FHLBank
San Francisco

May 29, 2020

Submitted via www.fhfa.gov

Andre Galeano
Federal Housing Finance Agency
Division of Federal Home Loan Bank Regulation
400 7th Street, NW, 7th Floor
Washington, DC 20219

RE: Federal Home Loan Bank Membership – Request for Input (February 2020)

Dear Mr. Galeano:

The Federal Housing Finance Agency ("FHFA") has requested comments on its request for input ("RFI") related to Federal Home Loan Bank ("FHLBank") membership. The Federal Home Loan Banks ("FHLBanks") submitted a joint comment letter on April 22, 2020. The Federal Home Loan Bank of San Francisco ("FHLBSF") individually submits this additional comment letter.

Regarding access to FHLBank membership and credit availability, FHLBSF acknowledges that having an entity be subject to a supervisory and regulatory regime helps FHLBanks in monitoring and managing the credit risks associated with that member type. However, if a new member type is not subject to a supervisory and regulatory regime, we believe it would also be helpful to the FHLBanks if Congress or the FHFA could consider other protective mechanisms that may help the FHLBanks manage the risks associated with lending to these new member types. These mechanisms could include relevant changes to the Bankruptcy Code that provide protections to the FHLBanks similar to the protections provided under laws applicable to insured depository institutions. In the absence of such statutory changes, there are still means of addressing safety and soundness concerns such as structuring advances in such a manner so they can be considered as repurchase transactions or "qualified financial contracts" under the Bankruptcy Code and allowing FHLBanks to lend to certain new member types through bankruptcy-remote special purpose vehicles.

We believe a holistic approach to addressing credit, legal, and other issues that the FHLBanks may encounter in conducting business with new member types would be the most effective way to ensure that the FHLBanks are able to safely extend credit to the entities that Congress makes eligible for membership. Otherwise, the FHLBanks may find it challenging to structure a credit and collateral framework for these new member types that affords them the best terms when accessing FHLBank credit while also lending to them in a safe and sound manner. For example, while Congress acknowledged the important role of community development financial institutions ("CDFIs") in the housing markets by extending them FHLBank membership eligibility,[1] without changes to applicable laws (e.g., the Bankruptcy Code) that could have provided protections for the FHLBanks, the Bank has been limited in what financing terms it can offer to its CDFI members in a safe and sound manner. Had a more holistic approach been taken when CDFIs were initially made eligible for FHLBank membership, the Bank could likely have been able to offer better financing terms to its CDFI members.

[1] Community development financial institutions became eligible for membership in the FHLBank System in 2008 pursuant to Section 1206 of the Housing and Economic Recovery Act of 2008 (amending Section 4(a)(1) of the FHLBank Act (12 U.S.C. § 1424(a)(1)).

While we recognize that the above-mentioned mechanisms would require statutory action or significant additional research, we believe they should be considered as possible options to allow FHLBanks to support new member types while maintaining a low risk profile.

Thank you for the opportunity to comment on the FHFA's request for information regarding membership.

Sincerely,

Stephen P. Traynor
Acting President and Chief Executive Officer