

January 7, 2015

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:

As vice chairman of TriState Capital Bank, 30-year career banker and former Pennsylvania Secretary of Banking, I am submitting this letter of comments regarding the notice of proposed rulemaking referenced above.

First, I want to introduce TriState Capital Bank. Our bank is unusual in that it combines the capabilities of a large financial institution with the personalized service of a community bank. We founded TriState Capital in 2007 as a *de novo* bank, the largest start-up bank in Pennsylvania history, for the purpose of serving the unmet needs of the middle client base: middle market businesses, their owners and employees. Today, as a public company with assets of \$2.8 billion (at 9/30/14), we serve our customers through regional representative offices in Pittsburgh, Philadelphia, Cleveland, Princeton and New York City.

Under the proposed rule, all FHLB members would be required to hold, on an ongoing basis, one percent of assets in “home mortgage loans” as defined by the FHFA in order to satisfy the requirement that an institution make long term home mortgage loans. Further, all depository institutions that are not Community Financial Institutions (CFIs) must also comply with an ongoing requirement that at least ten percent of their total assets are in “residential mortgage loans” as defined by FHFA.

We are troubled by the potential imposition of this new, ongoing, one-size-fits-all test applied across Federal Home Loan Bank members. Our concerns fall into the following categories: (i) this new test was not in place when institutions such as ours purchased stock and completed their membership in their Federal Home Loan Bank; (ii) we are concerned that the proposed new rule could be significantly detrimental to the strategic planning and liquidity planning that we have in place at TriState Capital Bank; (iii) we believe that the proposed rule is in conflict with the Congressional intent for the Federal Home Loan Bank System and to the plain meaning of the Federal Home Loan Bank Act (the “Act”); (iv) the proposed new rule may be significantly detrimental to the FHLB system and its member banks; and (v) the proposed rule is in conflict with the support that TriState Capital Bank and other member banks provided to the Federal Home Loan Bank in its past times of distress.

(i) This new test was not in place when institutions such as ours purchased stock and completed their membership in their Federal Home Loan Bank.

The current test to ensure that eligible members make home mortgage loans is a one-time test upon application for membership. Under the proposed new rule, a prospective member must demonstrate that it has such long-term mortgage assets on its books at the time of application but has never before in the history of the system been required to comply with an ongoing test. Subject to a cure period, if the member remains out of compliance for two consecutive years, their membership would be terminated and they would be cut off from all Federal Home Loan Bank liquidity and services. Significant planning has been completed by TriState Capital Bank with the understanding that it is an established member of the Federal Home Loan Bank.

(ii) We are concerned that the proposed new rule could be significantly detrimental to the strategic planning and liquidity planning that we have in place at TriState Capital Bank.

Our specialized business model limits our ability to regularly meet the new ongoing mortgage asset tests described in the proposed rule. Today we hold 11-13% of our assets in mortgages, which is just above the cusp of the proposed ongoing asset test applicable to institutions of our size.

This rule could force our institution at some point to choose between retaining our valuable Federal Home Loan Bank membership with reliable access to Federal Home Loan Bank liquidity and making a commercial business loan that can preserve and create jobs and enhance the local economy but, in that process, tilt our mortgage assets below 10%. We don't want to address the potential of losing our Federal Home Loan Bank membership as we make business decisions and deal with the numerous other existing and changing regulations and risks we have to manage.

This proposal could also have the unintended consequence of interfering with our conservative approach to Interest Rate Risk management at an inopportune time. We have taken the disciplined approach of having an extremely asset sensitive balance sheet during a period when a riskier approach may have served us better in the form of increased short-term profitability. This legislation could compel us to add longer-dated, fixed-rate assets in order to comply with the proposed membership guidelines. It is our view that this would not be in our best interest in the context of managing interest rate risk.

In other contexts, banking regulators have recognized the differing business models of institutions when considering their compliance with various regulations. The FDIC, TriState's primary regulator, acknowledged in recent Community Reinvestment Act exams, that despite TriState having lower levels of home mortgage lending, the geographic distribution of our loans reflected good penetration throughout the assessment area and good penetration among customers of different income levels. When considering a variety of factors including size, financial condition, business strategy, and credit needs, the FDIC determined that TriState's overall lending performance, and particularly community development lending, reflected adequate responsiveness to the credit needs of our assessment areas. Accordingly, the FDIC approved a CRA strategic plan for TriState Capital Bank that assesses our lending activity by

looking at community development loans and certain qualified investments, rather than home mortgage loans.

We value the FDIC's consideration of TriState's size and business strategy among other factors as it responds to the need for flexibility in examining a financial institution's performance in the context of its business model. The FDIC's flexible approach as TriState's primary regulator offers a framework that the Federal Housing Finance Agency should consider when crafting any regulation to be applied across the entire range of diverse Federal Home Loan Bank member institutions, with differing markets, business models and operations.

The risk of loss of access to Federal Home Loan Bank liquidity as a result of failure to meet the ongoing asset tests is a serious concern to our institution. The FDIC requires depository institutions to maintain a reliable source of contingent liquidity. If implemented, the proposed rule could threaten our ability to rely on the Federal Home Loan Bank as a liquidity source. If Federal Home Loan Bank liquidity is viewed as less reliable, we may determine, or our regulator is likely to require, another, more expensive, liquidity source. Such a shift would negatively impact our institution, our customers and our communities by increasing our borrowing costs and ultimately increasing the cost of lending to our customers.

(iii) We believe that the proposed rule is in conflict with the Congressional intent for the Federal Home Loan Bank System and to the plain meaning of the Act.

As a rule, Congress has a record of expanding membership opportunities in the Federal Home Loan Bank system (i.e., 1989, 1998 and 2008). Additionally, the FHFA has also acted to further authorize additional categories of collateral beyond those tied to housing finance, including federally insured student loans (authorized in 2009) and loans made by Community Financial Institution members of the System for community development purposes in 2010. And, as further evidence that FHFA has itself recognized that its mission is beyond housing finance, the FHFA Strategic Plan: Fiscal Years 2015 – 2019, states that the Federal Home Loan Banks' "core mission is to serve as a reliable source of liquidity for their member institutions in support of housing finance and community lending" (emphasis added).

The proposed rule on the other hand would substantially limit the mission of the Federal Home Loan Banks in providing reliable liquidity to their members and supporting community lending. We agree with the American Bankers Association's comment letter dated December 19, 2014, which states that by focusing membership requirements solely on residential mortgage loans and home mortgage loans, the rule ignores the many other categories of mission related assets a member may hold on its books. As a further point, we do not understand how a cost and economic impact analysis could support this type of rule being implemented.

(iv) The proposed new rule may be significantly detrimental to the FHLB system and its member banks.

As a former bank regulator, I also have concerns that troubled banks could lose flexibility at just the time they might need it most. The best decision for a troubled bank might be to sell a portfolio of mortgages. However, that sale could push the bank into a position where it loses its

access to FHLB funding. I think that having to make this choice – as could be required under the proposed rule – could limit the ability of banks and their regulators to make the best choices to help them manage liquidity needs, planning and challenges.

(v) The proposed rule is in conflict with the support that TriState Capital Bank and other member banks provided to the Federal Home Loan Bank in its past times of distress.

TriState Capital Bank (along with many other institutions) maintained a strong partnership with the Federal Home Loan Bank through the tough times it endured during the financial crisis. This included the suspension of dividends for several years. It seems incongruent for us to potentially be forced out of the membership group at a time when the Federal Home Loan Bank is well-capitalized, profitable, paying a dividend and providing valuable services to our institution.

We believe that the proposed rule will be harmful to TriState Capital Bank and other commercial lenders that are focused on building jobs and communities, and that it will generally weaken a Federal Home Loan Bank System that has worked well for more than 80 years. We also believe that the proposed rule will create potential conflicts for regulators who are trying their level-best to strengthen the financial system. Accordingly, it is respectfully requested that the September 12, 2014 Notice of Proposed Rulemaking be withdrawn.

Sincerely,

A handwritten signature in black ink, appearing to read 'A. Schenck', written in a cursive style.

A. William Schenck, III
Vice Chairman
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