



June 18, 2020

VIA ELECTRONIC TRANSMISSION

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 Member Request for Input (February 2020)

Dear Federal Housing Financial Agency:

On behalf of the 177 banks that the Tennessee Bankers Association (“TBA”) represents, I am writing in response to the Request for Input (“RFI”) from the Office of the Federal Housing Financing Agency (“FHFA”) related to Federal Home Loan Bank (“FHLBank”) membership. The RFI states that it seeks to develop requirements to address questions regarding membership eligibility on a consistent basis, guided by the objectives of:

- Ensuring that the FHLBank System (“System”) remains safe and sound and able to provide liquidity for housing finance through the housing and business cycle; and
- Ensuring that all members have an appropriate nexus to the housing finance and community development mission of the FHLBanks.

TBA submits the following comments to the RFI:

1. No regulatory action in response to the RFI should limit liquidity to the FHLB members.

FHLBanks serve as an important source of liquidity for its members, including TBA member banks. One of the questions posed by the RFI was whether there should be restrictions on advances to a single member. TBA strongly believes that there should be no such restrictions.

FHLBank members rely on FHLBanks for a consistent source of liquidity but even more so during times of crisis and economic downturns. This can be especially demonstrated by the FHLBanks’ efforts in offering additional liquidity by accepting loans made through the Small Business Administration’s Paycheck Protection Program as collateral when making advances to their members.

If the FHFA places liquidity limitations on FHLBanks, the partnerships between the FHLBanks and their members would be significantly limited, if not harmed. FHLBanks have shown their ability to effectively manage and provide liquidity in a safe and sound manner during all economic cycles.



Limited liquidity would likely have a negative effect on not only FHLBanks but also their members and the communities they serve.

For these reasons, TBA believes that no regulatory action in response to the RFI should limit liquidity to FHLB members.

2. No regulatory action in response to the RFI should adversely affect the eligibility of existing, permanent members.

TBA believes no regulatory action in response to the RFI should adversely affect the eligibility of existing members, including TBA member banks and other lenders who rely on FHLBanks for much needed liquidity. Loss of eligibility for an existing member could cause additional and unnecessary compliance costs that could have devastating effects for the bank and its members.

FHLBank's membership requirements are set forth in the Bank Act and are a one-time screen, rather than an ongoing requirement. As a result, the FHFA does not have the legal authority to make the eligibility requirements an ongoing test.

Additionally, FHLBanks have shown their ability to effectively and efficiently manage their membership. Their membership is robust and they take appropriate measures to mitigate risk. There is no reason to change a system that is not broken.

For these reasons, TBA believes the FHFA should not take any regulatory action that could adversely affect the eligibility of existing, permanent members.

3. Any new entrants should be determined by Congress and be equivalent to currently eligible members and be admitted with current safety and soundness standards.

The RFI asks whether additional members should be considered for membership. TBA believes that because Congress has clearly mandated who is eligible for FHLBank membership, any consideration of entities outside of those explicitly mandated should have Congressional approval.

To the extent other entities are considered, the FHFA should carefully consider whether those institutions could inject any additional risk into the FHLBank system. With the full economic impact of the coronavirus pandemic still unknown, it is possible funding and liquidity weaknesses of some banking systems across the globe could later be exposed. With these potential weaknesses, additional entities may seek FHLBank membership for liquidity needs to support their economies and businesses. These entities, if allowed to become members, could pose significant risk on the FHLBanks and, ultimately, impose liquidity risks to existing FHLBank members and their communities.



Any additional members must be examined closely to determine whether they meet existing membership criteria and they must comply with safety and soundness examinations that current members are subject to through various governing bodies.

For these reasons, TBA believes that any new members to the FHLBank system be approved by Congress and that such entities be subject to the same scrutiny and review as current members.

4. Any new entities considered for membership should have a clearly demonstrated nexus to housing and/or community development at the time they join.

If the FHFA determines that additional entities should be eligible for membership in the FHLBank system, those entities should not only be subject to current regulatory review but, also, they should align with the public policy goals of the FHLBanks.

As stated in the RFI, the FHLBanks' mission is to "provid[e] liquidity to support housing finance and further[...] affordable housing and community development." Any entity considered for membership to the FHLBank system should support and further that goal; not take away from it.

As many entities may see FHLBanks as a source of low-cost liquidity, the FHFA must not ignore the mission of the FHLBanks. Any entities not specifically furthering that mission should not be eligible for FHLBank membership.

For these reasons, TBA believes that any new entities considered for membership must have a clearly demonstrated nexus to housing and/or community development.

TBA Supports the FHLBanks

TBA supports FHLBanks and their purpose, and believes that with the recommendations above taken into consideration, FHLBanks will continue to successfully serve their members, communities and lenders.

Thank you for the opportunity to submit these recommendations.

Sincerely,

Colin Barrett
President and CEO
Tennessee Bankers Association