Maryland Bankers Association

By electronic delivery to Federal eRulemaking portal and
RegComments@fhfa.gov

March 28, 2011

Mr. Alfred M. Pollard, General Counsel
Attention: Comments/RIN 2590-AA39
Federal Housing Finance Agency – Fourth Floor
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:

On behalf of our members, the Maryland Bankers Association (MBA) respectfully submits the following comments regarding the Federal Housing Agency (FHFA) requested comments on an advance notice of proposed rulemaking (ANPR) to review current Federal Home Loan Bank (FHLBank) membership requirements. The 134 FDIC-insured banks operating in Maryland hold over $112 billion dollars in deposits in more than 1,800 branches across the state. We appreciate the opportunity to make comments on the proposed rule. MBA respectfully recommends that the ANPR should be withdrawn for the following reasons.

The changes proposed in the ANPR requires FHLB member institutions to hold 10 percent of their assets in mortgages on a *continuing* basis rather only when they join. In addition, objective and quantifiable standards could be established for the requirements that each member make long-term home mortgage loan and have a home financing policy. Noncompliant members could be barred from further access or have their membership terminated.

This is concerning for several reasons. In periods when mortgage valuations rapidly decline, as we recently experienced in the Maryland market and across the nation, members could not be assured of maintaining at least 10 percent of their assets in mortgages. Further, requiring members to meet on-going requirements adds uncertainty to FHLBank membership and a member's ability to meet those requirements, particularly in times of financial stress. These changes will result in the FHLBanks being 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.

FHLBanks are critical source of liquidity for Maryland's banks and banks nationwide. The FHLBanks provide liquidity to their members for housing and community credit needs. As other sources of liquidity disappeared during the financial crisis, the FHLBanks increased their lending to members by 58 percent between the second quarter of 2007 and the third quarter of 2008 (from $650 billion to $1 trillion). The FHLBanks were and continue to be especially important as a source of funding to smaller institutions during this stressful period.

The regulatory changes being considered would make it more difficult for financial institutions to access the liquidity available through FHLBank advances, will devalue membership for existing FHLBank members, and will discourage potential members from joining. This will have the consequence of restricting the ability of FHLBanks to serve the housing and community development needs of their districts. We anticipate these changes proposed in RIN 2590-AA39 will be particularly burdensome to small and medium sized members.

Policies that unnecessarily restrict FHLBank access – such as the suggested membership changes – could have had serious adverse consequences had they been in effect during this financial crisis. Further, the changes being considered threaten to limit access to the low-cost funding provided by the FHLBanks. This is particularly concerning given the pressure banks are under to increase their lending to small businesses and other job creating activities.

Advances from Federal Home Loan Banks are an important source of liquidity for our members. FHLBank advances provide community banks with access to reliable and stable low-cost funding. The FHFA policy should not unnecessarily limit access to liquidity for banks, particularly during these extraordinary circumstances. We have strong concerns about policies that unnecessarily hamper FHLBank's membership or mission. Ultimately, we believe this will harm efforts to restore liquidity to the credit markets.

For these reasons, MBA respectfully recommends that the membership ANPR be withdrawn. Thank you for the opportunity to comment on the proposed rule. Please contact me by if you have any questions or comments regarding MBA's concerns.

Sincerely,

Kathleen M. Murphy
President & CEO
Maryland Bankers Association