

January 5, 2015

Alfred M. Pollard, General Counsel

Attention: Comments/RIN 2590-AA39

Federal Housing Finance Agency

400 7th Street, SW, Eighth Floor

Washington, DC 20024

Re: Notice of Proposed Rulemaking and Request for Comments – Members of FHLBs (RIN 2590-AA39)

Dear Mr. Pollard,

On September 2, 2014, the Federal Housing Finance Agency (FHFA) published in the *Federal Register* a Notice of Proposed Rulemaking regarding membership requirements in the Federal Home Loan Bank System. The request for comment has a 120 day comment period, closing on January 12, 2015.

On behalf of the Iowa Bankers Mortgage Corporation, thank you for the opportunity to comment on the Federal Housing Finance Agency (“Agency”) proposal to revise its regulation governing Federal Home Loan Bank (FHLB) membership. The Iowa Bankers Mortgage Corporation (IBMC) is an affiliate company of the Iowa Bankers Association (IBA) that was formed in 1979 and acts as an aggregator of residential mortgages on the secondary market for IBA member banks. IBMC also is a servicer only designee of Iowa Midwest Insurance Company (IMIC), a participating financial institution (PFI) for the Federal Home Loan Bank of Des Moines mortgage partnership finance (MPF) and MPF Xtra programs. IMIC is also an affiliate of the IBA, as the IBA is an Iowa trade association with members compromising 98% of the state and national banks and federal savings banks located in Iowa.

More specifically, IBMC is currently servicing nearly 10,000 loans in the traditional MPF product with a total value of approximately $1.3 billion and also services over 8,000 loans in the MPF Xtra program with a total value of over $1.3 billion. These loans are serviced across the FHLB Des Moines multi-state footprint, and IBMC is able to do so through its captive insurance affiliate IMIC. IMIC became a PFI of the FHLB Des Moines in the Summer of 2007 and IBMC is a designated mortgage servicer under contract with FHLB Des Moines, servicing these loans over the five state area of the Des Moines bank.[[1]](#footnote-1) Membership in the Federal Home Loan Bank System is thus a vital issue for IBMC and represents a significant part of company operations, with nearly half of IBMC’s servicing portfolio made up of FHLB mortgages in the MPF or MPF Xtra programs. IBMC services the remainder of its portfolio of mortgages primarily originated by Iowa banks directly for Fannie Mae and Freddie Mac, and has done so as mentioned above on both a correspondent and full service basis since 1979. This correspondent and full service programs make up the difference in IBMC’s roughly $6 billion servicing portfolio of 1-4 family residential real estate loans.

The Iowa Midwest Insurance Company (IMIC) was formed in 1975 as an Arizona corporation with its administrative offices located within the headquarters of Iowa Bankers Insurance & Services (IBIS) in Johnston, Iowa. IBIS owns all issued and outstanding voting common stock of IMIC. IBIS is another affiliate of IBMC and the IBA - offering life, health, property and casualty insurance products to IBA member banks. The primary function of IMIC is the reinsurance of credit life and credit disability insurance risks to IBIS as a captive insurance company, and IMIC has been engaged in this line of business since 1976.

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.

This recent partnership between IBMC and FHLB Des Moines has been very successful for both organizations by providing a local trusted servicing outlet for MPF participant customers of the Des Moines Bank. After six years of growth from 2008-2014, IBMC has now built its FHLB servicing portfolio from zero to over $2.6 billion – which represents about 18,000 loans over the five state region of the Des Moines bank. This servicing portfolio has provided IBMC with a sizable asset generating a revenue stream of approximately 45% of IBMC’s total monthly servicing portfolio income. Since originating PFIs retain credit risk in the MPF program, this servicing also has less “warranty and buyback” risk for IBMC than its correspondent and full service serving portfolio with Fannie Mae and Freddie Mac and has provided vital stability to the cash flow of the organization. This cash flow stability from the MPF program has alleviated the need for IBMC to periodically sell servicing to generate cash to cover ongoing operational expenses, and has provided the company with significant growth where several new employees have been added during the past six years the program has been in place.

The positive effects on both revenue and employment for IBMC under the MPF program *has been possible because of IMIC’s membership in the Des Moines bank* – 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 – when IBMC poses *no risk* to the FHLB Des Moines because they take no 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 (and likely non-local) servicing alternatives.

Furthermore, the forced five-year phase out provision in § 1263.6(c)(2) of the proposal[[2]](#footnote-2) 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.[[3]](#footnote-3) This translates 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. Obviously 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 an asset in this manner.

Any change to membership requirements must be undertaken with great caution, and must provide for sufficient analysis and feedback before any actions are taken. The implications of this proposal on IBMC business operations and our ability to provide local servicing options for FHLB mortgage programs are profound. FHLB Des Moines and the 11 other FHLBanks 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. The Iowa Bankers Mortgage Corporation strongly recommends you rescind the proposed rule.

Thank you for taking our comments into consideration.

Sincerely,



Robert L. Hartwig

Legal Counsel – IBMC

1. The Federal Home Loan Bank of Des Moines serves member financial institutions and insurance companies in the states of Iowa, Minnesota, Missouri, North Dakota and South Dakota. [↑](#footnote-ref-1)
2. 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. [↑](#footnote-ref-2)
3. Based on the latest IBMC financial statements of November, 2014. [↑](#footnote-ref-3)