Via email to regcomments@ncua.gov

May 28, 2014

Gerard Poliquin,
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314–3428

Re: RIN 3133–AD77, Comments on NCUA Proposed Rule: Prompt Corrective Action–Risk-Based Capital

Dear Mr. Poliquin:

The Federal Home Loan Banks (FHLBanks) respectfully submit the following comments on the above-referenced Proposed Rule in regard to the impact it would have on risk weights for investments in 1) FHLBank Capital Stock and 2) FHLBanks' Consolidated Obligations and for mortgage assets eligible for pledging to an FHLBank to support collateralized borrowings.

The National Credit Union Administration (NCUA) has proposed revisions to its current Prompt Corrective Action (PCA) rule for risk-based capital to be more consistent with the risk-based capital measure for corporate credit unions and the risk-based capital measures used by other Federal Banking Regulatory Agencies. Through the proposed rule, the risk weights for many asset classifications would be adjusted.

Under the current and proposed Basel rules for risk-based capital, claims on government-sponsored entities (GSEs), which include the FHLBanks, are assigned a 20 percent risk weighting. The 20 percent risk weighting reflects the low level of credit risk associated with assets that represent a claim on GSEs and treats them in the same manner as other U.S. agency obligations. FHLBank Consolidated Obligations, like other agency obligations, are recognized in the market as safe and highly liquid investments and have performed extremely well during periods of severe liquidity stress, such as the financial crisis during 2008 and 2009.

FHLBank Capital Stock is a par value investment which does not trade in the market and which is purchased, repurchased, and redeemed at its par value. As a par value stock, the value of FHLBank Capital Stock does not fluctuate in response to changes in interest rates. In the 80+ year history of the FHLBank System, FHLBank members have never lost a cent on their investment in FHLBank Capital Stock.

In contrast to the risk-based capital rules for banks and thrifts, the NCUA's proposed risk-weighting framework would assign risk weights to all investments, regardless of credit quality, based on the weighted average life (WAL) of the investment. As a result, under the proposed rule, investments in FHLBank Capital Stock could be subject to risk weightings of 20 percent or 75 percent, depending on the class of Capital Stock, and investments in FHLBank Consolidated Obligations could be subject to risk weightings that range from 20 percent to 200 percent depending on their WALs. This treatment by the NCUA will require credit unions to hold more risk-based capital against their holdings of FHLBank Capital Stock and FHLBank Consolidated Obligations than other depository institutions are required to hold. In addition to placing credit unions at a disadvantage compared to other depository institutions, this requirement could restrict credit unions' extension of needed credit to the communities that they serve.

While we appreciate that otherwise similar investments with different WAL measures would expose a credit union to different levels of interest rate risk, we request that the NCUA assign a single 20 percent risk weighting to FHLBank Capital Stock and FHLBank Consolidated Obligations. This risk weighting would be consistent with the Basel rules and the approach followed by the other banking regulators in regard to their treatment of U.S. agency obligations.

FHLBanks have a mission to support housing and community development. FHLBanks issue secured loans or "advances" to credit unions and other financial institution members. These advances are collateralized by real estate related assets, including eligible mortgage loans. By providing advances to their members and accepting real estate collateral, the FHLBanks are able to fulfill their mission of supporting housing finance. The Proposed Rule contains risk weights for mortgages that increase as the percentage of mortgages to total assets held by a credit union increases. Consequently, credit unions that serve the needs of their members by issuing mortgages would be negatively impacted if they retain these mortgages on their balance sheets. This would put credit unions at a competitive disadvantage to other financial institutions that hold such mortgages under less restrictive regulatory standards and would also prevent credit unions from holding mortgage collateral that can be used to access liquidity through the FHLBanks and support mortgage lending within their communities. Therefore, we request that the limits imposed with respect to mortgages be revised to be more in line with other bank regulatory standards.

We appreciate the opportunity to submit these comments.

Sincerely,

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