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DEC 29 2014
OFFICE OF GENERAL COUNSEL

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 Peoples Bank opposes this proposed rule.

My name is Al Vermeer, CEO of Peoples Bank, a $420 million community bank headquartered in Rock Valley, Iowa. As a member of the Board of Directors of the Iowa Bankers Mortgage Corporation (IBMC), I am very concerned about the implications to both IBMC and our bank regarding the FHFA proposal to eliminate captive insurance companies from eligible membership to the FHLB system.

The Agency proposes to amend the definition of "insurance company" in § 1263.1 of the proposed rule to essentially eliminate FHLB membership by captive insurance companies, and § 1263.6 of the proposal would allow any captive insurer admitted as an FHLB member to remain a member of the respective FHLB until five years after the effective date of the final rule. Both the proposed definition change to "insurance company" and the five-year phase out for captive insurance members will have profound effects on the business operations and future viability of IBMC.

More specifically, IBMC is currently servicing nearly 10,000 loans in the traditional MPF product with a total value of $1.3 billion, and also services over 8,000 loans in the MPF Xtra program with a total value of $1.3 billion. These loans are serviced across the FHLBDM multi-state footprint, and IBMC is able to do so through its captive insurance affiliate Iowa Midwest Insurance Company (IMIC). IMIC became a PFI of the FHLBDM in the Summer of 2007 and IBMC is a designated mortgage servicer under contract with FHLBDM, servicing these loans over the five-state footprint of the Des Moines bank. Membership in the Federal Home Loan Bank System is thus a vital issue for IBMC and represents a significant part of

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company operations, with nearly half of IBMC's servicing portfolio made up of FHLB mortgages in the MPF or MPF Xtra programs.

The positive effects on both revenue and employment for IBMC under the MPF program has been possible because of IMIC's membership in the FHLBDM – as well as providing MPF participants across the FHLB Des Moines footprint with a trusted local servicing partner right in the middle of the Des Moines bank's trade area. The ability for IBMC to use a captive insurance company such as IMIC for FHLB access is literally the lynchpin for success of this program. Furthermore and contrary to the preamble of the proposed FHFA changes, IMIC/IBMC is a *servicing only* PFI and takes *no advances* from the FHLB for use by either company or their other affiliates, namely IBA and IBIS. Therefore these proposed rules essentially "throw the baby out with the bathwater," as a blanket prohibition on FHLB membership for captive insurance companies would eliminate the positive economic and employment benefits to IBMC and the FHLB Des Moines without addressing *any* of the policy objectives of this part of the FHFA proposal. (namely the limiting of entities ineligible for bank membership from access to FHLB funding through a captive insurance company – where IBMC poses no risk to the FHLBDM by not taking advances). In addition, over 125 PFI's in the five-state FHLBDM region depend on IBMC to service their loans which enhances their participation in the MPF program. If IBMC is forced to abandon their servicer only status under their FHLB membership through its captive insurance affiliate, many of these PFIs in the Des Moines region would be forced to search for other less advantageous servicing alternatives.

Furthermore, the forced five-year phase out provision in § 1263.6(c)(2) of the proposal[1] would cause irreparable harm to the most significant asset of IBMC: its servicing portfolio. The current $2.6 billion of FHLB servicing is valued on IBMC's books at 73 basis points.[2] This translates roughly to an asset valuation of approximately $19 million. IBMC would be forced under the proposal to liquidate this asset in an accelerated time period over the next five years, where there are limited buyers in the market who are approved servicers of FHLB MPF program loans. As a director of IBMC the prospects of such a forced sale are very concerning to me, as in a free market economy a forced sale requirement will likely cost IBMC literally millions of dollars in market diminution of value, when a limited pool of potential buyers know you are forced to sell this asset in this manner.

Thank you for taking our comments into consideration.

Sincerely,

Al Vermeer

Al Vermeer, CEO

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[1] This provision would permit any captive that had become a member of the FHLB prior to the publication date of this proposed rule to remain a member of the Bank for five years following the effective date of the final rule – at which point membership would be terminated.

[2] Based on the latest IBMC financial statements of November, 2014.