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November 10, 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:

As a follow-up to my letter of September 11 on this subject, I am writing today on behalf of the SDBA's 83 members, more than 2/3 of whom are also members of the Federal Home Loan Bank of Des Moines. Our members are concerned about the notice of proposed rulemaking regarding membership eligibility in Federal Home Loan Bank (FHLB) as set forth by the Federal Housing Finance Agency (FHFA). The proposed rule includes significant and unnecessary changes to long-standing membership rules for the FHLB system. Those regulatory changes come at a time when banks throughout South Dakota already face substantial challenges in home mortgage lending, many of which stem directly from the Dodd-Frank Wall Street Reform and Consumer Financial Protection Act. Home mortgage loan origination is especially challenging for smaller institutions located in rural areas. Because SDBA members view these regulatory changes as inconsistent with Congressional intent and the Federal Home Loan Bank Act, the SDBA strongly opposes this proposed rule.

While most SDBA member banks would meet the requirements of the proposed rule today, they are concerned about the precedent being set. There remains a distinct chance that at some point in the future, due to prudent management of interest rate risk, economic or regulatory changes, banks could fail the test. Banks should be free to manage their balance sheets in light of what is best for the bank and its customers and shareholders, not the demands of a regulator.

Congress made it clear a quarter century ago that community financial institutions (CFIs) may use FHLB advances for purposes other than residential housing finance. That has not changed. It remains the intent of Congress today that community financial institutions may utilize FHLB liquidity for commercial real estate, small business, agricultural real estate and agricultural operating loans. At a time when both parties in Congress remain concerned about the suboptimal performance of the U.S. economy, I very much doubt that Congress would want to see the FHFA enact regulations that could potentially cut off an important source of liquidity that supports those important lines of business and the associated activity in local economies.

The significant degree to which South Dakota's banks have chosen to be members of the FHLB Des Moines, speaks to that bank's role as a valued business partner for financial institutions in my state. FHLB Des Moines has proven to be a reliable and competitive source of liquidity for diverse financing needs in times of economic expansions and downturns alike. This rule, if adopted, would remove the certainty that the FHLB Des Moines can be counted on to be a reliable source of liquidity in all market conditions.

Your agency's proposed rules could fundamentally change how, or even whether, SDBA member banks could remain a member of a FHLB Des Moines. Confidence, trust and reliability form the bedrock upon which long-time FHLB memberships are built. Banks need to know that the FHLB Des Moines can provide funding on a moment's notice as it did in the recent financial crisis.

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. A robust home mortgage marketplace needs to see more secondary outlets develop, not fewer. The FHLBs are a logical place to create these new models.

Because your agency's proposals would harm FHLB members and hurt housing, credit and economic growth, the members of the South Dakota Bankers Association 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.

Thanks for offering me the opportunity to comment on these proposed rules on behalf of the broad membership of the South Dakota Bankers Association.

Best regards,

A handwritten signature in blue ink that reads "Curt Everson". The signature is fluid and cursive, with a long horizontal line extending to the right.

Curt Everson, President
South Dakota Bankers Association