March 24, 2011

Alfred M. Pollard
General Counsel
Attention: Comments/RIN 2590-AA39
1700 G Street, NW
Washington, DC 20552

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

Dear Mr. Pollard:

Thank you for the opportunity to comment on the advance notice of proposed rulemaking (ANPR) regarding requirements for prospective and existing members of the Federal Home Loan Banks (FHLBs) in support of the FHLB housing finance mission. On behalf of FirstMerit Bank, N.A., I offer the following comments.

My bank is a community financial institution that uses the FHLB to fund customer's home loans, manage balance sheet risk, support affordable housing, and issue letters of credit on behalf of our customers. These programs not only help us to operate more efficiently but also bring significant benefits to the communities we serve.

The success of the FHLBs to provide a stable, reliable source of low-cost funds to community financial institutions, like mine, is dependent on the FHLBs' cooperative structure, serving a diverse membership base. I am concerned that many of the membership restrictions you pose in a series of questions overlook the FHLBs' basic business model as well as the legislative history of the FHLB membership.

The FHLB System is collateral based. In order to borrow, my institution must pledge eligible collateral in excess of the loan ("advance") amount. This collateral must adhere to strict underwriting guidelines and is generally comprised of mortgage loans. Absent this source of collateral, advances wouldn't be extended to my institution. As a result of this self-regulating business formula, the FHLB has never experienced a loan loss on its advances, and members have a strong incentive to make high quality loans and investments with FHLB advances. Many FHLB member banks view the FHLB as secured lender of last resort – in essence, a source of funds regardless of market disruption. Surely, this was never truer during the financial crisis, when FHLB advances system-wide increased dramatically as other market-based sources of funding failed. An artificial, ongoing 10 percent requirement is unnecessary and burdensome to the FHLB as well as to the individual member who will already be barred from advances absent sufficient collateral.

Similar concerns arise with the proposed application of various standards and thresholds of mortgage holdings and home financing policy adherence. If an institution meets the congressionally-established membership criteria, expressly expanded over time to include commercial banks, credit unions and community development financial institutions, absent evidence that the current mechanism is flawed, these proposed changes appear burdensome and counter to Congressional and Administrative intent to reduce unnecessary or duplicative regulation.

Finally, the imposition of sanctions for failure to meet this new range of proposed membership criteria would create uncertainty and instability for members and FHLB management. An institution such as mine depends upon FHLB funding as a stable source of liquidity in all economic cycles, for long-term as well as short-term funding strategies. Continued reliable access to FHLB funding is the best means to ensure long-term safety and soundness of the FHLB System and the hundreds of community members it serves.

Sincerely,

Mark N. DuHamel
EVP & Treasurer
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