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SALIN BANK

December 19, 2014

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:

Thank you for accepting comments on the FHFA's Notice of Proposed Rulemaking concerning changes to the Federal Home Loan Bank membership rules (NPR). On behalf of Salin Bank & Trust Company, a member of the Federal Home Loan Bank of Indianapolis, I respectfully request that the NPR be fully withdrawn.

In 1970, after serving as Indiana's Secretary of State, my father, William N. Salin, Sr., founded what eventually became Salin Bank. From our beginnings 44 years ago, we have grown to be the third largest privately held bank in Indiana, with 21 banking centers in 10 Indiana counties. As one of the few remaining independent family owned banks in the Midwest, Salin Bank prides itself on creating a true sense of community with customers. Customers turn to us not just for our financial offerings, but because we take time to sit down, face to face, to learn about their financial needs and goals and what we can do to help achieve them. We believe that independently owned banks can do a better job of serving customers than national banking chains. We don't answer to the expectations of Wall Street or stockholders. We answer to our community.

Our FHLBI membership is among our most valuable assets. FHLBI liquidity is reliable and affordable, and we put it to good use to provide the funding needed for families to build or purchase a new home, for businesses to grow and add jobs to our communities, and, for non-profit organizations to construct community improvement projects. We also use the FHLBI for cash management and securities safekeeping purposes. Being an FHLBI owner allows us access to liquidity and services that help us run our business and meet the needs of the communities that support us. We do not wish to see the quality of our membership eroded due to overzealous and unnecessary regulations.

Needlessly, the 1% makes long-term home mortgage loans test will immediately impose new costs and burdens on our bank. If this 1% Test existed today, Salin Bank would pass. The reason for that result is simple -- Salin Bank is committed to making home mortgage loans. We proved that commitment when we applied for FHLBI membership and we continue to own and acquire appropriate, quality housing-related assets to secure our FHLBI borrowings. In the NPR, the FHFA showed that, throughout the FHLBank system, our fellow members are similarly committed to housing finance and able to satisfy this new test. Why then should we be penalized with burdensome and costly compliance requirements?

Furthermore, Salin Bank currently qualifies as a Community Financial Institution, making us exempt from the proposed on-going 10% residential mortgage loans test. However, with more than $750 million in total assets, we may easily grow beyond the $1.1 billion CFI limit and become subject to this test. This leaves us in the untenable position of choosing between managing to grow our business or managing our growth to avoid terminating our membership. Surely, the FHFA does not intend for its proposals to force banks like Salin Bank to cut back on services to customers and communities, but the FHFA needs to be aware this situation is a likely outcome of the NPR.

As I stated above, we treasure our independence and believe it is the reason we are able to successfully serve our community. The proposed on-going 1% Test (and perhaps the 10% Test in the near future) will restrict our ability to freely manage our assets in the best interest of Salin Bank. We have been considering participating in the FHLBI Mortgage Purchase Program, or MPP. With the liquidity gained by selling quality mortgage loans to the FHLBI, we will be able to increase our mortgage lending, but because mortgage loans sold will not count toward satisfying the 1% Test, MPP participation may not be in our best interest. The probability of Salin Bank joining the MPP only decreases if the FHFA follows through on setting a higher minimum threshold for the 1% Test.[1] Requiring on-going compliance with the 1% Test and the 10% Test restricts members' ability to manage their assets, and, because these tests require members to hold loans, the result may very well be reduced liquidity throughout the housing market.

If adopted, the proposed expulsion of captive insurance companies sets a terrible precedent for all other member institutions. FHLBI's captive insurer members are organized under Michigan law and are subject to the authority of Michigan's Department of Insurance and Financial Services. As such, these members are sufficiently "subject to inspection and regulation" to satisfy the Federal Home Loan Bank Act. Furthermore, captive insurance companies are insurance companies, making them part of a group that is expressly eligible for FHLBank membership pursuant to the FHLBank Act. As with the 1% and 10% Tests, the FHFA provides no evidence to support its position that captive insurers pose a threat to the FHLBank system. If the FHFA can exceed its powers and effectively amend the FHLBank Act to ban an eligible class of members without any factual support or Congressional authority, then who knows which members will be targeted next. This threatens the stability of our membership and renders the entire FHLBank system less reliable.

Except for some CDFIs, the most logical determination of a member's principal place of business, or PPB, is its state of domicile or charter as required under the FHLBank Act. Alternatively, if necessary, the three-part membership test of 12 C.F.R. § 1263.18(b) may be applied. It has long been the policy of the FHFA and its predecessor agencies to avoid district shopping among members, but the proposed changes to determining an insurance company's PPB make district shopping possible and likely. Again, district shopping may be an unintended

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[1] The FHFA should infer from Salin Bank's opposition to the 1% Test that it also opposes setting a higher threshold for establishing that a member makes long-term home mortgage loans.

consequence of the NPR, but allowing insurance company members to competitively seek out favorable terms and to be able to freely choose among the FHLBanks is a benefit that no other members have. This proposal may also place an insurance company into membership in an FHLBank that does not have a relationship with that company's state insurance regulator. To maximize the benefit of regional insurance regulator relationships and to avoid unequal treatment of members, the FHFA should continue to apply the existing PPB tests to all members, including insurance companies.

Whereas Congress has historically acted to expand access to the FHLBanks, the FHFA's proposals will actually decrease membership and restrict access to the services and liquidity offered by the FHLBanks. With fewer members, the FHLBI will make fewer advances and add less liquidity into the housing markets of Indiana and Michigan. Consequently, FHLBI will lose existing and potential revenue sources, leaving it with fewer funds available for the Affordable Housing and Community Investment Programs. It is not difficult to see the costs and burdens created by the NPR proposals, but there are no added benefits to be seen. The NPR threatens the stability and quality of Salin Bank's FHLBI membership; therefore, I urge the FHFA to fully withdraw the NPR.

Sincerely,

William N. Salin, II

William N. Salin, II
President & Chief Executive Officer
Salin Bank