



January 12, 2015

Mr. Alfred Pollard  
General Counsel  
Federal Housing Finance Agency  
400 Seventh St. SW, Eighth Floor  
Washington, DC 20024

Re: Federal Home Loan Bank Membership: RIN 2590-AA39

Dear Mr. Pollard:

The National Association of State Credit Union Supervisors (NASCUS)<sup>1</sup> submits the following comments to the Federal Housing Finance Agency (FHFA) in response to proposed rulemaking RIN2590-AA39, Federal Home Loan Bank Membership. Having reviewed the proposal, NASCUS is concerned that the rule as written runs contrary to prevailing supervisory concerns regarding interest rate risk (IRR) and may diminish available liquidity for some credit unions.

We urge FHFA to reconsider the proposed changes to Federal Home Loan Bank (FHLB) membership.

FHFA notes in the preamble to the proposed rule that the agency seeks to ensure the FHLB system remains true to its mission of providing liquidity to the home mortgage markets.<sup>2</sup> This is a laudable goal. However, we believe the regulation as proposed takes an unnecessarily narrow view of how depository institutions, dedicated to residential and home mortgage lending, manage their balance sheets today.

The FHFA is proposing several changes to its regulations governing FHLB membership and our comments will focus on the proposal to 1) require each member institution to hold 1% of its assets in “home mortgage loans” on an ongoing basis and the proposal to 2) require each member to comply on an ongoing basis, rather than on the current one-time basis, with the requirement (for credit unions and non-community financial institutions) that it hold at least 10% of its assets in “residential mortgage loans.” In our view, the proposed requirements would hamper the ability of some institutions to manage interest rate risk and reduce the availability of liquidity in the credit union system.

#### Interest Rate Risk

Should FHFA finalize the rule as proposed, it would push credit unions to maintain interest rate risk on their balance sheets at the very time many state and federal financial regulators are urging institutions to be mitigating that very risk. In fact, for the last three years, the National Credit

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<sup>1</sup> NASCUS is the professional association of the nation’s state credit union regulatory agencies.

<sup>2</sup> 79 FR 54851 (September 12, 2014).

Union Administration (NCUA) has listed interest rate risk as one of its supervisory priorities for the year.<sup>3</sup> In 2003, NCUA cautioned the credit union system that the system as a whole was exposed to interest rate risk, noting the fact that one in ten credit unions had 25% of their assets in fixed rate first mortgage loans.<sup>4</sup> We do not suggest that maintaining 10% of assets in residential mortgage loans is a de facto unsafe and unsound practice, but we do believe that limiting the flexibility of financial institution to manage interest rate risk by selling long term fixed-rate mortgages into the secondary market is imprudent in the current rate environment.

#### Liquidity

The proposed changes could also have a negative effect on available liquidity for credit unions. True to its purpose, the FHLB system has been a secure source of liquidity for credit unions and other community based financial institutions. The FHLB system, in comment letters submitted to the NCUA in 2012, touted the fact that it provided credit unions over \$43 billion in liquidity from 2007 to 2008.<sup>5</sup> If finalized as proposed, new membership rules could limit some credit unions' access to the FHLB system as those credit unions manage interest rate risk on their balance sheets by reducing the volume of residential mortgages they hold. In turn, the reduced liquidity would dampen the very residential mortgage lending the FHLB exists to facilitate.

#### Community Financial Institution (CFI) Exemption

The FHFA could improve the membership process for the FHLB system by expanding the CFI exemption to include similarly situated credit unions. While the statute provides for the exemption, it does not define a "CFI."<sup>6</sup> The definition is left to the discretion of FHFA, and we urge FHFA to amend 12 C.F.R. 1263.1 to include any community financial institution, including credit unions, meeting the asset threshold within the exemption. Such a change would be wholly consistent with the statutory framework of the FHLB system.

Thank you for considering our comments regarding proposed changes to FHLB membership. The FHLB system remains an integral piece of a healthy and dynamic financial system in general, and the credit union system in particular. We urge FHFA to consider our concerns regarding the detrimental impact of the proposed rule changes, and the benefit of expanding the CFI exemption. We would be pleased to discuss these comments at FHFA's convenience.

Sincerely,

- signature redacted for electronic publication -

Brian Knight  
General Counsel

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<sup>3</sup> See NCUA Letter to Credit Unions No. 15-CU-1, No. 14-CU-02, and No. 13-CU-01.

<sup>4</sup> See NCUA Letter to Credit Unions No. 03-CU-15.

<sup>5</sup> See Federal Home Loan Bank of Topeka "Notice of Proposed Rulemaking – Maintaining Access to Emergency Liquidity" (August 21, 2012) and Council of Federal Home Loan Banks letter to NCUA (September 24, 2012) available at <http://www.ncua.gov/Legal/CommentLetters/CL20120924Wick.pdf> and <http://www.ncua.gov/Legal/CommentLetters/CL20120831Jetter.pdf>.

<sup>6</sup> 12 U.S.C. 1424(a).