NuMARK
CREDIT UNION
WHERE YOU ARE FAMILY

January 12, 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: <u>Notice of Proposed Rulemaking; Request for Comments – Members of the Federal Home Loan Banks – RIN 2590-AA39</u>

Dear Mr. Pollard:

On behalf of NuMark Credit Union, we want to thank you and the Agency for giving members the opportunity to comment on the Proposed Rule on Federal Home Loan Bank Membership Eligibility. NuMark Credit Union has assets of over $202 million and is very Well-Capitalized at 13.35% as of December 31, 2014. NuMark Credit Union just celebrated our 60th Anniversary serving our members in the Chicagoland area. We have four Illinois branches in Joliet, Countryside, Crest Hill and Tinley Park. We are members of the Federal Home Loan Bank of Chicago since 2003. We are a vital source of lending for our membership and the community we serve, providing loan products for consumer credit, residential mortgage loans, and member business loans.

We are submitting this comment to express our concerns about 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. For the reasons described below, we respectfully request the withdrawal of this proposal.

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 of Chicago 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 of Chicago'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 home buying and business loan customers.

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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.

The practical consequences of the proposal would be severe and disruptive. To begin with, 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 of Chicago liquidity.

The 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) as a condition of remaining an FHLB of Chicago member. Even if we meet the proposed threshold today, we would need to manage our balance sheet with the proposed requirements in mind going forward. Future decisions regarding our asset allocation would need to bear them in mind. Our asset allocation potentially could become over-invested in housing related assets at the expense of consumer loans, 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 also concerned about the proposed rule's disparate treatment of credit unions and community banks. While the proposal would require all credit unions maintain at least 10 percent of their total assets in residential mortgage loans, only banks with assets above $1.108 billion would be subject to the same on-going requirement. Smaller banks, designated as community financial institutions, are not subject to the 10% test and thus requiring credit unions to continually satisfy this 10% requirement would be fundamentally unfair and would disadvantage smaller credit unions in particular.

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 of Chicago, 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.

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.

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 of Chicago threatens our institution, our members and our community. This proposal would undermine the reliability of the FHLB of Chicago, discourage membership, treat us differently from community banks, politicize FHLB 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 the NCUA to strengthen the credit union system or of the Administration and other 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.

We appreciate the consideration of our views.

Sincerely,

Ann M. Dubie
President and CEO
NuMark Credit Union

cc: NCUA
cc: Illinois Credit Union League