December 8, 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:

On behalf of Eaton Federal Savings Bank, thank you for the opportunity to provide comments on FHFA’s Notice of Proposed Rulemaking – Members of Federal Home Loan Banks. We appreciate your consideration, and, as a member of the Federal Home Loan Bank of Indianapolis, respectfully request that FHFA withdraw the proposed rule.

Eaton Federal is a mutually owned thrift institution, and we have been a member of the FHLBI since 1937, the same year of our charter. We use long-term advances to fund our portfolio mortgage loan growth, and we have sold mortgage loans in the FHLBI’s Mortgage Purchase Program. Our FHLBI membership provides us with a reliable source of affordable liquidity.

If FHFA follows through on imposing on-going, asset-based compliance tests, FHLBI membership will become more costly and burdensome for Eaton Federal and our fellow FHLBI members. Currently, institutions desiring access to the FHLBanks need to establish a commitment to housing finance upon application, and this commitment is continuously reinforced by providing housing-related assets as required collateral to secure FHLBank advances. By design, the current membership rules ensure that membership is only granted to housing-committed institutions and the collateral requirements ensure that FHLBI liquidity only flows to members that are actively engaged in housing finance. Based on FHFA’s own analysis in its proposal, there is no doubt that the membership of the FHLBanks is committed to serving their communities’ housing needs, which means there is no need for on-going, asset-based compliance tests.

Not only are the proposed compliance tests unnecessary, they will likely lessen the positive impact of the FHLBanks on our nation’s housing market. By failing to take into account members’ “flow” business and by making membership more costly and burdensome, the proposed tests will reduce the number of members. This means there will be fewer advances, and without the need to satisfy the FHLBanks’ collateral requirements, expelled institutions will have a diminished incentive to acquire housing-related assets. Again, with a proven commitment to housing finance, the proposed compliance tests are unnecessary and should not be imposed on the members of the FHLBanks.

Eaton Federal is also greatly concerned about the proposed prohibition on captive insurance companies. Remarkably, FHFA again presents no evidence in the NPR to establish a legitimate need to ban captive insurers from FHLBank membership. The FHLBI has captive insurance company members, and we are unaware that they present any credit risk or safety-soundness concerns. These members duly exist and are valid insurance companies under Michigan law. They are also subject to the regulatory oversight of Michigan’s Department of Insurance and Financial Services. Captive insurance companies have long existed, yet Congress has not barred them from FHLBank membership. FHFA does not have the authority to overstep Congress and the States by declaring captive insurers ineligible for FHLBank membership. The unilateral elimination of a class of legally eligible institutions sets an alarming precedent. Captive insurers are FHLBank eligible institutions, and until Congress says otherwise, they should remain eligible.

Why do I care about captive insurance companies rights within FHLBI? Well, first, they help contribute to overall FHLBI profitability, with a direct impact on the amount of AHP grants available for our customers. And second, once you set the precedent that captive insurance companies should be excluded by FHFA, what is there to say that later on you won’t decide to limit other legal members in good standing?

The new compliance tests and the captive insurer ban will erode the FHLBanks’ membership base, which directly conflicts with the Congressional history of expanding access to the liquidity of the FHLBanks. Fewer members means lower profits, which means smaller dividend payments to members, reduced liquidity in the housing marketplace, and reduced funds available for the Affordable Housing Program. As we continue to work with the families and businesses of our community to emerge from the Great Recession, now is not the time to make liquidity and community funding more scarce.

For 77 years, Eaton Federal Savings Bank has seen plenty of ups and downs in the U.S. economy and plenty of changes and reforms in the U.S. banking industry. Many of these changes were needed to address pressing issues and have led to great improvements, but others were unnecessary and harmful. FHFA’s proposals, while well-intentioned, are likely to fall into the latter category. Without a proven need for them, they amount to nothing more than regulation for the sake of regulation. This may seem harmless to some, but these changes to the FHLBank membership rules will permanently eliminate an entire class of eligible institutions, will likely eliminate other members due to needless compliance tests, and will create burdens and costs for all remaining members without adding any new benefit to the overall system. For these reasons, Eaton Federal Savings Bank respectfully urges FHFA to fully withdraw the proposed rule.

Sincerely,

Tim Jewell

President and CEO

Eaton Federal Savings Bank