



## “MEMBERS OF THE BANKS”

OMB NUMBER 2590-0003

## SUPPORTING STATEMENT

### A. JUSTIFICATION

#### 1. Circumstances necessitating the collection of information

Section 4 of the Federal Home Loan Bank Act (Bank Act) establishes the eligibility requirements an institution must meet in order to become a member of a Federal Home Loan Bank (Bank).<sup>1</sup> The Federal Housing Finance Agency’s (FHFA’s) Bank membership regulation, located at 12 CFR part 1263, implements section 4 of the Bank Act by providing uniform requirements an institution must meet to be approved for Bank membership and review criteria a Bank must apply to determine if an institution satisfies the statutory and regulatory membership eligibility requirements, and by specifying the information and materials an institution must submit as part of its application.<sup>2</sup> Although the membership regulation authorizes the Banks to approve or deny applications for membership, it also provides institutions that have been denied membership in a Bank the option of appealing the decision to FHFA.<sup>3</sup> The membership regulation also addresses the requirements for withdrawal from Bank membership and for the transfer of an institution’s membership from one Bank to another.<sup>4</sup>

FHFA has issued a Notice of Proposed Rulemaking that would amend part 1263 to require any applicants for Bank membership to hold at least one percent of their assets in long-term “home mortgage loans” (a defined term) to be eligible for membership and to require Bank members to maintain at least one percent of their assets in long-term “home mortgage loans” on an ongoing basis to be eligible to remain Bank members. The proposed rule would also amend part 1263 to require certain Bank members (primarily credit unions and larger banks and thrifts) to hold at least 10 percent of their assets in “residential mortgage loans” (a defined term) in order to remain eligible for Bank membership.<sup>5</sup> The proposed rule would require each Bank to determine annually whether each of its members is in compliance with those minimum asset ratio requirements, as applicable, and to determine whether an applicant complies with the applicable minimum asset ratios at the time it applies for Bank membership.

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<sup>1</sup> See 12 U.S.C. § 1424.

<sup>2</sup> See 12 CFR part 1263.

<sup>3</sup> See 12 CFR § 1263.5.

<sup>4</sup> See 12 CFR §§ 1263.26; 1263.18(d), (e).

<sup>5</sup> Existing part 1263 already requires such institutions (*i.e.*, credit unions and larger banks and thrifts) to meet this “10 percent” asset ratio requirement at the time of application in order to be eligible to become Bank members. See 12 CFR § 1263.10. In addition to the new asset ratio requirements, this existing requirement would be retained under the proposed rule.



**“Members of the Banks”**  
**OMB Number 2590-0003: Supporting Statement**

Under the proposed rule, the Banks would in most cases acquire the data necessary to determine compliance with the minimum asset ratio requirements from each institution’s year-end regulatory financial reports (filed with its appropriate regulator) or audited financial statements. In most cases where the data contained in an institution’s regulatory financial report or audited financial statements is insufficient to demonstrate that it complies with the applicable asset ratio requirements, the proposed rule would require the institution (if it wished to become or remain a Bank member) to obtain from its external auditor and provide to the Bank a written certification stating the actual amount of the relevant assets held by the institution on the appropriate dates. Where the institution in question is a Community Development Financial Institution (CDFI) with less than \$100 million in assets, the proposed rule would permit it to provide a written certification from an executive officer instead.

Under the proposed rule, this information collection could require five different types of submissions by Bank members or by institutions wishing to become a Bank member: (I) applications for membership and supporting materials; (II) notices of appeal to FHFA by institutions that have been denied membership by a Bank; (III) requests to withdraw from Bank membership; (IV) applications for transfer of membership to a different Bank and supporting materials; and (V) certifications to prove compliance with the minimum asset ratio requirements. The information collection is necessary to enable a Bank to determine whether prospective and current Bank members, or transferring members of other Banks, satisfy the statutory and regulatory requirements to be certified initially and maintain their status as members eligible to obtain Bank advances. The collection is also necessary to inform a Bank of when to initiate the withdrawal process where a member so desires. On appeals, FHFA uses the information collection to determine whether to uphold or overrule a Bank’s decision to deny Bank membership to an applicant.

## **2. Use of data**

The Banks use the information collection to: (i) determine whether an institution satisfies the statutory and regulatory requirements for Bank membership; (ii) process member withdrawals; and (iii) process member transfers to a different Bank district. When appropriate, FHFA uses the information collection to determine whether an institution that has been denied membership by a Bank should be permitted to become a member of that Bank.

## **3. Use of information technology**

The information collection permits the use of automated, electronic, mechanical, or other technological collection techniques or other forms of information technology. Respondents can use these techniques or technologies, such as Thompson Media Group LLC (TMG), which calculates performance ratios required in the membership application process, to reduce the information collection burden



**“Members of the Banks”**  
**OMB Number 2590-0003: Supporting Statement**

**4. Efforts to identify duplication**

The information collection avoids duplication because it requires the submission of information that already is available to, or compiled by, respondents for other purposes. For instance, a respondent can submit information already required for the Federal Deposit Insurance Corporation Report of Condition and Income, audited financial statements, or the public portion of its Community Reinvestment Act examination.

**5. Impact on small entities**

The proposed rule includes an exception intended to reduce the reporting burden that submission V under item #12 could impose upon certain small entities. Submission V is an optional submission that generally would give a Bank member or an applicant for membership whose compliance with the ongoing asset ratio requirements described under item #1 could not be determined by reference to its regulatory financial report or audited financial statements the opportunity to demonstrate such compliance by providing its Bank with a certification from its external auditor. As an exception to the general requirement, the proposed rule would permit small non-credit union CDFIs (*i.e.*, those with average assets of less than \$100 million over the preceding three years) to use a written certification prepared by an executive officer of the CDFI, in lieu of a certification from the external auditor. As provided under the Regulatory Flexibility Act,<sup>6</sup> FHFA has certified that the proposed rule, including the associated information collections, would not have a significant economic impact on a substantial number of small entities.

**6. Consequences of less frequent collection and obstacles to burden reduction**

If the information is not collected at the times specified in the regulation, the Banks could not determine whether: (i) an institution satisfies the statutory and regulatory requirements for Bank membership; (ii) a member may withdraw; or (iii) a member may transfer to a different Bank district.

**7. Circumstances requiring special information collection**

There are no special circumstances requiring FHFA to conduct the information collection in a manner inconsistent with the guidelines provided in Question 7.

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<sup>6</sup> See 15 U.S.C. § 605(b).



**“Members of the Banks”**  
**OMB Number 2590-0003: Supporting Statement**

**8. Solicitation of comments on information collection**

In accordance with the requirements of 5 CFR §§ 1320.8(d) and 1320.11(a), FHFA will be publishing in the *Federal Register* on September 12, 2014 a notice of proposed rulemaking which includes a request for public comments regarding this information collection. The 60-day comment period will close on November 12, 2014. A copy of the proposed rule is included with this Supporting Statement.

**9. Provision of payments or gifts to respondents**

No payment or gift will be provided to any respondent.

**10. Assurance of confidentiality**

The Banks and FHFA maintain the confidentiality of information obtained from respondents as required by applicable statute, regulation or agency policy.

**11. Questions of a sensitive nature**

There are no questions of a sensitive nature in the information collection.

**12. Estimates of the hour burden of the information collection**

FHFA has analyzed the cost and hour burden for the five facets of this information collection: (I) membership applications; (II) appeals of membership denials; (III) withdrawals from membership; (IV) transfers of membership to another Bank district; and (V) certifications regarding compliance with asset ratio requirements.

The aggregate total annual cost to members and applicants is \$244,548. The estimated total annual hour burden is 3,335 hours. The estimated total annual number of respondents is 764. The method FHFA used to determine the annual cost and hour burden for each facet of the information collection is explained in detail below.

**I. Membership Applications**

FHFA based the calculations upon an annual average of 157 applications for membership processed by the Banks.

The estimated annualized cost to applicants is \$135,365. The estimated annualized hour burden is 1,837 hours. These estimates are based on the following calculations:



**“Members of the Banks”  
OMB Number 2590-0003: Supporting Statement**

Applicant Staff Analyst prepares the membership application.

- Processing time: 5.3 hours
- Total applications: 157
- Total hours: 832
- Hourly rate: \$54 (includes salary, benefits, and overhead)
- Total cost: \$44,933

Outside attorney reviews application to ensure compliance with statutory and regulatory requirements.

- Review time: 1.4 hours
- Total applications: 157
- Total hours: 220 hours
- Hourly rate: \$140 (includes salary, benefits, and overhead)
- Total cost: \$30,772

Management reviews and then presents the application to the board of directors for approval.

- Review time: 4 hours
- Total applications: 157
- Total hours: 628 hours
- Hourly rate: \$95 (includes salary, benefits, and overhead)
- Total cost: \$59,660

Applicant’s board of directors discusses and approves membership application.

- Review time: 1 hours
- Total applications: 157
- Total hours: 157

*There are no charges/expenses for board of director reviews for membership applications as the review typically occurs at a regularly scheduled board of directors meeting.*

II. Appeals of Membership Denials

FHFA based the calculations upon an annual average of 1 appellate application processed by FHFA. No membership applicant has yet submitted an appellate application to FHFA. The estimated annualized cost to members is \$950. The estimated annualized hour burden is 10 hours. These estimates are based on the following calculations:

Management of appealing institution prepares and submits an appellate application to FHFA.



**“Members of the Banks”**  
**OMB Number 2590-0003: Supporting Statement**

- Processing time: 10 hours
- Total appellate applications: 1
- Total hours: 10
- Hourly rate: \$95 (includes salary, benefits, and overhead)
- Total cost: \$950

III. Withdrawals From Membership

FHFA based the calculations upon an annual average of 275 Bank members requesting withdrawal, which includes members that must withdraw because they have been merged into another institution or otherwise relinquished their charter. The estimated annualized cost to Bank members is \$39,188. The estimated annualized hour burden is 413 hours. These estimates are based on the following calculations:

Management prepares and submits a notice of intent to withdraw from membership.

- Processing time: 1.5 hours
- Total notices: 275
- Total hours: 413
- Hourly rate: \$95 (includes salary, benefits, and overhead)
- Total cost: \$39,188

IV. Transfer of Membership

The estimated annualized cost to members is \$110. The estimated annualized hour burden is 1.5 hours. These estimates are based on the following calculations:

Management prepares request to transfer membership to another Bank district.

- Processing time: 1 hour
- Total requests: 1
- Total hours: 1
- Hourly rate: \$95 (includes salary, benefits, and overhead)
- Total cost: \$95

Administrative assistant prepares and submits to the Bank a request to transfer membership to another Bank district.

- Processing time: 0.5 hours
- Total requests: 1
- Total hours: 0.5
- Hourly rate: \$30 (includes salary, benefits, and overhead)
- Total cost: \$15



**“Members of the Banks”**  
**OMB Number 2590-0003: Supporting Statement**

V. Certifications Regarding Compliance With Asset Ratio Requirements

The estimated annualized cost to members is \$68,935. The estimated annualized hour burden is 1,073 hours.

This is a proposed new submission under this information collection. FHFA estimates that about 330 Bank members and applicants for membership would decide to take steps to track the data needed to prepare the asset ratio certifications over the next 3 years. Based on 2013 data, the agency estimates that Banks will be unable to confirm compliance with the proposed asset ratio requirements through reference to existing regulatory financial reports or audited financial statements for about 165 member institutions in each of the next 3 years (most of which will be the same institutions from year to year). These institutions would be required to obtain the relevant data from their accounting information systems and to submit to their Banks auditor certifications as to the actual asset ratios.

Other institutions for which compliance with the proposed “home mortgage loan” or “residential mortgage loan” asset ratio requirements may be confirmed through reference to their existing call reports or audited financial statements in a given year would not be required to submit an auditor certification for that year. However, a small subset of those institutions—*i.e.*, those that appeared to have asset ratios only slightly above the minimum requirements—might nonetheless choose to track the relevant asset data in their own accounting information systems in order to have it readily available in the event that they might be required to submit an auditor certification in a subsequent year. FHFA estimated the number of such institutions also to be 165 so that the total number of institutions tracking the asset ratio data in any given year would be twice as many as would likely be required to file an auditor certification in any given year ( $2 \times 165 = 330$ ).

Because this would be a new requirement, all 330 of those institutions would need to take initial steps to modify their accounting information systems to track the relevant asset sub-categories. Although FHFA believes it would take each institution an average of 4.5 hours to make those one-time modifications, that estimate is expressed as an annual average of 1.5 hours per year over 3 years in the first calculation below.

The estimates for the burden estimates are based on the following calculations:

Recordkeeping

Information technology or other appropriate employee modifies accounting information system to add sub-accounts to track specific assets that qualify as either “home mortgage loans” or “residential mortgage loans” under FHFA’s regulations.

- Time: 1.5 hours (a 4.5 hour one-time task averaged over 3 years)
- Frequency: 1
- Total institutions: 330



**“Members of the Banks”**  
**OMB Number 2590-0003: Supporting Statement**

- Total hours: 495
- Hourly rate: \$55 (includes salary, benefits and overhead)
- Total cost: \$27,225

Staff accountant substantiates balance sheet sub-accounts for “home mortgage loan” or “residential mortgage loan” assets.

- Time: 1 hour
- Frequency: 1
- Total institutions: 330
- Total hours: 330
- Hourly rate: \$55 (includes salary, benefits and overhead)
- Total cost: \$18,150

Management reviews year-end sub-account data for “home mortgage loan” or “residential mortgage loan” assets.

- Time: .5 hours
- Frequency: 1
- Total institutions: 330
- Total hours: 165
- Hourly rate: \$95 (includes salary, benefits and overhead)
- Total cost: \$15,675

Reporting:

If necessary, management communicates with external auditor regarding preparation of a certification as to the amounts of “home mortgage loan” or “residential mortgage loan” assets held by the institution as of the relevant year-end dates and submits the final certification to its Bank.

- Time: .5 hours
- Frequency: 1
- Total institutions submitting asset ratio certifications: 165
- Total hours: 83
- Hourly rate: \$95 (includes salary, benefits and overhead)
- Total cost: \$7,885

*Note: As shown above, we estimate that, for this IC, 330 institutions may be subject to recordkeeping burden annually, while only 165 may be subject to the reporting burden. In ROCIS, we were unable to enter a different number of respondents for the reporting and recordkeeping burdens associated with the same IC. Therefore, in ROCIS, we listed the total number of respondents for this IC as 330 and entered .25 hours in the “burden per response” box for the reporting burden (.25 hours x 330 respondents = 83 total hours) instead of the .5 that*





**“Members of the Banks”**  
**OMB Number 2590-0003: Supporting Statement**

*is listed above (.5 hours x 165 respondents = 83 total hours), which resulted in the correct number of 83 total burden hours associated with the reporting aspect.*

### **13. Estimated total annualized cost burden to respondents**

For submissions I, II, III, and IV under item #12, FHFA has not identified any costs to respondents other than the hourly personnel costs detailed under item #12.

FHFA estimates that the additional annual cost burden on Bank members or applicants for membership associated with submission V under item #12 (certifications regarding compliance with asset ratio requirements) will be \$453,750, all of which would arise from additional fees paid to their external auditors in connection with the preparation of the required asset ratio certifications or the testing of the data underlying those certifications. This estimate assumes that: (1) for each of the estimated 330 institutions that would track the relevant asset data, the requirement would add 5 additional hours to the external auditor’s annual audit process (to test the appropriate asset sub-accounts); (2) it would take an auditor 1 hour to prepare an asset ratio certification for each of the estimated 165 institutions that would be required to submit a certification in any given year; and (3) those institutions would be billed, on average, \$250 per hour by their auditors for this additional work. Thus,  $(\$250 \times 5 \text{ hours} \times 330 \text{ institutions} = \$412,500) + (\$250 \times 1 \text{ hour} \times 165 \text{ institutions} = \$41,250) = \$453,750$ .

### **14. Estimated cost to the federal government**

The estimated annual cost burden to FHFA is \$23,837 and 481 hours, calculated as follows:

#### **I. Membership Applications**

The estimated annualized cost to FHFA is \$23,079. The estimated annual hour burden is 471 hours. These estimates are based on the following calculations:

Financial analyst tracks all Bank membership applications and associated docket number requests and performs general clerical functions.

- Processing time: 3 hours
- Total applications: 157
- Total hours: 471
- Hourly rate: \$49 (includes salary, benefits and overhead)
- Total cost: \$23,079



**“Members of the Banks”**  
**OMB Number 2590-0003: Supporting Statement**

II. Appeals of Membership Denials

The estimated annualized cost to FHFA is \$758. The estimated annual hour burden is 10 hours. These estimates are based on the following calculations:

Financial analyst reviews appellate application to ensure compliance with statutory and regulatory membership eligibility requirements.

- Review time: 2 hours
- Total applications: 1
- Total hours: 2
- Hourly rate: \$49 (includes salary, benefits, and overhead)
- Total cost: \$98

Staff attorney reviews appellate application to confirm eligibility and to ensure the absence of any special legal issues.

- Review time: 4 hours
- Total applications: 1
- Total hours: 4
- Hourly rate: \$70 (includes salary, benefits, and overhead)
- Total cost: \$280

Management reviews appellate application and Bank and FHFA staff recommendations and makes a determination on the application.

- Review time: 4 hours
- Total applications: 1
- Total hours: 4
- Hourly rate: \$95 (includes salary, benefits, and overhead)
- Total cost: \$380

III. Withdrawals from Membership

FHFA is not involved in membership withdrawals.

IV. Transfer of Membership

FHFA is not involved in transfer of membership determinations.

V. Certifications Regarding Compliance With Asset Ratio Requirements

FHFA does not review or approve asset ratio certifications.



**“Members of the Banks”**  
**OMB Number 2590-0003: Supporting Statement**

**15. Reasons for change in burden**

FHFA last requested review of this information collection on October 24, 2013, and OMB granted a renewal of the control number on December 16, 2013 (with an expiration date of December 31, 2016). The Supporting Statement submitted at that time showed 2,261 burden hours, total hourly costs of \$175,613, and no additional costs (under item #13) imposed upon members/applicants by this collection. In comparison, this Supporting Statement shows 3,335 burden hours, total hourly costs of \$244,548, and additional costs (under item #13) of \$453,750 imposed upon members/applicants. These changes are entirely due to the proposed addition of submission V under item #12 (certifications regarding compliance with asset ratio requirements) to the information collection. The hour and cost estimates for submissions I, II, III, and IV remain unchanged.

**16. Plans for tabulation, statistical analysis and publication**

FHFA will not publish the results of this information collection.

**17. If seeking approval to not display the expiration date for OMB approval of the information collection, explain the reasons why display would be inappropriate**

FHFA plans to display the expiration date for OMB approval.

**18. Explain each exception to the topics of the certification statement identified in “certification for paperwork reduction act submission”**

There are no exceptions to the certification statement identified in “Certification for Paperwork Reduction Act Submissions.”

**B. Collection of Information Employing Statistical Methods**

The information collection does not employ statistical methods.