California CREDIT UNION LEAGUE NEVADA CREDIT UNION LEAGUE

March 30, 2023

The Honorable Sandra L. Thompson
Director
Federal Housing Finance Agency
400 7th Street, SW
Washington, DC 20024

Re: Comments – FHLBank System at 100: Focusing on the Future (2023)

Dear Director Thompson:

I am writing on behalf of the California and Nevada Credit Union Leagues (Leagues), whose combined strength makes up one of the largest state trade associations for credit unions in the United States, representing the interests of approximately 230 credit unions and their more than 11.6 million members.

The Leagues appreciate the opportunity to comment on the Federal Housing Finance Agency's (FHFA) comprehensive review of the Federal Home Loan Bank (FHLBank) System titled – "FHLBank System at 100: Focusing on the Future (2023)."

There are currently 11 regional FHLBanks supporting more than 6,000 credit unions, banks, insurance companies, and community development financial institutions with necessary lending services to serve people, families, businesses, and communities. Nearly 138 of California and Nevada Leagues members proudly partner with the Federal Home Loan Bank of San Francisco (FHLBank San Francisco) for liquidity access to advance local communities through affordable lending resources. In fact, California maintains the largest concentration of credit union assets in the FHLBank San Francisco region, in addition to having more credit union members than any other FHLBank in the system.

To maintain the FHLBank system access for California and Nevada credit unions and encourage further participation and stronger community impact, we respectfully offer our following comments.

General Comments

Liquidity Access

The FHLBank system is comparable to credit unions in that both are: (i) mission-driven cooperatives; (ii) have assets of approximately the same proportion; and (iii) have tax exempt status. However, what differs between FHLBanks and credit unions is that credit unions must expand through retained earnings. While regulators, such as the Consumer Financial Protection Bureau (CFPB), continue their focus on limiting sources of fee income, credit unions must work tirelessly to grow their capital and find means of return to benefit their members. For this very reason, we strongly recommend the FHFA resist the urge to limit or restrict any access point to liquidity.

The FHLBanks are a critical source of liquidity for credit unions. Banks may have more available liquidity options, such as "at cost-brokered deposits" or from other secondary market providers. Credit unions, on the other hand, may be limited to member deposits, regular cash flow, and the occasional public deposit.

Access to Credit

Moreover, because of their unique structure, credit unions must adhere to their defined field of membership requirements. As a result, any restrictions or limitations imposed by the FHFA on access to FHLBanks would effectively cut off access to the specific fields of membership that those affected credit unions serve. In fact, this could make it more difficult for credit unions to deliver vital credit opportunities to their communities, particularly those who are underserved, as higher costs to access funds would result in a higher overall cost of lending. Ultimately, by restricting or limiting access to the FHLBanks, the FHFA could potentially cause unintended harm by driving up the cost of lending in the very areas that it aims to serve.

Asset Cap

Therefore, the FHFA should resist any urge to place an asset cap or tier membership at the FHLBanks. As the region with the fastest growing number of $10 billion credit unions, we believe that a subsequent cap on asset size would negatively impact credit unions and cause them to be at a disadvantage against other larger sized institutions and community bank lenders. Without the affordable liquidity sources provided by the FHLBank system, a cap on the asset size would significantly reduce the ability of larger credit unions to grow, and this slowed growth would in turn increase the chances of consolidation. Those mergers will inversely create larger credit unions that will fall victim to asset-sized caps and further FHLBank related restrictions.

Affordable Housing Mission

In addition to liquidity, the FHFA is also asking whether the FHLBank system has a dual mission to provide affordable housing, as well as to keep liquidity in the FHLBank system to support homeownership. The Leagues represent credit union members in two high-cost-of-living states with multiple large city and urban areas. In addition, they represent a considerable number of rural and underserved communities. The FHLBanks have exceeded their mandate to provide 10 percent of net income to affordable housing projects. In fact, these FHLBank credit union members are serving the housing needs of their communities in a variety of ways through partnerships in down payment assistance, regional development, and low income and minority community programs offered by the FHLBank San Francisco. All these activities help to create the economic foundation for housing opportunity. These various roles that FHLBank members play in local economies strengthen the FHLBank system and should be embraced. In addition, ensuring that liquidity needs are continually being met means net profits can continue to be used for affordable housing projects.

And, as noted above, as credit unions continue to work toward eliminating a reliance on fee-based income, accessing the FHLBank San Francisco's Affordable Housing Program's (AHP) solutions will allow them the opportunity for growth and expansion apart from non-interest income.

Conclusion

As the FHFA moves forward with its review, we would urge caution in making any widespread changes to the FHLBanks that could adversely impact credit unions that are members of the FHLBank San Francisco. We thank you again for the opportunity to comment, and for considering our views. If you have any questions regarding our comments, please do not hesitate to contact me.

Sincerely,

Diana R. Dykstra
President and CEO
California and Nevada Credit Union Leagues

2855 E. Guasti Road, Suite 202 • Ontario, CA 91761-1250 • 909.212.6000
www.ccul.org • league@ccul.org