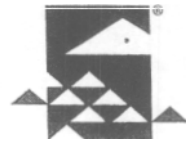


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America's  
Community  
Bankers"

February 26, 2001

Ms. Elaine L. Baker  
Secretary to the Board  
Federal Housing Finance Board  
1777 F Street, NW  
Washington, DC 20006

Re: Notice of Receipt of Petition for Case-by-Case Determination  
65 FR 81861 (December 27, 2000)

Dear Ms. Baker:

America's Community Bankers (ACB)<sup>1</sup> is pleased to offer its comments on the issues raised by the Federal Housing Finance Board's (FHFB) consideration of a petition from the Federal Home Loan Bank of Dallas for Finance Board approval of an application for membership in the Dallas Bank by Washington Mutual Bank, FA (WMBFA) upon completion of the merger of Bank United into WMBFA.

ACB is not seeking to intervene in the consideration of the petition. Regardless of the manner in which the Finance Board rules on this matter, the Board should avoid any decision that may be considered to establish System-wide policy until a full and deliberate study can be completed on all of the issues raised by multi-FHLBank memberships and individual FHLBank servicing of activities in other FHLBank districts. Establishing any precedents could prove to be critical to the structure and function of the Bank System. ACB requests that the Finance Board issue an advance notice of proposed rulemaking seeking comment and analysis of the issues related to multi-FHLBank memberships.

It is clear that industry consolidation of FHLBank System members will continue and multi-FHLBank membership and/or FHLBank consolidation issues may be more critical over time. Industry consolidation involves both large financial institution mergers that spread the interstate reach of financial institutions nation-wide and smaller mergers that may increase financial institutions' regional reach. In most cases these institutions continue to provide traditional community banking services to the communities\* they serve. When the membership rules for the FHLBanks were originally developed,

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<sup>1</sup> ACB represents the nation's community banks of all charter types and sizes. ACB members pursue progressive, entrepreneurial and service-oriented strategies in Providing financial services to benefit their customers and communities.

members of the FHLBank System only had intrastate branches. Today, the membership of the System is very different. However, in keeping with its original public purpose, each FHLBank has developed programs that not only serve the liquidity needs of their members but are also designed to meet the needs of the communities they serve.

The need to resolve the question, of which FHLBank(s) eligible financial institutions should belong, may grow in importance. Before policies on mufti-FHLBank membership are modified, some basic issues must be addressed and some broader issues and questions will need to be resolved.

**Should Changes in the Industry Alter the Purpose of the FHLBank System?**

The FHLBank System's public purpose continues to be to increase homeownership by increasing the availability of housing and community development credit. The FHLBanks do this by making capital available through the extension of advances and other programs to their cooperative members. Each FHLBank has developed programs that in some ways are unique to its, member constituency and the communities they serve.

- Should industry consolidation alter the regional FHLBank structure?
- Should local or regional demographic issues be a factor in considering FHLBank consolidations?
- Should a FHLBank's programs finance homeownership in its own district or should they be permitted to reach beyond district boundaries?
- How far from a FHLBank's district should its programs directly reach?
- Does Congress' original design and structure for the FHLBank districts still take advantage of or enhance the localized nature of housing finance?

**What are the Issues Associated with Mufti-FHLBank Memberships?** The issues and discussions generated by the FHLBank of Dallas' petition do not prompt the question on whether or not mufti-FHLBank memberships should be authorized or allowed. Mufti-FHLBank memberships already exist and are authorized for institutions that hold separate charters in different Bank districts. Nearly one hundred financial institution holding companies have two or more FHLBank memberships. As competition for funding continues to mount in the banking industry, the FHLBanks may become a more and more attractive source of funding for the majority of still relatively new members of the FHLBanks.

- With possibly heavier usage over time of the System's funding sources, how does mufti-Bank memberships impact the viability of the regional bank operations?
- Can larger institutions with memberships in multiple FHLBanks effectively spread or dilute risk across the System, or could the nature of risk in the System be increased?
- Will limiting large members to single Bank districts consolidate and concentrate risk in a single region?

**Does Multi-Bank Membership Affect the Delivery of the System's Public Purpose?**

The Federal Home Loan Bank Act (12 U.S.C. 1423) provided that Bank Districts were to be apportioned with due regard to the convenience and customary course of business of the institutions eligible to join. This approach seems to recognize the importance of the local (or community-based) nature of housing finance.

- Could the crafting of the language regarding "convenience and customary course of business" have been intended to allow the System to evolve with any evolution in the banking business to allow for the continued public purpose fulfillment in a new banking environment?
- Should convenience of membership be defined only as geographic convenience or should convenience incorporate concepts of usefulness of programs or local knowledge?
- Does multi-FHLBank membership improve the local extension of housing and community development credit, or does it skew such delivery?
- Would multi-FHLBank memberships increase the likelihood of large institutions pitting one FHLBank against another to the sole benefit of the large bank member, or would such competition improve all FHLBank members pricing?
- How would such activities affect credit extensions in the communities served by the FHLBanks?
- Would multi-bank membership create unbalanced bank member-benefits?

Since multi-FHLBank membership already exists and will in one form or another continue to exist, ACB believes that it is vital the focus should be on the proper management of a FHLBank System that can embrace all of its members regardless of size, charter type, or geographic reach. Innovative business people will be creative in designing methods to clear regulatory hurdles.

- How should the participation of institutions that are members of more than one FHLBank be managed to minimize any safety and soundness concerns.
- How can multi-Bank memberships maximize the extension of credit and affordable housing?

In conclusion, the Finance Board must undertake a more comprehensive review that alleviates the need for future case-by-case decision-making. The Finance Board must also work with the FHLBanks and the members of the System to develop answers to these and other questions to ensure the continued success of the FHLBank system.

ACB appreciates the opportunity to comment on this important matter and looks forward to working with the Board, the FHLBanks, and other stakeholders to develop answers to and fully understand the issues. If you have any questions, please contact Eric Mondres at (202) 857-5577.

Sincerely,

Robert R. Davis  
Managing Director  
Government Relations