PENNSYLVANIA ASSOCIATION OF COMMUNITY BANKERS
THE VOICE FOR COMMUNITY BANKING IN PENNSYLVANIA SINCE 1876

March 28, 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 an advance notice of proposed rulemaking (ANPR) in which the agency has expressed its desire to review current Federal Home Loan Bank (FHLBank) membership requirements. On behalf of the Pennsylvania Association of Community Bankers, I appreciate the opportunity to submit this comment on the ANPR.

The questions posed in the ANPR are troubling. They suggest 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 when they join. Also, objective and quantifiable standards could be established for the requirements that each member "makes long-term home mortgage loans" and have a "home financing policy." Noncompliant members could be barred from further access or have their membership terminated.

The regulatory changes under consideration would make it more difficult for many financial institutions to obtain and maintain access to the liquidity available through FHLBank advances. Stricter requirements will call into question the ability of FHLBank members to borrow under all future economic scenarios. This will destabilize a key tenant of the System, the reliability of accessing liquidity. The changes will also discourage potential members from joining, ultimately inhibiting the ability of FHLBanks to serve the housing and community development needs of their districts. These suggested changes are likely to prove particularly burdensome to small and medium sized members, when these members are already subject to many other new regulatory requirements.

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At a time when policymakers should be looking for ways to jump start economic activity by encouraging banks and other financial institutions to increase their lending to small businesses and other job creating activities, the proposal threatens to limit access to the low-cost funding provided by the FHLBanks. It is an example of the mixed messages being sent to community banks from Washington, which continue to create uncertainty and impede the economic recovery.

During the recent financial crisis, the Federal Home Loan Banks provided liquidity nationwide to their members for housing and community credit needs through one of the most challenging periods of economic stress. As other sources of liquidity disappeared – and before the coordinated response of the federal government – the Federal Home Loan Banks increased their lending to members in every part of the country by 54 percent between the second quarter of 2007 and the third quarter of 2008 (from $650 billion to $1 trillion). The FHLBanks were especially important as a source of funding to smaller institutions during this stressful period, when other sources of funding essentially disappeared. The ability of community lenders to rely on their FHLBank as a readily accessible and reliable source of funding was critical during this period. The imposition of unnecessary impediments to this access – such as the suggested membership changes – could have had serious adverse consequences had they been in effect during this financial crisis.

As the Nation works to generate economic growth, create jobs and recover from the financial crisis and housing downturn, the FHLBanks continue to play a critical role as a source of liquidity and term funding for its member institutions. As Congress intended, FHLBank funding is used by members to provide traditional residential mortgage finance as well as to support community development and affordable housing activities in their communities, helping their local economies to recover.

Requiring continuous compliance with membership requirements would impose new regulatory burdens on FHLBank members, particularly smaller institutions. Requiring members to meet on-going requirements would add an element of uncertainty to FHLBank membership. Members could never be sure of their ability to meet these tests and therefore maintain their access to FHLBank liquidity and funding products, particularly in times of financial stress. For example, in periods when mortgage valuations rapidly decline, as we recently experienced, members could not be assured of maintaining at least 10% of their assets in mortgages. As a result, the FHLBanks would be viewed by both existing members and potential members as a far less reliable funding partner.

The ANPR does not present any compelling reason for imposing new membership rules, and does not present any information showing that there is a problem with the current membership rules, which have served the FHLBanks well for many decades. The ANPR failed to cite a benefit it hoped to achieve by changing the membership rules to require continuous compliance. The FHFA's annual report to Congress on the state of the FHLBanks did not note any problems with the implementation of these rules.

Any changes to the FHLBanks' membership or mission – especially changes that would restrict membership eligibility or narrow the FHLBank's mission - should come first from Congress, particularly at this time when Congress and the Administration are just at the beginning of an extensive effort to review housing finance in this country, including the FHLBanks' role. When Congress has examined the FHLBanks in the past, the result has been to expand, rather than contract, the role of the FHLBanks.

For these reasons, the membership ANPR should be withdrawn. Once again, thank you for the opportunity to submit this comment on the ANPR.

Sincerely,

Nick DiFrancesco
President/CEO