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10/13/2022

The Honorable Sandra L. Thompson
Director
Federal Housing Finance Agency
400th Street SW
Washington, D.C. 20224

Dear Director Thompson:

CBI and Iowa's community bankers are concerned about the FHLB's "net tangible capital" calculation in this time of rising interest rates. The impact of this rule over the next few months will be that many member institutions will no longer have access to FHLB capital at a time when they need it most.

Here is the current situation:

- The FHLBanks are required to calculate each member institution's tangible capital as defined under FHFA regulations (12 CFR 1266.1).
- According to the regulations, tangible capital is calculated according to GAAP less "intangible assets," except for purchased mortgage servicing rights to the extent such assets are included in a member's core or Tier 1 capital.
- FHFA regulations further state that the FHLBanks cannot make a new advance to a member without positive tangible capital unless the member's appropriate federal banking agency or insurer requests in writing that the Bank make such advance.
- Hence, if a member institution has negative tangible capital as a result of the calculation, the FHLB is prohibited from making new advances to that member without written authorization from the member's appropriate federal banking agency or insurer.
- In addition, for outstanding advances to a member without positive tangible capital, advance renewals are limited to terms of up to 30 days - again, unless the member's appropriate federal banking agency or insurer requests renewal for a longer term.
- If a member with negative tangible capital requests an advance, or requests an advance renewal for a term longer than 30 days, FHLBanks will reach out to the member's primary banking regulator or insurer to get approval from them before making a new advance or renewing an advance for a term greater than 30 days.

Given the recent rate environment, some FHLB members may become subject to certain restrictions on usage of advances and letters of credit due to a negative Tangible Capital position based on the prior referenced definition.

CBI is asking that the FHFA's definition of Tangible Capital be changed to more accurately align with the other primary regulatory agency's definition of Regulatory Capital. Then the impact of rising interest rates on FHLB members will not be as severe. This would allow more FHLB members to have access to capital at a time when they really need it.

Thank you for your consideration of our views.

Sincerely,

A handwritten signature in blue ink that reads "David C. Caris". The signature is fluid and cursive, with the first name "David" being the most prominent.

David C. Caris

CEO

Community Bankers of Iowa

