PA Bankers ASSOCIATION

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

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

Dear Mr. Pollard:

The Pennsylvania Bankers Association (PA Bankers) represents national and state chartered banks almost all of whom are members of the Federal Home Loan Bank of Pittsburgh (FHLBank). Our members are stockholders and customers of this critically important resource. Following our review of this proposed rule that would limit membership in the Federal Home Loan Bank System, we are submitting our concerns on how this would negatively impact the members we support and the communities they serve.

The proposed rule would establish a new sanction of expulsion for PA Bankers members that fail to meet new ongoing 10 percent or 1percent mortgage asset tests. These changes would apply to both prospective members and to institutions that have been longtime members. It is particularly troubling that these proposed changes would apply to existing members of an FHLBank – institutions that became members and purchased stock in their FHLBank when this requirement was not in effect.

For financial institutions of all sizes, reliable long-term liquidity is very important. Restricting access to liquidity based on a mortgage-related asset test when the need could be the greatest (such as a distressed or evolving markets) is bad policy. An FHLBank's ability to provide long-term and low-cost funding to their members is exceptional and is valued by banking regulators. These regulators require PA Bankers members to manage their liquidity risk and part of this is achieved through membership in the FHLBank. Should this regulation become final as proposed, our members would be faced with the possibility of lost access to this important source of liquidity at some point in the future and be forced to seek, other more expensive liquidity options.

This proposed regulation would also circumvent the specific intent of the Congress to exempt small institutions from a 10 percent mortgage asset test. Since 1989, under the Federal Home Loan Bank Act, FDIC-insured institutions with assets of $1.1 billion or greater are required to hold at least 10 percent of their assets in residential mortgage assets at the time of application for FHLBank membership. In 1998, Congress exempted institutions under $500 million in assets from the 10 percent test to join FHLBanks. In 2008, Congress increased the eligibility for this exemption to institutions with $1 billion in assets (now $1.1 billion due to indexing). The proposed regulation would now 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. This will impact institutions that may be considering a merger or are prudently growing as they serve thriving markets.

For more than eight decades, FHLBanks have had a successful track record of serving their members and adhering to existing statutory collateral requirements to ensure that FHLBank lending is consistent with the FHLBank System's mission and goals. This additional regulation would hurt FHLBanks and their members and reduce liquidity. For these reasons, we urge the Federal Housing Finance Agency to withdraw RIN 2590–AA39.

Please let me know if you have any questions about our concerns.

Sincerely,

J. Duncan Campbell III