

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 FHLBs (RIN 2590-AA39)

Dear Mr. Pollard:

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

I am David W. Phelps, Vice President of Kingsley State Bank. Our institution provides lending across all of our communities with a focus on agriculture and real estate (agricultural, residential and commercial). Kingsley State Bank is a community bank of approximately \$174 million in assets with three locations and 28 employees. We pride ourselves in being able to provide credit to local individuals and businesses. Over the last several months, our bank has seen a dramatic rise in loan volume (much of it agricultural real estate and agricultural operating). Due to this, and because of a lack of a commensurate rise in deposits, we have needed to borrow from the FHLB. We chose to borrow from the FHLB because of their very competitive rates on advances. If borrowing from the FHLB were to become more difficult, a great source of liquidity would potentially disappear. This would make our role as a lender to small businesses and individuals much harder.

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 to economic or regulatory changes (despite our best efforts to manage interest rate risk), 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 FHLB 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.

Broadly speaking, the FHLB Des Moines serves as a critical source of liquidity for financial institutions in Iowa, Minnesota, Missouri, North and South Dakota. They have proven to be a reliable and competitive source of liquidity for all of our financing needs in all economic environments. 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.

The on-going mortgage asset test requirements will artificially distort balance sheet management practices, decreasing the flexibility of community banks, credit unions and insurance companies to manage their balance sheets in response to changing market conditions.

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. 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 in the recent financial crisis.

Access to advances is critically important to our bank because FHLB liquidity allows us to offer competitive rates to our members that we might not otherwise be able to offer. **This is our main liquidity source in times of need.** Additionally, having a credit line and borrowing capacity with FHLB Des Moines promotes the safe and sound management of our institution.

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. FHLB is a logical place to create these new models. Why would you eliminate opportunities rather than work with us to develop new systems of finance?

Because the proposals would harm FHLB 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.

Without access to our FHLB, 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- Kingsley State Bank strongly recommends that you withdraw the proposed rule. Thanks for taking our comments into consideration.

Access to FHLB advances is important to CFIs like mine in our region. FHLB Des Moines and the 11 other FHLBs are operating well within the authorities granted them by Congress. The membership requirements being contemplated by FHFA would change long-standing

requirements that have worked well, and the proposed rule would ignore the collateral expansions approved by Congress over time. Kingsley State Bank strongly recommends you rescind the proposed rule. Thanks for taking our comments into consideration.

Sincerely,

A handwritten signature in black ink, appearing to read "David W. Phelps", written over a horizontal line. The signature is stylized and cursive.

David W. Phelps
Vice President
Kingsley State Bank