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INDEPENDENT COMMUNITY BANKERS
P.O. BOX 696 • 115 WEST 15TH AVENUE • MITCHELL, SOUTH DAKOTA 57301-0696
PHONE (605) 996-9329 • FAX (605) 996-1401 • E-MAIL: ginger@icbsd.com

March 28, 2011

Alfred M. Pollard, General Counsel
Attention: Comments/RIN 2590-AA39
Federal Housing Finance Agency - Fourth Floor
Washington, D.C. 20552

Re: Advance Notice of Proposed Rulemaking and Request for Comments - Members of Federal Home Loan Banks (RIN 2590-AA39)

Dear Mr. Pollard:

I am writing on behalf of the Independent Community Bankers of South Dakota membership, the only trade association, in our state, which solely represents the interest of locally owned and operated community banks. This is in response to the Federal Housing Finance Agency (FHFA) request for comments on an advanced notice of proposed rulemaking (ANPR), whereby the FHFA expresses its desire to review the current Federal Home Loan Bank (FHLBank) membership requirements.

The questions posed in the ANPR are troubling. They suggest that the FHFA is considering requiring that FHLBank members 'maintain a demonstrable involvement in residential mortgage lending and otherwise comply with the statutory requirements for membership.' FHLBank member institutions could be required to hold at least 10% of their assets in mortgages, on a continuing basis, rather than only when they join. Also, objective and quantifiable standards could be established for the requirements that each member 'makes long-term home mortgage loans' and have a 'home financing policy.' Noncompliant members could be barred from further access or have their membership terminated.

The regulatory changes, under consideration, would make it more difficult for many financial institutions to obtain and maintain access to the liquidity available through FHLBank advances. Stricter requirements will call into question the ability of FHLBank members to borrow under all future economic scenarios. This will destabilize a key tenant of the System, the reliability of accessing liquidity and the changes will also discourage potential members from joining, ultimately inhibiting the ability of FHLBanks to serve the housing and community development needs of their districts.

At a time when policymakers should be looking for ways to jump start economic activity by encouraging community banks to increase their lending to small businesses and other job creating activities, the proposal threatens to limit access to the low-cost funding provided by FHLBanks. It is an example of the mixed messages being sent to community banks, from Washington, which continue to create uncertainty and impede our economic recovery.

During the recent financial crisis, the Federal Home Loan Banks provided liquidity nationwide, to their members, for housing and community credit needs through one of the most challenging periods of economic stress. As other sources of liquidity disappeared - and before the coordinated response of the federal government - the Federal Home Loan Banks increased their lending to members, in every part of the country, by 58 percent between the second quarter of 2007 and the third quarter of 2008 (from \$650 billion to \$1 trillion).

As our country works to generate economic growth, create jobs and recover from the financial crisis and housing downturn, the FHLBanks continue to play a critical role as a source of liquidity and term funding for its member institutions. As was intended by Congress, FHLBank funding is used by members to provide traditional residential mortgage finance as well as to support community development and affordable housing activities in their communities, helping their local economies to recover.

Requiring continuous compliance with membership requirements would impose new regulatory burdens on FHLBank members, particularly smaller institutions. Any changes to the FHLBanks' membership or mission - especially changes that would restrict membership eligibility or narrow the FHLBank's mission - should come first from Congress, particularly at this time when Congress and the Administration are just at the beginning of an extensive effort to review housing finance in this country, including the FHLBanks' role. The ongoing review, of our country's housing financing, emphasizes the counter-productivity of this rule.

For all of these reasons, the membership ANPR should be withdrawn. The Independent Community Bankers of South Dakota thanks you for the opportunity to submit this comment on the ANPR.

Sincerely,

Virginia Adams
Executive Director

PRESIDENT
Timothy A. Prince
Senior Vice President
American Bank & Trust
PO Box 317
Miller, SD 57362-0317
(605) 853-3051
tprince@americanbanktrust.net

PRESIDENT-ELECT
Lance Koth
President, Mitchell Branch
First Dakota National Bank
PO Box 1306
Mitchell, SD 57301-1306
(605) 995-7901
lkoth@firstdakota.com

SECRETARY/TREASURER
Emily Hofer
Controller
Merchants State Bank
PO Box 399
Freeman, SD 57029-0399
(605) 925-4222
ehofer@msb-sd.com

PAST-PRESIDENT
David A. Callies
Executive Vice President/CEO
Miner County Bank
PO Box 129
Howard, SD 57349-0129
(605) 772-4561
dcallies@minercountybank.com

NATIONAL DIRECTOR
Dick D. Behl
CEO/President
The Farmers & Merchants State Bank
PO Box 367
Scotland, SD 57059-0367
(605) 583-2234
dbehl@fmsbscotland.com