March 28, 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 the Community Bankers Association of Illinois (CBAI), which proudly represents 425 Illinois community banks, and 286 FHLB members, we appreciate the opportunity to submit our comments.

The questions posed in the ANPR are very concerning. 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 ANPR does not explain why new membership rules are necessary, and does not present any information showing that there is a problem with the current membership rules. The ANPR failed to cite what benefit it hoped to achieve by changing the membership rules to require continuous compliance. The FHFA's annual report to Congress on the state of the FHLBanks did not note any problems which would require the implementation of these proposed rules.

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. 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 this path toward fundamentally altering the FHLBank System without express Congressional guidance, especially at this time when Congress and the Administration are undertaking a top-to-bottom 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 being considered would make it more difficult for financial institutions to access the liquidity available through FHLBank advances and will devalue membership for existing FHLBank members and discourage potential members from joining. These changes will inhibit the ability of FHLBanks to serve the housing and community development needs of their districts, and will be especially burdensome to small and medium sized members, at a time when these members are already subject to many other new regulatory requirements.

Requiring members to meet on-going 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, particularly in times of financial stress. 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. This would destabilize a key premise of the FHLBank System, the reliability of accessing liquidity.

At a time when policymakers should be looking for ways to jump start economic activity by encouraging banks and other financial institutions to increase their lending to small businesses and other job creating activities, the changes being considered threaten 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. These mixed messages continue to create uncertainty and impede the economic recovery.

During the recent financial crisis, the FHLBanks provided liquidity nationwide to their members for housing and community credit needs. As other sources of liquidity disappeared the FHLBanks 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. Policies that would unnecessarily restrict FHLBank access – such as the suggested membership changes – would have had serious adverse consequences had they been in effect during this financial crisis.

For all of the reasons stated above CBAI respectfully requests that the Agency withdraw the membership ANPR.

Once again, we appreciate the opportunity to submit our comments.

Sincerely,

/s/

Michael Estes
Chairman, Community Bankers Association of Illinois
President CEO, The Fisher National Bank (member FHLB-Chicago)