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Mr. Alfred M. Pollard, General Counsel
Federal Housing Finance Agency
400 Seventh Street, SW, Eighth Floor
Washington DC 20024

Regarding: RIN 2590-AA39 Notice of Proposed Rulemaking, "Members of Federal Home Loan Banks (FHLBs)"

Dear Mr. Pollard:

The Depository Institutions Expert Panel (DIEP) of the American Institute of Certified Public Accountants (AICPA) appreciates the opportunity to respond to the Federal Housing and Finance Agency's (FHFA) September 10, 2014, Notice of Proposed Rulemaking, "Members of Federal Home Loan Banks." Given that membership in FHLBs is available to insurance companies, input was received from members of the AICPA Insurance Expert Panel.

Under the proposal, members of a FHLB must have at least 1 percent of total assets in "home mortgage loans" and for members that are not Community Financial Institutions (CFIs),[1] 10 percent of total assets must be in "residential mortgage loans." The proposed rule also requires the FHLBs to determine member compliance with these ongoing requirements annually, using data from members' regulatory financial reports where possible, and obtain an auditor certification where necessary, to calculate the relevant ratios based on a three-year rolling average. We have three primary comments on the proposal in the following areas: (1) the proposed use of collateral definitions which differ from the members' primary regulator's definitions, (2) the ability to self-certify and (3) the use of AICPA professional standards should the FHFA desire auditor assurance or attestation.

All insured depository institutions (banks, thrifts and credit unions) file, on a quarterly basis, call reports which include detailed information about their loan portfolio. Moreover, insurance entities file similar information annually with their respective state insurance departments. These members have established processes and controls to classify collateral of loans in accordance with their primary regulator's definitions. We observe that the proposal has definitions for residential mortgage loans and home mortgage loans that do not necessarily conform to the definitions used in the depository institutions' call report or the insurance entities' annual statements. Further, these entities have established processes and controls in place to classify loan collateral types, which are housed in the loan system at origination. We envision significant challenges and potential cost for them to re-evaluate thousands of loans to determine compliance with the proposed definitions. Because the members must comply with the existing definitions from their primary regulator, a separate system would have to be created and maintained in order for these entities to comply with the FHFA

[1] CFI's are FDIC-insured depository institutions with less than $1 billion in average total assets (adjusted annually for inflation) over the preceding three years. See 12. USC. 1424 (a)(2)(A),(a)(4)7.

definitions. To mitigate this added financial and administrative burden, we strongly recommend the FHFA use the existing regulatory reporting definitions and data.

Assuming members are able to gather the necessary information and data in accordance with the proposed FHFA definitions, which we are highly skeptical can be accomplished without undue effort, we believe members should be able to self-certify. Self-certification could be supplemented with procedures performed in conjunction with the rotational examinations performed by the FHLBs.

If the FHFA desires external auditor reporting, the engagement would have to be designed in order to comply with state accountancy laws and AICPA professional standards. Accordingly, we strongly encourage a dialogue with the AICPA to ensure any desired external auditor assurance or attestation is appropriately designed to both meet the FHFA's objectives and comply with professional standards. Critical to this assessment will be designing procedures that do not impair the external auditor's independence. For example, under no circumstance could the external auditor accumulate the source data on which procedures would be performed without impairing independence. Of course, the level of work effort desired by FHFA will drive level of cost.

We would be pleased to discuss our comments with your agency staff to better understand your requirement and to offer our assistance in helping you achieve your desired objective. Please feel free to contact Salome J. Tinker, AICPA's Senior Technical Accounting Manager for the DIEP, should you require any additional information or have further questions at (202) 434-9205 or sjtinker@aicpa.org.

Sincerely,

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