**Federal Home Loan Bank Membership**

General. FHFA seeks to develop requirements to address questions regarding

membership eligibility on a consistent basis, guided by the twin objectives of ensuring

that the 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.

a) In addition to the statutory requirements of the FHLBank Act, what are the most

important general principles and factors FHFA should consider in achieving those

objectives?

*The most important general principles to consider are 1)Is the member providing home mortgage loans at an affordable cost and 2)are they doing it in a safe and sound manner. In addition I appreciate the ability to include mortgage backed securities .*

b) Are there classes or types of institution not currently eligible for FHLBank

membership under FHFA’s current regulation whose eligibility would

simultaneously further both of those objectives and, if so, how? In particular:

i. What would be the safety and soundness risks, if any, to the FHLBanks or

the System of making such institutions eligible for membership? What

impacts, if any, would allowing such institutions to be members have on

the System’s cost of funds and ability to provide low-cost liquidity to

current members?

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ii. How, specifically, would membership of such institutions further the

housing finance and community development mission of the FHLBanks?

iii. Would allowing such institutions to be members further FHFA’s duty to

ensure that the operations and activities of the FHLBanks foster liquid,

efficient, competitive, and resilient national housing finance markets?

How would doing so affect competition among existing participants in

housing finance markets? How would doing so improve the System’s

resiliency through the cycle? Please be specific.

2. Financial condition requirement. As described above, the provisions of the current

regulation implementing the “financial condition” eligibility requirement establish

different standards of review for different types of eligible entities.

a) In general, what financial factors should FHFA consider for the types of entities

eligible for membership, and how many years of financial statements and other

data is sufficient for a FHLBank to make a sound assessment of an applicant’s

financial condition?

b) Would there be benefits to establishing financial condition review requirements

that are substantially similar for all applicants, regardless of whether they are

organized as an insured depository institution, insurance company, or CDFI?

What would such requirements comprise, and would such changes entail risks to

the System’s safety and soundness and the FHLBanks’ ability to provide liquidity

to members through the cycle?

*In general, I don’t believe we should add additional eligible institutions. However, if the liquidity of the FHLB banks is such that additional institutions are needed for safety and soundness purposes, they could be added as non-members with higher but still competitive advance pricing.*

3. Use of conduit arrangements by ineligible entities.

a) Should FHFA amend its regulations to bar from FHLBank membership particular

types of otherwise-eligible entities that are most susceptible to being used as

conduit vehicles by institutions that are not themselves eligible for membership?

Which types of currently eligible entities are most susceptible to such use?

b) How should FHFA balance the legitimate housing finance activities of those types

of entities against the risks that they could be misused as funding conduits by

ineligible entities to create another form of de facto membership?

*As noted above, they should be admitted as non-members if needed for safety and soundness purposes, (last resort) with higher pricing to offset the additional risk.*

c) Should FHFA amend its regulations to impose conditions on membership

approvals pertaining to those entities that are susceptible to being used as conduits

that do not apply to other types of members?

*Yes, these conduits are in effect circumventing the system and getting approved when they really shouldn’t be. Additional information and approval levels may need to be required.*

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d) Irrespective of membership requirements, should FHFA limit conduit activity by

FHLBank members through other means, such as by restricting the amount of

advances a FHLBank may have outstanding to a single member (for example, to a

percentage of the member’s total assets) or limiting the extent to which affiliates

may pledge collateral to secure a member’s advances? If so, what should those

limitations be? Should FHFA impose any such limitations on all FHLBank

members as a prudential measure, irrespective of any concerns about conduit

activity?

*I agree that conduits, if approved, should have more restrictive limits. Their risk may be harder to measure.*

*I feel that current eligible members are restricted enough for the most part. We can only take advances up to the amount of our pledged collateral value. However, in a worst case scenario situation where an institution only had mortgage related asset in one geographic area that was hit with a major economic downturn, this might prove problematic. My take is that the FHLB’s need keep an eye on where the mortgages are originated and reserve the right to limit or lower the advance potential on a case by case basis. I believe this could be covered in the risk rating process, which we are not privy to*

4. Unsupervised members and affiliates.

a) What are the principal risks to the FHLBanks from doing business with members?

that are not subject to supervision by a prudential safety and soundness regulator,

and are those risks materially greater than those associated with doing business

with members subject to such oversight?

b) If FHFA were to allow conduit arrangements, what would be the principal risks to

the FHLBanks in cases where the affiliate to which the FHLBank funding is being

passed by the conduit member is not subject to supervision by a prudential safety

and soundness regulator?

*This is one of the areas that make me nervous. Having a regulator such as NCUA or FDIC gives me a better comfort level. The FHLB can obtain Call Reports and exam reports to better understand the risk. Also, there are comparison peer ratios to help understand how the FI is doing compared to peers. In addition, it might also be difficult to weed through the business model of the entity to truly understand whether they are in good shape or not if it is not familiar to the analyst.*

c) To the extent there are added risks arising from either scenario, what measures

could FHFA or the FHLBanks take (for example, enhanced collateral discounts,

capital requirements, or other counterparty risk management practices) that would

best mitigate those risks? Would such measures be sufficient? Please be as

specific as possible.

*As noted earlier, this to me is a last resort for safety and soundness. However, if actions were taken, collateral discounts is probably the best approach if the value of the collateral can be reasonably measured.*

d) What would be the added risks and costs, if any, to the FHLBanks and the

System, including with respect to the cost of funds, in the event of a default or

failure of a member and/or parent institution for which a bankruptcy or similar

proceeding would be the resolution regime (as opposed, for example, to an FDIC

resolution for an insured depository institution)?

*This is just a personal opinion, not 100% supported by fact, but I believe an NCUA or FDIC resolution would be more expedited and they have been known to try to squeeze out every last dollar, either through assisted mergers, lawsuits, or other methods. I believe that these resolutions would be more expedited and provide more cash. I am not able to quantify.*

5. Nexus to FHLBanks’ public policy mission.

a) Is the current membership regulation sufficient to ensure that the activities of

FHLBank members have a sufficient nexus to the public policy mission of the

FHLBanks? If not, what changes should be made?

*Yes, subject to my other comments regarding allowing others in based on safety and soundness issues.*

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b) Should FHFA require FHLBank members to demonstrate an ongoing

commitment to housing finance in order to remain eligible for membership? If so,

how should that commitment be measured and monitored?

*YES!! This is one area I feel strongly about. Members should be required to show the ongoing commitment to real estate loans. If we stick to institutions with a regulator, their Call Reports can be obtained online for free. I feel an annual evaluation is likely enough, however the reports are produced quarterly.*

c) If FHFA were to permit conduit arrangements, should it limit such arrangements

to members whose parent company is actively and substantially engaged in

activities that are consistent with the housing finance and community

development mission of the FHLBanks? If so, what criteria should be employed

and how could compliance with such criteria be monitored and enforced?

*Yes, absolutely, the parent companies also need to be engaged in housing finance and community development. The parent company could be involved in activities that go against the FHLB goals and just trying to get low cost funds to make more profit. This would potentially take away funds from other members who really need it.*

d) Would the use of FHLBank advances to finance the purchase of mortgage-backed

securities by the conduit entity or its parent, as was the case with mortgage REITs

that created captive insurance companies, be consistent with the mission of the

FHLBanks, particularly if the mortgage-backed securities have been issued or

guaranteed by Fannie Mae or Freddie Mac?

*This is a tough one. I appreciate being able to pledge mortgage backed securities as needed. However taking advances just for arbitrage gain seems like it goes against the spirit of what FHLB is trying to do. Then again, Fannie and Freddie need to sell their pools in order to survive. So, okay, the answer is yes, if we allowed them in, subject to the other restrictions, would agree that taking advances to purchase Fannie or Freddie pools would be okay.*

6. Rebuttable presumption approach of regulation. As discussed above, an applicant’s

failure to meet the specific standards by which compliance with a membership eligibility

requirement is determined may, in some cases (specifically, with respect to the “subject

to inspection and regulation,” “financial condition,” “character of management,” and

“home financing policy” requirements), raise a mere presumption of non-compliance that

the applicant may rebut by meeting additional criteria. The intent behind this approach is

to facilitate the processing of membership applications by the FHLBanks by allowing

them to exercise a degree of judgment in assessing the unique facts that may be presented

by some applicants. Because those additional criteria allow the FHLBanks considerably

more discretion than do the primary standards, however, they also are more subject to

misinterpretation and misapplication, particularly when the FHLBanks are considering

cases of first impression.

Would the safety and soundness of the FHLBanks be enhanced if FHFA were to establish

new standards that provided less discretion to the FHLBanks, and all of which must be

met for an applicant to be admitted to membership? If so, what should those standards

be? Please explain in detail.

*I believe the FHLB should still have discretion over the approval of applications. Ideally as with any exception to policy, the reasoning is documented and reviewed and approved by a superior.*

7. Other issues and concerns. Are there any issues not explicitly discussed above that

relate to FHLBank membership and need clarification?

*No additional comments*