



January 8, 2015

VIA E-MAIL TO [REGCOMMENTS@FHFA.GOV](mailto:REGCOMMENTS@FHFA.GOV)

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 Banks**

Dear Mr. Pollard:

We appreciate the opportunity to comment on the above referenced NPR. However, we have serious concerns with the proposal and are unable to identify the need and justification for this proposal.

As way of background, we are a \$58 million closed-charted credit union serving almost 5,000 members who work in the health care industry in Wisconsin. As we are located in Marshfield, Wisconsin our members primarily work and live in Central Wisconsin. We have provided home loans to members for almost 25 years and have been a member of the Federal Home Loan Bank of Chicago since 2011. We are a vital source of lending for our members, working with them individually to allow them to become homeowners and to provide consumer credit and residential mortgage loan products.

As a shareholder and customer, we greatly value our membership in the FHLB of Chicago and view it as a key partner in our success. For a credit union such as ours, access to FHLB advances is 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's products such as advances, letters of credit and the Mortgage Partnership Finance Program are tremendous resources that enable us to effectively compete with much larger financial institutions, resulting in more choices and better service for our homebuying members and business loan customers.

The proposed rule is concerning 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. The proposal would require us to hold at least 10 percent of our total assets in home mortgage loans at all times. Failure to maintain this level would result in the eventual termination of our membership, threatening to fundamentally alter the relationship between the FHLB and our institution. While this credit union meets this threshold requirement at this time we do not know what the future may hold. For example, credit unions are awaiting release of a new risk-based capital rule from the National Credit Union Administration that

could impact our balance sheet significantly and potentially limit our net position in residential mortgage programs. Additionally, we are subject to ongoing changes and regulations from the Consumer Financial Protection Bureau that could also impact balance sheet management.

The practical consequences of the proposal would be very severe and disruptive. To begin with, our ability to rely on the liquidity provided by the FHLB, particularly in times of economic distress, would be seriously undermined if the FHFA is allowed to establish requirements we must meet simply to remain a FHLB 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.

The proposal effectively would require a portion of our balance sheet to be devoted to home mortgage loans as a condition of remaining a FHLB member. Future decisions regarding our asset allocation would need to bear that in mind but we **may not have the ability to meet them based on regulatory risk-based capital requirements**. Our asset allocation potentially could become over-invested in housing related assets at the expense of consumer loans, member business 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.

We are especially concerned about the proposed rule's disparate treatment of credit unions and community banks. While the proposal would require all credit unions to hold at least 10 percent of their total assets in home mortgage loans, only banks with assets above \$1.108 billion would be subject to the same requirement. Smaller banks, designated as community financial institutions, would be required to hold only 1 percent of total assets. While the proposal suggests this percentage could be increased to 2 percent or even 5 percent, it nonetheless would be far lower than the 10 percent requirement for credit unions. This result would be fundamentally unfair and would disadvantage smaller credit unions in particular. **How can this be?**

We also are very 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 it in the future from terminating the memberships of other types of current members, potentially including our credit union, for any reason it sees fit. Such an outcome would destroy any confidence in the FHLBs as sources of stable and reliable liquidity.

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 are forced to reduce their usage of the FHLB, 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 affordable housing and economic development programs. Our institution's ability to serve our members and community through valuable products such as 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 regulator, the National Credit Union Administration (NCUA), has emphasized the importance of access to reliable liquidity sources in an effort to strengthen the credit union system. The availability of same-day funding offered by the FHLBs can play a critical role in supporting and stabilizing credit unions during times of economic stress. Yet this proposal contradicts the effort to strengthen the credit union system by undermining the reliance of credit unions 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 banks rely upon the FHLBs' MPF Program to access the secondary mortgage market. This innovative program has been popular with FHLB members, particularly smaller mortgage lenders, because it allows us to access the secondary mortgage market on competitive terms while retaining our member relationships. The traditional MPF products also pay participating FHLB 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 or 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 Administration and others to increase the availability of mortgage credit, particularly for lower income homebuyers.

In conclusion, we view the FHLB of Chicago as a valuable partner for our credit union. Its reliability as a liquidity source must be preserved. Threatening access to the FHLB threatens our institution, our members and our community. This proposal would undermine the reliability of the FHLB, discourage membership, treat us differently from community banks, politicize FHLB membership, limit access to the secondary market and shrink the FHLB's affordable housing and community development activities. It will do nothing to help the effort of the NCUA to strengthen the credit union system or of the Administration and others to 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.

Sincerely,

Carol J. Adler  
President  
Marshfield Medical Center CU

cc: Wisconsin Credit Union League