COMMUNITY BANK Delaware

Lynda A. Messick
President & CEO

Alfred M. Pollard, General Counsel
Attention: Comments/RIN 2590–AA39
Federal Housing Finance Agency
400 Seventh Street SW, Eighth Floor
Washington, D.C. 20024

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OFFICE OF GENERAL COUNSEL

December 3, 2014

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

Dear Mr. Pollard:

I am contacting you in my position as CEO of **Community Bank Delaware** to express our serious concerns regarding the proposed change for membership criteria for the Federal Home Loan Bank system. We at Community Bank Delaware are vehemently opposed to this change which we feel would negatively affect housing finance and a critical liquidity source for financial institutions-especially community banks.

The nation's community banks effectively convinced Congress to exempt institutions under $500 million in assets from the 10 percent test to join FHLBanks in 1998. Congress increased eligibility for this exemption to institutions with $1 billion in assets in 2008. Inflation-indexed, that number is now $1.1 billion. This proposed regulation would circumvent the intent of the Congress to exempt small institutions from a 10 percent asset test. It would subject institutions that are now below $1.1 billion in assets to an ongoing 10 percent asset test should their assets grow beyond $1.1 billion. Ideally, an FHLBank member can manage its portfolio as it manages any of the other ALCO management components.

As a community bank CEO, I manage interest rate risk, credit risk and liquidity risk, at the same time striving to serve the credit needs of my community. This regulation could put me in a situation where I may not be able to support growing business loan demand because my institution might get too close to the CFI asset cap and become subject to the more stringent ongoing 10 percent of assets test.

The specter of this change could halt growth for all community banks. This regulation puts FHLBank Pittsburgh, where my institution has an ownership interest as a member of the cooperative, in a de facto regulatory role. Community Banks are already heavily and thoroughly regulated, and further, it is not appropriate for the FHLBanks to regulate their owners. Additionally, the Finance Agency changes could put existing members of the FHLBank system at risk of having their membership terminated for failing a new ongoing housing asset test that was not in effect when they became members.

Both the State of Delaware Bank Commissioner and the FDIC require me to have reliable sources of contingent liquidity. With this rule, I'm concerned my regulators will not consider the FHLBanks reliable and may require another, more expensive, liquidity source. In turn, this will negatively impact our institution, our customers and our communities by increasing our borrowing costs and therefore, inevitably, increasing costs to our customers.

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As a fairly new (2006) community bank in a rural area, we were faced with funding issues during the financial crisis. We had lots of loan demand, but deposit funding was harder to come by, and was expensive due to the competition from credit card banks and credit unions. The FHLB offered us fast, inexpensive and flexible funding which allowed us to help any number of small businesses which had been squeezed out of the big banks. That- in my view- is the system working at it best. I could also list the many housing projects in my state which exist because of partnership with the FHLB of Pittsburgh. I feel this proposed regulation threatens the system and community banks. So, where is the benefit in implementation of a change in this volatile time for our industry which has so few tangible benefits and has so many tangible risks?

Mr. Pollard, I am grappling with the fact that this proposal could harm those who are existing members of an FHLBank and weaken a system with a track record of working well for more than 80 years. We ask that the Finance Agency withdraw RIN 2590–AA39. As many others have noted, it is a proposed regulation in search of a problem that does not exist.

Sincerely,

Lynda Messick

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