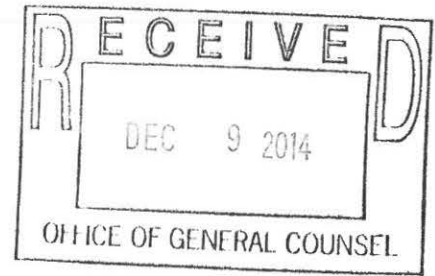




December 1, 2014

Alfred M. Pollard, Esq., General Counsel
Attention: Comments/RIN 2590-AA37
Federal Housing Finance Agency, Fourth Floor
400 Seventh Street, S.W.
Washington, DC 20024



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

Dear Mr. Pollard:

On behalf of Washington Financial Bank in Washington, Pennsylvania, I am writing to express my concerns about the notice of proposed rulemaking. While we understand your apparent desire to provide for a strong Federal Home Loan Bank System that supports housing, we believe that the rule undermines the goal of the proposal. Here are some of my concerns:

Liquidity Issues

1. It seems this rule has the potential to restrict access to liquidity at the exact point in time when more, **not less**, liquidity is needed in a recovering market. While many depository institutions are flush with deposits currently, most observers believe that this may change when interest rates inevitably rise.
2. Powerful and ongoing housing asset tests exist already. We are required to pledge collateral, and the majority of collateral types eligible to secure advances are housing assets. Additionally, under current rules, the total amount of advances having a maturity greater than five years cannot exceed the amount of residential housing assets on my institution's balance sheet. The proposed regulation almost seems to ignore the housing nexus that is already in place. These tests work and do not impose regulatory burdens or penalties.
3. My regulator, the FDIC, requires a reliable source of contingent liquidity. For us, this has always been my Home Loan Bank. With this rule, I'm concerned my regulator will not consider the FHLBanks reliable and may require another, more expensive, liquidity source.
4. The FHFA is not a bank regulator, but this proposed regulation imposes a significant regulatory metric that my institution will have to assess in the future. I do not believe that the FHFA has consulted with my regulator and the regulators of other FHLBank members, because if the FHFA had, they would have found my above mentioned concerns strongly expressed already.

Community Financial Institutions (CFI) Issues

1. As a community bank, I worked hard to have the Congress exempt institutions under \$500 billion in assets from the 10 percent test to join FHLBanks in 1998. In 2008, I was glad to see the Congress increase the eligibility for this exemption to institutions with \$1 billion in assets. That number is now inflation-indexed to bring it to \$1.1 billion.
2. As a community bank just below the CFI definition of less than \$1.1 billion, it's tough enough to do business already. This rule would add uncertainty of going over and thus being subject to the 10 percent test. This seems like an arbitrary and unnecessary imposition of regulation that will affect our strategic business decisions.
3. Simply put, I don't want to have to think about the potential of losing my FHLBank membership as I make business decisions and deal with the numerous existing and changing regulations and risks I have to manage. I run my institution to be safe, profitable and useful to my customers -- not to meet an arbitrary test.

Housing in Recovering Market Issues

1. My institution will get no credit for supporting housing with mortgages we originate and sell into the secondary market. If my institution were to lose membership, I would lose access to the Mortgage Partnership Finance Program, which directly supports housing. This result is completely at odds with the proposal's stated intent to ensure that FHLBanks are supporting their housing finance mission.
2. By reducing flexibility for FHLBank members to manage our balance sheets (which is not directed at any FHLBank safety and soundness concerns), this rule may present new safety and soundness challenges to my institution.
3. The government should be looking for ways to help the economy, not impose a rule that could restrict the flow of credit to communities across America.

Affordable Housing & Community Development Issues

1. This proposed rule will diminish the value of FHLBank membership, reduce borrowing from FHLBanks and reduce the capacity of FHLBanks to assist members in serving the housing needs of their markets. This will include a negative impact on net income for the FHLBanks, which will, in turn, mean less money for affordable housing grants.



2. I'm concerned that internal resources in my FHLBank (Pittsburgh) will have to be redeployed to monitoring membership tests and this may take away from their ability to create innovative programs such as Blueprint Communities, which helps to revitalize communities, or Banking On Business, which creates and retains jobs. These are programs that really help communities.
3. By diminishing the strength of the FHLBanks, this rule diminishes community investment programs that help communities grow and thrive.

Regulatory and General Issues

1. Congress, not FHFA, should determine membership requirements.
2. This proposed regulation addresses a problem that does not exist. There are no safety and soundness problems at FHLBanks raised by lending to members that may fall below either of these proposed ongoing asset test levels. However, the proposal would impose new regulatory-type burdens and expense on my institution, may put me at odds with my own regulator, and could restrict the flow of capital into the communities we serve.
3. This regulation will have the unintended consequence of putting FHLBank members in a position of having conflicting regulatory burdens. For example, my regulator says I should hold fewer long-term mortgages on my balance sheet, but this rule may encourage me to add long-term mortgages just to meet the test and retain FHLBank membership.
4. This regulation puts the FHLBank that I own (as a member of the cooperative) in a de facto regulatory role; it is not appropriate for them to regulate their owners.

Based on my belief that the proposals could harm FHLBank members and generally weaken a System that has worked well for more than 80 years, I am asking for the FHFA to withdraw the September 12, 2014 Notice of Proposed Rulemaking.

Sincerely,

John S. Milinovich, EVP & CFO
Washington Financial Bank