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January 6, 2015

Alfred M. Pollard, Esq., General Counsel

Attention: Comments/RIN 2590-AA39

Federal Housing Finance Agency

400 Seventh Street, SW, Eighth Floor

Washington, DC 20024

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

Dear Mr. Pollard,

Thank you for providing the opportunity to comment on the Notice of Proposed Rulemaking (NPR), issued by the Federal Housing Finance Agency (FHFA), as it pertains to Members of the Federal Home Loan Bank. The Pennsylvania Association of Community Bankers (PACB) is a statewide trade association that represents the interests of community banks operating in the Commonwealth of Pennsylvania. We strongly urge the FHFA to reconsider and withdraw the proposed rule because of the barriers it would present to affordable housing programs. Your review and consideration of this request are greatly appreciated.

Community banks have historically provided, and continue to provide substantial support to the housing market through the origination of single family residential mortgages. These affordable and long term mortgage products provide customers with wealth building tools that strengthen communities via traditional fifteen and thirty year mortgages.

In recognition of the fact that community banks are involved in the whole spectrum of credit essential to strong communities, including small business and economic development lending, Congress in 1998 exempted institutions under \$500 billion in assets from the 10% test to join FHLBanks that had been enacted in 1989. Congress did this to promote FHLBank membership among community banks and spur affordable housing partnerships. The Housing and Economic Recovery Act of 2008 further addressed the need for affordable housing programs and partnership between the FHLBanks and potential members by raising the exemption

threshold to financial institutions with less than \$1 billion in assets (indexed to inflation which results in a current level of \$1.08 billion) from the asset test for FHLBank membership<sup>1</sup>.

According to the most recent FDIC state profile of Pennsylvania, 192 financial institutions, which fall under the purview of the FDIC, operate in the state. Of these, 164 of these have assets totaling less than one billion dollars and are classified as "Community Financial Institutions" (CFI) under 12 USCS § 1422<sup>2</sup>.

This regulation as proposed would end-run the will of Congress to exempt small institutions from a 10% asset test. It would subject institutions that are now below \$1.1 billion in assets to an ongoing 10% asset test should their assets grow beyond \$1.1 billion. Ideally an FHLBank member can manage its portfolio as it manages interest rate risk, market risks and the other attendant risks. Based on data in the Venable comment letter to this proposal, "since 2008, 5,622 current FHLBank members have been a CFI at some point, but only 5,253 have continuously been a CFI." Based upon this data it can reasonably be deduced that nearly 400 institutions have drifted above and beyond the CFI level which this regulation will make a tripwire for FHLBank membership termination.

Further, legislative action as it pertains to FHLBanks has always been in support of expanding membership for the promotion of affordable housing programs and strengthening the nation's housing market. The diverse group of membership, including banks, credit unions, and insurance companies, represents a diversified portfolio that is an asset of each individual FHLBank and provides a direct benefit in return to the eligible members. This proposed rule would be in contrast to the historical actions by Congress in so much that it would prescribe a reduction in members. It is the responsibility of Congress and not the FHFA to determine what would constitute eligibility for membership.

In a merger and acquisition (M&A) environment when many community banks are facing decisions about future planning for the institution, this proposal adds another variable that is highly unpredictable. Nearly every community bank easily meets the 1% asset test, however, this proposal creates worry that any future plans to merge or be acquired would be halted by this rule because of a necessity to factor in the 10% tests. This rule will stunt growth plans for community banks.

PACB opposes the NPR provision that each member must maintain 10 percent of its assets in residential mortgage loans on an ongoing basis in order to remain eligible for Bank membership. Non-CFI Members of each FHLBank are subject to the 10% asset test during the

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<sup>1</sup> Housing And Economic Recovery Act Of 2008 (PL 110-208) – Section 1211

<sup>2</sup> 12 USCS § 1422 (10) - (A) In general.—The term "community financial institution" means a member—  
(i) the deposits of which are insured under the Federal Deposit Insurance Act [12 U.S.C. 1811 et seq.]; and  
(ii) that has, as of the date of the transaction at issue, less than \$1,000,000,000 in average total assets, based on an average of total assets over the 3 years preceding that date

initial application for membership and this test was never intended to be done on an ongoing basis. We maintain the disposition that this prescriptive action would penalize small institutions that may marginally fall below the threshold for a short period of time if market conditions are not conducive to issuing or holding mortgages.

The proposed rule offers the supposition that institutions pursuing FHLBank membership may consider abandoning their commitment to long term home mortgages, once they obtain membership in their respective FHLBank, and that based on that rationale the definition of “becoming” could lend itself to an interpretation that the act of becoming a member is an ongoing process. We disagree with the logic of this interpretation for the reason that institutions which have historically provide home mortgages to consumers will continue to do so provided that the economic conditions can sustain additional home mortgages in and around their communities of operation.

In summary we express our opposition to the NPR in its current form and would urge the agency to withdraw or suspend further action on this rule until substantiation of any professed inadequacies with the functioning of the FHLBank system can be evidenced and fully developed. A rule of this magnitude and far reaching scope should include outreach attempts by the agency through public and informational meetings with the purpose of proposing a rule that has industry input and collaboration. Thank you again for providing the opportunity to comment on this important community banking issue.

Sincerely,



Nick DiFrancesco

President/CEO of Pennsylvania Association of Community Bankers