

October 21, 2011

Regulations Division of, Office of General Counsel
Department of Housing and Urban Development
451 7th Street, SW, Room 10276
Washington, DC 20410

Attention: Ms. Helen R. Kanovsky, General Counsel

Re: Docket No. FR-5416-P-01; Approval of Farm Credit System Lending Institutions in FHA
Mortgage Insurance Programs; FR76 53362-64 (August 26, 2011)

Dear Ms. Kanovsky:

The American Bankers Association (ABA) appreciates the opportunity to provide comments on the proposed rule to permit Federal Farm Credit System (FCS) (or System) institutions to participate in the Department of Housing and Urban Development's (HUD) FHA insurance program. *The American Bankers Association represents banks of all sizes and charters and is the voice for the nation's \$13 trillion banking industry and its two million employees. The majority of ABA's members are banks with less than \$165 million in assets.*

Overview:

The ABA opposes HUD's proposed rule to approve Federal Farm Credit System institutions for FHA mortgage insurance programs. There is no reasonable rationale for the rule's implementation, as HUD has demonstrated no actual dearth of home mortgage credit in rural areas and data detailed below shows an increase – not a decrease--in such lending by private-sector banks since the financial crisis. Further, Federal FCS institutions have failed to make use of existing alternatives already available to them to further their mortgage lending in rural areas, and their access to FHA would fail to meaningfully address a shortage of credit, even if one could be shown by HUD. The rule's only meaningful impact would be to provide further taxpayer exposure, through the FHA fund, to an already government-advantaged Government Sponsored Enterprise (GSE).

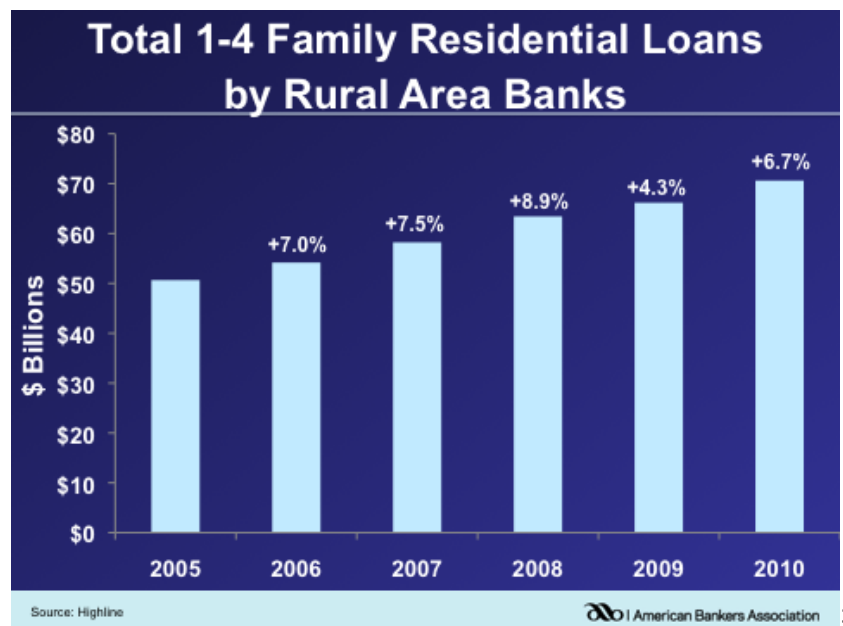
The rule lacks justification:

In its notice of the proposed rule, HUD provided as rationale recent events in the economy, including difficulties in the housing market. Specifically, the proposed rule reads:

As lenders strive to increase capital reserves and tighten underwriting standards and as private mortgage insurers retreat from some markets, the availability for housing is reduced, particularly in rural areas.¹

Contrary to what HUD claims in the proposed rulemaking, private-sector banks have increased--not decreased--housing lending in rural America. According to data compiled by the ABA, loan balances at banks in rural areas have grown year-over-year between 2005 and 2010 for single-family residential loans (see Chart A below).² The research reveals a similar trend for multifamily loans during the same period (see Chart B below). The data sets reveal that banks responsibly provided credit to rural communities during the nation's economic recovery. It is unclear exactly why or how HUD determined banks were not serving rural consumers. However, what is clear is that no deficiency in rural mortgage lending exists. The rationale for the proposed rule does not hold.

Chart A

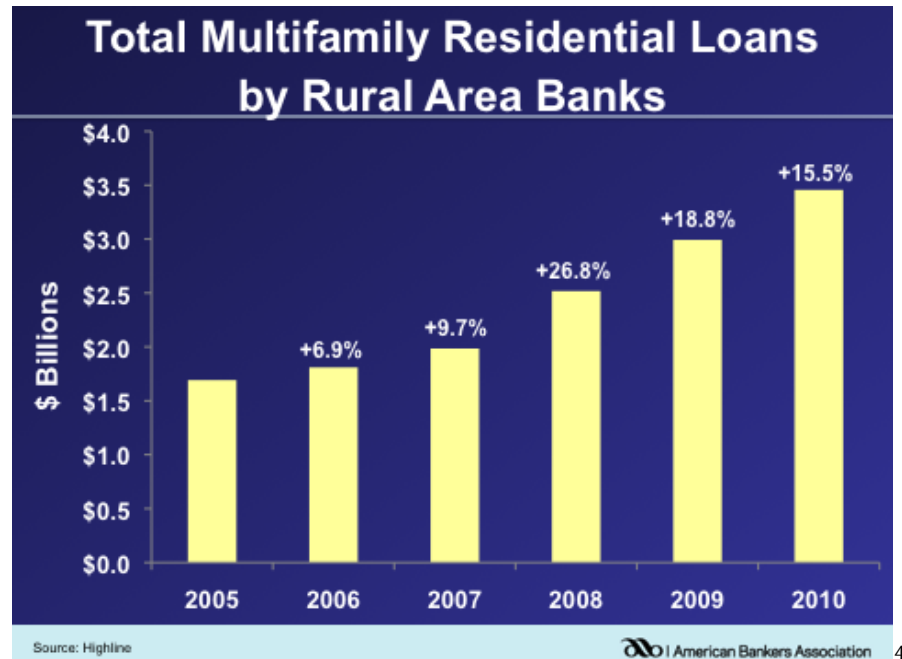


¹ Federal Register Vol. 76, No. 166, 53363.

² Data source: Highline. Rural banks are defined as banks not located in a metropolitan statistical area as of June 30, 2011.

³ The data indicate a slight decrease in 2Q 2011 for Single Family (-1.8%).

Chart B



The Federal Farm Credit System has no need for FHA insurance and has failed to utilize Federal mortgage programs already available to them:

Even if HUD could show a legitimate lack of mortgage credit in rural America, the proposal still makes little sense, as the Federal FCS has failed to use other Federal guarantees and authorities already available to them for increased lending in rural areas.

The Federal FCS has more than sufficient capital to support a robust rural mortgage program. The System has all the tools it needs to make more rural home financing available within its funding territory. For example, System institutions can easily access the USDA Single-Family Housing Loan Guarantee program (SFHLGP), which provides a number of advantages over the FHA program. The SFHLGP targets homebuyers that have incomes up to 115% of the area median, and requires no down payment, no maximum purchase price, no monthly mortgage insurance (MI), and requires no minimum credit score. Despite the many benefits of the SFHLGP for the Federal Farm Credit System, potential home buyers, and rural America, only three System institutions have elected to participate as of the date of this letter.

Additionally, by statute, FCS institutions are limited in the types of lending activities in which they can participate. Only under limited circumstance are System institutions permitted to make housing loans. According to the Farm Credit Act, “rural areas” in which FCS institutions may

⁴ The data indicate a slight increase in 2Q 2011 for Multifamily (2.8%).

extend mortgages is defined as those cities or villages that do not exceed 2,500 inhabitants.⁵ Given that the Federal FCS institutions have not begun to utilize the existing resources available to them, and the limited scope of the communities they could serve with mortgage loans, it is hard to see how access to FHA guarantees could meet any gap in rural mortgage credit – even if HUD could demonstrate that one existed.

The proposal unnecessarily increases risks to taxpayers:

Federal FCS lenders are subject to regulatory standards of the Farm Credit Administration, which necessarily include capital standards and rules governing safety and soundness. Unless these lenders are in fact operating under less stringent capital and safety and soundness requirements, their response to the financial crisis would have essentially been similar to, or the same as, that experienced by many banks. Moreover, market reaction by private mortgage insurers would have been similar for System lenders as well, based on the rationale presented in the proposed rule. However, it appears that HUD believes that Federal FCS institutions will somehow be able to make loans not being made by the private sector. There are two reasonable suppositions which would support HUD's apparent view that Federal FCS institutions could be more aggressive lenders than their private-sector counterparts: either FCS institutions are operating under less stringent regulation than banks; or that Federal FCS institutions will compound the already substantial advantages conferred upon them by their GSE status by laying off further risk to the FHA. In either event, it is inadvisable to increase the risks to the FHA fund –and to taxpayers – to meet a phantom credit need.

Conclusion:

The ABA strongly recommends that HUD withdraw the proposed rule to ensure the best economic impact for rural America and the economy in general. There is presently no shortage of mortgage finance for rural single-family housing, either via banks or Federal Farm Credit System institutions operating within their service jurisdictions. Ironically, should the proposed rule be approved, HUD will achieve an effect that is opposite of the proposed rule's intent.

The ABA is available to discuss HUD's proposal at the Department's convenience. If you have any questions regarding the above comment, or need additional information, please do not hesitate to contact the undersigned.

Respectfully submitted,



Robert R. Davis

⁵ 12 USC 2019 (b)(3).