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April 28, 2009

The Honorable James B. Lockhart III  
Director  
Federal Housing Finance Agency  
1700 G Street, NW  
Washington, DC 20052

Re: Study of Securitization of Acquired Member Assets  
Docket No. 2009-N-03

Dear Director Lockhart:

I am pleased to provide comments on the Federal Housing Finance Agency ("Agency") study of the securitization of mortgages held by Federal Home Loan Banks ("Banks") purchased under the Acquired Member Assets ("AMA") programs.

Both as Governor of Indiana, and as a member of the Senate Committee on Banking, Housing and Urban Affairs, I have been a strong advocate of the Federal Home Loan Bank System and the Federal Home Loan Bank of Indianapolis, which is located in my home state.

### **Role of Federal Home Loan Banks During the Recent Financial Crisis**

The Home Loan Banks have played a critical role in helping to stabilize the residential mortgage market during the recent financial crisis. In many cases, the Banks have served as the first line of defense for their member institutions. From the onset of the crisis in the second quarter of 2007 through the end of September 2008 – the most recently data available – the Banks provided over \$370 billion in additional liquidity, known as "advances," to their member financial institutions, over and above their standard advance level. To put this amount in perspective, it exceeds the U.S. Government's injection of liquidity during 2008 through the Troubled Assets Relief Program. This expansion in liquidity lending provided some tangible relief to the residential mortgage market at a time when lending became dramatically constrained due to a collapse in origination of non-conforming loans. Importantly, Home Loan Bank advances were provided mostly at rates considerably lower than would be otherwise available to retail banking institutions. Were it not for this additional liquidity, the problems that continue to plague the residential mortgage market would likely be even greater today.

### **Success of Acquired Member Assets Activities**

In addition to providing advances to their members for the purpose of funding mortgages, some Home Loan Banks also buy mortgages from member community banks through various mortgage purchase programs. In general, AMA programs are structured such that the Banks acquire, either through a purchase or funding transaction, whole, single-family mortgage loans from their members. These programs provide funds for housing finance at competitive rates and the Banks currently hold over \$80 billion of conforming home mortgages on their balance sheets.

### **Securitization as a Tool for Balance Sheet Management**

To ensure that community banks may continue to rely on their Home Loan Banks to serve as a secondary market for the mortgages they originate, the Banks must have the ability to mitigate risk by moving these mortgages off their books through securitization. Indeed, the Chairman of the Federal Home Loan Bank of Indianapolis has testified before the Senate Banking Committee to explain the benefits of such a risk mitigation tool.

Nonetheless, any expansion of the role of Home Loan Banks in purchasing mortgages must not jeopardize the efficacy of their advance lending, which is a unique and important facility. The advance book has been a pillar of community bankers' access to capital, and it should be preserved as such. Furthermore, a securitization initiative by any Bank or Banks should be accompanied by careful safety and soundness controls so as not to place undue risk on the Federal Home Loan Bank System.

### **Scope of the Agency's Study of Securitization of Acquired Member Assets**

As a member of the Senate Banking Committee, I supported the decision to require the Agency to conduct a study on the prospect of securitization of Acquired Member Assets. As detailed in the statute, Congress determined that it would be useful for the Agency to receive input from experts and key stakeholders to consider the following issues related to securitization: program benefits and risks, impact on liquidity in the mortgage and broader credit markets, ability of Banks to manage program risks, impact of programs on existing Bank activities and the cooperative nature of the Federal Home Loan bank System.

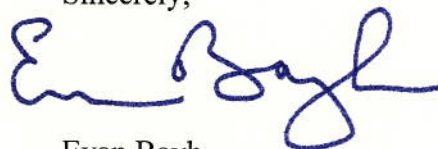
### **Legal Authority for Federal Home Loan Banks to Securitiz Acquired Member Assets**

In requiring the study, the Congress does not ask the Agency to analyze whether it possesses the legal authority to authorize a securitization program. It has been my understanding that neither the *Federal Home Loan Bank Act* nor any other statute prohibits the Home Loan Bank regulator from authorizing new funding techniques for the mortgage purchase programs. However, the findings of the study should serve to inform the deliberations of the Agency in determining the appropriate use of its authority as well as serve as a resource to the Congress in its oversight of the Agency and the activities of the Home Loan Banks.

### **Importance of Study**

I commend the Agency for requesting public comments in a timeframe that will allow it to report back to the Congress by the July 30, 2009, deadline established by the *Housing and Economic Recovery Act of 2008*. This study should serve as an important tool as the Agency develops appropriate regulations and reviews proposals by one or more Banks to implement a securitization program. The Agency will be able to review such programs in the context of its primary duty to regulate the safety and soundness of the Home Loan Banks while, at the same time, assisting the Bank System in fulfilling its housing finance and liquidity mission.

Sincerely,



Evan Bayh  
United States Senator