

**CBAO**  
**Community Bankers Association of Ohio**  
**CBAO Service Corporation**  
**CBAO Insurance Agency, Inc.**

---

*Increasing the Value of Independent Financial Institutions Since 1974*

VIA E-MAIL TO [REGCOMMENTS@FHFA.GOV](mailto:REGCOMMENTS@FHFA.GOV)

February 08, 2012

Alfred M. Pollard, Esquire  
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 222 community banks headquartered in Ohio, many of which, are members of the Federal Home Loan Bank of Cincinnati, we are submitting this letter in response to the request for comments issued by the Federal Housing Finance Agency on November 10, 2011, which proposed amending its community support regulation to requiring the Federal Home Loan Banks (FHLBanks) 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).

It is our understanding that under 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. 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 have serious concerns that the proposed rule would require the FHLBanks to act as regulators of their members. The rule proposes to delegate from the FHFA to the FHLBanks responsibility for determining their members' compliance with the FHFA's community support requirements, which effectively would require the FHLBanks to perform functions that are inherently regulatory in nature. The proposal notes that requiring the FHLBanks to "make decisions on any restrictions on access to long-term advances would be consistent with their general advances and underwriting responsibilities." However, we believe that determining whether or not a member is in compliance with a regulation is an inherently regulatory function. The FHFA is best suited to determine whether its own regulation is being complied with. It should not be shifted to the FHLBanks.

Additionally, such a proposal threatens to re-create a conflict of interest which Congress eliminated long ago. If the FHLBanks are required to determine whether their members have sufficiently satisfied the FHFA's community support regulation in order for them to continue making long-term advances to those members, a clear conflict of interest would be created. As member-owned cooperatives, it would be inappropriate for the FHLBanks to act as both lenders to their members and regulators of them. Congress addressed this conflict in the aftermath of the Savings and Loan Crisis by reversing the regulatory and lending functions at each FHLBank.

We also oppose the proposal to eliminate the probationary period under the community support regulation. The current practice should be maintained that allows 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. As the proposal notes, a policy that would deny access "could restrict a member's ability to use long-term advances to address the deficiencies that led to the 'Needs to Improve' rating." We strongly agree. These products are important tools for helping such members to improve their CRA rating and should not be denied.

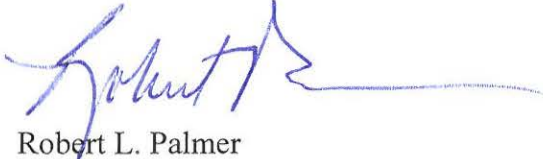
Eliminating the probationary period also would undermine the reliability of long-term advances. Members would have less certainty about the availability of long-term advances if they can be denied at any time for CRA deficiencies. It would increase the risk that when FHLBank liquidity and long-term funding are needed, they will not be available to support a member bank and its community. This would not further the FHLBanks' housing finance mission. At a minimum, this provision should be amended to allow such members to continue to have access to the FHLBanks' Affordable Housing Programs and Community Investment Cash Advance programs.

For the reasons described above, we recommend that FHFA amend the Proposed Rule to keep responsibility for determining compliance with the FHFA's community support regulation at the FHFA, thereby ensuring the FHLBanks are not required to act as regulators of their members.

We also urge the FHFA not to eliminate the probationary period for members with a single CRA rating of "Needs to Improve."

Thank you.

Sincerely,

A handwritten signature in blue ink, appearing to read "Robert L. Palmer", with a long horizontal flourish extending to the right.

Robert L. Palmer  
President and Chief Executive Officer