STATE STREET.

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Boston, MA 02111-2900

November 6, 2014

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

E-mail: RegComments@fhfa.gov

Re: Notice of Proposed Rulemaking – Members of Federal Home Loan Banks (RIN 2590-AA39)

Dear Mr. Pollard:

State Street Corporation ("State Street") welcomes the opportunity to comment on the notice of proposed rulemaking ("NPR") issued by the Federal Housing Finance Agency ("FHFA") on revisions to regulations governing membership in the Federal Home Loan Banks ("FHLB"). The FHFA proposes a series of changes that would substantially alter the requirements which currently apply to both existing and prospective members. This includes two quantitative tests: (i) a requirement for members with more than \$1.09 billion in total assets to hold at least 10% of such assets in residential mortgage securities and (ii) a requirement for all members to hold at least 1% of their total assets in home mortgage loans (together the "10% and 1% Tests"). We are concerned that these requirements could make members, such as State Street, ineligible for continued participation in the FHLB, while also unnecessarily discouraging others from joining, thereby substantially limiting access to an important source of funding in support of housing finance and the United States ("US") financial markets generally.

Headquartered in Boston, Massachusetts, State Street specializes in providing institutional investors with investment servicing, investment management and investment research and trading. We are one of the world's leading global custodians, with \$28.5 trillion in assets under custody and administration and \$2.4 trillion in assets under management. State Street is organized as a US bank holding company, with operations conducted through several entities, primarily its wholly owned bank subsidiary, State Street Bank and Trust Company. Consistent with our specialized business model, State Street's balance sheet is primarily comprised of a diversified portfolio of high-quality investment assets, including agency and non-agency mortgage-backed securities. Unlike other more traditional banks, we make very few direct loans and do not engage in the asset securitization process. We are one of more than 440 current members of the FHLB of Boston, with total assets of \$275 billion. [1]

As of June 30, 2014, members of the FHLB of Boston had collectively borrowed more than \$30 billion in advances and owned more than \$3 billion in capital stock. These numbers would almost certainly shrink with the anticipated loss of members that fail to meet the substantially revised membership requirements proposed by the FHFA. The net effect would be an unwarranted and entirely preventable contraction in the ability of members to access funding in support of the nation's housing market. During the financial crisis,

[1] As of September 30, 2014.

when dislocations in the capital markets made funding from other sources difficult to obtain, the FHLB proved to be a critical source of liquidity for its members. As such, policies that unnecessarily constrain access to the FHLBs, such as the proposed 10% and 1% Tests, could have broad implications for the stability of the US financial markets by needlessly narrowing the scope of eligible participants.

As proposed by the FHFA, membership in the FHLB would impose compliance burdens that would add a strong element of uncertainty regarding access to a historically reliable source of funding. This includes the requirement to manage our balance sheet so as to maintain sufficient assets to meet, on an ongoing basis, the intended 10% and 1% Tests. This is particularly problematic for custody banks, such as State Street, that tend to experience significant and often difficult to predict client deposit inflows, including in periods of financial market stress. As such, the FHLB would be viewed by existing members as a far less reliable funding partner. Moreover, the proposed rule would shrink the amount of private capital flowing through the FHLB and therefore available funding in support of housing finance. This includes the Affordable Housing Program, the largest single, private source of funding for low- and moderate-income housing in the country, which is funded by 10% of each FHLB's net annual profits.

Members of the US Congress have, in the wake of the conservatorship of the government sponsored enterprises, begun to consider measures to achieve comprehensive reform of the US housing finance system. As part of these efforts, Congress has had the opportunity to review the role and mission of the FHLBs. Throughout the course of these deliberations, there has been no consideration of any wholesale restrictions on FHLB membership. To the contrary, discussions have revolved around an expansion of the role of the FHLBs as a source of market-based funding. In the upcoming 114th Congress, housing finance reform is likely to be given even higher priority. Under these circumstances, we believe that the FHFA should not proceed with the introduction of the 10% and 1% Tests, and more generally, that it should defer to Congress to determine the proper scope of membership in the FHLB system.

Thank you once again for the opportunity to comment on the matters raised in this NPR. Please feel free to contact me at enovakoff@statestreet.com should you wish to discuss State Street's submission in greater detail.

Sincerely,

Edward Novakoff
Senior Vice President and Global Liability Manager
State Street Global Treasury