ZIONS BANK®

March 24, 2011

Alfred M. Pollard, General Counsel
Federal Housing Finance Agency
1700 G Street, NW
Washington, DC 20552

Re: Advance notice of proposed rulemaking; request for comments. Members of Federal Home Loan Banks
RIN 2590-AA39

Dear Mr. Pollard,

I appreciate the opportunity to comment on the Agency's proposed rulemaking (ANPR) relating to Federal Home Loan Bank membership requirements. I serve on the board of directors of the Federal Home Loan Bank of Seattle as the elected director representing members in Utah. Also, as is required to serve as a member director, I am an officer at Zions First National Bank, a member of the Seattle Bank.

I do not believe the proposed rules will improve the safety and soundness of the individual Federal Home Loan Banks or the FHLB system. Furthermore, the proposed rules will not improve housing finance in the US. I will argue below that the proposed rules will, in fact, destabilize the Banks and the system. I urge the Agency to please reconsider the implementation of these proposed regulations.

The primary value of membership in an FHLBank is the availability of a reliable source of reasonably priced liquidity and funding. I believe the proposed membership rules, if adopted, will decrease the stability of the FHLB system. This will have an adverse effect on the value of FHLB membership and consequently adversely affect members.

The proposed rules will reduce the number of members, the level of earnings and the stability of earnings of the FHLBs. As a director who sits on the financial operations committee of an FHLBank that has faced some challenges and who has spent many hours thinking about how best to resolve those challenges, it is clear to me that the level and consistency of earnings are the key determinants of FHLBank success or failure.

Over the years Congress has prudently expanded the scope of membership of FHLBanks. Not only have these actions improved access to funding and liquidity in the economy, they have strengthened the FHLB system. The addition of commercial banks, credit unions, insurance companies and industrial loan companies to the membership ranks of FHLBanks has

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strengthened and stabilized the banks. To the extent that the borrowing patterns of the various categories of members are not perfectly correlated, concentration advance levels are less volatile due to a diversification effect. It follows that earnings are more stable than they would otherwise be. Other risks associated with a concentrated customer base such as credit risk and liquidity risk are also reduced. And, a more stable capital base facilitates management of the enterprise.

One of the biggest problems faced by FHLBanks is that they operate a business that many of their members only need some fraction of the time. Member demand for advances follows the ebb and flow of the business and credit cycle. The cycle surrounding the recent financial crisis has very clearly demonstrated this. During the most stressed time of the crisis, the Banks were desperately needed. Advances expanded dramatically to meet the liquidity needs of members. Then, as various government entities (Federal Reserve, FDIC, etc.) intervened and the world was flooded with liquidity, advances decreased almost as dramatically as they increased. The resultant cyclicality of earnings puts strain on the health of the FHLBanks. I believe the proposed rule may exacerbate that problem by decreasing membership diversity.

Another way that the proposed rule may decrease the strength and stability of the FHLB system is through an adverse effect on borrowing costs. The FHLBanks are able to provide low-cost, stable funding and liquidity to their members because they are able to borrow at a relatively low cost in the capital markets. They achieve this low borrowing cost in part because they are such large and consistent players in the debt market. Consistency is important to maintaining the perception of liquidity and price transparency of FHLB debt. If the proposed rulemaking decreases the number and diversity of members of FHLBanks, the demand for advances will also decrease and the amount and consistency of FHLBank debt issuance will also decrease. At the margin, this will increase the Banks' borrowing cost and either increase the cost of advances or decrease the earnings of the Banks. In either case, the members will suffer. To the extent the ANPR decreases the health of the FHLB system because of decreased earnings levels and stability, borrowing costs will also likely increase. Also, the ability of the FHLB system to quickly issue large amounts of debt when needed (as was the case in the recent financial crisis) may be negatively affected as large investors lose interest in FHLB debt.

Finally, at a time when the staff at FHLBanks are struggling to keep up with an increased regulatory burden brought about by various new laws and regulations, the proposed rulemaking would impose additional such costs. Specifically, Bank staff would be required to actively monitor members to ensure they continue to comply with the proposed ongoing membership requirements. This would also have an adverse effect on Bank profitability.

In addition to the above mentioned adverse effects relating to the strength and stability of the FHLBanks themselves, the proposed rulemaking will also have an adverse effect on affordable housing programs. Federal Home Loan Banks contribute ten percent of their earnings toward affordable housing initiatives. Since the ANPR will almost certainly decrease FHLB earnings, less money will be available for affordable housing. Also, restricting the membership in FHLBanks will also reduce the number of potential partners for affordable housing projects, which require a member co-sponsor. Given the difficulties that housing and housing finance have recently faced and will undoubtedly continue to face for a protracted period, this proposal seems to be somewhat ill-timed.

I have enumerated multiple potential adverse effects of the proposed change relating to FHLB membership requirements. On the other side of the equation, the benefits from changing the rules and the motivation for considering such a change are difficult to understand. The ANPR argues that the Agency is trying to align regulation with the housing and community development intent of the various acts of Congress that established and expanded membership in the FHLB system. However, I believe that Congress was likely aware of the sort of members that would be allowed to join, and in any case, I also believe that any fine-tuning of membership rules should be done by Congress.

I appreciate the work and efforts of the Federal Housing Finance Agency to ensure the ongoing success of the FHLB system and specifically the Federal Home Loan Bank of Seattle. Please do not hesitate to contact me if you would like to discuss these comments further.

Sincerely,

James G. Livingston