



December 10, 2014

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,

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 Union State Bank of Fargo strongly opposes this proposed rule.

My name is Brian Grave and I am the Chief Financial Officer of Union State Bank in Fargo, North Dakota. We are a locally owned community financial institution that provides niche lending to many small business owners and homeowners in the greater Fargo/Moorhead Community. As a small lender in this community (slightly over \$80 million in total assets) we provide much needed funding for many small businesses in our market that would not qualify for loans at the larger regional institutions in the area. We specialize in working with startup businesses looking for a partner to assist them in building their brand. We also provide consumer home loans for those borrowers that for any number of reasons do not qualify for a long-term home mortgage on the secondary market. The list of reasons why these loans are being disqualified has grown exponentially since the financial crisis of 2008.

The Federal Home Loan Bank of Des Moines has been a critical partner to us by providing Community Investment Advance (CIA) products to help us fund several of our small business projects. To date we have received \$4.2 million in CIA funds from the FHLB of Des Moines that have been used directly on small business projects in our community, creating jobs and economic growth for our region. These projects have either sustained or created nearly 90 jobs in our community over the last four years. Over half of our total funding from the FHLB of Des Moines is used for this purpose. More than 25 years ago Congress made it clear that community banks like ours may use advances for purposes other than residential housing finance and our bank is an example of why they made this rule and the impact it can have on local communities.

Alfred M. Pollard, General Counsel
December 10, 2014
Page 2

It is also important to note that nearly all of the loans that we originate which would meet the definition of "long-term home mortgage loan" are sold into the secondary market in order to mitigate our interest rate risk (the current regulatory "hot-button"). The remaining loans that do not qualify for the secondary market are structured with balloons to manage interest rate risk and likely would not qualify under the proposed definition. With the increased pressure for capital, liquidity, management of interest rate risk, and the ridiculously stringent mortgage requirements placed upon us by the secondary market, the last thing we need to deal with is another regulator trying to dictate how to manage our balance sheet; a mandate, I might add, that is in direct conflict with the directives from our primary regulator.

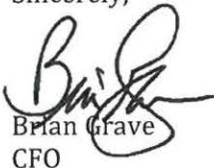
The FHLB of Des Moines serves as a critical source of liquidity for our bank, providing over 8% of our total balance sheet funding. If you take a moment to review the Fargo/Moorhead market you would find a large number of financial institutions including multiple large, regional credit unions all competing for deposit products. As a small bank in this community, this means that core deposits are harder to come by making our membership in the FHLBank system that much more critical when maintaining balance sheet flexibility. To find our membership revoked due to this proposed rule would create a liquidity crisis for this bank like we have never seen before. While we may qualify for membership today there is no guaranty we can maintain that status in the future.

I understand the frustration that your agency may be feeling over the lack of adequate financing for long-term home mortgage loans but maybe the focus should be placed more upon the newly minted and punitive compliance regulations surrounding home mortgage lending. Due to the compliance risks these rules create, many institutions have stopped originating long-term home mortgages entirely. The fear of violating these complex rules and the possible damages (both financial and reputational) are too much for many small banks to bear.

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.

Without access to our FHLBank, the credit available to communities in our region will be unnecessarily impacted. Because the proposed rule outlines no safety and soundness concerns – and because there is no legitimate public policy goal of the proposed rule – Union State Bank of Fargo strongly recommends that you withdraw the proposed rule. Thanks for taking our comments into consideration.

Sincerely,



Brian Grave
CFO

Union State Bank of Fargo