



March 3, 2011 | Vol. 2, No. 1

Was this forwarded to you? To receive it directly, click [here](#).

FROM THE EDITOR

Welcome to the latest *ABA Federal Home Loan Bank Member Insights*. In this issue, we bring you news of a major agreement among the 12 Federal Home Loan Banks and the FHFA regarding RefCorp, as well as a report from the latest meeting of ABA's Federal Home Loan Bank Committee. Also, since our last issue, the Obama Administration has released its white paper on the future of Fannie Mae and Freddie Mac. The report carries implications for the Federal Home Loan Banks as well, and we will discuss both the report and ABA's ongoing efforts to address the issues posed by the conservatorship of Fannie Mae and Freddie Mac and to ensure that the Federal Home Loan Banks are not harmed in the process.

As always, we welcome your perspectives on these and other FHLB related issues, so please provide feedback to JPigg@aba.com.

NEWS

Major Agreement Reached On Future of Refcorp

All 12 Federal Home Loan Banks announced on March 1st that they had reached an agreement that when the existing REFCorp obligation is fulfilled, all 12 banks will enter into the System Capital Initiative which will effectively replace the REFCorp obligation with a commitment by each bank to reserve 20 percent of earnings to enhance System capital and safety and soundness.

No legislation will be required to implement the plan. According to the Council of Federal Home Loan Banks, the System Capital Initiative:

- creates an additional buffer to absorb unexpected losses on the balance sheets of FHLBanks;
- assures a steady flow of funds to support housing and community development;
- provides even greater security and certainty to FHLBank debt investors;
- strengthens the long-term viability of Affordable Housing Program (AHP) grants to nonprofits;
- reduces further the potential that FHLBanks will ever require taxpayer assistance.

This is a major agreement which ABA supports as a significant benefit for the Federal Home Loan Banks' safety and soundness and capital position. For more on the Initiative see this month's PERSPECTIVE

Column below.

ABA Opposes FHFA Advance Notice of Rulemaking on FHLBank Membership

ABA's Federal Home Loan Bank Committee meeting in San Diego, CA on February 19th unanimously agreed that ABA should oppose a proposal by the Federal Housing Finance Agency (FHFA) which would significantly alter membership requirements for the Federal Home Loan Banks. The proposal, included in an Advance Notice of Proposed Rulemaking (ANPR) issued on December 27, 2010, considers, among other things, imposing an ongoing 10 percent home mortgage asset test on FHLB members, and would make it demonstrably more difficult for insurance companies and some small lenders to remain as members of the System. In response, ABA has drafted a letter in opposition to the ANPR, and encourages members to comment in opposition as well. Comments are due by March 28, 2011. The ABA draft letter can be found [here](#).

Obama Administration GSE White Paper Addresses Federal Home Loan Banks

On February 11, 2011, the Obama Administration released its long awaited-white paper on reform of Fannie Mae and Freddie Mac. The report, which lays out three potential options for ending the conservatorship of these two Government Sponsored Enterprises (GSEs), also touches on the Federal Home Loan Banks. While noting the positive role played by the FHLBanks in ensuring availability of liquidity in the recent financial crisis, the report does raise a number of concerns for FHLBank members and supporters. Most notably, the report suggests that the Administration may seek to limit the size of institutions that may be System members. ABA opposes such restrictions or any other changes which would negatively impact the System or its members. The Administration's paper can be found [here](#).

On a related note, ABA's President and CEO Frank Keating wrote to Treasury Secretary Geithner and HUD Secretary Donovan on February 9th detailing ABA's recommendations for the future of government support for housing finance. While ABA's long term goal is a significantly reduced role for the federal government in housing finance, we continue to advocate for a strong, vibrant Federal Home Loan Bank System and the liquidity and other services it provides to its members of all sizes. ABA's letter can be found [here](#).

PERSPECTIVE

A Stronger Federal Home Loan Bank System

by Lee R. Gibson

For over eight decades, the Federal Home Loan Banks (FHLBanks) have been an important contributor to the stability and success of the American economy, providing nearly 8,000 member institutions in all 50 states with dependable, low-cost funding to finance housing, jobs and economic growth in their local communities. The strength of the FHLB System was particularly critical during the global financial crisis as the FHLBanks provided hundreds of billions of dollars to member institutions, even as other sources of liquidity disappeared.

We're proud of our performance, but the financial crisis was a stark reminder of the importance of having a strong FHLBank system capable of providing liquidity to its members. That is why, on March 1, the Federal Home Loan Banks (FHLBanks) announced a new plan to further strengthen capital in the FHLBank

System. The System Capital Initiative was developed jointly by the 12 FHLBanks and calls for each FHLBank to reserve 20 percent of its net earnings in a restricted retained earnings account.

The System Capital Initiative will ensure that member institutions continue to have access to liquidity from each FHLBank during times of stress by building a capital buffer on each FHLBank's balance sheet to help absorb potential losses. It will also provide additional protection for a member's capital stock investment in its regional FHLBank, certainty that FHLBanks debt obligations will be met and the continued ability to meet the consolidated obligations for which all FHLBanks are jointly and severally liable. For our important work with nonprofit partners, the plan strengthens the long-term viability of FHLBanks' Affordable Housing Program (AHP), the nation's largest private source of financial support for housing and community investment.

The System Capital Initiative is a positive example of financial institutions focusing on the importance of building capital strength for safety and soundness. It is a unified plan that leverages the strength of the cooperative while reducing the potential that the federal government would ever need to step in and buttress the FHLBanks that serve as the bedrock of the nation's housing finance system.

Additional information regarding the System Capital Initiative can be found on the Council of Federal Home Loan Banks website at www.fhlbanks.com.

Gibson is Chairman of the Council of Federal Home Loan Banks and Chief Financial Officer and Senior Executive Vice President of Southside Bank, Tyler, Texas.

ABA Members: To unsubscribe and to manage your subscriptions, please visit [ABA E-Mail Bulletins](#) and check or uncheck the appropriate boxes. For other inquiries, please contact ABA's [Joe Pigg](#) or 1-800 BANKERS.

American Bankers Association, 1120 Conn. Ave NW, Wash. DC 20036