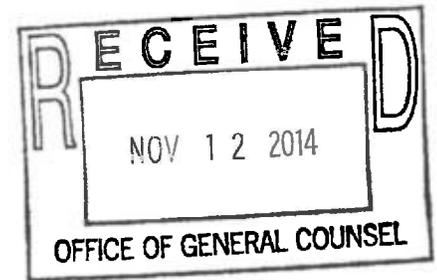




Bank & Trust Company

member LBT Bancshares, Inc.

November 3, 2014



Alfred M. Pollard, Esq., 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; Request for Comments – Members of the Federal Home Loan Banks

Dear Mr. Pollard:

I am submitting this comment to express our bank's concerns about the Federal Housing Finance Agency's ("FHFA") notice of proposed rulemaking and request for comments on "Members of the Federal Home Loan Banks" published on September 12, 2014. For the reasons described below, we respectfully request the withdrawal of this proposal.

Bank & Trust Company is a community bank in Litchfield, Illinois located 40 miles south of Springfield. It was chartered in 1903 and now has assets of \$268 million. We have been a shareholder in the FHLB Chicago for about 15 years. We have provided home mortgage products to area families through the use of the FHLBC, MPF and MPF xtra loan programs. We use FHLB advances to provide sources of liquidity and currently have about \$10 million outstanding. Our bank also provides long term fixed rate advances in order to fund farm real estate loans without incurring interest rate risk. We also have introduced farm equity lines of credit to area farmers for operating loans (FELOC) using FHLB advances. In summary, we are heavily dependent on FHLBC for liquidity, interest rate risk management and solutions to meet the needs of our community. I cannot envision being able to operate without the FHLB as it no exists.

The proposed rule concerns us because it would impose, for the first time ever, on-going requirements for our bank to meet as a condition of remaining a member of the FHLB of Chicago. For community financial institutions ("CFIs"), such as our bank, the proposal would require us to hold between 1 percent to 5 percent of our total assets in long-term home mortgage loans. Failure to maintain this level would result eventually in the termination of our membership in the FHLB of Chicago.

While this requirement may not appear to the FHFA to be onerous, the practical consequences would be very severe and disruptive. To begin with, our ability to rely on the liquidity provided by the FHLB of Chicago, particularly in times of economic distress, would be seriously undermined if the FHFA is allowed to establish requirements we must meet simply to remain an FHLB of Chicago member. This has never been the case in the 82-year history of the

bank different. bank better.

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FHLBs. Membership in the FHLBs has been steadily expanded by Congress over the years, never contracted. With the imposition of such a requirement, we could never be assured that when the next financial crisis occurs we will have continued access to FHLB of Chicago liquidity.

Even if we meet the proposed threshold today, we would need to manage our balance sheet with the proposed requirements in mind going forward. Future decisions regarding our asset allocation would need to bear them in mind. Our asset allocation potentially would become over-invested in housing related assets at the expense of small business lending and other commercial loans, consumer loans or other asset classes. In effect, a portion of our balance sheet would be dictated by the FHFA. This result would contradict the intent of Congress, which specifically allowed CFIs to pledge small business, agricultural and agri-business loans as collateral for FHLB advances in the Gramm-Leach-Bliley Act of 1999 (“Act”).

This proposal also could inhibit our ability to grow, or threaten our access to the FHLB of Chicago if we do. For example, if our total assets grow above the current CFI threshold of \$1.108 billion, either organically or through acquisition, our bank would then become subject to the additional proposed on-going test that would require us to maintain 10% of our assets in residential mortgages loans. This could have the unintended consequences of forcing us to forego expansion or merger plans for the sole purpose of maintaining our FHLB membership. As a result of trying to avoid crossing the arbitrary CFI limit, we might need to reduce our usage of FHLB products and services, which in turn could reduce the products we are able to offer our customers and serve our community. As a regulator, the FHFA undoubtedly understands the importance and necessity of asset growth for a bank. Prudently growing assets generally are a sign of a healthy institution and can contribute to a sounder overall financial system. The FHFA should support the reasonable growth of FHLB members and avoid penalizing them or threatening our access to FHLB liquidity as a result of it.

The overall intent of this proposal seems to restrict and narrow FHLB membership, resulting in fewer members. As some members have their memberships terminated, and others are forced to reduce their usage of the FHLB of Chicago, we are concerned about the destabilizing effects that would result. These actions will inevitably lead to smaller FHLBs with fewer assets, reduced profits, lower retained earnings, and a decreased market value of equity and capital stock. Additionally, as usage contracts and profits decline, fewer dollars will be available to support the FHLB of Chicago's affordable housing and community investment programs. Our bank's ability to serve our community through valuable products such the FHLB's down payment assistance grants, Community Investment Cash Advances and Affordable Housing Program grants would be harmed.

This proposal does nothing to help strengthen the overall financial system. Since the financial crisis, our prudential regulators, the FDIC, has increasingly emphasized liquidity planning in an effort to prevent another crisis from occurring. In our liquidity plans, we rely on our access to the same-day funding offered by the FHLB of Chicago. Our regulator understands and accepts the vital role of the FHLBs in such planning. This proposal contradicts these efforts by undermining the reliance of banks such as ours on the FHLBs. In so doing, it threatens to weaken the broader financial system while doing nothing to help prevent a repeat of the financial crisis.

Nor does the proposal do anything to help repair and restart the struggling housing markets. Many community banks rely upon the FHLB's MPF® Program to access the secondary mortgage market. This innovative program has been popular with FHLB members, particularly smaller community banks, because it allows us to access the secondary mortgage market on competitive terms while retaining our customer relationships. The traditional MPF products also pay participating members monthly fees to manage the credit risk of their own loans, in contrast to the guarantee fees charged by Fannie Mae and Freddie Mac. Rather than furthering this program, however, the proposal would only harm it by encouraging members to hold more mortgage loans on their balance sheets, rather than selling them. Also, if long-term mortgages are held by members, their interest rate risk will be increased. Moreover, to the extent the proposal discourages FHLB membership or terminates existing memberships, it will only limit access to housing finance and the secondary market. Again, this seems to directly contradict the efforts of the Administration and others to increase the availability of mortgage credit, particularly for lower income families.

This proposed rule further harms the financial system by adding to the growing regulatory burden on small banks that impedes our ability to efficiently operate our businesses and best serve our customers and shareholders. Community banks across the country are struggling under the weight of an extensive regulatory regime imposed upon us in recent years, despite the fact that we were not the cause of the financial crisis. Recent legislative and regulatory requirements include the Patriot Act, the Bank Secrecy Act, anti-money laundering rules, the Dodd-Frank Act and accompanying Qualified Mortgage and Qualified Residential Mortgage rules, and new Basel III-like capital and liquidity requirements. This proposal only adds to this burden and will likely cause us to rethink the practicality of remaining a FHLB member.

In conclusion, we view the FHLB of Chicago as a critical partner for our bank. Its reliability as a liquidity source must be preserved. Threatening access to the FHLB of Chicago threatens our bank, our customers and the community of Litchfield. This proposal would undermine the reliability of the FHLB of Chicago, discourage membership, inhibit our growth, politicize FHLB membership, limit access to the secondary market and shrink the FHLB of Chicago's affordable housing and community development activities. It will do nothing to help the effort of other banking regulators to strengthen the overall financial system or repair the struggling housing markets. Despite these real and damaging effects, there appear to be no specific benefits that would be achieved by this proposal. The costs clearly outweigh the benefits. For these reasons, we strongly urge the immediate withdrawal of this proposal.

We appreciate the consideration of our views.

Sincerely,



R. Kent Redfern
President & CEO
Bank & Trust Company
NMLS#716577

cc: Federal Deposit Insurance Corporation
cc: Illinois Bankers Association