Tioga State Bank

January 7, 2015

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

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

Dear Mr. Pollard:

Thank you for the opportunity to provide comments on the proposed rulemaking regarding Members of the Federal Home Loan Banks, as issued by the Federal Housing Finance Agency (FHFA). The FHLB system is critical to the viability of community banks throughout the country. Through their advance programs, they provide critical liquidity and funding sources for the entire community banking system. This funding source allows our community banks to serve their local communities by providing mortgage loans and other types of lending. If these new rules limit access to FHLB funding, many banks, including ours, would curtail lending which would reduce choices for our consumers and adversely impact local communities.

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 system and on an ongoing basis. They are also proposing to change the definition of insurance company to exclude captive insurance companies from FHLB membership and provide any existing captive insurers five years to exit the system. According to FHFA the changes are being proposed to ensure that member institutions have and continue to maintain a commitment to housing finance and keep out those institutions that would otherwise not have access to the FHLB system. The push to exclude insurance companies from membership contradicts the will and intent of Congress. Insurance companies including captives have been eligible for FHLB membership since the system was formed in 1932.

Limiting community bank access to the FHLB can have consequences that may not be obvious on the surface. Other FHLB programs, such as the municipal letters of credit, allow community banks to increase residential lending rather than requiring the banks to invest the funds. Rural community banks, such as ours, work closely with smaller municipalities and often utilize the FHLB to offset cyclical cash flows, allowing local dollars to remain in rural communities, thus improving economies through home mortgages and small business loans.

Tioga State Bank does not support the asset test for membership. The ongoing asset tests fail to recognize the many ways members support housing finance, including loan sales into the secondary market and community investment using the FHLB's affordable housing and community investment programs. The mortgage market has changed dramatically over the last ten years. Tioga State Bank used to portfolio 100% of our mortgages and has shifted to selling roughly 50% of the mortgages we now originate. Selling mortgages to an entity such as the FHLB, where they can issue appropriate debt to mitigate future interest rate risk, should translate into a stronger financial system which is better prepared for unexpected economic challenges. The asset test could potentially penalize our bank for selling our mortgages versus holding the paper in our portfolio and exclude us from the FHLB system in the future. The asset test could make balance sheet management more difficult and disadvantage banks that sell their entire mortgage production.

The FHLB systems membership rules work as designed by Congress and there has never been a failure of any FHLB in their 82 year history. Even the most recent financial crisis in which a large number of banks failed did not harm the FHLB system. No FHLB suffered a loss from a collateralized advance from any of the failed member institutions. Our bank feels strongly that the current relationship structure between community banks and the FHLB system has been severely tested and proven to be strong. Any membership tests, or exclusion of certain types of members, appears unnecessary and could potentially cause harm to many communities throughout the country, most especially the rural, already struggling communities. Because of these concerns, we do not believe additional membership hurdles are needed and would ask that the FHFA withdraw these proposed rules. Thank you for your consideration.

Sincerely,

Robert M. Fisher

Robert M. Fisher
President & CEO
Tioga State Bank
1 N. Main St., PO Box 386
Spencer, NY 14883-0386