FHLBI

FEDERAL HOME LOAN BANK OF INDIANAPOLIS

Building Partnerships. Serving Communities.

September 19, 2014

Alfred M. Pollard, General Counsel
Attention: Comments/RIN 2590-AA39
Federal Housing Finance Agency
400 Seventh Street SW, Eighth Floor
Washington, DC 20024
email: RegComments@fhfa.gov

Office of Information and Regulatory Affairs, OMB
Attention: Desk Officer for Federal Housing Finance Agency
Room 10102, New Executive Office Building
725 17th Street NW
Washington, DC 20503
email: OIRA_Submission@omb.eop.gov

Re: Members of Federal Home Loan Banks
Notice of Proposed Rulemaking, RIN 2590-AA39

Dear Mr. Pollard and OMB Desk Officer:

I am writing to you today to request that the NPR on membership changes be reconsidered as unhealthy for the entire FHLBank System, and will severely impact earnings, and our Affordable Housing mission by reducing the amount of AHP awards by millions of dollars.

I am reminded of the now famous words of Col. Joshua Chamberlain, who led the 20th Maine at Little Round Top, at the battle at Gettysburg, when he wrote a year after the battle: "Great Events are Sometimes Turned on Comparatively Small Affairs."

You may recall that the 20th Maine protected the left flank of the Union Army, and had Chamberlain's men failed, the battle would have had a completely different result.

As I look at it, the NPR directive is a solution looking for a problem, and while it may appear to be a small affair, I believe that the consequences will one day show up as a great event that negatively impacts us all. I understand fully the mission as defined, for the FHLBank System, and the need for unquestioned underwriting, and collateralization, given what our great country just came through from 2007-2012. We do not want, nor could we stand a repeat of the sub-prime debacle.

But what is at hand today can perhaps be summarized in two questions:

1. Does the FHLBank System have the knowledge and capability to collateralize, and strongly underwrite its advances, whether to bank or insurance captives?
2. Are advances to captive insurance companies at any greater risk to the FHLBank System than that of advances to commercial banks?

I am a 46-year veteran banker. I have witnessed the oil-energy crisis, the farm crisis, the S&L crisis, and the great recession. I was Chairman of the Independent Community Bankers of America in 2010 in the heart of the recession, and watched commercial banks of all sizes go down due to concentrations in sub-prime mortgages, or other matters relating to underwriting. If the underwriting and collateralization in place at the twelve FHLBanks were not strong within the FHLBank System, any one of those events would have taken it down as well. But history has now shown that not only did it survive, it came through each economic downturn stronger than before. It is a well-drafted hallmark of our democracy, and neither the legislature nor the regulators should be tempted or forced to change its model or its mission because we fear failure from a system that has never failed. What is the driving force behind this change? It works, and it has stood the test of time and a myriad of economic cycles.

The issues that are being presented by the NPR, the 1% or 10% mortgage retention, and the arbitrary cancelling of the portion of our 82-year mission to provide liquidity to the insurance company industry are not founded in common sense. The 1%-10% requirement will create balance sheet, income statement, and GAP management consequences for insurance companies, banks, and credit unions of all sizes. The 7,400 members in the country will be forced to make changes to their asset liability planning for no reason other than to change a legislative policy through a regulatory mandate that circumvents it. I dare say the majority of the banks and all of the insurance companies that currently borrow from one of the twelve FHLBanks carry mortgages or MBS sufficient to cover the percentages required; the problem is, what will the market do tomorrow? How will this requirement affect bank and insurance company earnings when they should be selling off low income securities or loans at fixed rates, in an up market? They will now be forced to hold a percentage for what purpose? To satisfy a regulation that mandates holding these mortgages regardless of how it may impact earnings. These and many other questions exist in the face of an economy that is trying to rebound after the recession, especially the housing market.

<u>And what about our mission of affordable housing</u>? The impact as we have studied this issue will lower the affordable housing goals by millions and millions of dollars, as balance sheets shrink, and advances are reduced even more. Is that the goal of the regulator? Reduce affordable housing for low-to-moderate income consumers? The unintended consequence of making a change such as this in a rebounding market, shows, in my opinion, that it is badly conceived, and is not based on common sense.

I will close with the last issue of the captive insurance industry, and the NPR requirement that they be phased out over the next five years. I will simply say, the same arguments exist as does for banks, they are different yes, they require work with each state yes, there is no Federal government regulator, but why would the twelve FHLBanks not loan to an industry that is part of their mission? Especially when you consider that in the case of the Indianapolis FHLB, we worked with state commissioners, and the state legislatures to change the law to insure that we have priority liens, and priority liquidation capabilities when it comes to remediation. What will be eliminated next?

We have calculated that within the twelve FHLBanks, billions of dollars in advances will be eliminated if this regulation is changed. That impacts bank earnings, and it impacts the mission of affordable housing.

Most institutions do not need advances today due to the liquidity in the System, with the lack of consumer and commercial demand. But what we know is that the day will come when we will need FHLB advances, and when it does we need a strong FHLBank System in place to continue to provide liquidity for banks, thrifts, credit unions, and insurance companies. And when it does, the System must be solidly in place and ready to provide that liquidity through a vibrant and profitable system as was envisioned by our forefathers.

One only needs to look at the history of this 82-year-old system to see that regardless of the economic cycle, or the amount of advance debt being carried, not a single FHLBank took a loss throughout its history. The System works, and works so well that even in the face of the magnitude of the losses being taken by the banking system during the recession, the FHLBank System stood the test, and at the same time provided badly needed liquidity to assist both the strong banks as well as those that failed, without the system sustaining a loss.

I thank you for considering my views, and I would ask for your support in reversing this NPR. The impact of this NPR will be significant, and potentially catastrophic if not reversed. This may seem to be a comparatively small affair, but the proof of its absurdity will only be revealed at the next Great Event.

Sincerely,

James D. MacPhee

James D. MacPhee, Chairman
Federal Home Loan Bank of Indianapolis