



October 21, 2022

Federal Housing Finance Agency  
400 7th Street, SW  
Washington, DC 20024

**Re: Comment Letter – FHLBank System: Focusing on the Future**

To Whom it May Concern,

The Ohio Credit Union League (OCUL) represents the collective interests of Ohio's 228 credit unions and their more than three million members. Of those 228 credit unions, 124 are federally chartered; 59 state-chartered, federally insured; and 45 state-chartered, privately insured, with an average asset size of \$188 million. OCUL appreciates the opportunity to comment on the Federal Housing Finance Agency (FHFA) review of the mission, membership eligibility requirements, and operational efficiencies of the Federal Home Loan Banks (FHLB).

The FHLB system was established in 1992 to support mortgage lending and community investment. Today, there are 11 regional FHLBanks supporting more than 6,000 credit unions, banks, insurance companies, and community development financial institutions with necessary lending services to serve people, families, businesses, and communities. Nearly 90 Ohio credit unions proudly partner with FHLB Cincinnati for liquidity access to advance local communities through affordable lending resources. To maintain FHLB system access for Ohio credit unions and encourage further participation and stronger community impact, OCUL offers the following commentary on select prompts provided in the FHFA's request for comment.

## **2. FHLBank organization, operational efficiency, and effectiveness.**

Strong performance flows from inclusive governance, and the current FHLB board structure adequately accommodates diverse representation by state, institution, and at-large community participant types. The democratic board vote structure also allows for members to select qualified leadership to best represent the interests of those members connected to a specific seat type. However, this democratic system inherently allows the largest shareholders to hold more weight in determining who has representation on the Board of Directors. As a membership-based organization, the FHLB system should consider including diversity and representation of institution charter type to enable smaller financial institutions, like credit unions, a greater opportunity to be represented through Board governance.

Board diversity in institution charter type is important to a well-balanced FHLB system, as the needs, wants, and issues of all charter types warrant active, meaningful engagement and influence in the Board's decision-making process. This diversity could be achieved through a minimum of regular, fixed positions on the Board of Directors. This approach would allow the democratic process to seat the Board majority without limiting inclusion of different institution charter types. OCUL recommends that the FHFA explore Board voting options that promote and ensure diversity of size and charter institution type to ensure the Board of Directors can reflect the depth and breadth of FHLB membership.

### **3. FHLBanks' role in promoting affordable, sustainable, equitable, and resilient housing and community investment.**

OCUL applauds the work the FHLB does as a vital liquidity resource for credit unions to better serve their members. Credit unions are committed to working directly with their members to find avenues to put people and families in affordable homes. As prudentially regulated financial cooperatives, credit unions are structurally and philosophically designed to promote affordable, sustainable, equitable, and resilient housing options; however, not all mortgage service providers, namely financial technologies (FinTechs), are regulated the same.

While credit unions support innovation and believe improved technology benefits all stakeholders in the housing ecosystem, including, but not limited to, consumers, OCUL recommends the FHFA cautiously monitors the added risks less regulated, or in certain cases, unregulated FinTech lender participants bring to the marketplace. Credit unions and other lenders that are insured and regularly examined by financial regulators have important layers of protection for consumers, even when experimenting with new technology. FinTech services should be leveraged by well-managed financial institutions to ensure that the American housing finance system remains strong in all market cycles, particularly during times of market distress.

FinTechs, given their less-regulated nature, can connect with consumers with easy-to-qualify loans from across the country. Brick and mortar financial institutions, like credit unions belonging to the FHLB System, exist to serve members through affordable and accessible credit and are committed to ensuring their financial well-being. In combination with a lack of regulatory parity and oversight, FinTechs may add increased risks to a FHLB System comprised of well-regulated and predictable financial institution participants. OCUL urges FHFA to consider additional means of responsible and measured oversight over FinTech firms to ensure they are complying with strict risk-mitigation standards to better protect the current FHLB risk ecosystem.

### **4. Addressing the unique needs of rural and financially vulnerable communities.**

Ohio credit unions consistently advocate for the greater ability to meet unique and unmet needs connected to rural and financially vulnerable communities, especially when access to other financial service providers is unavailable. To further enable access to financial services for communities' experiencing the lack of banking options and unmet needs, FHFA should explore expanding the Community Financial Institutions (CFIs) definition in the FHLB Act to include credit unions and Treasury-certified non-depository community development financial institutions. This inclusion would enable credit unions to pledge small business, small agriculture, and community development loans, not just housing loans, as collateral within the FHLB System. This definition expansion could better allow credit unions to leverage their lending portfolios to greater impact local communities.

### **5. Member products, services, and collateral requirements.**

As member-owned financial cooperatives, credit unions support efforts related to new technologies that allow for more consumer-friendly experiences, and enhanced risk management processes. There are several areas highlighted below, related to credit unions, where improved FHLB System processes could benefit the consumer experience and allow credit unions to better serve their members.

- Title Reports – Title reports are critical to any lender’s property due diligence process for appropriately understanding related risks prior to extending a mortgage offer. However, unless a credit union employs optical character recognition technology, which can be cost prohibitive, it must transfer information manually in PDF form with title reports. This is a financially and administratively burdensome process and as such, OCUL recommends FHFA consider requiring the FHLB System to permit only electronic title data. This requirement would reduce costs and drive efficiencies for all financial institutions, particularly smaller financial institutions serving rural and underserved communities.
- Using Technology to Expedite and Automating Processes – Currently, several components of the FHLB lending processes require credit unions to conduct either manual input of consumer data, finalize loans through a phone call, or manually leverage consumer information to make decisions. OCUL recommends FHFA identify areas where technology and automation tools can streamline currently very manual and cumbersome processes. In today’s fast moving, ever changing economic climate, capital and liquidity have been in flux like never before, and the ability to effectively access FHLB System credit in a timely and efficient manner is paramount to credit union success.
- Valuations – OCUL believes deploying technology and leveraging data to conduct valuations would greatly benefit consumers and reduce reliance on subjective individual judgments and inherent biases. Specifically, the secondary market relies heavily on in-person appraisals that can perpetuate inefficiency and biases towards for minority homeowners, such as people of color, people in rural areas and low- and moderate-income consumers. Focusing on permitting greater use of artificial intelligence, virtual video communications, and other technologies could greater appraisal efficiency and equity. OCUL recommends the FHFA work with credit unions to source stronger valuation technological advancements moving forward.

## **6. Membership eligibility and requirements.**

According to the FHLB Act, FHLB membership can only be changed, updated, altered by Congress. However, OCUL recommends that any FHFA membership expansion consideration should be limited to entities subjected to a rigorous regulatory scheme. To maintain reasonable risk and predictability in the FHLB System, any expansion of FHLB membership should exclude non-depository financial institutions, such as underregulated FinTechs, because they are not subject to capital requirements or examined by a prudential regulator for safety and soundness.

Ohio credit unions remain satisfied FHLB system members, and OCUL appreciates the opportunity to engage with the FHFA on ways that the FHLB System can grow, improve, and continue to serve as a vital liquidity resource for financial institutions without disrupting the current, successful FHLB model.

Respectfully,



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