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March 28, 2011

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

Attention: Comments/RIN 2590-AA39

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

Dear Mr. Pollard:

The Iowa Bankers Association (IBA) is a trade association representing over 350 banks and savings and loan associations across the state of Iowa. IBA membership is primarily composed of traditional community banks with an average size of about 100 million in assets. The IBA appreciates the opportunity to submit comments on an advance notice of proposed rulemaking (ANPR) regarding the membership requirements for members of the Federal Home Loan Banks (FHLBs) and the housing finance mission of the FHLBs.

At the outset, traditionally mission and membership functions are core attributes of the System and are appropriately left to the Congress to determine. The Federal Home Loan Banks were established in 1932 to support residential mortgage lending. Eligibility for membership in the System has been expanded by statute over the years, for example, expanding to allow membership for commercial banks in 1989. Similarly, the mission of the System has been expanded by statute, such as the expanded categories of collateral made available to Community Financial Institutions (CFIs) in 1999 (small business, agribusiness and ag real estate loans).

We have not seen in recent history Congress taking action to reduce the membership scope of the System or to shrink the mission of the System. Yet, the ANPR would potentially remove from membership eligibility certain insurance companies and other members not meeting new “housing finance” tests contemplated by the ANPR. Such an action runs counter to the clear Congressional intent of broadening both System membership and mission. During the recent financial crisis, Congress has explicitly recognized the FHLBs mission of providing liquidity to members without limiting that purpose to housing finance. IBA certainly does not advocate unfettered expansion of either the System’s membership base or mission. Over the years, the IBA has expressed concerns over legislative proposals to further expand both membership and mission of the System.

Nevertheless, those proposals have properly come from Congress, just as should any proposals to shrink either the membership base or mission of the System. The IBA believes therefore that the current rules are working well, but if changes are in fact needed, Congress should be allowed the first opportunity to act before the FHFA imposes new membership requirements.

The ANPR, however, provides little evidence the current methods for determining member eligibility or mission compliance are flawed. Instead, the ANPR contemplates replacing the existing mechanisms for determining membership eligibility and compliance with potentially draconian measures which will add regulatory burden and cost for members of the System; create confusion about ongoing membership eligibility and potentially add instability to the entire System. Our concerns are detailed more specifically below.

The System is a collateral based system. In order to borrow, members must pledge eligible collateral. This requirement serves to ensure that members maintain a commitment to housing finance, as to utilize the System members must have eligible collateral (i.e., mortgage loans) in their portfolios to pledge. If members fail to use advances to make mission appropriate loans, they will eventually fail to have enough collateral to obtain further advances. This is an elegant and well-functioning approach. There is no need to impose additional regulatory burden such as an ongoing 10 percent asset test (and the tracking system which such a test would require) particularly when the FHFA states that it has "no evidence that significant numbers of members that were subject to the 10 percent requirement when they became members have substantially reduced their holdings of residential mortgage loans after becoming members".

We would also note that the various new requirements being considered in the ANPR will lead to greater complexity and uncertainty about who is an eligible member of the System both initially and on an ongoing basis. Members could never be sure of their ability to meet these tests and therefore maintain access to FHLBank liquidity and funding products. For example, in periods when mortgage valuations rapidly decline, members could not be assured of maintaining at least 10% of their assets in qualifying mortgages. As a result, the FHLB would be viewed by both existing and new members as a far less reliable funding partner. This "continuous compliance" proposal would also disproportionately increase regulatory burdens on smaller member institutions.

The IBA appreciates FHFA's publishing this proposal as an Advance Notice so that it can be given the appropriate level of scrutiny before any further action is taken. Given the fundamental concerns we have with the proposal and its deleterious effect on the System, its members, and potentially the entire economy, we strongly urge the FHFA not to proceed with this rulemaking.

If you have questions about these comments, please contact the undersigned at 515-286-4211 or via e-mail at rhartwig@iowabankers.com. Thank you for your time and consideration.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert L. Hartwig". The signature is fluid and cursive, with a large initial "R" and "H".

Robert L. Hartwig
Legal Counsel