



April 22, 2020

VIA ELECTRONIC SUBMISSION ON WWW.FHFA.GOV

Mr. Andre D. Galeano, Deputy Director
Federal Housing Finance Agency
Division of Federal Home Loan Bank Regulation
400 7th Street, NW, 7th Floor
Washington, DC 20219

RE: Request for Input (February 2020)

Dear Deputy Director Galeano:

The Federal Housing Finance Agency (“FHFA”) has requested comments on its request for input (“RFI”) related to Federal Home Loan Bank (“FHLBank”) membership. The RFI states that it seeks to develop requirements to address questions regarding membership eligibility on a consistent basis, guided by twin objectives of:

- Ensuring that the FHLBank System (“System”) remains safe and sound and able to provide liquidity for housing finance through the housing and business cycle; and
- Ensuring that all members have an appropriate nexus to the housing finance and community development mission of the FHLBanks.

The System believes that any changes regarding membership should be driven by the following principles:

No regulatory action in response to the RFI should narrow the Congressionally-established mission of the FHLBanks, which is to generally provide liquidity in the form of advances to all members, secured by eligible collateral.¹

¹General liquidity of the U.S. financial system is a “primary driver” of FHLBank advances. FHFA Office of Inspector General (“OIG”), *Recent Trends in Federal Home Loan Bank Advances to JP Morgan Chase and Other Large Banks, EVL-2014-006, 18 (April, 16 2014)* [hereinafter FHFA-OIG Report]. Helping ensure member liquidity is a fundamental aspect of the FHLBanks’ core mission, highlighted by the FHFA’s own strategic plan. *FHFA Strategic Plan: Fiscal Years 2015-2019*. Advances – even those made for Basel III compliance – are “core housing mission assets” and are critical to the FHLBank System’s mission. The FHFA OIG Report has noted the FHFA’s approval of a member using advances purely for liquidity purposes, stating the “FHFA officials emphasized that FHLBank advances for the purpose of meeting recent liquidity requirements are legal and not inconsistent with the FHLBank System’s mission.” *FHFA-OIG Report at 18*. In its 2015-2019 Strategic Plan, the FHFA highlights

The FHLBanks are Congressionally chartered and privately-owned wholesale funders with a public purpose of supporting housing finance and community and economic development. The FHLBanks' utilization of private capital provides market discipline and reduces the risks to the taxpayers. The System plays a critical role as a low-cost, reliable liquidity provider to the financial services industry. Our daily prominence in the capital markets is a major part of the nation's financial infrastructure.

In 2008, Congress explicitly recognized the FHLBanks' mission of providing liquidity to members without limiting that purpose to housing finance, highlighting a dual mission of "providing liquidity to members" and supporting "affordable housing and community development."² The FHLBanks' ability to fulfill this statutory mandate to provide liquidity to their members was clearly demonstrated in the 2008-2009 financial crisis and again in the current coronavirus crisis.³

No regulatory action in response to the RFI should adversely impact the membership eligibility of, or full usage of FHLBank products and services, by existing, permanent members.⁴

The membership requirements set forth in the Bank Act are a one-time screen, rather than an ongoing requirement.⁵ As a result, the FHFA does not have the legal authority to make the eligibility requirements an ongoing test.⁶

The nature of the collateral pledged, comprised primarily of mortgages, MBS, and agency debt ensures FHLBank funding supports mission-consistent activities and removes the need for an ongoing mortgage asset test.

Institutions of all sizes should continue to be eligible for membership. The strength of the System derives from its cooperative structure that includes financial institutions of all sizes. The FHLBank franchise is driven by a consistent ability to issue large amounts of debt at favorable funding costs, which recognize that large asset members are an important part of the scope and scale of the FHLBank cooperative.

No regulatory concentration or other limits should be imposed on the FHLBanks' ability to provide liquidity in the form of advances to any of its members.⁷

that it "will work to ensure that the FHLBanks continue to fulfill their statutory mission of providing liquidity to their members." *FHFA Strategic Plan at 10.*

² The Housing and Economic Recovery Act of 2008 ("HERA"), Pub. L. 110-289 sec. 1201, 122 Stat.2654 (2008) codified at 12 U.S.C. sec 4513

³ To date, the FHLBanks have provided over \$190 billion in liquidity to their members during the coronavirus crisis.

⁴ This principle is not intended to apply to "five year" captive insurance companies that are currently slated to have their membership terminated in February 2021. Policymakers and regulators should work to assure that the FHLBanks have the ability to adapt to the changing needs of their members and the consumers, businesses, and communities they serve, while preserving the existing low-risk business model.

⁵ See U.S. Dept. of Treasury, Report to the Congress on the Impact of the Gramm-Leach-Bliley Act on Credit to Small Businesses and Farms (Jan. 2005) (describing the requirements to "become a member of an FHLBank" and noting that the requirements need not be "maintained") (emphasis added).

⁶ Any attempt to make membership eligibility requirements mandatory on an ongoing basis has no foundation in the Bank Act or its legislative history. The FHFA cannot insert an ongoing membership requirement into the Bank Act without in effect amending the statute. Making the membership requirements ongoing would greatly diminish the reliability of the FHLBanks as a general liquidity source, an ongoing requirement to maintain 10% of assets in mortgage-related assets would be particularly harmful to community financial institutions that are authorized to use advances to support small business lending, small farm loans, small agri-businesses and community development activities.

⁷ Each FHLBank, in its sole discretion, should be able to set limits under its credit policies.

Any change to the membership requirements should preserve and protect the FHLBanks' ability to provide low-cost funding and liquidity to its members through advances, AMA programs, letters of credit, the Affordable Housing Program, and other traditional member-centric products and services.

Congress, and not the FHFA, is responsible for deciding what type of entity is eligible to be admitted to FHLBank membership (subject to meeting the requirements for membership).

Any expansion of eligible membership should be authorized by Congress in the same manner that eligible membership was expanded in 1989, 2008, and 2015.⁸

The FHFA should not have the ability to unilaterally eliminate from membership a class of members in good standing without Congressional direction.

Any expansion of membership should be done with the safety and soundness of the System as the paramount principle.

Capital and stock purchase requirements should be the same for all members of the same FHLBank.

Collateral standards and decisions should remain in the discretion of the respective FHLBank.

The ability of existing, permanent members to satisfy collateral requirements through affiliate pledges, in which the FHLBank has a perfected security interest, should be preserved without limitation.⁹

Any changes to membership must ensure that the System remains safe and sound for existing members so existing members can continue to access the benefits through the cycle.

Any expansion of membership to a new class of members must not unreasonably dilute the market value of the existing members' investment in their FHLBank stock.

Any expansion of membership must not increase the risk profile of the System that could threaten the low-cost debt franchise for existing members.

The FHLBanks may have the potential to play an expanded role in a revised secondary market system, but any expanded role must be separately capitalized and regulated in such a manner that it does not put at risk the traditional advance business of the FHLBanks.

Classes of Entities not explicitly authorized by Congress for membership should not be allowed to become members through a conduit, regardless of the extent to which they are engaged in housing finance, unless Congress amends the Bank Act to authorize their membership.

Congress should have the primary responsibility in determining FHLBank membership, and there should not be any "back doors" for otherwise ineligible entities.

⁸ Congress has always taken an expansive view of FHLBank membership.

⁹ The term permanent members as used in this principle refers to insured-depositories, insurance companies, and other members, including CDFIs, that use FHLBank advances exclusively to fund their own operations. By contrast, if conduits are permitted to be used, then collateral should reside with the member and not the parent or an affiliate.

Any new entrants must be subject to a supervisory regime of prudential regulation at least equivalent to that applicable to all currently-eligible members (other than non-depository CDFIs).

Requiring all members to be subject to prudential regulation reduces credit risk within the System and supports the FHLBanks ability to access the global capital markets through all business cycles.

Prudential regulation, coupled with the requirement to share reports of examination with the FHLBanks, provides valuable insight into the operations of the members, which also reduces credit risk in the System.¹⁰

Any new entities considered for membership should have a clearly documented and demonstrated nexus to the housing and/or community development mission of the System at the time they join.

The collateral pledged to secure advances and other products should remain the sole ongoing nexus to the housing finance and community development mission of the FHLBanks.

The membership requirements “under the statute [are] a one-time screen, rather than an ongoing requirement.”¹¹

The FHLBanks should retain discretion in qualifying eligible applicants for membership.

Further FHFA guidance should be developed in areas of concern regarding the use of discretion and rebuttable presumptions.

Clear and consistent membership standards for non-depository CDFIs should be established by the FHFA.

¹⁰ Not all non-federally insured institutions are chartered in jurisdictions that exempt the FHLBanks from the receiver’s automatic stay and fraudulent conveyance powers, which raises another aspect of increased credit risk.

¹¹ See U.S. Dept. of Treasury, Report to the Congress on the Impact of the Gramm-Leach-Bliley Act on Credit to Small Businesses and Farms (Jan. 2005) (describing the requirements to “become a member of an FHLBank” and noting that the requirements need not be “maintained”) (emphasis added).

Mr. Andre D. Galeano
April 22, 2020
Page 5

Thank you for the opportunity to comment on the Federal Housing Finance Agency's request for input regarding membership.

Sincerely,



President and CEO
FHLBank Atlanta



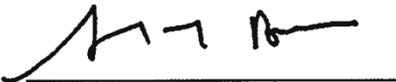
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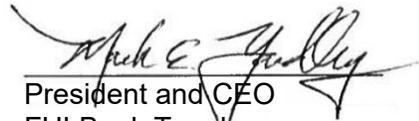
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