

**THE
NEW ENGLAND
COUNCIL**

December 11, 2014

VIA ELECTRONIC SUBMISSION ON WWW.FHFA.GOV

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

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

Dear Mr. Pollard:

This letter is in response to the Federal Housing Finance Agency's (FHFA) request for comments on its notice of proposed rulemaking regarding membership requirements for the Federal Home Loan Bank (FHLBank) system. The New England Council is a non-partisan alliance of businesses, academic and health institutions, and public and private organizations throughout New England formed to promote economic growth and a high quality of life in the New England region. The Council's mission is to identify and support federal public policies and articulate the voice of its membership regionally and nationally on important issues facing New England.

Within the financial services industry, the Council counts dozens of community banks, depository institutions, credit unions, and insurance companies, among its membership. Both the Federal Home Loan Bank of Boston and a number of its members are also members of the New England Council. As such, the Council has a strong interest in the proposed rulemaking and its potential impacts on our broad membership, from which we have heard numerous concerns about the need for, and content of, the rulemaking.

FHLBanks have been highlighted for their successful efforts to provide liquidity, even throughout the most recent economic downturn, which was the largest recession since the Great Depression. Former FHFA Acting Director Edward DeMarco said in a 2012 speech that “[w]ith the onset of the financial crisis in late 2007, the FHLBanks became a key provider of liquidity....[t]he FHLBanks demonstrated they were a reliable source of credit to their members, and that they could meet member liquidity needs safely and soundly.” The Federal Reserve Bank of New York reiterated this sentiment in a 2008 report, which found that the FHLBank system was, “by far, the largest lender to U.S. depository institutions” during the financial crisis. It is clear to see the vitally important role the FHLBank system plays – and plays well – in the liquidity of the U.S. financial system.

The New England Council

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One concern of our members is that the proposed rule would impact FHLB Boston's ability to grow as well as simply maintain existing levels of advances, thereby leading to reduced funding of its Affordable Housing Program and fewer safe, decent, affordable housing options throughout New England. This is a constant concern in our region, as we are home to one of the oldest housing stocks in the nation. When it comes to being a source of funding for low- and moderate-income housing, the Federal Home Loan Bank of Boston is already recognized for its stellar work in this arena. FHLB Boston members have been awarded more than \$422 million in total subsidies and subsidized advances to create or preserve more than 25,000 affordable rental and ownership units in New England.

Additionally, members of the Council noted several other concerns with the proposal, including the potential to create interest rate risk for financial institutions, as the rule would conflict with concerns of financial regulators that institutions reduce holdings of long-term fixed rated mortgages and sell them in the secondary market. Furthermore, the rule would restrict access to secondary markets for FHLB members that do not meet the rule's arbitrary tests. This runs counter to recent legislative proposals during debate over housing finance reform that would have expanded the FHLBs' ability to serve as a source of secondary market access for small financial institutions, and which may reappear in the 114th Congress as part of a future housing finance reform effort.

Regarding concerns over the need for this proposed rule, it is abundantly clear from the FHFA's own research and data that the vast majority of FHLBank members – roughly 98 percent – already comply with the proposed requirement to hold at least 10 percent of assets in “residential mortgage loans” on an ongoing basis. Furthermore, of the remaining two percent, roughly half have more than 9 percent of their assets in mortgages. As such, this proposal seems to be a solution in search of a problem, particularly when you consider that members of the FHLBanks are already selected randomly every two years by the FHFA to complete a Community Support Statement and members are already required to provide “eligible collateral” related to housing when they seek an advance from their FHLBank. It is difficult to see the benefit of the FHFA's proposed added layer of regulatory burden.

Former Congressman Barney Frank (D-MA), who chaired the House Financial Services Committee for four of the most consequential years in our nation's financial history, previously wrote to FHFA Acting Director Edward DeMarco in May 2011 regarding the agency's desire to change the membership requirements for FHLB members. In the letter, he addressed many of the points made above in a succinct manner. To quote from the letter: “Because the existing regulations seem to me to be functioning properly, I do not see a reason to change them now. As the FHFA notes in the ANPR, it does not have any evidence that significant numbers of members that were required to hold 10 percent of their total assets in residential mortgage loans in order to join the Federal Home Loan Bank (FHLB) system have substantially reduce these holdings after becoming members. I also do not see a reason to extend the 10 percent membership requirements to Community Development Financial Institutions and insurance companies. The FHLB system plays an important role in helping to provide liquidity in the financial system, and I believe that changes to the membership requirements could have the unintended consequence of disrupting the stability of the FHLB system while our economy is still struggling.”

While the economy has certainly improved since 2011, all of Congressman Frank's concerns remain valid and applicable today, and any actions emanating from Washington must take into account the need for continued economic recovery. Beyond its potential impact on

liquidity, this rule would create broad uncertainty for FHLB members regarding their status in the system – including possible new members needed to sustain a healthy system – and it may in some cases needlessly push out existing members whose participation should be encouraged. Indeed, FHLB Boston’s more than 440 members have collectively borrowed in excess of \$30 billion in advances and own more than \$3 billion in capital stock. Their contributions to the ongoing recovery would no doubt be stunted by this proposed rulemaking.

As a result, the New England Council joins many other voices in requesting that the proposed rule be withdrawn. Thank you for the opportunity to provide a comment on this proposal.

Sincerely,

A handwritten signature in cursive script that reads "Emily J. Heisig".

Emily J. Heisig
Senior Vice President