Written Testimony of

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Hearing on
Oversight of the Federal Home Loan Bank System

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Chairman Flood, Ranking Member Cleaver, and Members of the Subcommittee:

Thank you for the opportunity to offer my perspective today as a community lender, a cooperative member of the Federal Home Loan Bank (FHLBank) System, and the Chairman of the Federal Home Loan Bank of Topeka's Board of Directors. In each of these roles, I've developed an increasing appreciation for the ways in which the FHLBank System utilizes its novel architecture to transform private capital into exponential public benefit.

For nearly a century, the FHLBank System has served as a blueprint for the way in which a true public-private partnership benefits the country. Over time Congress has made thoughtful adjustments to the FHLBank System to meet the needs of the country and continually modernize its operations in support of the wide range of members and stakeholders it serves. A rapidly evolving regulatory landscape compounds the importance of your role in shaping the way all lending institutions function in aggregate, so I appreciate your leadership in fostering this discussion.

Access to FHLBank liquidity throughout the ups and downs of an economic cycle contributes to a more resilient and stable financial system, serving as a key source of confidence and flexibility.

As a community lender, I see how Nebraskans directly benefit from that dependability, but this role and its connection to outcomes deserves more attention. I appreciate the opportunity to highlight some of the reasons why Cornhusker Bank and thousands of local lenders regard the FHLBank System as our "lender of first resort" and cooperative partner.

While the narrow narrative of the System often revolves around its significant achievements supporting affordable housing innovation and community building, that work is enabled through its liquidity role, utilizing local members as a conduit of capital. FHLBank Topeka's mission is to help its members build strong communities. Through Cornhusker Bank's membership with FHLBank Topeka, we are able to expand access to credit in our communities supported by the use of advances, increase our role in home mortgage lending by selling loans to FHLBank, and ensure public funds remain local and can be leveraged to expand community lending through the use of letters of credit. Fundamentally, the FHLBanks allow their members to facilitate community growth and prosperity.

Policy or structural changes must always account for the System's cooperative value proposition. Sudden or fundamental reform without careful analysis and clear understanding of its impact, could undermine credit pricing, credit access, and accelerate consolidation trends already threatening Nebraska and local markets across the country.

Lenders can, should, and often do obtain wholesale liquidity and funding from a variety of sources. However, if ongoing access to FHLBank funding is perceived to be conditional, unreliable, or simply uncompetitive, the market will migrate. This would directly reduce the resources FHLBanks have to dedicate to growing communities while driving local lenders to utilize other wholesale liquidity sources which have no equivalent obligation to support housing and community development in such a granular and informed way. The FHLBanks look forward to working with you to continue to enhance the System's cooperative value proposition.

On behalf of the thousands of cooperative member-owners across the country who rely on the System's dependable, innovative, and reliable solutions to continue growing our communities together, I thank you again for the opportunity to provide my perspective. Today I'll offer several themes I ask Congress to consider in service of our shared desire to secure another century of strength, dependability, and community growth.

The Catalyst for Community Lenders: Accessing Global Capital

In cities like Lincoln, along with smaller communities across Nebraska, FHLBanks are more than a trusted partner and housing resource. In a very tangible way, FHLBanks provide a vital link for their members, pooling the needs of thousands of small lenders to access global capital at scale. This support structure for local economies is increasingly critical for several reasons.

- **Proportional Necessity:** FHLBank advances represent a significantly higher share of total liabilities for small lenders who have fewer funding options than the nation's largest lenders. More than 90% of FHLBank Topeka's approximately 650 members have less than $1.5 billion in assets. Through FHLBank's products and services to its members, FHLBank impacts 99% of the 339 counties in its four-state region.

- **The Main Street Backbone:** State-chartered banks, who rely heavily on the System, provide roughly 55% of small business loans and 65% of agricultural lending in the United States. The ability of the FHLBanks to scale when needed provides local lenders the confidence and dependability they need to fuel small business growth, sustain agricultural lending, and invest in innovative housing solutions.

- **Market Access:** In underserved or rural economies, FHLBanks often represent the only available access for community lenders to the capital markets. Leveraging the FHLBanks' unique architecture, community lenders are able to access global capital to lend in their communities.

- **Letters of Credit:** By utilizing letters of credit, members can reliably secure public deposits, keeping local funds local. Lenders can then leverage this feature to lend in their communities. This is one area in which increased authority from Congress could unlock additional public benefit.

- **Sustaining a Local Mortgage Function:** As many smaller institutions have exited the mortgage market, FHLBank Acquired Member Asset (AMA) programs frequently represent the most seamless mechanism for many of its smaller lenders to continue originating and servicing mortgages, allowing members to maintain the important customer relationship, which is something both lenders and the consumer truly value.

An Agile Framework: FHLBank Model Unlocks Homegrown Ingenuity

One of the most sustaining strengths of the System, and a primary reason Cornhusker Bank relies on the partnership with FHLBank Topeka, is the value of its regional structure. What works in Nebraska and our region may not be as meaningful in another part of the country, but with the flexibility to innovate and adapt within the statutory guidelines Congress maintains, each

FHLBank in the System can accurately assess and monitor regional trends, adjusting to account for local nuance while maintaining real and granular relationships with their member institutions.

- **Collateral:** FHLBanks make fully secured, low-cost loans, known as advances to their members. Members are required to pledge collateral in the form of mortgages and other eligible assets to secure advances. Because each of the 11 FHLBanks are independently operated, they can tailor their policies to meet their districts' needs. In Nebraska, this means members are able to pledge small farm and agribusiness loans, community development loans, and small business loans. This structure allows lenders to transform assets into additional lending capacity.

- **AHP/Voluntary:** The Affordable Housing Program (AHP) offers powerful examples of this dynamic. Each FHLBank works in consultation with its Affordable Housing Advisory Council (AHAC). Comprised of local practitioners, the AHACs provide detailed insights to inform FHLBank Boards and management of the needs present in their region. They generate feedback on how active programs are performing, while informing discussion of how existing programs could be adjusted, or how new programs would benefit local needs. These interactions meaningfully inform the disbursement of the statutory AHP funds each FHLBank awards. Additionally, the AHACs have proven particularly valuable in helping develop elective funding beyond the statutory AHP funding, or what we describe as "voluntary" programs designed to truly address regional needs.

  Each of the 11 System FHLBanks has made a significant voluntary funding commitment, and the results have been compelling. Because voluntary funding can be quickly implemented, easily adjusted, and precisely focused, the impact is immediate. In the Topeka district, this meant dedicated funding for tribal housing needs, a program offering a permanent rate buy-down on mortgages, downpayment assistance for the 'missing middle,' natural disaster relief, and even an academic institute focused on educating affordable housing practitioners. These are creative solutions that have been extraordinarily popular with members and program participants. Protecting this flexibility and ability to innovate locally should be a critical factor in your ongoing analysis of the System.

- **AMA:** In addition to offering an outlet for members to originate and service mortgages at their local institutions, the AMA programs offer individual FHLBanks the ability to tailor their programs to match their region. Several varieties of AMA programs exist across the System, and while not every FHLBank offers an AMA program or maximizes the current regulatory caps, this is another area in which statutory authority from Congress could unlock additional resources for high-cost regions and underserved markets and authorize the FHLBanks to grow their mortgage programs. As member-owned cooperatives, this is a critical example of one way in which our regional model is so important.

Stabilizing the Policy Landscape: Regulatory Certainty

One of the most unique and impactful characteristics of the American credit landscape is the vibrancy of our local lenders. A community-based lending economy dilutes concentration risk and strengthens the broader financial services ecosystem. Our customers depend on Cornhusker Bank because we understand in a very real way how they operate and design solutions to meet their specific needs.

In an increasingly complex and rapidly evolving global economy, this requires careful calibration and thoughtful action to ensure we appropriately account not only for evolving market conditions, but also to react to regulatory and political conditions materially impacting core operations and ongoing competitiveness. In the last decade, the frequency with which regulatory and supervisory conditions vacillate has become one of our biggest challenges.

Strategic consideration of the technologies in which we invest, the products we offer, and the guidance we provide our customers are materially impacted by increasingly divergent policy or ideological perspectives. This leaves local lenders like Cornhusker Bank and our customers caught in a helpless dependability vacuum.

Your sustained bi-partisan focus in coordinating with prudential regulators is becoming increasingly important. Congress has the unique ability to ensure maximum transparency and advance notice of meaningful supervisory rules or guidance. Through ongoing oversight authority or statutory relief, establishing clear boundaries and precedent ensuring supervisory actions focus on material financial risks while preventing regulatory encroachment from adjacent prudential regulators would significantly improve regulatory stability.

Summary

The FHLBank System is a novel and resilient mechanism. Bridging private capital, government credibility, and local pride, its role is so naturally ingrained in the success of FHLBank members that it too often goes unnoticed, or underappreciated. Your bi-partisan commitment to the System's enduring stability today and for nearly 100 years makes a meaningful difference in Nebraska and across the United States.

This is a durable model, but it requires careful calibration. I encourage your continued focus on the work of the FHLBanks. I am honored to share my insight and experience with FHLBank Topeka's genuine passion to facilitate growth and prosperity, utilizing their scale and expertise to lift others who would otherwise be left without a safe place to call home, a lender to support their dream, or a vibrant neighborhood and community to inspire their faith in a stable future.