Kansas Bankers Association

October 10, 2014

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OFFICE OF GENERAL COUNSEL

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 FHLBs (RIN 2590–AA39)

Dear Mr. Pollard:

Thank you for the opportunity to submit this comment letter on behalf of the Kansas Bankers Association (KBA). The KBA is a nonprofit trade organization with 274 of the 276 Kansas chartered banks as member institutions. KBA is very proud of the fact that its members are located in every corner of Kansas, and their record of serving their customers and their communities.

I am writing to express concerns with FHFA's proposed rule regarding membership eligibility in the Federal Home Loan Banks (FHLBanks) (RIN 2590-AA39), that 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. For that reason, the KBA opposes the proposed rule, and we respectfully ask you to withdraw it.

Depending on how much of the proposed rule takes effect, it is our understanding that 13-93 banks, 5-6 credit unions and 1-8 insurance companies could lose their membership in FHLBank Topeka alone. This could 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 serve their communities faithfully, and many of them rely on FHLBank Topeka for advances and other products. For them to lose access to their FHLBank would be a blow to their business models, and it would have a negative impact on their customers.

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 Kansas 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 would also 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.

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During the nation's recent financial crisis when disruptions in the financial markets made access to liquidity more scarce, the FHLBanks were a critical source of liquidity for financial institutions. If as many as 107 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 KBA 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 deeply flawed proposed rule would inhibit these activities and would strike a blow to 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. 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 that there is a problem with the current membership rules. The proposed rule also fails to cite a compelling benefit it hopes to achieve. And as stated earlier, the proposed rule includes changes inconsistent with the Federal Home Loan Bank Act and clear Congressional intent.

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

Sincerely,

Charles A. Stones
President