PEDCOR
INVESTMENTS
A Limited Liability Company

September 17, 2014

Alfred M. Pollard, General Counsel
Attention: Comments/RIN 2590-AA39
Federal Housing Finance Agency
400 Seventh Street SW, Eighth Floor
Washington, DC 20024
email: RegComments@fhfa.gov

Office of Information and Regulatory Affairs, OMB
Attention: Desk Officer for Federal Housing Finance Agency
Room 10102, New Executive Office Building
725 17th Street NW
Washington, DC 20503
email: OIRA_Submission@omb.eop.gov

Re: Members of Federal Home Loan Banks
Notice of Proposed Rulemaking, RIN 2590-AA39

Dear Mr. Pollard and OMB Desk Officer:

Our business strategy as a multi-family housing developer, bank owner, and captive insurance company owner is to diversify funding for our businesses. Our Pedcor Companies have membership in the San Francisco, Indianapolis, and Boston FHLBanks.

The FHFA's membership proposal eliminates our captive's borrowing opportunity from FHLB Boston. It also imposes an additional reporting burden on non-commercial banks to continually report the obvious, which is that our commercial banks make loans for and invest in housing and economic development. The existing FHLB requirement that long-term borrowings be housing-related and the eligible collateral standards render the FHFA's policy concern about an ongoing commitment to housing finance as neither reasonable nor cost-justified. For a national initiative, your proposal considerably understates ongoing annual reporting costs for the two mortgage asset ratio tests. With the new 1% (or higher) ongoing mortgage test, the over 7,500 FHLB members will have yet another call report item to monitor, report on and manage investments for. The FHLBs will have to monitor the ongoing tests and take corrective action if a member fails to meet the applicable home mortgage tests. The proposal's annual national cost estimates to the industry for asset ratio compliance of $68,935; $61,050; and $7,885 (see p. 54,869, Sept. 12, 2014 *Federal Register*) are simply far too low.

We estimate that for each of our members, staff call reporting for the two mortgage tests will be $750 in year one to establish appropriate reporting procedures, controls, and processes. Thereafter, annual reporting and monitoring costs will be about $500 per member. We also estimate the cost of at least one additional FTE per FHLB to monitor and consult with members about complying with the two new ongoing mortgage asset tests. This is a cost ultimately absorbed by the members in the form of reduced dividends.

Additionally these mortgage tests create balance sheet investment burdens which may, for smaller members, require the hiring of additional investment analysts. Moreover, rules that artificially control our balance sheet may have real and unintended safety and soundness consequences. For example, forcing us to invest in PLMBS housing investments to keep our access to the FHLBs during the 2008 credit crisis would have been disastrous. Even today with the Fed purchasing a significant amount of Agency MBS, investment yields are artificially depressed. The merits of adding staff costs and housing investment risk should be fully considered in this rulemaking. The rule's alleged benefit of having ongoing housing asset tests are far outweighed by the costs and unintended consequences.

The number of members rendered ineligible and the damage to the System's reputation as reliably serving all members' liquidity needs--even when they already meet the System's well-established and tested underwriting and collateral standards--are all regulatory costs that also should be carefully analyzed under your proposal. The proposed rule eliminates active members, particularly captives and smaller credit unions, and will reduce FHLB profits, thus reducing grants to low-income families under the Affordable Housing Program. Again, if these costs are completely identified and disclosed, the FHFA's proposed benefits of having more members serving housing will not outweigh the costs to the members and the AHP families. The Administrative Procedures Act and the Paperwork Reduction Act require this analysis.

The FHLBank Act allows for insurance companies, including captives, to have access. FHLB underwriting and collateralized borrowings for captives are no different than CDFIs, and captives are more closely regulated by the state insurance company regulators than are CDFIs that do not have insured deposits. Your proposal provides no justification as to why our Boston captive lending creates unique risks. Absent a Congressional law change, there is no material risk identified to justify the elimination of an entire member class. It is also discriminatory to captives which is contrary to 7(j) of the FHLBank Act. Moreover, under federal law, the FHFA is not authorized to regulate or define insurance activities; that is up to state law as mandated by the McCarran–Ferguson Act. This is clearly a proposal picking member losers and winners without justification.

Finally, your proposal disadvantages our membership investment in the Indianapolis Bank relative to the other FHLB districts. That district is smaller as compared to other districts, and, as measured by a percentage of member assets, has a much higher level of insurance company assets and borrowings. The Indianapolis Bank, the Michigan legislature, and the Michigan insurance regulators have worked closely together to encourage the creation of a captive insurance company model. These institutions are committed to provide real estate insurance and multi-family housing finance. This is an example of an FHLB District being innovative to prudently support housing finance, which, as a multi-family developer, we strongly endorse. Also as an investor in the Indianapolis Bank, the continued development of the captive business will help keep the Bank profitable and, as a smaller District, such innovation, just like MPP, helps keep the Indianapolis Bank independent.

For the above stated reasons, we ask that this proposal be withdrawn.

Sincerely,

Phillip J. Stoffregen
Executive Vice President & COO
Pedcor Companies