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March 31, 2023

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

RE: Comprehensive Review of the Federal Home Loan Bank System Wrap Up Listening Session

Dear Director Thompson:

The Credit Union National Association (“CUNA”) represents America’s credit unions and their more than 130 million members. On behalf of our members, we are writing as a follow up to our initial response to the Federal Housing Finance Agency’s (“FHFA”) review of the Federal Home Loan Bank System (“FHLBank”) after numerous roundtable discussions and listening sessions. CUNA applauds the role FHLBanks have played over the last 90 years in (i) serving as critical sources of liquidity for their respective members and (ii) offering a number of beneficial programs to their respective members, including, but not limited to, the Affordable Housing Program (“AHP”), the Community Investment Program, and the Community Investment Cash Advance Program, among others. CUNA welcomes the FHFA’s efforts to conduct a comprehensive review of the FHLBanks’ operations and mission, and thanks the agency for its thorough work in seeking feedback during this process.

Background

As member-owned, not-for-profit financial cooperatives, America’s credit unions are at the heart of the FHLBanks’ and Government-Sponsored Enterprises (“GSEs”) respective statutory missions. The FHLBanks were chartered in 1932, with a mission “to provide reliable liquidity to member institutions to support housing finance and community investment.”¹ In 1934, the Federal Credit Union Act was enacted, allowing federally chartered credit unions to promote thrift among their members and meet the credit needs of low- and moderate-income borrowers who had difficulty obtaining financing from a traditional bank.² In 2008 during the Great Recession, the Housing and Economic Recovery Act of 2008 established the FHFA and included FHLBanks and GSEs within its supervision and jurisdiction.³ In particular, the FHFA was statutorily empowered

¹ See *FHLBanks’ Mission*, available at <https://FHLBankanks.com/mission/>.

² 12 U.S.C. § 1751 *et al.*

³ 12 U.S.C. § 4511 *et al.*

to ensure that FHLBanks and GSEs served as reliable sources of liquidity to their respective members as well as provided low-cost funding and opportunities for affordable housing, housing finance, and community investment purposes, among others.⁴ In granting FHFA the power to oversee the FHLBanks, Congress expressly directed the FHFA to consider the FHLBanks existing mission of providing liquidity to members, as well as its affordable housing and community development mission.⁵

Today, credit union members continue to derive significant benefits from credit union membership in the FHLBank system. Credit union members continue to rely upon credit unions for their financial needs, including, but not limited to, the refinancing, renovation, or acquisition of their homes, particularly during times of market distress, as seen during the COVID-19 pandemic and the current economic climate riddled with inflation. For context, 1,564 credit unions, of a total of 4,853, are members of a FHLBank. These FHLBank-member credit unions account for \$1.9 trillion (or 90% of all federally-insured credit union assets) and cover 117 million members (representing 88% of all credit union members).⁶

The FHLBanks provide member credit unions with critical funding and liquidity, allowing them to effectively provide affordable credit to their communities. In many cases, credit unions serve as key providers of liquidity to consumers and entities located in rural communities that have few options for obtaining such forms of liquidity. In 2021 alone, credit unions originated more than \$182 billion in first-lien mortgages, selling over 31% into the secondary mortgage market.⁷ As of June 2022, 139 credit unions reported an aggregate of \$7.6 billion in loans transferred pursuant to the FHLBanks' Mortgage Partnership Finance Program ('MPF'), which serves to provide members with competitive secondary market options through various mortgage product offerings.⁸ Further, 2020 and 2021 HMDA data indicates that credit unions generally originated more mortgage loans to low-income and middle-income borrowers as opposed to community banks, mortgage banks, or larger institutional banks.⁹

The liquidity provided by the FHLBank system, together with several programs related to affordable housing and community development, has been instrumental in furthering credit unions' role in fostering increased residential mortgage originations to all sectors of society, ranging from low-income homeowners, persons of color, veterans, and other underserved groups. This data demonstrates that credit unions remain critical beneficiaries of the FHLBank system and are effective stewards of the funding and other services directed by the various FHLBank as they serve to advance their statutory mission. CUNA hopes that the remarks by credit union industry

⁴ *Id.*

⁵ 12 U.S.C. § 4513(f)(1)(A)-(B).

⁶ FHLBank Membership List (June 30, 2022); National Credit Union Administration (NCUA) Credit Union Call Report data (2022 Q2); CUNA analysis.

⁷ NCUA Credit Union Call Report data (2021 Q4); CUNA analysis.

⁸ NCUA Credit Union Call Report data (2022 Q3); CUNA analysis.

⁹ See *HMDA Data Publication*, available at <https://ffiec.cfpb.gov/data-publication/2020> (2020); See *HMDA: Credit Unions Lend to Lower-Income Americans*, available at <https://www.cutimes.com/2022/08/19/hmda-credit-unions-lend-to-lower-income-americans/> (August 2022).

representatives reinforced the fact that credit unions are vital to the housing market; in particular, because of the role credit unions play in providing low-income to moderate-income consumers and families with opportunities to obtain credit for home acquisition, refinancing, renovation, and other similar purposes, each of which is central to the FHLBank system's mission. Last fall CUNA previously offered thoughts on the review process¹⁰ and now offers the below following feedback.

Credit Unions Report General Satisfactions with the FHLBank System

Generally speaking, credit unions report satisfaction with the FHLBank System, while clearly identifying some opportunities for improvement. Credit unions report that their FHLBank is proactive in meeting their liquidity needs, particularly in times of crisis. In the wake of the Silicon Valley Bank collapse, multiple credit unions reported outreach by their FHLBank to ensure that liquidity needs are being met. Further, credit unions report that the FHLBanks actively pursue partnerships and programs to address the specific needs of low-income and underserved populations in their jurisdiction.

Prime opportunities for improvement include modernization of FHLBank technological systems and user interfaces, improvements to delivery and reporting processes, and programmatic changes to improve flexibility and ease of the AHP. Further, credit unions have expressed support for some suggestions made during the roundtables, including the creation of a grant program designed to address backroom operations or technical assistance for smaller credit unions and community development financial institutions (CDFIs).¹¹ Credit unions have repeatedly reiterated that changes to the FHLBanks' discretion to serve the unique needs of their specific regions or which could negatively affect the flexibility of their balance sheets would significantly reduce the value of the FHLBank system and should be avoided.

The FHFA Should Take a Broad, Holistic Approach in Considering What Activities Contribute Towards Its Missions of Affordable Housing and Community Development

Credit unions rely on the FHLBank system as it is constituted today as a major source of liquidity and flexibility, particularly to serve their underserved and low-income members. Various changes have been suggested throughout the process that are deeply concerning to CUNA and credit unions. FHFA Director Sandra Thompson has also indicated concern regarding the use of FHLBank advances being insufficiently connected to housing finance activity.¹² Specifically, the Director raised concerns regarding FHLBank advances being used for balance sheet purposes

¹⁰ See Comments of Credit Union National Association to FHFA, available at <https://news.cuna.org/ext/resources/NewsNow/2022/10-2022/Comment-Letter--FHFA-Comprehensive-Review-of-the-FHLBank-System.pdf> (Oct. 31, 2022).

¹¹ See Comments of Tony Lentych, Traverse City Housing Commission and Joseph Reilly, Community Development Trust, FHLBank System at 100: Focusing on the Future – Member Products and Services – Detroit Regional Roundtable (Mar. 3, 2023).

¹² FHFA Director Sandra L. Thompson, Keynote Fireside Chat, Forum on the Future of the Federal Home Loan Bank System, Washington, DC (Feb. 10, 2023), <https://www.brookings.edu/events/forum-on-the-future-of-the-federal-home-loan-bank-system/>.

rather than to directly fund home lending or community investment activity.¹³ Reportedly, it has also been suggested that the FHFA may require an attestation to ensure that FHLBank advances are used to directly fund housing activity. This suggested proposal threatens credit unions' ability to leverage the FHLBank system in exercising their greatest strength in serving their membership: a holistic approach as financial cooperatives which offer a wide range of depository and lending products in combination with educational and consultative services.

Further, some commentors have discussed the possibility of a tiered membership.¹⁴ Multiple potential tiering criteria and affected forms of access to the FHLBank advance availability and pricing have been mentioned as possibilities. This is a very concerning concept for credit unions. Credit unions are often comparatively smaller financial institutions and tiered structures based on quantitative metrics such as lending volume typically produce unfavorable results for credit unions. Due to credit unions' democratic governance, cooperative structure, and unique legal framework, they often do not fit well into other types of tiering criteria intended for banks or loan funds. Credit unions would discourage the FHFA from considering tiered membership benefits in the strongest terms possible.

Discussion in roundtables has also suggested requiring an ongoing test of housing asset level to ensure members are an active housing finance participant.¹⁵ This test may exclude Mortgage Backed Securities (MBS), relying only on whole mortgage loans. This suggestion is deeply concerning to credit union as well. The share of mortgage loans on an individual credit unions' balance sheet varies significantly in response to market conditions or whether they have credit union service organizations which might retain the loan on their books. It would be a mistake to disadvantage credit unions that are filling a critical need for safe and affordable products because they do not retain a sufficient threshold of mortgage loans in portfolio on an ongoing basis. As consumers and small businesses throughout the country continue to grapple with inflation and a stagnant economy, forcing credit unions to retain loans on their books in order to maintain sources of liquidity could have a very negative effect on the health of credit union balance sheets and divert resources from members when they need them most.

Broadly speaking, CUNA understands the concerns regarding the appropriate nexus between FHLBank activity in general and the housing affordability and community development missions of the FHLBank system. However, the ideas raised to address that nexus appears short-sighted from the credit union perspective. Credit unions have a more consultative approach with their members, who are more than twice as likely to report that they received personalized financial education or counseling.¹⁶ This holistic approach to members' financial well-being pays off.

¹³ *Id.*

¹⁴ See Comments of the National Community Reinvestment Coalition (NCRC) to FHFA, available at <https://ncrc.org/ncrc-calls-for-reforms-to-federal-home-loan-bank-system/> (Oct. 31, 2022).

¹⁵ See FHLBank System at 100: Focusing on the Future Roundtable Discussion — Philadelphia – (Dec. 15, 2022).

¹⁶ CUNA, Credit Unions Lead in Improving Financial Well-being For All (FWB White Paper), p. 2 (May 2022), available at https://www.cuna.org/content/dam/cuna/advocacy/fwbfa/documents/CUNA_WP_CUs_Lead_Improving_FWBFA_May_2022.pdf.

Ninety percent of credit union members report that their credit union makes it easy for them to manage their finances.¹⁷ People of color who don't use credit unions are twice as likely than people of color who are credit union members to say that they don't have emergency funds of at least \$500.¹⁸ In 2022, credit union members enjoyed a lower rate on their 30-year fixed rate mortgages by an average of a 0.25%.¹⁹ They also enjoyed paying a lower rate by 0.43% on their second mortgages, 4.94% on their rewards credit cards, and 0.58% on their 60-month new car loans.²⁰ Eighty-eight percent of credit union members state that their credit union has improved their financial well-being.²¹

Affordable housing is a shared goal for credit unions, however, that goal of homeownership is best attained through a holistic approach to the financial well-being and stability. This requires balancing the overall affordability and credit access to multiple products and services that consumers need in their daily lives alongside tailored, responsive counseling that meets individual needs. Making loans of any type to members that represent more risk on paper requires flexible access to liquidity. Credit unions report that they currently rely heavily on the FHLBank System for that flexible access.

Directly conditioning that access to the quantity of mortgage loans or limiting use of the funds for mortgage lending and community investment will limit a credit union's ability to serve members and significantly reduce the appeal of FHLBank membership. It will reduce credit unions' ability to meet members where they are in favor of turning the FHLBank into a facility with an overly narrow focus only on housing-related products. Credit unions are almost always a consumer's safest and most affordable option for credit and services. Disrupting their work will harm consumers.

Liquidity Matters

Credit unions have been vocal that the FHLBank System provides a critical source of liquidity that aids credit unions in serving the needs of their membership in all environments. FHLBank membership helps small and larger credit unions by lowering mortgage rates and increasing mortgage lending. FHLBanks provide robust support for the housing markets with members holding 40% of MBS in 2021. The historic collapse of Silicon Valley Bank and Signature Bank, on the heels of the liquidation of Silvergate Bank, has further underscored the point that liquidity matters, particularly for smaller financial institutions. Many financial institutions turned to the FHLBank system during times of uncertainty over the past few weeks, as they did during the uncertainty of the pandemic. The FHFA should not do anything to disrupt the work of the FHLBank

¹⁷ *Id.* at p. 5.

¹⁸FWB White Paper, *supra* 15, at p. 6.

¹⁹ CUNA, Membership Benefits Report, p. 6 (Year-End 2022) available at https://www.cuna.org/content/dam/cuna/advocacy/cu-economics-and-data/analysis-and-calculators/National_MemberBenefits.pdf.

²⁰ *Id.*

²¹ FWB White Paper, *supra* 15, at p. 4.

system²² in carrying out its mission to provide liquidity, particularly in light of recent events. In short, now is certainly not the time to start reimagining the mission of a system that has worked successfully for decades. While improvements can and should be made to any process over time, the FHLBank system is not in need of any drastic overhauls.

Conclusion

Thank you for this opportunity to comment on the FHFA's review. If you have questions, or if we can be of any assistance, please do not hesitate to contact me at (202) 503-7184 or esullivan@cuna.coop.

Sincerely,

A handwritten signature in black ink that reads "E. Sullivan". The signature is written in a cursive style with a large, prominent initial "E".

Elizabeth M. Sullivan
Senior Director of Advocacy & Counsel

²² The FHLBank system issued \$112 billion in debt in one day after the collapse of Silvergate Bank and more than \$304 billion a week later.