



January 2, 2015

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)

Dear Mr. Pollard:

Thank you for this opportunity to comment on the FHFA’s Notice of Proposed Rulemaking (“NPR”). As a long-time member of the Federal Home Loan Bank of Indianapolis (“FHLBI”), Citizens National Bank of Cheboygan respectfully requests that the FHFA withdraw the NPR.

Citizens National Bank of Cheboygan was founded in 1931, and we have been an FHLBI member for over 12 years. We have significant borrowing capacity from the FHLBI, which we can secure with appropriate, high quality assets, including mortgage loans and mortgage-backed securities. We regularly make long-term home mortgage loans, a large volume of which we sell to the FHLBI under the Mortgage Purchase Program (“MPP”). Citizens 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 NPR 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 on-going asset-based compliance tests which we believe are not needed.

Citizens National Bank, since we are classified as a CFI, would only be subject to one of the NPR’s new compliance tests -- the 1% makes long-term residential mortgage loan test (“1% Test”) and not the 10% residential mortgage test (“10% Test”). In large part due to our focus on housing, Citizens National Bank likely possesses the assets needed to satisfy the 1% Test, 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 1% Test are simply unnecessary.

**MAIN OFFICE:**

303 N. Main Street  
Post Office Box 10  
Cheboygan, MI 49721-0010  
231-627-7111  
888-627-7800  
Fax: 231-627-7283

**BRANCH LOCATIONS:**

<b>SOUTH BRANCH</b>	<b>ONAWAY</b>	<b>MACKINAW CITY</b>	<b>PELLSTON</b>	<b>INDIAN RIVER</b>	<b>ALANSON</b>
231-627-3851	989-733-8511	231-436-5271	231-539-8621	231-238-8961	231-548-2265
Fax: 231-627-3845	Fax: 989-733-2409	Fax: 231-436-5420	Fax: 231-539-0947	Fax: 231-238-8962	Fax: 231-548-2071

It is also troubling that the FHFA does not plan to include a bank's "flow" business in determining compliance with the 1% Test. 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 1% Test, we may need to hold loans that we would otherwise sell, which impacts our profitability and ability to make new mortgage loans. This result shows that 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 counter to the purpose of the NPR and to the mission of the FHLBanks; therefore, if the NPR is adopted, mortgage loans sold by members, especially in the MPP, should count toward the 1% Test or any other mortgage loan compliance test.

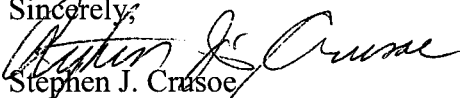
The proposed changes involving insurance companies will set bad precedents for all other members. It is our understanding that FHLBI's captive insurer members validly exist under Michigan law and are subject to the authority of Michigan's Department of Insurance and Financial Services. Other than unfounded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

Except for some CDFIs, 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 NPR 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 FHLBanks in the position of working with unfamiliar insurance regulators. Strong relationships between the FHLBanks 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 insurance companies and 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 members and potential members. The Affordable Housing and Community Investment Programs will suffer the collateral damage as less funding will be available due to lower profits at the FHLBanks. The only question is how much profit and AHP/CIP funding will be lost. The FHFA should determine such an impact before adopting the NPR.

For the above reasons, Citizens National Bank respectfully requests that the FHFA withdraw the NPR. Again, thank you for the opportunity to comment and for your consideration.

Sincerely,



Stephen J. Crasoe  
Vice President – Mortgage Loans