



One Mission. Community Banks.

December 12, 2014

Mr. 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:

We are writing on behalf of the Community Bankers of Michigan (CBM), whose members comprise Michigan's locally owned and operated community banks. This letter is in response to FHFA's September 2014 Notice of Proposed Rulemaking – Members of Federal Home Loan Banks. CBM is deeply concerned about the likely impact this proposed rule will have on Michigan community banks if it becomes law.

Each and every day Michigan community banks rely on their membership in the Federal Home Loan Bank of Indianapolis (FHLBI) to meet residential housing finance, small business, and community development needs across our state. We value the incredible reliability and flexibility that is built into the Federal Home Loan Bank (FHLB) system. As such, we are especially troubled by FHFA's proposed new, *ongoing* FHLB membership tests.

In an environment where community bank numbers continue to dwindle, ongoing FHLBI membership requirements could be devastating to our members and the populations they serve. In 1990, there were 300 community bank charters in Michigan; fast forward nearly 15 years later and that number has dwindled to 125. That is ONE community bank covering local banking needs for every 774 square miles of the state! In a drastically diminished community banking environment, we question whether the best means of ensuring residential housing liquidity is to create on-going membership tests and related administrative headaches for the remaining community banks that serve Michigan's smallest towns and rural areas.

The FHFA's expressed purpose for these tests is to ensure that members actively conform to the FHLBanks' housing-related mission. Now, it is fair to say that on paper, right now, these on-going membership hurdles don't disqualify too many of our Michigan community banks, meaning the overwhelming majority will not be kicked out of FHLBI.

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To our way of thinking, if almost all of our members are already meeting these proposed ongoing tests, it is a good bet that these tests are *meaningless* in that they do not fix the alleged problem they address. But that doesn't mean their *impact* will be meaningless.

These tests would impose severe additional regulatory burdens on our members. By definition, many of our members are small- to medium-sized local banks with fewer than 50 employees – making the implementation and management of this latest potential regulatory hurdle an incredibly onerous and expensive proposition. It behooves the Finance Agency to make sure that these ongoing tests solve the alleged problem they purport to fix before inflicting them on small banks that are already overrun with red tape and regulatory and compliance burdens.

Please remember that CBM members support housing finance in many ways, every day. In fact, FHLBI's collateral policies create incentives for our members to continually support mortgage finance and economic development, ultimately encouraging healthier funding streams to reach America's smallest towns and communities.

And frankly, these ongoing tests fail to give appropriate recognition to small banks that provide residential mortgages to their customers, but then sell them into the secondary market as part of their business plan. This is not a questionable practice, and it actually increases housing liquidity. It's simple: just because a mortgage is not on a member's books does not mean the member is not supporting mortgage finance in their community!

While our members are most concerned about these ongoing tests, we would be remiss if we didn't also voice CBM's dismay over FHFA's proposal to disqualify captive insurance companies from FHLBI membership, for three reasons:

1. **Captive (and frankly all other) insurance company FHLBI membership means a more diversified and therefore more stable FHLBI advances portfolio.** Because they operate on different business models, the funding needs of depositories and insurance companies are not very highly correlated. So when community banks are tightening credit standards and have less need for cash, insurance companies continue to provide market liquidity through the FHLBI; and during times when insurance companies generally allocate capital to other investment opportunities, depositories make more loans, and therefore borrow more from FHLBI.
2. **Captive insurers help fulfill the housing mission and augment AHP grant levels.** When captive insurance companies participate in FHLBI, more AHP grant dollars are available in Michigan for use by our members and the communities they serve. Bottom line, excluding captive insurers from membership means FHLBI's future income could decrease, thus reducing the amount of money available for AHP grants. That is a heavy price for Michigan communities to pay.

3. **This sets a dangerous precedent for re-defining FHLB membership eligibility.** Only Congress has the authority to define who is eligible for FHLB membership, not the regulator. If FHFA decides that the long-standing definition of “insurance company” should be altered to exclude a legitimate member of that category, the question for the community banks we represent is, when will the other shoe drop on us? Will some of our members be “defined out” of FHLBI membership eligibility?

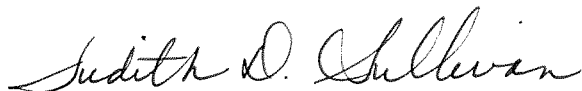
Frankly, we haven’t seen FHFA produce a compelling reason to exclude captive insurers from membership. The NPR has only cited the misguided belief that captive insurers don’t serve the FHLB housing mission.

The truth is, captive insurance companies are subject to ongoing regulation and supervision through the Michigan Department of Insurance and Financial Services (just like all other Michigan insurance companies), and must comply with FHLBI’s rigorous membership application and review process (just like all other insurance company applicants – and all other potential FHLBI applicants). As such, there appears to be no valid safety and soundness concerns that should prevent interested captive insurance companies from applying for FHLBI membership, or disqualify currently approved captive insurance company members from continuing as FHLBI members.

The strength and viability of the FHLBI in its simple and highly functional current incarnation is crucial to meeting the liquidity needs and ongoing viability of the 100 member institutions represented by CBM. These locally owned and operated community banks depend on FHLBI for access to reliable, economical, same-day funding. In some areas of Michigan, a sole FHLBI member – usually a community bank – is an area’s only lifeline to capital investment.

As such, we request that the proposed rule be withdrawn from consideration.

Sincerely,



Judith D. Sullivan
President and CEO, Community Bankers of Michigan

The Board of Directors – Community Bankers of Michigan



Mark Kolanowski, President and CEO
Hastings City Bank



Douglas Ouellette, President Central Region
Mercantile Bank of Michigan, Mt. Pleasant

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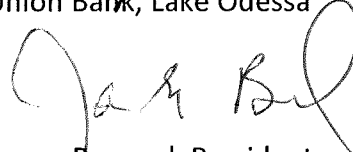
Shelly Brooks, President and CEO
Mayville State Bank, Mayville



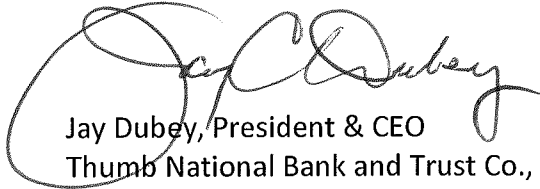
Cortney Collison, President and CEO
Union Bank, Lake Odessa




Gary Bailey, Chairman and CEO
Shelby State Bank, Shelby



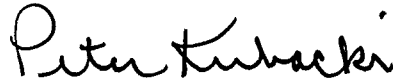
James Bosserd, President and CEO
ChoiceOne Bank, Sparta



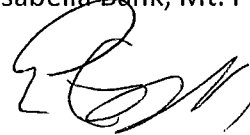
Jay Dubey, President & CEO
Thumb National Bank and Trust Co., Pigeon



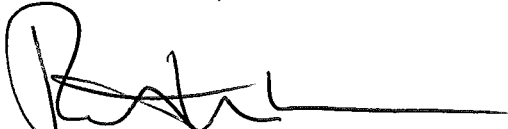
Jae Evans, Chief Executive Officer
Isabella Bank, Mt. Pleasant



Peter Kubacki, President and CEO
The Dart Bank, Mason

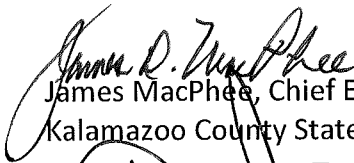


Eugene Lovell, President and CEO
First State Bank, St. Clair Shores

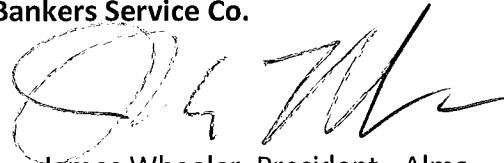


Robert Wolak, Community President
Chemical Bank, Caro

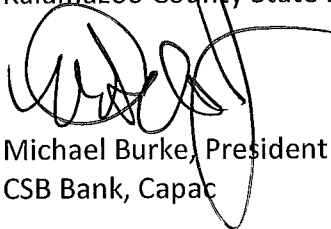
The Board of Directors – Michigan Community Bankers Service Co.



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Kalamazoo County State Bank, Schoolcraft



James Wheeler, President - Alma
Mercantile Bank of Michigan, Alma



Michael Burke, President and CEO
CSB Bank, Capac