WASHINGTON
BANKERS ASSOCIATION

March 24, 2011

Alfred M. Pollard
General Counsel
Federal Housing Finance Agency
Attention: Comments/RIN 2590-AA39
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:

The members of the Washington Bankers Association (WBA) are concerned with the Federal Housing Finance Agency's proposed rulemaking (ANPR) regarding the membership requirements and the housing finance mission of the Federal Home Loan Banks (FHLBs).

We believe that the mission and membership requirements are core attributes of the FHLB system and, as such, are appropriately left to the Congress to determine. As such, we question whether the proposed rulemaking is appropriate. Statute, rather than regulation, is the appropriate mechanism if institutions are to be eliminated from membership in the FHLB system or have their mission activities curtailed.

This is the approach that has been taken since 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, including the move to allow membership by commercial banks in 1989. Similarly, the mission of the system has been expanded by statute, such as expanding the categories of collateral made available to Community Financial Institutions in 1999.

In the nearly 80 year history of the Federal Home Loan Banks, we do not believe that Congress has taken action to reduce the membership scope of the System or to curtail its mission. Yet the proposed rule would potentially remove from membership eligibility certain insurance companies and other members not meeting newly proposed "housing finance" tests. This action would run counter to the clear Congressional intent of broadening both system membership and mission.

We recognize that the FHFA does play an important role in ensuring membership eligibility for specific institutions within the membership categories established by Congress. Ensuring that members (and potential members) meet the requirements set forth in statute protects the safety and integrity of the entire System. However, the

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FHFA focus should be one implementation and enforcement of Congressional intent, rather than on establishing new membership and mission limitations.

We are also concerned that the ANPR, as written, could add new regulatory burdens and costs for members of the FHLB system, while creating confusion and instability in the system.

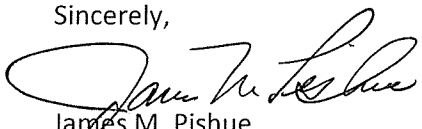
As a collateral-based system, members must pledge eligible collateral in order to borrow from a FHLB. This requirement helps ensure that members maintain a commitment to housing finance. There is no need to impose additional regulatory burdens, such as the ongoing 10 percent asset test, nor is it necessary to incur the additional expense to create the tracking systems such a test would require. The FHFA itself has stated 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."

Applying this standard to other categories of FHLB system members, particularly insurance companies and Community Development Financial Institutions (CDFIs), runs counter to the authorizing statute. The Federal Home Loan Bank Act specifically authorizes membership for these types of institutions and makes appropriate accommodations to reflect their diverse balance sheets and business models. We believe 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. Such uncertainty injects instability into the system with the potential for members falling in and out of membership, which in turn is likely to increase the costs of capital for the system as a whole, and reduce its continuing viability.

All of these impacts run directly counter to prudent regulation, which should aim to ensure stability of its regulated entities. Given these concerns and the proposal's potential impacts on the FHLB system, its members, and the national economy, we strongly urge the FHFA not to proceed with this rulemaking.

I appreciate the opportunity to share these concerns on behalf of the members of the Washington Bankers Association. If you have any questions, please do not hesitate to contact me at 206-344-3485 or james@wabankers.com. Thank you.

Sincerely,



James M. Pishue
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