Old Second
Right sized banking.

December 5, 2014

Stan C. Faries
Senior Vice President and Treasury Manager
Old Second National Bank
37 South River Street
Aurora, IL 60506

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:

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. After review of this proposal, we respectfully request its withdrawal for the reasons articulated below.

As background, Old Second National Bank is located in Aurora Illinois and is a $2 billion commercial bank. In 2008, our bank had a large portfolio of construction and land development loans that was subsequently decimated in the last recession. Fortunately, we have managed through those tough times and have largely recovered. However, our experiences over the past few years have taught us a great deal about financial adversity, especially as it relates to liquidity.

As our finances deteriorated during the past recession, we discovered that Federal Funds lines were quickly withdrawn and capital markets access evaporated. Even the Federal Reserve, supposedly lender of last resort, did not provide a practical source of liquidity for our bank. The only option available to us for true liquidity was the Federal Home Loan Bank of Chicago. Had access to that liquidity source been unavailable, our survival would have come into serious doubt.

With this experience in mind, we believe that the proposed rule, which creates conditional membership, could have dire ramifications for smaller banks should a similar recession occur in the future. We found through our experience that many things align to compound the difficulties faced by a troubled bank. Even the regulatory environment is pro-cyclical in its effect on a bank facing difficulties. This proposal would only exacerbate those difficulties by potentially denying access to the only reliable liquidity source available to most community banks. As such, it could well prove responsible for the demise of many banks that would otherwise have remained viable had they had unconditional access to the liquidity provided by the FHLB system.

In summary, we believe that the proposed rule would provide limited tangible benefits, while seriously undermining a crucial liquidity source for community banks. That is why we urge you to withdraw this proposal.

We appreciate your consideration of our comments.

Sincerely,

Stan C. Faries
Senior Vice President and Treasury Manager