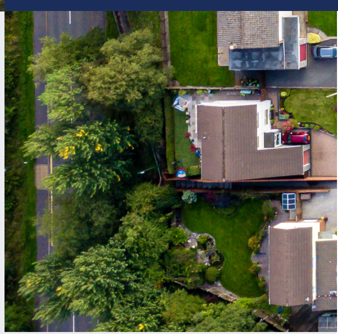






FHLBank System at 100: Focusing on the Future

MARCH 2023



A NATION OF LOCAL LENDERS

Dear Director Thompson,

On behalf of the eleven Federal Home Loan Banks (FHLBanks), thank you for the opportunity to submit further comments on the FHLBank System at 100: Focusing on the Future review.

Over the last six months, the Federal Housing Finance Agency (FHFA) has engaged in an important process of soliciting feedback from FHLBank system stakeholders and other interested parties. We have paid keen attention to the six listening sessions, 19 roundtables, and over 300 written comments. We have found the public feedback shared with the agency to be informative and affirming.

During the review process, the US financial system experienced a period of high uncertainty and volatility. This has particularly highlighted the importance of the FHLBanks' statutory and foundational mission of providing liquidity to our members. We continued to meet members' heightened needs for liquidity – supported by a record day of debt issuance on March 13th, 2023 – working alongside regulators to support the stability of the financial system.

The review process – and recent market disruption – have provoked a series of discussions within the system that have helped us more fully develop our vision for the future of the Federal Home Loan Bank system. Through this letter, we seek to **share our vision for the future of the FHLBank system and clarify fundamental aspects of the system and how it functions for stakeholders**.

Our vision for the future is to **build a more resilient and impactful system that continues to serve as a bedrock of US financial stability, and supports our members, homeowners, renters, and communities**.

The positive impact the FHLBanks have on housing finance in the United States is indisputable. Through our unique liquidity products and other programs, the FHLBanks have been a cornerstone of financial stability and housing affordability in the United States – not least during recent market disruption, and through national and global crises like COVID and the global financial crisis. Performing our role as a dependable, reliable, and stable liquidity provider to our members helps people access long-term, well-priced mortgages. Further, FHLBanks provide funding that supports the construction of affordable housing and homeownership. Since Congress added an affordable housing mandate to the FHLBanks' mission in 1989, FHLBanks have become a major contributor to affordable housing in the United States. We also support community economic development, through lending to our members for business and development projects, as well as voluntary support for small businesses.

We are proud of the positive impact the FHLBank system has for our members, and, through them, for homeowners, renters, and our communities. Overwhelmingly, the message from stakeholders and other interested parties is a desire for the FHLBanks to do more. We agree. That is why **we seek to strengthen the critical role the system plays in financial stability and housing affordability by improving the way we serve our members, homeowners, renters, and communities** – while maintaining the system's safety and soundness that is critical to its funding. In this letter, we set out certain themes the FHLBank system is exploring.

- **For our members**. We seek to maintain and enhance our ability to provide funding each and every day in addition to acting as a shock-absorber, as we did this March and during previous

crises. Beyond that, we aim to: enhance member services by addressing member frictions (including around digital collateral); work with the FHFA on reducing regulatory requirements associated with our affordable housing, community development, and secondary mortgage programs; enhance the acceptance of certain forms of collateral; and increase thought leadership in affordable housing finance. In addition, we seek to increase engagement with members and end users through enhanced communication and outreach, including publication of an annual system-wide corporate social responsibility (CSR) report that is already in development.

- **For homeowners and renters**. Housing affordability is a deep and complex challenge, requiring action from many organizations. We recognize that additional funding would be beneficial in meeting community needs in affordable housing, as well as business and community development. Some FHLBanks are already making additional voluntary contributions of 50% above required Affordable Housing Program (AHP) contributions and all the remaining FHLBanks are in the process of voluntarily increasing their giving to 50% above required AHP contributions. On top of that, we seek to enhance the impact and awareness of existing programs. We support simplification of the AHP, a theme raised multiple times during the review process. We will also explore how to increase utilization of Community Investment Program (CIP) advances, enhance support for small multi-family housing, and enable the facilitation of pilot programs and products.
- **For communities**. To enhance our impact on community economic development, we are eager to engage the FHFA on innovative ways to safely and soundly increase Community Development Financial Institutions' (CDFIs) access to funding, expand the acceptance of and threshold for Community Financial Institution (CFI) collateral to increase support for small business and agricultural lending, and increase low-cost funding for development projects through the Community Investment Cash Advance (CICA) program.

We welcome the opportunity to discuss these areas further with the FHFA, as well as our members and other stakeholders. We will build on the strengths of the FHLBank system – that have served us well for over 90 years – and enhance our impact, to deliver on our mission now and into the future.

Yours Sincerely,

Ryan Donovan
President and Chief Executive Officer
Council of Federal Home Loan Banks

Vision

A more resilient and impactful system that continues to serve as a bedrock of US financial stability, and supports our members, homeowners & renters, and communities into the future

Our impact today

Homeowners & renters

Through our members, FHLBanks support people to obtain mortgages and buy or rent affordable housing

- Help people get long-term, well-priced mortgages e.g., $130B more mortgage lending, $13B less interest
- Enable diversity of choice by supporting community banks to be involved in mortgage related activity
- Support affordability through ~11-14% contributions (AHP and voluntary programs); and CIP for construction

Members

Enabling members to meet their customers' needs and lend across business cycles with confidence

- Act as reliable source of liquidity: day-in-day out as well in times of crisis as a shock absorber
- Enable smaller financial institutions to continue to play a role in Mortgages through secondary mortgage programs
- Support diversity and stability of U.S. financial system

Communities

Through our members, FHLBanks support community development with access to credit and voluntary programs

- Enable members to extend more business loans
- Provide discounted funding for community development via CICA e.g., industrial, social services, public works
- Deliver direct support through discretionary programs for small businesses

What we seek to enhance

Homeowners & renters

Enhancing our commitment to homeownership through increasing impact, awareness, and scope and scale of programs

- Making voluntary contributions of 50% above required AHP contributions
- Simplifying AHP
- Enhancing utilization of CIP
- Enabling the delivery of pilot programs to deliver more innovative programs
- Exploring enhanced support for small multifamily (5-49 units)
- Increasing awareness of FHLBank programs

Members

Continuing to be a bedrock of financial stability – supporting our members' liquidity needs day-in and day-out, and in times of market stress – while becoming even simpler to use with increased engagement and thought leadership across the eco-system

- Enhancing the FHLBanks' ability to act as a 'shock absorber' when called upon
- Enhancing members' digital experience
- Simplifying process complexity in key programs (AHP, CIP & CICA, secondary mortgage programs, new business activity (NBA))
- Enhancing the acceptance of real estate related municipal bonds and loan participations as collateral
- Enhancing thought leadership
- Strengthening engagement and communications

Communities

Increasing support for communities through enhanced access to funding for development

- Increasing CDFIs' access to funding e.g., collateral, credit enhancement, revolving loan funds
- Increasing ability to pledge CFI collateral to members with $10B asset size
- Exploring options to enhance utilization of CICA

FHLBanks' ability to impact homeowners, renters, and communities through our members is made possible through our foundational structure

FHLBanks' regional structure

enables local links with our members and communities, making us more responsive to liquidity, housing and development needs

FHLBanks' governance structure

provides access to the required talent through member directors, independent directors, public interest directors and Affordable Housing Advisory Councils (AHACs)

For our members

FHLBanks enable our members to meet their customers' needs and lend across business cycles with confidence

The eleven FHLBanks are owned and capitalized by our members – ~6,500 banks, credit unions, insurance companies and CDFIs. The impact the FHLBank system has on the public is enabled by and delivered through our members. By acting as a reliable provider of liquidity and financing, we support our members to lend with confidence across economic cycles, and in turn provide capital to their communities.

Our members rely on us to provide liquidity day in and day out, as well as in times of market stress like the global financial crisis, COVID, and the market disruption of March 2023. A November 2022 Federal Reserve survey of senior financial officers found that over ninety percent of respondents would be likely or very likely to turn to FHLBanks if reserve balances fell. Just a few months later in March 2023, the importance of the FHLBanks as a crucial source of liquidity was made clear, when the system had its largest single day debt issuance ever. The FHLBanks helped our members address market disruption and, in conjunction with regulators, provided stability to the overall U.S. financial system. This provision of liquidity helped provide confidence in the banking system enabling small businesses to meet their payroll obligations to their employees, who were in turn able to make mortgage payments, and support their families. As mentioned throughout the review process, the essential liquidity role of the system should be enhanced.

BENEFITS OF FHLBANK MEMBERSHIP

“This is a **critical component in our financial system right now**. I think if we look at what's happening with interest rates and the runoff of core deposits, especially at small banks, **Federal Home Loan Bank System is filling that gap right now of liquidity**. And without it then lending stops, they [financial institutions] turn the spigot off.”

Dutch Haarsma,
NewWest Community Capital

“They **have to provide this through the cycle**. There is **no time when the home loan banks are more critical than during periods of stress**. No one can forget the critical role that they provided in 2008 when advances ballooned to a trillion dollars or the critical role that they provided early in COVID.”

Laurie Goodman,
Urban Institute

“**If we didn't have access to FHLB advances,** we'd have to hold much more liquidity on our balance sheet and **significantly reduce our lending in our communities**.”

Jason Meyerhoeffer,
First Federal Savings Bank

“Chickasaw Community Bank, has **largely used the Federal Home Loan Bank for liquidity** needs... It's been a lifesaver, right? A **lifeline at times for us**. There are some of these projects that we could not do without the Federal Home Loan Bank.”

Gene Watson,
Chickasaw Community Bank

“The System allows life insurers to access additional, short-term liquidity to meet claims while providing flexibility during all economic cycles, and **that liquidity provided by the System to its insurance company members is extremely important**.”

Jean Roch Sibille,
Allianz

This liquidity and financing role – and equal access to it through the FHLBanks – is one of the reasons behind the unique structure of the U.S. financial system, where thousands of smaller lenders co-exist alongside larger, national institutions. Ratings agencies recognize that members' access to FHLBank liquidity is a positive factor in their credit ratings as compared to institutions that do not have access. Without FHLBanks being a dependable, reliable and stable source of liquidity, financial institutions would lend less in communities. As an illustrative example, a 5% reduction in smaller banks' (e.g., assets under $1B) loan-to-deposit (LTD) ratio would result in ~$50B less lending.

The FHLBanks are particularly important for our smaller members. Smaller banks, credit unions, and CDFIs are proportionately the largest users of the FHLBank system, with members under $10B in assets utilizing advances as a share of their assets 2 to 4 times more than large members with over $100B in assets. Additionally, we enable many of these smaller financial institutions to continue to play a role in mortgage origination through our secondary mortgage programs, while also maintaining important customer relationships by servicing the loans. For example, a majority of mortgages (64%) purchased through our Mortgage Partnership Finance Program (MPF) came from the smallest banks and credit unions (i.e., those with assets under $1.3B).

We seek to continue to be a bedrock of financial stability – supporting our members' liquidity needs day-in and day-out, and in times of market stress – while becoming even simpler to use with increased engagement and thought leadership across the eco-system

- **Enhancing the FHLBanks' ability to act as a 'shock absorber' when called upon**
- **Enhancing members' digital experience**
- **Simplifying process complexity in key programs (AHP, CIP & CICA, secondary mortgage programs, new business activity (NBA))**
- **Enhancing the acceptance of real estate related municipal bonds and loan participations as collateral**
- **Enhancing thought leadership**
- **Strengthening engagement & communication**

Access to the FHLBank system provides important benefits for our members – and through members we help homeowners, renters and communities. As stated by our members in the FHFA review process, we play a critical role in providing liquidity and financing, and that should be strengthened and enhanced, not diluted. On top of that, we seek to enhance the support we provide our members, so they can deliver greater impact in their communities. We are exploring how to enhance our support for members through improved digital services, simplifying complexity in key programs, enhancing the acceptance of certain forms of collateral, strengthening our thought leadership role, and increasing member engagement and communications.

- **Maintaining and enhancing the FHLBanks' ability to act as a 'shock absorber' when called upon**. Financial institutions across the country rely on the FHLBanks as a critical source of liquidity in times of need – as shown in just the past few weeks. Our ability to play this shock absorber role is based on there being no doubt about the quality of FHLBank credit and speed at which investors can commit to investing in FHLBank debt. These characteristics should be protected and enhanced so the FHLBank system is well positioned to serve its members' liquidity needs in all markets, including the next period of volatility.

OUR MEMBERS DEPEND ON US FOR CRITICAL LIQUIDITY AND FINANCING

"The **knowledge that our bank**, which does not have access to the capital markets, **could quickly and efficiently liquefy long-term assets**, gives us the **confidence and the liquidity to commit to long-term assets such as housing. The importance of this should not be underestimated**, particularly **for banks at the smaller end of the asset scale**."

Bill Bickle,
Stockman Bank of Montana

"Over the past two weeks, **banks have relied on new Federal Home Loan Bank (FHLB) advances** to strengthen liquidity and have also pre-positioned additional collateral at the FHLB to support future draws, if needed."

Martin Gruenberg,
FDIC Chairman

"We've seen **advances spike over the last few weeks** and that's even with the announcement of the FED facility, that offered very generous terms. In talking with our banks, I've learned that is because again, that **comfort and familiarity that banks have with the Home Loan Banks, that immediate access**."

Joseph Pigg,
American Bankers Association

- **Enhancing members' digital experience**. We have always strived to provide our members with the highest level of service and are continuing to transform our member experiences through new investments in technology. FHLBanks will continue seeking to make our member interactions as easy and seamless as possible, particularly around the acceptance of collateral, and digitizing processes where applicable.

- **Simplifying process complexity in key programs (AHP, CIP & CICA, secondary mortgage programs, new business activity (NBA)).** Access to key FHLBank programs like the AHP, the CIP, secondary mortgage programs (MPF, MPP, MAP), and the CICA program come with regulatory and operational requirements that can narrow member participation, as highlighted by the listening sessions and roundtables. We seek to engage with the FHFA to address and reduce these regulatory burdens to increase member participation and access. More broadly, streamlining the New Business Activity (NBA) notice process with the FHFA would enable us to respond to member needs more quickly (e.g., through new products).

AHP program comes with significant regulatory burdens

“The **application process is quite onerous and difficult**. Compliance I think maybe is easier than it used to be, but it’s still quite onerous.”

Stacie Young,
Community Investment Corporation

“Well, **redundant compliance is one of the things that you guys could eliminate**…where you guys **could be really helpful is to eliminate that when you already have a sophisticated agency doing compliance work**.”

Caleb Roope,
The Pacific Companies

“**[AHP] programs should be evaluated to identify opportunities to streamline those processes**. I recall the **incredibly burdensome obligations**… to evaluate, score, and monitor grant applications.”

Glen Simecek,
Washington Bankers Association

- **Enhancing the acceptance of real estate related municipal bonds and loan participations as collateral**. FHLBanks seek to discuss with the FHFA previously requested changes that would enhance our members' ability to pledge real-estate related municipal bonds and loan participations, by removing the mixed-use allocation test for municipal securities and re-evaluating regulatory interpretations that limit the acceptability of loan participations.

- **Enhancing thought leadership**. The FHLBanks are growing as a thought leader on topics like affordable housing finance and diversity and inclusion e.g., FHLBank Atlanta partnering with other institutions on heirs' property rights and FHLBank San Francisco partnering with the Urban Institute on alternative methods of underwriting. We are exploring ways to apply our thought leadership to research solutions and support innovations in housing, including topics like the racial homeownership gap.

- **Strengthening engagement and communications**. The FHLBanks engage proactively with our members – providing information and support to access our products and programs, as well as sharing wider information and best practices. For example, we provide annual interactive online trainings, white papers on our products e.g., SOFR-linked advances, and podcast series on topics such as balance sheet management strategies. We also engage with our members in-person multiple times a year through annual member-segment meetings and industry conferences. However, we believe we can further enhance our member communications and communications with other stakeholders, and are exploring ways to do this. This will include publishing an annual, system-wide corporate social responsibility report that will help illustrate the positive impact the FHLBank system has on homeownership and economic development and our full range of offerings for our members, broader stakeholders, and the wider community.

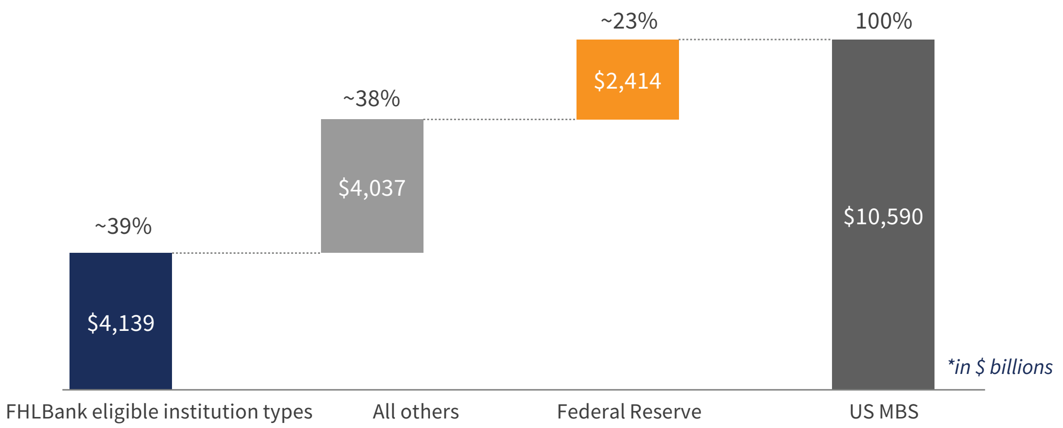
For homeowners & renters

Through our members, FHLBanks support people to obtain mortgages and buy or rent affordable housing

FHLBanks help ensure people can get long-term, well-priced mortgages by supporting member financial institutions with access to reliable liquidity and funding. A University of Wisconsin study found that FHLBank membership created ~$130B more mortgage lending a year and lower mortgage rates, saving consumers ~$13B in interest a year. In addition, we help ensure access to mortgages in multiple ways:

- **We enable members to lend with confidence, resulting in increased participation, choice, and lending for consumers**: FHLBank-eligible depository institutions originate around 30%, of mortgages annually (based on top 100 lenders covering ~80% of all mortgages 2020-2022) – knowing they can keep those long-term mortgages on their balance sheets and pledge as collateral for advances to support their liquidity and funding needs. In addition, with access to FHLBank funding, our members support independent mortgage banks (IMBs) with warehouse lines, with over ~$88B of outstanding warehouse commitments in Q4 2022, providing the initial funding for home purchases.
- **We purchase members' mortgages, which helps our members, particularly smaller members, continue to stay in the mortgage business**: We purchased over ~$21B of mortgages in 2021 from around 1,000 participating financial institutions through various FHLBank secondary mortgage programs. Six FHLBanks offer the Mortgage Partnership Finance Program (MPF) to their members, the Mortgage Purchase Program (MPP) is available in the Indianapolis and Cincinnati districts, and the Mortgage Asset Program (MAP) is available in the New York district.
- **We support the availability of 30-year mortgages by facilitating the holding of mortgage-backed securities (MBS) and pools of mortgage loans**: Government-backed MBS enable the existence and proliferation of a 30-year fixed rate mortgage – unique to the United States – offering consumers and American families long-term financial security. FHLBank-eligible institution types hold ~39% (~$4.1T) of outstanding MBS, supporting mortgage availability and affordability. Holding MBS and whole mortgages is a strategic choice financial institutions make, informed by their ability to use these securities and whole loans as collateral with the FHLBanks. This role is especially important given the Federal Reserve is reducing the size of its MBS portfolio. A reduction in the number of MBS buyers, for example if participation in this market by U.S. depositories decreases, would result in higher mortgage interest rates and a reduction in mortgage affordability.

FHLBanks provide robust support for housing markets with FHLBank eligible institution types holding ~39% of MBS in 2021



VOICE OF MEMBERS:
HELPING OUR MEMBERS OFFER OR HOLD LONG-TERM MORTGAGES

“We do hold **30-year mortgages**. All of us have different strategies and approach to our balance sheet, and the access to **the Federal Home Loan Bank does allow us to manage our asset liability risk**.”

Julianne Thurlow,
Reading Cooperative Bank

“The **[FHLB] system was designed over time for us to hold it in the RMBS [Residential Mortgage Backed Securities] market**. It's much more simple and it goes exactly to our assets.”

Jim Vance,
Western-Southern Life Assurance Company, part of the Western-Southern Financial Group

“We **actively use the Mortgage Partnership Finance Program**, which allows us to sell loans to the FHLBank and are **able to retain servicing and keep personal contact with our customers**. This product has enabled our bank to be **voted The Best Place to get a mortgage in Ottawa County 17 years in a row**.”

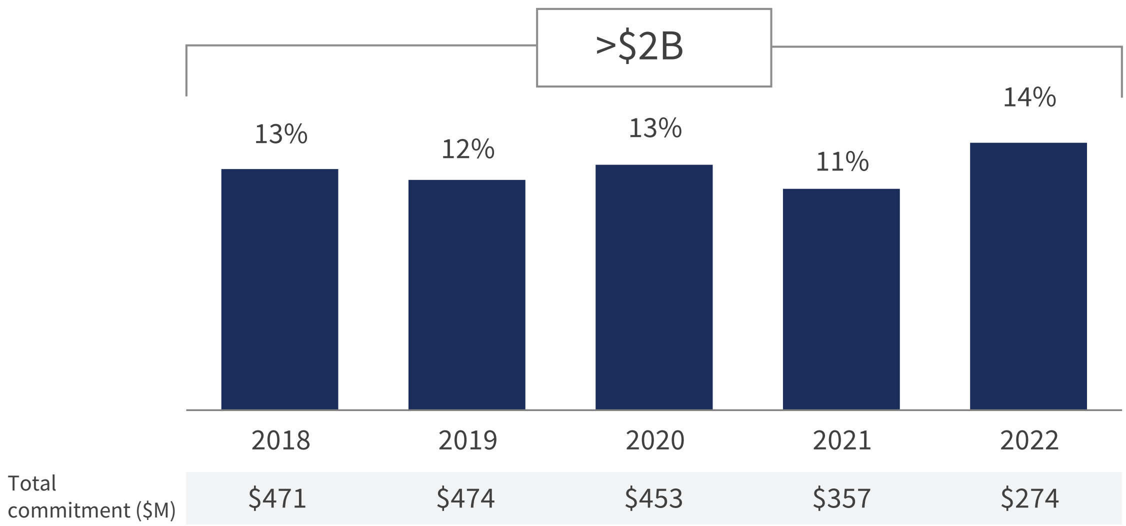
Kevin Bullard,
Welch State Bank

FHLBanks support consumers to rent or buy affordable housing through the AHP, additional voluntary programs, and CIP.

The FHLBanks are major contributors to affordable housing in the United States. We have a statutory mandate to contribute 10% of our net income to AHP, but we consistently contribute more (~11-14% of net income) through additional, discretionary contributions to AHP and separate, voluntary programs to support housing and community development. Between 2018 and 2022, we made over $2 billion in contributions across AHP and voluntary programs.

FHLBanks also support housing development projects with low-cost loans through CIP. In 2021, $1.6B of advances supported over 8,000 housing units, and in 2020, $2.9B of advances supported over 22,000 housing units.

FHLBank system commits ~11-14% of net income to affordability and community development (Total AHP and voluntary program commitment as a percentage of prior year's pre-AHP net income)



We seek to enhance our commitment to homeownership through increasing impact, awareness, and scope and scale of programs

- **Making voluntary contributions of 50% above required AHP contributions**
- **Simplifying AHP**
- **Enhancing utilization of CIP**
- **Enabling the delivery of pilot programs**
- **Exploring enhanced support for small multi-family housing (5-49)**
- **Increasing awareness of programs**

The FHLBanks believe that – in partnership with the FHFA, our members, and other stakeholders – there are opportunities to enhance the impact we have on homeowners and renters through our members. FHLBanks are in the process of voluntarily increasing their giving to 50% above required AHP contributions. Beyond that, we are exploring how to work with the FHFA to simplify AHP, increase CIP utilization, facilitate pilot programs, enhance support for small-multi family housing (5-49 units), and increase stakeholder awareness of FHLBank programs.

- **Making voluntary contributions of 50% above required AHP contributions**. Over the past several years, all the FHLBanks have recognized that additional funding would be beneficial in meeting community needs in affordable housing as well as business and community development. This has been confirmed through the listening sessions and roundtables conducted by the FHFA. Some FHLBanks are already making additional voluntary contributions of 50% above required AHP contributions and all the remaining FHLBanks are in the process of voluntarily increasing their giving to 50% above required AHP contributions.

- **Simplifying AHP**. The AHP is a long-standing, and highly effective program. However, and as highlighted through the review process by multiple participants, its impact is constrained by a high burden of administration on developers, members, and FHLBanks. The FHLBanks have worked with the FHFA to highlight areas for potential improvements to the AHP, including on the 2018 Final Rule amending the AHP regulation. We continue to believe there are opportunities to further streamline AHP in ways that help broaden participation and enhance impact. We seek to engage the FHFA further on this matter.

EXAMPLES OF AREAS TO EXPLORE SIMPLIFICATION OF AHP

- **Owner-occupied retention**. Requirements around owner-occupied retention have proven problematic, e.g., cumbersome required repayment calculations.
- **Operational feasibility standard**. FHFA examinations have imposed additional requirements on FHLBanks that should be reviewed, including:
  - Prohibiting FHLBanks from including supportive services in a rental project's operating pro forma
  - Requiring FHLBanks to enforce a 'need for subsidy standard' that goes beyond the regulatory language
  - Expectation that a project assumes debt instead of utilizing AHP subsidy based on the project's projected cash flows regardless of the credit worthiness of the project owner
- **Ability to make project modifications**. The "cure first" requirement introduced by the 2018 Final Rule should be considered for removal, given it delays project modifications and is unduly burdensome to AHP sponsors.

- **Enhancing utilization of CIP**. The FHLBanks are exploring options to increase utilization of CIP. We also seek to explore with the FHFA potential areas of regulatory support to increase use of CIP (e.g., increasing time limits for eligible transactions).
- **Enabling the delivery of pilot programs to deliver more innovative programs**. The FHLBanks are seeking to provide innovative new programs for addressing unmet credit needs and housing affordability (e.g., special purpose credit programs from FHLBanks Pittsburgh, Boston and Indianapolis; a Targeted Fund from FHLBank San Francisco; a fund for states not receiving AHP funds from FHLBank Des Moines; Native American housing initiative grants from FHLBank Topeka). The review process has highlighted the potential for pilot programs to help identify and test innovative new potential solutions to housing affordability challenges. We seek to work with the FHFA on how new pilots can be implemented efficiently and quickly, and the FHFA's tolerance for risk in delivering innovative new solutions – some of which may be more successful than others.

- **Exploring enhanced support for small multifamily (5-49 units).** Small-multi family housing (5-49 units) is one area for further exploration, given the growing need in certain parts of the country. FHLBanks already provide significant support for multi-family housing through collateral acceptance and AHP, and we are exploring where and how to potentially enhance our support for small multi-family developments (e.g., through AHP Scoring criteria, pilot programs).
- **Increasing awareness of FHLBank programs**. Currently, many of our members participate in voluntary programs and the AHP, but we will seek to further broaden participation of our members in these programs, including through member education programs to explain our offerings and aid successful applications. We are exploring increased educational and outreach efforts to bring awareness of the programs to our members and end-users (e.g., developers).

For our communities

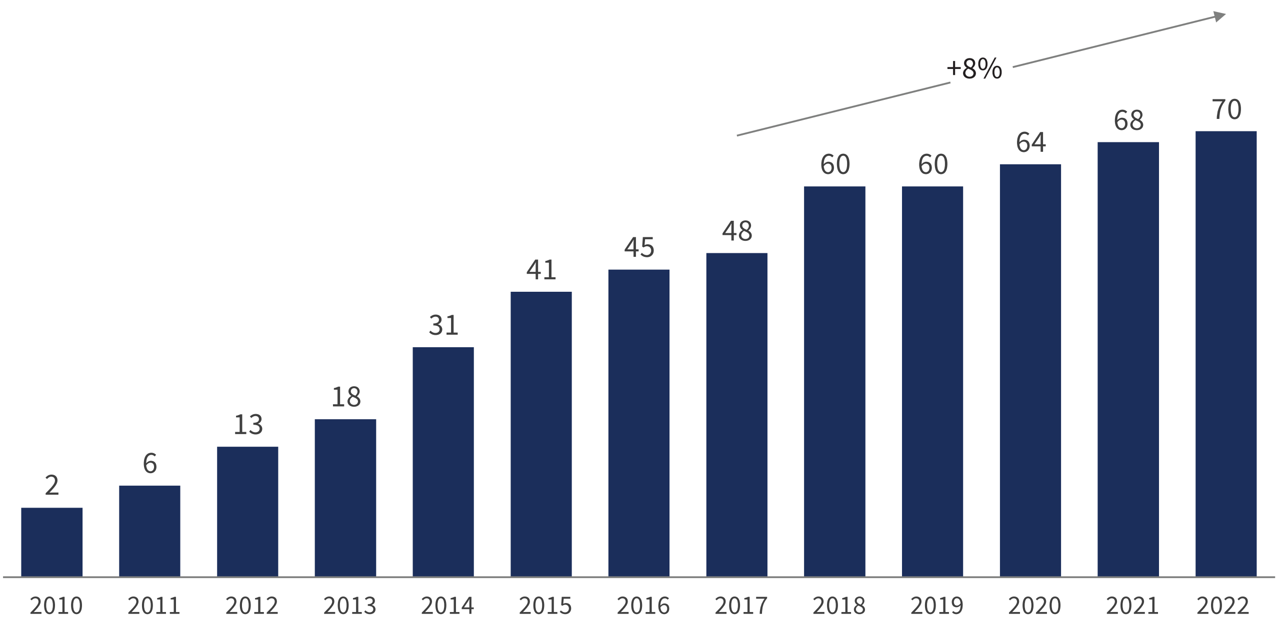
Through our members, FHLBanks support community development with access to credit and voluntary programs

FHLBanks boost local economic development by supporting members' lending in communities (including through our CDFI members in rural, vulnerable and underserved areas), providing low-cost advances for economic development, and supporting small businesses through voluntary programs.

Our role as a provider of liquidity supports our members' ability to deliver reliable credit to businesses which fosters job creation and retention, supporting communities. Banks, ~86% of which are FHLBank members, hold ~$2.3T of commercial and industrial loans on their balance sheets. Our smaller members are also vital providers of small business lending. Members with under $10B in assets hold $153B of commercial real estate loans under $1M in size, and $168B of ag-business, commercial and industrial and farmland loans under $1M .

Our focus on community development has been enhanced since membership eligibility was extended to non-depository CDFIs in the Housing and Economic Recovery Act (HERA) of 2008 . Our non-depository CDFI members have grown at a CAGR of 8% from 2017-2022 and they hold ~34% of all non-depository CDFI assets.

CDFI FHLBank membership is growing over time



We also provide funding for community development projects including urban and rural development advances with low-cost loans through CICA. FHLBank members leverage FHLBanks' CICA programs to fund economic development projects such as commercial, industrial, manufacturing, social services, and public facilities that are critical to their communities. Between 2018-2022 ~$14.8B of advances were deployed through CICA.

The FHLBanks also provide support for economic development through voluntary programs that support small businesses (e.g., FHLBank Boston's Jobs for New England, FHLBank Pittsburgh's Banking On Business, FHLBank Dallas' Small Business Boost, FHLBank Chicago's Community First Accelerate Grants for Small Business and Community Small Business Advance programs) or nonprofits (e.g., FHLBank San Francisco's AHEAD grant program). In addition to long-standing voluntary programs, the FHLBanks provide critical support to communities to help rebuild after natural disasters (e.g., hurricanes, tornados, earthquakes, wildfires). Our community development role is informed by deep engagement with local communities, including through our Affordable Housing Advisory Councils (AHACs) which draw on expertise from across each district.

We seek to increase support for communities through enhanced access to funding for development

- **Increasing CDFIs' access to funding e.g., collateral, credit enhancement, revolving loan funds**
- **Increasing ability to pledge CFI collateral to members with $10B asset size**
- **Exploring options to enhance utilization of CICA**

FHLBanks are exploring how to enhance our impact on communities by enhancing CDFIs' access to funding, expanding acceptance of CFI collateral, and working to increase the utilization of CICA advances.

- **Increasing CDFIs' access to funding**. The number of non-depository CDFI members – and their use of the FHLBank system – has grown since membership was expanded in 2008. However, they face different challenges than other types of members in accessing FHLBank funding – driven by the types of collateral they hold, and the FHFA and FHLBanks' approach to haircuts. The FHLBank system is exploring potential ways to increase CDFIs' access to funding. Given the variation in CDFI business models, footprint across the country, and CDFI needs, the most impactful solutions will vary by FHLBank district.

- **Expanding eligible collateral**. While the majority of eligible FHLBank collateral is real estate related, legislation permits the smallest banks and thrifts – Community Financial Institutions, currently defined as no larger than $1.417B in assets for 2023 – to pledge a broad range of collateral, including small business loans, small farm loans, and community development loans. While collateral eligibility is a matter for Congress, the FHLBanks would support expanding eligibility of this type of collateral to non-depository CDFIs.

- **Facilitating the acceptance of SBA-guaranteed business loans**. FHLBanks have been legally able to accept SBA loans as collateral since the Gramm-Leach-Bliley Act of 1999, but in practice are unable to fully exercise

their secured creditor rights without risk of losing the SBA guarantee, effectively preventing the full acceptance of SBA-guaranteed loans as collateral. FHLBanks seek to work with the FHFA to explore facilitating the acceptance of SBA-guaranteed loans as collateral, for example by recommending legislative changes to the SBA Act, or pursuing the use of a Memorandum of Understanding between the SBA, FHFA and FHLBanks.

- **Exploring creative ways to expand CDFIs' access to advances and capital**. Working in cooperation with the FHFA and CDFIs, the FHLBanks are open to exploring new approaches of support, such as revolving loan funds for CDFIs, credit enhancement programs to lower CDFI haircuts, and partnerships with member banks to facilitate greater community investment. As an example, the FHLBank Chicago runs a successful revolving loan fund, the $50M Chicago Community First Fund, that provides unsecured, long-term lending to member and non-member CDFIs.

• **Increasing members' ability to pledge CFI collateral**. Our members are important lenders for small businesses, farmers, agri-businesses and community development entities. Community Financial Institutions (banks and thrifts up to $1.417B assets in 2023) are currently able to pledge loans to these types of entities as collateral to the FHLBanks. As well as expanding the acceptance of CFI collateral to CDFIs, FHLBanks seek to explore allowing depository institutions of larger sizes, e.g., up to $10B , to pledge this collateral. This would be in line with other definitions of community lenders, and support the provision of funding for small businesses.

• **Exploring options to enhance CICA utilization**. Separately, the FHLBanks are exploring ways to increase and simplify CICA utilization to provide more discounted funds for community development. Alongside changes to CIP, we seek to engage with the FHFA to make regulatory changes that will support an increase to CICA utilization.

The FHLBanks welcome the opportunity to clarify some fundamental aspects of the system & how it functions

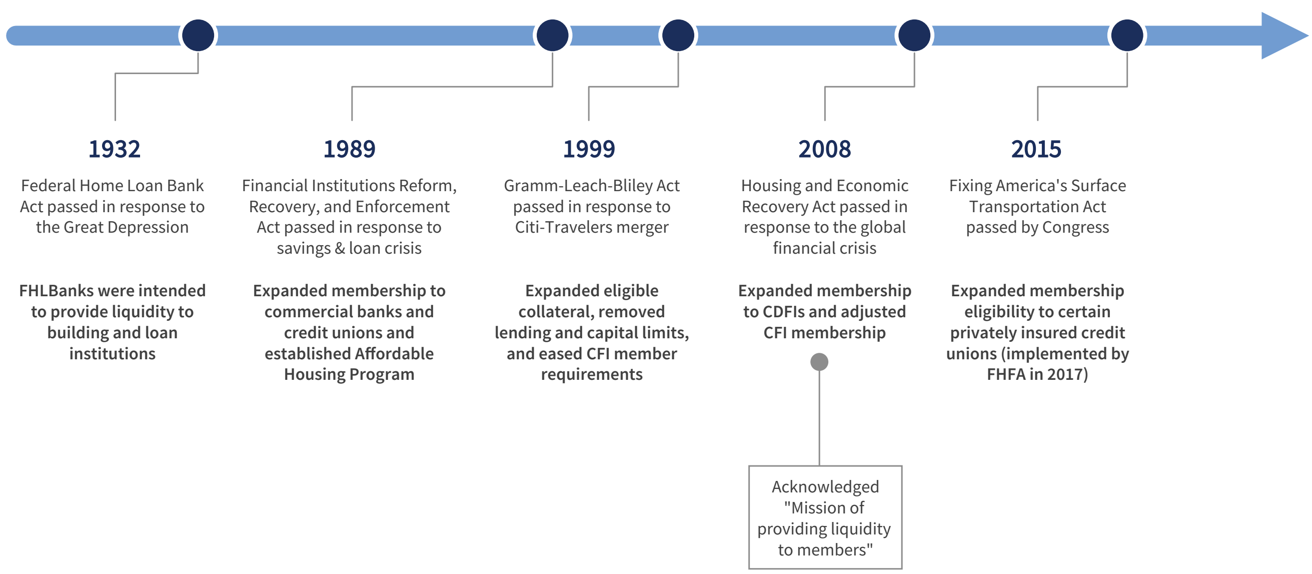
Over the course of the listening sessions and roundtables, the FHLBank system has heard a range of views from stakeholders, across a wide variety of topics. We appreciate the opportunity of the second written comment period to address some of the topics that were raised directly – specifically around our mission, membership, and operating model.

Our mission

Providing liquidity and supporting housing affordability and community development have been at the heart of the FHLBanks' mission since its creation. Over time, Congress has altered the FHLBank system's role and membership – for example by broadening membership, introducing the AHP to directly support affordable housing and community development, and expanding eligible collateral. However, the importance of providing liquidity and supporting affordability have remained consistent. In 2008, Congress expressly specified the FHLBanks' 'mission of providing liquidity to members' and 'affordable housing and community development mission' (12 U.S.C. 4513).

FHLBanks recognize and deliver on these missions. As described above, we support the U.S. financial system by providing dependable and reliable, low-cost liquidity to our members secured by high-quality, primarily housing-related collateral. This enables more lending by our members to their customers and into their communities, and provides significant funding for affordable housing and community development. It is only because we are able to provide vital liquidity and term funding to our members, that we can attract their capital and generate income to support affordable housing and community development.

Legislative timeline: Congress has expanded and reinforced the FHLBank liquidity mission over the last 90 years

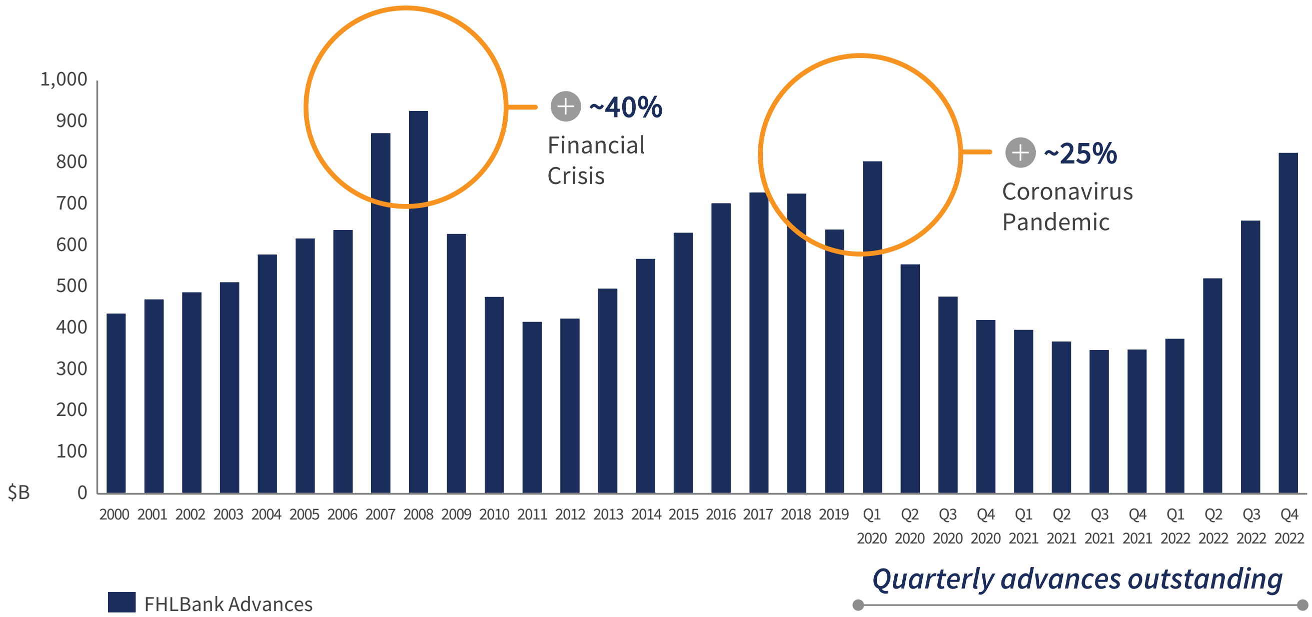


Fulfilling our 90-year-old liquidity mission brings real benefits to the US financial system, homeowners, and communities – reliable liquidity is a critical common good. The FHLBank system is proud of its track record and takes its critical role seriously, as demonstrated by the impact we had through COVID and recent market disruption

The FHLBanks have acted as a dependable and reliable provider of liquidity since the FHLBank system's creation. Over 90 years, the FHLBanks have become deeply embedded in the U.S. financial system, through our ~6,500 members. We support our members to extend credit into communities, and better weather crises. This supports consumers' access to mortgages and businesses' access to credit – supporting homeownership, job creation and local economic development. Any reduction in the FHLBanks' ability to act as a shock absorber – as we did in March 2023 – for our members would have significant and negative impacts on financial stability. Additionally, providing liquidity generates FHLBank net income that funds the AHP, enables discounted community lending programs for housing and community development and funds voluntary programs offered by the FHLBanks. While our liquidity goes to financial institutions – our members – the benefits are felt by individuals, households and businesses across the United States.

Shock absorber: FHLBanks liquidity provision enables members to operate through crises

Total systemwide advances outstanding 2000-2022



FHLBank membership

The scale and diversity of our membership are core to our resilience and support the positive impacts of the FHLBanks

The diversity of our membership – across both scale and type of member (banks, credit unions, insurance companies, and CDFIs) – is critical to the success of the FHLBank system. This diversity provides resilient demand, delivers reach into communities across the country, and supports contributions to affordable housing and community development.

Large members

Our large members play an important role in housing and community development in their own right, as well as providing scale to the FHLBank system that deepens the debt franchise. Large members play a critical role in the U.S. financial industry and are generally engaged in all phases of the mortgage market, including: originating and servicing mortgages, purchasing mortgages and holding mortgages and mortgage related assets. Large members also lead in implementing large initiatives at scale to address unmet credit needs. As users of FHLBank advances and other products, large members contribute to the net income that supports AHP contributions. They are also active participants in AHP grant projects (particularly complex projects), given their enhanced ability to navigate the regulatory requirements of the program. Our large members support innovation within the FHLBank system, including variations of advance products e.g., SOFR-linked advances.

We understand the specific risks large members can pose and use enhanced monitoring at each of the individual FHLBanks and through a designated system task force to ensure safety and soundness for a subset of the largest members e.g., over $500B in assets. This task force has regular ongoing dialogue - throughout economic cycles not just in difficult times – on large members' collective system usage with the applicable banking regulatory agencies as well. FHLBanks' risk management regarding large member advance usage includes risk and collateral ceilings, approval structure to ensure large members do not crowd out small members, and regular conversations with regulators.

Insurance members

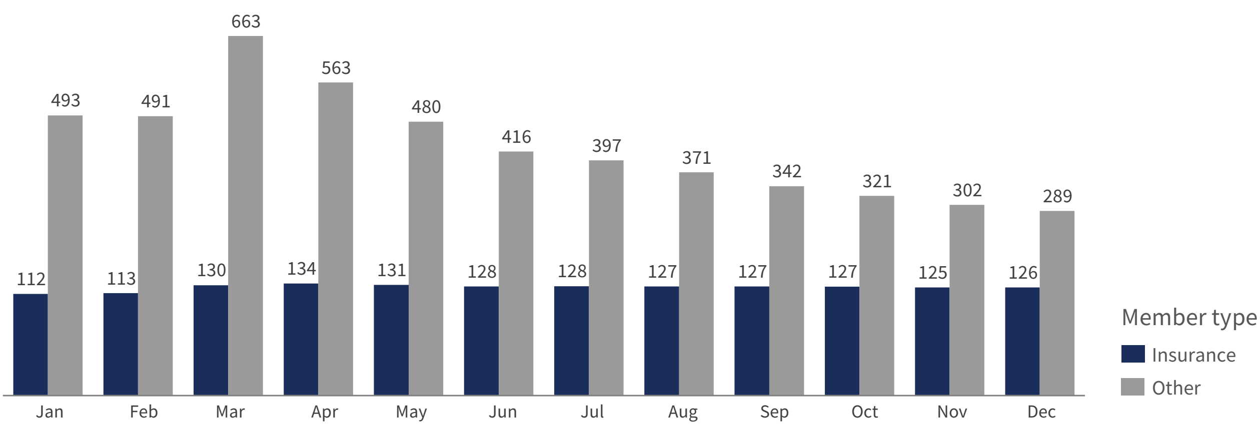
Insurance companies have been members of the FHLBanks since the original FHLBank Act of 1932 and continue to play an important role in supporting the U.S. housing markets.

Insurance companies offer products that help families achieve and sustain homeownership and maintain homes after retirement or deaths. For example, if a person dies or retires holding a mortgage, the proceeds from a life or retirement insurance policy can prevent bankruptcy on the mortgage. In some cases such insurance (homeowners) is required to obtain a mortgage. Additionally, most insurance investments are long-term to help meet policyholder liabilities. This makes the insurance industry a natural supporter of MBS assets, and in turn mortgages and housing-related assets. Their holding of mortgage assets financed by reliable low-cost FHLBank funding contributes to U.S. mortgage affordability.

Additionally, our insurance members help sustain consistent and stable demand for our advances and ultimately our debt (e.g., insurance companies increased advances 16% during COVID while bank advances declined sharply) which creates stability and resiliency for the FHLBanks and supports scaled contributions to the AHP and other voluntary programs.

Insurance members provide resilience to the system through consistent demand for housing-related collateral

2020 FHLBank advances ($B)



The FHLBank system and members have a clear housing nexus through collateral

Legislation and regulation ensure a clear housing nexus for FHLBank members. This is driven through collateral requirements, which require primarily housing-related collateral for members to access advances (~67% of collateral securing advances in 2022 were Single-Family, Multi-family, and U.S. agency MBS and CMO collateral).

In addition, new members must meet various requirements around housing, including (for certain institution types) making long-term home mortgage loans, having a home financing policy "consistent with sound and economical home financing" and – if the institution is a non-CFI bank or a credit union - holding 10% of assets in residential mortgages. Members must also show ongoing community support activities to access long-term advances, for example meeting CRA requirements and supporting first-time home buyers.

Maintaining and strengthening the FHLBanks' value proposition to members and debt investors is critical – which includes spotless credit profile, track record of no losses on advances and consistent focus on risk management

The FHLBanks' impact depends on our ability to attract capital from two sources: our members and our debt investors.

Our members put their capital into the FHLBank system on a long-term basis, based on confidence that they can rely on the FHLBank system to provide dependable and reliable liquidity across business cycles so long as they meet criteria for seeking advances. In addition, pricing of advances and dividends are seen as key to maintaining membership and committing capital stock.

Debt investors fund the FHLBank system based on our risk profile, ratings and track record as a safe investment. This is particularly important in times of stress, where the FHLBank system can make a significant amount of liquidity available in short periods of time, e.g, in Q1 2023. Any changes that put either of these features at risk could undermine the foundations of the financial system.

The safety and soundness of the FHLBank system should be preserved with any expansion of membership

During the review process, there have been calls to expand FHLBank system membership. While the FHLBanks' general position is that it is the role of Congress to determine the requirements for membership in the FHLBanks, in the event that FHLBank membership is expanded, entities considered for expanded membership should have a documented and demonstrated nexus to the FHLBanks' housing and community lending mission. Any new entrants should be subject to a supervisory regime of prudential regulation at least equivalent to that applicable to all currently-eligible members (other than non-depository CDFIs). Advances to these new members must be underwritten and collateralized in accordance with appropriate standards of safety and soundness. In addition, any membership expansion must ensure that new entities are eligible for FHLBank membership under terms and conditions, including stock purchase requirements, that are the equivalent of those required for existing members.

Operating model

The regional structure of the FHLBanks underpins our affordable housing and liquidity roles

The FHLBanks' regional structure provides opportunity for local relationships with members and communities that enable us to be more responsive in both provision of liquidity products and affordable housing and community development programs.

FHLBanks tailor their product offering to their local member needs, and member input is critical to the shaping of new products through member forums and board representation.

Our affordable housing programs consider local needs through community lending plans (informed by our Affordable Housing Advisory Councils) , AHP district priority scoring criteria, and voluntary programs districts offer. The regional nature of the FHLBanks was strongly supported across listening sessions and roundtables.

FHLBanks' regional structure is critical to local communities

“ The regional structure allows the member to access **Federal Home Loan Bank that is closer to what's going on the ground**. So, I think that's very important and we **certainly wouldn't want to lose the one we have in Chicago**. ”

Anthony Simpkins,
Neighborhood Housing Services of Chicago

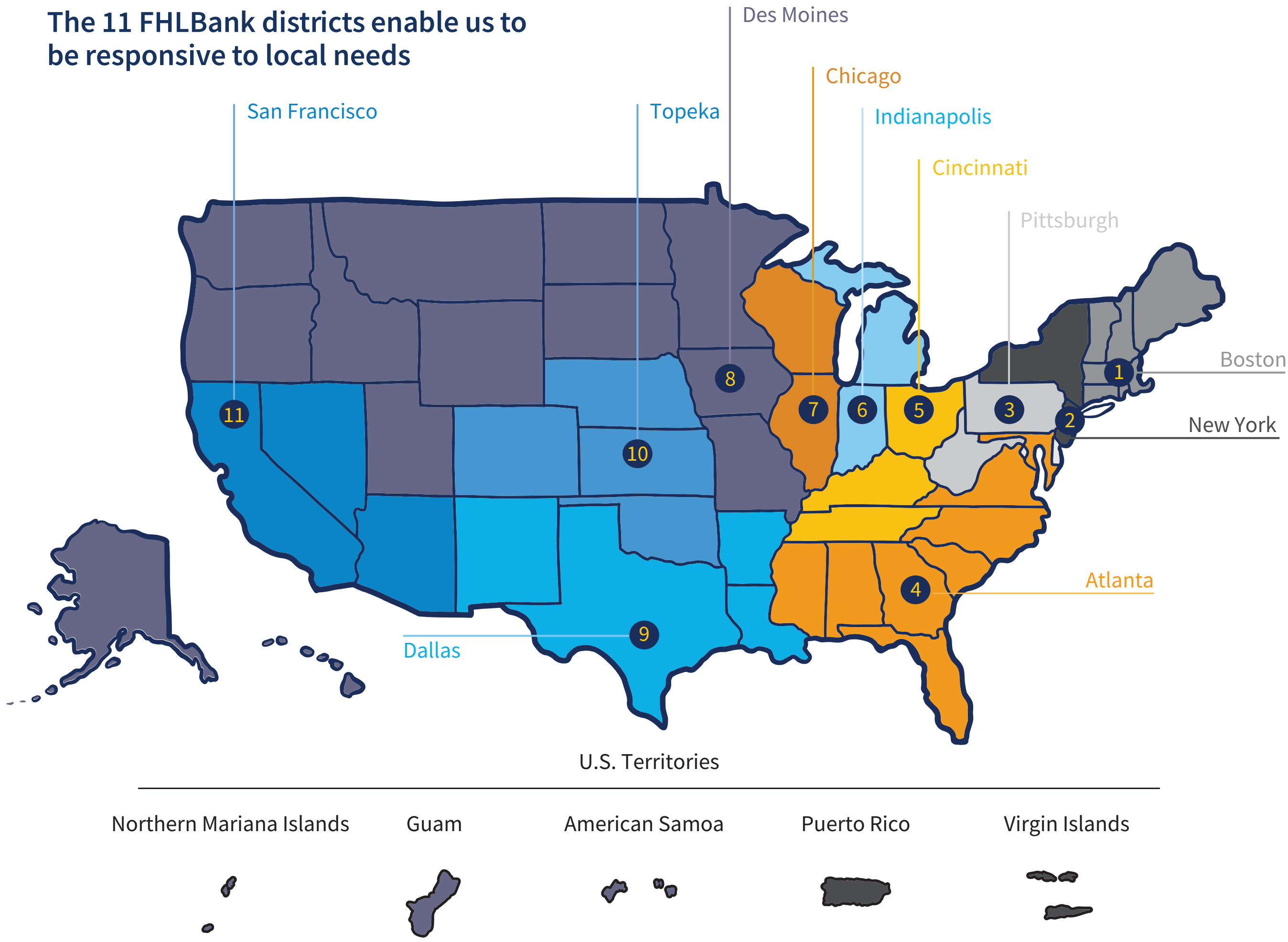
“ The other thing that we've seen really works with this **regional system is the banks being able to set up specific programs in their district**. ”

Robin Hughes,
Housing Partnership Network

“ It is **designed on purpose to be as flexible as possible to reach regional decision making**. That's something that I would encourage, continue to happen. That the **people best equipped to make decisions about what types of populations should be served** because of the FHLB liquidity… **only can be made by the people who are living in the communities**. ”

Katie Kramer,
Council of Development Finance Agencies

The 11 FHLBank districts enable us to be responsive to local needs



The FHLBanks' governance structure is set up to provide the expertise required to manage a $1T entity

The FHLBank system is a $1T+ group of financial institutions that is deeply embedded into the U.S. financial system, and a major contributor to affordable housing in the country. As such, governance of the FHLBanks requires a specific mix of talent and expertise – particularly around maintaining safety and soundness of complex financial institutions (e.g., risk management, cybersecurity, capital markets).

The existing governance structure, with Boards made up of member and independent (including public interest) directors, advised by Affordable Housing Advisory Councils, provides this. The FHLBanks are able to draw on a wide variety of expertise, including from financial institutions, the public sector, non-profits, and developers.

The FHLBank system is a government-sponsored enterprise that leverages private capital for public good

The FHLBanks were established by law as government sponsored enterprises (GSEs), and as such the FHLBank system has the benefits and the obligations typical of such institutions. The FHLBanks are self-capitalized cooperatives (with $44B of capital stock and $24B retained earnings), whose voluntary members are required to purchase stock in order to access advances. This means the FHLBanks deliver a public good without direct taxpayer money to operate their businesses. We are responsible stewards of our GSE status and have never taken a loss on an advance. The holders of FHLBanks' debt have multiple layers of protection against losses, including strong risk management practices, high performing (and perfected) collateral, members' capital, and joint and several liability across the FHLBank system.

FHLBanks have robust capital buffers and structure to maintain safety and soundness

1. **Pool of Performing Collateral** — FHLBanks require **overcollateralization for advances;** frequent monitoring performance, pricing, and valuation
2. **Lien Priority and Additional Collateral** — FHLBanks perfect secured interests in member collateral **and receive lien priority over other creditors,** including any receiver, conservator
3. **Failed Member's Paid-In Capital** — **Member capital is proportional to both the size of member and to outstanding balance** of advances
4. **Cooperative's Income and Retained Earnings** — **Retained earnings are reserved for capital purposes** or allotted for paying off debt
5. **Cooperative's Capital Stock** — If steps 1-4 are exhausted, FHLB would **used capital stock. Regulatory requirements are 4%, but FHLBanks districts hold ~5-6% as of Q4 '22**
6. **Joint and Several Liability: other FHLBanks' current earnings, retained earnings, and capital stock** — Even if an FHLB suffers losses, **the other FHLBanks, collectively, would provide a deep layer of insulation** from losses
7. **BONDHOLDERS** — If any defaults on advances exhausted all six layers, **the holders of FHLBanks debt would not receive interest or principal** until the defaulted advances were covered

The FHLBanks deliver a leading mission-focused franchise with high levels of efficiency

The FHLBank's lean operating model allows it to deliver nationwide support with a competitive cost structure. Between 2017-2022 we had cost-income ratios between 20-35%, which is best in class among large financial institutions.

Where national scale is beneficial, we have adopted shared services structures. For example, debt issuance and FHLBank system financial reporting is run through the Office of Finance, and FHLBank Chicago runs the MPF for six FHLBanks. The FHLBank system has been increasingly collaborating across regions, developing new partnerships, and sharing operating best practices and knowledge to increase efficiency.

FHLBanks primarily gain priority to collateral through perfecting their security interest - not the statutory CEBA lien

A statutory lien was established for the FHLBanks by the Competitive Equality Banking Act (CEBA) of 1987. This lien has sometimes been incorrectly characterized as providing FHLBanks a preference over all creditors of a member in the event of a failure. The CEBA lien ensures an FHLBank security interest has priority in receivership over other creditors, such as the Federal Deposit Insurance Corporation (FDIC), but did not grant the FHLBanks priority over other creditors who had provided value to the borrower and had perfected security interests. This change was introduced by Congress during the savings and loan crisis to encourage FHLBanks to continue lending to insolvent thrifts. However, there are only narrow instances where the CEBA lien has value beyond the protections provided for secured creditors due to changes to the Uniform Commercial Code (UCC) in 2001.

Secured lenders like the FHLBanks typically perfect their security interests, i.e., to assure that that no other party can claim legal priority over the same collateral in the event a debtor becomes insolvent. When the CEBA lien was introduced, the only way a lender like the FHLBanks could perfect a security interest in promissory notes was through actual possession of the notes. The introduction of the CEBA lien gave FHLBanks priority over other creditors in cases where no other creditor had been granted possession of such collateral by the borrower in exchange for value.

In July 2001, Article 9 of the UCC was revised substantially so that lenders could perfect a security interest in notes by filing a financing statement. This means the CEBA lien only has value for the FHLBanks in the very limited circumstances where no secured creditor, including the FHLBank, has possession of collateral or has filed a valid financing statement. Since FHFA guidance requires FHLBanks to perfect their security interest under the UCC, e.g., by filing a financing statement or taking possession of collateral, for all advance collateral, the CEBA lien provides very limited additional protection for the FHLBanks.

More broadly, the FHLBanks provide value to the FDIC and regulators by supporting financial institutions to ensure access to reliable liquidity. Additionally, with the approval of the primary regulator, a FHLBank can also continue providing liquidity to a member in a troubled state. The FHLBanks consult with primary regulators and may provide additional liquidity in certain cases under prudent conditions. During times of stress, advances can help members remain liquid which increases financial system stability. If the member bank does become insolvent, the FDIC has the option, but not the obligation, to pay off the FHLBank advances in order to obtain and control the liquidation of the collateral. Alternatively, the FDIC can keep the advances outstanding to fund receivership operations and give the FDIC time to find a least cost resolution as market conditions improve.

Looking ahead

The FHLBanks are grateful to everyone who has participated in listening sessions, roundtables and submitted written comments to share their reflections on the current role of the system and made constructive suggestions for the future. We look forward to hearing additional perspectives in the closing stages of the review process.

We seek to work with the FHFA, Congress, and broader stakeholders to shape the future of the system. For 90 years, the FHLBanks have played a critical role in the United States financial system and housing market. Together, we can ensure our impact is strengthened – benefiting members, homeowners, renters, and communities in every part of the country.

Note: Case studies and data (including system-wide aggregated data) are sourced from individual banks and Office of Finance. Each FHLBank is responsible for the financial information and underlying data. Quotes taken from FHFA listening sessions, roundtables, written comments and other sources. "Mortgage Partnership Finance" and "MPF" are registered trademarks of the Federal Home Loan Bank of Chicago.

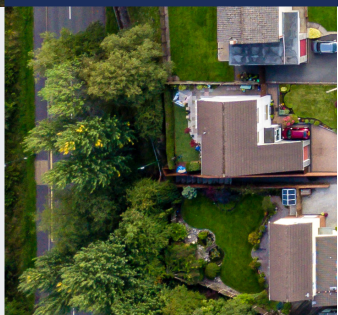






Thank you

MARCH 2023



FHLBANKS
A NATION OF LOCAL LENDERS