



J. Thomas Johnson
President and CEO

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:

I appreciate the opportunity to comment on the Federal Housing Finance Agency's proposed rule RIN 2590-AA39 Members of the Federal Home Loan Banks. As a President & CEO of a community financial institution and an elected industry member of FHLBank of Atlanta's board of directors representing 76 South Carolina financial institutions, I am in a unique position to understand the FHLBanks from both the inside and the outside. I know the value of the FHLBanks as a member institution and as a member of the board of directors I understand the seriousness with which the FHLBanks ensure their safe and sound operation. An integral part of those operations is understanding the different nature of the various types of financial institutions that may be members of a FHLBank and establishing prudent and effective underwriting and monitoring systems. In both of my roles I also appreciate your desire to ensure the FHLBanks remain focused on the housing portion of their mission. However, I believe the proposed rule will actually inhibit the FHLBanks' ability to execute their mission and ultimately will reduce liquidity, tighten credit, and restrict the flow of funds for housing and economic development.

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. Even during the nation's recent financial crisis, when disruptions to the capital markets made funding from other sources unavailable, the FHLBanks were a critical source of liquidity for us and other U.S. financial institutions. Our FHLBank has reliably supported the Southeast region for more than 80 years and I am not aware of any credit loss or safety and soundness issues the FHLBanks have experienced associated with doing business with FHLBank members.



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I am 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. The proposed rule would make it more difficult for community financial institutions of all sizes to deliver important credit to their communities, would terminate membership of certain insurance companies, some of whom have been FHLBank members for more than 20 years, and would discourage potential members from joining.

FHLBank members serve the housing needs of their communities in a variety of ways. Some hold assets on their balance sheets that reflect a role in the residential housing market; others originate home mortgages and sell them into the secondary market; others may have a greater focus on community and economic development lending; and some may play a key role in small business lending. All of these activities help create the economic foundation for housing opportunity. These various roles that FHLBank members play in local economies strengthen the FHLBank system and should be embraced.

Over the past 25 years, Congress has broadened access to FHLBank funding and liquidity by expanding membership eligibility and expanding the types of eligible collateral for community financial institutions (CFIs). While Congress has stipulated that most members must meet certain asset-related eligibility requirements to join an FHLBank, Congress has never sought to require continuous testing of such requirements or a percentage of assets to demonstrate a commitment to housing finance. I believe the proposed rule amends current law rather than establishing safety and soundness regulations to support the statute and FHLBank mission. I also believe that any changes to the statutorily established FHLBank membership, including changes that would narrow the FHLBanks' mission or narrow, or eliminate, a currently eligible class of members as the proposed rule appears to do, should come from Congress first.

Ongoing compliance with membership requirements of the proposed rule would impose additional regulatory burdens on FHLBank members and add uncertainty to FHLBank membership. To remain a strong financial institution that is able to serve their customers, FHLBank members must continually adapt and adjust their businesses and asset-liability strategies. The proposed rule would severely limit their flexibility to manage their balance sheets in response to changing market conditions. As a community bank our goal is to serve our customers and communities, and unnecessary compliance costs make this more difficult. Instead of operating in a way that is responsive to our customers and community, we could find ourselves managing to regulations in a way that could weaken our financial condition. Furthermore, 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 rule appears to further amend established law by redefining insurance companies for the purpose of FHLBank membership eligibility, eliminating captive insurance companies from membership and terminating the membership of current FHLBank members. Insurance companies have been eligible FHLBank members since the establishment of the FHLBank system in 1932. Congress has specifically addressed FHLBank membership, three times within the last twenty years the period in which captive insurance companies became FHLBank members. In each instance, following Congress's review, it expanded membership. The FHLBank Act eligibility requirements ensure that FHLBank members, including insurance companies, support the FHLBank mission and the safety and soundness of the mortgage market. Captive insurance companies, like other insurance companies, are subject to these rules and oversight, as well as strong state regulation and supervision. Insurance company members, including captive insurance companies, have participated in the Affordable Housing Program (AHP) contributing the furthering of the FHLBank's core mission. The proposed definition of insurance company and the termination of current members who have posed no threat to the safety and soundness of the FHLBank system is the wrong way to ensure that FHLBank members contribute to the FHLBanks' mission or participate in the FHLBanks' program in a safe and sound manner.

The proposed rule would also shrink the amount of private capital flowing from the global markets through the FHLBanks and their members to the U.S. mortgage market and the communities they serve. Of particular concern 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.

Membership in FHLBank Atlanta and the reliable access to liquidity it provides has been very important to my institution and the institutions I represent as a member of the board of directors. Furthermore, FHLBank Atlanta's reliable funding to all of its members in the district has had a positive effect on the recovery of local housing markets and economies. The proposed rule would result in a fundamental change to an FHLBank system that has and continues to work well. It will constrain the FHLBanks' ability to serve their members and the communities these members serve, terminate memberships or increase the costs on current members in good standing, and ultimately reduce the funding and value of the Affordable Housing Program.

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.

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Sincerely,

A handwritten signature in blue ink that reads "J. Thomas Johnson". The signature is written in a cursive style with a large, stylized initial "J".

J. Thomas Johnson
Director
Federal Home Loan Bank of Atlanta

President/CEO
Citizens Building and Loan