

January 12, 2015

Mr. Alfred M. Pollard
General Counsel
Attention: Comments/RIN 2590-AA39
Federal Housing Finance Agency
1700 G Street, NW, Fourth Floor
Washington, DC 20552

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

Dear Mr. Pollard:

On behalf of our more than 170 commercial, co-operative and savings banks and federal savings banks and savings associations located throughout Massachusetts and New England, the Massachusetts Bankers Association (MBA) appreciates the opportunity to provide comments on the Federal Housing Finance Agency's (FHFA) proposed rule regarding Federal Home Loan Bank (FHLBank) membership requirements. MBA has serious concerns with the proposed rule which we will detail below.

Overview

The FHFA's proposed rule significantly increases FHLBank membership requirements for existing and prospective members, makes certain members ineligible for membership and discourages potential members from joining the system. This would reduce the availability and the reliability of liquidity on which our member institutions depend. In addition, these stricter requirements will call into question the ability of our member banks to borrow from the FHLBank of Boston under any future economic scenarios, inhibiting the FHLBank's ability to serve the liquidity and housing and community development needs of the local communities throughout Massachusetts and New England.

When Congress created the FHLBank system in 1932, the goal was to provide liquidity for housing finance to savings associations and insurance companies. Over the subsequent years, Congress expanded FHLBank membership to include all federally-insured depository institutions; the categories of collateral eligible to be pledged by members for liquidity; and formally recognized the FHLBanks' role in providing liquidity to their members without limiting the purpose to housing finance. Over the last 80 years, Congress has steadily expanded eligibility for membership in the system and has not placed any new restrictions on new members. MBA believes the proposed rule is contrary to Congressional intent and the Federal Home Loan Bank Act.

During the recent financial crisis, when the capital markets were unable to provide liquidity to many of our members, the FHLBank of Boston was a critical source of funding and liquidity that ensured that local banks in Massachusetts were able to continue lending and meeting the needs of their communities even during the most difficult days of the recession. Changes to the membership rules, that were put in place by Congress, could have inhibited our members' and our state's ability to weather the financial crisis.

Specific Concerns

MBA is concerned that the proposed rule seeks to address a problem that does not exist, namely the potential for credit losses or safety and soundness issues associated with particular types of FHLBank members. Here in New England, the FHLBank of Boston serves more than 440 member institutions – from larger regional institutions to small community banks. These institutions have borrowed more than \$30 billion in advances and own more than \$3 billion in capital stock. We are not aware of any credit loss or any safety and soundness issues that the Federal Home Loan Banks have experienced associated with doing business with FHLBank members.

The proposed rule imposes ongoing requirements which must be met by financial institutions in order to retain FHLBank membership. This is a significant expansion of the current test, which applies only upon initial application for membership. Under the proposal, financial institutions with greater than \$1.108 billion in assets would be required to hold at least ten percent of their total assets in residential mortgage loans at all times. In addition, all institutions, including those with less than \$1 billion in assets, would be required to maintain 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.

As we stated above, the Federal Home Loan Bank Act includes requirements to become a member of the FHLBank system. Congress has not sought to require continuous testing of such requirements or a percentage of assets to demonstrate a commitment to housing finance. MBA strongly believes that Congress has sole authority to establish the membership rules for the system, not the Federal Housing Finance Agency.

These new requirements would impose new regulatory burdens on our member banks as well as the FHLBanks. Institutions would be forced to manage their balance sheets to make certain they have ample assets to meet the proposed membership requirements to ensure access to FHLBank funding while the FHLBank of Boston would be required to serve as an additional layer of oversight on the industry.

MBA believes that if the Proposed Rule is adopted, the FHLBanks would be viewed by existing and potential members as a far less reliable funding partner and the amount of private capital flowing from the global markets through the FHLBanks and their members to the mortgage market and local communities would shrink. As an example, the Affordable Housing Program, the largest single, private source of funding for low- and moderate-income housing in the country, is funded by 10 percent of each FHLBank's net profits annually. FHLBank of 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 the housing stock throughout Massachusetts – a critical need in our state. However, the adverse impact the Proposed Rule would have on FHLBank of Boston's ability to grow and even maintain existing levels of advances, would directly lead to reduced funding of its programs targeted to affordable housing.

MBA believes the current regulations governing membership eligibility are working well and there is no compelling rationale for a drastic shift in membership requirements. Under the current rules, an FHLBank member may only borrow if it has eligible collateral to pledge. If a member institution 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. This 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.

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The proposed rule also prohibits captive insurance companies from becoming members of the FHLBank system and would terminate the memberships of existing captive insurance companies over time. MBA believes that the 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 could be addressed in a more targeted manner. This provision 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.

As you know, Congress has been debating reform of the housing finance system for the last several years. Throughout these deliberations, there has been no consideration of restricting membership in the FHLBank system and discussions have generally focused on the possibility of expanding the role of the FHLBanks in a reformed housing finance system. MBA believes that any review of the role and mission of the FHLBanks should be undertaken through the legislative, not the regulatory process.

Conclusion

MBA strongly believes that the FHFA's proposed rule would create uncertainty for our membership and would have a negative impact on our state and our region. If adopted, the Proposed Rule would seriously alter, and even harm, the strong and stable relationship with the FHLBanks that our member banks have relied on for decades. For these reasons, we request that the Proposed Rule be withdrawn.

Thank you for the opportunity to provide our comments on the proposal. If you have any questions or need additional information, please contact me at (617) 523-7595 or via email at jskar@massbankers.org

Sincerely,



Jon K. Skarin
Senior Vice President
Legislative & Regulatory Policy