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Fred R. Becker, Jr.
President and CEO

April 19, 2010

The Honorable Christopher J. Dodd
Chairman
Committee on Banking, Housing
and Urban Affairs
United States Senate
Washington, D.C. 20510

The Honorable Richard C. Shelby
Ranking Member
Committee on Banking, Housing
and Urban Affairs
United States Senate
Washington, D.C. 20510

Dear Chairman Dodd and Ranking Member ~~Shelby~~: Chairman Dodd

On behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association exclusively representing the interests of our nation's federal credit unions, I am writing you regarding the *Restoring American Financial Stability Act*, S. 3217, and its impact on Federal Home Loan Banks (FHLBs). Credit unions, like other financial institutions, rely on their FHLBs as a major supplier of funding for their communities' needs. If the financial reform bill approved by the Senate Banking Committee on March 22, 2010 passes as currently drafted, it could increase the cost of funding and could reduce Federal Home Loan Bank funding (advances) by 50 percent.

Through their member financial institutions, FHLBs today are providing strength and stability to communities across America by funding homeownership and rental housing, small businesses, infrastructure and jobs. Application of the "concentration limit" contained in the current regulatory reform legislation would mean that more than $300 billion of the liquidity provided by the FHLBs *this year* would stop flowing from global capital markets through the FHLBs to Main Street. While we do not believe that this was the intent of the legislation, this will be the result of the concentration limit and other restrictive provisions that inadvertently affect FHLBs. At a time when Congress is looking at ways to increase the extension of credit into communities, this would not be a desirable result.

We urge that the Senate make the following changes to the *Restoring American Financial Stability Act*: (1) exempt credit extended by a Federal Home Loan Bank to member institutions[1] in compliance with Federal Housing Finance Agency regulations from the "concentration limit"; (2) exclude obligations of the FHLBs from prohibitions and restrictions on proprietary trading in various instruments; (3) exclude the appropriate use of over the counter derivative products as interest rate management tools for balance sheet management and business products from major swap participant rules or other restrictions; and (4) recognize the new resolution provisions that Congress just adopted for the FHLBs.

NAFCU member credit unions represent 65% of the total assets of all federally chartered credit unions. Applying the "concentration limit" and other proposed restrictions on our Federal Home Loan Banks

[1] Federal Home Loan Bank members are all federally insured depository institutions, including credit unions

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limits the ability of credit unions to extend vital credit and would be detrimental at a time when steady liquidity is so critical to the nation's economic recovery.

We believe the Federal Home Loan Banks are a well functioning part of the U.S. financial system, and NAFCU does not want to see them hampered with unnecessary regulation. We thank you for your attention to our concerns as the Senate takes up comprehensive financial regulatory reform. If we can answer any questions or provide you with further information on this matter, please do not hesitate to contact me or NAFCU's Director of Legislative Affairs, Brad Thaler, at 703-842-2204.

Sincerely,

Fred R. Becker
President and CEO

cc: Members of the United States Senate