

January 9, 2015

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

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

Dear Mr. Pollard:

The Indiana Credit Union League (ICUL) appreciates the opportunity to submit comments on the Federal Housing Finance Agency's (FHFA) Notice of Proposed Rulemaking on Federal Home Loan Bank (FHLB) membership. The ICUL affiliated credit unions represent 97% of assets and memberships of Indiana's credit unions, with those memberships totaling more than two million consumers.

The FHLBs are an important source of wholesale funding to their members, including 34 Indiana credit unions. This liquidity access allows member credit unions to originate residential mortgage loans to consumers at competitive interest rates. We believe the proposal amending FHLB membership requirements is not needed, will likely be harmful to credit unions and is not necessary to preserve the FHFA's statutory mission.

During a time of increased regulatory focus on asset-liability management (ALM), the proposal would impose unfair asset tests on member credit unions, impeding the ability of these credit unions to manage their balance sheet in the best interests of their members. We also oppose the proposal's limited definition of "insurance company." For the reasons discussed below, we urge the FHFA to withdraw the proposal.

**Residential mortgage lending assets are already necessary to access FHLB liquidity and the proposal would extend an unfair membership requirement.**

Two of the requirements for an institution to join an FHLB include making long-term home mortgage loans as defined by the Director of the FHFA and holding at least 10 percent of total assets in residential mortgage loans. Notably, "community financial institutions" (CFIs) – banks that are insured by the Federal Deposit Insurance Corporation and remain below an asset threshold – are exempt from the 10 percent requirement. Member credit unions are insured through the National Credit Union Administration (NCUA); as a result, member credit unions cannot qualify for the CFI exemption.

The proposal would extend these two requirements beyond initial membership qualifications, requiring all members to maintain one percent of assets in home mortgage loans and credit union members (and other non-CFI members) to maintain 10 percent of

assets in residential mortgage loans on an ongoing basis as long as they remain member institutions. First, we note that such a proposal would extend the existing unfairness in the current membership rules, in which certain banks are exempt from the 10 percent requirement, while credit unions of equal size that maintain equivalent federal insurance are not. Instead of restricting membership, the FHFA's focus should be on easing credit union membership rules to create parity with CFI requirements.

Second, the proposal's asset tests are unnecessary. To join an FHLB, a member must buy stock, meet the initial membership requirements, and be subject to random selection to complete a Community Support Statement detailing the institution's residential mortgage lending efforts in the community. A credit union member must also pledge mortgage-related collateral to secure an advance from an FHLB. Further, long-term borrowing for all FHLB members is limited to the amount of the member's long-term residential housing assets. These existing rules effectively require member institutions to maintain significant mortgage-related assets without the additional restrictions and compliance monitoring that the proposal would create.

### **The proposal conflicts with the NCUA's supervisory focus on ALM.**

FHFA's research shows that the vast majority of member credit unions would be in compliance with the proposed asset retention requirements. We feel this conclusion is evidence of the lack of need for the proposal, rather than support for the proposal, which would create harmful effects on credit unions as they face increased NCUA oversight in the area of balance sheet management.

Member credit unions are already subject to regulation and supervisory examination of their ALM procedures by the NCUA. ALM has been and remains a supervisory priority for NCUA. Further, NCUA's proposed risk based capital rule limits concentration in specific asset classes, including mortgages, while FHFA's proposal requires concentration in residential mortgages. The FHFA proposal may present conflicts for credit unions as they work to control interest rate risk and respond to the NCUA's supervisory concerns, especially for smaller credit unions which have less balance sheet flexibility. Negative economic conditions, credit union growth, or a merger may result in a credit union failing the proposed asset tests, losing FHLB membership and, as a result, losing the ability to sell mortgage loans to the FHLB. Loss of income to the FHLBs ultimately reduces their contribution to affordable housing; this result would not coincide with the FHLB mission.

### **There is no Congressional intent to limit insurance company membership.**

The FHLB Act permits insurance companies to become FHLB members. The FHLB Act does not define "insurance company" and a number of captive insurance companies are currently FHLB members. The proposal would restrict membership by excluding captive insurance companies from the definition of insurance company. While we understand the FHFA's concern regarding the nexus that captive insurance companies maintain to residential mortgage lending, we do not feel the current proposal is the solution.

Since its enactment in 1932, Congress has amended the FHLB Act a number of times; those amendments have focused on expanding membership and broadening the FHLB mission. The proposal does the opposite by restricting membership without evidence of any Congressional intent for the limitation. We are concerned that this sets a dangerous precedent for future membership eligibility restrictions through FHFA regulation rather than Congressional action.

Further, restricting membership will result in significantly smaller FHLBs, which will ultimately reduce the liquidity available to promote residential mortgage lending, an important part of the FHLB's mission.

### **Conclusion**

Access to liquidity is important in changing economic conditions and FHLB membership is an important source of liquidity for many credit unions. FHLB membership rules should respect a long history of Congressional action broadening the membership and mission of the FHLB system. Instead, the current FHFA proposal limits insurance company membership and imposes strict mortgage-related asset tests on member institutions, impeding member institutions' flexibility to make asset liability management decisions based on safety and soundness concerns and changing market conditions.

This proposal is unneeded and, ultimately, threatens access to the secondary market for members that do not meet the FHFA's arbitrary requirements. We respectfully request the FHFA withdraw the proposal.

Thank you for the opportunity to comment on the proposal. If you have any questions about our letter, please do not hesitate to give me a call at (317) 594-5320.

Sincerely,

John McKenzie  
President, Indiana Credit Union League