IBA
ILLINOIS BANKERS ASSOCIATION
Leading the way

RECEIVED
MAR 30 2011
OFFICE OF GENERAL COUNSEL

March 25, 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 Illinois Bankers Association (IBA) appreciates the opportunity to submit comments to the Federal Housing Finance Agency (FHFA) on the advance notice of proposed rulemaking (ANPR) regarding the membership requirements for members of the Federal Home Loan Banks (FHLBs).

The questions posed in the ANPR are 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 regulatory changes under consideration would make it more difficult for many Illinois 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 will destabilize a key premise of the FHLBank 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 communities. These suggested changes are likely to prove particularly burdensome to small and medium sized members, at a time when these members are already subject to many other new regulatory requirements.

You may be aware that Illinois, with more than 600 headquartered banks in the state, is home to more banks and savings institutions than any other state in the nation. And, the vast majority of Illinois banks are small to mid-sized banks, with roughly 89% of them having less than $500 million in assets.

During a difficult 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 proposed changes threaten to limit access to the low-cost funding provided by the FHLBanks.

524 South Second Street • Suite 600 • Springfield, IL 62701 • 217-789-9340
194 East Delaware Place • Suite 500 • Chicago, IL 60611 • 312-347-3400

It is an example of the mixed messages – if not a counterproductive policy – being sent to community banks from Washington, which 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 through one of the most challenging periods of economic stress. As other sources of liquidity disappeared – and before the coordinated response of the federal government – 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, when other sources of funding essentially disappeared. The ability of Illinois 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 – would have had 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 their 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.

Requiring continuous compliance with membership requirements would impose additional regulatory burdens on FHLBank members. 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.

The ANPR does not present any compelling reason for imposing new membership rules, and does not present any information showing that there is a problem with the current membership rules, which have served the FHLBanks well for many decades. The ANPR failed to cite a 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 with the implementation of these 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, particularly at this time when Congress and the Administration are just at the beginning of an extensive effort to review housing finance in this country, including the FHLBanks' role. When

Congress has examined the FHLBanks in the past, the result has been to expand, rather than contract, the role of the FHLBanks.

For these reasons, the membership ANPR should be withdrawn. Once again, thank you for allowing the IBA the opportunity to submit this comment on the ANPR.

Sincerely,

R. Kent Redfern
Illinois Bankers Association Chairman
Bank and Trust Company President and CEO

Linda Koch
President and CEO
Illinois Bankers Association

The Illinois Bankers Association is a full-service trade association dedicated to creating a positive business climate that benefits the entire banking industry and the communities they serve. Founded in 1891, the IBA brings together state and national banks, savings banks, and savings and loan associations of all sizes in Illinois. Over 20% of IBA members are community banks with less than $50 million in assets, and over 70% of IBA members are community banks with less than $250 million in assets. Collectively, the IBA represents nearly 90 percent of the assets of the Illinois banking industry, which employs more than 100,000 men and women in over 5,000 offices across the state.