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OFFICE OF GENERAL COUNSEL

March 16, 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 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 Security First Bank (SFB), I am submitting these comments on the ANPR.

SFB has 27 locations serving 20 communities in Nebraska and South Dakota. The markets served by SFB are predominately rural, with 14 of the communities having populations of less than 1,000. Access to FHLBank term advances over the last 10 years has been critical to SFB's ability to serve these rural communities. Access to and availability of acceptable housing in these rural communities is directly dependent upon a local, vibrant and stable agricultural economy which in turn is dependent on availability of credit from community banks like SFB. There is no question that SFB's access to FHLBank advances has directly and indirectly enhanced the stability and availability of housing in these rural communities. Accordingly, SFB requests that the FHFA carefully consider the unintended consequences of the rules promulgated in the ANPR.

Additionally, the ANPR does not describe why new membership rules are necessary, and it does not present any information showing that there is a problem with current membership rules. The ANPR fails to cite a benefit it hopes to achieve by changing the membership rules to require continuous compliance. The FHFA's annual reports to Congress on the state of the FHLBanks required under the HERA Act have not noted any problems with the implementation of these rules.

Any changes to the FHLBanks' mission or membership – especially changes that would restrict membership eligibility or narrow the FHLBanks' mission – should come from Congress. When Congress has examined the FHLBanks in the past, the result has been to expand, rather than contract, the role of the FHLBanks. The FHFA should not proceed down a path toward fundamentally altering the FHLBank System without express Congressional guidance, especially at this time when Congress and the Administration are undertaking a thorough review of the housing finance system in the United States, including a review of the important role served by the FHLBanks as a provider of liquidity.

The regulatory changes the FHFA is considering would make it more difficult for financial institutions to access the liquidity available through FHLBank advances and will devalue membership for existing FHLBank members while discouraging potential members from joining, ultimately inhibiting the ability of the FHLBanks to serve the needs of their districts. These changes will be especially burdensome to small and medium sized members.

Requiring members to meet ongoing requirements would add uncertainty to FHLBank membership. Members could never be sure of their ability to meet these tests and, therefore, maintain their access to FHLBank liquidity and funding products, particularly in times of financial stress. For example, in periods when mortgage valuations rapidly decline, 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. This would destabilize a key premise of the FHLBank System, the reliability of accessing liquidity.

Accordingly, we urge that the FHFA withdraw the membership ANPR. I appreciate the opportunity to comment.

Sincerely,

Robert Wentz

Robert Wentz
Chief Operations Officer