OLD NATIONAL BANK

December 12, 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

Re: Notice of Proposed Rulemaking and Request for Comments – Members of Federal Home Loan Banks (RIN 2590-AA39; 79 FR 54848)

Dear Mr. Pollard:

Thank you for this opportunity to comment on the FHFA's Proposed Rulemaking ("Proposed Rule"). As a long-time member of the Federal Home Loan Bank of Indianapolis ("FHLBI"), Old National Bank respectfully requests that the Federal Housing Finance Agency ("FHFA") withdraw the Proposed Rule.

Old National Bank was established in 1834, and has been an FHLBI member for nearly 20 years. We have borrowings and significant access to additional credit capacity from the FHLBI, which we secure with appropriate, high quality assets, including mortgage loans and mortgage-backed securities. We regularly make long-term home mortgage loans, an increasing volume of which we sell to the FHLBI under the Mortgage Purchase Program ("MPP"). Old National Bank is committed to meeting the housing finance needs of our community, and our FHLBI membership serves as an invaluable source of liquidity to provide funding to homeowners.

Like our fellow FHLBI members, we established our housing commitment when we applied for membership, and our commitment is continually demonstrated with the assets we provide as collateral. This current system organically produces the results that the FHFA seeks to obtain in the Proposed Rule without restricting the members' ability to conduct business to best suit the needs of their customers and owners. Now, despite the lack of evidence to support any mission-related concern throughout the system, the FHFA is proposing to add restrictive ongoing asset-based compliance tests which we believe are not needed.

Old National Bank would be subject to the Proposed Rule's new ongoing compliance tests -- the 1% long-term residential mortgage loan test ("Makes" Test) and the 10% residential mortgage test ("10 Percent" of Assets Test). In large part due to our focus on housing, we likely possess the assets needed to satisfy the tests, but proving our compliance requires dedicating valuable resources to ensuring our asset mix is satisfactory at the end of the year and to analyzing and reporting our results. As an active FHLBI member and a bank that is truly focused on serving homeowners in our community, the added costs, burdens, and restrictions of the tests are simply unnecessary.

It is troubling that the FHFA does not plan to include a bank's "flow" business in determining compliance with the tests. Our business model includes selling mortgage loans. Among other

things, we use much of the revenue from such sales to make more mortgage loans. To be sure that we satisfy the tests, we may need to hold loans that we would otherwise sell, which impacts our profitability and ability to make new mortgage loans. Because of this, not only will the FHFA's proposed compliance tests be costly to members like us, they will also be costly to American homeowners. A reduction in available housing liquidity is contradictory to the purpose of the Proposed Rule and to the mission of the Federal Home Loan Banks; therefore, if the Proposed Rule is adopted, mortgage loans sold by members, especially those sold through the MPP, should count toward the tests or any other mortgage loan compliance test.

The proposed changes involving insurance companies will set bad precedents for all other members. It is our understanding that FHLBI's captive insurer members validly exist under Michigan law and are subject to the authority of Michigan's Department of Insurance and Financial Services. The FHFA does not provide any evidence to support the Proposed Rule that captive insurers should lose eligibility or be refused membership. Banning captive insurers from the Federal Home Loan Banks reduces the reliability of the system because all other members will question the safety of their membership, and potential members may avoid applying altogether.

Except for some Community Development Financial Institutions, the most logical determination of a member's principal place of business ("PPOB") is (1) state of domicile or charter; or, if necessary, (2) the three-part membership test. The proposed PPOB test in the Proposed Rule creates the perfect scenario for insurance company members to district-shop, which is something that no other members can do. The FHFA should not institute new rules that create unfair benefits for one class of members. Members should be treated equally. District shopping also puts the Federal Home Loan Banks in the position of working with unfamiliar insurance regulators. Strong relationships between the Federal Home Loan Banks and the regulators in their region have undoubtedly proven to be quite valuable when a failure occurs. Allowing district shopping will undermine the benefit of these relationships. The PPOB of all members should be determined by state of domicile/charter, or, if applicable, the "three part" membership test.

Finally, as a result of the compliance tests and the captive insurer ban, FHLBI will lose existing members and potential members. The Affordable Housing and Community Investment Programs will suffer the collateral damage as lower profits at the Federal Home Loan Banks would equate to less available funding. The only question is not *if*, but *how much* profit and AHP/CIP funding will be lost. The FHFA should determine such an impact before adopting the Proposed Rule.

For the reasons outlined in the previous paragraphs, Old National Bank respectfully requests that the FHFA withdraw the Proposed Rule. Again, thank you for the opportunity to comment and for your consideration.

Sincerely,

Christopher A. Wolking
Executive Senior Vice President
Chief Financial Officer