

*Personal
Banking
Group*

October 27, 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:

Bloomfield State Bank (BSB) is a member and owner of the Federal Home Loan Bank of Indianapolis. BSB is a fourth generation, family-owned bank, struggling to remain competitive due to the high cost of FDIC and CFPB regulation. The last thing BSB needs now is to have our FHLB turn into another regulator, monitoring and dictating how its balance sheet should be structured.

While BSB meets the proposed 1% and 10% tests today, these tests are unnecessary and may be dangerous if the thresholds are raised higher by the FHFA. As a commercial bank, BSB needs the FHLB for supplemental liquidity, but it should not force any bank, such as BSB, that is primarily a commercial lender to originate or hold a certain level of home mortgage investments. This just puts more pressure on all banks' profitability, especially as BSB grows and gets closer to the non-CFI \$1.1 billion limit. Ongoing balance sheet tests forcing BSB to hold home mortgages in times of economic stress or when rates fall and loans prepay at high rates may force BSB to take undue risk at worse, or at best force BSB to allocate precious capital to housing finance when we would prefer to make business loans.

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Apart from balance sheet concerns, BSB would also have to dedicate more staff time to monitor the tests and report to the FHLB on them. BSB is already over-burdened with FDIC call reporting, FHLB liquidity plans and Community Support reporting. The FHFA underestimates the true cost of this proposal. BSB estimates that to update our liquidity plans and to monitor the 1% and 10% tests will cost our bank about \$4,000 per year, plus the added costs the FHLB incurs in staff to monitor the tests will come back to BSB by way of reduced dividends. While not huge sums, but when added to all of the other Dodd-Frank rules, it makes it harder for smaller banks to remain competitive and attract investment capital. Also, the added costs are not justified because most, if not all FHLB members today, already have a housing or community economic mission focus. The FHLB collateral requirements are already mission-focused so the added reporting burden far outweighs any alleged benefits contained in the proposed regulation.

Enough regulation exists already. If BSB wants to make mortgage investments, it will do so for the right reasons—that is, it is a profitable, safe investment for my bank and its shareholders. BSB does not need another artificial balance sheet requirement imposed by the regulator of the FHLBs. Congressional legislation or my primary regulator should control the composition of BSB's balance sheet, not the FHFA.

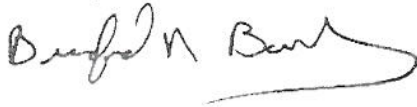
Finally, we note that the proposed changes to insurance company membership rules will allow them to unilaterally move FHLBank Districts by effectively eliminating the domicile-charter requirements. If the FHFA's new principal place of business test is adopted, an insurance company may move districts by simply sending a letter indicating its senior management and books and records have moved. We think this is unfair because community based banks are not allowed the same flexibility to forum shop FHLB districts. The current membership rules, in place before the regulatory interpretation for insurance companies (2012-RI-02) was added, should apply. This way all members are treated equally. The standard should be that domicile or charter location controls, unless the requirements of the existing "three part" membership test (12 CFR 1263.18(c)(1)) are met.

The proposal, without articulating safety-soundness grounds, also eliminates all captive insurance company members. While we do not support elimination of these members, the proposal under the Administrative Procedures Act should also identify the lost profits and reduce dividends BSB will receive as an FHLBank of Indianapolis shareholder. Presently the Indianapolis Bank has well over \$2 billion lent to captives. Assuming a spread of 50 basis points on that business, once eliminated, FHLBank of Indianapolis income will be reduced by \$10 million per year. This is a significant regulatory cost. Especially given that Congress and not the FHFA establishes the membership standards, we can identify no legitimate business reasons as to why the FHLBank of Indianapolis cannot safely lend to captives. Sound underwriting and collateral practices are already in place for all member classes. The proposal specifically disadvantages the FHLBank of Indianapolis because this District has a very significant insurance company membership base and favorable Michigan captive insurance laws.

Mr. Alfred M. Pollard
OMB Desk Officer
October 27, 2014
Page 3

Please apply some common sense for community banks and other FHLB members by withdrawing this proposal and rescind 2012-RI-02 as it relates to insurance companies.

Sincerely,

A handwritten signature in black ink, appearing to read "Bradford N. Barkley". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Bradford N. Barkley
Vice Chairman
Bloomfield State Bank