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March 29, 2011

Alfred M. Pollard, General Counsel
Attention: Comments/RIN 2590-AA39
Federal Housing Finance Agency - Fourth Floor
1700 G Street, NW
Washington, D.C. 20552

Re: Advance Notice of Proposed Rulemaking and Request for Comments – Members of
Federal Home Loan Banks (RIN 2590-AA39)

Dear Mr. Pollard:

The Federal Housing Finance Agency (FHFA) has requested comments on its advance notice of proposed rulemaking (ANPR) in which the Agency expresses its intent to review current Federal Home Loan Bank (FHLBank) membership requirements. The Pennsylvania Bankers Association appreciates the opportunity to submit its comments on this ANPR.

The questions posed indicate that the FHFA is considering requiring FHLBank members to “maintain a demonstrable involvement in residential mortgage lending and otherwise comply with the statutory requirements for membership.” FHLBank member institutions could be required to hold at least 10% of their assets in mortgages on a continuing basis rather than only at the time they join. Objective and quantifiable standards could be established for the requirements that each member “makes long-term home mortgage loans” and has a “home financing policy.” Noncompliant members could be barred from further access or have their memberships terminated.

PBA is concerned that such changes would make it difficult for many financial institutions to obtain and maintain access to the liquidity available through FHLBank advances. Stricter requirements would impair the ability of FHLBank members to borrow in all circumstances. This could destabilize the System’s reliable liquidity which was very important during the recent

economic crisis. The changes would also discourage potential members from joining with the result that FHLBanks are less able to serve the housing and community development needs of their districts. These possible changes would prove particularly burdensome to small- and medium-sized member banks, at a time when these members are already dealing with a flood of new regulatory requirements.

PBA encourages policymakers to foster economic recovery by enabling banks to increase their lending to small businesses and other job-creating activities. Proposing to limit access to the low-cost funding provided by the FHLBanks is an example of the mixed message sent to the banking industry from Washington which creates uncertainty and limits our economic recovery.

During the recent financial crisis, Federal Home Loan Banks provided their members with much-needed liquidity enabling them to continue to meet housing and community credit demands in their communities. At the height of the crisis, when other sources of liquidity shut down, the Federal Home Loan Banks increased their lending to their members by 58 percent between the second quarter of 2007 and the third quarter of 2008 - from \$650 billion to \$1 trillion. Had the membership restrictions discussed in this ANPR been in effect during the recent financial crisis, they could have had serious, long-term consequences.

Congress intended that FHLBank funding be used by members to provide traditional, residential mortgage finance and enable community development and affordable housing activities in their communities. Continuous compliance with membership requirements would constitute an increased regulatory burden for FHLBank members, particularly smaller institutions which could never be sure of their ability to maintain at least 10% of their assets in mortgages. This uncertainty would result in FHLBanks being viewed by both existing and prospective members as a far less reliable funding partner.

Given that ANPR does not state any compelling need for new membership rules and cites no benefits that would result from their imposition, PBA respectfully urges the Agency to withdraw this membership ANPR. FHLBanks membership or mission changes should come from Congress which along with the Administration is currently examining housing finance including the FHLBanks' role.

PBA appreciates this opportunity to comment.

Sincerely,

Handwritten signature of Louise D. Reed in black ink.