



**International Bancshares
Corporation**

January 9, 2015

Via email Rulemaking Portal: www.regulations.gov

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

Re: RIN 2590-AA39; Notice of Proposed Rulemaking; Member of Federal Home Loan Banks

Dear Mr. Pollard:

The following comments are submitted on behalf of International Bancshares Corporation (“IBC”), a multi-bank financial holding company headquartered in Laredo, Texas. IBC holds four state nonmember banks serving Texas and Oklahoma. With over \$12 billion in total consolidated assets, IBC is the largest Hispanic-owned financial holding company in the continental United States. IBC is a publicly-traded holding company. We appreciate the opportunity to comment on this proposal.

Overview.

The Federal Housing Finance Agency (“FHFA”) is proposing to revise its regulations governing Federal Home Loan Banks (“FHLBs”) membership primarily to require each applicant and member institution to hold one percent of its assets in “home mortgage loans”¹ in order to satisfy the statutory requirement that an institution make long-term home mortgage loans; require each member to comply on an *ongoing basis*, rather than on a one-time basis as at present, with the foregoing requirement, and, depository institutions that are not Community Financial Institutions (“CFIs”) – defined by FHFA as depository institutions at or below \$1.108 billion in assets, would be required to have at least 10 percent of its assets in “residential mortgage loans” (the “Proposal”).¹

Under the Proposal, members found to be out of compliance (based on a rolling three-year average) would be given one year to return to compliance. If the member remains out of compliance for two consecutive years, their membership would be terminated and they would be cut off from all FHLB liquidity and services.²

¹ The Proposal suggests that FHFA is considering raising this requirement to as high as five percent in the future.

² Additionally, under the Proposal, captive insurance companies (and real estate investment trusts) would be deemed ineligible for membership in the FHLB System and would be forced out of the system within five years.

Comments:

This letter discusses our particular concerns with the FHFA's Proposal.

A. Proposal Inconsistent with Statute and Congressional Intent

Congress created the FHLB System in 1932 to provide liquidity for housing finance for savings associations' predecessors and insurance companies. The FHLB System has subsequently been expanded beyond mortgage finance. For example, in 1989, membership was expanded by Congress to all federally insured depository institutions, including commercial banks and credit unions and later such privileges were granted to community development financial institutions ("CDFIs"). In 1999 and in 2008 Congress expanded the categories of collateral eligible to be pledged by members for FHLB liquidity and in 2008, Congress formally recognized the FHLB's role in providing liquidity to their members without limiting that purpose to housing finance. As recently as four years ago, Congress adjusted the FHLB membership rules and did not choose to narrow eligibility for participation in the FHLB System.

Unfortunately, the Proposal will have the effect of substantially limiting the mission of the FHLBs in providing reliable liquidity to their members. By focusing membership requirements solely on residential mortgage loans and home mortgage loans, the rule ignores the many other categories of mission related assets a member may hold on its books. The collateral-based approach has served the FHLB System well for many years and provides a common sense approach to achieving the FHFA's goals to support housing finance. The Proposal is likely to have a profound adverse impact on the existing and prospective members on the communities served by the FHLB System. In this still economically difficult environment, FHFA should be seeking to expand rather than restrict FHLB membership eligibility consistent with its statutory mandate and Congressional intent.

B. Proposal will be Harmful to Members and their Communities

The Proposal will make access to FHLB liquidity uncertain and will harm members and the communities they serve. The FHLB system is a critical source of stable, low-cost funding for members used for home mortgage lending, loans for land purchases, and affordable housing. As a result of an ongoing eligibility test, some banks with a long history of using the FHLB System may be cut-off from a vital source of funding, resulting in reduced access to credit in some markets.

Additionally, member banks will face reduced flexibility in balance sheet management as they strive to ensure they hold the required mortgage assets on their books, even if other financial regulators express concern over holding greater amounts of mortgage assets on balance sheets. The regulation will create another compliance task for members who will be forced to maintain a close watch over their balance sheets to ensure they meet an arbitrary requirement on an ongoing basis. The Proposal will put existing FHLB membership for some members at risk. Recent new mortgage rules adopted under the Dodd-Frank Act have made mortgage lending compliance much more difficult and expensive for many banks and the Proposal's newly proposed mortgage lending thresholds required by FHFA could disqualify many of these banks.

Loss of FHLB membership will limit access to the low-cost sources of funding provided by the FHLB System, restricting credit at a time when our nation's housing recovery remains fragile.

Uncertainty over continued membership eligibility also harms the entire FHLB System. As members fall out of eligibility, their stock in the FHLB must be redeemed, destabilizing the capital of the individual banks, and because the FHLB System is a joint and several one, of the entire FHLB System. Taken as a whole, with members falling in and out of membership and in and out of their stock contribution, the entire FHLB System will likely be viewed by the federal bank regulators and the capital markets as less stable and reliable.

Furthermore, with less certainty over future availability of liquidity, banks may withdraw from financing certain projects and investments, harming the communities they attempt to serve. A community that might benefit from a bank's growth or merger could suffer if that growth was stifled due to concerns over continued membership eligibility.

C. Unnecessary Proposal

The current method employed by the FHLB System to ensure that members engage in mission related lending is far superior to the tests proposed under the Proposal. Under the current method, a member may only borrow from a FHLB if it has eligible collateral to pledge. If a member does not make sufficient mission-related loans, or hold sufficient mission related assets, it will not have collateral to pledge and will not be allowed to borrow further. This method is efficient as it requires no on-going tracking and allows member institutions maximum flexibility while still ensuring that the FHLB System and its members remain focused on the broader mission of the FHLB System.

The proposed on-going asset tracking, however, will add regulatory burden for banks, the costs of which will undoubtedly be passed along to the members who borrow from the FHLB System, and ultimately to the customers of those member banks. The end result will be higher costs for credit. This could perhaps be justified if there was an urgent need to ensure or restore mission focused lending by the FHLBs and their members, but as the FHFA has admitted, there is no showing of such a need, as the FHLB System and its members consistently lend in a mission focused manner. Furthermore, based on the still fragile state of the American housing economy recovery, now is not the time to impose further, and unnecessary, hurdles and higher costs on mortgage and housing related lending.

Based on the foregoing, we urge the FHFA to withdraw the Proposal and revise this proposal so that it better reflects both the congressionally defined mission of the FHLB System and the authority granted to the FHFA to ensure that the FHLB System and its members meet that mission.

D. Request for Clarification Regarding Mortgage-Backed Securities

If the FHFA does not withdraw the Proposal and finalizes it in its current or similar form, we urge FHFA to provide clarification regarding the permissibility of utilizing mortgage backed securities ("MBS") to meet both the 1% "home mortgage loans" and the 10% "residential mortgage loans" tests.

As discussed below, our understanding of the Proposal is that MBS are included in both the definitions of “home mortgage loans” subject to the 1% test and “residential mortgage loans” subject to the 10% test relating to FHLB membership eligibility. However, this is such a critical question for many depository banks that we believe FHLB must clarify in any final rule the permissibility of utilizing MBS to meet the “home mortgages loans” subject to the 1% test and “residential mortgage loans” subject to the 10% test relating to FHLB membership eligibility. The benefits of MBS include that most MBS are issued by government sponsored entities guaranteed by these entities, which are themselves backed by the Federal government. MBS investors can diversify a fixed-income portfolio with high-quality MBS.

Home Mortgage Loans

The Preamble to the Proposal expressly provides that MBS are included in the proposed definition of “home mortgage loan” subject to 1% test. And, section (2) of the proposed “home mortgage loans” definition includes, “A right to receive a portion of the cash flows from a pool of long-term loans, provided that, at the time of issuance of the security, all of the loans meet the requirements of paragraph (1) of this definition³ or (ii) an interest in other securities, all of which meet the requirements of paragraph (2) of this definition.” However, the Proposal’s Preamble relating to the definition of “home mortgage loan” provides that, “The revised definition is not intended to include a bond or other debt security that is a general obligation of the issuer, even if it is collateralized by qualifying mortgage loans.”

Residential Mortgage Loans

Section (1) of the proposed “residential mortgage loan” definition related to the 10% test, includes “A home mortgage loan,” which as previously noted, expressly includes MBS. Also Section (5) of the proposed “residential mortgage loan” includes, “A security representing: (i) A right to receive a portion of the cash flows from a pool of loans, provided that, at the time of issuance of the security, all of the loans meet the requirements of one of paragraphs (1) through (4) of this definition;⁴ or (ii) An interest in other securities, all of which meet the requirement of paragraph (5)(i) of this definition.”

³ Paragraph (1) provides that a “home mortgage loan” means, “(1) A loan, whether or not fully amortizing, or an interest in such a loan, which is secured by a mortgage, deed of trust, or other security agreement that creates a first lien on one of the following interests in property: (i) One-to-four family property or multifamily property, in fee simple; (ii) A leasehold on one-to-four family property or multifamily property under a lease of not less than 99 years that is renewable, or under a lease having a period of not less than 50 years to run from the date the mortgage was executed; or (iii) Combination business or farm property where at least 50 percent of the total appraised value of the combined property is attributable to the residential portion of the property, or in the case of any community financial institution, combination business or farm property, on which is located a permanent structure actually used as a residence (other than for temporary or seasonal housing), where the residence constitutes an integral part of the property; or ...”

⁴ Paragraphs (1) through (4) provide that a “residential mortgage loan” means, “(1) A home mortgage loan; (2) A funded residential construction loan; (3) A loan secured by manufactured housing whether or not defined by state law as secured by an interest in real property; (4) A loan secured by a junior lien on one-to-four family property or multifamily property; ...”

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Again, we respectfully request that the FHLB clarify in any final rule the permissibility of utilizing MBS to meet the "home mortgages loans" subject to the 1% test and "residential mortgage loans" subject to the 10% test relating to FHLB membership eligibility.

Thank you for your consideration.

Respectfully,



Dennis E. Nixon
President