

December 16, 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

Dear Mr. Pollard,

Thank you in advance for the opportunity to comment on the proposed rulemaking regarding FHLB membership and taking the time to read my letter regarding my concerns. In my opinion there may be some very serious unintended consequences to the full implementation of the rules, as I understand them.

First of all, I'd like to share my background as a basis for making comments and observations regarding the proposed rules. I have been active in a variety of roles in the housing and mortgage finance industry for fifty years. I sold new houses for a builder during the last two years of college and became familiar with local lending activity in South Bend, Indiana. I became familiar with the requirements of conventional loans offered by area savings and loans and commercial banks. At that time, FHA/VA loans were available through a very limited roster of small mortgage banks.

I then joined a very small mortgage company and embarked on a career that occupied several decades of my life. Initially, we only originated FHA/VA loans, but the company evolved into a national mortgage bank with full-service activity and a culture of making good loans. My career with that company culminated with the acquisition of a savings and loan through the aid of FSLIC in 1984.

During those years, I became aware of the Federal Home Loan Bank of Indianapolis and its programs that provide liquidity and other financial services, including check processing. I mention check processing as a touchstone for my observations on the ability of the bank to adjust to the changing needs of its members over the years.

In 1986, I founded a mortgage company along traditional lines and originated and serviced residential loans. I sold loans to FNMA and Freddie Mac and issued GNMA securities. These conduits served the needs of a regional (non-depository) mortgage company very well. I complied with FNMA underwriting and could sell loans to a number of private investors, as FNMA underwriting was the "Gold Standard" for originations.

From 1986 forward, we did business with a good number of banks in our region. From the biggest in our area to the more modest community lenders, we forged relationships that were mutually beneficial. We were able to provide good credits of varying loan types that fit the appetite of these institutions. There was never a single funding or investment source that fit everything we were doing.

In 1999 I was fortunate to be appointed as an independent director of FHLBI for one term. Subsequently, in 2007 I was elected as an independent director and now serve as vice-chair of the board. My experience includes service on several FHLBI committees, including chair of the Affordable Housing Committee.

In 2014, we find ourselves in a financial world that looks different in some ways and not so different in others. Over the years we've had the Savings and Loans crisis, volatile rate cycles, inflation, wars, Enron, the dot-com bubble, the sub-prime mortgage debacle, and many issues and challenges to the industry and to the country.

A common theme through all the years of economic, political, and social issues is the strength of our free enterprise system, which rewards innovation and change that meets the challenges and opportunities of the day. As a GSE, the Federal Home Loan Bank cooperative reflects the best result that can be achieved in a public-private partnership. The system continually adjusts its programs and products to reflect the current needs of its members and their communities.

In the dark days of the Depression, legislation was passed that created the Federal Home Loan Bank system. Over the years, in partnership with Congress and a succession of regulatory entities, the system has evolved and changed to meet the needs of housing and community lending. Many years ago, one of my good friends in community banking from Southern Indiana said to me, "The Federal Home Loan Bank is the backbone of community lending." I believe it remains so today.

Regarding the proposed membership rule changes, I would question the suggested benefits versus the possible damage they could cause.

First, the elimination of captive insurance companies without a safety and soundness issue is very problematic. Insurance companies were the most viable response to residential lending during the Depression when bank holidays and failures virtually eliminated housing finance. In their wisdom, the original framers of the FHLB system included insurance companies without any business line distinction. Insurance companies have remained very active in residential housing finance through their investment activity. Who is to say over the long-term view of our economy and credit activity that insurance companies won't retake the role of prominence in direct residential lending? The potential is very real. With sound underwriting and good collateral practices there is not a unique safety and soundness risk. As highlighted in the NPR, requiring auditing financial statements provides further assurance as to the financial condition of a member, including an insurance company, which I believe is very reasonable and appropriate.

Second, the imposition of ongoing asset tests beyond the initial qualification threshold would create an ongoing risk to the system with unintended consequences. Regulations on eligibility should not be imposed in such a way that membership is unreliable and fluid. FHLB members, like all industries, experience cycles that require active balance sheet management and need to be able to do so without the threat of losing a liquidity partner when they might most need that partner.

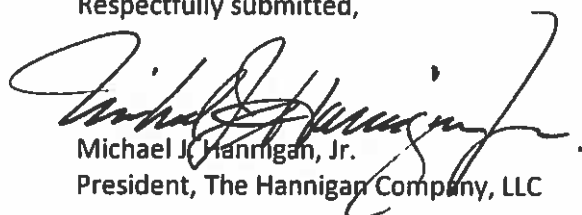
Third, the principal place of business rule should consider a clear determination by all parties of what the principal place of business means. With larger organizations there is the potential for "district shopping" which could impose a layer of risk that would not be desirable. I encourage you to set forth clarity, in particular for insurance companies, as there is a need for the FHLBs to have individual relationships with state insurance regulators and to be familiar with the state laws in their district. This is most appropriately addressed by aligning FHLB membership with state domicile as the default for determining the appropriate FHLB district for membership.

In summary, it is my experience free enterprise and competition combine to make the best possible outcomes in an imperfect world. Regulations that impose artificial barriers to competition and innovation are not in the best interest of our communities or their inhabitants. Recall my reference to check clearing at the FHLBI, it was born of a need and outlived its competitive usefulness. Other more efficient entities garnered the business of check clearing.

Our FHLB and its products are vastly more complex than the simplified example above, however, the principal applies. In their wisdom, the Congress that created the FHLB system left it to us, the later generations, to evolve and fund the housing needs of our citizens and the liquidity needs of our financial institutions.

In light of these concerns, please withdraw the proposed rule on membership.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Michael J. Hannigan, Jr.", written in a cursive style.

Michael J. Hannigan, Jr.
President, The Hannigan Company, LLC