July 25, 2016

Submitted Electronically
Alfred M. Pollard, Esq.
General Counsel
Attn: Comments/RIN 2590-AA42
Federal Housing Finance Agency
400 7th Street, SW
Washington, DC 20219

Re: Comments/RIN 2590-AA80 - Technical and Conforming Changes and Corrections to FHFA Regulations Notice of Proposed Rulemaking (NPR)

Dear Mr. Pollard:

The Federal Home Loan Banks ("FHLBanks") are submitting this comment letter on the above-referenced Notice of Proposed Rulemaking – Technical and Conforming Changes and Corrections to FHFA Regulations (the "NPR")[1]. The FHLBanks appreciate the opportunity to comment on the NPR.

I. Authority to Participate FHLBank Advances

In the NPR, the Federal Housing Finance Agency (the "FHFA") proposes to eliminate 12 CFR § 1266.25, which contains the regulatory authority for an FHLBank to become a creditor to members or housing associates of other FHLBanks by purchasing advances and/or participation interests in advances from other FHLBanks (collectively, "Out-of-District Advances"). In the preamble to the NPR, the FHFA explains § 1266.25 is unnecessary because "…it does not add meaningfully to the statutory authority…" granted to the FHLBanks under Section 10(d) of the Federal Home Loan Bank Act (the "Bank Act") (12 U.S.C. § 1430(d)).[2] The FHFA further states:

> [r]emoval of this provision would not prevent one Bank from selling an advance or participation to another Bank, based solely on the statutory authority, but FHFA would expect that before doing so a Bank would first obtain the concurrence of FHFA about how a non-member could capitalize those advances through some means other than by buying Bank stock.[3]

The FHLBanks are concerned that the removal of the regulatory language of § 1266.25 and the FHFA's stated expectation that the FHLBanks will require non-member capitalization of Out-of-District Advances will result in eliminating or at best significantly limiting the long-standing authority of the FHLBanks to purchase Out-of-District Advances. The FHLBanks used this authority between 1990 and 1999 as a way to manage the overall aggregate 30% cap on the amount of outstanding advances to non-Qualified Thrift Lender ("QTL") members across all of the FHLBanks. The purchasing FHLBanks were not required to capitalize these Out-of-District Advances separately. The FHFA's predecessor, the Federal Housing Finance Board (the "FHFB"), was fully informed regarding this practice and reviewed the inter-FHLBank participation agreement.

[1] 81 Fed. Reg. 33,424 (May 26, 2016).
[2] *Id*. at 33,430.
[3] *Id*.

The authority to purchase Out-of-District Advances has been used less frequently since the passage of the Gramm-Leach-Bliley Act, which eliminated the QTL provisions of the Bank Act, but it remains a valuable tool available for the FHLBanks to manage their balance sheets and to meet the liquidity needs of their members. For example, over the last few years at least two FHLBanks have sold participation interests in outstanding letters of credit to another FHLBank. These transactions were disclosed to the FHFA. The FHFA did not require the purchasing FHLBank to address the capitalization of its purchase of the participation interest. The purchasing FHLBank met its overall regulatory capital requirements before and after the purchase, which was the only applicable capital consideration. There was no discussion or consideration of the purchasing FHLBank somehow separately capitalizing its purchase of the participation interest. As financial institutions continue to consolidate and grow, the ability to buy and sell Out-of-District Advances provides the FHLBanks with another asset liability management tool to meet the needs of the FHLBank System's membership.

The FHLBanks are concerned that any requirement to separately capitalize a purchase of participation interests in Out-of-District Advances imposes a requirement on the FHLBanks that is: 1) outside the scope of the Bank Act and governing regulations and 2) practically unworkable. With respect to the first point, the FHLBanks are subject to overall capital requirements as a matter of regulation. Additionally, the terms of each FHLBank's capital plan govern the requirement for that FHLBank's members to purchase capital stock in support of their activity with the FHLBank. Notably, there is no requirement in the Bank Act or existing FHFA regulations for every advance or acquired member asset ("AMA") transaction with an FHLBank's own members to be subject to a stock purchase requirement. In fact, many FHLBank capital plans permit some advances to be made to a member without a corresponding stock purchase and/or permit AMA purchases from an FHLBank's members without an AMA stock purchase requirement. Given that there is no express regulatory requirement for every advance, AMA, or other credit transaction with an FHLBank's own members to be supported by activity stock, it would be incongruous and onerous to impose a non-member capitalization requirement on an FHLBank purchasing Out-of-District Advances.

Except for a reference to a "debtor/creditor" rather than a "creditor/debtor" relationship, the originally enacted 12 CFR § 950.25 was identical to § 1266.25.[4] When this regulation was first proposed, the FHFB's stated purpose was "…to make explicit the parallel treatment of advances and AMA transactions, in which [FHL]Banks may engage as an incidental aspect to their advances authority."[5] The FHFB did not mention capitalization of Out-of-District Advances by non-members or otherwise. Instead, this regulation should be read to require the purchasing FHLBank to conduct the due diligence needed to ensure that any purchased Out-of-District Advances meet the same credit and collateral standards as advances to the FHLBank's own members.

Although not an investment activity of the FHLBanks, Out-of-District Advances have been treated similarly, from a capitalization perspective, to purchases of investments by the FHLBanks. There is no regulatory or statutory requirement for any sort of capital/capital equivalent instrument by the non-member, nor is such capitalization currently possible. Instead, just as an FHLBank capitalizes its investments by complying with the FHFA's capital regulations, purchases of Out-of-District Advances would be capitalized in the same manner.

[4] 65 FR 43,981 (July 17, 2000) (codified at 12 CFR § 950.25; later redesignated as § 1266.25).
[5] 65 FR 25,680-25,681 (May 3, 2000).

A separate capitalization requirement would result in FHLBanks being unable to purchase Out-of-District Advances from other FHLBanks. The Bank Act established the FHLBanks' authority to purchase and sell Out-of-District Advances, and the ability to do so is valuable for balance sheet management purposes and to provide our members with reliable access to liquidity. Consequently, the FHFA should withdraw its proposed deletion of 12 CFR § 1266.25. Alternatively, if the FHFA believes there should be limitations or additional requirements on the FHLBanks' long-standing, statutory authority to purchase Out-of-District Advances, the FHFA should introduce such measures in a substantive rulemaking process separate from the non-substantive technical and conforming changes otherwise proposed in the NPR.

II. Other Items for Revision

1. Section 1201.1

   The term "President" should be defined as "the individual who serves as the highest ranking executive officer of an FHLBank."

2. In Section 1266.17(c)(2), the two references to § 1266.3(b) are erroneous, and should instead be references to § 1266.5(b).

3. Deletions to Appendix A to Part 1273:

   The FHLBanks suggest two deletions to this section as follows--

   1. The citation to Item 402(1) appears to be incorrect and should be deleted to read as follows:

      C. Compensation. The information on compensation required by Item 402 of Regulation S-K, 17 CFR 229.402, will be provided only for Bank presidents and the CEO of the OF.

   2. Since members are able to vote on mergers, the last sentence should be deleted to read as follows:

      D. Submission of matters to a vote of stockholders. No information will be presented on matters submitted to shareholders for a vote, as otherwise required by Item 4 of the SEC's form 10-K, 17 CFR 249.310.

The FHLBanks appreciate the opportunity to offer these comments.

Sincerely,

Federal Home Loan Bank of Atlanta

Reginald T. O'Shields
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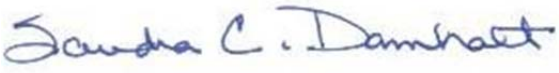

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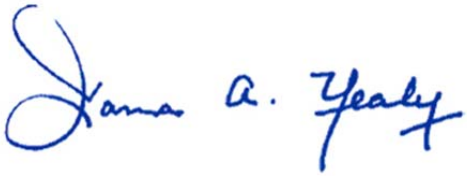

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