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October 30, 2014

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

Re: Notice of Proposed Rulemaking; Request for Comments – Members of the Federal Home Loan Banks

Dear Mr. Pollard:

We are submitting this comment to express our concerns about the Federal Housing Finance Agency's ("FHFA") notice of proposed rulemaking and request for comments on "Members of the Federal Home Loan Banks" published on September 12, 2014. For the reasons described below, we respectfully request the withdrawal of this proposal.

Central City Credit Union has been in existence since 1949 when it started as a closed charter credit union serving a Catholic parish in Marshfield, Wisconsin. We have grown to be a community charter credit union serving over eight counties and several select employee groups. We have over 23,000 members and have grown to over \$205 million in assets. We serve a very important need in our community by being a very strong mortgage lender in the area. We also have a large portfolio of consumer and small member business loans, many of which are one to four family residential housing units. We became a member of the Federal Home Loan Bank of Chicago in 2013 so that we could offer our members the advantages of the FHLB's various housing programs as well as to have a line of credit to use for lending purposes if a liquidity need should arise.

We value our membership in the FHLB of Chicago and view it as a key partner in our success. For a credit union such as ours, access to FHLB of Chicago advances is critically important because the liquidity allows us to offer an array of loan products to our members that we might not otherwise be able to offer. The FHLB of Chicago's products such as advances, letters of credit and the Mortgage Partnership Finance[®] Program are tremendous resources that enable us to effectively compete with much larger financial institutions, resulting in more choices and better service for our members wishing to buy homes or get needed business financing.

The proposed rule concerns us because it would impose on-going requirements on our credit union to remain a member of the FHLB of Chicago. The proposal would require us to hold at least 10 percent of our total assets in residential mortgage loans at all times. Although this would not be a problem for us right now, an additional test would require the maintenance of at least 1 percent, or possibly as much as 5 percent, of our assets in a separately defined group of long-term home

mortgage loans. Failure to meet either proposed test would result in the eventual termination of our membership.

The practical consequences of the proposal would be very severe and disruptive. To begin with, our ability to rely on the liquidity provided by the FHLB of Chicago, particularly in times of economic distress, would be seriously undermined if the FHFA is allowed to establish requirements we must meet simply to remain an FHLB of Chicago member. This has never been the case in the 82-year history of the FHLBs. Membership in the FHLBs has been steadily expanded by Congress over the years, never contracted. With the imposition of such a requirement, we could never be assured that when the next financial crisis occurs we will have continued access to FHLB of Chicago liquidity. We would have to turn to other sources of liquidity that may not be available in a systemic crisis.

The proposal effectively would require a portion of our balance sheet to be devoted to long-term home mortgage loans (meaning a term to maturity of five (5) years or greater) as a condition of remaining an FHLB of Chicago member. Even if we meet the proposed threshold today, we would need to manage our balance sheet with the proposed requirements in mind going forward. Basing future decisions on that could cause our asset allocation to become over-invested in housing related assets at the expense of consumer loans, business loans or other asset classes. This might also unduly expose us to the interest rate risk associated with holding long-term, fixed-rate mortgage loans. This result also would contradict the intent of Congress, which has explicitly recognized the FHLBs' mission of providing liquidity to members without limiting that purpose to housing finance. By seeking to establish a housing finance nexus that all FHLB members must meet, the proposal does not appear to recognize the legitimate uses of FHLB funding beyond housing finance activities.

We are also concerned about the proposed rule's disparate treatment of credit unions and community banks. While the proposal would require all credit unions maintain at least 10 percent of their total assets in residential mortgage loans, only banks with assets above \$1.108 billion would be subject to the same on-going requirement. Smaller banks, designated as community financial institutions, are not subject to the 10% test and thus requiring credit unions to continually satisfy this 10% requirement would be fundamentally unfair and would disadvantage smaller credit unions in particular.

We also are very concerned this proposal could lead to the politicization of FHLB membership. If the FHFA can require ongoing eligibility requirements for members, nothing would prevent it from increasing those thresholds, or imposing entirely new requirements, in the future. This proposal might simply be the first of many such eligibility requirements imposed upon FHLB members, purportedly in an effort to ensure a sufficient housing finance nexus is maintained at all times by members. The FHFA director is a political position, appointed by the President and confirmed by the U.S. Senate. What would prevent a future FHFA director from requiring FHLB members to hold yet more housing loans or other types of assets on their balance sheets in order to achieve a certain political agenda? Such fears are not unfounded. Past Administrations from both political parties increased housing goals for Fannie Mae and Freddie Mac in an effort to increase the level of homeownership and serve politically favored constituencies, with disastrous results.

A similar concern exists as to the ability to terminate the memberships of current FHLB members without any showing of cause. Under the proposal, the current memberships of captive insurance companies would be terminated regardless of the amount of home mortgage loans they hold on their balance sheets. This would occur despite the fact that captives are insurance

companies, which have been eligible to be FHLB members since the FHLBs were created by Congress in 1932. If the FHFA can terminate the memberships of a certain class of insurance companies, what if anything, would prevent the FHFA in the future from terminating the memberships of other types of current members, such as our credit union, for any reason the FHFA sees fit. Such an outcome would destroy any confidence in the FHLBs as sources of stable and reliable liquidity.

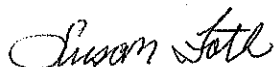
The overall intent of this proposal seems to restrict and narrow FHLB membership, resulting in fewer members. As some members have their memberships terminated, and others are forced to reduce their usage of the FHLB of Chicago, we are concerned about the destabilizing effects that would result. These actions will inevitably lead to smaller FHLBs with fewer assets, reduced profits, lower retained earnings, and a decreased market value of equity and capital stock. Additionally, as usage contracts and profits decline, fewer dollars will be available to support the FHLB of Chicago's affordable housing and economic development programs. Our institution's ability to serve our members and community through valuable products such as the FHLB's down payment assistance grants, Community Investment Cash Advances and Affordable Housing Program grants would be harmed.

Beyond these destabilizing effects, it seems that this proposal does nothing to help strengthen the overall financial system. Especially since the financial crisis, the National Credit Union Administration (NCUA), has emphasized the importance of access to reliable liquidity sources in an effort to strengthen the credit union system. The availability of same-day funding offered by the FHLBs can play a critical role in supporting and stabilizing credit unions during times of economic stress and is actually included in current liquidity policy. Yet this proposal contradicts the effort to strengthen the credit union system by undermining our ability to rely on the FHLB for funding. In so doing, it threatens to weaken the broader financial system while doing nothing to help prevent a repeat of the financial crisis.

In conclusion, we view the FHLB of Chicago as a valuable partner for our credit union. Its reliability as a liquidity source must be preserved. Threatening access to the FHLB of Chicago threatens our institution, our members and our community. This proposal would undermine the reliability of the FHLB of Chicago, discourage membership, treat us differently from community banks, politicize FHLB membership, limit access to the secondary market and shrink the FHLB of Chicago's affordable housing and community development activities. It will do nothing to help the effort of the NCUA to strengthen the credit union system or of the Administration and other to repair the struggling housing markets. Despite these real and damaging effects, there appear to be no specific benefits that would be achieved by this proposal. The costs clearly outweigh the benefits. For these reasons, we strongly urge the immediate withdrawal of this proposal.

We appreciate the consideration of our views.

Sincerely,



Susan Foth
Executive Vice President - Operations
Central City Credit Union