

Testimony of

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Chairman Baker, Ranking Member Kanjorski and distinguished subcommittee members, thank you for the opportunity to appear before you today to discuss the vital role that the Federal Home Loan Banks play in enabling community banks to meet the housing and economic development credit needs of the communities we serve. My name is Joseph Connors and I am Executive Vice President and Chief Financial Officer of Beneficial Mutual Savings Bank, an independent, community savings bank, with deposits of \$1.6 billion and total assets of \$2.3 billion. While Beneficial is headquartered in Philadelphia, we have branches serving communities in the districts of two members of this subcommittee, Representatives Fitzpatrick and Gerlach.

Beneficial Mutual Savings Bank

So you can fully understand the basis of the remarks that follow, I'd like to give you a little background on Beneficial Savings Bank, which was founded more than 150 years ago as a mutual, or cooperative company.

Philadelphia is truly a melting pot, with a rich tradition of diverse groups of people all contributing to the betterment of the community. Diversity often begins with struggle. The struggle of Irish immigrants in the 1850's was the result of the potato famine that devastated Ireland between 1846 and 1851. During the 1850's, it is estimated that over 100,000 Irish citizens per year escaped their poverty-stricken nation. Unrest and revolution in central Europe added many thousands more to the vast throng who sought

refuge in the United States. As a major port city, Philadelphia was one of the chief points of entry for those seeking a new and better life in America.

The sudden and extraordinary increase in the city's population made labor plentiful and cheap. The immigrants were not only hard working, but thrifty. As their earnings began to accumulate, they needed a secure place to deposit their savings. At the time, most commercial banks were not designed to serve working men and women, but instead catered to the wealthy businessmen who were their primary backers. In order to qualify for a bank account, applicants were required to provide formal identification records, along with personal referrals from established bank members.

Without a bank at their disposal, many of these new citizens turned to another established organization that was more than happy to welcome them, the Catholic Church. It was not uncommon at this time to find parish priests filling the role of banker, safekeeping the meager savings of the new members of their congregations. As balances began to build, priests became concerned about security, and so did John Neumann, the Bishop of Philadelphia. A truly visionary man, Bishop Neumann, a pioneer of the Parochial School System in America, who was canonized as a Saint by the Church in 1977, saw the risks in the patchwork financial system his parishes were operating, and began investigating ways to address the issue.

Bishop Neumann's inspiration was the catalyst behind the founding of what would become Beneficial Mutual Savings Bank. In February 1853, a group of dedicated

businessmen, members of the Board of Managers of St. Joseph's Hospital in Philadelphia, began meeting to address the issue. On April 20, 1853, The Beneficial Saving Fund Society of Philadelphia was incorporated.

The founding board structured Beneficial as a mutual company, and it remains mutual today. Much like the Federal Home Loan Banks, Beneficial is "owned" by its customers. Unlike public companies, whose main focus is to maximize the wealth of their shareholder-owners, Beneficial's management is primarily accountable to its customers and the neighborhoods and communities it serves.

From these humble beginnings, Beneficial has grown and flourished, through its network of 36 neighborhood offices, into a quintessential community bank, offering a full range of financial products and services to all of the residents of Philadelphia, Bucks, Chester, Delaware and Montgomery counties in Pennsylvania, and Burlington County in New Jersey. In so doing, Beneficial Savings Bank has remained a vital part of these neighborhoods, and in the lives of the people who live, work and raise their families in the Philadelphia region. The 550 people who work at Beneficial Savings Bank have a vested interest in this community, because we live, work and raise our families here as well. We demonstrate this interest by being available and responsive to help meet the needs of our customers and our community with both human and financial capital.

The Federal Home Loan Bank of Pittsburgh (the Bank) helps enable Beneficial and the other 341 member/owner financial institutions of this cooperative government

sponsored enterprise (GSE) to meet the housing credit needs of communities throughout Pennsylvania, Delaware, West Virginia and everywhere else member institutions have business operations, just as the other 11 Federal Home Loan Banks provide similar service to over 8000 financial institutions across the country.

Capital Market Access

As is the case with the vast majority of FHLBank members, Beneficial is not large enough to access the broadest range of capital market options on our own. The Bank enables Beneficial to tap global capital markets, as do the largest money center banks.

The Bank accesses capital markets jointly with all the other FHLBanks. The FHLBank System often goes to market over a hundred times a day to ensure that the funding needs of community banks like Beneficial will be met on a timely and affordable basis. Because it is a GSE, the FHLBank System can borrow at very attractive rates. Because it is a cooperative, it adds a very small markup to these funds that it subsequently lends to member institutions. Member banks then pass these savings on to consumers.

FHLBank loans to members, known as advances, are the only capital market access for many FHLBank members and serve as an important resource to deal with any possible future credit crunches. Advances are a reliable, accessible funding source available during all phases of the business cycle. Should consumer demand for deposits weaken or become more expensive, we have this valuable alternative source of funds. This means that the credit needs

of our communities will be met in any number of economic scenarios. It also means that we are safer, from a regulatory perspective, as a financial institution than we would be without this crucial liquidity facility.

The knowledge that we can borrow at any time from the Home Loan Bank, and that our mortgage loans and other eligible collateral will support Home Loan Bank funding, allows us to be more active lenders in our communities than we otherwise would be. We can also tailor FHLBank funding to meet our needs. We can structure the debt in terms of maturity and conditions to meet strategic asset-liability management goals or to fund specific lending products. We can then use this money to support our community lending initiatives.

Recently, with the economy expanding, and the continued strong demand for new housing, Beneficial has begun to use Federal Home Loan Bank advances to support construction of new housing, as well as the rehabilitation and renovation of existing units both in the urban neighborhoods of Philadelphia and in the suburban communities in the surrounding counties. Developers generally look to finance these projects with short-term, variable rate construction loans, often indexed to the prime rate. They draw down funds when needed, and have the ability to pay these loans off at any time. In order to meet this demand, Beneficial has established an Open RepoPlus line with the Federal Home Loan Bank of Pittsburgh. With this line, we can borrow funds at a favorable rate and closely match the cash flow characteristics of our construction loans. We can increase or draw down the line in concert with the needs of our developer customers. In

this way, we can effectively manage interest rate risk, while confidently supporting the creation of new housing, and construction jobs in our region.

A Regionally Operated Cooperative

An essential element of the FHLBank System that has been instrumental in making it the unique GSE that it is today is the fact that there are 12 independently operated cooperatives throughout the country. As one of 341 member/owners of one of these cooperatives, we know that we will get the attention of the Bank's senior management or board members that we would not get if only one large FHLBank served the entire country. In addition, the regional control of the Home Loan Banks helps ensure that local credit needs are met in a manner that might not occur with a monolithic approach. Within this framework of independently operated cooperatives, we believe it is important for the Banks in the System to work together to seek efficiencies in order to make the System stronger and to further support affordable housing throughout every region of the United States.

The fact that, like Beneficial, the Federal Home Loan Banks are cooperatives also means that our GSE is not striving to meet analysts' quarterly earnings expectations and those of investors of a publicly traded stock. The fact that Federal Home Loan Banks are not built on the typical corporate model means that they can provide a level of service to community banks that would otherwise not be available. It means that Beneficial gets the

attention and advice from the Pittsburgh Bank that it would not get from a money center bank or an investment bank.

Finally, as a cooperative, the Home Loan Bank focuses on serving its members because we are the owners. As owner institutions focusing on serving the housing and community credit needs of our communities, we will continue to partner with our Home Loan Bank to see that we evolve together to meet these essential needs.

Funds for Affordable Housing Grants

One of the best aspects of FHLBank membership for Beneficial has been our ability to partner with affordable housing groups and the Bank to make affordable housing possible for low-income families in the Philadelphia region. As you know, FHLBanks contribute 10 percent of their net income to the Affordable Housing Program (AHP) which is the source of grants and subsidies that are used by member institutions who partner with affordable housing providers to finance affordable rental and owner-occupied housing.

An important component of the AHP is the Home Buyer Equity Fund (HBEF), in which qualified low-to-moderate income first-time homebuyers can use HBEF funds toward down payment and closing costs to purchase a home of their own. To participate, qualified homebuyers must secure sponsorship from an approved Federal Home Loan Bank of Pittsburgh member financial institution through which the HBEF funds are disbursed. Through the HBEF, the Federal Home Loan Bank of Pittsburgh matches the participant's contribution 3-

to-1, based on the qualified participant's need. For every \$1 of contribution, the FHLBank will provide up to \$3 in grant assistance, with a maximum contribution of \$3,000.

Since 1990, the Bank has awarded more than \$104 million in AHP subsidies — leveraging \$1.7 billion in total development costs — that has resulted in more than 18,000 affordable housing units throughout the region. Under the HBEF, the Bank has distributed \$14.5 million to more than 3,800 qualified buyers from 1997 through 2004.

Beneficial has been an active AHP participant. We have secured \$740,000 in funding that has made two wonderful projects possible. St. Ignatius Senior Housing, which is located in West Philadelphia, provides 67 units of elderly housing targeted to those individuals whose income is at 50% or less of the area's HUD median income. The other project, Dreuding Center, is located in North Philadelphia and is a 30-unit rental project providing transitional housing for homeless single women with children.

In the past four years, Beneficial's mortgage department also has distributed \$1,115,330 in Home Buyer Equity Fund grants, enabling 264 low-income families to realize their dream of homeownership.

I am quite proud to note that Beneficial was recognized for its excellence in this area by the Bank and received the Pillar of the Community Award in 2003. In addition to working with the Bank, Beneficial also provides additional financial support, approaching \$800,000 in 2004, to community and non-profit initiatives, as well as invests

in low-income housing bonds and tax credits. Beneficial also funds investments in several Community Development Financial Institutions, and has long been active in providing home loans to low-to-moderate income borrowers through programs such as the Delaware Valley Housing Partnership.

The most visible element of Beneficial's commitment to the community is our people. We encourage our employees to channel their good intentions, skills and energies to help their neighbors through a Volunteer Support Group, which is established to coordinate the varied volunteer and charitable endeavors of our employees to maximize the impact of our efforts. The efforts include fundraisers for charitable groups, reading programs for children, book drives for local schools and construction of a Habitat for Humanity home. Beneficial and our employees are becoming increasingly involved in the financial literacy movement, helping to teach people, from students to senior citizens, the basics of banking and credit, and how to better manage their finances.

While we have taken actions to support affordable housing through our own initiatives, our partnership with the Bank enables Beneficial to do so much more to facilitate meeting the housing needs of low-to-moderate income families.

GSE Reform legislation

As a community bank that views the Home Loan Banks as a key partner in our future ability to meet the credit needs of our market, there are a few points I would

respectfully submit for the Subcommittee's attention as you proceed with the important work of reforming the regulatory structure overseeing the housing GSEs.

- Our investment in the capital stock of the Pittsburgh Bank is an important asset of Beneficial Savings bank. The products of the FHLBanks are important for the housing and community development needs of the communities we serve. To ensure that the Home Loan Bank System has a robust future, we urge that you ensure that the safety and soundness regulator of the FHLBanks is indeed a world-class regulator with all the tools that one would expect for such a regulator. We also would hope that the regulator has the flexibility to allow the Home Loan Banks to develop new products over time to respond to future member needs.

- The ability of Beneficial Savings Bank to borrow money as needed on favorable terms is essential and lies at the very heart of the Federal Home Loan Bank System. Any legislation that impedes the ability of FHLBanks to access capital markets, or causes the costs of FHLBank borrowing to increase, would impede Beneficial Savings Bank's ability to safely and efficiently meet the housing and community credit needs of the communities we serve.

- The unique nature of the System, with 12 independently operated cooperatives must be preserved in any new regulatory structure. It is also important that the Congress ensure that the SEC recognizes these unique features as the FHLBanks register with the SEC.

- Governance of any corporate entity is of the utmost importance, and Congress must ensure that the legislation provides the FHLBanks with the unique and comprehensive governance structure it will need. SEC registration, with its resulting Sarbanes/Oxley requirements, makes governance an even more critical component of this legislation.

Despite the recent difficulties encountered by Fannie Mae and Freddie Mac, I believe their viability, along with that of the Federal Home Loan Banks, is crucial to the well being of the financial system of the United States, and to the hopes and dreams of millions of American families. Since the Great Depression, federal support for housing has been an enduring national public policy objective. It is one that has worked. In 1932, when the Federal Home Loan Bank System was created by Congress to promote housing finance, the U.S. aggregate homeownership rate, that is, the percentage of U.S. households living in owner-occupied units, was about 45%, and declining. Today, homeownership in America has reached 68%. It is undeniable that, for more than 70 years, the Federal Home Loan Banks have contributed to bringing the dream of homeownership closer to reality for millions of Americans.

In the years since their founding, Fannie Mae and Freddie Mac have also made a difference, helping to make mortgage credit more readily available and more affordable, and helping to expand the types of mortgage products available, thereby attracting

investors both here and abroad to support consumers in their quest for the independence, stability and equity-building opportunity associated with home ownership.

Ongoing federal support for housing is a critical element in the economic future of American consumers, and in our ability as the pre-eminent economy in the world, to continue to expand. I believe it is in the best interest of our nation's economy that Congress works to reform the regulatory structure of GSEs in a way that will, as soon as possible, restore the utmost consumer and investor confidence in Fannie Mae, Freddie Mac and the Federal Home Loan Banks.

In closing, I would like to offer Beneficial Savings Bank as an example of a community Bank that is vital and is expanding its products and services to help our customers achieve their financial goals. Beneficial is strengthening its commitment to the community, and is confident of a very bright, prosperous future. We look forward to doing so in partnership with the Federal Home Loan Bank of Pittsburgh.

Thank you for the opportunity to appear before you today and I would be happy to answer any questions you might have.