January 7, 2015

Alfred M. Pollard, General Counsel
Attention: Comments/RIN 2590-AA39
Federal Housing Finance Agency – Fourth Floor
1700 G Street NW
Washington, D.C. 20552

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

Dear Mr. Pollard:

CUNA Mutual Group appreciates the opportunity to comment on the proposed new Federal Home Loan Bank (FHLB) rules related to membership requirements and eligibility. CUNA Mutual Group supports the mission and goals of the FHLB to facilitate and stabilize the residential lending market.

With over $17.5 billion in assets, CUNA Mutual Group is the leading provider of financial services and insurance for credit unions. CUNA Mutual Group was founded in 1935 by credit union pioneers, and our commitment to their vision continues today. We offer insurance and protection for credit unions, employees and members; lending solutions and marketing programs; TruStage®-branded consumer insurance products; and investment and retirement services to help our customers succeed. CUNA Mutual Group has a unique understanding of the needs of lenders in the residential marketplace given its long relationship with credit unions, a significant provider of residential mortgages. Through our product offerings, we have enhanced the ability of credit unions and members to make and obtain residential mortgages. CUNA Mutual Group has helped to drive residential and community development by offering stability to credit unions, which are predominately focused on local and regional growth.

We are writing to express our concern about the proposed home mortgage loan asset test, which would require members to maintain at least 1% (and perhaps 2% or even 5%) of their assets in first-lien home mortgage loans. Any increase in a possible future ratio must go through rule-making with notice and comment, but the proposal allows the FHLB to increase the percentage up to 5 percent without a new rule. This type of unilateral authority creates uncertainty in the marketplace and would create a chill in using the FHFA. Such a significant change should be properly vetted through the Administrative Procedure Act. Additionally, requiring a mandatory ratio could lead to market distortion as insurance companies are forced to increase their investments in home mortgages artificially. Additional investment in mortgages could lead to increased lending to unqualified buyers, a scenario that resulted in the financial crisis of 2008.

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We understand that the proposed rule is intended to promote the goals of the FHLB and home ownership. However, CUNA Mutual Group, as part of the credit union system and a mutual owned by credit unions, is already committed to the goals of the FHLB. Through our insurance and investment products for credit unions and their members, we are already intimately involved in the financial well-being of people of modest means and this includes homeownership. However, the proposed ratio test creates a narrow box for determining the commitment of an insurance company like CUNA Mutual Group and penalizes such insurers by assuming an asset test is a proxy for such commitment. Therefore, we would request that the asset ratio test be eliminated, and, alternatively, if adopted, be kept at the lowest possible level (i.e., 1%) without unilateral authority to increase this level.

Although our preference would be that an asset test not be adopted, we are also concerned about how the asset ratio test would be measured, if in fact adopted. The rule currently indicates the FHLB will review the financial reports filed with the insurance regulator to determine the ratio of home mortgage loans to total assets. Our concern is that separate accounts are included in the measure of total assets in annual statutory financial statements, potentially creating an even higher threshold for the asset ratio test. These separate accounts do not require liquidity from the FHLB or other external sources to administer the relevant business. FHLB liquidity is used only to support the general account. If separate accounts are included in the calculation, this could discourage many insurance companies from participating in the FHLB system, decreasing the number of mortgage investments for these institutions and potentially deflating the lending market. Therefore, we would propose that separate account assets be excluded from the asset ratio test, if approved.

Again, CUNA Mutual Group appreciates the opportunity to provide its views on the proposed FHLB membership rules. As stated above, we support the objectives of the FHLB and its desire to improve the system and enhance access to home ownership. However, we respectfully request the FHLB consider how its proposed rules could affect these objectives by discouraging participation from institutions like CUNA Mutual Group that play a critical role in the residential housing market.

Sincerely,

Michael F. Anderson
Senior Vice President and Chief Legal Officer