

October 16, 2024

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

Dear Director Thompson:

The Independent Community Bankers of America (ICBA)<sup>1</sup> and the undersigned state banking associations are writing to express concerns regarding a recent Advisory Bulletin (AB)<sup>2</sup> issued by the Federal Housing Finance Agency (FHFA) that focuses on credit risk management expectations for the Federal Home Loan Banks (FHLBs). We agree that it is certainly critical that the FHLBs maintain ongoing and robust safety and soundness guidelines for their member institutions – in fact, each FHLB has a credit policy in place today. However, our concerns are more about the lack of clarity as to why this guidance is necessary and why FHFA is releasing these credit standards now and without due consideration or explanation for how they might impact the FHLB ecosystem.

As you know, the FHLB System has proven time and again to be a critical and reliable source of liquidity in the housing finance system. The FHLBs contribute to affordable housing, provide funds for community development, and are indispensable to the members that rely on them to manage their liquidity needs through all market conditions. The System has never taken a loss, in large part due to their existing credit guidelines and fully collateralized advances. The undersigned groups urge FHFA not to fix what is not broken. This AB is of great concern because it fails to justify or explain the need for a new or modified credit rating methodology and new layers of credit assessment. It also fails to clarify what is new within these guidelines and how FHLB members might be impacted going forward.

We are concerned that this shift in focus away from the quality of the underlying collateral to the credit risk of the member institution will significantly disrupt the FHLB System by creating a sense of uncertainty among member institutions about qualifying for advances despite having eligible collateral. More specifically, the inclusion of qualitative factors as part of the methodology opens the door to inconsistent and subjective determinations of credit quality. For example, the AB includes unique business models, “high-risk” products and underwriting strategies among the qualitative factors that a FHLB may consider within its methodology. This presents a possible troubling scenario wherein a long-time FHLB member that is in good standing with its regulator and presenting adequate eligible collateral could be denied an advance based on unspecified qualitative factors. Unfortunately, it seems

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

<sup>2</sup> [https://www.fhfa.gov/sites/default/files/2024-09/AB-2024-03\\_FHLBank-Member-Credit-Risk-Management.pdf](https://www.fhfa.gov/sites/default/files/2024-09/AB-2024-03_FHLBank-Member-Credit-Risk-Management.pdf)

that FHFA is trying to insert itself as the safety and soundness regulator for FHLB members, a role that is clearly outside of its statutory authority.

We have long opposed any regulatory and legislative action that undermines or restricts community bank access to the FHLB System. The above concerns about uncertainty and the implementation of additional layers of credit scrutiny – especially if applied to community banks that are already highly regulated – may have the unfortunate side effect of limiting access to liquidity for the members that rely on it most to invest in their communities. Community banks do not and never have posed a risk to the FHLB System. We therefore strongly urge FHFA to pause enforcement of the AB and engage with industry stakeholders to address the concerns and unanswered questions related to the guidance.

While we fully recognize the importance of assessing a FHLB member's creditworthiness for advances and other products, we suggest that some elements of this guidance will exacerbate uncertainty and prove unnecessarily disruptive to a system that has worked extremely well for nearly a hundred years. We welcome and encourage further engagement and discussion on this critically important issue.

Sincerely,

Independent Community Bankers of America  
Alabama Bankers Association  
Arizona Bankers Association  
Arkansas Community Bankers  
California Community Banking Network  
Independent Community Bankers of Colorado  
Connecticut Bankers Association  
Florida Bankers Association  
Community Bankers Association of Georgia  
Idaho Bankers Association  
Community Bankers Association of Illinois  
Indiana Bankers Association  
Community Bankers of Iowa  
Community Bankers Association of Kansas  
Bluegrass Community Bankers Association  
Louisiana Bankers Association  
Maine Bankers Association  
Maryland Bankers Association  
Massachusetts Bankers Association  
Community Bankers of Michigan  
BankIn Minnesota  
Mississippi Bankers Association  
Missouri Independent Bankers Association  
Montana Independent Bankers  
Nebraska Independent Community Bankers  
New Hampshire Bankers Association  
New Jersey Bankers Association  
Independent Community Bankers Association of New Mexico

Independent Bankers Association of New York State  
North Carolina Bankers Association  
Independent Community Banks of North Dakota  
Oregon Bankers Association  
Community Bankers Association of Ohio  
Community Bankers Association of Oklahoma  
Tennessee Bankers Association  
Pennsylvania Association of Community Bankers  
Independent Banks of South Carolina  
Ind. Community Bankers of South Dakota  
Independent Bankers Association of Texas  
Vermont Bankers Association  
Virginia Association of Community Banks  
Community Bankers of Washington  
Community Bankers of West Virginia  
Wisconsin Bankers Association  
Wyoming Bankers Association