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October 20, 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:

Thank you for the opportunity to express my concerns about the notice of proposed rulemaking regarding membership eligibility in Federal Home Loan Banks (FHLBanks) that was recently issued by the Federal Housing Finance Agency (FHFA). The proposed rule includes significant changes to long-standing membership rules for the FHLBank system.

The proposed rule would have a direct adverse impact on our institution in three areas. **First, our ability to access FHLBank liquidity and other financial products that are needed to serve our community.** Our analysis indicates that within the last six years, The Bank would not have met the ongoing requirement of the proposed rule of having between 1%-5% of its assets in long-term home mortgage loans on its balance sheet on an ongoing basis. That number could be between $3.28 and $16.4 million dollars. The Bank originated $2.67 million in 1-4 family loans in 2012; $2.06 million in 2013 and year to date 2014 only $456,412.00. Requiring a set amount of home mortgages could result in our having to buy required loans. What would that gain anyone? **Second, is in a negative Interest Rate Risk position by forcing us to have a larger amount than we want in long term fixed rate loans. Third, the elimination of a reasonably priced, immediately available, source of liquidity.**

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 mine may use FHLBank advances for purposes other than residential housing finance. It remains the intent of Congress today that CFIs may utilize FHLBank liquidity for commercial real estate, small business, agricultural real estate and agricultural operating loans. This fact alone highlights how FHFA's proposed rule for CFIs runs counter to existing federal statutes.

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 services they offer their communities to avoid potentially losing their membership in the FHLBank system. Thus, the proposed rule could unnecessarily restrict financial institution 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.

The Bank is a community bank located in Oberlin, Kansas with $328 million in total assets. We have been a member of FHLBank Topeka for twenty-three (23) years. The Bank is a vital source of loans for the small rural communities we serve. We offer a variety of loan types including mortgage real estate, commercial real estate, small business, consumer, agricultural real estate and agricultural operating loans. As permitted under the FHLBank Act, we use some of these loans as collateral to support access to advances from FHLBank Topeka.

This rule could result in fewer members of FHLBank Topeka and 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. What would be the gain in that?

Access to advances is critically important to our institution because FHLBank liquidity allows us to offer an array of loan products to our customers that we might not otherwise be able to offer. Access to FHLBank advances also helps support farming and seasonal borrowing to our customers in **Oberlin, Norcatur, Jennings, Norton, Oakley, Winona, Selden, Atwood, Herndon, Colby, Bird City, Quinter and Grainfield, Kansas**. The largest community, in population, we serve is Colby with 5,416 residents, the smallest is Jennings with 95 residents, per 2013 census. In addition, having a reasonably priced credit line and borrowing capacity with FHLBank Topeka is integral to appropriate contingent liquidity management, which is required by our regulators. Uncertainty regarding our future FHLBank membership and our ability to access liquidity in times of crisis, even if we have sufficient eligible collateral to support our advances, is concerning.

The FHLBanks serve as a critical source of liquidity for CFIs like mine. I urge FHFA to withdraw its proposed rule because it would put membership in jeopardy for institutions like ours – and because the proposed rule is inconsistent with the FHLBank Act and Congressional intent, which has reflected a desire to expand both the membership base of, and eligible collateral accepted by, the FHLBanks. The FHLBanks are operating safely and soundly and within the authorities granted by Congress. The membership requirements being considered would change requirements that have worked well, and they would ignore the collateral expansions that have occurred over time.

Without access to FHLBank Topeka, the credit available to our bank and the families of **Oberlin, Norcatur, Jennings, Norton, Oakley, Winona, Selden, Atwood, Herndon, Colby, Bird City, Quinter and Grainfield, Kansas** will be severely impacted. In light of the broader effects of this deeply flawed proposed rule on local communities, we ask you to withdraw the proposed rule immediately.

Thank you for your consideration of my concerns.

Sincerely,

Gary J. Walter

Gary J. Walter, President
CC: FDIC
CC: Kansas Bankers Association

When you are going to the bank, you are coming to see us!