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NBA Nebraska Bankers Association
Extraordinary Service for Extraordinary Members

October 16, 2014

Alfred M. Pollard, General Counsel
Attention: Comments/RIN 2590–AA39
Federal Housing Finance Agency
400 Seventh Street SW
Washington, D.C. 20024

Re: Notice of Proposed Rulemaking and Request for Comments – Members of FHLBanks (RIN 2590–AA39)

Dear Mr. Pollard:

I am submitting this comment letter on behalf of the Nebraska Bankers Association (NBA), a trade association representing 199 of the 204 commercial banks and nine of the 10 savings institutions in Nebraska. Our members are located throughout the state, and they provide reliable and needed services to their customers and their communities.

I am writing to express my objections to the FHFA's proposed rule regarding membership eligibility in the Federal Home Loan Banks (FHLBanks) (RIN 2590-AA39), which the Federal Housing Finance Agency (FHFA) recently issued. The proposed rule includes significant, unnecessary, and highly damaging changes to long-standing membership rules for the FHLBank system that are inconsistent with the Federal Home Loan Bank Act and clear congressional intent. Accordingly, the NBA respectfully requests that the proposed rule be withdrawn.

Depending on how much of the proposed rule is implemented, 13 to 93 banks, five to six credit unions, and one to eight insurance companies could lose their membership in FHLBank Topeka alone. This would result in as much as $1.54 billion in lost advances to existing members. Annualized profitability could drop by $5.1 million, and FHLBank Topeka's contribution to its Affordable Housing Program could decrease by $510,000.

Our members are well-run institutions that faithfully serve their communities. Many of them rely on FHLBank Topeka for advances and other products. Losing access to their FHLBank would be a blow to their business models, and it would have a negative impact on their customers and communities.

We're also very aware that the rule could result in fewer members of FHLBank Topeka. This could lead to a smaller FHLBank with fewer assets, reduced profits, lower retained earnings, a decreased market value of equity and capital stock, and fewer dollars available for the Affordable Housing Program. This is unnecessary and unacceptable.

The regulatory changes under consideration would make it more difficult for many financial institutions in Nebraska to obtain or maintain access to FHLBank liquidity. Stricter requirements will call into question the ability of members to borrow under all future economic scenarios. The proposed changes also would discourage potential members from joining, which would inhibit the ability of the FHLBanks to serve the housing and community development needs of their districts. The suggested changes would prove most burdensome to the small and medium-sized members of FHLBank Topeka at a time when they are already subject to a crushing burden of regulatory requirements.

During the nation's recent financial crisis when disruptions in the financial markets made access to liquidity scarcer, the FHLBanks were a critical source of liquidity for financial institutions. If more than 100 of FHLBank Topeka's members have their membership jeopardized because of FHFA's flawed proposed rule, the effect on the communities of FHLBank Topeka's four-state region will be highly damaging.

The NBA believes policymakers should be looking for ways to increase economic activity by encouraging financial institutions to bolster responsible lending to home buyers, commercial real estate developers, small businesses, ag producers, and other job creators. We believe this was the intent of Congress when it expanded eligible FHLBank collateral to support a variety of types of lending, including small business, agricultural, and commercial real estate. FHFA's proposed rule would inhibit these activities and would adversely impact the U.S. economy.

Requiring members to meet ongoing mortgage requirements would add an element of uncertainty to FHLBank membership. Members could never be sure of their ability to meet FHFA's arbitrary tests and, therefore, maintain access to FHLBank liquidity, particularly in times of financial stress. For example, in periods when mortgage holdings decline rapidly, members could not be assured of maintaining the required minimum percentage of their assets in mortgages. In addition, banks that originate mortgages which are sold into the secondary market would fail the mortgage-assets test despite the fact they are clearly involved in home lending activities. As a result, the FHLBanks would be viewed by both existing members and potential members as a far less reliable funding partner.

The proposed rule does not identify any safety and soundness reason for imposing new membership restrictions, and it does not present any information showing a problem with the current membership rules. The proposed rule also fails to cite a compelling benefit it hopes to achieve. Finally, as stated earlier, the proposed rule includes changes inconsistent with the Federal Home Loan Bank Act and clear congressional intent.

For these reasons, the NBA requests that FHFA immediately withdraw this unnecessary and highly problematic proposed rule. Thank you for the opportunity to comment.

Sincerely,

Richard Baier
President and CEO
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