DEPOSITORS INSURANCE FUND

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OFFICE OF GENERAL COUNSEL

December 19, 2014

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

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

Dear Mr. Pollard:

The Depositors Insurance Fund ("DIF") is writing to comment on the Federal Housing Finance Agency's ("FHFA") notice of proposed rulemaking and request for comments on Federal Home Loan Bank membership requirements. The DIF appreciates the opportunity to submit these comments on the Proposed Rules.

The DIF provides deposit insurance coverage above the FDIC limit to all 59 Massachusetts-chartered savings banks. The DIF as well as nearly all of its member banks are members of the Federal Home Loan Bank ("FHLB") of Boston. The DIF's members have come to rely on the FHLB of Boston's advances when they are in need of liquidity, and they know that the FHLB of Boston will be there when other sources of liquidity dry up. During the recent financial crisis when dislocations in the capital markets made funding from other sources difficult, the FHLBs were a critical source of liquidity to the DIF's member banks and the nation's financial institutions.

While the DIF recognize the FHFA's objective that there be some on-going eligibility requirement for members of the FHLB system to demonstrate a commitment to housing finance, we believe the proposed regulations are directed at solving a problem where no problem exists. FHLB members demonstrate their commitment to housing every day. In addition to their regular 1-4 family mortgage lending, 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. Hundreds of member financial institutions and nonprofit sponsors have participated in expanding and rehabilitating housing stock throughout New England. Nearly 250 members have been approved to participate in the FHLB Boston's Equity Builder Program and have made over $25 million in grants to assist eligible first-time homebuyers with down-payment, closing-cost, homebuyer counseling, and rehabilitation assistance. FHLB members do not need a regulation to mandate a commitment to housing—that commitment already exists and is on-going.

While we see no need for the proposed membership requirements, we are concerned that such requirements could result in uncertainty and unintended consequences that would limit the DIF's members' and financial institutions across the country's access to needed liquidity.

First, we are concerned that the proposed changes would significantly increase FHLB membership requirements for existing and prospective members, thereby reducing the availability and negatively affecting the reliability of liquidity on which the DIF's members and other financial institutions depend. Members will no longer be certain that they will have access to FHLB funding when they are in need of liquidity, particularly when the need for liquidity arises unexpectedly. The proposal undermines the reliability of FHLBs as liquidity sources, and it is also contradictory to the efforts of state and federal regulators, who have encouraged and supported the institutions they supervise to have access to reliable liquidity sources.

Second, the DIF believes this proposal could inhibit member banks' ability to grow. If a bank's total assets grow above the current CFI threshold of $1.108 billion, either organically or through acquisition, the bank would become subject to the proposed requirement that it maintain 10% of its assets in residential mortgage loans. This could result in a bank having to delay or forego expansion or merger plans for the sole purpose of maintaining its membership eligibility in the FHLB. The DIF believes that the FHFA should support the reasonable growth of FHLB members and avoid penalizing them or threatening their access to FHLB liquidity as a result of it.

Finally, this proposal does not appear to be aligned with Congress' preference toward an expansion of the FHLB system. In the 113th Congress, the Senate Banking Committee and House Financial Services Committee worked on comprehensive housing finance reform. Rather than restricting membership in the FHLB system, discussions revolved around potentially expanding the role of the FHLBs and access to them in a reformed housing finance system. If Congress were concerned that the FHLBs members were not sufficiently focused on their housing finance mission, it has had ample opportunity to make changes. It has chosen not to do so. With housing finance reform likely to be a priority in the next Congress, the DIF believes the FHFA should defer to Congress, as it always has, to determine the FHLBs' role in a future housing finance model.

For these reasons, we request that the Proposed Rule be withdrawn. Thank you for the opportunity to submit a comment.

Sincerely,

David Elliott
President and
Chief Executive Officer