January 12, 2015

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

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

Dear Mr. Pollard:

The undersigned regional banks, ranging from approximately $119 billion to $300 billion in total assets, are members of the Federal Home Loan Banks (FHLBanks). We write today submitting written comment in response to your request for comments on the Federal Housing Finance Agency's (FHFA) notice of proposed rulemaking (NPR), Members of Federal Home Loan Banks (RIN 2590-AA39). We appreciate the opportunity to provide comments on the NPR.

The NPR proposes revisions to FHLBanks membership rules that have been in place for decades and could unnecessarily impact the availability of credit for affordable housing and community development. The present membership rules have worked well without presenting safety and soundness concerns for the FHLBanks or their members. In addition, the long-standing requirement that FHLBank advances be supported by mission-consistent collateral ensures that members maintain their connection to the FHLBanks' mission.

The NPR proposes new requirements for FHLBank membership seeking to "establish a quantitative standard for determining compliance with the [statutory] 'makes long-term home mortgage loans' requirement." In measuring this compliance, the NPR would require members to have "at least one percent of its total assets in home mortgage loans" on an ongoing basis in order to maintain membership. Further, the NPR would require insured depository members with greater than $1.1 billion in assets to "maintain ten percent of its assets in residential mortgage loans on an ongoing basis" to remain eligible as a member bank. Finally, the NPR would make changes to which types of insurance companies are eligible for membership. While our comments are limited to the quantitative standards for bank membership, the proposed changes to the insurance company eligibility raise similar concerns with regard to stability and access to credit in the affordable housing market.

The proposed rule does not take into account the burdens and costs the new quantitative thresholds would impose on FHLBank members. If this proposal were to be adopted as a final rule, it would have consequences for our banks. By requiring mortgage asset tests on an on-going basis as a condition of continued membership, the proposal would have the effect of introducing uncertainty in the ability to rely on the Federal Home Loan Banks as a source of liquidity and other services.

This uncertainty is amplified by the fact that the proposal introduces the precedent of future regulatory changes that seek to increase the percentage of total assets required to be held in order to meet the makes long term home mortgages test. Although there may be ample sources of liquidity for banks under present circumstances, in different times the availability and price of this liquidity can deteriorate rapidly. Our banks rely on their FHLBank to be there as a reliable source of liquidity under all conditions, as was demonstrated in the recent financial crisis.

In addition, the on-going mortgage asset test requirements will have an artificial effect on balance sheet management practices for our banks, imposing new burdens and decreasing the flexibility of banks to manage their balance sheets in response to changing market conditions. The proposal would impose new on-going minimum requirements for mortgage assets to be held in portfolio, regardless of whether market conditions warrant such treatment as being cost-effective. While the proposed rule does allow for the qualification of mortgage backed securities as part of the ten percent requirement, the NPR would, for the first time, subject banks to a requirement to continually hold a specified percentage (that the proposal indicates could range from one percent to as high as five percent) of total assets in specified long term home mortgage assets, regardless of the economic and business implications of doing so.

Failure to remain in compliance with this requirement (measured annually as a rolling three year average) for two consecutive years would result in termination of FHLBank membership. Unlike community financial institutions (CFIs) that are exempt from the requirement to hold ten percent of total assets in residential mortgage loans, regional banks would always be subject to this requirement, and would have to meet the requirement on a continuing basis or again, risk termination of their FHLBank membership. Termination of FHLBank membership for no sound reason would have negative effects not only on the members being terminated, depriving them of access to FHLBank products and services and a necessary source of liquidity, but also on the communities served by these institutions through their participation in the FHLBanks' affordable housing and economic development programs.

Additionally, the NPR does not provide for any transition period before these new requirements become effective. Instead, member banks must meet the new quantitative thresholds immediately. Further, the proposal provides that members that are determined to be out of compliance with these requirements based on the annual calculation would have to be in compliance as of the end of the next calendar year or have their FHLBank membership terminated. The one calendar year "cure" period to address non-compliance based on a rolling three year average is insufficient and should be extended by at least two additional years if these requirements are retained in a final rule.

For these aforementioned reasons, we respectfully request that the NPR be modified for further consideration regarding the uncertainty the proposed rule will cause on FHLBank members. Specifically, the proposal should remove the ongoing requirements of the quantitative standards (both the one percent and ten percent requirements), and revert back to the current asset thresholds requirements for membership. Further, the proposal should address the lack of transition period for current members, and should extend the "cure" period for non-compliance. Failing to address these points will cause uncertainty in the marketplace and could threaten access to credit and reduce funding available for housing and community development.

Sincerely,

Capital One Financial Corporation
Citizens Bank
Fifth Third Bancorp
Regions Financial Group