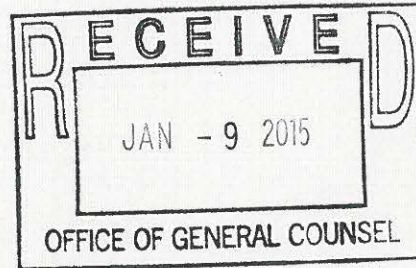




# Sterling Federal Bank

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January 2, 2015



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

Re: Notice of Proposed Rulemaking and Request for Comments – Members of the FHLBanks  
(RIN 2590-AA39)

Dear Mr. Pollard:

I am writing to express my concerns about the notice of proposed rulemaking regarding membership eligibility in Federal Home Loan Bank (FHLBanks) put forward by the Federal Housing Finance Agency (FHFA). The proposed rule includes significant and unnecessary changes to long-standing membership rules for the FHLBank system. The proposed changes are inconsistent with Congressional intent and the Federal Home Loan Bank Act (FHLBank Act). For these reasons, Sterling Federal Bank vehemently opposes this proposed rule.

The proposed regulation on FHLB membership creates many concerns. While our bank would easily meet the proposed rule requirements, I feel that the rule establishes a problematic precedent for community banks. Each bank should be free to manage our balance sheets in light of what's best for us, not the demands of a regulator. Not to mention, the proposed regulation conflicts with concerns from financial regulators that financial institutions reduce holdings of long-term fixed rate mortgages and sell them in the secondary market.

It is also crucial to point out that more than 25 years ago, Congress made it clear that community financial institutions (CFIs) may use advances for purposes other than residential housing finance. It remains the intent of Congress today that CFIs may utilize FHLBank liquidity for commercial real estate, small business, agricultural real estate and agricultural operating loans. This fact alone highlights how this proposed rule runs counter to existing federal statute.

Broadly speaking, the FHLB Chicago serves as a critical source of liquidity for financial institutions in the Midwest. They have proven to be a reliable and competitive source of liquidity for all of our financing needs in all economic environments. This rule, if adopted, would remove the certainty that the FHLB Chicago can be counted on to be a reliable source of liquidity in all market conditions.

The on-going mortgage asset test requirements will artificially distort balance sheet management practices, decreasing the flexibility of community banks, credit unions and insurance companies to manage their balance sheets in response to changing market conditions.



Alfred M. Pollard, General Counsel  
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Your agency's proposed rules could fundamentally change how, or even whether, a depository financial institution could remain a member of FHLB Chicago. This is enormously disturbing. Confidence, trust and reliability comprise the bedrock upon which our long-time FHLB membership is built. We need to know that the FHLB Chicago can provide funding on a moment's notice as it did in the recent financial crisis.

Access to advances is critically important to our bank because FHLBank liquidity allows us to offer competitive rates to our members that we might not otherwise be able to offer. **This is our main liquidity source in times of need.** Additionally, having a credit line and borrowing capacity with FHLB Chicago promotes the safe and sound management of our institution.

It also seems incredibly disingenuous to eliminate captive insurance companies from FHLB membership at a time when housing finance is at risk with only a small private secondary market and Fannie and Freddie in conservatorship. This is the time to encourage the development of additional markets for both single and multi-family mortgages. Financial institutions are being discouraged from holding mortgages, meaning that we need to see the development of new outlets. The FHLBanks are a logical place to create these new models. Why would you eliminate opportunities rather than work with us to develop new systems of finance?

Access to FHLBank advances is important to CFIs like mine in our region. FHLB Chicago and the eleven other FHLBanks are operating well within the authorities granted them by Congress. The membership requirements being contemplated by FHFA would change long-standing requirements that have worked well, and the proposed rule would ignore the collateral expansions approved by Congress over time. Sterling Federal Bank strongly recommends you rescind the proposed rule. Thank you for taking our comments into consideration.

Sincerely,

STERLING FEDERAL BANK



Dean A. Ahlers  
President & CEO

DAA:krl