

August 29, 2022

The Honorable Sandra L. Thompson  
Director  
Federal Housing Finance Agency  
Constitution Center  
400 7<sup>th</sup> Street, SW  
Washington, DC 20219

Dear Director Thompson:

I commend your commitment to review the mission, purpose and organization of the Federal Home Loan Bank System (System) as outlined in your testimony before the House Committee on Financial Services on July 20<sup>th</sup>, 2022.<sup>i</sup>

The System is a tax-exempt government-sponsored enterprise with an implicit federal guarantee that results in borrowing costs close to those of the U.S. Treasury. This foundational benefit dictates that the Federal Home Loan Banks (FHLBanks) not only operate in a safe and sound manner but meet the needs of underserved markets and strengthen the overall economy. Since inception in 1932, the FHLBanks have provided loans to member institutions (advances) to support liquidity in housing finance. In 1989, the System was given statutory requirements to support affordable housing.<sup>ii</sup> In recent years, the FHLBanks have also been required to meet the community development needs of markets served by their members.

In the past 40 years, wholesale changes in mortgage markets and the financial services industry have changed the operating environment for FHLBanks and their members. Critics note that advances are not necessarily used to promote housing or community development activities. As GAO noted in a 2005 report<sup>iii</sup>, “there is limited empirical information on the extent to which FHLBank advances and other services benefit housing and community finance.” Almost two decades later, this central question still has not been answered and numerous commentators have urged a reconsideration of the role of the FHLBanks.<sup>iv</sup>

The Federal Housing Finance Agency (FHFA) review can help set a new course for the FHLBanks. As the FHFA conducts its review, we encourage you to include the owners/customers of the FHLBanks and also reach out to existing and potential stakeholders in a potentially updated System. The FHFA should also get input from a wide range of respected outside experts to examine whether the System’s unique structure and implicit guarantee are being leveraged to meet the economic challenges faced by communities in tribal lands, small rural and urban communities and other underserved markets.

The FHFA’s review should consider:

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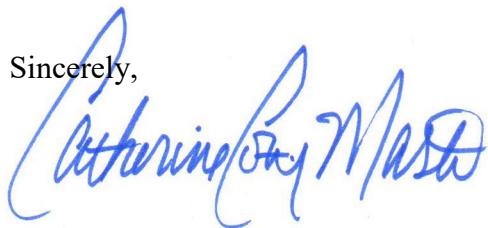
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- Whether the proceeds of FHLBank advances to their members are being used to promote housing and community development in the United States. This analysis could include a potential alignment between a revised Community Reinvestment Act with FHLBanks' advances, collateral requirements and the Affordable Housing Program (AHP).
- How the FHLBanks can help address racial income inequality, infrastructure needs, challenges holding back small rural communities including tribal communities and investments to mitigate and respond to climate change.
- How affordable housing developers and financiers, local and state governments, climate resilience investors, small businesses and other economic players would benefit from a revitalized and relevant FHLBank System.
- If the FHFA should consider whether the portion of income that previously would have gone to repay REFCORP bonds should be re-directed to serve the FHLBanks' mission.<sup>v</sup> The FHFA should also consider if funds from the PLMBS (private-label mortgage-backed securities) settlement should be re-directed to meet mission-related challenges.
- Whether the AHP contributions (set by statute at 10% of net income) should be based on business volume as contributions of Fannie Mae and Freddie Mac to the National Housing Trust Fund and the Capital Magnet Fund are set.
- Whether the current operating structure of the FHLB System is efficient and optimal. The FHFA should consider if FHLBanks can share expenses and operations in some areas. The FHFA should consider if potential new FHLBank mergers should consider improved mission achievement as a factor in approving mergers.
- An assessment of whether FHLBank System debt offers similar benefits to communities and taxpayers as similar debt in the market, such as Treasury securities.
- How FHLBank governance can ensure that broader economic interests benefit from the implicit guarantee.
- How FHLBanks can better meet the needs of their smallest-sized member institutions and less-populated communities in ways that do not increase risk to FHLBank operations.
- How the compensation structure of FHLBank leadership – both executives and board members – might include incentives for meeting mission-related targets.
- If the boards of directors of the FHLBanks represent the diverse communities and interests in each FHLBank's region.

- An analysis of the role of dividends paid to their members. In 2021, more than \$1 billion was paid out in dividends while year-end retained earnings of the FHLBanks was approximately \$23 billion. For comparison, the FHLBanks' AHP contribution in 2021 was \$314 million. In 2022, AHP contributions dropped to \$200 million. In light of the implicit government backing of the entirety of the FHLBanks' debt, please analyze the members' claim on the capital of the FHLBanks. Please consider how the financial return on the dividend payments compare to other investments the member institutions make.

I look forward to regular updates on your work as well as your insights if proposed changes to the System can be effected through regulation and if statutory changes should be considered.

Sincerely,




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<sup>i</sup> House Financial Services Committee. July 20, 2022. [https://www.fhfa.gov/Media/PublicAffairs/Pages/Statement-of-Sandra-Thompson-Before-the-HFS-Committee\\_7202022.aspx](https://www.fhfa.gov/Media/PublicAffairs/Pages/Statement-of-Sandra-Thompson-Before-the-HFS-Committee_7202022.aspx)

<sup>ii</sup> The following language has appeared in the Budget messages of presidents from both parties: FY 2023 OMB Budget Message, Analytical Perspective: Credit and Insurance: "Government-sponsored enterprises (GSEs) operate under Federal charters for the purpose of enhancing credit availability for targeted sectors. .... The mission of the FHLB System is broadly defined as promoting housing finance, and the System also has specific requirements to support affordable housing." [https://www.whitehouse.gov/wp-content/uploads/2022/03/ap\\_19\\_credit\\_fy2023.pdf](https://www.whitehouse.gov/wp-content/uploads/2022/03/ap_19_credit_fy2023.pdf)

<sup>iii</sup> *FEDERAL HOME LOAN BANK SYSTEM: An Overview of Changes and Current Issues Affecting the System* (GAO-05-489T). GAO. April 13, 2005. <https://www.gao.gov/products/gao-05-489t>

<sup>iv</sup> Gissler, Stefan, Borghan Narajabad, Daniel K. Tarullo "Federal Home Loan Banks and Financial Stability." June 13, 2022. [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=4135685](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4135685)

Hurley, Cornelius and William M. Isaac. "It's Time to Rethink the Mission of the Federal Home Loan Bank System." *American Banker*. January 31, 2022. <https://www.americanbanker.com/opinion/its-time-to-rethink-the-mission-of-the-federal-home-loan-bank-system>

Petrou, Karen. "A Pragmatic Vision of a Purposeful Home Loan Bank System. July 18, 2022. <https://fedfin.com/karen-petrou-a-pragmatic-vision-of-a-purposeful-home-loan-bank-system/>

<sup>v</sup> From 1989 to 2011, FHLBanks were required to pay 10% of net income to the AHP and 20% of net income to reduce the taxpayers' debt service burden on REFCORP bonds (bonds associated with the 1989 savings and loan clean-up). Since the August 2011 satisfaction of the FHLBank REFCORP obligation, FHLBank retained earnings have increased by \$13 billion while total AHP contributions were \$3.3 billion.