MidWestOne Bank™

Alfred M. Pollard, 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 and Request for Comments – Members of FHLBs (RIN 2590-AA39)

Dear Mr. Pollard:

Thank you for the opportunity to comment on this important issue. I am writing to express my concerns about the notice of proposed rulemaking regarding membership eligibility in Federal Home Loan Banks (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, MidWestOne Financial Group, Inc. opposes this proposed rule.

I am President and CEO of MidWestOne Financial Group, Inc., which operates as the holding company for MidWestOne Bank and MidWestOne Insurance Services, Inc. MidWestOne Bank is a community bank with $1.81 billion in assets. We have 25 branch locations including a full-service home mortgage center, and 376 full-time employees in central and east-central Iowa. Our institution provides financial services throughout our footprint by catering to all of the credit needs of our customers. We have been a member of the FHLBank Des Moines since 1992 and were able to utilize this partnership to manage liquidity and interest rate risk more effectively.

Your agency's proposed rules could fundamentally change how, or even whether, a depository financial institution such as ours could remain a member of the FHLB Des Moines. While our institution would meet the requirements today, it is disturbing to think we could lose such a trusted source of funding and liquidity in the future. Confidence, trust and reliability compromise 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 in the recent financial crisis.

The FHLB Des Moines is there for us in all economic environments. Its mandate is to promote community development by serving as a competitive source of liquidity for all of its members' financing needs including housing, agricultural, commercial and consumer lending. It should be noted that more than 25 years ago Congress extended the FHLB's mandate to be able to provide liquidity for banks to use for purposes other than home mortgage loans. Under the proposed rule, a financial institution might fail the proposed asset test requirement because it is using its advances to extend credit to local businesses and agricultural customers, rather than homebuyers. The financial institution's membership would be terminated under the proposed rule. This is an extreme action, especially since eligible collateral such as home mortgage loans held in the portfolio is already an effective

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membership requirement. Without eligible collateral a bank cannot use FHLB services or products.

A terminated or withdrawing bank cannot immediately seek to reinstate its membership and will have to fulfill the ten percent requirement in order to do so. However, the financial institution will be unlikely to meet the ten percent requirement because it cannot rely on FHLB funds to extend credit to homebuyers. In addition to not being able to promote homeownership, the bank could also refrain from extending credit to the local businesses it had previously supported, both due to the lack of liquidity provided by the FHLB and the need to originate more home mortgage loans to increase their chances of gaining FHLB membership in the future. Therefore the requirement for banks to maintain at least ten percent of total assets in a broader range of residential mortgage loans is working against the FHLB's mandate to promote community development. This rule appears to us to be building a complicated and expensive regulatory structure designed to fix something that simply is not broken.

The on-going mortgage asset test requirements will artificially distort balance sheet management practices, decreasing the flexibility of community banks and insurance companies to manage their balance sheets in response to changing market conditions. Congress created the FHLB system during the Great Depression in order to promote community development during times of economic downturn. In times of market stress, when asset values rapidly decline, FHLBank members would not be assured of their ability to meet the asset test requirements, have their membership terminated, and in turn be unable to serve their community. The proposed rule is unnecessary, runs counter to the authorizing statute, and would put at risk an important source of liquidity for banks at a time when such liquidity is vitally necessary.

Because the proposals would harm FHLBank members and hurt housing, credit and economic growth, we ask that the FHFA withdraw the new membership rules contained in its September 12, 2014 Notice of Proposed Rulemaking and work with FHLB members to preserve the FHLBs as a reliable partner of its members that benefits local lending institutions, communities, housing, homeownership and the nation's economy.

Sincerely

Charles N. Funk

Charles N. Funk
President & CEO
MidWestOne Financial Group, Inc.