

United States Senate

WASHINGTON, DC 20510

December 15, 2014

The Honorable Melvin L. Watt
Director
Federal Housing Finance Agency
400 7th Street, SW
Washington, DC 20024

Dear Director Watt:

We write to express our concerns about the notice of proposed rulemaking regarding membership eligibility in Federal Home Loan Banks (RIN 2590-AA39) that was recently issued by the Federal Housing Finance Agency (FHFA). The proposed rule affects long-standing membership rules for the Federal Home Loan Bank (FHLBank) system and will negatively affect new and current members in the system. Since its creation over 80 years ago, FHLBanks have been a key partner in the success of smaller financial institutions, including community banks, thrifts, credit unions, and insurance companies.

As you have said in speeches, these financial institutions serve an “important role” in housing finance, and they are a “reliable funding source” for their members. The stability provided by the FHLBanks during the 2008 economic crisis demonstrates the value of the cooperative FHLBank model. In fact, you’ve said, “It is a source of historic pride that the FHLBanks have never experienced a credit loss on advances.” Given their success and importance, we are concerned the proposed rule could jeopardize the ability of FHLBanks to provide liquidity to community financial institutions when they need it most.

Under the current regulations, if a member does not have assets that meet the system’s statutory and regulatory requirements for eligible collateral, it cannot borrow. Under the proposed regulation, however, even if a member has assets that meet this test, a member could be expelled from membership if the member cannot meet the new – and unprecedented – mortgage asset tests for continued membership. The consequences are harsh and the terms of the proposed rule are inconsistent with the express terms of the FHLBank Act.

Furthermore, the FHFA’s approach to dealing with firms using specialized insurers may have unintended – and negative – consequences on the FHLBank system, which is currently operating safely and successfully. The Treasury Department has acknowledged the need for balance in FHFA’s approach and has not yet taken a position on these issues. We would encourage you to consult further with other agencies before finalizing any rule that affects these much needed financial institutions. Given the fragile housing market is still recovering, this is not the time for regulations that might harm the uniquely important role played by FHLBanks. After all, as Congress has worked on various proposals to reform the mortgage finance system, one of the few areas of almost

universal agreement was that FHLBanks should continue to serve as a secondary market outlet for smaller lenders.

In light of these concerns, we urge you to reconsider this proposal and consult with Congress, which is where these important policy decisions should be made.

Sincerely,



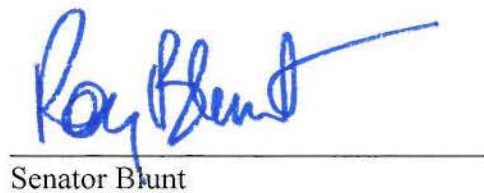
Senator Manchin



Senator Kirk



Senator Ayotte



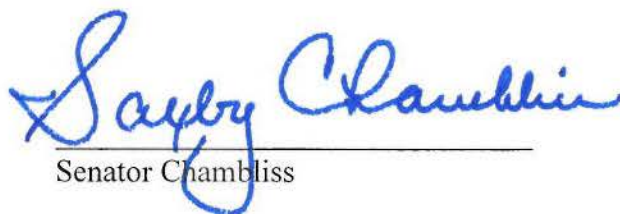
Senator Blunt



Senator Baldwin



Senator Cardin



Senator Chambliss



Senator Coburn



Senator Cochran




Senator Coats



Senator Donnelly



Senator Fischer



Senator Hirono



Senator Hoeven



Senator Inhofe



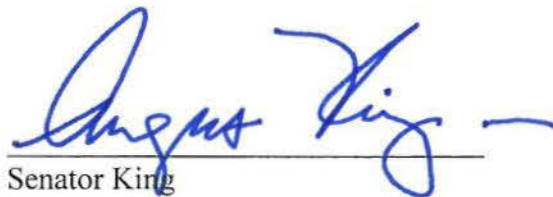
Senator Isakson




Senator Ron Johnson



Senator Johanns



Senator King



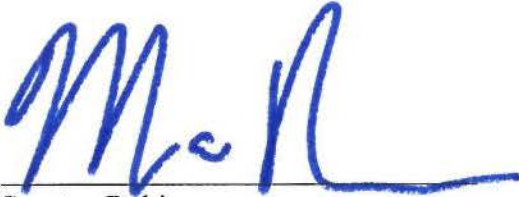
Senator Moran



Senator Portman



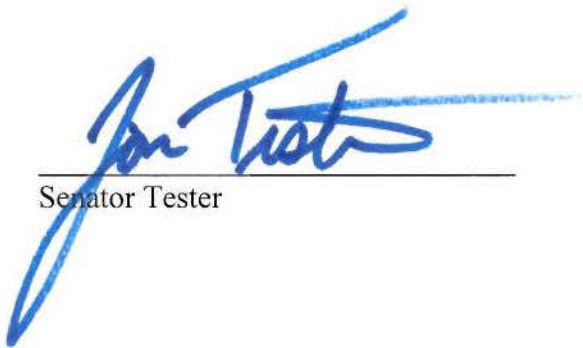
Senator Roberts



Senator Rubio



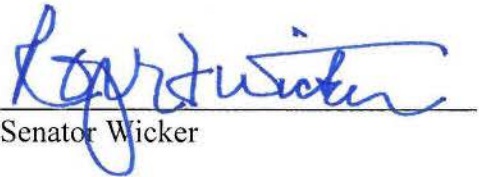
Senator Scott



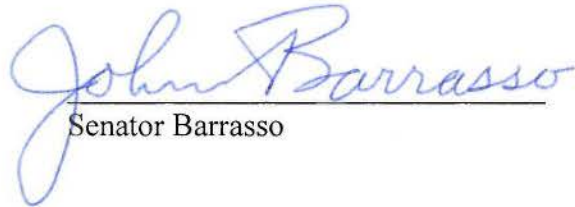
Senator Tester



Senator Thune



Senator Wicker



Senator Barrasso



Senator Enzi