OPEN LETTER TO ELON MUSK

February 25, 2025

Elon Musk
Senior Advisor to the President
Department of Government Efficiency Service

RE: **Federal Home Loan Banks**

Dear Mr. Musk:

Three years ago, the *American Banker* published our open letter to then Federal Housing Finance Agency director designate, Sandra Thompson. We called for substantial reform of the Federal Home Loan Banks considering their demonstrable ineffectiveness in addressing the nation's housing crisis and their significant taxpayer subsidy.

As a result of our letter, the Agency launched its first ever comprehensive review of the FHLBanks. Dubbed, *FHLBank System at 100: Focusing on the Future*, the two year-long study produced a 115-page report and modest recommendations for reform. The most prominent of the Agency's proposed reforms was a doubling of the statutorily mandated affordable housing commitment of the FHLBanks from 10 per cent to 20 per cent of their net income.

Due to the FHLBanks' resistance, no reform has taken place.

In the years since our open letter: FHLBanks' assets have ballooned by almost 50 per cent percent to $1.3 trillion; the FHLBanks have contributed to a major banking crisis (prompting the Government Accountability Office, at the request of Congress, to launch an investigation into the FHLBanks role in the failure of Silicon Valley Bank); and the FHLBanks have lavished compensation on their executives and paid rich, taxpayer-supported dividends to their members.

Meanwhile, the nation's housing crisis has deepened with scant attention to it by the eleven FHLBanks.

In sum, this agency of the government that was intended to address a housing crisis has, instead, become a taxpayer-subsidized enterprise whose exclusive function is to enhance the profitability of member banks and insurance companies. Housing has been sacrificed along with the interests of taxpayers and consumers.

The time for taking meaningful action to address the problem of the FHLBanks is at hand. We urge the new Administration to take the following actions.

1. The FHLBank system is a public-private enterprise. All its $1.3 trillion debt is supported by the government. The only public good it returns to the taxpayers is an insignificant statutory tithe on its net income.

   In keeping with their tax exemption and their status as public-private enterprises and in light of the enormous subsidy they receive from the government as documented by the Congressional Budget Office and others, the FHLBanks should be required to dedicate half of their net income to affordable housing. We urge the President to issue an executive order calling on the FHLBanks to increase to 50 percent of net income each FHLBank's commitment to affordable housing. This should be followed by legislation codifying the mandate.

Using the FHLBanks' own yardstick, **a five-fold increase in the FHLBanks' affordable housing obligations will result in an increase in the nation's affordable housing supply of over 1.2 million units in just ten years.** This will go a long way to addressing the four million national housing deficit we currently face.

The executive order should make clear that, if the FHLBanks resist the President's exhortation, he will direct the Secretary of the Treasury to take further action as described below.

2. The FHLBanks receive no funds appropriated by Congress. They are not part of the budget process. However, the FHLBanks have unfettered access to the credit markets because of the U.S. Treasury's longstanding acquiescence in the market's presumption that the government will backstop all FHLBank debt. It is this same presumption of a government backstop that led to the conservatorships of Fannie Mae and Freddie Mac—conservatorships that the Administration is committed to reversing.

   That presumption regarding the FHLBanks can be removed at any time by the Secretary of the Treasury simply declaring that the Treasury (i.e., the taxpayers) will not support any new FHLB debt. No Congressional action is needed.

   The impact of this action will be immediate, but not chaotic.

   Because of the thinness of the margins on which the FHLBank business model is based, the slightest increase in the risk premium assigned to FHLBank debt will render the business model moot. Moreover, the unwinding of the FHLBanks will be orderly considering the composition of their assets (highly secured advances and ultra safe investments). No harm will come to the housing finance market because, unlike Fannie and Freddie, the FHLBanks are not players in that market.

   In the money markets, Treasury debt competes closely with the agency offerings of the GSEs including Fannie, Freddie and the FHLBanks. The yield spread between the two is narrow with agency debt consistently higher than Treasuries.

   Privatization of Fannie and Freddie, as contemplated by the Administration, will leave the FHLBanks as the dominant GSE competing with Treasury issuances. Although outstanding FHLBank debt is small by comparison to the national debt ($1.3 trillion versus $36 trillion), its competitive impact on the servicing of the national debt well exceeds the *de minimus* contribution of the FHLBanks to the public good. As such, yields on Treasury securities will be reduced, as will the cost of servicing the nation's $36 trillion debt.

As the Administration and DOGE seek out government efficiencies by eliminating departments and agencies (Education, USAID, CFPB, etc.), no governmental enterprise presents a more compelling case for either its radical repurposing or for its elimination than do the FHLBanks.

We respectfully call your attention to this urgent opportunity.

Yours truly,

William M. Isaac

Cornelius Hurley

Cc:

Hon. Scott Bessent, Secretary, U.S. Department of the Treasury
William Pulte, Director Designate, Federal Housing Finance Agency
Hon. Scott Turner, Secretary, U.S. Department of Housing and Urban Development
Hon. Russell Vought, Director, Office of Management and Budget
Hon. Travis Hill, Acting Chairman, Federal Deposit Insurance Corporation
Hon. Philip L. Swagel, Director, Congressional Budget Office
Hon. Gene Dodaro, Comptroller General, U.S. Government Accountability Office
Hon. Tim Scott, Chairman, U.S. Senate Committee on Banking, Housing and Urban Affairs
Hon. Elizabeth Warren, Ranking Member, U.S. Senate Committee on Banking, Housing and Urban Affairs
Hon. Thom Tillis, Chairman, U.S. Senate Subcommittee on Financial Institutions and Consumer Protection
Hon. Catherine Cortez Masto, Ranking Member, U.S. Senate Subcommittee on Financial Institutions and Consumer Protection
Hon. French Hill, Chairman, U.S. House Committee on Financial Services
Hon. Maxine Waters, Ranking Member, U.S. House Committee on Financial Services
Hon. Andy Barr, Chairman, Chairman, U.S. House Subcommittee on Financial Institutions
Hon. Bill Foster, Ranking Member, U.S. House Subcommittee on Financial Institutions
Luke Pettit, Assistant Secretary Designate, U.S. Department of the Treasury

Isaac and Hurley are, respectively: former chairman of the FDIC and Fifth Third Bancorp, and current chairman of Secura/Isaac, LLC; and former independent director of FHLBank of Boston and lecturer at Boston University Law School.