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FEDERAL HOUSING FINANCE BOARD'

Support for H.R. 4973 -- The Federal Home Loan
Bank System Modernization Act

WHEREAS, shrinkage in the traditional membership base of the Federal Home Loan Bank System ("System") and a significant decline in the demand for System advances have created significant earnings pressures on the System; and

WHEREAS, the \$300 million flat REFCorp tax is an ever-increasing percentage of System earnings -- from 17 percent of net income in 1989 to projections of 34 percent in 1992 -- which is undermining the health of the System as it becomes increasingly dependent on investments rather than advances for its income, and takes greater risks which ultimately could affect the System's safety and soundness; and

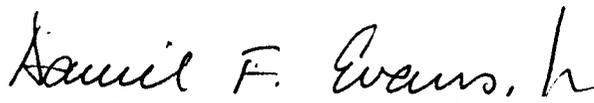
WHEREAS, the existing REFCorp allocation formula does not share the burden of the fixed tax equally or fairly among the individual Federal Home Loan Banks and serves to disincentivize advances to SAIF-insured members, thereby diminishing the System's housing finance mission; and

WHEREAS, the current membership rules impose artificial barriers to the System responding to market demand for its products by requiring savings associations to be members of the System and imposing more onerous and more restrictive provisions on membership and borrowing by non-savings association members; and

WHEREAS, the overriding goal of the Finance Board and the System is to protect the taxpayer from additional exposure and to further its housing finance mission, and the existing REFCorp flat tax and unequal membership requirements hinder both of these objectives;

NOW, THEREFORE, BE IT RESOLVED, that the Finance Board supports the Federal Home Loan Bank System Modernization Act (H.R. 4973) since it positively addresses the REFCorp flat tax and the membership inequities in the System, both of which significantly hinder the System's ability to sustain and improve its mission of providing funds for housing and community lending, including its-affordable housing program.

By the Federal Housing Finance Board


Daniel F. Evans, Jr., Chairman