December 15, 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: <u>Notice of Proposed Rulemaking; Request for Comments – Members of the Federal Home Loan Banks</u>

Dear Mr. Pollard:

We are submitting this comment to express our 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.

Our institution, Marine Bank, is a community bank with $615 million in total assets. We have been in existence for 21 years and members of the Federal Home Loan Bank of Chicago for the majority of that time. We hold the leading mortgage lending market share in Sangamon County servicing low-moderate income borrowers and first-time homebuyers. We also have mortgage operations in the Champaign / Urbana and Bloomington / Normal markets. Over 90% of the mortgage loans that we originate are sold to FNMA. Other loan products that we provide include commercial, commercial real estate, small business and agricultural loans.

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 community. Access to FHLB of Chicago advances is critically important to our bank 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 advance products are a large part of our bank's liquidity funding sources.

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 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 a member of the FHLB of Chicago. This has never been the case in the 82-year history of the FHLBs.

3050 Wabash Ave., Springfield, IL 62704 • 217-726-0600 • www.ibankmarine.com
Member FDIC

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"). By making clear that CFIs may use FHLB funding for purposes other than residential housing finance, the Act expanded the mission of the FHLBs and encouraged lending by smaller depository institutions to these asset categories. The proposed rule contradicts this Congressional intent by mandating CFIs hold some amount of our assets in long-term home mortgage loans. It does not appear to recognize the legitimate uses of FHLB funding beyond housing finance activities.

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 consequence 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.

We also are very concerned this proposal could lead to the politicization of FHLB membership. If the FHFA can require ongoing eligibility requirements for members, nothing would prevent it from increasing those thresholds, or imposing entirely new requirements, in the future. This proposal might simply be the first of many such eligibility requirements imposed upon FHLB members, purportedly in an effort to ensure that a sufficient housing finance nexus is maintained at all times by members. The FHFA director is a political position, appointed by the President and confirmed by the U.S. Senate. What would prevent a future FHFA director from requiring FHLB members to hold yet more housing loans or other types of assets on their balance sheets in order to achieve a certain political agenda? Such fears are not unfounded. Past Administrations from both political parties increased housing goals for Fannie Mae and Freddie Mac in an effort to increase the level of homeownership and serve politically favored constituencies, with disastrous results.

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.

Beyond these destabilizing effects, this proposal does nothing to help strengthen the overall financial system. Since the financial crisis, our prudential regulators, the FDIC 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.

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 communities where we operate. 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,

Kathy Seadler
Chief Financial Officer
Marine Bank
Springfield, IL