



October 29, 2014

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

Re: Notice of Proposed Rulemaking and Request for Comments- Members of the FHLBanks (RIN 2590-AA39)

Dear Mr. Pollard:

I am writing to express my concerns about the notice of proposed rulemaking regarding membership eligibility in Federal Home Loan Bank (FHLBanks) put forward by the Federal Housing Finance Agency (FHFA). The proposed rule includes significant and unnecessary changes to long-standing membership rules for the FHLBank system. The proposed changes are inconsistent with Congressional intent and the Federal Home Loan Bank Act (FHLBank Act). For these reasons Highland Bank strongly opposes this proposed rule.

Highland Bank provides lending across all of our community with a focus on commercial real estate, C & I, (including SBA finance programs) multifamily housing and residential housing. The FHLB has been an important part of our balance sheet funding strategy and was a key partner for our bank when we went through some difficult times during the most recent recession. They were supportive in provided funding when our access to funds from the Federal Reserve and our Correspondent partners was either limited or frozen. Highland Bank is a family owned and managed community bank with total assets of \$475 million with 5 locations in the Twin Cities Metropolitan area. We currently have 85 employees to support our small business and consumer banking customers.

The proposed regulation on FHLB membership creates many concerns for our bank. While our bank would meet the proposed rule requirements of the proposed rule today, I feel that the rule establishes a problematic precedent. There remains a distinct chance that at some point in the future, due prudent management of interest rate risk, economic or regulatory changes, our institution could fail the test. Our bank should be free to manage our balance sheets in light of what's best for us, not the demands of a regulator. Not to mention, the proposed regulation conflicts with concerns from financial regulators that financial institutions reduce holdings of long-term fixed rate mortgages and sell them in the secondary market.

It is also crucial to point out that more than 25 years ago, Congress made it clear that community financial institutions (CFIs) such as our bank may use advances for purposes other than residential housing finance. It remains the intent of Congress today that CFIs may utilize FHLBank liquidity for

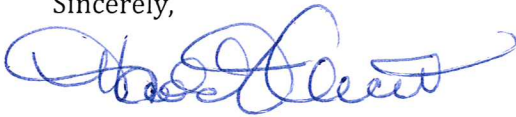
commercial real estate, small business, agricultural real estate and agricultural operating loans. This fact alone highlights how this proposed rule runs counter to existing federal statute.

Your agency's proposed rules could fundamentally change how, or even whether, a depository financial institution such as ours could remain a member of a FHLB Des Moines. This is enormously disturbing. Confidence trust and reliability comprise the bedrock upon which our long-time FHLB membership is built. We need to know that the FHLB Des Moines can provide funding on a moment's notice as it did for us in the recent financial crisis. Additionally, having a credit line and borrowing capacity with FHLB Des Moines promotes the safe and sound management of our institution along with allowing us to provide competitive rates to our customers.

It also seems incredibly disingenuous to eliminate captive insurance companies from FHLB membership at a time when housing finance is at risk with only a small private secondary market and Fannie and Freddie in conservatorship. This is the time to encourage the development of additional markets for both single and multifamily mortgages. Financial institutions are being discouraged from holding mortgages meaning that we need to see the development of new outlets. The FHLBanks are a logical place to create these new models. Why would you eliminate opportunities rather than work with us to develop new systems of finance?

Without access to our FHLBank, the credit available to communities in our region will be unnecessarily impacted. We believe this proposed rule is a solution in search of a problem. Because the proposed rule outlines no safety and soundness concerns-and because there is no legitimate public policy goal of the proposed rule- Highland Bank strongly recommends that you withdraw the proposed rule. Thanks for taking our comments into consideration.

Sincerely,



**Harold Orcutt**

*SVP/CFO*

Phone: 952-858-4643

Fax: 952-858-4644

[harold.orcutt@highlandbanks.com](mailto:harold.orcutt@highlandbanks.com)

[www.highlandbanks.com](http://www.highlandbanks.com)

5270 West 84<sup>th</sup> Street

Bloomington, MN 55437