12/15/2014

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.

O Bee Credit Union is a $200 state-chartered organization located south of Seattle, WA. We are currently members of the FHLB and use it exclusively to meet our liquidity and ALM risk needs.

As a shareholder and customer, we greatly value our membership in the FHLB of Seattle and view it as a key partner in our success. For a credit union such as ours, access to FHLB of Seattle 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 Seattle’s products such as advances and letters of credit are tremendous resources that enable us to effectively compete with much larger financial institutions, resulting in more choices and better service for our homebuying members. We currently have about $7M borrowed with the FHLB Seattle and use these funds to provide longer term mortgages in our market.

The proposed rule concerns us because it would impose on-going requirements for our credit union to meet as a condition of remaining a member of the FHLB of Seattle. 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 Seattle, 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 Seattle member. 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 Seattle 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 Seattle 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 could be especially problematic in our area of service which has many rural aspects.

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.

In conclusion, we view the FHLB of Seattle as a valuable partner for our credit union. Its reliability as a liquidity source must be preserved. Threatening access to the FHLB of Seattle threatens our institution, our members and our community. This proposal would undermine the reliability of the FHLB of Seattle, discourage membership, treat us differently from community banks, politicize FHLB membership, limit access to the secondary market and shrink the FHLB of Seattle’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,

James Collins

CEO

O Bee Credit Union

cc: [NCUA]

cc: [TRADE ASSOCIATION]