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January 9, 2015

VIA E-MAIL TO REGCOMMENTS@FHFA.GOV

Alfred M. Pollard, Esq., 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; Request for Comments – Members of the Federal Home Loan Banks

Dear Mr. Pollard:

We are submitting this comment to express our concerns about the Federal Housing Finance Agency's ("FHFA") notice of proposed rulemaking and request for comments on "Members of the Federal Home Loan Banks" published on September 12, 2014. For the reasons described below, we respectfully request the withdrawal of this proposal.

Peoples Bank Midwest is a $300 million community bank with 2 locations in Western Wisconsin and one in the Twin Cities of Minnesota. We were chartered in 1926 and currently serve three different markets – a small community of 3,000, a mid-metro community of 60,000, and the metro area of the Twin Cities. We provide traditional loans and deposits such as small business loans (under $10,000,000), residential mortgage loans and a variety of retail products including loans and deposits products. Many of our loans are used as collateral to easily and quickly access liquidity from the FHLB of Chicago.

As a shareholder and customer, we greatly value our membership in the FHLB of Chicago and view it as a key partner to help us better serve our customers and our community. For a smaller bank such as ours, access to FHLB advances is critically important because the liquidity allows us to offer an array of loan products to our customers that we might not otherwise be able to offer. The FHLB's products such as advances and letters of credit are tremendous resources that enable us to effectively compete with much larger financial institutions, resulting in more choices and better service for our home buying and small business customers plus our local municipalities.

For example, we have used the letter of credit program to effectively service a number of municipalities in our markets that needed specific collateral requirements for their excess deposits – requirements that were more difficult to obtain prior to this product – that allowed the municipalities more freedom and choices to leave their deposits in the markets they are in.

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Another example is that the FHLB gives us the ability to better manage our interest rate risk with products that can be specifically tailored to our assets that might not be available from a traditional deposit base.

The proposed rule concerns us because it would impose, for the first time ever, on-going requirements for our bank to meet as a condition of remaining a member of the FHLB. For community financial institutions ("CFIs"), such as our bank, the proposal would require us to hold between 1 percent to 5 percent of our total assets in home mortgage loans. Failure to maintain this level would result eventually in the termination of our membership in the FHLB even though we have always had a strong portfolio of mortgage loans.

While this requirement may not appear to the FHFA to be onerous, the practical consequences could be very severe and disruptive. To begin with, our ability to rely on the liquidity provided by the FHLB, particularly in times of economic distress, would be seriously undermined if the FHFA is allowed to establish requirements we must meet simply to remain a FHLB member. This has never been the case in the 82-year history of the FHLBs. Membership in the FHLBs has been steadily expanded by Congress over the years, never contracted. With the imposition of such a requirement, we could never be assured that when the next financial crisis occurs we will have continued access to FHLB liquidity.

Even if we meet the proposed threshold today, we would need to manage our balance sheet with the proposed requirements in mind going forward. Future decisions regarding our asset allocation would need to bear them in mind. Our asset allocation potentially would become over-invested in housing related assets at the expense of small business lending and other commercial loans, consumer loans or other asset classes. In effect, a portion of our balance sheet would be dictated by the FHFA. This result would contradict the intent of Congress, which specifically allowed CFIs to pledge small business, agricultural and agri-business loans as collateral for FHLB advances in the Gramm-Leach-Bliley Act of 1999. By making made clear that CFIs may use FHLB funding for purposes other than residential housing finance, the Act expanded the mission of the FHLBs and encouraged lending by smaller depository institutions to these asset categories. The proposed rule contradicts this Congressional intent by mandating CFIs hold some amount of our assets in home mortgage loans. It does not appear to recognize the legitimate uses of FHLB funding beyond housing finance activities.

This proposal also could inhibit our ability to grow, or threaten our access to the FHLB if we do. For example, if our total assets grow above the current CFI threshold of $1.108 billion, either organically or through acquisition, the amount of home mortgages loans we would be required to hold under this proposal would jump to 10 percent. (We currently hold about 10% of our assets in mortgage loans as we sell the vast majority in to the secondary market as that is what most customers currently demand – long term and very low fixed rate mortgages.) This could have the unintended consequence of forcing us to forego expansion or merger plans for the sole purpose of maintaining our FHLB membership. As a result of trying to avoid crossing the arbitrary CFI limit, we might need to reduce our usage of FHLB products and services, which in turn could reduce the products we are able to offer our customers and serve our community. As a banking regulator, the FHFA undoubtedly understands the importance and necessity of asset growth for a bank. Prudently growing assets generally are a sign of a healthy institution and contribute to a sounder overall financial system. The FHFA should support the reasonable growth of FHLB members and avoid penalizing them or threatening our access to FHLB liquidity as a result of it.

The overall intent of this proposal seems to restrict and narrow FHLB membership, resulting in fewer members. As some members have their memberships terminated, and others are forced to reduce their usage of the FHLB, we are concerned about the destabilizing effects that would result. These actions will inevitably lead to smaller FHLBs with fewer assets, reduced profits, lower retained earnings, and a decreased market value of equity and capital stock. Additionally, as usage contracts and profits decline, fewer dollars will be available to support the FHLB's affordable housing and community investment programs. Our bank's ability to serve our community through valuable products such the FHLB's down payment assistance grants, CICA loans and AHP grants would be harmed.

Beyond these destabilizing effects, this proposal does nothing to help strengthen the overall financial system. Since the financial crisis and rightfully so, our prudential regulator, the Federal Reserve Bank -Minneapolis has increasingly emphasized liquidity planning in an effort to prevent another crisis from occurring. In our liquidity plans, we rely on our access to the same-day funding offered by the FHLB. Our regulator understands and accepts the vital role of the FHLBs in such planning. This proposal contradicts these efforts by undermining the reliance of banks such as ours on the FHLBs. In so doing, it threatens to weaken the broader financial system while doing nothing to help prevent a repeat of the financial crisis.

In conclusion, we view the FHLB of Chicago as a critical partner for our bank. Its reliability as a liquidity source must be preserved. Threatening access to the FHLB threatens our bank, our customers and the communities of Eau Claire and Hayward, WI plus Maplewood, MN. This proposal could undermine the reliability of the FHLB, discourage membership, inhibit our growth, limit access to the secondary market and shrink the FHLB's affordable housing and community development activities. It will do nothing to help the effort of other banking regulators to strengthen the overall financial system or repair the struggling housing markets. Despite these real and damaging effects, I have not been made aware of any specific benefits that would be achieved by this proposal. From my perspective, the costs clearly outweigh the benefits. For these reasons, we strongly urge the immediate withdrawal of this proposal.

We appreciate the consideration of our views.

Respectfully,

Daniel M. Riebe
President