

July 11, 2024

To Whom It May Concern:

I appreciate the opportunity to comment on the Federal Housing Finance Agency's (FHFA) review of the regulations governing core mission activities and mission achievement of the Federal Home Loan Banks (FHLBs).

Iowa has more financial institution charters per capita than any other state. We do not believe it is a coincidence that our diverse banking system has resulted in one of the nations lowest percent of unbanked population, highest percentage homeownership, and high ratings for financial literacy. If you have a local financial institution in your town, you are more likely to develop a trusting relationship, resulting in better financial resources and decision-making.

Iowa is also home to the largest number of farm banks and our small businesses, per a recent Federal Reserve study, tap their local banks first when seeking credit or financial services. Iowa banks were also a leader in delivering Small Business Administration Paycheck Protection Program loans to Iowa's small businesses during the pandemic.

These results would have been severely diminished had the Des Moines Federal Home Loan Bank (DM FHLB) not been there as a source of liquidity throughout changing economic cycles. And, I would suggest the DM FHLB would not have had the capacity to meet the needs of our banks were it not for their broad mission to be a source of liquidity enabling banks to meet a variety of credit needs to help grow healthy communities.

The needs of our nation's communities are as different as the communities themselves. The needs of Spencer or Spirit Lake, Iowa look very different than the needs of Chicago, Ill. It would be short-sighted to let housing difficulties prevalent in large metropolitan areas, drive long-term changes to the FHLB system that may contribute to lower credit availability in rural communities.

It is clear from the FHLBs mission statement issued through regulation in the year 2000 that the institutions were designed to support lending, specifically for housing and community purposes. And, for community financial institutions, small business, and small farm lending as well. We believe the emphasis on "lending" is purposeful. It would infer making advances available to professional credit intermediaries who have the local knowledge to make informed decisions necessary to grow healthy communities.

Housing issues in any community are not siloed issues. Housing needs are driven by jobs in a community. Jobs related to small business, retail, agricultural and commercial businesses in those communities. Without those jobs, housing needs disappear as residents move to go elsewhere for jobs. The liquidity mission of the FHLB system provides FHLB members the liquidity to make not only housing loans but small business, retail commercial and ag loans. Loans to entities that create jobs and economic activity for their respective communities. FHFA should not ignore this critical housing component and connection.

There are a myriad of local, state, and federal housing programs and partners available to enhance borrower viability in more challenging lending circumstances. These programs have their own

funding streams, both public and private. We do not believe replicating the activities of these agencies is or should be the role of the FHLBs.

One of my other concerns from the FHFA report is the concept of an ongoing 10 percent of FI assets in residential mortgage loans hard test. Depending on how this proposal were drafted, 86 Iowa community banks and many other FHLB Des Moines members would lose their eligibility for FHLB advances. This would have a devastating impact on bank liquidity and credit availability in rural Iowa. FHFA must acknowledge that consumers drive housing demand and consumers drive the type of loans that banks, credit unions and other FHLB members make for housing. During the recent decade long period of time when long term fixed rate loans were between 2.5% and 4.0%, consumers overwhelmingly chose 15- and 30-year fixed rate loans. To provide those loans, FHLB members underwrote and made those loans and then sold them off to Fannie or Freddie and other entities. Loans are loans and housing is housing. FHLB members facilitated that housing activity, and those houses reside within their communities. The housing mission is being met. Those loans and other secondary market loans that qualify must be included when calculating housing activity by any FHLB members.

Regarding the variety of FHFA proposals to create mission achievement and member incentive goals, we urge you to be mindful of the cost of data collection on community banks with small staffs, who are already stretched to the breaking point by a tsunami of federal regulations. The FHFA and the FHLBs do not need to be substitutes for prudential regulators when it comes to fair lending, UDAAP, or any other requirement for which banks are already examined and held to high standards. Instead, we would urge you to work directly with the prudential bank regulators if you need affirmation here. More regulation directly drives more consolidation and rural communities are negatively impacted. Banking deserts are already occurring around the United States. Do not directly or indirectly add more bureaucracy and force even more consolidation of community financial institutions.

Finally, I believe that any changes to the FHLB system should be determined by Congress, not the FHFA. For over 90 years, the System has served as a reliable and critical source of funding for Iowa banks through all economic cycles and has provided important financial stability to the broader financial system. Significant changes, without input from our elected leaders, could jeopardize this record of accomplishment.

Thank you for considering our comments.

Respectfully,

Jeff Plagge
FHLB DM Member Board Member
Northwest Bank Board Member