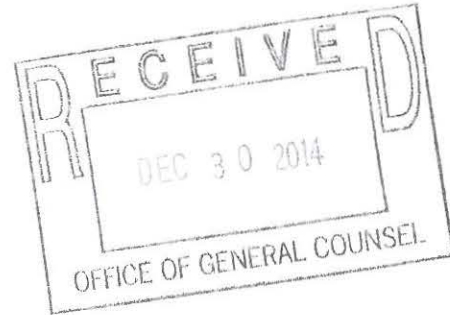




Date: December 23, 2014

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 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. As a community financial institution and FHLBank member, we appreciate your desire to ensure the FHLBanks remain focused on the housing portion of their mission. However, we believe the proposed rule directly conflicts with permissible uses of FHLBank advances as defined by Congress and undermines the valuable role the FHLBanks serve in supporting community financial institutions.

Over the past 25 years, Congress has broadened access to FHLBank funding and liquidity by expanding both membership eligibility and the ways in which member institutions can use advances. Since 1999, community financial institutions (CFIs) have been able to use long-term FHLBank advances for residential housing finance, small business loans, and small farm and small agri-business purposes. While we recognize the importance of a healthy housing finance system and the FHLBanks' statutory obligation to support housing finance, we assert that a commitment to housing finance is but one part of the modern mission given to the FHLBanks by Congress. We believe the proposed rule amends current law rather than establishing safety and soundness regulations to support the statute and FHLBank mission. We also believe that any changes to the statutorily established uses of FHLBank advances, in particular changes that would narrow the FHLBanks' mission as the proposed rule appears to do, should come from Congress first.

We are concerned that the proposed rule would significantly increase FHLBank membership requirements for existing and prospective members and reduce the availability and reliability of liquidity on which we depend. Ongoing compliance with membership requirements of the proposed rule would impose additional regulatory burdens on FHLBank members and add uncertainty to FHLBank membership. FHLBank members are currently subject to ongoing requirements that demonstrate commitment to housing finance. When a member borrows an advance, it must provide eligible collateral to secure the advance. Nearly all eligible types of collateral, which are determined by Congress, are related to housing. In addition, current members must certify their active support of housing for first-time homebuyers to the FHFA every two years through the Community Support Statement.

The proposed 10 percent residential mortgage loans test, while not applying to CFIs, is still potentially problematic for CFIs. This test requires all depository institution members with assets of more than \$1.1 billion to comply with the requirement that at least 10 percent of total assets be in "residential mortgage



loans” on an ongoing basis. Members found to be out of compliance would be given one year to return to compliance. If the member remains out of compliance for two consecutive years, membership would be terminated.

The proposed test could force somewhat larger CFIs, those with assets ranging from \$500 million to close to the \$1.1 billion cap, to make arbitrary and potentially disadvantageous decisions in an effort to manage their business and growth while remaining within the parameters of the rule. As a result, the proposed rule could create unintended consequences that would be directly counter to the intent both of Congress and even the proposed rule itself. Some CFIs could begin to pull back on the ways they serve their customers and communities if faced with the possibility of being terminated as FHLBank members as they grow in asset size. Termination would mean being cut off from FHLBank sources of liquidity, letters of credit, mortgage purchase programs, affordable housing programs, and community investment products – some of the very activities the proposed rule is designed to enhance.

As a community financial institution, we are enormously proud of the work we do to build a stronger community through providing access to credit for a broad range of our local customers’ needs. That is exactly what our membership in our FHLBank enables us to do.

Under the current membership structure established by Congress, the Federal Home Loan Banks 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 a vital part of the U.S. housing finance system that has and continues to perform well. It will restrict CFI’s ability to serve their customers, result in the termination of FHLBank membership for some members in good standing, and ultimately reduce housing and economic development credit available to families, small businesses, and communities.

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,

Charles D. Christy  
EVP & CFO  
CoastalStates Bank  
5 Bow Circle  
Hilton Head, SC 29928

**Attachment: Seven Key Points related to the FHFA Proposed Membership Rule NPR #2590-AA39**



## Seven Key Points Federal Housing Finance Agency's Proposed Membership Rule NPR #2590-AA39

1. The FHLBanks have been a vital source of liquidity, through all economic cycles. The FHLBanks' mission is achieved by providing reliable liquidity and funding, creating housing opportunity, and expanding community development through member relationships.
2. Congress has a clear record of addressing FHLBank membership, in each case expanding membership and mission, as well as expanding access to FHLBank programs and products.
3. The Federal Housing Finance Agency's (FHFA) proposed membership rule would effectively amend current law by:
  - a. Creating a new ongoing 1% (or higher 2-5%) long-term mortgage assets test.
  - b. Making the current 10% mortgage-related asset test to "become" a member of an FHLBank, an ongoing test to "remain" a member for all insured depository institutions, except community financial institutions (CFIs).
  - c. Redefining what an insurance company is for purposes of FHLBank membership (the rule would exclude captive insurance companies from being permitted to become an FHLBank member and terminate the membership, over five years, of existing captive insurance company members).
4. The proposed new test to maintain FHLBank membership is unnecessary. It effectively narrows the mission of the FHLBanks, and does not properly measure a financial institution's role in providing housing opportunity. Community institutions of all sizes contribute significantly to housing. These contributions including; holding real estate assets on balance sheets; and originating and selling to the secondary market. Additionally, financial institutions play a key role in extending credit for community development, small businesses, student loans, and other activities that help provide the foundation for homeownership and rental opportunities.
5. While most FHLBank members meet the proposed 10% asset test on an ongoing basis and the proposed 1% (or 2-5%) ongoing long-term mortgage test, the tests are neither a true indication of a housing role nor prudent policy. Financial institutions must have the flexibility to manage their balance sheets based on market conditions as we discovered during the recent financial crisis. The tests are particularly vexing, given that well over 90% of the collateral that supports FHLBank member access to advances is residential mortgage-related assets.

Imposing this mandate with a threat of losing FHLBank membership raises concerns about the reliability of continued access to affordable FHLBank funding, which is vital to meeting our communities' financial needs. Penalizing a financial institution with lost membership or reduced access