COUNCIL OF FEDERAL
HOME LOAN BANKS

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FHLBANKS
A NATION OF LOCAL LENDERS

September 24, 2012

Ms. Mary Rupp
Secretary to the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Dear Ms. Rupp:

This comment letter is being submitted by the Council of Federal Home Loan Banks (Council). The Council is a trade association whose members are the 12 Federal Home Loan Banks (FHLBanks). This comment letter is being submitted on behalf of all 12 FHLBanks.

The Council agrees with the purpose of the proposed regulation. A lack of liquidity can present a significant risk to depository institutions, including credit unions. It is critically important that this risk be taken into account, and that depository institutions have appropriate plans and resources to respond to an economic downturn. We support the NCUA for issuing both an advance notice of proposed rulemaking and a notice of proposed rulemaking on this important subject.

The Council very much appreciates that the NCUA recognized in the notice of proposed rulemaking the importance of the FHLBanks in providing liquidity and other services to the credit union industry. We also agree wholeheartedly with your recommendation that credit unions of all sizes should consider the merits of membership in their local FHLBank.

However, the Council disagrees with the notice of proposed rulemaking to the extent that it fails to include access to FHLBank loans (Advances) as a reliable source of emergency liquidity under the proposed regulation. The FHLBanks are federal instrumentalities created by Congress in 1932 for the very purpose of providing liquidity support to the nation's mortgage lenders. This support was a key ingredient in the Administration's efforts to restore America's housing industry following the Great Depression.

Since their establishment in 1932, the FHLBanks have demonstrated time and again that they can and will provide liquidity to their member institutions even in times of financial emergency and distressed economic circumstances. We are very proud of the leadership role the FHLBanks played beginning in 2007 to provide liquidity to our member institutions. During the fiscal crisis that began in that year, the FHLBanks increased their lending to members in every part of the nation by more than $370 billion, from a total of $640 billion in the second quarter of 2007 to over $1 trillion in the third quarter of 2008. In the third quarter of 2007 alone, the

FHLBanks increased outstanding Advances by a net $235 billion to a total of $875 billion. A recent Federal Reserve study found that the FHLBank System was far and away the largest provider of liquidity to domestic depository institutions during this critical period, with the Federal Reserve providing liquidity to other sectors of the finance industry. During the crisis, the FHLBanks reliably supported their credit union members. Advances to credit unions increased from $18.9 billion to $43.5 billion in the period from June 2007–September 2008, for an increase of $24.6 billion or 130 percent. This increase in FHLBank Advances to credit unions was greater than the total amount of liquidity provided by the Central Liquidity Facility during that same period.

The FHLBanks had the ability to access the markets continuously throughout the credit crisis, and were able to reliably fund Advances. Unlike most other financial institutions, the FHLBanks utilize a cooperative business model, and borrowers are shareholders. The resources of all 12 FHLBanks support the FHLBanks' joint and several debt obligations (Consolidated Obligations). The FHLBanks are subject also to intensive federal safety and soundness regulations and supervisory examinations. FHLBank Consolidated Obligations have always been highly rated and marketable, and the funding for the FHLBanks was not an issue even at the depths of the financial crisis.

It should also be noted that unlike certain sources of liquidity that are only available during times of emergency, FHLBank Advances serve as a source of liquidity for member institutions at all times, enhancing their funding abilities in all economic cycles. Therefore, credit unions that qualify for FHLBank membership could avail themselves of FHLBank Advances during times of crisis as well as during more stable periods during which individual credit unions might desire additional liquidity for risk management or other general purposes.

In addition to being a reliable source of liquidity for their members, the FHLBanks also have a reputation for being operationally simple to utilize and providing ready access to liquidity. FHLBanks typically make lending decisions within one business day and can disburse same-day Advances, thus ensuring members have the funds when they need them. That said, the FHLBanks recognize that utilization of FHLBank Advances as a source of liquidity during a funding emergency requires advance planning by credit unions, and would support a requirement that credit unions utilizing FHLBank Advances as a source of emergency liquidity engage in the requisite amount of contingency planning to ensure that such credit unions possess the appropriate amount of eligible collateral in a variety of scenarios.

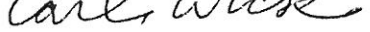
As the advance notice of proposed rulemaking recognized, a large majority (73 percent) of federally insured credit unions (FICUs) have eligible assets qualifying them for FHLBank membership. Further, the 1,060 FICUs that are members of an FHLBank hold over 68 percent of the total assets held by all FICUs. Not including FHLBank Advances as a source of emergency liquidity unnecessarily prevents the credit unions that currently are members of FHLBanks from satisfying the liquidity requirements by using a relationship that is already established.

Although the proposed rule does not include Treasury securities as an option for demonstrating access to a backup liquidity source, the preamble to the proposed rule stated that maintaining a portfolio of short-term Treasury securities remains an important source of funds to meet emergency liquidity demands. The preamble also stated the Board's belief that it is prudent

for FICU's to have both a cushion of highly liquid assets on their balance sheets as well as access to contingent sources of liquidity. We also suggest that FHLBank Consolidated Obligations be considered as highly liquid assets when held by credit unions. As noted, Consolidated Obligations are the joint and several obligations of all 12 FHLBanks, are highly liquid, and were easily marketable throughout the financial crisis. We believe that Consolidated Obligations should be considered highly liquid assets for purposes of the liquidity regulation.

Thank you for giving us the opportunity to submit this comment letter.

Sincerely,



Carl F. Wick
Chairman, Council of FHLBanks