October 9, 2014

Federal Housing Finance Agency
400 Seventh Street SW., Eighth Floor
Washington, DC 20024

Attn: Comments/RIN 2590-AA39

Dear Sir or Madame:

As the CRA Officer at Mechanics Bank, I do not support the Federal Housing Finance Agency (FHFA) proposal to revise its regulations governing Federal Home Loan Bank (Bank) membership as it pertains to: (1) require each applicant and member institution to hold one percent of its assets in “home mortgage loans” in order to satisfy the statutory requirement that an institution make long-term home mortgage loans; and, (2) require each member to comply on an ongoing basis, rather than on a one-time basis as at present, with the foregoing requirement and, where applicable, with the requirement that it have at least 10 percent of its assets in “residential mortgage loans”.

My opposition is three-fold, as the operations and demands of the proposed mortgage requirement is burdensome given that community banks will 1) constantly need to monitor portfolios to ensure compliance; 2) adjust to reduced liquidity; and, 3) cope with a reduced flexibility to manage portfolios in response to competitive, market, and regulatory challenges that pose great risk.

And, while the proposal does not specifically target community banks, restricting FHLBank membership based on the residential mortgage requirements will weaken the FHLBank system with the loss of hundreds of noncompliant members, as community banks understand and will continue to strive to meet community needs, without a focus on volume. Also, if unable to comply, the impact on community banks is to take away a source of stability as daily, community banks depend on FHLBanks for liquidity and asset management, in addition to access to programs that fulfill the CRA related needs of our communities.

It is acknowledged that the integrity of the FHLBank system would be compromised if members utilized FHLBank advances without making commitments to support homeownership; however, the current system addresses that as members can only borrow if they have mortgage loans on the books to pledge. The FHLBank Act requires that in general, FHLBanks accept as eligible collateral for advances only certain United States government or government agency securities, residential mortgage loans and securities backed by such, cash, deposits in the FHLBank, and other real estate related assets. However, the principal form of collateral for advances is residential mortgage loans.

Community Banks have a long standing partnership with FHLBanks, which should not be diminished because our business models may require that we operate differently from the proposed regulations with respect to mortgage portfolios.

I ask that it be recognized that there are alternatives for community banks to support homeownership other than the measures put forth in the proposal, as Mechanics Bank's 1st Time Homebuyer Assistance demonstrates just one way in which community banks can meet the needs of their communities, and through its partnership with the FHLBank support homeownership.

Founded in 1905, Mechanics Bank provides personal banking, business banking, trust and estate services, brokerage and wealth management services through thirty-three offices across Northern California.

While mortgage lending is not the Bank's present business focus, Mechanics Bank has succeeded for over 100 years by meeting the needs of our community and, as it relates to homeownership, the Bank's support is evidenced through 1st time homebuyer assistance, as opposed to 30-year mortgages.

To date, Mechanics Bank has advanced $1,561,417 for down payment and closing cost assistance to more than 100 - 1st time homebuyers. The success of our 1st time homebuyer assistance is made possible, in part, through our partnership with the Federal Home Loan Bank of San Francisco (FHLBSF), as we participate in their Affordable Housing Program (AHP), in addition to the Individual Development Empowerment Accounts (IDEA) and Workforce Initiative Subsidy for Homeownership (WISH) set-aside programs.

The Bank's participation in the set-aside programs is significant as it offers the homebuyer 3 to 1 in matching funds, but it also presents a tangible risk, in that we must advance up to $15,000 in subsidy, and then apply to the FHLBSF for reimbursement. And, if in turn the FHLBSF determines that an IDEA or WISH advance was not processed in accordance with program guidelines, the Bank will not be reimbursed for funds advanced on behalf of the homebuyer.

Also, in addition to the disbursement requirements, the Bank remains responsible for compliance in regards to the funds provided on behalf of each homebuyer for a period of five years.

At Mechanics Bank, we believe that the successes, risks and commitments reflected above underscores that the Bank recognizes the importance of a shared responsibility in addressing the homeownership needs of our communities. Which, is supported by our understanding that when quality homes are available, homebuyer counseling is provided, and the homes are purchased by households that can afford them, it not only helps to stabilize communities, but provides families with a form of wealth creation that can be passed down.

It is our partnership with the FHLBank, which we hope will be maintained, that helps to provide the avenue for support, as we strive to do our part to assist those that dream of buying their first home, while maintaining a business model that meets the needs of our organization.

Respectfully,

Fred Lambright
VP, Community Development Manager/CRA Officer
1111 Civic Drive
Walnut Creek, CA 94596
fred_lambright@mechanicsbank.com