



# Allegheny Valley Bank

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January 11, 2015

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:

Allegheny Valley Bank of Pittsburgh welcomes the opportunity to provide comments on the proposed rulemaking regarding Members of Federal Home Loan Banks, as issued by the Federal Housing Finance Agency (FHFA). Allegheny Valley Bank (AVB) considers the FHLB system, and access to it, as critical to the long term health and viability of the community banking system in the United States. Without ready access to the low-cost advances provided by the FHLBs to community banks, many of those banks would be forced to severely curtail home mortgage lending in the communities they serve. In some cases lack of access to low-cost funding from the FHLBs would mean some community banks would not be able to survive, resulting in more underserved markets, particularly in rural America. The tough reality is that if Allegheny Valley Bank did not have access to the FHLB for Borrowings we would be left to seek liquidity and critical funding from systemically important institutions. Based upon past history we consider that alternative less than desirable.

The FHFA is proposing to create a quantitative minimum asset test that all FHLB member institutions must meet both at the time of application for membership in the FHLB System and on an ongoing basis. As proposed, an institution that qualifies as a Community Financial Institution (CFI) would need to have at least 1% of its assets in home mortgage loans, and would be required to maintain those levels at all times. Institutions that are not CFIs are currently required to show they have 10% of their assets in residential mortgage loans. As proposed, those institutions would need to maintain those levels at all times to retain membership in the system. The FHFA proposed a similar asset test in 2010. Many Community Bank supporters urged the FHFA not to move forward with the proposed rulemaking as it would be in direct contradiction of the will and actions of Congress. I strongly urge the FHFA to withdraw this proposed rule.

As noted earlier, community banks depend on the ready access of funding for mortgage lending through the use of collateralized advances from their local FHLB. Many of these institutions must carefully allocate space on their balance sheets for various forms of assets including mortgage loans, consumer loans, loans to small businesses, agriculture loans, and commercial loans as well as investment securities. Given a member bank's asset size and market, the addition, or removal, of one or two loans can produce major swings to the percentages in any asset category, and could radically change the percentage of mortgage loans or mortgage-backed securities (MBS) held at any time. What's more troubling is that changes in the percentage of assets held in any category may not be driven by a change in strategy but rather something as uncontrollable as a mortgage loan or two being paid off. FHFA's proposal to implement an ongoing asset test to retain FHLB membership would force smaller institutions to either hold more MBSs in their portfolio or possibly pass up opportunities to make other types of consumer, small business or agriculture loans in order to maintain compliance. This would result in some community banks being unable to best serve their communities, all because of compliance with an arbitrary test imposed by a regulator. This is clearly not what Congress has intended, as evidenced by the fact that Congress specifically recognized that certain small institutions might have difficulty in obtaining sufficient mortgage collateral for

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advances. To address this issue, Congress expanded the list of eligible types of collateral that institutions could use for advances. The FHFA's proposed rule moves in the opposite direction.

FHFA's proposed rule also ignores the fact that many small community banks, including AVB sell mortgage loans on a wholesale basis, and as such their balance sheets will not be reflective of their entire mortgage lending activity. In many cases, these institutions are very active mortgage lenders, but do not retain many loans in portfolio so as to free up capital to make additional mortgage loans and for other types of assets. In a period of time of extremely low long term interest rates, which the Federal Reserve has been specifically impacting, it is imprudent for some institutions to hold onto these assets as such would result in directly lengthening the duration of their assets subjecting them to significant additional interest rate risk. I do not believe the FHFA would consider this prudent.

The Independent Community Bankers of America (ICBA), an industry trade group which AVB is a member, in its March 2011 comment letter on the (then) proposed rule stated that the proposal appears to be a solution in search of a problem. That statement is still accurate. The FHFA staff has raised concerns that some members of the FHLBs no longer adhere to the requirements of supporting housing finance. I recommend that the FHFA deal with those individual institutions through the existing regulatory structure rather than impose new burdensome requirements on all FHLB members. If the FHFA is concerned that institutions not meeting the proposed asset tests pose some type of safety and soundness risk to the entire System, I suggest that recent experience suggests otherwise. In fact, even with the failure of 460 depository institutions, and 139 insurance companies during our last crisis, the FHLB was able to carry out its mission of providing much needed liquidity in a time of crisis, without any bailout or direct support from the government, unlike some of the largest banks and other Government-sponsored enterprises (GSEs).

In summary, I urge the FHFA to withdraw the proposed rule. Please direct any questions you may have to me directly at [ahasley@avbpgb.com](mailto:ahasley@avbpgb.com) or (412) 781-0320.

Thank you for your consideration.

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