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December 1, 2014

Alfred M. Pollard, Esq., General Counsel
Attention: Comments/RIN 2590-AA39
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 the Farmers National Bank of Emlenton, Pennsylvania, I appreciate the opportunity to comment on the proposed rulemaking. I approach this issue from two perspectives, that as a member of the board of the Federal Home Loan Bank (FHLBank) of Pittsburgh and as the Chairman, President and Chief Executive Officer of a community bank that is a member of the FHLBank.

As an FHLBank board member, I appreciate the role of the Federal Housing Finance Agency as the prudential regulator of Federal Home Loan Banks. Effective supervision of the FHLBanks is a critical underpinning in making member banks' investment and participation in the Federal Home Loan Banks reliable, safe and sound. However, I fail to see how this proposed regulation has any positive impact on safety and soundness and I find no evidence offered by the Agency in the proposed rule to that effect. I have seen no public statements from the Agency that point to safety and soundness concerns with regard to membership. In fact, the latest Agency report to Congress makes no mention of problems associated with existing membership rules but highlights strong FHLBank earnings, advances and capital.

The proposed regulation adds troubling new elements into the regulatory environment of our members. First, the regulation makes access to FHLBank liquidity less reliable, which will be of concern to many prudential regulators of FHLBank members. In addition, the regulation imposes the Finance Agency as a de facto regulator of FHLBank members. FHLBank members will now have to manage to an operating metric not imposed by the Congress or their own prudential regulator, but by the Finance Agency.

As a member that uses the FHLBank for advances, letters of credit, the Mortgage Partnership Finance Program and safekeeping services, I want to see that my FHLBank remains a strong and reliable partner to my bank and the communities we serve. I see the proposed regulation, if adopted as proposed, as creating operating challenges for FHLBanks that would not otherwise exist. The regulation, even as a proposed rule, has discouraged new members from joining which is detrimental to the FHLBank.

As a Community Financial Institution (CFI) member I am strongly supportive of the fact that the Congress twice enacted exemptions to the requirement that CFI's meet the ten percent mortgage asset test to join an FHLBank. The first exemption was enacted in 1999 with the passage of the Gramm Leach Bliley Act that defined a CFI as an FDIC insured institution below $500 million in assets. The second congressional action was in 2008 in the Housing Enforcement and Recovery Act of 2008 that doubled the CFI threshold to $1 billion, indexed for inflation.

Congress has clearly stated that small institutions should not be subject to a ten percent mortgage asset test to join an FHLBank, but this proposed regulation, flies in the face of congressional intent by requiring many CFI's to now adhere to this ten percent test. I am referring to instances where an existing member institution below the CFI threshold grows as it supports credit needs in local markets but begins to approach the CFI designation. With the economy is showing stronger growth following the recession, I fail to see why these institutions should have to ensure they would meet a test from which they have received two statutory exemptions should their asset growth take them above the CFI level. In addition, in situations where two CFIs have decided it is in the best interest of their shareholders, their customers and the communities they serve to merge, and their merger would take them above the CFI threshold, they will now have to comply with what is a totally new ongoing regulatory requirement—a requirement that isn't statutory and wasn't applicable to either institution when they joined the FHLBank and made their investment in FHLBank capital stock. Applying this new regulatory requirement is inconsistent with fundamental fairness, will hurt community banks and their communities.

As a member, I want to see that my FHLBank is strong. I believe the proposed regulation would diminish the value of FHLBank membership for my institution by pushing some strong members away from the cooperative, and forcing other members to consider alternative sources of liquidity since their access to the FHLBank will now be subject to unprecedented ongoing asset tests. As a member that easily meets the test currently applicable to my institution, I see my cooperative weakened by the proposed regulation with no off-setting benefit to my institution.

To sum up, the proposed regulation will create new operating challenges for FHLBanks, harm members and the communities they serve, and weaken a System that has worked well for more than 80 years. I, therefore, respectfully request that the FHFA withdraw the September 12, 2014 Notice of Proposed Rulemaking.

Very truly yours,

William C. Marsh

William C. Marsh
Chairman, President and Chief Executive Officer
The Farmers National Bank of Emlenton