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March 18, 2011

Alfred M. Pollard, General Counsel
Attention: Comments/RIN 2590-AA39
Federal Housing Finance Agency - Fourth Floor
1700 G Street, NW
Washington, D.C. 20552

Re: Advance Notice of Proposed Rulemaking and Request for Comments – Members of Federal Home Loan Banks (RIN 2590-AA39)

Dear Mr. Pollard:

The Independent Bankers of Colorado (IBC) is the state's largest community banking trade association, exclusively representing nearly 500 community bank member locations across the State of Colorado. The Federal Housing Finance Agency (FHFA) has requested comments on an advance notice of proposed rulemaking (ANPR) in which the agency has expressed its desire to review current Federal Home Loan Bank (FHLBank) membership requirements. On behalf of the IBC's member community banks, I submit this comment letter regarding the ANPR.

The questions posed in the ANPR are of tremendous concern to the community banking industry. The community banking industry cannot withstand a return to the Eighties when only savings and loan associations could belong to the FHLBanks. The questions posed suggest that the FHFA is considering requiring FHLBank members to "maintain a demonstrable involvement in residential mortgage lending and otherwise comply with the statutory requirements for membership." FHLBank member institutions could be required to hold at least 10% of their assets in mortgages on a continuing basis, rather than only when they join. In addition, objective and quantifiable standards could require that each member "makes long-term home mortgage loans" and has a "home financing policy." Noncompliant members could be barred from further access or have their membership terminated.

As you know, FHLBank membership was expanded to provide more opportunity for lending for the FHLBanks in the wake of the collapse of the savings and loan industry and to provide a stable funding source for community banks—specifically including those that did not focus on long-term residential financing. All community banks are now required by their regulators to diversify their funding sources. Community banks are encouraged to test the use of the discount window in case they should ever need to borrow. For those community banks that are members of the FHLBanks, the FHFA proposal would reduce sources of liquidity and, possibly, place some in jeopardy adding additional undue burden on the FDIC.

The regulatory changes under consideration would make it more difficult for many financial institutions to obtain and maintain access to FHLBank liquidity. Stricter requirements will call into question the ability of members to borrow under all future economic scenarios. The changes will also discourage potential members from joining, inhibiting the ability of FHLBanks to serve the housing and community development needs of their districts. The suggested changes would prove burdensome to small and medium sized members at a time when they are already subject to many new regulatory requirements.

Policymakers should be looking for ways to support economic activity by encouraging financial institutions to increase lending to small businesses and other job creators. However, the proposed changes could limit access to the low-cost funding provided by the FHLBanks. Indeed, the ANPR is an example of the mixed messages that Washington, DC is sending to community banks.

Requiring members to meet ongoing mortgage requirements would add an element of uncertainty to FHLBank membership. Members could never be sure of their ability to meet these tests and, therefore, maintain access to FHLBank liquidity, particularly in times of financial stress. For example, in periods when mortgage valuations decline, rapidly members could not be assured of maintaining at least 10% of their assets in mortgages. As a result, the FHLBanks would be viewed by both existing members and potential members as a far less reliable funding partner.

The ANPR does not present any compelling reason for imposing new membership rules. It does not present any information showing there is a problem with the current membership rules. The ANPR also fails to cite a benefit it hopes to achieve by changing the rules. Even the FHFA's annual report to Congress on the state of the FHLBanks noted no problems with the implementation of current membership rules.

Neither FHLBank membership eligibility should be restricted nor the FHLBanks' mission narrowed at this time, especially when Congress and the Administration are examining the future of housing finance. The proposed rulemaking is ill advised and premature.

For these reasons, the membership ANPR should be withdrawn. Thank you for the opportunity to submit this comment letter regarding the ANPR and for considering the views of the Independent Bankers of Colorado.

Sincerely,

Barbara Walker

Barbara Walker
Executive Director
Independent Bankers of Colorado