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OFFICE OF GENERAL COUNSEL

Alfred M. Pollard, General Counsel
Attention: Comments/RIN 2590-AA39
Federal Housing Finance Agency
400 Seventh Street SW, Eighth Floor
Washington, DC 20024
Email: RegComments@fhfa.gov

Office of Information and Regulatory Affairs, OMB
Attention: Desk Officer for Federal Housing Finance Agency
Room 10102, New Executive Office Building
725 17th Street NW
Washington, DC 20503
Email: OIRA_Submission@omb.eop.gov

Re: Members of Federal Home Loan Banks Notice of Proposed Rulemaking, RIN 2590-AA39

Dear Mr. Pollard and OMB Desk Officer:

On September 2, 2014 the FHFA released a notice of proposed rulemaking ("NPR") which includes new requirements which must be satisfied for a bank or credit union to qualify for Federal Home Loan Bank ("FHLB") membership. I am writing to urge you to withdraw the new membership requirements from the final rule. The proposed membership requirement, if enacted, will subject FHLB member banks to the potential loss of a critically important source of liquidity and could introduce systemic liquidity risk into the banking system with no apparent off-setting public benefit.

Proposed Membership Requirements

The NPR introduces two new "tests" which must be satisfied for FHLB membership:

- 10% Test – Pursuant to the NPR all depository institutions (except Community Financial Institutions) and credit unions would be required to maintain at least 10% of assets in "residential mortgage loans"[1] on an on-going basis; and

[1] Qualifying residential mortgage loans include home mortgage loans, funded residential construction loans, manufactured housing loans, junior liens on one-to-four family homes, mortgage-backed securities, and loans that

- "Makes" Test – All FHLB members would be required to hold one percent of assets (possibly increasing to five percent pursuant to the NPR) in "home mortgage loans"[2] in order to satisfy the statutory requirement that an institution make long-term home mortgage loans to become or remain a FHLB member.

Under the NPR any member bank that fails to meet these new ongoing membership requirements will have its FHLB membership terminated. Members found to be out of compliance with either requirement would be given one year to return to compliance, and should the member remain out of compliance for two consecutive years, membership would be terminated.

Loss of membership means that a terminated member will lose access to mission-critical FHLB services including (i) advances, which are a critically important form of liquidity and interest rate sensitivity management for members; (ii) mortgage programs; (ii) letters of credit; and (iv) community investment programs including AHP, BOB and CLP. Significantly, loss of membership will prevent an institution from re-applying for membership for a period of five years.

Negative Consequences of the Proposed Membership Requirement Amendments

The proposed membership requirement amendments appear to be at odds with the focus of FHLB member prudential safety and soundness regulators. While the prudential regulators are increasingly focused on the liquidity, including liquidity stress-tests of their regulated institutions, the NPR will make access to FHLB liquidity less certain by requiring members to meet on-going asset requirements established by the FHFA which does not regulate member institutions. Furthermore, the proposed rule is at odds with the concern expressed by prudential regulators concerning interest rate exposure associated with holding long-term fixed rate mortgages and the encouragement to sell these assets in the secondary market.

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qualify under the Community Reinvestment Act or Community Investment Cash Advance Program. Any assets used to secure mortgage-backed securities would not be included in the amount of residential mortgage loans held pursuant to the NPR.

[2] Qualifying home mortgage assets include first lien mortgages with original terms to maturity of five-years or longer secured by: (i) one-to-four family or multi-family property; (ii) a leasehold on one-to-four family property or multi-family property of at least 99 years that is renewable, or a lease of at least 50 years to run from the date of the mortgage; and (iii) a combination of business and farm property where at least 50 percent of the total appraised value is attributable to the residential portion of the property. In addition, qualifying assets include mortgage-backed securities comprised of qualified mortgages, or securities that are backed by qualifying mortgages.

Member management of liquidity risk would be more difficult as continued access to FHLB advances would be contingent on arbitrary regulatory determinations related to the mortgage asset tests. The NPR removes certainty that the FHLB will be a source of critically important liquidity in all market conditions. In times of market stress, where asset values rapidly decline such as 2008-2009, members could not be assured of their ability to meet these arbitrary tests.

The imposition of liquidity contingencies by the FHFA will result in substantially more cost and effort by members to satisfy outside auditors and prudential regulators that banks have access to critically important liquidity beyond that available through FHLB membership. This access to liquidity is a principal benefit of membership, and without such certainty, the benefits of being a FHLB member are substantially less attractive, and insomuch as it discourages membership, it reduces funds available for the Affordable Housing Finance program. This seems to be at odds with the mission.

Finally, the NPR restricts operating flexibility for banks with no real or apparent safety and soundness benefit. The on-going nature of the membership test requirements will dictate artificially distorted balance sheet positions, decreasing the flexibility of community banks, credit unions and insurance companies to manage their balance sheets in response to changing market conditions.

Solution In Search of a Problem

I am puzzled concerning the need for the membership test provision of the NPR. The FHFA has never raised this matter with Congress in testimony or through any report. The 2013 FHFA Annual Report makes no mention of problems associated with existing membership rules while extolling strong FHLB earnings, advances and capital levels. There have not been any safety and soundness developments related to existing membership rules that might compel the FHFA to propose regulatory changes. Finally, the advanced notice of rulemaking issued on December 27, 2010 generated overwhelmingly negative comment letters on the advanced NPR including letters from then House Financial Services Committee Chairman Congressman Bachus and Ranking Member Congressman Frank.

There is no compelling reason to amend the present membership rules which have been effective in protecting taxpayers and have supported the FHLB housing finance mission. For example, existing collateral rules require advances to be backed by housing-related assets.

The Residential Housing Finance Asset requirement limits long-term advances to the amount of total residential housing long-term assets that members hold. The existing Community Support Statement requires members to meet certain requirements and periodically certify support for first-time homebuyers to access long term advances and CICA funding. These existing provisions have been effective to qualify membership.

For these reasons, I urge you to remove the new membership requirements from the NPR.

Sincerely,

Thomas M. Petro
President and CEO
Fox Chase Bank
Member, FHLB Pittsburgh

Cc: The Honorable Robert P. Casey, Jr.
The Honorable Patrick J. Toomey
The Honorable Patrick Meehan
The Honorable Michael G. Fitzpatrick
The Honorable Glenn Moyer, Pennsylvania Secretary of Banking
Mr. Wayne Abernathy, American Bankers Association
Mr. J. Duncan Campbell, Pennsylvania Bankers Association
Mr. Winthrop Watson, President and CEO, FHLB Pittsburgh