NYBA

New York Bankers Association

99 Park Avenue

New York, NY 10016-1502

212.297.1699 Fax 212.297.1658

msmith@nyba.com

Michael P. Smith
President and CEO

January 7, 2015

Alfred M. Pollard
General Counsel
Attention: Comments/RIN 2590-AA39
Federal Housing Finance Agency
400 Seventh Street, SW, 8th Floor
Washington, DC 20024

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

Dear Mr. Pollard:

Thank you for the opportunity to comment on the Notice of Proposed Rulemaking (NPR) of the Federal Housing Finance Agency, which seeks to change the membership requirements for the Federal Home Loan Bank System.

The New York Bankers Association is comprised of approximately 150 community, regional, and money center banks operating within the State of New York. The majority of our members are also members of the Federal Home Loan Bank of New York.

The NPR, essentially, would change the requirements for Federal Home Loan Bank System membership in two significant ways. The proposal would subject member banks to on-going asset tests for the first time in the history of the System. It would also ban captive insurance companies from membership. On behalf of the members of NYBA, which depend on the System as a reliable source of liquidity to help serve the needs of their communities, we urge you to withdraw the NPR. In this way, revisions to the proposal may be made that more appropriately address the issues the FHFA is attempting to resolve.

Compliance with an asset test on a rolling basis in order to maintain membership in the System will create a harmful level of uncertainty for the bank, as well as a new and costly compliance burden. The rigidity of the proposed rule would not allow a bank to maintain its membership in times of financial stress, when asset values can fall quickly. Under the proposed rules, such circumstances would imperil the bank's membership and its ability to borrow. The inability to borrow could ultimately erode the bank's safety and soundness standing with their regulator. The existing rule, under which a bank may not borrow from the System unless it has eligible collateral to pledge, works well. If a bank does not pledge the appropriate collateral, it may not borrow. This simple and efficient rule has ensured, since 1989, that System members are fulfilling their mission of housing finance and community lending. Adding uncertainty regarding future liquidity would surely cause members to consider pulling back from projects and investments, thereby harming the communities they are seeking to serve.

The NPR also contemplates the prohibition of captive insurance companies from membership in the System in order to keep certain entities from establishing captives for the sole purpose of accessing liquidity. This action is not necessary to achieve the FHFA's goal of preventing such use of the System. Rather, the individual Federal Home Loan Banks could be empowered to monitor such members' use of the System and to establish their own appropriate limits and collateral requirements.

This proposal comes at a time when the nation is growing confident of a strong economic recovery. Introducing uncertainty into the area of community lending could be damaging to our progress. Piling new compliance burdens and liquidity concerns onto community banks, who are working to fulfill the laudable mission of the Federal Home Loan Banks, would be counterproductive to the goals of the FHFA, the FHLB System, the banking industry and communities across the country.

We hope the FHFA will move to withdraw this proposal in favor of a new rule that addresses System access concerns in a more targeted and less harmful manner.

Sincerely,

Michael P. Smith