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John B. Ward
President

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OFFICE OF GENERAL COUNSEL

FIRST AMERICAN BANK

December 22, 2014

VIA E-MAIL TO REGCOMMENTS@FHFA.GOV

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: First American Bank, Elk Grove Village, Illinois
Comments RE RIN 2590-AA39
Notice of Proposed Rulemaking: Members of the Federal Home Loan Banks

Dear Mr. Pollard:

We are writing to comment on 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("NPR").

The NPR reviews current statutory and regulatory provisions governing Federal Home Loan Bank ("FHLB") membership, proposes regulatory changes to the eligibility requirements for membership and invites comments on all aspects of the NPR. We submit the following comments.

The proposal is unnecessary because the FHLB's existing regulations require that FHLB advances to their members must generally be supported by mortgage-related collateral. Indeed, the amount of long-term advances that can be made to a member are limited by the amount of total long-term residential housing assets currently held by that member. And because our bank accesses both long-term and Community Investment funds, in addition to shorter term advances, we are regularly required by the FHLB to complete a document certifying that we actively support first-time home buyers.

As is often the case, the proposed regulations attempt to present a rationale for their introduction that is supported with supposition rather than actual data. The regulatory pronouncement purports to address a "problem" that doesn't exist and this introduction, if accomplished, will merely cause each FHLB member to question whether rules are more appealing than incentives. It is also highly likely to reduce participation in the Home Loan System, which will eventually weaken the housing finance alternatives in the US.

FIRST AMERICAN BANK

The liquidity provided by the FHLB system to non-public, community focused banks like ourselves is quite important. While we and our small bank colleagues provide basic banking services to 40% of the nation's consumers, we lack the alternative sources of funding that our large bank competitors have, including access to the public capital markets. We are, however, no less affected by and vulnerable to global financial issues. Liquidity quickly became the number one risk issue in the financial crisis of the last seven years. For us, the FHLB provided much of that liquidity. And the funding was provided with much less drama and with a rapid response, unlike the Fed's TARP program.

Banks like ours have no "relationship" with the Fed. The Discount Window is, of course, available but only with collateral, without any predictable term and is regarded by the funding source as an indication of problems at the user. If you need the funding for any extended period of time, and have any alternative, you'll be asked to leave. As was the case for us at both the Discount Window and later with TARP funding.

In contrast, the FHLB provides rapid access to reliable funding, structured intelligently to correspond to the use of the funds, and regards its users as its customers rather than its problems. In liquidity planning, certainty and predictability are essential both to our management and board and to our regulators. The introduction of political concerns to membership acceptability – and thus to the capital access process -- has a high potential to add arbitrariness to liquidity access. For small banks like ours, that is the kiss of death.

The proposal, in its misguided zeal to "encourage" lending to homeowners, ignores completely the business that most community banks do with Fannie Mae and Freddie Mac. Thanks to the government's competition with our industry, the GSEs have all but taken over housing finance, much as it has student lending. We, therefore, must provide 30 year fixed-rate home loans at rates that reflect the federal government's credit rating, not ours. Thus we originate loans to a large slice of our customer base that only very briefly become assets of the bank. Quickly they end up on the GSEs' balance sheets with servicing rights either retained by us or sold along with the loan. Were we to attempt to retain these loans in order to comply with the NPR, one of only two things would happen. We would charge a rate competitive with the GSEs and be at considerable rate risk for much of the life of the loan. Or we would charge a rate that appropriately reflected our cost of funds and our customers would choose another, less expensive provider. In either case, our support of the residential housing markets would involve bad choices. It's fine to pretend that banks need more prodding to support housing. The reality, however, is very different.

We respectfully request that you drop this proposal. The disruption to the FHLB System's support of community banks will be significant, the impact on housing finance

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will be terribly dislocating and the risk to the banking system's liquidity has the very real potential to be fatal. Enacting this proposal to make a political statement about a perceived problem is a grave error.

We appreciate the opportunity to provide you with these comments.

Sincerely yours,

John B. Ward
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CC: M. Anthony Lowe
Regional Director, FDIC