AMERICAN BANKERS ASSOCIATION ®

1120 Connecticut Avenue, NW
Washington, DC 20036

1-800-BANKERS
www.aba.com

World-Class Solutions, Leadership & Advocacy Since 1875

Robert R. Davis
Executive Vice President
Mortgage Markets,
Financial Management
& Public Policy
Tel: 202-663-5588
rdavis@aba.com

December 8, 2009

Mr. Edward DeMarco
Acting Director
Federal Housing Finance Agency
Fourth Floor
1700 G Street, NW, 4th Floor
Washington, DC 20552

Dear Mr. DeMarco:

I am writing to recognize the extraordinary contributions of the Federal Home Loan Bank System during the financial crisis of 2008 and 2009, and to commend the Federal Housing Finance Agency and its predecessors for helping to ensure this performance.

The American Bankers Association brings together banks of all sizes and charters to enhance the competitiveness of the nation's banking industry and strengthen America's economy and communities. The majority of our members are banks with less than $125 million in assets, and in total represent over 95 percent of the industry's $13.3 trillion in assets and employ over 2 million men and women. Almost all belong to an FHLBank.

For more than 70 years, Federal Home Loan Banks have provided a source of liquidity and stability to finance housing and economic development in good times and bad. About 80 percent of U.S. lending institutions rely on these cooperatives for low-cost funds, and their low costs are passed on to consumers and communities.

Notably in the recent crisis, the Banks continued to provide needed funding when credit froze in other areas. For community banks, the Banks were the only source of funds other than deposits. The Banks rapidly and prudently expanded lending to their members to a record level over $1 trillion at the height of the crisis, and responsibly have wound that lending back to about $675 billion as the crisis has abated. Without them, the crisis would have been far worse.

I am also writing to address a second issue. The System has responded well during the crisis in part because of the successful implementation of a modern capital structure as specified in section 608 of the Gramm-Leach-Bliley Act. The GLBA framework provides a capital structure based on retained earnings, class A and class B stock, provisions to provide "permanence" to the capital structure, and greater flexibility to determine minimum investment requirements and an advances-based capital holdings component.

The American Bankers Association encourages the Agency to complete the conversion of the remaining FHLBank in Chicago to the GLBA capital framework as soon as feasible. We recognize that markets have not returned to normal. We also recognize that the Agency has been compelled from time to time to exercise its regulatory authority to place limits on dividend payments or capital redemptions, or has taken other actions, in order to preserve the integrity of particular FHLBanks and to maintain the capital investments of member-owners. However, we see no inconsistency in maintaining capital restrictions and regulatory directives that the FHFA finds necessary, even as the Chicago FHLBank might be permitted to complete its capital conversion. A properly managed capital conversion will not contribute to safety and soundness concerns. Rather, conversion to a more modern capital structure should permit better capital mananagement and risk alignment, and facilitate a timely removable of regulatory restrictions that might currently exist.

Thank you for consideration of our views.

Sincerely,

Robert R. Davis

Robert R. Davis

Cc: Mr. Stephen M. Cross
Deputy Director,
Division of Federal Home Loan Bank Regulation

Mr. Matthew R. Feldman
President and CEO
Federal Home Loan Bank of Chicago