



January 9, 2015

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

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

Dear Mr. Pollard:

We appreciate the opportunity to comment on the Federal Housing Finance Agency's proposed rule RIN 2590-AA39 Members of the Federal Home Loan Banks. Citizens Building and Loan is a \$124 million community financial institution and FHLBank Atlanta member. We have been serving the banking needs of our urban and rural community since 1907. While we appreciate your desire to ensure the FHLBanks remain focused on the housing portion of their mission, we believe the proposed rule directly conflicts with permissible uses of FHLBank advances as defined by Congress and undermines the valuable role the FHLBanks serve in supporting community financial institutions.

Over the past 25 years, Congress has broadened access to FHLBank funding and liquidity by expanding both membership eligibility and the ways in which member institutions can use advances. Since 1999, community financial institutions (CFIs) have been able to use long-term FHLBank advances for residential housing finance, small business loans, and small farm and small agribusiness purposes. While we recognize the importance of a healthy housing finance system and the FHLBanks' statutory obligation to support housing finance, we assert that a commitment to housing finance is but one part of the modern mission given to the FHLBanks by Congress. We believe the proposed rule amends current law rather than establishing safety and soundness regulations to support the statute and FHLBank mission. We also believe that any changes to the statutorily established uses of FHLBank advances, in particular changes that would narrow the FHLBanks' mission as the proposed rule appears to do, should come from Congress first.



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We are concerned that the proposed rule would significantly increase FHLBank membership requirements for existing and prospective members and reduce the availability and reliability of liquidity on which we depend. Ongoing compliance with membership requirements of the proposed rule would impose additional regulatory burdens on FHLBank members and add uncertainty to FHLBank membership. Bank regulators could begin questioning the reliability of FHLBank funding to financial institutions.

FHLBank members are currently subject to ongoing requirements that demonstrate commitment to housing finance. When a member borrows an advance, it must provide eligible collateral to secure the advance. Nearly all eligible types of collateral, which are determined by Congress, are related to housing. In addition, current members must certify their active support of housing for first-time homebuyers to the FHFA every two years through the Community Support Statement. The proposed 10 percent residential mortgage loans test, while not applying to CFIs, is still potentially problematic for CFIs. This test requires all depository institution members with assets of more than \$1.1 billion to comply with the requirement that at least 10 percent of total assets be in “residential mortgage loans” on an ongoing basis. Members found to be out of compliance would be given one year to return to compliance. If the member remains out of compliance for two consecutive years, membership would be terminated, the capital stock bases of the FHLBanks would become more volatile and less stable as stock is redeemed or repurchased. This could impact the capital adequacy of the FHLBanks, as well as the stability of the FHLBank System and its effectiveness in meeting national liquidity in housing finance and affordable housing objectives.

The proposed test could force somewhat larger CFIs, those with assets ranging from \$500 million to close to the \$1.1 billion cap, to make arbitrary and potentially disadvantageous decisions in an effort to manage their business and growth while remaining within the parameters of the rule. As a result, the proposed rule could create unintended consequences that would be directly counter to the intent both of Congress and even the proposed rule itself. Some CFIs could begin to pull back on the ways they serve their customers and communities if faced with the possibility of being terminated as FHLBank members as they grow in asset size. Termination would mean being cut off from FHLBank sources of liquidity, letters of credit, mortgage purchase programs, affordable housing programs, and community investment products – some of the very activities the proposed rule is designed to enhance.

Another concern of the proposed rule is the effect on the Affordable Housing Program (AHP), the largest single, private source of funding for low- to moderate-income housing in the country. Each FHLBank sets aside 10 percent of net earnings annually into the AHP. From 1990, when AHP funds were first awarded, to 2013, the FHLBanks have awarded nearly \$4.5 billion in AHP funds to build or preserve affordable housing for more than 724,000 households. The adverse impact the proposed rule would have on the FHLBanks’ ability to grow or even maintain advance levels would directly lead to reduced funding for affordable housing initiatives.

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As a community financial institution, Citizens Building and Loan is enormously proud of the work we do to build a stronger community through providing access to credit for a broad range of our local customers' needs. That is exactly what our membership in our FHLBank Atlanta enables us to do.

Under the current membership structure established by Congress, the Federal Home Loan Banks have proven to be a safe and sound business model that reliably supplies liquidity, through all market cycles, to a broad range of cooperative members for a variety of uses. The proposed rule would fundamentally change a vital part of the U.S. housing finance system that has and continues to perform well. It will restrict CFI's ability to serve their customers, result in the termination of FHLBank membership for some members in good standing, and ultimately reduce housing and economic development credit available to families, small businesses, and communities.

For these reasons, we request that the proposed rule be withdrawn and that the FHFA instead engage in a series of public hearings, workshops, and roundtables to solicit a variety of viewpoints from diverse stakeholders that may be impacted by this wide-ranging proposal. Thank you for the opportunity to submit a comment.

Sincerely,

A handwritten signature in cursive script that reads "Jennifer T. Jones". The signature is written in black ink and is positioned above the typed name and title.

Jennifer T. Jones
Senior Vice President