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## FROM THE EDITOR

Welcome to the latest ABA Federal Home Loan Bank Member Insights. In this issue we bring you news of newly introduced GSE reform legislation, an article on covered bonds from banking law expert Ray Natter, a Perspectives article from Council of Federal Home Loan Banks Chairman Lee Gibson on communicating the value of the FHLB System to policymakers, and a speech from Federal Housing Finance Agency Acting Director Edward DeMarco. As always, we welcome your feedback and input, so please let us know if there is something you would like to see covered in future editions of *Insights*.

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## NEWS

### Additional GSE Reform Bills Introduced

Republicans in the House of Representatives continue to introduce legislation to make incremental reforms to Fannie Mae and Freddie Mac. The latest round of bills, introduced in early May, include legislation to cap the funds provided by the U.S. Treasury to keep the GSEs in business at \$200 billion. Thus far, Fannie and Freddie combined have drawn approximately \$158 billion from the Treasury. Another bill would prohibit the dividend required on the debt being repaid by the GSEs to fall below the current 10 percent level. These and other bills will be the subject of a hearing on May 25<sup>th</sup> in the Capital Markets and Government Sponsored Enterprises Subcommittee entitled “Transparency, Transition and Taxpayer Protection: More Steps to End the GSE Bailout.” To date, none of the GSE reform legislation has dealt with the Federal Home Loan Banks, but ABA continues to monitor legislative efforts carefully, as any reform of Fannie Mae and Freddie Mac will have an impact on the capital markets and tangential impact on the Federal Home Loan Banks.

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## INSIGHT

### Covered Bonds

One proposal for enhancing and improving the housing finance system in the United States has been to foster the growth of a covered bond market similar to the Federal Home Loan Bank System, and patterned on a system used widely in Europe. In this edition of *Insights*, we bring you an in-depth article on covered bonds by Washington attorney Ray Natter. This article was originally published in the “OUR PERSPECTIVES” newsletter of Barnett, Sivon and Natter, and we thank the firm for allowing us to share it with you. To access the article please click [here](#):

[http://www.bsnlawfirm.com/newsletter/OP0511\\_3.pdf](http://www.bsnlawfirm.com/newsletter/OP0511_3.pdf)

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### **Federal Home Loan Banks praised by Acting Chairman DeMarco**

Speaking at the Exchequer Club in Washington on May 18<sup>th</sup>, FHFA Acting Chairman Ed DeMarco praised the Federal Home Loan Banks for serving a critical role in providing much needed financing during the recent financial crisis and for managing both the increase in advances to meet the crisis, and the decline in advances post crisis, “without a hitch”. DeMarco went on to say that the FHFA is very supportive of the FHLBanks’ Voluntary Capital Initiative (covered in the last edition of *Insights*) and noted that the Banks remain an important element in the housing finance infrastructure. To read the entire speech, please click [here](#):

[http://www.fhfa.gov/webfiles/21255/Exchequer\\_Club\\_051811\\_final.pdf](http://www.fhfa.gov/webfiles/21255/Exchequer_Club_051811_final.pdf)

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## **PERSPECTIVE**

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The Council of Federal Home Loan Banks recently held its annual directors conference for the directors of the 12 Federal Home Loan Banks. Speaking at the conference, Council Chairman Lee R. Gibson urged the Banks and their members to continue to advocate strongly to policymakers about the importance of the System in meeting community needs for liquidity, affordable housing financing and other vital efforts. We are pleased to bring you Mr. Gibson’s remarks below:

### **Federal Home Loan Bank Members Must Continue to Communicate The Value of the System to Policymakers By Lee R. Gibson**

Today members of Federal Home Loan Banks can celebrate several accomplishments that we have achieved over the past year in the face of a highly charged political environment. We have proven the strength of the System and its members through many recent challenges.

Last year, we faced a daunting threat in the form of a 1,200-page banking reform bill. Before a final version became law, the proposed legislation included provisions that could have had an enormously adverse effect on the ability of the Federal Home Loan Banks to

help us serve our communities.

We were able to effectively communicate the essential role Federal Home Loan Banks and their members played in helping America recover from the greatest economic recession in more than 80 years.

We also must acknowledge the proactive steps that members took this year to strengthen the long-term capital structure of the System. We collaborated on a single approach for the use of funds flowing from the expiring REFCorp obligation by announcing the System Capital Initiative.

The initiative will further strengthen the Home Loan Banks' safety and soundness. It sends a powerful signal to all of our stakeholders and policymakers. By agreeing to a unified plan, one that protects members, investors, taxpayers and consumers alike, we demonstrated that our cooperative system is focused on the greater good.

Likewise, our nationwide Affordable Housing Program this past year proved our collective strength once again. Our work together for more than 20 years to support housing and community investment through the Affordable Housing Program is the largest effort of its kind.

Last June, we all were very proud when the National Housing Conference honored the AHP, our members and our partners with the prestigious Housing Program of the Year Award at the organization's National Building Museum gala in Washington.

In the coming months and years, our strength will be tested again. We are facing a policy debate over the government's future role in the housing market and how Americans will finance mortgages for decades to come. In fact, some of the Administration's proposals, threaten our proven way of doing business. It is our duty to remind others of the vital, beneficial role a strong Federal Home Loan Bank System plays in the housing finance system.

We must work constructively, but we cannot allow "reform" to proceed for reform's sake that does not meet specific criteria. We need to preserve the features that enable each Home Loan Bank to meet its mission, which include:

- Broad participation by a diverse membership
- Regional focus and knowledge of local markets and communities
- The AHP
- A scalable operating model
- Dependable access to a deep, liquid market for Home Loan Bank debt

Another challenge we are facing is a proposal that, among other things, could limit or eliminate membership in Federal Home Loan Banks by requiring members to hold at least 10 percent of their assets in mortgages. The result would be the removal of a critical

funding source for many institutions and the thousands of communities they serve. Those who work in and understand the Home Loan Bank System know that this is the wrong approach both for our banks as well as for our country as a whole.

In the coming months, members of Federal Home Loan Banks will face legislative and regulatory threats to our business model. We must be alert to any proposal that creates a competitive disadvantage for financial institutions not large enough to go directly to the funding markets.

We have a fundamental belief in the U.S. that it is good for consumers and businesses to have a robust financial system comprised of lenders of all sizes and types, be it a \$50 million community bank or a \$1 trillion financial institution.

The Federal Home Loan Banks are one of the few, if not the only, business models that support this basic principle. We provide what all of our members need: a level playing field for constant access to a liquid market of global funds.

That liquidity is the raw material our members use to lend and invest in their local communities. To support housing, jobs and economic growth, the community banking system relies on the Federal Home Loan Banks as a cost-efficient, evenly priced source of short- and long-term funding.

The cooperative structure that defines our system has proved durable. Through difficult times and in the face of formidable obstacles, we must continue to thrive and rise above the partisan debate. We are bound together with a common charter and purpose but each individual Home Loan Bank retains the flexibility necessary to meet the diverse needs and demands of our members and their communities.

Federal Home Loan Bank members know the tangible benefits enjoyed by millions of American families and businesses because of the ready stable funding offered by our system. Members have an important obligation to ensure that this great system thrives and continues to deliver benefits to communities all across America.

*Lee Gibson is Chief Financial Officer and Executive Vice President of Southside Bank, Tyler Texas. He serves as Chairman of the Council of Federal Home Loan Banks. This article is adapted from Gibson's opening remarks at the Council's annual Directors' Conference in May.*

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