January 12, 2015

Community Savings Bank

4801 W. Belmont Avenue

Chicago, IL 60641

773-685-5300

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 request the withdrawal of this proposal.

In brief, it should be noted that this letter specifically does NOT address the legal authority or lack thereof of the FHFA to make the proposed rule change, or the legal authority of the agency to contravene current legislation through such rule making. This letter does address the following: the value the Federal Home Loan Bank (FHLB) System provides for community banks and their customers; the strength the current system in its current form possesses and maintains; the risks the proposed change would pose for the FHLB System and member community banks, and therefore for the customers of community banks; the unprecedented politicization of the FHLB system which the proposed rulemaking would introduce, and the negative effects the politicization would have for the system; the “slippery slope” that would be created by the politicization the system which would be a consequence ofthe proposed rule making; the contravention of current law which would be a consequence of the proposed rule making; and the lack of any benefit the proposed rulemaking would achieve.

Community Savings Bank is a $410 Million asset state chartered, mutual, savings bank, located in Chicago, Illinois. The bank has a single location on the city’s northwest side. It has served customers from the Cicero and Belmont neighborhood since 1944, and operates as a traditional thrift institution. As a traditional thrift institution Community’s primary lending activity is making home loans to allow area residents to own their homes. Also, as a traditional thrift, Community is a portfolio lender. All 1st mortgage loans made by Community are fixed rate mortgage loans. As evidence of Community’s solid commitment to neighborhood lending and its local community, the bank holds an Outstanding CRA rating issued by its primary Federal Regulator, the FDIC. Though Community’s Tier One Capital is in excess of 14%, due to the ebbs and flows of real estate lending, having access to a reliable source of liquidity in the form of a strong Federal Home Loan Bank of Chicago is essential to the success of our operation.

As a shareholder and customer, we greatly value our membership in the FHLB of Chicago It is a key partner to help us better serve our customers and our community. For a smaller 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’s products are tremendous resources that enable us to effectively compete with much larger financial institutions, resulting in more choices and better service for our home buying customers. The access to liquidity at the FHLBC is an important ingredient that allows us to hold our fixed rate mortgages in portfolio, which is a major benefit to our customers and to the local community.

The proposed rule concerns us because it would impose, for the first time ever, on-going requirements for any member to meet as a condition of remaining a member of the FHLB of Chicago. Though these requirements don’t pose any change for Community at this time, putting new restrictions on bank membership would have the effect of limiting FHLBC membership, which could have detrimental effects on the health of the FHLBC. This would put our ability to serve our customers at risk.

While this requirement may not appear to the FHFA to be onerous, the practical consequences would be very severe and disruptive. 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 members 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 of Chicago liquidity.

Even if member institutions meet the proposed threshold today, many members would need to manage their balance sheets with the proposed requirements in mind going forward. Future decisions regarding asset allocation would be more important than the financial prudence of making such decisions. 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 the ability of community banks to grow. For example, if a community bank’s total assets grow above the current CFI threshold of $1.108 billion, either organically or through acquisition, the bank would then become subject to the additional proposed on-going test that would require it to maintain 10% of its assets in residential mortgages loans. This could have the unintended consequence of forcing the bank to forego expansion or merger plans for the sole purpose of maintaining FHLB membership. As a regulator, the FHFA shouldunderstand 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.

We also are very concerned this proposal would likely 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 that 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. Nothing 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. The politicization of the FHLB System is a very slippery slope to embark upon.

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 proposed rulemaking sets a very dangerous precedent.

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 are forced to reduce their usage of the FHLB of Chicago, 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. These actions also would result in less stable Federal Home Loan Banks. Additionally, as usage contracts and profits decline, fewer dollars will be available to support the FHLB of Chicago’s affordable housing and community investment programs. Another consequence of this action would negatively affect our bank’s ability to rely on a strong FHLBC that can be counted on as a liquidity source which would harm our ability to serve our s community, and therefore harm the community itself.

Beyond these destabilizing effects, this proposal does nothing to help strengthen the overall financial system. Since the financial crisis, all of the prudential regulators 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. We believe 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. Rather, this proposal seems to directly contradict the efforts of the Administration and others to increase the availability of mortgage credit, particularly for lower income families, by discouraging FHLB membership.

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. 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 could likely cause community banks to rethink the practicality of remaining a FHLB member, which would diminish the effectiveness of the FHLB system as a whole.

In conclusion, we view the FHLB of Chicago as a critical partner for our bank. Its reliability as a liquidity source must be preserved. Threatening access to the FHLB of Chicago threatens our bank, our customers and the community of Chicago. 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,

Dane H. Cleven

President and COB

Community Savings Bank

Chicago