Flagstar® Bank

5151 Corporate Drive
Troy, Michigan 48098-2639
Phone: (248) 312-2000
www.flagstar.com

December 2, 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:

On behalf of Flagstar Bank, I thank you for the opportunity to comment on the FHFA's Notice of Proposed Rulemaking – Members of Federal Home Loan Banks (NPR) and for your consideration.

Flagstar Bank, headquartered in Troy, Michigan, is a full-service bank with more than 100 branches in communities across Michigan. Chartered in 1987 as a federal savings bank, today Flagstar has assets of $9.6 billion. We are the largest banking company headquartered in Michigan, a top-tier mortgage originator in the country, and one of the nation's top 10 largest savings banks. We also are a national leader in home lending with loan centers across the country and thousands of wholesale mortgage brokers and agents as customers. We have pioneered ways to make the mortgage process smooth and seamless for our customers. As a testament to our success, Mortgage Technology magazine has named us a Top Tech-Savvy lender for eight consecutive years. We also consistently rank as one of the leading FHA lenders in the country.

Our membership in the Federal Home Loan Bank of Indianapolis (FHLBI) is a treasured asset that has helped us achieve great levels of growth and continues to provide liquidity that is invaluable to our mortgage finance operations. Flagstar Bank is an active FHLBI member. We regularly obtain FHLBI liquidity through advances, a line of credit, and Community Investment Program advances, and we utilize the FHLBI's cash management and securities safekeeping services. We have also sold a substantial amount of mortgage loans to the FHLBI under the Mortgage Purchase Program (MPP). Flagstar Bank is committed to housing finance, and the FHLBI, with its housing-focused mission, provides us the valuable liquidity and resources to manage our business and make loans to homeowners.

Upon consideration of the NPR, Flagstar Bank is troubled by the FHFA's proposals contained therein. If these proposals are implemented, all members will face new costs and burdens to maintain membership, access to the FHLBanks will be restricted, FHLBank liquidity in housing finance and for affordable housing will be reduced, and the overall quality of membership will suffer.

First, the FHFA's proposed on-going asset-based compliance tests are unnecessary to achieve the FHFA's stated purpose. They will result in the termination of some memberships and new regulatory burdens for all surviving members. In the NPR, the FHFA provides an analysis showing that only a small percentage of members would fail these tests. The FHFA attempts to use this data to support the notion that these new tests are not objectionable because they affect such a small amount of members. However, it is more logical to view these statistics as evidence that FHLBank members are already firmly committed to housing finance. As such, there is no need to impose on members the burden of on-going compliance with a 1% long-term home mortgage loans test (the "1% Test") or a 10% residential mortgage loans test (the "10% Test").

Similar asset requirements have only been applied to *becoming* a member of an FHLBank, not to remaining a member. To obtain liquidity through advances, members must provide appropriate collateral, including housing-related assets. This current process ensures that FHLBank doors and liquidity are only open to institutions that will further the housing mission of the Federal Home Loan Bank system. This benefit occurs naturally without needlessly hindering a member's freedom to manage its assets to suit the needs of its business and community. After 82 years of admitting and lending to institutions focused on housing finance, the FHFA should not be surprised that its analysis showed that a large majority of FHLBank members could presently satisfy the 1% Test and the 10% Test.

Second, while Flagstar Bank is opposed to the adoption of these tests, if they are imposed, it is imperative to include all loans *made* by members or their agents in determining compliance. It is not difficult to track a member's "flow" business. We have ample records of the mortgage loans we make and subsequently sell, and if necessary we could supply the information to confirm our compliance while maintaining our ability to freely manage our business. Selling mortgage loans, including sales to the FHLBI, is a tent-pole of our business model and any restriction on our ability to sell mortgage loans will directly reduce the amount of new mortgage loans that we can make.

Third, the proposed elimination of captive insurance members will also negatively impact housing finance. Many captive insurers and their parents have a housing focus. For those that become FHLBank members, their participation in the housing market actually increases as they purchase housing-related assets to secure their FHLBI advances. FHLBI's captive insurance company members are subject to Michigan's laws and insurance regulations, and, under the Federal Home Loan Bank Act, they are legally eligible for FHLBI membership. Despite years of opportunity and knowledge of the FHFA's apparent concern about captive insurers, Congress has not acted to prohibit captive insurance companies from accessing the FHLBanks. It is beyond the FHFA's authority to remove otherwise eligible institutions as ineligible for membership.

Fourth, the proposed change to the principal place of business determination for insurance companies is yet another threat to FHLBI membership. If this new method is adopted, insurance companies, unlike any other institution, may be able to shop among districts before applying for membership. An advantage of having a regionally-based system is that each FHLBank is able to establish relationships with the regulators of the states in their district. While a few institutions qualify under the regulatory three-part membership test for membership outside of their domicile state, most FHLBank members hail from a state within their FHLBank district. This is beneficial to the regionally-based FHLBanks because they are able to conveniently establish relationships with their members' regulators. Having a good working relationship with the regulator and familiarity with the domiciliary state's insurance code are two of the best ways for an FHLBank to protect itself if an insurance company fails. The existing principal place of business determinations are simple, fair to all members, and best suited to protect the interests of the FHLBanks. Perhaps a new method of determining principal place of business is needed for some CDFIs, but, otherwise, the FHFA should continue to first look to an organization's state of domicile, allowing for utilization of an updated three-part test in the regulation, if necessary to achieve an outcome that works well for the member and the FHLBank.

All-in-all, the proposals in the NPR would reduce the amount of FHLBI members, which would lead to fewer FHLBI advances, less FHLBI liquidity in the market place, and reduced funding available for the Affordable Housing and Community Investment Programs. Reliable access to affordable liquidity is the greatest benefit of FHLBI membership, and it would be a shame for this reliability to be lessened by unnecessary and burdensome regulations. When considering new regulations, the FHFA would be wise to keep in mind that Congress created the FHLBanks to increase liquidity in housing finance. Protecting the safety and soundness of the FHLBanks is a concern that all members share with the FHFA, but the FHFA should not exceed its powers and effectively amend the Federal Home Loan Bank Act. The issues raised by the FHFA in the NPR are merely theoretical, but the real-world outcomes of its proposals conflict with rather than further the FHLBank mission.

For the above reasons, we respectfully urge the FHFA to fully withdraw the NPR. If, unfortunately, the FHFA decides to impose on-going compliance tests, we believe it is imperative to the mission of the FHLBanks that these tests take into consideration all mortgage loans made by members or their agents. Thank you for your consideration.

Sincerely,

Alessandro P. DiNello
President and CEO