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FARMERS & MERCHANTS STATE BANK OF BUSHNELL

December 18, 2014

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

Dear Mr. Pollard:

Farmers and Merchants State Bank of Bushnell is writing to comment on the Federal Housing Finance Agency's ("FHFA") Notice of Proposed Rulemaking and Request for Comment on "Members of the Federal Home Loan Banks" published on September 12, 2014 ("NPR"). Farmers and Merchants State Bank of Bushnell appreciates the opportunity to comment on the NPR.

Farmers and Merchants State Bank of Bushnell is a community bank in Bushnell, Illinois, a farming community of 3,200 people. We have been members of the Federal Home Loan Bank of Chicago for many years. We provide home mortgage products and utilize the Federal Home Loan Bank MPF programs for our residential loan programs. Federal Home Loan Bank advances provide an important source of liquidity for our bank. We have also utilized the Federal Home Loan Bank of Chicago's Down Payment Plus program for many of our qualified first time home buyers. Further, the Federal Home Loan Bank of Chicago is an important source of training and support regarding the numerous regulations that affect residential lending.

The proposed rule is very concerning to our bank, in that, it imposes on our bank an ongoing requirement to meet what we consider unwarranted conditions to remain a member of the Federal Home Loan Bank of Chicago. The proposal requiring the holding of a defined percentage of total assets in long term home mortgage loans adds an unacceptable level of uncertainty to our business.

Firstly, managing the bank's balance sheet to assure ongoing compliance with required housing asset minimums is counterproductive. Our present ability to sell loans through the Federal Home Loan Bank of Chicago and maintain our liquidity would be greatly impacted by the NPR, and would force us to place long term fixed loans on our balance sheet, which is not an acceptable balance sheet proposition. It would limit our ability to lend in many other areas, including agriculture and small business, which are so crucial to our local economy.

The housing mission envisioned by the FHFA is inherently intertwined in the day to day work of community banks in small communities throughout Illinois. Community banks such as ours are always doing everything in their power to help their customers with home related needs. FHFA's arbitrary designation of a percentage completely misses the point of what community banks are already doing in their business every day.

Perhaps most importantly, the uncertainty element that the NPR introduces regarding continued membership affects community banks that depend on the availability of advances for liquidity in many ways. First, regulatory requirements regarding liquidity are key elements in today's heavily regulated banking environment. The uncertainty that is inherent in the proposal will affect community banks, vis a vis their regulators and regulatory requirements regarding liquidity since housing asset percentages would affect the ability to draw advances at any given point in time. Further, the continued availability of advances for agricultural lending, small business, and other loan programs are of central importance to our community bank. Not knowing whether continued membership is evident or whether there is advances availability, introduces a nearly unworkable element into a community bank's business model.

In fact, the structure of the NPR seems to work in contravention of the housing mission of the FHFA. Lending and economic benefit will be curtailed, which in our community, would certainly restrict the purchase and financing of homes for customers. Home loans, use of the secondary market, and other lending are all interrelated, and the attempt to parse the housing regulations at the expense of other key economic factors in an attempt to narrowly define a national housing mission is unworkable and ill-conceived.

Further, community banks such as ours are often truly "too small" to work with Fannie Mae and Freddie Mac. Rather, the Federal Home Loan Bank of Chicago has been an excellent source of support and training in the use of the secondary markets. The NPR potentially forces community banks to attempt to work with Fannie and Freddie or be without a reasonable source of sale of home loans into the secondary markets.

It is hard to understand FHFA's position that the congressionally mandated membership rules should be amended at will by the FHFA. Congress understood and clearly defined community bank's focus on the housing finance mission, and did not include the proposals that FHFA now sets forth. Again, if the NPR proceeds as planned, nothing would stop further amendments in the future that would negatively affect our community bank housing mission.

It is also important to understand that community banks, such as ours, depend on the larger members of the Federal Home Loan Bank system to assure that our member owned FHLB-C maintains the scale to assure continued availability of advances for all FHLB members. Captive insurance companies should be allowed to become and remain members of the system in all respects. Captives provide an important private capital source for the housing markets and are certainly aligned with the housing finance mission of the Federal Home Loan Banks.

A tangential, but crucial part of the NPR is the questions of reliability. Our bank utilized advances during the 2008 housing crisis to assure liquidity at a very important point in the economic cycle. Again, the uncertainty element introduced by the NPR could prove disastrous for banks in need of advances and liquidity during those difficult economic times.

To state it again very plainly, it is not simply the percentage tests and requirements of the NPR that make the NPR the wrong choice, it is the misguided attempt to fix a system that is not broken, that has worked well for many years, particularly in times of economic stress that make the NPR simply unworkable for a reliable and stable future. It is a business necessity that our community bank, as a member of the Federal Home Loan Bank of Chicago have the assurance that as a member, we have the availability of advances, secondary market programs and affordable housing programs that are so important to our community bank, all of our fellow community bank members, and our customers.

Thank you very much for considering our comments, and we respectfully request the withdrawal of the proposal.

Respectfully,

A handwritten signature in black ink, appearing to read "Michael G. Steelman", written over a horizontal line.

Michael G. Steelman
Chairman and CEO