Bank
OF ANN ARBOR

TIMOTHY G. MARSHALL
PRESIDENT & CEO

Alfred M. Pollard, General Counsel
Attention: Comments/RIN 2590-AA39
Federal Housing Finance Agency – Fourth Floor
1700 G Street, NW
Washington, D.C. 20552

December 23, 2014

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

Dear Mr. Pollard:

Bank of Ann Arbor (the Bank) appreciates the opportunity to comment on the Federal Housing Finance Agency's notice of proposed rulemaking (NPR) and request for comments regarding "Members of the Federal Home Loan Banks" published on September 12, 2014. I am concerned about the impact that the proposed rule could have upon financial institutions' ability to serve the communities in which they are located and I request that the Federal Housing Finance Agency withdraw the NPR.

Bank of Ann Arbor was founded in 1996 by a group of business people who desired a local bank for the people of Ann Arbor and their neighbors residing in Washtenaw County and the western portion of Wayne County. The Bank has grown to seven branches and assets of over $1 billion; assets combined with the Bank's trust department surpass $2 billion. The Bank is locally managed and very active in the community. We strive to meet the borrowing needs of homeowners and small businesses; we also provide philanthropic support to the community to improve the lives of residents regardless of whether they bank or borrow from us.

The Bank is approaching an asset size whereby it would be considered a non-CFI bank and would therefore be required on an ongoing basis, under the proposed rule, to hold in its portfolio eligible residential mortgage loans equal to or greater than 10% of its assets. This is in addition to meeting the test required of all member financial institutions of making long-term residential mortgage loans in an amount of 1% or greater of assets. Although Bank of Ann Arbor is able to meet the proposed membership requirements, I am nevertheless concerned that some financial institutions will be unable to meet the requirements, while other financial institutions will determine that the cost of compliance does not justify the benefit of membership and will discontinue membership. The end result will be a reduction in Federal Home Loan Bank (FHLB) membership and consequently, a reduction in funds available for home purchase and small business lending and for other FHLB programs, such as the Affordable Housing Program.

Bank of Ann Arbor is a member of the Federal Home Loan Bank of Indianapolis (FHLBI), and through the FHLBI the Bank participates in the Mortgage Purchase Program (MPP) and Affordable Housing Program (AHP). The MPP enables the Bank to borrow money in order to lend those funds to the borrowers in the community. The Bank partners with local affordable housing organizations to bring AHP funds to those organizations so that they can provide housing to low- and moderate-income families within the Bank's assessment area. A reduction in FHLBI membership, and a corresponding reduction in liquidity caused by the loss of membership fee income, would translate into fewer funds available for lending in our community and fewer funds available for affordable housing projects. The State of Michigan endured a severe recession from which it has not entirely recovered; lending to homebuyers and small businesses plays a positive role in our economic recovery. The proposed requirement—which on its face appears to be something so simple—could have a detrimental effect on further economic recovery for this state.

The NPR's proposal to eliminate captive insurance agencies from those entities eligible for membership in the Federal Home Loan Bank may have the same effect of diminishing FHLB liquidity. When captive insurance companies participate in the FHLBI, more AHP grant dollars are available in Michigan for use by the Bank and affordable housing organizations to benefit the community.

Finally, monitoring to ensure that the Bank meets the ongoing 1% "makes" test and 10% "holds" test in order to maintain its FHLBI membership adds to the already lengthy list of responsibilities undertaken by the Bank's compliance and/or audit staff. This is on top of the monitoring that staff already must regularly undertake to ensure that the Bank meets lending, deposit and Bank Secrecy Act/Anti-Money Laundering (BSA/AML) regulations. Many community financial institutions do not have a large compliance or audit staff, and adding additional monitoring responsibilities to a small staff may translate into less time available for lending, deposit and BSA/AML monitoring. Smaller financial institutions may make the determination that the burden on compliance is not worth the membership benefit, and may cease to participate in their regional federal home loan banks.

Again, I am concerned that the proposed rule would reduce available FHLB capital; restrict access to funds for lending in the community; and reduce participation in programs designed to promote affordable housing for low- and moderate-income families. For these reasons, I respectfully request that the NPR be withdrawn. Thank you for your consideration and for the opportunity to submit a comment.

Sincerely,

Tim Marshall

Timothy G. Marshall
President and CEO

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