IBA
ILLINOIS BANKERS ASSOCIATION
Connecting Bankers. Advancing Banking.

January 12, 2015

Via Electronic Delivery to RegComments@fhfa.gov

Mr. Alfred M. Pollard, General Counsel
Attention: Comments/RIN 2590-AA39
Federal Housing Finance Agency
400 Seventh Street SW, Eighth Floor
Washington, D.C. 20024

Re: Members of Federal Home Loan Banks
79 Federal Register 54847 (November 12, 2014)

Dear Mr. Pollard:

The Illinois Bankers Association (the "IBA")[1] is writing on behalf of its members to comment on the proposed rule amending the membership requirements for the Federal Home Loan Bank System ("FHLB System"). The vast majority of IBA financial institutions are members of the Federal Home Loan Bank of Chicago ("FHLBC"), and many are highly dependent on the FHLBC for liquidity and for managing interest rate risk to meet the needs of their communities.

The proposal fundamentally changes membership eligibility for the FHLB System, with serious negative consequences that fail to advance its purposes. For the first time in the eighty-two years since Congress chartered the FHLB System, member institutions will be subject to ongoing mortgage asset tests. In addition, the proposal excludes all captive insurance companies from membership in the FHLB System. These changes will harm all FHLBs and their member institutions while hindering the FHLB System's purposes and the nation's housing recovery. We urge the FHFA to withdraw the proposed rule.

The proposed eligibility requirements impose arbitrary asset allocations and create unnecessary uncertainty. FHLB member institutions will no longer be able to rely on the liquidity provided by the FHLBC, especially during economically distressed periods when assets might erode. Even if member institutions meet the threshold eligibility requirements today, every business decision that affects their balance sheets — whether a merger, acquisition, organic growth or new lines of business — will have to factor in the ongoing eligibility requirements and the consequences of losing access to the System.

Due to the uncertainty created by the proposal's asset requirements, member institutions will think twice about financing certain community projects or making investments in their communities, which could jeopardize their FHLB System eligibility. Combined with thousands of pages of new compliance requirements and their myriad unintended consequences, these unprecedented eligibility requirements will only add to the regulatory uncertainty that is inhibiting bank lending and the housing market's recovery. In addition, uncertainty over an institution's access to the FHLB System, or the possibility of becoming overinvested in housing related assets at the expense of other assets, will harm member

[1] The Illinois Bankers Association is the largest financial services trade association in Illinois dedicated to creating a positive business climate that benefits the entire banking industry and the communities we serve. Founded in 1891, the IBA brings together state and national banks and savings banks of all sizes in Illinois. Over 20% of IBA members are community banks with less than $50 million in assets, and over 70% of IBA members are community banks with less than $250 million in assets. Collectively, the IBA represents nearly 90 percent of the assets of the Illinois banking industry, which employs more than 100,000 men and women in over 5,000 offices across the state.

194 East Delaware Place • Suite 500 • Chicago, IL 60611 • 312-347-3400
524 South Second Street • Suite 600 • Springfield, IL 62701 • 217-789-9340

institutions' standings with their prudential regulators. Financial institution balance sheets should be designed to satisfy their regulators' capital and safety and soundness requirements, among other important considerations — not to meet an arbitrary asset test.

The proposed ongoing asset tests also will harm the FHLB System itself, magnifying the harm to their member institutions. As members fall in and out of eligibility, and consequently in and out of their stock contributions, the FHLB System will become less stable and less reliable, particularly for their regulators and capital markets. Membership will fall for the FHLBC and other FHLBs, leading to reduced profits and fewer dollars to support the FHLB System's worthy mortgage and economic development programs.

As a result, the proposal will hinder, not advance, the FHLB System's missions, and it is inconsistent with the intent of Congress. Not only has Congress steadily expanded membership in the FHLB System over the years, it has explicitly permitted Community Financial Institutions, under the Gramm-Leach-Bliley Act of 1999, to use FHLB advances for small business, small farm, and small agriculture business loans. In 2008, Congress formally recognized two missions for the FHLB System, both of which reach beyond the housing market: "providing liquidity to members" and "affordable housing and community development." 12 U.S.C. 4513(f)(1)(B), (C). By focusing only on the goal of supporting the national housing market, the proposal fails to support the FHLB System's other missions. And for the reasons we have discussed, the proposal even fails to support the FHLB System's housing goal — the uncertainty and other problems for FHLBs and their members will hamper the housing market's recovery rather than support it.

The proposed ban on captive insurance companies will compound the proposal's negative consequences for the FHLBs, their members, and the housing market. Under the Federal Home Loan Bank Act, all insurance companies are eligible for membership, just as federally insured depository institutions are eligible. The unprecedented removal of an entire category of FHLB membership by rule, without any congressional action, adds to the uncertainty faced by the FHLBs and their member institutions. The FHLBs will lose many captive insurance company members, in addition to the other members that fail to meet the new eligibility requirements. The potential for even more categorical removals and new ongoing membership requirements leaves the FHLB System and FHLB members in regulatory limbo. The added uncertainty will further reduce lending, community investment by member institutions, and FHLB community development programs.

The FHLB System serves as a critical source of liquidity and as a critical conduit to the secondary markets for many banks and thrifts. In Illinois, the FHLBC is an important partner to hundreds of bank and thrift institutions. The proposal will threaten these financial institutions and their partnerships with the FHLBC, without advancing any of the FHLB System's goals. Limiting membership and threatening access to the System will only harm our banking industry and the customers and communities that we serve.

Thank you for your consideration of our comments, and please let us know if you have any questions.

Respectfully,

Kevin J Rogers

Kevin Rogers
Illinois Bankers Association Chairman
President and CEO
Philo Exchange Bank

Linda Koch

Linda Koch
Illinois Bankers Association
President and CEO