

VERMONT FEDERAL CREDIT UNION

December 2, 2014

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

Re: Notice of Proposed Rulemaking and Request for Comments – Members of Federal Home Loan Banks (RIN 2590-AA39)

Dear Mr. Pollard:

The Federal Housing Finance Agency has requested comments on a notice of proposed rulemaking on Federal Home Loan Bank membership requirements. We appreciate the opportunity to submit this comment on the Proposed Rule.

Our first reaction was to question what problem(s) the Agency is trying to solve. We have a strong and viable financial institution base in New England as well as a strong Federal Home Loan Bank that has been supporting the region extremely successfully for more than 80 years. We are not aware of any credit loss or any safety and soundness issues that the Federal Home Loan Banks have experienced associated with doing business with FHLBank members.

We are concerned that the proposed changes would significantly increase FHLBank membership requirements for existing and prospective members, thereby reducing the availability and negatively affecting the reliability of liquidity on which we depend. Moreover, stricter requirements will call into question our ability to borrow under all future economic scenarios. The proposed changes will not only make certain members ineligible for membership, it would discourage potential members from joining. The net effect would be to inhibit the FHLBanks' ability to serve the liquidity and housing and community development needs of their districts.

While we are well positioned to meet the proposed requirements, some credit unions and other classes of financial institutions are not in this same position. The FHLBank's cooperative structure depends on a diverse membership. Credit union memberships in the FHLB Boston alone has increased in just the last two years from approximately 33% to 35% of the total membership base. Efforts to raise eligibility requirements would not only slow or reverse this trend but also potentially decrease the entire membership base of the FHLBank system.

During the nation's recent financial crisis, when dislocations in the capital markets made funding from other sources difficult, the FHLBanks were a critical source of liquidity for us. Policies that would unnecessarily restrict FHLBank access, such as the proposed membership changes, could have had serious consequences had they been in effect by needlessly removing current members in good standing and exacerbating the harmful effects on financial institutions and our economy.

Vermont Federal Credit Union in Burlington, Vermont is just one of more than 440 members of FHLB Boston. As of June 30, 2014, we have collectively borrowed more than \$30 billion in advances and own more than \$3 billion in capital stock. These numbers would certainly shrink with the loss of members that fail to meet the proposed membership requirements. The net effect would result in less economic activity in New England and a corresponding slowdown of FHLB Boston's members' ability to assist in the economic recovery and future economic cycles.

The Federal Home Loan Bank Act includes requirements to become a member of an FHLBank. In the past, Congress has taken action to amend the Act in ways that have expanded membership and expanded eligible collateral. Congress has not sought to require continuous testing of such requirements or a percentage of assets to demonstrate a commitment to housing finance. We believe that it is Congress' purview to do so, not the Federal Housing Finance Agency's.

As proposed by the Agency, ongoing compliance with membership requirements would impose additional regulatory burdens on FHLBank members and add an element of uncertainty to FHLBank membership. We would be required to manage our balance sheet to make certain we have ample assets to meet the proposed membership requirements to ensure access to FHLBank funding products. As a result, if the Proposed Rule were adopted, the FHLBanks would be viewed by existing and potential members as a far less reliable funding partner. As members must pledge eligible collateral for all borrowings, the level of eligible assets already regulates the level of advances available to members. The Proposed Rule would also shrink the amount of private capital flowing from the global markets through the FHLBanks and their members to the U.S. mortgage market and the communities we serve. As an example, the Affordable Housing Program, the largest single, private source of funding for low- and moderate-income housing in the country, is funded by 10 percent of each FHLBank's net profits annually. FHLB Boston members have been awarded more than \$422 million in total subsidies and subsidized advances to create or preserve more than 25,000 affordable rental and ownership units in New England. Hundreds of member financial institutions and nonprofit sponsors have participated in expanding and rehabilitating housing stock throughout New England. Moreover, 245 members have been approved to participate in the FHLB Boston's Equity Builder Program and have made over \$25 million in grants to assist eligible first-time homebuyers with down-payment, closing-cost, homebuyer counseling, and rehabilitation assistance. However, the adverse impact the Proposed Rule would have on FHLB Boston's ability to grow and even maintain existing levels of advances, would directly lead to reduced funding of its programs targeted to affordable housing. As a result, FHLB Boston and the other FHLBanks will likely find it difficult to continue the positive trend of increased dollars flowing from the FHLBank system to support affordable housing if the Proposed Rule is adopted.

In the 113th Congress, the Senate Banking Committee and House Financial Services Committee have been engaged in legislative efforts to achieve comprehensive housing finance reform. As part of these efforts, they have had the opportunity to review the role and mission of the FHLBanks. Throughout these deliberations, there has been no consideration of restricting

membership in the FHLBanks. To the contrary, discussions have revolved around potentially expanding the role of the FHLBanks and access to them in a reformed housing finance system. In the next Congress, housing finance reform is likely to be given a high priority. Under these circumstances, the regulator should defer to Congress, as it always has, to determine the FHLBanks' role in a future housing finance model.

Finally, I wish to emphasize how important reliable access to FHLB Boston is to Vermont Federal Credit Union not only from a liquidity standpoint but also from an asset/liability management standpoint. With the tightened margins that we are all experiencing in this low rate environment and the future prospects of increasing rates, a diverse and efficiently priced product shelf of available funding options to aid us in managing interest rate and liquidity risk is extremely important. This Proposed Rule would hurt the FHLBank system in its ability to provide us with those tools. The Proposed Rule would create uncertainty in our region and beyond and impede the slowly improving housing market and its positive effect on a continued economic recovery. If adopted, the Proposed Rule would seriously alter, and even harm, the strong and stable relationship with the FHLBanks that we and other member financial institutions have relied on for decades.

For these reasons, we request that the Proposed Rule be withdrawn. Thank you for the opportunity to submit a comment.

Sincerely,

Bernard P. Isabelle, C.P.A.

Bernard P. Isabelle, C.P.A.
President & CEO