Dear Director Thompson,

Thank you for the opportunity to comment on Federal Home Loan Bank (FHLBank) system at 100. Our credit union is located in Los Angeles and serves a field of membership of students, employees and alumni of universities across the western United States. We have 52,164 members and are 1.206 billion in assets.   We have been members of the FHLBank of San Francisco since October 2019. Operationally, our FHLBank relationship is imperative to our ability to provide affordable financial services. Credit unions, unlike others lenders have limited liquidity sources, making the FHLBanks uniquely important. I will open and close with this point: any changes to the system should be thoughtfully considered about the impact on our cooperative model. Remember, credit unions are not banks, insurance companies, or other types of lenders, with very specific restrictions on our charter.  We grow through retained earnings, and are mission driven.

As with all lending, liquidity is at the heart of our operation. The timing of having the Federal Housing Finance Agency conducting this review as the nation is experiencing a period of high interest rate environment only validates the importance of the FHLBank system. As consumers chase yields, liquidity remains a challenge.

My relationship with our FHLBank begins there with liquidity. We are members for exactly times like these where the economy is questionable, rate environments are rapidly adjusting, and consumer demand for lending has not halted. Rather, as of composition of this letter, our loan demand has grown 37% in year-over-year models.

Having access to affordable liquidity products that can be available on very short notice allows my team the flexibility to adjust to the today’s environment while planning or the future.  To that, as a credit union our model is inherently different from the other members of the FHLBank. In fact, our own mission-drive cooperative model is probably closer to any other member of the FHLBanks than the FHFA may be aware.

To that, a question for the FHFA is what level of coordination has there been between the National Credit Union Administration which regulates federal credit unions, and as the insurer for all but 130 state chartered credit unions? This is a valid point, as regulators tend focus on large bank and community bank lenders. However, according to the FHLBank of San Francisco, there are current 155 credit unions as members of the 330 institutions, representing the largest proportion of FHLBank’s membership. As the numbers of credit unions decline, one would hope the FHFA does not issue any rule or action that limits liquidity services to our industry.

Credit unions of all sizes are growing. Inflationary pressures, housing prices, supply chain issues are all contributing to an increase in prices. For every dollar in deposits, we have a projected outflow of 95 cents. With the likelihood of a recession and increases in delinquencies and hopefully not foreclosures and repossessions, credit unions will experience losses. Losses will lead to consolidation, and the industry would bode well to keep our liquidity providers and lines of credit available.  

To that, the FHFA should examine and compare costs from the remaining few Corporate Credit Unions, the Federal Reserve Discount Window, and the secondary market for brokered deposits and other options. Comparatively, the FHLBanks are more reasonably priced and offer services that meet my needs.

Once again, the FHFA should tread lightly on any changes to membership eligibility, lending requirements, or asset thresholds.

Speaking of asset thresholds, while the FHFA is an agency of the government, as with all regulators that oversee the aspects of the Financial Services ecosystem, I am concerned that the business model and cooperative nature of credit unions if not fully understood. Unlike others in the financial services market place, credit union members must fit a defined field of membership join (again much like the FHLBanks themselves).

Therefore, we cannot serve everyone and anyone in the general public. As mentioned, my particular field of membership serves students, employees and alumni of universities.  Because of our field of membership, our charter restricts our ability to raise capital to retained earnings alone. Once again, without affordable liquidity, there are further pressures on retained earnings. If the objective is to make lending more accessible and affordable for working families, the FHFA would be working to grow access to the FHLBanks and not restrict it. Any restriction would likely bring about service fees, which are also under review by the Consumer Financial Protection Bureau. If the FHFA were to increase mandates, thresholds, and requirements for product use and or membership requirements, this will lead to an inverse reaction resulting in higher costs to the consumer eventually us moving to a third-party organization for certain lending products.

We serve our field of membership as our reason for existing. This is what makes us different no matter if we are $40 million or $40 billion in assets. We serve our membership, our community and therefore are always a community-based lender. I hope this is something the FHFA will note in your report.

The FHFA should also look to increase credit union participation in the FHLBanks by understanding and investigating our model further, recognizing that as community-based financial institutions our needs are different, and ensuring credit unions have a say at all FHLBanks. I know my industry currently has, three voices on the FHLBank San Francisco board of directors.

In closing, I hope future actions of the FHFA will be thoughtful, considerate, and most of all comprehensive in understanding how my FHLBank supports my credit union’s objective. The FHFA should be looking to increase access for our model and not restricting it.

Thank you,

**David L. Tuyo II, MBA, DBA**

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