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December 09, 2024

Ms. Ann E. Misback
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Dear Ms. Misback,

As an addendum to our comments regarding operational aspects of the Federal Reserve discount window, the Independent Community Bankers of America (ICBA)¹ would like to take this opportunity to separately underscore the critically important role of the Federal Home Loan Bank System (FHLB System) as a reliable, inexpensive, and efficient source of liquidity for community banks. We strongly oppose any efforts to undermine or devalue this essential funding source and any attempt to unnecessarily steer banks away from FHLB advances as part of their liquidity planning. The FHLB System should remain a necessary and complementary liquidity option alongside the Federal Reserve System's discount window.

As we discussed in our comment letter, ICBA recognizes the importance having multiple and varied sources of liquidity and contingent liquidity. We also support efforts to remedy existing operational challenges and inefficiencies that currently undermine community bank efforts to make Federal Reserve discount window availability an integral part of their liquidity plans. Moreover, it is vital that the Federal Reserve and the FHLBs solve for any overlapping security interests to underlying collateral that could delay access to emergency funding. This may include efforts to ensure better and more efficient coordination, particularly in the event a FHLB member requires expedited discount window funding and needs the rapid release of FHLB collateral to access these funds.

¹ The Independent Community Bankers of America® creates and promotes an environment where community banks flourish. ICBA is dedicated exclusively to representing the interests of the community banking industry and its membership through effective advocacy, best-in-class education, and high-quality products and services. With nearly 50,000 locations nationwide, community banks constitute roughly 99 percent of all banks, employ nearly 700,000 Americans and are the only physical banking presence in one in three U.S. counties. Holding nearly \$5.9 trillion in assets, over \$4.9 trillion in deposits, and more than \$3.5 trillion in loans to consumers, small businesses and the agricultural community, community banks channel local deposits into the Main Streets and neighborhoods they serve, spurring job creation, fostering innovation and fueling their customers' dreams in communities throughout America. For more information, visit ICBA's website at www.icba.org.

ICBA also cautions the Federal Reserve against taking regulatory or supervisory actions that undercut the FHLB System's statutory mission to provide liquidity to its member institutions. For example, if banks are arbitrarily or needlessly forced to the discount window instead of taking FHLB advances, there may be harmful unintended consequences. If broadly applied, the footprint of the FHLB System might be reduced, shrinking the amount of funds directed to affordable housing and the many housing programs that benefit community investment. This again speaks to the importance of collaboration and why the FHLBs and the Federal Reserve should work together to expand access to liquidity.

Solving for operational frictions and inefficiencies with the discount window while increasing collaboration between the FHLB System and the Federal Reserve will go a long way toward enhancing the liquidity mission of both entities. It will also promote stability in the financial system as a whole. We believe this can be achieved without unnecessarily steering banks to the discount window or expecting liquidity plans that restrict or prohibit FHLB fund access.

ICBA appreciates the opportunity to provide feedback on this critical issue. If you have any questions or would like to discuss our concerns and recommendations, please contact ron.haynie@icba.org.

Sincerely,

Ron Haynie
Senior Vice President, Housing Finance Policy