



November 26, 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 my 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, I respectfully request the withdrawal of this proposal.

My institution is a community bank headquartered in Carlinville, IL, serving 12 other communities in 10 counties in Illinois and Missouri; CNB has approximately \$790 million in total assets. We have been a member of the Federal Home Loan Bank of Chicago for many years. We are a vital source of lending for our communities, providing loan products for residential real estate, commercial real estate, small business, agricultural real estate, agricultural operating, and consumers. As permitted under the FHLB Act, we use many of these loans as collateral to support our activities with the FHLB of Chicago.

As a shareholder and customer, we greatly value our membership in the FHLB of Chicago and view it as a key partner to help us better serve our customers and our communities. For a smaller bank such as ours, access to FHLB of Chicago advances is critically important because the liquidity allows us to offer an array of loan products to our customers that we might not otherwise be able to offer. The FHLB's products such as advances, letters of credit and the Mortgage Partnership Finance® Program are tremendous resources that enable us to effectively compete with much larger financial institutions, resulting in more choices and better service for our home buying, small business and agricultural customers.

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 FHLB 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 member. 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.

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 mortgage loans. This could have the unintended consequence of forcing us to forgo expansion or merger plans for the sole purpose of maintaining our FHLB membership.

Under the proposal, the current memberships of captive insurance companies would be terminated regardless of the amount of home mortgage loans they hold on their balance sheets. This would occur despite the fact that captives are insurance companies, which have been eligible to be FHLB members since the FHLBs were created by Congress in 1932. If the FHFA can terminate the memberships of a certain class of insurance companies, it raises a legitimate concern as to what, if anything, would prevent the FHFA in the future from terminating the membership of other types of current members, potentially including our bank, for any reason the FHFA sees fit. Such an outcome could undermine any confidence in the FHLBs as sources of stable and reliable liquidity. Since the financial crisis, our prudential regulators, the OCC, have 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.

The overall intent of this proposal seems to restrict and narrow FHLB membership, resulting in fewer members. As some members have their membership 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 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 communities through valuable products such as the FHLB's down payment assistance grants, Community Investment Cash Advances and Affordable Housing Program grants would be harmed.

This proposed rule would harm 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, 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, threatening access to the FHLB of Chicago threatens our bank, our customers, and the 13 communities we serve. This proposal would undermine the reliability of the FHLB of Chicago, discourage membership, inhibit our growth, limit access to the secondary market and shrink the FHLB of Chicago's affordable housing and community development activities. 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, I strongly urge the immediate withdrawal of this proposal.

I appreciate the consideration of my views.

Sincerely,



Shawn Davis
President and CEO
CNB Bank & Trust, N.A.