Great Lakes CREDIT UNION®
OUR business is YOUR future!

January 5, 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 Banks

Dear Mr. Pollard:

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.

Great Lakes Credit Union, a cooperative financial institution, is headquartered in Bannockburn, Illinois. Great Lakes Credit Union (Great Lakes) has served its members for 77 years. With $675 Million in assets and over 58,000 members, we currently provide credit union services in the following counties in Illinois and Wisconsin:

- Illinois Counties: Cook, DuPage, Kane, Kendall, Lake, McHenry, and Will.
- Wisconsin Counties: Kenosha

From Wilmington Illinois at the southern end of Will County to Kenosha Wisconsin on the northern end to Elburn Illinois on the western end of Kane County to Lake Michigan on the eastern border, Great Lakes serves the largest area of northern Illinois and southeast Wisconsin among credit unions located in these areas.

Great Lakes continues to be a vital source of lending for our membership and the community areas we serve. We provide a full range of lending products ranging from consumer credit, residential mortgage loans, and member business loans. We are currently loaned out at a 77% deposit to loan ratio in one of the most challenging times relative to consumer and business lending, so managing our liquidity is paramount to our ability to have a well calibrated balance sheet.

Great Lakes has been a member of the FHLB of Chicago since July of 2011, and as a shareholder and customer, we greatly value our membership in the FHLB of Chicago and

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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 enable credit unions to effectively compete with much larger financial institutions, resulting in more choices and better service for our homebuying and business loan customers.

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 very 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. Our prudential regulator, the National Credit Union Administration (NCUA) has proposed Risk Based Capital (RBC) regulations that are more stringent than Basel II requirements for banks. Additionally NCUA will be proposing new IRR (Interest Rate Risk) regulations in 2015. These two regulations combined will make it very difficult to manage asset allocations, RBC requirements, IRR requirements, and liquidity requirements while having a mandated requirement for asset allocation of 10% or more in residential mortgage loans from the FHFA proposal. 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 while having to carry higher risk based capital. 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.

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 the FHFA in the future from terminating the memberships of other types of current members, potentially including our credit union, for any reason the FHFA sees fit. Such an outcome would destroy any confidence in the FHLBs as sources of stable and reliable liquidity. The FHFA will open a Pandora's Box if it approves the rule as proposed.

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. Additionally, as usage contracts and profits decline, fewer dollars will be available to support the FHLB of Chicago's affordable housing and economic development programs. Our institution's ability to serve our members and 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, NCUA has emphasized the importance of access to reliable liquidity and required credit unions to have several viable sources of liquidity. This proposal would cast significant doubt as to the reliability of the FHLB of Chicago to be considered a stable and reliable option for credit unions future potential liquidity needs. 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 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,

Carl Sorgatz

Carl Sorgatz
Vice-President Business Lending & Governmental Affairs
Great Lakes Credit Union

cc: Illinois Credit Union League