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December 10, 2014

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



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

Dear Mr. Pollard:

We appreciate the opportunity to comment on the Federal Housing Finance Agency's proposed rule RIN 2590-AA39 Members of the Federal Home Loan Banks. The affordable housing industry in our state strongly relies on credit flowing from our local financial institutions, which in turn, look to their FHLBank for a dependable supply of liquidity. While we appreciate your desire to ensure the FHLBanks remain focused on the housing portion of their mission, we believe the proposed rule will actually inhibit the FHLBanks' ability to execute their mission and prevent them from serving the credit needs of their communities.

The liquidity provided to FHLBank members flows into our communities in many different ways. As a part of the affordable housing industry, we see every day how the funding supplied by the FHLBanks enables their members to extend credit to residential developers and prospective homeowners. The same flow of liquidity promotes the production and preservation of market-rate and affordable rental housing. Moreover, it has been of great benefit to the places in which we live and work that community development lending has also been a part of the FHLBanks' mission. Their members support local economic development, small businesses, and agriculture, which are among the many elements necessary for creating and sustaining healthy communities and residential housing opportunities.

The proposed rule could make it more difficult for many financial institutions to obtain and maintain FHLBank membership and access to FHLBank liquidity. The new requirements will call into question the ability of members to borrow under all future economic scenarios. The changes will also discourage potential members from joining an FHLBank, inhibiting the ability of the FHLBanks to serve the housing and homeownership needs of their districts. Over the past 25 years, Congress has broadened access to FHLBank funding and liquidity by expanding membership eligibility. We believe any changes to FHLBank membership, especially changes that would narrow

the FHLBanks' statutorily established mission or membership, as this proposed rule appears to do, should come first from Congress.

As a member of the affordable housing industry, we want our local financial institutions to remain strong and healthy for the long term, which FHLBank-provided liquidity certainly supports. We support our local lenders' needs to be good asset and liability managers. Provisions of the proposed rule would severely limit the flexibility of these local lenders to manage their balance sheet in response to changing market conditions. Instead of operating in a way that is responsive to their customers and community, these institutions could find themselves managing to regulations in a way that could weaken their financial condition. The additional regulatory requirements of the proposed rule would prove particularly costly and burdensome to small- and medium-sized members. These costs would eventually be passed on to home builders and homebuyers. The most direct test of the FHLBanks' and their members' commitment to housing may be best judged by the collateral that supports members' borrowings, with nearly 97 percent of collateral consisting of housing-related assets.

The proposed rule would also shrink the amount of private capital flowing from the global markets through the FHLBanks and their members to the U.S. mortgage market and the communities we serve. Of particular concern is the effect on the Affordable Housing Program (AHP), the largest single, private source of funding for low- to moderate-income housing in the country. Each FHLBank sets aside 10 percent of net earnings annually into the AHP. From 1990, when AHP funds were first awarded, to 2013, the FHLBanks have awarded nearly \$4.5 billion in AHP funds to build or preserve affordable housing for more than 724,000 households. The adverse impact the proposed rule would have on the FHLBanks' ability to grow or even maintain advance levels would directly lead to reduced funding for affordable housing initiatives.

Under the membership structure established by Congress, the FHLBanks have proven to be a safe and sound business model that reliably supplies liquidity, through all market cycles, to a broad range of cooperative members for a variety of uses. The proposed rule would fundamentally change and weaken this vital part of the U.S. housing finance system that has and continues to perform well.

For community developers in our state, the prospect of facing a weakened community banking system is very disturbing. Regulators and policymakers should be looking for ways to jump start economic activity by encouraging financial institutions, and the developers they work with every day, to increase lending for housing and community development. In fact, we hear that exact message from elsewhere in the Administration. We believe the proposed rule directly conflicts with this need and will ultimately reduce liquidity, tighten credit, and restrict the flow of funds for housing and economic development.

For these reasons, we request that the proposed rule be withdrawn and that the FHFA instead engage in a series of public hearings, workshops, and roundtables to solicit a variety of viewpoints from diverse stakeholders that may be impacted by this wide-ranging proposal. Thank you for the opportunity to submit a comment.

Sincerely,



Tony Cooper  
Executive Director  
Jimmie Hale Mission