Bank of Geneva

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November 25, 2014

Alfred M. Pollard, General Counsel
Attention: Comments/RIN 2590-AA39
Federal Housing Finance Agency - Fourth Floor
1700 G Street, NW
Washington, D.C. 20552

Re: Notice of Proposed Rulemaking and Request for Comments – Members of Federal Home Loan Banks (RIN 2590-AA39)

Dear Mr. Pollard:

Thank you for the opportunity to comment on the FHFA's Notice of Proposed Rulemaking (NPR) on Federal Home Loan Bank (FHLBank) membership. The Bank of Geneva opposes the adoption of the NPR and respectfully requests that it be fully withdrawn.

Established over 130 years ago, Bank of Geneva has a long history of serving the banking needs of the residents and businesses of Northeast Indiana. As one of few banks permitted to open after the federally ordered bank holiday during the Great Depression and now enjoying growth after the Great Recession, the Bank of Geneva knows what it takes to thrive in the banking business, and we count the liquidity provided by the Federal Home Loan Bank of Indianapolis (FHLBI) among our most valuable resources.

We have relied heavily on our FHLBI membership to fund our loan growth. FHLBI advances and the Mortgage Purchase Program are a more affordable and efficient source of liquidity than retail deposits, and the Community Investment Program allows us to fund worthwhile projects. Our FHLBI membership is good for our business and helps us to better serve our customers and community, and we know that the FHLB system provides those same benefits and more to members throughout the United States. Consequently, we do not take threats to membership lightly, and the NPR is threatening.

First, if the NPR is adopted, FHLBank membership numbers will suffer. It may not be expected that we would be concerned about losing captive insurance companies from the FHLBanks, but all non-captive insurer members should be alarmed at the precedent that will be set if the FHFA is allowed to unilaterally ban lawfully eligible institutions. Other members will lose FHLBank access by failing the new on-going 10% residential mortgage test (10% Test) and the 1% (or higher) makes long term residential mortgage loan test (1% Test). Also, there may be some members or potential members that could pass these tests, but find them too costly and burdensome to maintain or obtain membership. Fewer members will result in lower profits for the FHLBI, which will hurt our dividend payment and reduce the availability of liquidity for housing finance and funding under the Affordable Housing Program.

As a community financial institution, the Bank of Geneva will only be subject to the new 1% Test under the NPR, and due to our commitment to making home loans, we will satisfy this test. Our ability to pass the 1% Test does not override the fact that maintaining compliance is costly to our business. We will face added expenses associated with analyzing and reporting data for compliance, and we will also incur opportunity costs from the restriction of our ability to freely manage our balance sheet. Currently, like all other members, the only assets that we hold in relation to our FHLBI membership are those that we have pledged to secure our advances, including quality housing-related assets. The Bank of Geneva is an active FHLBI member with a proven housing and community focus. It is unjust to restrict our freedom to manage our assets in the best interest of our business and to punish us with added costs and regulatory burdens.

Continual asset-based compliance tests are not just bad for the Bank of Geneva, they will have a negative impact on the entire FHLBank system. All applicants for membership must establish a housing commitment upon application; thereafter, this commitment is continued by virtue of the FHLBanks' collateral requirements. The effectiveness of this process is illustrated by the FHFA's own analysis, which showed that the large majority of existing members would satisfy the 1% and 10% Tests if they were in place today. Requiring members to hold housing-related assets as collateral furthers the FHLBank housing mission without needlessly restricting members' asset management. Conversely, while there are no issues for the proposed 1% and 10% Tests to resolve, they will add to members' costs and regulatory burdens, ultimately leading to reduced liquidity available for housing finance.

Congress established the FHLBanks to provide a reliable source of housing liquidity and community support, and Congress has consistently acted to expand access to the FHLBanks. Contrary to Congressional policy, the FHFA is proposing to restrict access by taking away the eligibility of captive insurers and prohibiting future captive insurance companies from membership while simultaneously making membership more burdensome and costly for other members. If implemented, the NPR will effectively amend the Federal Home Loan Bank Act, which is beyond the FHFA's authority. Any such changes, if appropriate, should come from an act of Congress, not the unilateral action of the FHFA.

For these reasons, we respectfully request that the NPR be withdrawn. Thank you for your consideration and the opportunity to submit a comment.

Sincerely,

BANK OF GENEVA

Peter L. Confer

Peter L. Confer, CPA
Cashier/Controller