions to meet the funding needs in their communities, and this is even more important today as the FHLB system continues to offer access to liquidity at a time when other liquidity sources have become more competitive and less accessible. If this liquidity access were not available, it would make it much harder for credit unions to make loans, and institutions might have to scale back on many services that their members depend on – services that make a real difference in the communities they serve. While home loans are important in these communities, auto loans, personal loans, and 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 can be made that the FHLB system has evolved constructively and is able to safely support housing and other lending priorities that promote economic development -- the second objective in the FHLB mission.

General Concerns

Lack of Information to Provide Feedback - Members of the GoWest Credit Union Association have expressed significant concerns regarding the Federal Housing Finance Agency's (FHFA) recent Request for Information (RFI) about updating the Federal Home Loan Bank (FHLB) system's mission statement, adding new metrics, and incentivizing certain FHLB members who align with this updated mission.

The FHFA's RFI is overly broad and lacks the necessary structure to answer questions and provide informed input. Credit unions have noted that the FHFA is soliciting feedback on measurements and incentives based on a mission statement that has neither been published nor adopted. Without a clear and concise mission statement, it is challenging for members to provide meaningful input on appropriate metrics and incentives. This ambiguity makes it difficult to assess the impact and efficacy of any proposed changes, thereby complicating the process of delivering constructive feedback.

Moreover, the FHFA's approach of asking about measurements against core mission achievement while simultaneously planning to amend the core mission provisions has generated additional unease. This dual-track approach could lead to confusion and misalignment between the objectives of the RFI and the subsequent regulatory changes. Members recommend that the FHFA start by updating the mission in the initial rulemaking phase. Once the mission has been formally adopted, the FHFA could then update Advisory Bulletin 2015-05 to reflect Core Mission Achievement, incorporating relevant metrics and incentives at that stage. This sequential approach would provide clearer guidance and a more stable foundation for subsequent discussions on measurements and incentives. The bulletin approach that is currently being utilized also has the advantage of being more easily updated as compared to the approach that the FHFA has outlined in this RFI. At a minimum, the FHFA must separate the mission statement rulemaking from metrics and incentives.

Spring Rulemaking Agenda - The FHFA's Spring Rulemaking Agenda, released on July 5, includes numerous rules poised to impact the FHLBs and subsequent members.

A comprehensive overhaul of the FHLB system raises worries about reduced access to wholesale liquidity and increased costs for wholesale funding, which could trigger serious economic repercussions extending far beyond the member institutions.

The potential rulemakings outlined in the agenda cover a broad range of areas including:

- Core mission activities
- Corporate governance
- Membership requirements
- Enterprise housing goals
- Amendments to the Affordable Housing Program
- Limits on unsecured extensions of credit
- Amendments to creditworthiness evaluation
- Amendments to the Affordable Housing Goals

Based on timelines outlined in the Spring Uniform Agenda, many of the FHLB related Notices of Proposed Rulemakings are expected to overlap. This could cause significant challenges as some of these rulemakings are based on the adoption of previous rules and may give the impression that the FHFA is not operating in a manner consistent with the spirit of the Administrative Procedures Act (APA).

Specific Comments: The FHLBanks were created to support institutions originating mortgages by providing liquidity, which in turn allows those institutions to provide loans serving their communities.

Mission Question One: The current mission statement of the FHLB system effectively captures the connection between the liquidity provided by the FHLBanks and their support for housing and community development. It states that the FHLB system is committed to “providing financial products and services, including, but not limited to advances to members to assist in the financing of housing, including single-family and multifamily housing, serving consumers at all income levels and community lending.” This mission statement clearly reflects congressional intent and emphasizes the role of FHLBanks in supporting housing and community development across various income levels.

The FHFA, in its RFI, asserts that the connection between the FHLBanks’ liquidity provision and housing and community development has become less direct due to changes in membership base, collateral types, and product offerings. However, this assertion is not substantiated by concrete evidence.

The fundamental mission of the FHLB system remains robust and relevant, ensuring that the liquidity provided supports housing and community development initiatives.

Credit unions recognize the importance of modernizing the mission statement to address contemporary challenges and opportunities. We would support an updated mission statement that explicitly includes goals such as supporting affordable, equitable, sustainable, and resilient residential housing and community development. This modernization should reflect the evolving needs of our communities while maintaining the core principles that have guided the FHLB system since its inception.

However, it is crucial to emphasize that any changes to the mission statement must not undermine the accessibility of liquidity provided by FHLBanks. Reduced access to liquidity would have adverse economic consequences, impacting not only member institutions but also the broader community that relies on the financial stability and support of the FHLB system.

Mission Question Two: The second question in the RFI related to the mission statement seems to be misaligned with the clear directives established by Congress regarding the purpose of the Federal Home Loan System. Congress has already outlined the primary objectives of the FHLB system, emphasizing the importance of supporting housing finance and community development. Any further refinement of the mission statement should be conducted within the framework of these congressional directives, ensuring that the foundational goals of the FHLB system remain intact while adapting to modern requirements.

Recommended Guiding Principles for Regulatory Modernization of the FHLB System

While we lack the requisite information to answer questions related to measurement and incentives, GoWest credit unions developed the following guiding principles to assist the FHFA modernization process.

The fundamental principle guiding the regulatory modernization of the Federal Home Loan Bank system should be centered on expanding access to wholesale liquidity and reducing the cost of liquidity. Ensuring that borrowers have access to affordable capital in a fair and equitable manner is essential for promoting sustainable, equitable, and affordable housing.

1. Expanding Access to Wholesale Liquidity- Access to wholesale liquidity is crucial for the stability and growth of member institutions and, by extension, the communities they serve.

The modernization of the FHLB system should prioritize measures that enhance this access, enabling credit unions and other member institutions to better serve their communities. This can be achieved through:

- Simplifying and streamlining the collateral requirements for accessing advances.
- Expanding the range of acceptable collateral to include more diverse assets, thereby increasing liquidity options for member institutions.
- Introducing programs that support community development and affordable housing.

2. Reducing the Cost of Liquidity- This is equally important to ensure that funds remain affordable for borrowers, particularly those seeking to purchase homes. Strategies to reduce the cost of liquidity include:

- Maintaining liquidity pricing strategies that support low-cost housing loans.

3. Supporting First-Time Homebuyers - To further promote affordable housing, the FHLB system should be given additional flexibility to create and develop innovative programs specifically designed to support first-time homebuyers. Programs should focus on:

- Providing grants or low-interest loans for down payment assistance, particularly for homebuyers lacking access to equity or generational wealth.
- Working with financial institutions to promote targeted financial education and counseling services to help first-time homebuyers navigate the homebuying process.
- 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 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.

4. Modernizing Ginnie Mae

While enhancing the FHLB system is critical, parallel efforts should be made to modernize Ginnie Mae. Revisions to Ginnie Mae should include:

- Transitioning from guaranteeing loans to purchasing government-supported loans directly. This change would provide immediate liquidity to lenders and lower borrowing costs.
- Simplifying the securitization process to ensure more efficient and timely access to capital for housing finance.

Focusing on these guiding principles will align the regulatory modernization of the FHLB system with the broader goals of expanding access to affordable, equitable, and sustainable housing. By ensuring that borrowers have access to affordable capital, particularly through support for first-time homebuyers and those without generational wealth, the FHLB system can play a pivotal role in fostering equitable housing opportunities. Additionally, modernizing Ginnie Mae to directly purchase government-supported VA, AG, and FHA loans will complement these efforts, providing a more comprehensive approach to achieving the goals outlined in the “FHLB at 100” report.

Conclusion

While each FHLBank works a little bit differently, all require home loans to be a part of the lending mix for members to access the FHLB’s liquidity. Many credit unions, particularly smaller credit unions, focus their lending on consumer loans, which drives economic development in their communities. GoWest supports expanded access to allow federally insured institutions the ability to access the regional FHLBanks 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 at the time, Oregon statute required any institution that took public deposits to post collateral to insure those deposits specifically with the FHLB.

The small credit union went 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 FHLB and were precluded from holding public deposits for the small public entity. This reduced depository options for the community and a stable deposits opportunity for the credit union.

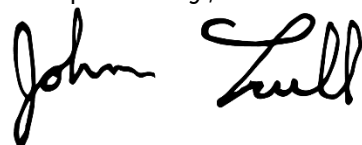
While the Association supports expanding membership in the FHLB system, we recommend limiting that expansion to insured and regulated depositories. One of the key reasons that the FHLB system has been so successful is the transparency and regulatory partnerships that allow the FHLB system to trust financial 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.

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 FHLBank System as a means of supporting housing and community investment.

Respectfully,



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GoWest Credit Union Association champions credit unions in Arizona, Colorado, Idaho, Oregon, Washington, and Wyoming, and the 16.5 million consumers who have chosen them as their preferred financial services partners. Learn more about credit unions at yourmoneyfurther.com.