

January 8, 2015

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 FHLB (RIN 2590-AA39)

Dear Mr. Pollard:

On behalf of the Iowa Bankers Association (IBA), I am writing to express my concerns about the notice of proposed rulemaking regarding membership eligibility in Federal Home Loan Bank (FHLB) put forward by the Federal Housing Finance Agency (FHFA). The IBA is an Iowa trade association with members compromising 98% of the state and national banks and federal savings banks located in Iowa. The proposed rule includes significant and unnecessary changes to long-standing membership rules for the FHLB system. Furthermore, the proposed changes are inconsistent with Congressional intent and the Federal Home Loan Bank Act (FHLB Act), and for these reasons the IBA opposes and respectfully asks the FHFA to rescind this proposed rule.

Membership in the Federal Home Loan Bank of Des Moines (FHLBDM) has been instrumental to the success of Iowa banks, as FHLBDM has provided a much needed source of liquidity crucial to help IBA member banks meet the cyclical credit needs of their customer bases. Any proposed regulations, such as this one, potentially jeopardizing membership in FHLBDM are major threats to the future success of Iowa banks being able to serve their customers.

The proposed regulation on FHLB membership creates significant concerns for several IBA members. While many IBA members would meet the rule requirements of the proposal today, it still establishes a problematic precedent. There remains a distinct chance that at some point in the future, due to prudent management of interest rate risk and economic or regulatory changes, many Iowa banks could fail the test under the proposed membership rules. In addition, 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.

The FHLBDM 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 FHLBDM can be counted on to be a reliable source of liquidity in all market conditions.

The FHFA proposed rules could fundamentally change how, or even whether, several Iowa banks could remain a member of a FHLBDM. This threat is a major concern to the IBA. Confidence, trust and reliability are the basis upon which long-term FHLB membership among Iowa banks has been built. Iowa banks need the continued certainty the FHLBDM can provide funding on a moment’s notice as it did during the most recent financial crisis. Access to advances is critically important to Iowa banks because FHLB liquidity allows IBA members to offer competitive rates to their customers at terms they may not have otherwise been able to offer.

Furthermore, since the IBA is an affiliate of the Iowa Bankers Mortgage Corporation (IBMC), the IBA is very concerned about the implications to both IBMC and IBA member banks 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 “Mortgage Partnership Finance” (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 participating financial institution (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 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 FHLBDM 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 FHLBDM 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]](#footnote-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]](#footnote-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. The prospects of such a forced sale are very concerning to the IBA, 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.

Access to FHLB advances is important to a large majority of IBA member banks. FHLBDM and the 11 other FHLB institutions 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 IBA strongly recommends you respectfully rescind the proposed rule.

Thank you for taking our comments into consideration.

Sincerely,



Robert L. Hartwig

Legal Counsel

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. [↑](#footnote-ref-1)
2. Based on the latest IBMC financial statements of November, 2014. [↑](#footnote-ref-2)