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January 12, 2015

Alfred M. Pollard, General Counsel
Attention: Comments/RIN 2590–AA39
Federal Housing Finance Agency
400 Seventh Street SW., Eighth Floor
Washington, DC 20024

RE: Federal Home Loan Bank Membership Requirements
RIN 2590-AA39

Dear Mr. Pollard,

I am writing on behalf of Michigan State University Federal Credit Union (MSUFCU) regarding the FHFA's (Agency) Notice of Proposed Rulemaking (Proposal) relating to the requirements for membership in the Federal Home Loan Banks (FHLB). MSUFCU is a federally-chartered, federally-insured credit union based in East Lansing, Michigan, with approximately $2.7 billion in assets and over 194,000 members, and a member of the FHLB Indianapolis. We appreciate the opportunity to comment on this issue, and more specifically, the risks associated with this Proposal.

- *Ongoing Membership Eligibility Tests Will Reduce Members*

For the first time ever, this proposal will require on-going, rather than initial, membership eligibility tests which could ultimately reduce the amount of FHLB members. The new membership requirements propose that all members *maintain* at least 1-5% of their balance sheet assets in home mortgage loans, and requires non-CFI depository institutions to maintain at least 10% of their assets in home mortgage loans. Failure to meet these ongoing tests would allow the FHLB to terminate an institution's membership, thereby inhibiting consumer access to mortgage financing and increasing the cost for institutions and consumers over time. This result is in direct contradiction to the purpose of the Agency and its Director's authority to issue rules and regulations, "[to] foster liquid, efficient, competitive, and resilient national housing finance markets."[1]

- *Proposal Does Not Contemplate Mortgage Sellers*

The ongoing membership eligibility requirements mentioned above and detailed in this proposal will have a dramatic effect on financial institutions that originate and sell mortgage loans, rather than holding and servicing them themselves. As these mortgage loans are not held on these institutions' balance sheets, the institution may not meet the ongoing membership eligibility requirements and thus, at the FHLB's discretion, may have their membership terminated. While these institutions do not hold mortgages on their balance sheets, they still support the FHFA's mission of creating a stable housing finance market by

[1] 12 U.S.C. 4513(a)(1)

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selling these loans to the FHLB Mortgage Purchase, Affordable Housing, and Community Investment programs. Limiting the membership of these institutions will impact not only those institutions themselves, but the entire housing market as a whole.

- *Proposal Reduces Available Liquidity for Housing and Economic Development*

The advances the FHLB provide, as well as their mortgage purchase programs, are critical components of an effective interst rate risk and liquidity management system for all member financial institutions, including MSUFCU. By requiring ongoing membership eligibility tests, this Proposal may seriously limit an institution's ability to effectively manage these risks. For example, in a rising rate environment, many institutions' best courses of action to manage interest rate risk stem from reducing their holdings of long term assets. Also, as economic or financial conditions change, many institutions strategically alter their asset compositions to raise capital, generate liquidity, and/or diversifying their portfolios. Their ability to manage their asset compositions also helps to ensure their safety and soundness. MSUFCU believes that requiring institutions to hold a certain percentage of mortgage assets on an ongoing basis reduces the flexibility to use our balance sheet to address interest-rate risk or manage changing economic conditions.

MSUFCU appreciates the ability to comment on this proposed rule. Based on the factors detailed above, MSUFCU strongly urges the Agency to revisit these amendments until there can be a better understanding of the impact the new requirements would have on consumer access to mortgage financing. Thank you once again for the opportunity to comment on this matter, and please do not hesitate to contact me to discuss this in further detail.

Sincerely,

Jeffrey Kusler
Director of Regulatory Affairs and Compliance