ICBA
INDEPENDENT COMMUNITY
BANKERS of AMERICA®

January 31, 2019

Alfred M. Pollard
General Counsel
Federal Housing Finance Agency
400 7th St SW
Washington, DC 20024

Re: Federal Home Loan Bank Housing Goals Amendments; RIN 2590-AA82

Dear Mr. Pollard:

The Independent Community Bankers of America (ICBA)[1] appreciates the opportunity to provide comments on the proposed rule from the Federal Housing Finance Agency (FHFA) regarding the new Federal Home Loan Bank Housing Goals Amendments. The Federal Home Loan Banks (FHLBs or Bank) are a critical source of wholesale funding for thousands of community banks nationwide. Without this stable, affordable source of funding, many community banks would not be able to meet the credit needs of their communities. Community banks have depended on the FHLBs for over 80 years, and it is crucial that the system remain reliable and responsive to the changing needs of member institutions and their communities. Over 90 percent of ICBA members belong to their local FHLB.

This proposed rule will amend the existing FHLB Housing Goals regulation as it relates to Acquired Member Assets programs (AMA). AMA regulation authorizes and guides the Banks as they acquire mortgages from their members and housing associates in order to advance their housing finance mission. The proposed rule would replace the existing housing goals for the Banks and attempt to streamline the AMA goals, so they better reflect each Bank's mission while continuing to support affordable housing more broadly. In general, the purpose of the

[1] *The Independent Community Bankers of America® creates and promotes an environment where community banks flourish. With more than 52,000 locations nationwide, community banks constitute 99 percent of all banks, employ more than 760,000 Americans and are the only physical banking presence in one in five U.S. counties. Holding more than $4.9 trillion in assets, $3.9 trillion in deposits, and $3.4 trillion in loans to consumers, small businesses and the agricultural community, community banks channel local deposits into the Main Streets and neighborhoods they serve, spurring job creation, fostering innovation and fueling their customers' dreams in communities throughout America. For more information, visit ICBA's website at www.icba.org.*

rule is to provide certainty for the Banks by apprising them of their housing goals in advance and allow them flexibility that the current regulation does not allow.

The current housing goals regulation is consistent with the housing goals established by FHFA for Fannie Mae and Freddie Mac as directed by the Federal Housing Enterprises Financial Safety and Soundness Act of 1992. The Banks are subject to these housing goals if their AMA purchases exceed a threshold of $2.5 billion in any given year. The regulation includes four purchase money mortgage goals that must be satisfied – home purchase mortgages for low-income families, home purchase mortgages for low-income areas, home-purchase mortgages for very low-income families, and refinancing mortgages for low-income families. Each goal is determined retrospectively using HMDA data to estimate the number of qualified single-family originations in each Bank's district. A Bank satisfies a housing goal if its performance is equal to or greater than the levels calculated by FHFA.

The proposed rule removes the $2.5 billion volume threshold that triggers the housing goals. Instead, all participating Banks will have to meet a set, prospective requirement for their AMA purchases. The proposed rule sets this requirement at 20 percent, meaning that 20 percent of AMA purchases need to fall under the umbrella of the four separate housing goals in the existing regulation. There will no longer be separate requirements for each goal, but there will be an added stipulation that 75 percent of all mortgage purchases must be for borrowers with incomes at or below 80 percent of area median income. Additionally, the rule establishes a separate small member participation housing goal target level, requiring that 50 percent of the participating members be "small members" with assets below the current community financial institution threshold of $1.173 billion. These significant changes, among others, will have a three-year phase-in period prior to enforcement.

ICBA is largely supportive of the intent of the proposed rule and the FHLBs' mission to support affordable housing with much-needed liquidity through the AMA programs. Recognizing that these programs are quite complicated and differ substantially from typical secondary market transactions, we support FHFA's efforts to simplify and streamline the process for the Banks and their members. We further agree that establishing a set, prospective percentage as a measure of performance in lieu of a retrospective determination helps to remove uncertainty about housing goal levels. We also applaud FHFA for establishing a separate housing goal for participation by smaller members in Bank AMA programs. Smaller lenders, as the proposed rule notes, are more likely to originate loans that serve low and very low-income households. Many of our members qualify for and can benefit from this additional access to the secondary market.

Though we are supportive of the general intent of the proposed rule, there are several concerns that we recommend be addressed before any rule is finalized. The ability of a Bank to reach the proposed 20 percent level is likely to be dependent on the macroeconomic climate at

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the time. Any inevitable economic downturn might make it suddenly difficult for a Bank to achieve its goals, perhaps resulting in punitive action by the FHFA. We appreciate that Banks have the option to request an alternative goal that conforms to their unique characteristics. It seems appropriate to allow Banks to make such a request annually, so they are better able to adjust to market conditions. Moreover, Banks should be exempt from being designated non-compliant if they have submitted a new request that has not been processed. Another possible alternative is a housing goal floor that would provide the Banks added flexibility in the event of future market disruptions. For example, the floor could be set at 10 percent, which would allow Banks to adjust in case an unexpected economic downturn makes the 20 percent too onerous. This is important because participating member institutions need to view the AMA programs as consistent and reliable; doubts about the reliability of a Bank as an outlet for their mortgage production may result in limiting their activity with the Bank. One of the aims of this rule is to add members to the program, not decrease them.

Additionally, ICBA is concerned about how non-compliance will be treated if a Bank fails to meet the guidelines. This applies to situations where a Bank fails to obtain approval of an alternative housing goal target, fails to meet the housing goal and/or fails to submit an acceptable plan to gain compliance. It is important to reduce uncertainty for participating financial institutions and Banks by clarifying how each of these events might be treated by FHFA.

FHLBs should continue to be safe, sound, and consistently reliable for our members. With some added clarification as outlined above, we believe the changes presented in the proposed rule are generally reasonable and positive for the AMA programs and for the FHLBs' housing goals.

ICBA appreciates the opportunity to comment on the proposed rule and looks forward to working with both the FHFA and the FHLBs on its finalization and implementation. If you have any questions regarding this letter, please contact me at ron.haynie@icba.org.

Sincerely,

/s/

Ron Haynie
Senior Vice President, Mortgage Finance Policy