



P.O. Box 1070
Madison, WI 53701
608.282.6000
800.282.5115
home-savings.com

January 12, 2015

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.

Home Savings Bank is a \$123 million community bank in Madison, Wisconsin. Our bank is celebrating our 120th anniversary in 2015, and has been recognized with an Outstanding CRA rating by the FDIC for our ability to meet the credit needs of Dane County Wisconsin by offering loan products for residential real estate, commercial real estate, and small business. We are a long-term member of the Federal Home Loan Bank of Chicago, and as permitted under the FHLB Act, we use these loans as collateral to support our activities with the FHLB of Chicago.

As a shareholder and customer, we greatly value our membership in the FHLB of Chicago and view it as 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 such as advances, letters of credit and the Mortgage Partnership Finance[®] Program are valuable resources that enable us to effectively compete with much larger financial institutions, resulting in more choices and better service for our home buying and small business customers.

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.

While this requirement would not be particularly onerous to our institution, the practical consequences for other bank members would be very severe and ultimately disruptive to our ability to rely on the liquidity provided by the FHLB of Chicago, particularly in times of economic distress. This has never been the case in the 82-year history of the FHLBs. 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 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 in housing related assets may limit 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.

A concern also exists with potential instability in FHLB membership related 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 will open a Pandora's Box if it approves the rule as proposed.

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. 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. Our bank's ability to serve our community through valuable products such as the FHLB's down payment assistance grants, Community Investment Cash Advances and Affordable Housing Program grants would be harmed.

Beyond these destabilizing effects, this proposal does nothing to help strengthen the overall financial system. Since the financial crisis, our regulators, the FDIC and Wisconsin Department of Financial Institutions (WDFI) 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

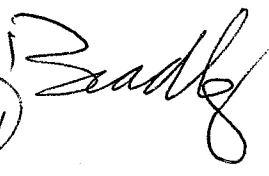
offered by the FHLB of Chicago. Our regulators understand and accept the vital role of the FHLBs in such planning. This proposal contradicts these efforts by undermining the reliance of banks such as ours on the FHLBs. In so doing, it threatens to weaken the broader financial system while doing nothing 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. 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 will likely increase our cost of operation and strain the resources available to serve our customers and maintain adequate levels of capital.

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 our community of Madison, Wisconsin. This proposal would undermine the reliability of the FHLB of Chicago, discourage membership, limit access to the secondary market and shrink the FHLB of Chicago's affordable housing and community development activities. It will not help the effort of other banking regulators to strengthen the overall financial system nor repair the struggling housing markets. For these reasons, we strongly urge the immediate withdrawal of this proposal.

We appreciate your consideration of our views.

Sincerely,


Jim Bradley
President