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October 15, 2014

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

Re: Notice of Proposed Rulemaking and Request for Comments – Members of FHLBanks (RIN 2590–AA39)

Dear Mr. Pollard:

This letter outlines our concerns about the notice of proposed rulemaking regarding membership eligibility in the Federal Home Loan Banks (FHLBanks) that the Federal Housing Finance Agency (FHFA) recently issued. The proposed rule includes significant and unnecessary changes to long-standing membership rules for the FHLBank system and will result in severe unintended consequences to an industry that is already struggling to keep up with new regulations. Furthermore, the proposed changes are also inconsistent with Congressional intent and the Federal Home Loan Bank Act (FHLBank Act) and in fact could result in fewer residential mortgage loans being made. For these reasons, Union Bank and Trust Company (Union Bank) opposes the proposed rule and asks for your consideration to rescind the proposal.

While Union Bank along with most financial institutions would be close to meeting the requirements of the proposed rule today, we feel the rule sets a very bad precedent. The financial institutions industry has experienced significant changes during the last seven years especially coming out of the financial crisis that started in 2007 thus it is not unrealistic to think that there could be changing environmental factors outside of our control that could cause us to fail the membership test. Furthermore, we do not support the adverse impact the proposed rule would have on other financial institutions in our region and their customers nor do we support the notion of financial institutions managing their balance sheets to the demands of a regulation especially when margins and non-interest revenues are already under pressure. We're also cognizant that the rule could result in fewer members of FHLBank Topeka which could lead to a smaller FHLBank with fewer assets, reduced profits, lower retained earnings, a decreased market value of equity and capital stock, and fewer dollars available for the Affordable Housing Program.

It is also critical to point out that beginning more than 25 years ago, Congress made it clear that community financial institutions (CFIs) such as Union Bank may use FHLBank advances for purposes other than residential housing finance. It remains the intent of Congress today that CFIs may also utilize FHLBank liquidity for commercial real estate, small business, agricultural real estate and agricultural operating loans which all in an indirect manner support residential housing finance. This fact alone highlights how FHFA's proposed rule for CFIs runs counter to existing federal statute. Banking is much more complex than it was 25 years ago and to simply isolate residential housing finance as a detached product line is shortsighted.

Equally troubling is another component of FHFA's proposed rule that would require non-CFIs to hold 10% of their assets in residential mortgage loans on their balance sheet on an ongoing basis. The proposed rule could have the unintended consequence of forcing somewhat larger CFIs to forego expansion or merger plans for the sole purpose of not running afoul of FHFA's arbitrary asset test. Some CFIs could actually reduce the products and services they offer their communities to avoid potentially losing their membership in the FHLBank system. Thus, the proposed rule could unnecessarily restrict a financial institution's access to liquidity, letters of credit, mortgage purchase programs, affordable housing programs and community investment products – some of the very activities FHFA, and Congress, wish to enhance.

Union Bank, a non-CFI, has consistently been one of the top originators of residential mortgage loans in the Nebraska market. FHLBank Topeka has provided the tools Union Bank needed to originate these loans including access to liquidity, term advances and an outlet through the MPF Program to efficiently deliver the loans to the secondary market. Given the interest rate environment and the fact that borrowers favor 15 and 30 year fixed rate mortgages, Union Bank prudently managed the interest rate risk associated with those loans through the sale of such loans into the secondary market and ultimately into mortgage-backed securities to be held by others. With rates at all-time lows, borrowers want fixed rate product which is difficult for financial institutions to manage interest rate risk given the term while in higher rate environments, variable product may be favored which is acceptable to banks but unrealistic to think that financial institutions' balance sheets should be driven by FHFA/FHLBank regulations. In the end, Union Bank provided an effective residential financing product to its customers but no credit is given for this home loan origination model in the proposal. It is extremely important that the FHFA recognize the significant shift over the past several years in the secondary market's role in the mortgage origination business and that the originate and sell model is extremely commonplace.

Access to FHLBank advances is important to CFIs and non-CFIs like Union Bank in our region. FHLBank Topeka and the 11 other FHLBanks are operating well within the authorities granted them by Congress. The membership requirements being contemplated by FHFA would change long-standing requirements that have worked well and the proposed rule would ignore the collateral expansions that have been approved by Congress over time. If the FHFA is concerned about some non-financial institutions being members of the FHLBank system and how they utilize their membership, please consider focusing on that issue and scale back the breadth of this proposal. In general, because the proposed rule outlines no safety and soundness concerns and because there is no legitimate public policy goal of the proposed rule, Union Bank strongly recommends you rescind the proposed rule. Thank you for taking our comments into consideration.

Sincerely,

Brad Crain
SVP & CFO

CC: FHLBank Topeka
CC: Nebraska Bankers Association