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United States Senate
COMMITTEE ON BANKING, HOUSING, AND
URBAN AFFAIRS
WASHINGTON, DC 20510-6075

April 20, 2023

The Honorable Sandra Thompson
Director
Federal Housing Finance Agency
400 7th Street SW
Washington, DC 20024

Dear Director Thompson:

Thank you for initiating a review of the Federal Home Loan Bank (FHLBank) System. As you prepare your final report on the FHLBank System, I ask that you include a detailed review of the FHLBank System's role in providing liquidity in the months and days leading up to recent bank failures, and whether all actions were consistent with safety and soundness, financial stability, and the system's mission.

The FHLBank System was established over 90 years ago, before Congress created deposit insurance and when local savings and loans and insurers dominated the mortgage market. While our financial system has evolved over time, the FHLBank System's core mission remains the same: providing liquidity and supporting long-term mortgage financing for the FHLBanks' thousands of members. Following the recent failures of three banks, the System provided record levels of advances in response to member demand during a period of market stress. But the System's ability to provide liquidity to members at all times raises concerns that members may attempt to draw on the system when they are experiencing financial instability or insolvency.

In the months leading up to the failures of Silvergate, Silicon Valley Bank, and Signature Bank, all three banks significantly increased their borrowings from their FHLBank. Two of the banks had not been among the top borrowers in their FHLBank in 2021, but became the first and sixth largest borrowers from their FHLBank in 2022. Reports indicate that Silvergate repaid all outstanding FHLBank advances before it entered voluntary liquidation. But it is not clear how much Silicon Valley Bank or Signature Bank may have continued to draw on the FHLBank System as they experienced financial stress, or whether there was sufficient communication between the FHLBanks and prudential regulators about the banks' request for advances and their current financial condition.

The FHLBank System was created to provide liquidity to sound institutions to facilitate lending. It was not structured to be a lender of last resort – or of next-to-last resort – for struggling institutions. If FHLBank members attempt to use the system as a financial backstop, it could have unintended consequences for the FHLBank System and for our broader financial system. As you complete your review of the FHLBank System, I ask that you include an analysis of FHLBanks' provision of liquidity to the three banks that recently failed and whether the FHLBanks' actions were consistent with Federal

Housing Finance Agency (FHFA) and FHLBank policies, the FHLBank System's mission, and with FHFA's objective of financial stability. The speed of these bank failures also highlighted the importance of having up-to-date information and communication. As part of your assessment, please review the frequency and timeliness of communications and data shared between the FHLBanks, FHFA, and prudential banking regulators, both in regional offices and in Washington, D.C., and whether all parties had the best available information and were acting in coordination to ensure the stability of the FHLBanks and the financial system.

Thank you for conducting this timely review, and for including an analysis of the System's recent actions.

Sincerely,



Sherrod Brown
Chairman