NCBANKERS
1897 NORTH CAROLINA BANKERS ASSOCIATION

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Alfred M. Pollard
General Counsel
Attention: Comments/RIN 2590-AA39
Federal Housing Finance Agency, Fourth Floor
1700 G Street NW
Washington, DC 20552
regcomments@fhfa.gov

Re: 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) that would significantly change Federal Home Loan Bank (FHLBank) membership requirements. On behalf of the North Carolina Bankers Association (NCBA) and its 134 member banks, savings institutions, and trust companies, I appreciate the opportunity to submit comments on the ANPR.

The NCBA recognizes that the FHLBank system serves a critical role in supporting our nation's financial system. Throughout the series of economic crises that our country has faced, the FHLBanks have provided a stable and reliable source of liquidity for financial institutions. Given the essential services provided by FHLBanks, the NCBA is very concerned about the regulatory changes that are under consideration by the FHFA.

The FHFA notes in the ANPR that it is considering requiring FHLBank members to "maintain a demonstrable involvement in residential mortgage lending and otherwise comply with the statutory requirements for membership." FHLBank members could be required to hold at least 10% of their assets in mortgages on a continuing basis, rather than only when they join. Also, new standards could be established for the requirements that each member "makes long-term home mortgage loans" and have a "home financing policy." Noncompliant members could be barred from further access or have their membership terminated.

The regulatory changes under consideration would make it more difficult for many financial institutions to obtain and maintain access to the liquidity available through FHLBank advances. Stricter requirements will call into question the ability of FHLBank members to borrow under all future economic scenarios. This will destabilize a key premise of the FHLBank System, the reliability of accessing liquidity. The changes will also discourage potential members from joining, ultimately inhibiting the ability of FHLBanks to serve the housing and community development needs of their districts. Policymakers should be looking for ways to jumpstart economic activity by encouraging financial institutions to increase their lending to small businesses and other job-creating activities. However, the proposed changes would have the opposite effect by threatening to limit access to the low-cost funding provided by the FHLBanks.

During the recent financial crisis, the FHLBanks provided liquidity nationwide to their members for housing and community credit needs. The FHLBanks increased their lending to members by 58 percent between the second quarter of 2007 and the third quarter of 2008 (from $650 billion to $1 trillion). The FHLBanks were especially important as a source of funding to smaller institutions, when other sources of funding essentially disappeared.

Requiring FHLBank members to meet ongoing 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 their access to FHLBank liquidity and funding products. For example, in periods when mortgage valuations rapidly decline, as we recently experienced, 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.

As our country works to generate economic growth, the FHLBanks continue to provide a source of liquidity and term funding for their members. As Congress intended, FHLBank funding is used by members to provide traditional residential mortgage finance as well as to support community development and affordable housing activities in their communities, helping their local economies to recover.

The ANPR does not present any information showing that there is a problem with the current membership rules, which have served the FHLBanks well for many decades. Any changes to the FHLBanks' membership or mission, especially changes that would restrict membership eligibility or narrow the FHLBanks' mission, should come first from Congress, particularly at this time when Congress and the Obama Administration are just at the beginning of an extensive effort to review housing finance in this country, including the FHLBanks' role. When Congress has examined the FHLBanks in the past, the result has been to expand, rather than contract, the role of the FHLBanks.

For these reasons, the ANPR should be withdrawn. Thank you for the opportunity to submit these comments on the ANPR.

Sincerely,

Thad Woodard

Thad Woodard
President & CEO