Banterra®

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: 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. For the reasons described below, we respectfully request the withdrawal of this proposal.

Banterra Bank is a regional community bank that has 35 locations in Illinois, Indiana, Kentucky and Missouri. Banterra would fall under your definition of a larger bank in that we have $1.3 billion in total assets. However, we are not a large bank and we serve mostly rural communities unlike large banks: Bank of America, Wells Fargo and Citibank. They have access to wholesale funding, unlike Banterra, and have abandoned the rural markets. Your proposed rule requiring 10% of assets in residential mortgages is particularly troubling to Banterra. Without the expanded definition to include MBS we only have $95 million in residential mortgages, thus eliminating our FHLB membership. Our in-house residential loans are to families that because of technical reasons don't qualify for secondary market loans ($120 million secondary market serviced). We fund our in-house residential loans in large part from our FHLB line. Under your proposed rules these folks would have to look elsewhere for credit and the overall access to credit will shrink.

We have been a member of the Federal Home Loan Bank of Chicago since the 1990's. We are a vital source of lending for our customers and our community, providing loan products for residential real estate, commercial real estate, small business, agricultural real estate an agricultural operating loans.

As a shareholder and customer, we greatly value our membership in the FHLB of Chicago and view it as a key partner in our success. For a 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 of Chicago's products such as advances, letters of credit and the Mortgage Partnership Finance® Program are tremendous resources that enable us to better serve our home buying, small business and agricultural customers.

BANTERRA | 1404 U.S. ROUTE 45 | PO BOX 291 | ELDORADO | ILLINOIS | 62930
618-273-9346 | FAX 618-273-5617
ILLINOIS | INDIANA | KENTUCKY | MISSOURI
BANTERRA.COM | 866-BANTERRA (226-8377) | MEMBER FDIC

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. The proposal would require us to hold at least 10 percent of our total assets in residential mortgage loans at all times. An additional test would require the maintenance of at least 1 percent, and contemplates as much as 5 percent, of our assets in a separately defined group of long-term home mortgage loans. Failure to meet either proposed test would result in the eventual termination of our membership.

The practical consequences of this proposal would be severe. 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 of Chicago member. This has never been the case in the 82-year history of the FHLBs. 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 liquidity. And even if we meet the proposed threshold today, we would need to continually 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.

The proposal effectively would require a portion of our balance sheet to be devoted to long-term home mortgage loans (meaning a term to maturity of five (5) years or greater) at all times as a condition of remaining an FHLB of Chicago member. 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. This might also unduly expose us to the interest rate risk associated with holding long-term, fixed-rate mortgage loans. This result also would contradict the intent of Congress, which has explicitly recognized the FHLBs' mission of providing liquidity to members without limiting that purpose to housing finance. By seeking to establish a housing finance nexus that all FHLB members must meet, the proposal does not appear to recognize the legitimate uses of FHLB funding beyond housing finance activities.

We also are 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 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.

A similar concern exists as to the ability to terminate the memberships of current FHLB members without any showing of cause. 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 memberships of other types of current members, potentially including our bank, for any reason the FHFA sees fit. Such an outcome would destroy any confidence in the FHLBs as sources of stable and reliable liquidity. The FHFA would be opening a Pandora's Box if it approves the rule as proposed.

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, such as smaller members, are encouraged to reduce their usage in order to avoid crossing the arbitrary threshold for community financial institutions, 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's economic development 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.

Nor does the proposal do anything to help repair and restart the struggling housing markets. Many community banks rely upon the FHLBs' MPF® Program to access the secondary mortgage market. This innovative program has been popular with FHLB members because it allows us access to the secondary mortgage market on competitive terms while retaining our customer relationships. The traditional MPF products also pay participating members monthly fees to manage the credit risk of their own loans, in contrast to the guarantee fees charged by Fannie Mae and Freddie Mac. Rather than furthering this program, however, the proposal would only harm it by encouraging members to hold more mortgage loans on their balance sheets, rather than selling them. Moreover, to the extent the proposal discourages FHLB membership and terminates existing memberships, it will only limit access to housing finance and the secondary market. Again, this seems to directly contradict the efforts of the Administration and others to increase the availability of mortgage credit, particularly for lower income families.

This proposed rule would also harm the financial system by adding to the growing regulatory burden on banks such as ours that impedes our ability to efficiently operate our businesses and best serve our customers and shareholders. 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 may cause us to rethink the practicality of remaining an FHLB member.

In conclusion, we view the FHLB of Chicago as a critical partner for our bank. The reliability of the FHLB of Chicago as a liquidity source must be preserved. Threatening access to the FHLB of Chicago threatens our bank, our customers and the community of *Eldorado*. This proposal would undermine the reliability of the FHLB of Chicago, discourage membership, politicize FHLB of Chicago 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,

Everett D. Knight
Chairman & CEO