December 5, 2014

Alfred Pollard
General Counsel
Federal Housing Finance Agency
400 Seventh St SW, Eighth Floor
Washington, DC 20024

Delivered Electronically

Subject: Federal Home Loan Bank Membership; RIN 2590-AA39

Dear Mr. Pollard,

On Friday, September 12, 2014, the Federal Finance Housing Agency (FHFA) published a notice of proposed rulemaking amending the membership requirements to access the Federal Home Loan Bank. The proposed rule would change access from a onetime requirement of 1 percent of assets in long term home mortgages to an ongoing 1 percent requirement. The rule would also require that 10 percent of credit unions assets be in residential mortgage loans in order to maintain membership.

The Northwest Credit Union Association (Association)[1] is pleased to be able to offer comments on the FHFA membership requirement proposal. To assist the FHFA in their effort to update membership requirements, I have carefully reviewed the proposal and sought input from our Regulatory Advisory Committee and other experts within our membership.

Many of our member credit unions have pointed out significant disparities in how FDIC insured institutions are treated more favorably than similarly sized credit unions. The Association asks that the FHFA carefully consider our comments and suggestions.

General Comments:

Since their inception, the FHLBs have played an important role providing low cost wholesale funding to their member institutions, which in turn provide long-term home mortgage loans to consumers at a reasonable cost. While this is the primary function of the FHLB system they have continued to evolve and modernize, offering a growing number of products and services that member institutions rely on to boost reserve liquidity, manage interest rate risk, or keep up with loan demand.

---

[1] The Northwest Credit Union Association is a regional trade association representing the interests of more than 200 credit unions and their six million consumer-members; institutions that employ and engage more than 10,000 people and hold more than $50 billion in aggregate assets. The Association is a nonpartisan advocacy organization representing the interests of its member institutions on a variety of systemically important banking issues.

Credit unions affiliated with the Association are principally domiciled in the Northwest quadrant of the United States, but the Association also has members from the states of Alaska, Idaho, California and Hawaii. Learn more about the Association at www.nwcua.org.

Oregon Office
13221 SW 68th Parkway, Suite 400
Tigard, OR 97223

Washington Office
18000 International Boulevard, Suite 3500
SeaTac, WA 98188

Phone Numbers
+ 1 800 995 9064 toll free
+ 1 877 928 6397 fax

As the economy improves there is nearly unanimous regulatory consensus that financial institutions need balance sheet management tools to effectively manage interest rate risk and liquidity concerns. Over the past year financial examiners on numerous occasions have encouraged, or in some cases ordered financial institutions to shrink there long term mortgage portfolios citing interest rate risk as a key concern. In Oregon, the FHLBs are the only State Treasury approved collateral administrator for the public funds program.

Changing membership requirements has the potential to cause serious disruptions in access to liquidity, interest rate risk management, and balance sheet management, particularly for smaller financial institutions. At a time when regulatory agencies are putting an emphasis on these key aspects of balance sheet management, the Association questions the need for changing the membership requirements.

The Association supports the provision in the proposed rule that expand the list of assets that qualify as “home mortgage loans” to include all types of Mortgage Backed Securities (MBS) that are fully backed by first mortgage loans on single- or multi-family property or by other securities that are fully backed by such loans.

If the FHFA does move forward with this proposal we would encourage the agency to make specific changes outlined below.

Specific Changes:

CFI Exemption Extended to Equivalently Sized Credit Unions - The Association's primary concern with the proposed rule is the statutory exemption from the 10% requirement for any Community Financial Institution (CFI exemption) which are FDIC-insured depository institutions with less than $1 billion in average total assets (adjusted annually for inflation) over the preceding three years. The Association notes that nothing in statute prohibits the FHFA from extending by rule the same exemption to equivalently sized credit unions.

The proposed rule should be amended to include both credit unions and community banks (see suggested language in italics):

Community financial institution or CFI means an institution:

(1) The deposits of which are insured under the Federal Deposit Insurance Act (12 U.S.C. 1811 et seq.), *or for purposes of this rule, are insured by the National Credit Union Share Insurance Fund (NCUSIF)*; and
(2) The total assets of which, as of the date of a particular transaction, are less than the CFI asset cap, with total assets being calculated as an average of total assets over three years, with such average being based on the institution's regulatory financial reports filed with its appropriate regulator for the most recent calendar quarter and the immediately preceding 11 calendar quarters; and

Application Denial Appeals Process - The FHFA requested comments on whether it should continue to permit applicants that have been denied membership by a FHLB to appeal such denials to FHFA. The Association strongly supports a robust appeals process should an application be denied with the ultimate decision resting with the FHFA. This is currently the process and it should not be eliminated.

In the commentary the FHFA outlines reasons for eliminating the appeals process noting that the Ombudsman may hear complaints or appeals, that there is a separate process already outlined for regulatory interpretation, and that to date as far as the FHFA is aware no one has exercised the right to appeal to the FHFA.

The fact that the FHFA is proposing to change the membership requirements which will negatively impact a number of current FHLB members, and is simultaneously considering eliminating an important avenue for recourse is not acceptable. An alternative would be streamlining the appeals process to make it more efficient.

Establishing a Higher than One Percent Standard - The agency indicated that it will continue to consider whether to establish the standard at some higher percentage, such as two percent, or possibly as high as five percent, as part of this rulemaking. The FHFA requested public comments on whether setting the minimum required home mortgage loans-to-total assets ratio at a percentage greater than one percent of a member's total assets would be more consistent with the statutory intent and, if so, what the appropriate percentage should be in the final rule.

As proposed, 14 credit unions will need to increase their long term mortgage holdings in order to maintain membership at a time where doing so has significant downside risk. Approximately 15 additional credit unions hold between 1% and 2% and will need to carefully monitor their holdings in long term mortgages in order to maintain FHLB membership. The Association believes that the current requirement is sufficient and certainly does not support increasing the threshold beyond the 1% proposed in the rule.

Conclusion - Regulators have put a significant emphasis on maintaining access to liquidity and the FHLB is an important source of liquidity for the 1,204 credit unions that are members. Furthermore, there is not a shortage of long term credit available for home financing. Financial institutions generally have excess lending capacity and are fiercely competing with each other to attract long term borrowers. The rule in and of itself will not create greater access to credit.

In conclusion we ask that:

1. The FHFA carefully consider whether finalizing this rule should be a priority.
2. The rule be amended so that equivalently sized credit unions receive the same exemption that CFIs are given.
3. That the FHFA maintain the current appeals process for applications that are denied.
4. That the FHFA not increase the 1% long term mortgage requirement.

The Association appreciates the opportunity to submit comments on the proposed Federal Home Loan Bank Membership rule. Thank you for the opportunity to comment on this issue. We would be pleased to answer any questions you may have.

Respectfully,

John Trull
Director of Regulatory Advocacy
Northwest Credit Union Association