

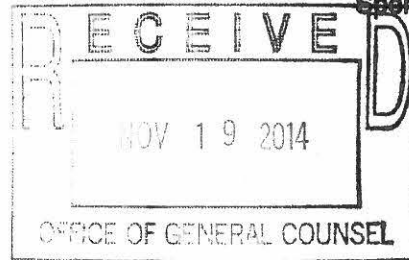
Butte State Bank

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November 12, 2014



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

RE: Notice of Proposed Rulemaking and Request for Comments – Membership to FHLBanks (RIN 2590-AA39)

Dear Mr. Pollard,

The Butte State Bank's comment letter is to express our objection to the FHFA's proposed rule RIN 2590-AA39 regarding membership eligibility in our regional Federal Home Loan Bank, which in our case is FHLBank Topeka. The Butte State Bank is a \$42 million family-owned commercial bank with two locations in Boyd County, which is located in rural, north-central Nebraska. Our lending is predominately to agricultural producers and the agribusinesses that provide products and services to production agriculture.

The Butte State Bank has been a member of FHLBank Topeka since October 1998. The passage of the Gramm-Leach-Bliley Act authorized community financial institutions such as mine to pledge not only 1-4 family residential mortgage loans but also loans secured by farmland, commercial real estate, and other non-mortgage loans to small businesses, agribusiness, and production agriculture, allowing us to secure membership in our regional Federal Home Loan Bank.

Banks like ours, which are predominately production agriculture, and small business lenders from time to time secure loans to borrowers using a personal residence even though it is not a standard 1-4 family residential loan. This is done through a real estate loan secured by an agricultural producer's farmland that includes the borrower's primary residence. These types of loans are reported as real estate loans secured by farmland on our quarterly call report. A review of the Butte State Bank's September 30, 2014, call report data shows that 55.18% of the bank's real estate loans secured by farmland included first or second lien positions on the agricultural producer's primary residence.

An example of the importance of making a real estate loan secured by farmland that includes the borrower's residence is to the Butte State Bank and the agricultural producers we serve plus the relevant role the use of an advance from the FHLBank Topeka played in the transaction occurred last quarter. A young farm couple had the opportunity to purchase farmland they have been renting, which included the house where they lived. The loan the Butte State Bank originated to this young couple included funds to allow them to remodel and build an addition on to the home but is reported as a real estate loan secured by farmland and not a 1-4 family residential loan. The couple, who have four children, needed more than a three-bedroom, one-bathroom home in which to live. The bank, because of its Federal Home Loan Bank membership, was able to make a long-term, fixed-interest rate loan to our young customer while protecting the bank from potential interest rate risk by using a long-term, fixed-rate advance. If the proposed rule to membership in a Federal Home Loan Bank is changed and the Butte State Bank no longer can

Boyd County's Full Service Bank

meet membership rules we could not have been a partner with this young farm family and may have lost a long-term profitable customer of our bank.

Not all bank operating models are the same and a cookie-cutter approach stating they should be the same is wrong. If the communities the Butte State Bank serves don't have the demographics or use a business model that will allow the bank to hold potentially 1% to 5% of its assets in long-term home mortgage loans, it should not be penalized by taking away its FHLBank Topeka membership. The Butte State Bank continues to serve its customers by making real estate loans secured by farmland that may also include a home; those types of loans should continue to be eligible as collateral and a method of determining membership. During the bank's years of membership, the FHLBank Topeka has been a valued partner by helping to ensure that the Butte State Bank is able to meet the needs of the communities we serve. Our bank should not have to lose our membership or partnership with FHLBank Topeka because FHFA decides to change the established rules of membership contrary to federal law and without justification or congressional oversight. The unfortunate irony is that even if we pledge collateral made eligible by Congress under the Gramm-Leach-Bliley Act, we might not meet the mandates of FHFA's proposed membership rule.

The Butte State Bank is a stockholder of our regional Federal Home Loan Bank and like other stockholders is not going to take risks that will harm our partnerships with our regional bank. The Federal Housing Finance Agency with its proposed membership rule RIN 2590-AA39 is posing a significant risk to regional banks by potentially reducing system-wide membership, which in turn will lower advances, reduce profits of the regional banks, and lessen the capital value of all regional banks and its shareholders. The parties that will potentially be harmed the most with this proposed membership rule are the communities and families the Butte State Bank serves and other community banks across the country that are trying to meet the needs of their communities and the families they serve through their partnership with their regional Federal Home Loan Bank.

The Butte State Bank respectfully requests that the Federal Housing Finance Agency withdraw proposed rule RIN 2590-AA39 and leave in place current eligibility rules for membership in our regional Federal Home Loan Bank.

On Behalf of the Butte State Bank,



Craig G. Brewster
President