



VIA E-MAIL TO REGCOMMENTS@FHFA.GOV

February 3, 2012

Alfred M. Pollard, Esq.  
General Counsel  
Federal Housing Finance Agency  
Fourth Floor  
1700 G Street, N.W.  
Washington, DC 20552

**Re: Federal Home Loan Bank Community Support Amendments; RIN 2590—AA38**

Dear Mr. Pollard:

On behalf of the Community Bankers of Wisconsin I am submitting this letter in response to the request for comments on the November 10, 2011 Federal Housing Finance Agency (FHFA) proposal to amend the community support regulation to require the Federal Home Loan Banks (FHLBanks), as opposed to the FHFA, to monitor and assess the eligibility of each FHLBank member for access to long-term advances through compliance with the Community Reinvestment Act of 1977 (CRA) and first-time homebuyer standards (the Proposed Rule). We appreciate your consideration of our views on this important matter.

This proposed regulation would shift responsibility from the FHFA to the FHLBanks for determining if member institutions have complied with the FHFA's community support regulation. As a result, we are concerned that this regulation would inappropriately require the FHLBanks, a cooperative business, to once again become regulators of their members.

Under its current community support regulations, the FHFA biennially reviews the performance of each FHLBank member bank and thrift to evaluate their compliance with the community support standards and determine their eligibility for access to long-term FHLBank advances. As part of this review, members must submit a form stating their most recent CRA rating and must provide information about their record of lending to first-time homebuyers. Member institutions such as credit unions, insurance companies that are not subject to CRA requirements need only demonstrate compliance with the first-time homebuyer standard.

If members have a CRA rating of "Needs to Improve," they are placed on a probationary period and have two years until the next exam review to improve their rating. If it has not improved to "Satisfactory" or better by the next review, those members are restricted from accessing long-term advances, defined as those with a maturity of greater than one year, as well as the FHLBanks' affordable housing and community investment programs. Members with a CRA rating of "Substantial Non-compliance" and those which fail to submit the required data are not allowed a probationary period, but are immediately placed on restricted status until their rating improves or until the data is submitted. Once a member improves their rating or supplies the required forms, the member's access to long-term advances and other FHLB products is restored.

**We believe the FHFA, as the regulator of the FHLBanks, is best suited to implement its own regulation in this area and should not delegate this responsibility to the FHLBanks.** Determining whether or not a member is in compliance with a regulation is an inherently a regulatory function, and should continue residing at the FHFA. As member-owned cooperatives, it would be inappropriate for the FHLBanks to act as both lenders to their members while also determining whether their members have sufficiently satisfied the FHFA's community support regulation in order for them to continue having access to long-term advances.

**The proposal also threatens to re-create a conflict of interest which Congress eliminated long ago.** As the Savings and Loan Crisis was developing in the 1980s, the FHLBanks had been delegated supervisory responsibilities over their members by their then- regulator, the Federal Home Loan Bank Board (FHLBB). In the aftermath of the Crisis, Congress expressly reversed the delegation by abolishing the FHLBB, splitting the regulatory and lending functions at each FHLBank and creating the Office of Thrift Supervision in 1989. This was done at least partly in response to the perception that it was inappropriate for the FHLBanks to be both a lender and regulator. Congress' action should be respected and not undermined.

**We also oppose the proposal to eliminate the probationary period under the community support regulation.** It is sound policy to allow a period of time for member banks and thrifts with a single CRA rating of "Needs to Improve" to continue to have access to long-term advances and the community investment products offered by the FHLBanks while working to improve their rating. These products are important tools for helping such members to improve their CRA rating and should not be denied. Eliminating the probationary period also would undermine the reliability of long-term advances. A key reason for FHLBank membership is access to long-term funding from the FHLBanks on very short notice. Members need certainty that funding will be available when needed. Constructive engagement during the probationary period is a more effective way to improve a member's CRA performance without undermining the value of FHLBank membership.

In conclusion, the FHLBank should be allowed to continue focusing on serving the housing and community development needs of their member institutions. They have not sought supervisory authority over their members, and should not be required to perform that role. Doing so would threaten the vital relationship that each member has with its FHLBank. We therefore strongly recommend amending the Proposed Rule to keep responsibility for determining compliance with the FHFA's community support regulation at the FHFA and to retain the current probationary period.

Thank you for your consideration of our comments.

Sincerely,



Daryll J. Lund, CAE  
President & CEO