January 9, 2015

Alfred M. Pollard, Esq., General Counsel

Attention: Comments/RIN 2590-AA37

Federal Housing Finance Agency, Fourth Floor

400 Seventh Street, S.W.

Washington, DC 20024

**Re: Notice of Proposed Rulemaking and Request for Comments – Members of Federal Home Loan Banks (RIN 2590–AA39)**

Dear Mr. Pollard:

On behalf of Citizens Bank of Rogersville, I am writing to express my concerns about the notice of proposed rulemaking. While we appreciate your apparent desire to provide for a strong Federal Home Loan Bank System that supports housing, we believe the rule undermines the goal of the proposal.

Based on our belief that the proposals could harm FHLBank members and generally weaken a System that has worked well for more than 80 years, we ask that the FHFA withdraw the September 12, 2014 Notice of Proposed Rulemaking.

Sincerely,

Brian L. VanFosson

President

Citizens Bank of Rogersville

1001 W. Center St

Rogersville, MO 65742

**Specific Messages for Member Comment Letters**

Please select messages that resonate with you and your institution. Use verbatim or, better yet, rewrite in your own words.

Liquidity messages

1. It seems this rule has the potential to restrict access to liquidity at the exact point in time when more, not less, liquidity is needed in a recovering market. While many depository institutions are flush with deposits at the current time, most observers believe that this may change when interest rates inevitably rise.
2. This rule would have a different impact in different market conditions. Before the FHFA takes additional steps on this proposal, it should analyze and publish a report on how such a test would have impacted the economy and financial institutions had it been in effect during the financial crisis.
3. The majority of the types of collateral eligible to be pledged to secure advances under the FHFA regulations are housing assets (e.g., various types of mortgage loans, mortgage-backed securities and home equity loans). Consequently, advances from FHLBanks provide liquidity for these housing assets.
4. Powerful and ongoing housing asset tests exist already. We are required to pledge collateral, and the majority of collateral types eligible to secure advances are housing assets. Additionally, under current rules, the total amount of advances having a maturity greater than five years cannot exceed the amount of residential housing assets on my institution’s balance sheet. The proposed regulation almost seems to ignore the housing nexus that is already in place. These tests work and do not impose regulatory burdens or penalties.
5. My regulator requires a reliable source of contingent liquidity. For us, this has always been my Home Loan Bank. With this rule, I’m concerned my regulator will not consider the FHLBanks reliable and may require another, more expensive, liquidity source.
6. The FHFA is not a bank regulator, but this proposed regulation imposes a significant regulatory metric that my institution will have to assess in the future. Have you consulted with my regulator and the regulators of other FHLBank members?

Messages specific to Community Financial Institutions (CFI)

(Note: CFI is defined term: depository institutions of less than $1.108 billion -- round to $1.1 billion if you prefer.)

1. As a small bank, I worked hard to have the Congress exempt institutions under $500 billion in assets from the 10 percent test to join FHLBanks in 1998. In 2008, I was glad to see the Congress increase the eligibility for this exemption to institutions with $1 billion in assets. That number is now inflation-indexed to bring it to $1.1 billion.
2. It seems to me this proposed regulation would circumvent the will of the Congress to exempt small institutions from a 10 percent asset test. It would subject institutions that are now below $1.1 billion in assets to an ongoing 10 percent asset test should their assets grow beyond $1.1 billion. Ideally an FHLBank member can manage its portfolio as it manages interest rate risk, market risks and the other attendant risks.
3. Based on data in the comment letter to this proposal prepared by the law firm Venable on behalf of the 12 FHLBanks, “since 2008, 5,622 current FHLBank members have been a CFI at some point, but only 5,253 have continuously been a CFI.” This indicates that, post-crisis, almost 400 institutions have drifted above and beyond the CFI level that this regulation will make a tripwire for FHLBank membership termination.
4. As I manage my institution, I manage interest rate risk, credit risk and liquidity risk. I also strive to serve the credit needs of my community. This regulation could put me in a situation where I may not be able to support growing business loan demand because my institution might get too close to the CFI threshold.
5. My asset size is near, but below the CFI cut-off of $1.1 billion. If this rule is imposed, we will really have to consider the impact of balance sheet management or losing FHLBank membership if we plan to acquire other institutions or even to grow our balance sheet. I would hope this regulation would not be instituted and force me at some point to turn away small business loans in my community just as the economy appears to be gathering steam.
6. As a community bank just below the CFI definition of less than $1.1 billion, it’s tough enough to do business already. This rule would add uncertainty of going over and thus being subject to the 10 percent test. This seems like an arbitrary and unnecessary imposition of regulation that will affect our strategic business decisions.
7. Simply put, I don’t want to have to think about the potential of losing my FHLBank membership as I make business decisions and deal with the numerous existing and changing regulations and risks I have to manage. I run my institution to be safe, profitable and useful to my customers – not to meet an arbitrary test.
8. I’m a CFI who meets the 1 percent test easily – but I’m worried that any future plans to merge or be acquired would be halted by this rule because I’ll have to factor in the 10 percent tests. This rule will stunt growth plans for community banks.
9. I’m a CFI that meets a 1%, 2% and even the 5% tests that the proposal suggests might be imposed. How can I be sure that your agency will not increase that test beyond 5% in the future? If your stated rationale is that a mortgage asset test supports housing (a supposition with which I vigorously disagree), should we not assume you will increase that number in the future?
10. I’m a CFI nearing the $1.1 billion mark. If this rule goes into effect, it will cause me to manage my capital, interest risk, liquidity, mortgage holdings, and even my total asset size as I approach the CFI threshold – or face losing FHLBank membership. Surely you don’t intend to have this much impact on my business decisions.
11. As a CFI, we are enormously proud of the work we do to build a stronger community through providing access to credit for a broad range of our local customers’ needs. That is exactly what our membership in our Federal Home Loan Bank enables us to do.

Messages about affordable housing & community development

1. This proposed rule will diminish the value of FHLBank membership, reduce borrowing from FHLBanks and reduce the capacity of FHLBanks to assist members in serving the housing needs of their markets. This will include a negative impact on net income for the FHLBanks, which will, in turn, mean less money for affordable housing grants.
2. I’m concerned that internal resources in my FHLBank (Pittsburgh) will have to be redeployed to monitoring membership tests and this may take away from their ability to create innovative programs such as Blueprint Communities, which helps to revitalize communities, or Banking On Business, which creates and retains jobs. These are programs that really help communities.
3. By diminishing the strength of the FHLBanks, this rule diminishes community investment programs that help communities grow and thrive.

Messages about impact on housing in recovering market

1. By reducing flexibility for FHLBank members to manage our balance sheets (which is not directed at any FHLBank safety and soundness concerns), this rule may present new safety and soundness challenges to my institution.
2. My institution will get no credit for supporting housing with mortgages we originate and sell into the secondary market. If my institution were to lose membership, I would lose access to the Mortgage Partnership Finance Program, which directly supports housing. This result is completely at odds with the proposal’s stated intent to ensure that FHLBanks are supporting their housing finance mission.
3. The government should be looking for ways to help the economy, not impose a rule that could restrict the flow of credit to communities across America.

Messages about regulation and general issues

1. This proposed regulation addresses a problem that does not exist. There are no safety and soundness problems at FHLBanks raised by lending to members that may fall below either of these proposed ongoing asset test levels. However, the proposal would impose new regulatory-type burdens and expense on my institution, may put me at odds with my own regulator, and could restrict the flow of capital into the communities we serve.
2. This regulation will have the unintended consequence of putting FHLBank members in a position of having conflicting regulatory burdens. For example, my regulator says I should hold fewer long-term mortgages on my balance sheet, but this rule may encourage me to add long-term mortgages just to meet the test and retain FHLBank membership.
3. My Federal Home Loan Bank went through some tough times during the crisis, including suspending dividends for several years. I stuck with the FHLBank as a member during that period, which supported your concerns that it remain well-capitalized. Now you are proposing a regulation that could force me out at a time when the FHLBank is well-capitalized and profitable.
4. Congress, not FHFA, should determine membership requirements.
5. Congress has a record of expanding membership opportunities (1989, 1998, 2008) not restricting them.
6. This regulation puts the FHLBank that I own (as a member of the cooperative) in a de facto regulatory role; it is not appropriate for them to regulate their owners.
7. The proposed regulation allows a five-year sunset for captive REITS to exit membership in the System; yet members that fail one of the housing asset tests have only one year to pass or face expulsion from the System.