



January 6, 2015

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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.

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 between 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.

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. 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 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.

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.

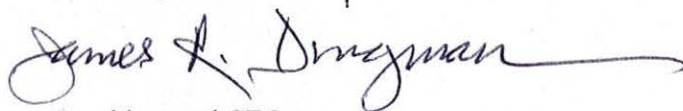
The *FDIC and STATE BANKING REGULATOR* have increasingly emphasized liquidity planning in an effort to prevent another crisis from occurring. In our liquidity plans, we rely on our access to the same-day funding offered by the FHLB of Chicago. Our regulator understands and accepts the vital role of the 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. 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. 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,

A handwritten signature in black ink, reading "James L. Dingman". The signature is fluid and cursive, with a long horizontal flourish extending to the right.

President and CEO