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January 5, 2015

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

Via Email: RegComments@fhfa.gov and
Federal eRulemaking Portal: <http://www.regulations.gov>

RE: Members of Federal Home Loan Banks: Comments/RIN 2590-AA39

Dear Mr. Pollard:

Please accept this correspondence as commentary concerning the Federal Housing Finance Agency's (FHFA) recently issued proposed rule to amend the Federal Home Loan Bank (FHLB or FHLBank) application and membership requirements. The Minnesota Credit Union Network (MnCUN) appreciates the opportunity to comment on this proposed rule. By way of background, MnCUN represents the interests of Minnesota's 129 credit unions and their 1.6 million members. There are currently 36 credit unions in Minnesota which are members of the Federal Home Loan Bank.

MnCUN appreciates the FHFA's desire to ensure that FHLBanks remain focused on the housing portion of their mission. However, MnCUN opposes the proposed FHLB membership changes, as it will limit the ability of our credit unions to serve the credit needs of their members and communities. In addition, the current membership requirements already require an eligible financial institution to demonstrate a commitment to housing financing. Congress, who enacted the Federal Home Loan Bank Act, has historically broadened access to FHLBanks as funding and liquidity sources, and it is unpersuasive that safety and soundness concerns from a regulatory perspective would support the membership changes proposed.

We would further comment that the current rule is already overly exclusive in its parameters, by allowing exemptions available to banks for which similarly situated credit unions are otherwise excluded.

The additional requirements of the proposed rule would potentially have a detrimental effect on the residential housing market, negatively impacting the residential lending program of our member credit unions, and subsequently

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limit the availability of adequate financing options for our communities. Therefore, MnCUN cannot support the rule as proposed and respectfully provides the following comments in support of its position.

The following points of concern highlight our opposition to the proposed rule regarding FHLB membership:

- The proposed rule appears contradictory to the primary mission of the FHLBanks;
- Lack of overall parity between credit unions and banks, specifically Community Financial Institutions (“CFIs”);
- Potential for encouraging distortion of a financial institution’s balance sheet; and
- Concern with the potential increase of the 1% limit by the FHFA without an opportunity for input from the financial industry or Congress prior to any increase.

Purpose of FHLBanks

The FHLB system was chartered with the primary mission of providing member financial institutions with products and services to assist and enhance the financing of housing and community lending. Contrary to this mission, the proposed rule will drastically impact credit unions’ ability to maintain FHLB membership, which will negatively impact the housing and community lending market. In terms of providing services, adopting this proposal otherwise constricts our credit unions from continuing to develop their housing programs for the benefit of promoting housing finance, and in particular to first time home buyers.

In addition, the FHLBanks serve as a crucial source of liquidity for many credit unions. By regulation, credit unions are required to maintain access to emergency liquidity sources. In particular, for our smaller credit unions, meeting the expanded membership criteria will be very difficult – these same small credit unions also have limited access to liquidity resources and, other than the National Credit Union Administration (NCUA) Central Liquidity Facility (CLF) or the Federal Reserve Discount Window, the FHLBank is often the only other available liquidity source. In addition to being an important source of liquidity, our regional FHLBank is one of two investors that some of our member credit unions are able to sell mortgages to in the secondary market.

By imposing these membership limitations, a significant number of credit unions will be removed from the mortgage lending arena, and an entire segment of the marketplace will be eliminated that is critical to the entire lending system. Generally, smaller institutions that are able to offer these loans with backing from the FHLBank provide competition against big banks. Those institutions also otherwise grow and develop, and are in need of the support made available through FHLB membership in order to offer home and community lending programs across the country, and in particular in areas that have limited access to financial services.

Some credit unions also need avenues to both sell and retain servicing of mortgages, because their balance sheet or capital size would result in operating and asset liability management (ALM) issues if they would be required to retain all of the mortgages they originate. The proposed membership changes could potentially have the ripple effect of a credit union facing a necessity to cut back on an overall home or community lending program. Why limit small institutions by curtailing their ability to compete in the marketplace, inhibit their ability to provide a broader range of home lending services, and narrow the availability and accessibility of housing financing to consumers?

For all of the above enumerated reasons, access to the FHLBank is a valuable tool for our credit unions and they wish to continue to maintain that access.

Inequality between banks and credit unions

MnCUN is especially concerned with the lack of parity between credit unions and similarly sized banks. The Federal Home Loan Bank Act exempts CFIs from the initial (and proposed, ongoing) 10% holding requirement, and by definition credit unions are excluded as a CFI. As a result, credit unions are prohibited from electing the exemption for which many would otherwise qualify based on asset size. Credit unions are disproportionately disadvantaged in both FHLB membership as well as qualifying products and services available to banks, and in particular, CFIs. Smaller credit unions and CFIs deliver similar financial services to their communities and use FHLBank advances in similar manners.

While the FHFA regulations indicate that NCUA-insured credit unions are eligible for FHLB membership, current definitions for certain available FHLB products limit availability to FDIC insured institutions. Parity across the board, allowing federally insured credit unions access to all available products and services that are currently available to banks and/or CFIs, is critical in promoting membership in FHLBanks and, in turn, supporting housing lending programs that promote accessible financing for residential mortgages in the community.

Distortion of a financial institution's balance sheet

MnCUN is also concerned with the potential for financial institutions to distort their balance sheets in an artificial manner in order to comply with the proposed rule. FHLBanks are vital to many financial institutions, and there is concern that the pressure to maintain membership will result in managing to the regulation as opposed to managing in a way that best serves credit union members and communities.

Distorting balance sheet management practices in an artificial manner – whether it is by buying mortgage-backed securities or putting long term mortgages on the books that an institution would not otherwise naturally do – creates safety and soundness concerns. From an interest rate risk perspective, a credit union would naturally be inclined to limit retention of long term fixed rate mortgages, and the policy implications promoted by changes to FHLB membership conflict with other safety and soundness determinations made by federal regulators, and in particular for our credit unions, from NCUA.

Potential increase to the 1% test

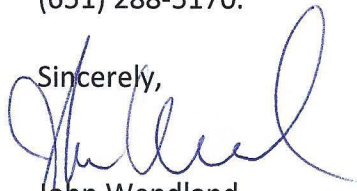
The proposed rule suggests FHFA can raise the asset limit test from 1% to as high as a 5% test in the future. FHFA should carefully consider whether the Federal Home Loan Bank Act, as created by Congress, contemplates this authority. If the FHFA wants or needs additional powers than are currently in place, such power is not appropriately gained through a rulemaking process. Any changes to the statutorily established FHLBank membership, and in particular changes that would narrow the FHLBanks' mission as the proposed rule appears to do, should come from Congress.

Concluding remarks

For the above reasons, we respectfully request the proposed rule amending FHLB membership be withdrawn. The negative impact the proposed rule will have on credit unions far outweighs the benefit suggested regarding safety and soundness concerns. We would further request that the FHFA work with the FHLBanks to create parity for credit unions to access certain products available to banks, and in particular to amend the definition of CFI to also include similarly situated credit unions.

If you have any questions about our comments, please do not hesitate to contact me at (651) 288-5170.

Sincerely,



John Wendland
General Counsel