WISCONSIN BANKERS ASSOCIATION

January 12, 2015

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

Re: RIN 2590-AA39; Members of Federal Home Loan Banks

Dear Mr. Pollard,

The Wisconsin Bankers Association (WBA) is the largest financial trade association in Wisconsin, representing approximately 275 state and nationally chartered banks, savings and loan associations, and savings banks located in communities throughout the state. WBA appreciates the opportunity to comment on the Federal Housing Finance Agency's (FHFA's) proposed rule regarding revisions to Federal Home Loan Bank (FHLB) membership requirements. For the reasons described below, WBA respectfully requests the withdrawal of this proposed rule.

WBA respectfully reminds FHFA that the FHLB system was chartered by Congress in 1932 to provide liquidity for housing finance to savings associations and insurance companies. In 1989, FHLB membership was expanded by Congress to include federally insured depository institutions. In 1999 and in 2008, Congress expanded the categories of collateral eligible to be pledged by members for FHLB liquidity. Also in 2008, Congress formally recognized the FHLBs' role in providing liquidity to their members without limiting the purpose to housing finance. As such, Congress has steadily expanded membership in FHLBs over time, and membership has never been contracted. These Congressional actions make clear that the mission of the FHLB system has been expanded beyond housing finance. WBA believes the proposed rule is contrary to Congressional intent and the plain meaning of the Federal Home Loan Bank Act, as its provisions restrict and narrow FHLB membership.

The proposed rule would impose, for the first time, ongoing requirements which must be met by financial institutions in order to retain FHLB membership. The current test for FHLB membership applies only upon application for membership. A prospective member must demonstrate that it has long-term mortgage assets on its books at the time of application for membership, but an ongoing test has never been a part of FHLB membership requirements in the history of the FHLB system. The proposed rule would require financial institutions with greater than $1.108 billion in assets to hold at least ten percent of their total assets in residential mortgage loans at all times. An additional test, which would also apply to community financial institutions, would require maintenance of between one and five percent of assets in a separately defined group of long-term

home mortgage loans. Failure to meet either applicable test would result in the termination of an institution's FHLB membership.

Many Wisconsin financial institutions rely on the liquidity provided by the FHLBs, which enables an institution to offer an array of products that might not otherwise be offered, resulting in better service to the institution's community. FHLB products can also enable smaller financial institutions in Wisconsin to compete effectively with larger institutions, resulting in more options and better service for customers. The ability to rely on the liquidity provided by FHLBs, particularly in times of economic distress, would be undermined by an ongoing asset maintenance requirement. Financial institutions' future decisions regarding asset allocation would need to be made with the FHLB membership requirements in mind, impacting the institutions' ability to serve the needs of all of their customer bases. For example, an institution may over-invest in housing related assets at the expense of small business, commercial, and agricultural assets, in order to maintain FHLB membership.

In addition, the ongoing asset requirements could inhibit FHLB members' ability to grow. If a community financial institution's assets grow above the current threshold of $1.108 billion, whether organically or through a merger or acquisition, the institution would then need to comply with the proposed ongoing requirement to hold ten percent of its assets in residential mortgage loans. Asset growth is a sign of a healthy financial institution, contributing to the overall financial system. As such, WBA strongly believes asset growth should not be inhibited by FHLB membership requirements.

WBA believes the current regulations governing FHLB membership eligibility work well, and the proposed rule does not offer compelling rationale for this drastic shift in membership requirements. Under the current requirements, an FHLB member may only borrow from an FHLB if it has eligible collateral to pledge. If an FHLB member does not make sufficient mission-related loans or hold sufficient mission-related assets, it will not have eligible collateral to pledge and will not be allowed to borrow further. WBA believes this method is efficient in that it does not require ongoing tracking and allows flexibility in access to the FHLB system while ensuring that the mission of the system remains intact. The proposed rule would impose an ongoing tracking requirement that will add regulatory burden to the FHLBs, which will likely be passed on to FHLB member institutions. These costs will, in turn, be passed on to the customers of those member institutions, ultimately resulting in increased costs of credit. As there is no urgent need to restore the mission of the FHLB system, and FHLB members currently lend consistently in a mission-focused manner, there is no compelling reason to justify this heightened burden and increased cost of credit.

The proposed rule would prohibit captive insurance companies from becoming members of the FHLBs, and over time, the memberships of existing captive insurance company members would be terminated. While WBA shares FHFA's concern that some entities may be using captive insurance companies to obtain FHLB membership and gain access to liquidity that would otherwise be unavailable, WBA believes this concern

could be addressed in a manner more targeted than terminating the FHLB memberships of all captive insurance companies. This provision within the proposed rule is particularly concerning, as it creates an ability for FHFA to terminate memberships without any showing of cause. If FHFA may terminate the membership of captive insurance companies, it raises the legitimate concern that in the future FHFA may terminate the memberships of other types of current members, including financial institutions, as FHFA sees fit.

In addition to increasing the rapidly expanding regulatory burden imposed on financial institutions, the proposed rule would undermine the reliability of funding from FHLBs, inhibit growth of FHLB members, and limit access to the secondary market. While WBA agrees that some issues raised within the proposed rule must be addressed, particularly the use of captive insurance companies to access FHLB system advances, there are more targeted means to address those concerns. The costs of the proposed rule clearly outweigh the benefits, and for these reasons, WBA respectfully requests that FHFA withdraw the proposal and make revisions to better reflect the Congressionally defined mission of the FHLB system and the authority granted to FHFA to ensure the system and its members act in accordance with that mission.

Sincerely,

Rose Oswald Poels
President/CEO