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January 9, 2015
Alfred M. Pollard, Esq., General Counsel
Attention: Comments/RIN 2590-AA39
Federal Housing Finance Agency
400 Seventh Street SW, Eighth Floor
Washington, D.C. 20024

**Re: Notice of Proposed Rulemaking; Request for Comments – Members of the Federal Home Loan Bank of Chicago**

Dear Mr. Pollard:

I want to first thank you and/or staff for taking the time to read the letter that Scott Credit Union (SCU) is submitting to comment and express some reservations and/or concerns with regard to the Federal Housing Finance Agency's (FHFA) notice of proposed rulemaking and request for comments on "Members of the Federal Home Loan Banks" published on September 12, 2014. Below are a few of our thoughts and we appreciate you taking the time to review and hopefully see why we respectfully request the withdrawal of this proposal.

Scott Credit Union is almost a $1.1B state chartered credit union in Edwardsville, in rural southern Illinois across the Mississippi river from St. Louis. We have been in business since 1943 when we were started by a group of people at Scott Field, now Scott Air Force base. Serving the military and civilian contractors and their families in addition to our local communities has been our privilege for over seventy years. We do local real estate lending including residential, commercial, FHA and VA loans. We are also the largest auto lender in our area, so you can see how important and vital we are to this area when it comes to lending.

We view our membership in the FHLB of Chicago as a very important piece of our business as they are a key partner and help contribute to our success. As a not-for-profit credit union we are limited in the ways that we can raise capital or look for funds to assist us in our lending. For SCU access to the FHLB of Chicago advances are critically important because the liquidity allows us to offer an array of loan products to our members that we might not otherwise be able to offer. The FHLB of Chicago's products such as advances, letters of credit and the Mortgage Partnership Finance® Program are tremendous resources that enable us to better serve our home buying and small businesses.

The proposed rule concerns us because it would impose, for the first time ever, on-going requirements for our credit union to meet as a condition of remaining a member of the FHLB of Chicago. The proposal would require us to hold at least 10 percent of our total assets in residential mortgage loans at all times. An additional test would require the maintenance of at least 1 percent, and contemplates as much as 5 percent, of our assets in a separately defined group of long-term home mortgage loans. Failure to meet either proposed test would result in the eventual termination of our membership. This would not be a good situation for us and many financial institutions like us. As little as less than six months ago SCU structured advances of almost $60M to assist us in lending to our community. Without that assistance we would not have been able to lend out those monies.

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Our history and place in our community, along with our lending reputation, are keys to SCU's success. If we cannot have access to reasonably priced funding for strategies and lending, then this could mean less available funds for many consumers and/or businesses. Additionally the practical consequences of this proposal would be severe. Firstly, our ability to rely on the liquidity provided by the FHLB of Chicago, particularly in times of economic distress, would be seriously undermined if the FHFA is allowed to establish requirements we must meet simply to remain an FHLB of Chicago member. This has never been the case in the 82-year history of the FHLBs. Membership in the FHLBs has been steadily expanded by Congress over the years, never contracted. With the imposition of such a requirement, we could never be assured that when the next financial crisis occurs we will have continued access to FHLB liquidity. And even if we meet the proposed threshold today (which we do not), we would need to continually manage our balance sheet with the proposed requirements in mind going forward. Future decisions regarding our diversification and asset allocation would need to bear them in mind.

What is hard to understand is why several government agencies are not working in concert together. The Consumer Federal Protection Bureau (CFPB) has overhauled rules for financial institutions over the past few years creating a bureaucratic nightmare for financial institutions. The National Credit Union Association (NCUA) is trying to impose draconian and unnecessary risk based capital rules on credit unions. Additionally the NCUA is also continually talking to us about interest rate risk and liquidity risk. They have mandated new individual policies for both and stressed the importance of managing interest rate risk and liquidity risk. Now the FHFA is trying impose a rule that speaks to the opposite of what the NCUA wants? In order to keep our membership in the FHLBC we may have to portfolio mortgages that represent interest rate risk, the exact opposite of what the NCUA wants, all this while also increasing our liquidity risk as the FHLBC is our best source of funds today. This proposal effectively would require a portion of our balance sheet to be devoted to long-term home mortgage loans (meaning a term to maturity of five (5) years or greater) at all times as a condition of remaining an FHLB of Chicago member. Our asset allocation potentially would become over-invested in housing related assets at the expense of small business lending and other commercial loans, consumer loans or other asset classes. This might also unduly expose us to the interest rate risk associated with holding long-term, fixed-rate mortgage loans. This result also would contradict the intent of Congress, which has explicitly recognized the FHLBs' mission of providing liquidity to members without limiting that purpose to housing finance. By seeking to establish a housing finance nexus that all FHLB members must meet, the proposal does not appear to recognize the legitimate uses of FHLB funding beyond housing finance activities.

SCU is also are concerned this proposal could lead to the politicization of FHLB membership. If the FHFA can require ongoing eligibility requirements for members, nothing would prevent it from increasing those thresholds, or imposing entirely new requirements, in the future. This proposal might simply be the first of many such eligibility requirements imposed upon FHLB members, purportedly in an effort to ensure a sufficient housing finance nexus is maintained at all times by members. The FHFA director is a political position, appointed by the President and confirmed by the U.S. Senate. What would prevent a future FHFA director from requiring FHLB members to hold yet more housing loans or other types of assets on their balance sheets in order to achieve a certain political agenda? Such fears are not unfounded. Past Administrations from both political parties increased housing goals for Fannie Mae and Freddie Mac in an effort to increase the level of homeownership and serve politically favored constituencies, with disastrous results.

A similar concern exists as to the ability to terminate the memberships of current FHLB members without any showing of cause. Under the proposal, the current memberships of captive insurance companies would be terminated regardless of the amount of home mortgage loans they hold on their balance sheets. This would occur despite the fact that captives are insurance companies, which have been eligible to be FHLB members since the FHLBs were created by Congress in 1932. If the FHFA can terminate the memberships of a certain class of insurance companies, it raises a legitimate concern as to what, if anything, would prevent the FHFA in the future from terminating the memberships of other types of current members, potentially including SCU for any reason the FHFA sees fit. Such an outcome would destroy any confidence in the FHLBs as sources of stable and reliable liquidity. This seems like a very slippery slope.

The overall intent of this proposal seems to restrict and narrow FHLB membership, resulting in fewer members. As some members have their memberships terminated, and others, such as smaller members, are encouraged to reduce their usage in order to avoid crossing the arbitrary threshold for community financial institutions, we are concerned about the destabilizing effects that would result. These actions will inevitably lead to smaller FHLBs with fewer assets, reduced profits, lower retained earnings, and a decreased market value of equity and capital stock. Additionally, as usage contracts and profits decline, fewer dollars will be available to support the FHLB's economic development programs. SCU's ability to serve our community through valuable products such the FHLB's down payment assistance grants, Community Investment Cash Advances and Affordable Housing Program grants would be harmed.

Beyond these destabilizing effects, this proposal does nothing to help strengthen the overall financial system. Since the financial crisis, our prudential regulators, the Illinois Department of Financial and Professional Regulation (IDFPR) and the NCUA have increasingly emphasized liquidity planning in an effort to prevent another crisis from occurring. In our liquidity plans, we rely on our access to the same-day funding offered by the FHLB of Chicago. Our regulator understands and accepts the vital role of the FHLBs in such planning. This proposal contradicts these efforts by undermining the reliance of financial institutions such as ours on the FHLBs. In so doing, it threatens to weaken the broader financial system while doing nothing to help prevent a repeat of the financial crisis.

Nor does the proposal do anything to help repair and restart the struggling housing markets. Many community financial institutions rely upon the FHLBs' MPF® Program to access the secondary mortgage market. This innovative program has been popular with FHLB members because it allows us access to the secondary mortgage market on competitive terms while retaining our member relationships. The traditional MPF products also pay participating members monthly fees to manage the credit risk of their own loans, in contrast to the guarantee fees charged by Fannie Mae and Freddie Mac. Rather than furthering this program, however, the proposal would only harm it by encouraging members to hold more mortgage loans on their balance sheets, rather than selling them. Moreover, to the extent the proposal discourages FHLB membership and terminates existing memberships, it will only limit access to housing finance and the secondary market. Again, this seems to directly contradict the efforts of the current Administration and others to increase the availability of mortgage credit, particularly for lower income families.

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As briefly mentioned before this proposed rule would also harm the financial system by adding to the growing regulatory burden on financial institutions such as ours that impedes our ability to efficiently operate our businesses and best serve our members. Financial institutions across the country are struggling under the weight of an extensive regulatory regime imposed upon us in recent years, despite the fact that we were not the cause of the financial crisis. Recent legislative and regulatory requirements include the Patriot Act, the Bank Secrecy Act, anti-money laundering rules, the Dodd-Frank Act and accompanying Qualified Mortgage and Qualified Residential Mortgage rules, not to mention the CFPB. This proposal only adds to this burden and may cause us to rethink the practicality of remaining an FHLB member.

In conclusion, we view the FHLB of Chicago as a critical partner for Scott Credit Union. The reliability of the FHLB of Chicago as a liquidity source must be preserved. Threatening access to the FHLB of Chicago threatens SCU, our members and the community of Edwardsville and Southern Illinois. This proposal would undermine the reliability of the FHLB of Chicago, discourage membership, politicize FHLB of Chicago membership, limit access to the secondary market and shrink the FHLB of Chicago's affordable housing and community development activities. It will do nothing to help the effort of other banking regulators to strengthen the overall financial system or repair the struggling housing markets. Despite these real and damaging effects, there appear to be no specific benefits that would be achieved by this proposal. The costs clearly outweigh the benefits. For these reasons, we strongly urge the immediate withdrawal of this proposal.

Thank you again for the opportunity to comment and considering our views.

Sincerely,

Christopher J. Browner
Chief Financial Officer
Scott Credit Union

cc: Illinois Department of Financial and Professional Regulation
cc: National Credit Union Association
cc: Illinois Credit Union League