From: Marv.Elenbaas@dfcufinancial.com
Sent: Thursday, November 20, 2014 3:17 PM
To: !FHFA REG-COMMENTS
Subject: Comments/RIN 2590-AA39,

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

Thank you for the opportunity to comment on RIN 2590-AA39, Notice of Proposed Rulemaking regarding Members of Federal Home Loan Banks. DFCU Financial is a $3.7 billion credit union headquartered in Dearborn, Michigan and serving members located in the lower peninsula of Michigan.
DFCU Financial is a member of the Federal Home Loan Bank of Indianapolis (FHLBI). In addition to being a member and receiving the rewards of such membership, DFCU Financial sells certain mortgage loans to the FHLBI, has an unused $250 million secured line with the FHLBI and, in the past, borrowed from the FHLBI; all to help fund single family residential lending activities of the credit union.

Our views on the proposed rulemaking are that it is unnecessary. We
believe that all current members of FHLBs, and members of the FHLBI in particular, support single family residential home ownership by owning investment securities backed by single family residential loans, by selling single family residential mortgages to a FHLB, by borrowing from a FHLB (collateralized by single family residential loans and/or investment securities backed by single family residential loans), or by investing in a FHLB and thereby providing the capital necessary for the FHLB to perform its mission.

We believe requiring certain asset-based metrics for members is inappropriate for several reasons. First, as noted above, we believe all current members support single family residential lending through ownership
of FHLB stock and through transactions/activities with the FHLB. Second,
we believe requiring members to meet certain asset tests to qualify for continuing membership may conflict with member policies related to interest risk management. Holding long-term fixed rate mortgages on our balance sheet to meet membership requirements poses interest risk to us, especially in this low rate environment. We currently sell all qualifying long-term fixed rate mortgages to manage our interest risk. The new membership requirement may inappropriately inhibit our interest risk management.
Third, we have further concerns with metrics that trigger membership dismissal. If a member is using a FHLB-collateralized line as part of its liquidity plan, but that line could be withdrawn due to membership dismissal, we are unsure that the line will qualify as an assured source of liquidity.
Fourth, and still further, we are concerned whether members investment in a FHLB can qualify as FHLB capital, since it would have a mandatory redemption clause. Generally, capital for regulatory and accounting purposes, must have an indefinite life.

If the FHFA chooses to require metrics for membership, we believe that proposed metrics do not appropriately include off-balance-sheet single family residential assets. In particular, we point to single family residential mortgages originated and sold to a third party (e.g., Fannie).
These off- balance-sheet assets support single family residential lending the same way as on-balance-sheet (retained) mortgages, yet the proposed rule excludes such assets from those qualifying for membership. This is inappropriate.

In addition, if the FHFA chooses to require metrics for membership, we support the proposed change to include mortgage-backed securities, other than pass-throughs, as qualifying assets. Such assets support single family residential lending, so should be included for purposes of membership metrics.

Several provisions of the proposed rule-making pertain to insurance companies. (1) It is unclear why the FHFA is proposing to dismiss long-standing members in a FHLB. We are not aware that insurance companies create undue risk for a FHLB or have prevented a mortgage-originating member from access to any products or services of a FHLB. (2) As to the principal place of business of an insurance company, we are confused as to why that is important for an insurance company but not for any other member. Member financial institutions, while headquartered in a certain place, often do business where customers lead them. For instance, some financial institutions headquarters are no longer in the same state as their principal operations due to mergers and differing state growth rates.
(3) The prohibition against captive (do not underwrite for unaffiliated
organizations) insurance company membership is also confusing. Most activities with these members are advances, which are collateralized with Treasuries and/or single family residential qualifying assets. The concern that captive borrowings are intended for use elsewhere in the insurance parent is illogical, since the captive borrowing must be fully collateralized. (4) Insurance company investment in a FHLB, just as any other financial institutions investment, provides capital for the FHLB to perform its mission.

Finally, the FHLB provides key support to smaller financial institutions, particularly since these institutions normally do not have access to capital markets. Smaller financial institutions support local communities, and small businesses and residential borrowers in those communities. We believe that this proposal could result in less capital at FHLBs, which would reduce support for these institutions.

In conclusion, we believe the proposed rulemaking will likely hurt the single family residential market by removing participants, and creating an unnecessary threshold for membership, as delineated above.

Thank you for the opportunity to comment. If you wish to discuss any of these comments with us, please call.

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