July 15, 2024

Sandra L. Thompson
Director
Federal Housing Finance Agency
400 7th St, SW
Washington, DC 20219

Re: Request For Input: Federal Home Loan Bank Core Mission Activities and Mission Achievement

Dear Director Thompson:

BECU welcomes the opportunity to respond to the Federal Housing Finance Agency's (FHFA) Request for Input: Federal Home Loan Bank Core Mission Activities and Mission Achievement (RFI). BECU is a member-owned, not-for-profit credit union based in Tukwila, Washington, committed to improving the financial well-being of its members and the communities it serves. BECU is one of the largest credit unions in the U.S. with approximately $30 billion in assets and nearly 1.5 million members.

BECU, like many credit unions, looks to the Federal Home Loan Bank (FHLB) system as an important source of liquidity and stability and to FHLBs as a partner in advancing the collective mission to fund community development and housing finance. The FHLBs mission is to provide their members and housing associates financial products and services, including but not limited to advances, that assist and enhance such members' and housing associates' financing of housing, including single-family and multi-family housing serving consumers at all income levels, and community lending.[1] The mission of the FHLB system is completely aligned with the mission of BECU and other credit unions, which provide affordable access to financial services and help their members achieve their financial goals such as homeownership. One of BECU's primary lending products is first lien mortgage, which makes up approximately one third of our outstanding loans.

BECU urges the FHFA to proceed carefully to ensure that changes to the FHLB's mission, membership requirements, the availability of advances, collateral requirements, or the implementation of member incentive structures do not inadvertently reduce access to funding, negatively impact lending activity, increase risk for financial institutions, and destabilize the financial system. The FHFA should exercise caution in making any significant changes to the FHLB system to avoid unintended consequences to an already challenging housing market for consumers. With homeownership rates declining (source: 2023 Census Bureau), credit unions like BECU utilize many resources to support our members in creating pathways to homeownership which includes partnership with the FHLBs.

While fulfilling this statutory mission, the FHLB system is simultaneously a critical part of how regulated financial institutions manage liquidity and funding, especially for longer term funding needs

[1] 12 C.F.R. § 1265.2.

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like mortgages. Because credit unions cannot access the capital markets like other types of depository institutions, FHLB advances serve an even more vital role for a credit union's ability to fund loans and maintain adequate liquidity.

The longer duration of FHLB advances, as opposed to short-term access to funds from a Federal Reserve Bank, is imperative to managing interest rate risk for longer duration loans. FHLB advances directly support BECU's housing-related lending such as first mortgage loans, home equity lines of credit and multi-family lending (including low-income multi-family housing and public/private partnerships), all of which are longer duration loans. In recent years, FHLB advances have been crucial to maintain lending activity and stable liquidity amid lagging deposit growth at financial institutions nationwide. While the Federal Reserve System provides a reliable source of overnight liquidity in all economic environments, it cannot replace the role of the FHLB system because funding long-term loans with short-term borrowings would not be sustainable or prudent.

The FHFA requested input on potential changes to the FHLB system's mission statement, methods for measuring mission achievement, permissible collateral, and member incentive programs designed to provide increased benefits to members that demonstrate a meaningful commitment to housing and community development activity.

The very high degree of reliability of the FHLB system is a critical part of the value provided by FHLBs to member institutions. This stability and reliability enables the FHLB system to play an important role in reducing risk for individual institutions and systemic risk. Additional ongoing membership tests for participation in the FHLB system or limitations on collateral or funding may introduce increased risk to participating institutions because periods of stress often heighten the need for stable sources of liquidity and funding. A member institution should not be cut off from access to FHLB advances because of a temporary fluctuation in business activity due to a change in market conditions or external stress. Limiting the FHLB's ability to provide funding and contingent liquidity would create risk for individual institutions and systemic risks given the widespread dependence of the FHLBs. The FHFA should not impose additional membership requirements, including membership requirements involving an ongoing test of mortgage lending volumes or balances recognizing the cyclical nature of mortgage lending.

The imposition of mission achievement membership tests may have unintended consequences that would negatively impact financial stability, particularly for credit unions. Actions that restrict members' access to FHLB funding would hinder lending, slow economic growth, and increase risk in the financial system if institutions reduce liquidity and pursue less stable, higher risk interbank funding sources. Alternate funding sources, such as interbank funding, often prove unreliable in times of economic stress and without reliable access to the FHLB system liquidity throughout the financial system would evaporate. Again, this concern is particularly acute for credit unions, which have very limited ability to raise capital or obtain additional liquidity.

In markets such as the current market in which the market values of long duration assets are depressed, the FHLBs provide essential liquidity support that allows credit unions to manage their balance sheets in a safe and sound manner without unnecessarily realizing losses due to asset sales. Restricting FHLB access through ongoing mission achievement tests could lead to more failures and deeper recessions, the effects of which would be felt most in lower income communities. Thus, restricting members access to FHLB in the name of mission achievement could have the unintended consequence of reducing the amount of financing available for housing and community lending.

While BECU does not believe mission achievement tests are necessary or appropriate beyond the membership eligibility criteria already in place, if the FHFA pursues the issue it must do so in a manner that appropriately accounts for the cyclical nature of the housing markets; thus, a snapshot view of mission activities would be an inappropriate and faulty measure. Any mission achievement test would have to reflect an assessment measured over a sufficiently long period of time. Mission achievement tests should also not be structured in a way that would require FHLB members to override their business judgment or prudential regulatory considerations in order to maintain access to the FHLBs as a source of funding and liquidity.

For the same reasons, the FHFA should not impose additional constraints on the types of collateral FHLB members can pledge. Additional limitations on the types of high-quality collateral that the FHLBs can accept would limit members' ability to lend in housing-related activities. To ensure that member institutions have adequate access to funding, all FHLB advances should be considered core mission activities and the collateral used to secure advances should not be dependent on a perceived alignment with the FHLB's core mission. Similarly, proposals to limit certain types of collateral to certain advances would increase costs, create an operational burden, and reduce the availability of funding when a member has otherwise adequate collateral. These results would detract from rather than promote support for housing finance and community investment. Other unintended effects of restrictions on collateral could include the resulting disconnect between the asset's collateral value and true market value, increasing risk to the FHLB and encouraging member institutions to hold additional assets on their balance sheets in contravention of prudent risk management.

The imposition of requirements to track and measure mission achievement under new incentive structures would place a disproportionately higher cost burden on smaller institutions, while redirecting resources for all credit unions from achieving core mission objectives. Additionally, large institutions would have a disproportionately higher reward under incentive structures that provide lower FHLB advance rates or higher FHLB stock dividends. This would further reduce the competitiveness of community financial institutions nationwide. Credit union FHLB members, such as BECU, are already closely aligned with the mission of the FHLB system. No further incentive is required to support housing and community lending.

The FHLBs currently contribute a significant portion of their earnings in the form of affordable housing grants distributed through FHLB member institutions. We believe the FHLBs are serving their intended purpose in making housing more affordable at a time when access to housing is critical for many consumers. Additional constraints on the FHLB members should be avoided as it would likely limit the value the FHLB system is currently providing to BECU and the financial system as a whole.

BECU is deeply committed to supporting housing and community lending among its membership and the communities it serves. The FHLB system provides crucial funding and liquidity support in allowing us to meet those needs of our members and communities. We do not believe that the changes to the FHLB's mission, membership requirements, the availability of advances, collateral requirements, or the implementation of member incentive structures are necessary to further those goals. To the contrary, BECU is concerned that many of the proposals could be counterproductive to the extent they would operate in practice to impair the critical funding and liquidity support currently provided by the FHLBs and to financial stability.

BECU appreciates the FHFA's consideration of these comments.

Sincerely,

John Stewart
EVP & Chief Risk Officer