



A Community Bank Since 1906 ■ Member FDIC

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 The First National Bank in Philip strongly opposes this proposed rule.

The proposed regulation on FHLB membership creates many concerns for our bank. While my bank would meet the proposed rule requirements of the proposed rule today, I feel that the rule establishes a problematic precedent. There remains a distinct chance that at some point in the future, due prudent management of interest rate risk, economic or regulatory changes, our institution could fail the test. Our bank should be free to manage our balance sheets in light of what's best for us, not the demands of a regulator. Not to mention, 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.

It is also crucial to point out that more than 25 years ago, Congress made it clear that community financial institutions (CFIs) such as my bank may use advances for purposes other than residential housing finance. It remains the intent of Congress today that CFIs may utilize FHLBank liquidity for commercial real estate, small

business, agricultural real estate and agricultural operating loans. This fact alone highlights how this proposed rule runs counter to existing federal statute.

Broadly speaking, the FHLB Des Moines 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 FHLB Des Moines can be counted on to be a reliable source of liquidity in all market conditions.

The on-going mortgage asset test requirements will artificially distort balance sheet management practices, decreasing the flexibility of community banks, credit unions and insurance companies to manage their balance sheets in response to changing market conditions.

Your agency's proposed rules could fundamentally change how, or even whether, a depository financial institution such as ours could remain a member of a FHLB Des Moines. This is enormously disturbing. Confidence trust and reliability comprise the bedrock upon which our long-time FHLB membership is built. We need to know that the FHLB Des Moines can provide funding on a moment's notice as it did in the recent financial crisis.

Without access to our FHLBank, the credit available to communities in our region will be unnecessarily impacted. We believe this proposed rule is a solution in search of a problem. Because the proposed rule outlines no safety and soundness concerns-and because there is no legitimate public policy goal of the proposed rule-First National Bank in Philip strongly recommends that you withdraw the proposed rule. Thanks for taking our comments into consideration.

Sincerely,



Sincerely,  
Ray Smith, President