



Proposed Comment to the Federal Housing Finance Agency

RE: Changing Membership Requirements of Federal Home Loan Banks

Comments Due: January 12, 2015

Summary

On September 2, 2014, the Federal Housing Finance Agency proposed a rule that that would revise the requirements for financial institutions to apply for and retain membership in any of the Federal Home Loan Banks. The stated purpose of the new rule would revise FHFA's existing Bank membership regulation to ensure that members maintain a commitment to housing finance and that only eligible entities can gain access to Bank advances and the benefits of membership. The proposed rule would:

1. Establish a new quantitative test requiring all members to hold one percent of their assets in home mortgage loans *and to do so on an ongoing basis*. (Currently, applicants for membership need only demonstrate a nominal amount of HML on their balance sheet at the time of their application, but not thereafter);
2. Require certain members that are subject to the 10 percent residential mortgage loans requirement to *adhere to this requirement on an ongoing basis*. (Currently, these members are subject to the 10 percent RML requirement only when they initially apply for membership in a Bank, but not thereafter);
3. The proposal also hints that over time the one percent threshold could be increased, potentially up to five percent; and
4. Define "insurance company" to mean a company that has as its primary business the underwriting of insurance for nonaffiliated persons. This would continue to include traditional insurance companies but would effectively exclude captive insurers from membership and prevent entities not eligible for membership from gaining access to Bank advances through a captive insurer. Membership of existing captive insurers would be "sunset" over five years with defined limits on advances. In addition, the proposal would clarify the standards by which an insurance company's "principal place of business" is to be identified in determining the appropriate Bank district for membership.

This proposal was not expected by the industry. There had been no conversations with regulators prior to the issuance of the proposal indicating any concern on the part of FHFA regarding members that did not meet these tests on an ongoing basis. Initially, comments were due in early November, but based on

input from industry trade groups and the Federal Home Loan Banks, the due date for input was postponed to January 12, 2015. Comments should be sent to the following address:

Alfred M. Pollard
Attention: Comments/RIN 2590-AA39
Federal Housing Finance Agency
400Seventh Ave SW 8th Floor
Washington DC 20024

Action

Staff is recommending that we file a comment on behalf of OBL members that are shareholders in the Cincinnati Federal Home Loan Bank. Some of our members have indicated that they would also like to file a comment, so this outline will be distributed and will be posted on our website. The purpose of sharing this is to assist those members that wish to file their own comment and to ensure we are all communicating a consistent message.

Comment Outline

This proposal will have a negative impact on housing finance and will harm the economy

- The purpose of the Federal Home Loan Banks is to provide liquidity in all economic cycles. To force lenders to meet certain thresholds and tests at all times undermines that mission.
 - In addition, the very process of making sure periodic financial statements meet the test will distract from the mission of providing financing in the community
- Those banks and thrifts that fail to meet the tests at all times will be shut out from the benefits of FHLB membership, including the liquidity provided through advances. This will undermine safety and soundness by causing those institutions to pay more for funding or assume more risk to obtain that funding, all without a clear policy benefit to the FHLB system or the economy as a whole.
 - This is contrary to the mission of the Federal Home Loan Bank System. The purpose of advances is to ensure that members can rely on liquidity when it is needed, through consistent availability and pricing
 - If the rule is adopted, the currently proposed cure period is too short to account for local recession or disaster that may undercut the need for housing finance.
- Fewer members will translate to fewer advances, also weakening the FHLB system and will restrict the availability of affordable housing grants.

Collecting the data necessary for compliance is burdensome, and will fall disproportionately on smaller banks and thrifts

- Currently, there is insufficient information available in the periodic regulatory reports filed by FHLB members to verify compliance under the proposal.
- Any new reports will be more burdensome for smaller community banks and thrifts.

- While all financial institutions continue to ramp up compliance with Dodd-Frank requirements is an inappropriate time to add to regulatory burdens, particularly when the benefits of such increased costs are so unclear.

If the Primary Concern is to Preclude Captive Insurance Companies from Joining FHLBs & Diverting Liquidity that Would Otherwise Finance Home Ownership, There are Better More Efficient Ways to Address that Issue

- FHLBs already impose constraints on the borrowing limits of all insurance companies, including captive insurers, including higher collateralization rates and the actual delivery of collateral to the FHLB.
- It would be better to permit each FHLB to impose controls over the borrowing ability and collateral requirements to address any issues related to individual captive insurance members' use of the system. (Note: Currently, the FHLB Cincinnati has no captive members.)

The Federal Home Loan Banks' current business model already ensures that the benefits of lower cost funding flow to those institutions committed to home finance.

- Under current practices, every member is required to pledge adequate collateral, *comprised overwhelmingly of residential housing assets* in order to obtain advances.
 - Members can borrow at favorable rates only when they have residential housing assets consistent with the purpose of the FHL banks
- This policy already connects the benefits of low cost financing with residential lending, satisfying the stated goal of the proposed rule.

This proposal is contrary to the consistent intent of Congress to expand FHLB access

- FHLB membership is defined by Congress.
- Eliminating currently eligible businesses and increasing the regulatory burden on other FHLB members in good standing is contrary to consistent Congressional policy to expand membership.
 - In 1989 Congress expanded FHLB membership to include banks and federally insured credit unions;
 - In 1999 Congress acted to support members' economic development activity by expanding eligible collateral; and
 - In 2008 Congress again expanded membership to include community development financial institutions.

This proposal does not identify a compelling problem. (i.e. it appears to Ohio lenders to be a solution in search of a problem).

- The entire purpose of the proposal is to prevent banks and thrifts from joining the system, and then for some reason, abandoning the housing market. As noted above, the current method of securing advances precludes this already

- Statistics in the proposed rule admit that most members currently meet the proposed thresholds. While the intent is to demonstrate that, if adopted, the rule won't harm current members, it also illustrates that there is really little need for the new requirements.
- It is a concern that current members could lose the benefits of membership, maintaining membership will be more burdensome and costly for community banks and thrifts and there will be collateral damage to the economy and the housing markets; all to address problems that do not exist or are difficult to define.