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OFFICE OF GENERAL COUNSEL

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

December 18, 2014

RE: Notice of Proposed Rule Making and Request for Comments-
Members Federal Home Loan Bank (RIN 2590-AA39)

Dear Mr. Pollard,

The Federal Housing Finance Agency has requested comments on a notice of proposed rulemaking on Federal Home Loan Bank Membership requirements. We appreciate this opportunity to submit these comments on the Proposed Rule.

We are a small community Bank of $90 million in asset size. We are located in a small agricultural area of Northwestern Illinois. We have a very strong CAMELS rating from FDIC and the State of Illinois. We have a satisfactory CRA rating. We own $340,692.00 of Chicago Federal Home Loan Bank Stock.

We have a total of $22,300,431.00 in outstanding 1 to 4 family mortgages of which $14,395,003.00 has been put into the Chicago Federal Home Loan Bank Mortgage Partnership Finance Program (MPF and MPF Extra). We have $11,422,352.00 of mortgage back securities in our bond portfolio. Had we not had access to the FHLB system, a substantial number of our customers would not have had an important source of competition for their long term fixed rate mortgage needs. We encourage our customers to compare our terms and closing costs with other lenders. Combine our access to long term products thru FHLB with our home town local servicing, our knowledge of our customers, and our low closing costs; the customer wins because of increased competition.

We currently have $3,964,171.00 of Chicago Federal Home Loan Bank advances on our balance sheet allowing us to hedge some of our longer term interest rate risk. We have also used FHLB advances to fund long term loans for land purchases, build hog and cattle buildings, build farm storage buildings, and build a veterinary clinic.

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We are concerned that the proposed changes would significantly increase FHLB membership requirements for existing and prospective members, thereby reducing the availability and possibly the reliability of liquidity offered by the FHLB system. Moreover, stricter requirements will call into question our ability to borrow under all future economic scenarios. The proposed changes will not only make certain members ineligible for membership, it would discourage potential members from joining. The net effect would be to inhibit FHLB's ability to serve the liquidity, housing, and community development needs of the Chicago district. We need continued access to the Chicago FHLB to help us continue to help the customers in our community. We are concerned that even though this proposal may not affect us to a great extent at this time, future tightening may be of great concern to us. Once started, these rule changes sometimes take on unintended consequences.

The Federal Home Loan Bank Act includes requirements to become a member of the FHLB system. In the past, Congress has taken action to amend the act in ways that have encouraged membership and expanded eligible collateral. Congress has not sought to require continuous testing of such requirements or a percentage of assets to demonstrate a commitment to housing finance. We believe that it is Congress' purview to do so, not the Federal Housing Finance Agency's.

As proposed by the Agency, ongoing compliance with membership requirements would impose additional regulatory burdens on our Bank and add an element of uncertainty to our continued FHLB membership.

The 113th Congress, the Senate Banking Committee, and House Financial Services Committee have been engaged in legislative efforts to achieve housing finance reform. As part of these efforts, they have had the opportunity to review the role and mission of the Federal Home Loan Banks. Throughout these reviews there has been no consideration of restricting membership in Federal Home Loan Banks. To the contrary, discussions have revolved around potentially expanding the role of Federal Home Loan Banks and access to them in a reformed housing finance system. It is likely that housing finance will be given a high priority in the next Congress. Under these circumstances, the regulator should defer to Congress, as it always has to determine the role of Federal Home Loan Banks in a future housing finance system. If adopted, the Proposed Rule would seriously alter, and even harm, the strong and stable relationship with the Chicago Federal Home Loan Bank that we and other member financial institutions have relied on for decades.

For these reasons, we request the Proposed Rule be withdrawn.

Thank you for this opportunity to submit our comments.

Sincerely,

John H. Nelson

John H. Nelson
President
Exchange State Bank
Lanark, IL