

From: Marshall Mackay <mmackay@icbm.org>
Sent: Monday, March 28, 2011 2:02 PM
To: !FHFA REG-COMMENTS
Subject: RIN 2590-AA39

Dear Mr. Pollard:

The Federal Housing Finance Agency (FHFA) has requested comments on 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 Independent Community Bankers of Minnesota (ICBM), I appreciate the opportunity to submit this comment. The issues and policies posed in the ANPR are very troubling to the community bank members of ICBM. They 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. Also, objective and quantifiable 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 ICBM members and 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 has the potential to destabilize a key tenant of the 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. These suggested changes are likely to prove particularly burdensome to small and medium sized members, when these members are already subject to many other new regulatory requirements.

At a time when policymakers should be looking for ways to jump start economic activity by encouraging community banks and other financial institutions to increase their lending to small businesses and other job creating activities, the proposal threatens to limit access to the low-cost funding provided by the FHLBanks. It is an example of the mixed messages being sent to community banks from Washington, which continue to create uncertainty and impede the economic recovery.

During the recent financial crisis, the Federal Home Loan Banks provided liquidity nationwide to their members for housing and community credit needs through one of the most challenging periods of economic stress. As other sources of liquidity disappeared, the Federal Home Loan Banks increased their lending to members in every part of the country 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 during this stressful period, when other sources of funding essentially disappeared. The ability of community lenders to rely on their FHLBank as a readily accessible and reliable source of funding was critical during this period. The imposition of unnecessary impediments to this access – such as the suggested membership changes – could have had serious adverse consequences had they been in effect during this financial crisis.

As the Nation works to generate economic growth, create jobs and recover from the financial crisis and housing downturn, the FHLBanks continue to play a critical role as a source of liquidity and term funding for its member institutions. 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.

For these reasons, the ICBM membership strongly urge that the proposed rulemaking (ANPR) be withdrawn. Once again, thank you for the opportunity to comment.

Sincerely,

Marshall MacKay, President/CEO
Independent Community Bankers of Minnesota