



OHIO CREDIT
UNION LEAGUE

January 12, 2014

Alfred M. Pollard, Esq., General Counsel
Federal Housing Finance Agency
400 Seventh Street SW, Eighth Floor
Washington, D.C. 20024

**Re: Notice of Rulemaking and Request for Comments – Members of Federal
Home Loan Banks
RIN 2590-AA39**

Dear Mr. Pollard:

The Ohio Credit Union League (OCUL) appreciates the opportunity to comment on the Federal Housing Finance Agency's (FHFA) Notice of Proposed Rule Making and Request for Comment on Members of Federal Home Loan Banks (FHLBanks).

OCUL is a state trade association and advocates on behalf of Ohio's 327 federal- and state-chartered credit unions, serving 2.8 million members. The comments reflected in this letter represent the recommendations and suggestions that we believe would be in the best interest of Ohio credit unions.

The FHLBanks are an important part of today's economy, with a primary mission to provide funding for community lenders for housing, jobs, and growth. We appreciate the FHFA's desire to ensure the FHLBanks remain focused on the housing portion of their mission, but over the years, Congress has expanded the FHLBanks' mission and membership beyond housing, to make them a significant source of liquidity. As drafted, the proposed rule will actually inhibit the FHLBanks' ability to execute this expanded mission. By imposing ongoing asset-based tests on financial institutions to maintain FHLBank membership, the proposed rule will limit their ability to serve the credit needs of their communities.

FHLBanks serve as a competitive source of liquidity for credit union financing needs including housing, agricultural, commercial, and consumer lending. The proposed rules will negatively impact the reliability of that liquidity by making continued access to FHLBank programs contingent on arbitrary regulatory determinations and remove the certainty that FHLB will be a reliable source of liquidity in all market conditions.

In addition, by artificially imposing a specific requirement for a single type of long-term asset to be held on the lender's balance sheet, FHFA's proposed rule contradicts the requirements of other regulatory agencies, which have emphasized sound interest rate risk management through diversification.



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We also note that the proposed rule has additional burdens placed on credit unions, particularly smaller credit unions, due to the oversight of not including them in the exemption from some of the requirements for Community Financial Institutions (CFIs). We urge FHFA to rectify this oversight by amending the proposed rule.

The Rule Usurps Congressional Authority

The Financial Institutions Reform, Recovery and Enforcement Act of 1989 expanded FHLBank membership to credit unions and commercial banks. Over the last 25 years, Congress has enacted other legislation to broaden access to FHLBank funding and liquidity. While Congress has stipulated that most members must meet certain asset-related eligibility requirements to join an FHLBank, Congress has never sought to require continuous testing of such requirements or a percentage of assets to demonstrate a commitment to housing finance. We believe the proposed rule goes beyond the scope of safety and soundness regulations, and seeks to actually change the law contrary to Congress' intent. Any changes to restrict the FHLBanks' mission should come from Congress, not from a regulatory agency.

Adding Ongoing Asset Concentration Requirements

We are concerned that the proposed rule would significantly increase FHLBank membership requirements for existing and prospective members and reduce the availability and reliability of liquidity on which they depend. Ongoing compliance with membership requirements of the proposed rule would impose additional regulatory burdens on FHLBank members and add uncertainty to FHLBank membership. Further, the proposed rule will place a particularly onerous burden on smaller credit unions because as currently proposed, the rule requires credit unions of all sizes to maintain 10% of assets in residential mortgage loans on an ongoing basis.

FHLBank members are currently subject to ongoing requirements that demonstrate commitment to housing finance. When a member borrows an advance, it must provide eligible collateral to secure the advance. Nearly all eligible types of collateral, which are determined by Congress, are related to housing. In addition, current members must certify their active support of housing for first-time homebuyers to the FHFA every two years through the Community Support Statement.

The addition of ongoing asset concentration requirements is contrary to the expanding purpose of the FHLBanks as charged by Congress, and is not necessary to assure that FHFA and the FHLBanks remain strongly committed to the purpose of providing affordable housing finance for a wide variety of borrowers. We urge FHFA to withdraw this portion of its proposed rule.

Interest Rate Risk

The proposal effectively would require a portion of a credit union's balance sheet to be devoted to long-term home mortgage loans (meaning a term to maturity of five years or greater) as a condition of remaining an FHLBank member. Even if the credit union meets the proposed threshold today, it would need to manage its balance sheet with the proposed requirements in mind going forward. As a result, the credit union's asset allocation potentially could become over-invested in housing-related

assets at the expense of consumer loans, business loans, or other asset classes, and exposes the credit union to the interest rate risk associated with holding long-term, fixed-rate mortgage loans.

Increasingly, regulators are emphasizing the importance of sound interest rate risk management for credit unions, requiring them to diversify their long-term asset holdings. FHFA's proposal runs counter to these principles of diversification as a risk mitigation measure, by arbitrarily defining the level of a single asset type in order for the credit union to maintain its FHLBank membership. To remain strong community lenders able to serve their members, credit unions must be able to manage their balance sheets and liquidity to respond to changing market conditions and demand. Therefore, we urge FHFA to withdraw the requirement that its members maintain 10% of their assets in long-term mortgage loans.

Extend CFI Exemption to Credit Unions

Under the current rule, there is statutory exemption from the requirement to hold 10% of assets in long-term mortgages (the Ten Percent Rule) for a federally-insured bank with less than \$1 billion in average total assets over the preceding three years – defining them as a “community financial institution” (CFI). We believe that inadvertently, the rule omitted extending the CFI classification to credit unions, which are similarly federally-insured. We therefore urge FHFA to extend the exemption from the Ten Percent Rule to a federally insured credit union with less than \$1 billion in average total assets (adjusted annually for inflation) over the preceding three years – i.e., recognize that, in this regard, credit unions are CFIs within the FHLBank system the same as community banks.

Maintain Current Appeals Process

We support the current appeals process when an applicant is denied membership. FHFA has proposed eliminating the appeals process on the grounds that: (1) FHFA's ombudsman may hear complaints or appeals; (2) there is an existing, separate process for regulatory interpretation of applicability; and (3) there apparently has never been an appeal from denial of an application to the FHFA. A meaningful appeals process is vital to the fair and transparent workings of any regulatory agency. Streamlining is an admirable goal, but care must be taken to avoid removing any process that may be used to question a regulatory ruling.

Conclusion

We appreciate the FHFA's desire to ensure the FHLBanks remain focused on the housing portion of their mission. However, the FHLBanks serve as an important source of liquidity in today's economy, and making membership in an FHLBank more onerous or uncertain endangers their use as a liquidity source. The proposed rule will limit the ability of credit unions and other community-based lenders to serve the credit needs of their communities.

We urge FHFA to withdraw its proposed rule.

1. It is unnecessary as a measure to ensure that the FHLBanks remain focused on their role as providers of affordable housing finance.

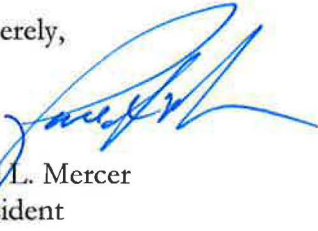
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2. It contradicts the intent of Congress in expanding the mission of FHLBanks as providers of liquidity to a wide variety of lenders.
3. It imposes interest rate risk on FHLBank members by requiring an arbitrary level of holdings in a single type of long-term asset.

We also urge FHFA to rectify the oversight of its previous rules by specifically including credit unions in its definition of a Community Financial Institution. We also urge FHFA to maintain its appeals process as a necessary means to challenge a regulatory ruling.

The Ohio Credit Union League appreciates the opportunity to provide comments on FHFA's proposed rule modifying its requirements for membership in the FHLBanks, and is available to provide additional comments or information on this proposal. If you have any questions, please do not hesitate to contact me at (800)486-2917, ext. 262 or via e-mail at cmccallister@ohiocul.org.

Sincerely,



Paul L. Mercer
President



Carole McCallister
Manager, Regulation & Compliance

cc: Stan Barnes, OCUL Chair
OCUL Board of Directors
OCUL Government Affairs Committee