



December 3, 2014

Alfred M. Pollard, General Counsel
Attention: Comments/RIN 2590-AA39
Federal Housing Finance Agency
400 Seventh Street SW, Eighth Floor
Washington, DC 20024

Office of Information and Regulatory Affairs, OMB
Attention: Desk Officer for Federal Housing Finance Agency
Room 10102, New Executive Office Building
725 17th Street NW
Washington, DC 20503

Re: Members of the Federal Home Loan Banks
Notice of Proposed Rulemaking, RIN 2590-AA39 ("NPR")

Dear Mr. Pollard and OMB Desk Officer:

Thank you for the opportunity to comment on the Proposed Rule. I am making these comments from multiple perspectives – as a community banker in Michigan for the last 40 years, as Chairman of Mercantile Bank Corporation and Vice Chairman of Mercantile Bank of Michigan, and as someone who has served as a director of the Federal Home Loan Bank of Indianapolis (FHLBI) for 10 years.

Other commenters will better address issues such as whether the Federal Housing Finance Agency (FHFA) has the legal authority to implement the proposed rule; the stringent review process that all member insurance companies – captive and otherwise – undergo by state regulators and our staff annually, as well as before membership is approved; the extensive policies and practices that have been developed and implemented to assure that advances to insurance members are done in a safe and sound manner; and that one of the key controls in safely lending to insurance members is to thoroughly understand the laws that will be applicable should an insurance member go through rehabilitation, which is based upon the insurance member's Principal Place of Business.

My comments are focused on three areas:

1. the critical role that the Affordable Housing Program plays in helping to provide good quality, safe, and affordable housing for so many low- and moderate-income citizens of our country;
2. the changing nature of the residential mortgage business as we adapt to a "new normal" following the recent Great Recession and all of the new regulations that were promulgated as a result; and
3. the importance of assuring the long term health and profitability of the Federal Home Loan Bank System so as to assure it remains a reliable source of funding and liquidity for its members

Alfred M. Pollard
OMB Desk Officer
December 3, 2014

First, I would like to begin by emphasizing in the strongest terms possible how much appreciation I have gained for the importance of the Affordable Housing Program (AHP). FHLBI has made it a practice for its Board Members to regularly visit projects that have been supported through the AHP and our other grant programs. During my 10-year tenure on the board I have toured dozens of projects that have assisted in providing housing to individuals and families with a wide range of needs. Whether providing funds to help rehab a former religious convent to house battered women in Detroit, or representing the final piece of the financing puzzle for a multi-family apartment complex in a low-income neighborhood in Indianapolis, the AHP program has been a critical component of making things happen. During our tours I have been able to see firsthand how the AHP funds make a real difference in our communities.

I am concerned that the portions of the NPR that eliminate memberships for captives and establish new rules for existing insurance company members will prohibit and/or discourage those members from using the FHLBI as a source of funding for their housing-related investments. This will damage both the reputation of the FHLBI as a reliable source of funding, and the Bank's profitability – which is the life blood of the Affordable Housing Program. I would ask you to withdraw the Proposed Rule to protect the Affordable Housing Program and the important work it accomplishes.

Second, the mortgage business is moving through a fundamental upheaval at this time, and the proposed rule only further complicates the decisions that banks must face regarding portfolio lending. With all of the new rules regarding QM and Non-QM loans, many banks are choosing to either restrict their lending to QM only, or are curtailing their residential lending all together. In particular, many community banks that once thrived on the non-conforming balloon loan and held it in portfolio have curtailed their lending until it is clearer what impact the QM and Ability To Repay rules have in the market, as well as to get through a year or two of regulatory exams to see how federal and state bank regulators approach the additional risk these traditional loans now carry. As a result, both existing and first-time homeowners face a narrower set of financing options with more stringent underwriting standards.

This is precisely the time to be developing additional sources of mortgage funding for the full spectrum of housing, and to ensure that there will be willing investors in the securities that fund our appetite for long-term, fixed-rate financing. As such, I am concerned that the proposed rule will have the unintended consequence of further restricting funding for housing in our country. Insurance companies and captives are long-term investors with an appetite to provide funding to the housing industry, and I think we should be encouraging their investment in housing securities. I do not see any urgency (and evidently neither does FHFA given the proposed five year phase-out of captive members) to implementing this rule at this time. I believe the Proposed Rule will further damage an already fragile mortgage lending environment, and would urge your withdrawal of the rule.

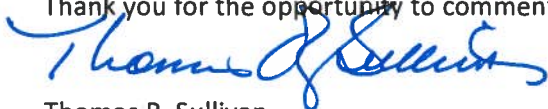
Alfred M. Pollard
OMB Desk Officer
December 3, 2014

Finally, I think it is critically important to review both the purpose of the System and what has happened to the FHLB System over the past few years as we moved through the Great Recession. The system was designed to provide funding for housing, and to assure lenders that when they chose to invest in housing – whether by retaining whole loans or securities on their balance sheet – there would be a mechanism allowing them to “liquefy” the loan/investment when or if necessary. As we moved through the 2006-2010 recession, the system worked perfectly: Federal Home Loan Bank members were able to pledge their loans and/or securities to achieve the liquidity they needed during the most stressful economic period of my 40+ year career; the pricing mechanisms and advance practices employed by the Banks in the System provided that liquidity in a safe and sound manner; and the System’s reputation as a reliable source of funding and liquidity was confirmed (and even enhanced).

Here we are, however, just a few short years later, considering a proposed rule that will: exclude certain members; curtail membership for other members who don’t meet an arbitrary standard; cause the loss of current and future advance business doing damage to the profitability of the Banks, and overall create an environment that will cause members to question the reliability of the System as a source of funding and liquidity. I would request that the Proposed Rule be withdrawn as damaging to the System financially and exposing the Banks to undue reputational risk.

In conclusion, I believe the Proposed Rule runs contrary to the entire mission of the Federal Home Loan Bank System. The timing of the rule will further delay a recovery of the housing market in the country; the rule will make less, not more, funds available for housing and housing investment; the rule will reduce the advance business of the Banks thereby reducing profitability; and the reduced profitability will have an immediate and directly proportional impact on funds available for the Affordable Housing Program. Simply, the Proposed Rule should be withdrawn.

Thank you for the opportunity to comment.



Thomas R. Sullivan
Chairman of the Board of Directors
Mercantile Bank Corporation; and
Vice Chairman, Mercantile Bank of Michigan