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January 12, 2015

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:

Lake City Bank appreciates the opportunity to comment on the FHFA's Notice of Proposed Rulemaking (NPR) on Federal Home Loan Bank (FHL Bank) membership. Lake City Bank opposes the adoption of the NPR and respectfully requests that it be fully withdrawn.

Lake City Bank has a proud history of service to the communities it serves. The third oldest State-chartered bank in Indiana, Lake City Bank founded in 1872. Through boom times and recessions, even the Great Depression and the most recent severe economic downturn, Lake City Bank continued to serve the people and businesses of northern Indiana and they, in turn, have helped Lake City Bank grow into one of the region's largest locally-based financial institutions. To do this, Lake City Bank counts the liquidity provided by the Federal Home Loan Bank of Indianapolis (FHLBI) among our most valuable resources.

Lake City Bank has relied heavily on our FHLBI membership to fund loan growth. FHLBI advances and the Mortgage Purchase Program are a more affordable and efficient source of liquidity than retail deposits and the Affordable Housing Programs help the Bank to partner with its customers to accomplish worthwhile projects. Lake City Bank considers the FHLBI a valuable partner, and that working together Lake City Bank and FHLBI benefits Lake City Bank's customers and community. And Lake City Bank is certainly not alone in, as that the FHL Bank system provides those same benefits and more to members throughout the United States. Lake City Bank believes that the NPR poses a great threat this important partnership.

If the NPR is adopted, FHL Bank membership numbers will suffer. Some members will lose FHL Bank access by failing the new on-going 10% residential mortgage test (10% Test) and the 1% (or higher) makes long term residential mortgage loan test (1% Test). Also, there may be some members or potential members that could pass these tests, but find them too costly and burdensome to maintain or obtain membership. Also, all non-captive insurer members should be alarmed at the precedent that will be set if the FHFA is allowed to unilaterally ban lawfully eligible institutions, such as captive insurance companies. Fewer members will result in lower profits for the FHLBI and other FHL Banks, which will reduce the dividend payment and impair

the availability of liquidity for housing finance and funding under the Affordable Housing Program.

Lake City Bank will be subject to the new 1% Test under the NPR, and due to our commitment to making home loans, Lake City Bank will satisfy this test. Ensuring continued compliance, however, is costly, with additional expenses associated with analyzing and reporting data for compliance. Those monitoring processes are largely unnecessary, as the collateral policies are self-reinforcing. More importantly, this asset test hinders sound balance sheet management, and could restrict the ability of the Bank to sell its production. Currently, like all other members, the only assets that Lake City Bank holds in relation to its FHLBI membership are those that are pledged to secure advances, including quality housing-related assets. It makes little sense to restrict a bank's freedom to manage assets in the best interest of our shareholders and other constituents.

Continual asset-based compliance tests will have a negative impact on the entire FHL Bank system. All applicants for membership must establish a housing commitment upon application; thereafter, this commitment is continued by virtue of the FHL Banks' collateral requirements. The effectiveness of this process is illustrated by the FHFA's own analysis, which showed that the large majority of existing members would satisfy the 1% and 10% Tests if they were in place today. Requiring members to hold housing-related assets as collateral furthers the FHL Bank housing mission without needlessly restricting members' asset management. Conversely, while there are no issues for the proposed 1% and 10% Tests to resolve, they will add to members' costs and regulatory burdens, ultimately leading to reduced liquidity available for housing finance.

Congress established the FHL Banks to provide a reliable source of housing liquidity and community support, and Congress has consistently acted to expand access to the FHL Banks. Contrary to Congressional policy, the FHFA is proposing to restrict access by taking away the eligibility of captive insurers and prohibiting future captive insurance companies from membership while simultaneously making membership more burdensome and costly for other members. If implemented, the NPR will effectively amend the Federal Home Loan Bank Act, which is beyond the FHFA's authority. Any such changes, if appropriate, should come from an act of Congress, not the unilateral action of the FHFA.

For these reasons, Lake City Bank respectfully request that the NPR be withdrawn. Thank you for your consideration of these comments.

Sincerely,



Kristin L. Pruitt
Executive Vice President and General Counsel