



October 17, 2014

Mr. Alfred M. Pollard, General Counsel
Attention: Comments/RIN 2590-AA39
Federal Housing Finance Agency - Fourth Floor
1700 G Street, NW
Washington, D.C. 20552

Re: Notice of Proposed Rulemaking and Request for Comments—Members of FHLB (RIN 2590-AA39)

Dear Mr. Pollard:

The Federal Housing Finance Agency has requested comments on a Notice of Proposed Rulemaking (“NPR”) on Federal Home Loan Bank membership requirements. We appreciate the opportunity to submit the following comments regarding the Proposed Rule.

During the past 25 years, Congress has reviewed FHLB membership access on three occasions (FIRREA in 1989, GLBA in 1999 and HERA in 2008). In each instance, Congress has expanded access to membership and usage. While expanding access to FHLB membership has been the clear intent of Congress, the NPR alters membership rules and would eliminate a significant number of members in good standing, lessen the value of membership, encourage membership withdrawals, impair the ability of the FHLBs to recruit new members, and would result in a smaller and less diverse membership. As such, the proposed rule would diminish the FHLB System’s ability to stabilize financial markets during the next financial crisis, its reach into underserved communities, and reduce private capital in the mortgage market and funding for affordable housing.

Since its creation in 1932, the FHLBs have been a stabilizing force in the nation’s financial system. In 2008 while policymakers in Washington were struggling to invent new programs to address the financial panic, the venerable FHLB System acted as the “first responder” and provided over \$1 trillion of liquidity to the markets. This was only possible because the System’s reach extended to a diverse membership of 8,000 bank, credit union, and insurance companies. Since the scope and diversity of the FHLB membership is the source of its ability to respond in times of financial crisis, enacting the proposed rule would expose financial markets to increased risk.

In addition to diminishing the FHLB’s ability to stabilize financial markets, membership shrinkage due to the NPR would reduce the System’s reach into rural and underserved communities. Since my organization has been serving the Delta County in Michigan’s Upper Peninsula of Michigan since 1912, this issue is of great concern. It has been well documented that economic growth and job creation has been lagging in rural communities. Reducing the

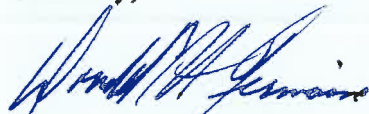
size of the membership will provide fewer opportunities for the FHLBs to support housing and community and economic development in these communities. Given that the nation has lost 1,700 banks, most of which were community-based FHLB members since financial crisis began, the Proposed Rule would further decrease the economic impact of FHLBs these communities.

By imposing new requirements which would thin the number of FHLB members and impair the ability to recruit new members, the NPR would also reduce the amount of private capital in the mortgage market. With Fannie Mae and Freddie Mac still in conservatorship, the federal government guaranteeing or insuring over 90% of new mortgages, and the Federal Reserve's \$4.4 trillion balance sheet, all is not well with the mortgage market. While seven years have elapsed since the crisis began, government intervention and tax payer exposure to the mortgage market remains at an all-time high. In order for the federal government to retreat from its historic dominance of the mortgage market without creating disruption, the FHFA and others have noted that a major infusion of private capital is required. Since the NPR would reduce the amount of FHLB members and private capital in the mortgage market, it is clearly at odds with this stated goal, and would negatively impact the mortgage market.

Finally, the NPR would materially reduce the FHLB System's support of affordable housing. As you know, the FHLB's Affordable Housing Program (AHP) is the nation's largest private source of grant funding for affordable housing and is funded with 10% of the Federal Home Loan Banks' net income each year. Since the NPR would eliminate a significant number of FHLB members, it would also impact the System's income and funding for AHP. Given the scarcity of affordable housing grants, any reduction in AHP grant funding will reduce the number of low income people able to attain the American Dream of owning a home.

While the costs of implementing the NPR are tangible and obvious, the benefits of the proposed rule are not. For these reasons, I urge you to withdraw the proposed rule and begin a dialogue with Congress, where these important policy decisions should be made. Thank you for the opportunity to submit a comment.

Sincerely,



Donald P. St. Germaine
President