



October 23, 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 the opportunity to comment on the FHFA's Notice of Proposed Rulemaking – Members of Federal Home Loan Banks (NPR), and I respectfully request that the FHFA withdraw the NPR.

Macatawa Bank was founded in 1997, and, just two years later, we joined the Federal Home Loan Bank of Indianapolis (FHLBI). With nearly \$1.5 billion in assets, 26 branches, and over 390 employees, we have enjoyed tremendous growth since opening our first branch in Zeeland, Michigan. We have been and continue to be guided by our philosophy of providing highly personalized customer service; maintaining an experienced, knowledgeable staff with decision-making power; and being actively involved in the communities we serve. Reliable liquidity from FHLBI advances and revenue from its Mortgage Purchase Program (MPP) allow us the flexibility to meet our customers' needs and helps us to put our philosophy to work. In short, the benefits of our FHLBI membership have helped fund our growth and community investment.

Our bank enjoys a strong relationship with the FHLBI, and we are not aware of any credit or safety-soundness issues between the FHLBI and its members or in the greater Federal Home Loan Bank system. With no problems to solve, the consequences of the drastic proposals in the NPR are concerning for a number of reasons.

First, the FHLBI will lose members. Of course, the elimination of captive insurance companies will decrease FHLBI membership, but existing and potential members will surely be lost as a result of the new on-going asset-based compliance requirements - the 10% residential mortgage test (10% Test) and the 1% (or higher) makes long term residential mortgage loan test (1% Test). Some will fail one or both of these tests, while others will find that the benefits of membership do not outweigh the financial and opportunity costs of compliance. Shrinking the base of members will reduce the availability of FHLBI liquidity, making it a less reliable funding source for our bank and community.

Second, while Macatawa Bank can presently satisfy the 1% and 10% Tests, maintaining compliance restricts our balance sheet management and adds additional regulatory burdens. The recent economic crisis proved that the flexibility to be able to react to rapidly changing economic conditions is a vital component to a bank's health and ability to weather a storm. We would hate to choose between losing our FHLBI eligibility and taking necessary action to ensure the safety of our bank.


Our MPP participation may be restricted as well. Since mortgage loans sold in the MPP will not be considered in determining compliance with the 1% and 10% Tests, we may need to hold loans that we would have otherwise sold to the FHLBI. This means less MPP revenue for us and the FHLBI, which, again, reduces the FHLBI's liquidity and reliability.

Also, not only is it alarming that the FHFA is considering a higher threshold for the 1% Test, I, and I am sure other members, wonder if and when the thresholds will change again. Just a 1% increase in either test could dramatically affect membership. Again, if adopted, the NPR will hurt the reliability of the FHLBI and the other Federal Home Loan Banks.

Congress established the Federal Home Loan Banks to provide stability and liquidity in the worst of economic times; therefore, it is difficult to understand why, for the first time in the 82-year history of the Federal Home Loan Banks, it is now necessary to impose on-going compliance tests that may force members to make difficult, costly decisions in a bad economy, including terminating membership. The FHFA's proposed changes will have a dramatic and immediate impact on Federal Home Loan Bank membership; we believe such changes, if appropriate, should come from Congressional legislative action and not the unilateral action of the FHFA.

For these reasons, we respectfully request that the NPR be withdrawn. Thank you for your consideration and the opportunity to submit a comment.

Sincerely,



Brett Piehl
Director of Finance
Macatawa Bank