MIDWEST BANKCENTRE

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Alfred M. Pollard, General Counsel

Attention: Comments/RIN 2590-AA39

Federal Housing Finance Agency

400 Seventh Street SW

Washington, DC 20024

RE: Notice of Proposed Rulemaking (NPR) and Request for comments-Members of the FHLBanks (RIN 2590-AA39).

Dear Mr. Pollard;

I am writing to comment on the Federal Housing Finance Agency's (FHFA) proposed rulemaking on "Members of the Federal Home Loan Banks".

I have served on the Federal Home Loan Bank of Des Moines (FHLB Des Moines) board of directors as a member director for eight years.

I am also Executive Vice President of Midwest BankCentre which is a $1.6 billion community bank serving the St. Louis area. Midwest BankCentre serves the southern part of the metropolitan area. FHLB products help us serve our small business, mortgage customers, local school districts and municipalities.

Mission of the FHLBank System

The FHLBanks mission is clearly stated as both housing and community lending. Congress purposely expanded the mission of the FHLBanks beyond housing 25 years ago with the inclusion of commercial banks and credit unions. Congress changed collateral requirements for Community Financial Institutions (CFI) in recognition of the need for small business, agricultural and commercial lending in support of communities. Congress again expanded membership by adding non-depository Community Development Financial Institutions (CDFI) as eligible members. Congress has recognized that there is a balance between economic development, community stability, housing and the availability of liquidity.

This new test seems completely unnecessary given that collateral rules already require significant real estate assets to be able to borrow long term. The nexus to housing is already established by existing statute. There is no need to further limit the mission of the FHLBanks given that Congress has consistently expanded the mission while leaving this specific nexus to housing in place. This rule directly contradicts the legislative history, particularly in recent decades, that has expanded both membership and mission. In addition, a former Director of the Agency requested the Des Moines bank try and promote student lending which has been done through a Captive Insurance Company.

Impact on FHLB Members

This puts the FHLBanks in the position of telling our members how to manage their balance sheet. This would seem more appropriate to their primary regulator.

These members may, at any given time, not be in compliance with the ongoing test as they manage their balance sheet to the economy. It adds another compliance issue that may even be contrary to compliance required by their primary regulatory.

The FHLBanks have worked diligently to establish a relationship of trust with our members. We will be there for them whether in a crisis or in providing funding for them to best manage their financial institution with the most tools possible, providing just-in-time and long term funding for their lending activities. Which worked extremely well in the recent economic downturn.

These new tests introduce an uncertainty that has not previously existed in the FHLBank system. A member may become ineligible at the exact time that they need the liquidity to provide loans to their community or meet a financial crisis. Members can move between the 10 percent test and the 1percent-5 percent test simply by an increase or decrease in assets in relation to the Community Financial Institution designated limit. This puts them in the position of managing their assets to maintain membership when the economy or regulation may dictate other actions.

Our smaller members, especially those in rural areas, will be disproportionally impacted. They do not have access to the global markets and would certainly, in a crisis, have the least access to sources of liquidity. The Des Moines bank has the majority of their membership in small institutions.

In fact loss of membership would also eliminate their ability to sell mortgage loans to the FHLBanks. The proposed regulation would harm housing production and homeownership not help it. The Des Moines bank buys a significant percentage of its mortgages from smaller members.

The proposed regulation does not provide a compelling rationale for creating on-going membership requirements. The FHFA's own research purports to show little impact on membership. The reality is that the impact is not in financing more housing but in creating uncertainty of liquidity, potentially eliminating members that sell mortgages rather than hold them, reduce the potential income of the FHLBanks which in turn could reduce the contribution to affordable housing by millions of dollars, cause some to not seek membership or be eliminated from membership which could leave those financial institutions without a source of liquidity in a crisis. Creating this uncertainty would make it difficult to use FHLB funding in our Contingency Funding Models.

Captive Insurance Company Membership

Insurance companies have been eligible to become FHLBank members since the FHLBanks were created in 1932. While the FHLB Act does not define "insurance company," the FHFA is proposing to arbitrarily exclude captive insurance companies from membership eligibility. Citing only a "belief" that some captives may be formed by other companies, including mortgage real estate investment trusts (mREITs), to access FHLB funding, the NPR provides no specific evidence of its claims or any discussion of the ways in which such practices would threaten the FHLBanks' mission, given the FHFA's current regulatory protections.

Captive insurance companies are formed to underwrite risks of both affiliated and nonaffiliated entities. Captive insurance companies are subject to the same regulatory bodies and oversight as are other insurance companies including regulatory requirements for supervision, conservation, rehabilitation, receivership and liquidation. Additionally, similar to other insurers, the ability of a captive insurance company to either lend money or pay dividends to affiliated organizations is tightly regulated and generally requires prior review and written approval from the state insurance commissioner. The FHFA should not be dictating the types of permissible insurance products for insurance company members, or for any members.

The importance of captives, and mREITs, in furthering the FHLBank's mission has been highlighted by the U.S. Treasury Department. Michael Stegman, an advisor to the Treasury Secretary recently pointed out that while advances made to captive insurance company members pose "potential incremental risks to the FHLBank System," the activities of mREITs in providing an important source of private capital for the housing market appear to be aligned with the housing finance mission of the FHLBanks.

As a member of the FHLB Des Moines board, I have participated in the board's research and extensive discussion with our management on the captive insurance company's membership. The board of directors diligently determined that captive insurance companies whose parent company or group of companies that have a housing, community or economic development, or FHLBank liquidity related mission fit the mission of the FHLBanks.

FHLB Des Moines has developed systems and expertise over a 20 year period in the analysis of these entities both for inclusion in membership and for ongoing credit analysis. We have not had a credit issue with any that have joined FHLB Des Moines. As Chairman of the Des Moines Board, I have participated in the due diligence of new Captive Insurance Members. The addition of mReits took 6 to 12 months before the Board was fully informed of the risks of adding these new Captive Insurance Members.

I think that the FHLB Des Moines board of directors and management has created an appropriate framework to determine mission eligibility for Captives.

We would respectfully ask you not to eliminate captive insurance companies but rather work with us to design the appropriate framework.

Sincerely;

Dale E. Oberkfell
Executive Vice President