Clarion
FEDERAL CREDIT UNION

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OFFICE OF GENERAL COUNSEL

October 29, 2014

Alfred M. Pollard, Esq., General Counsel
Attention: Comments/RIN 2590-AA37
Federal Housing Finance Agency, Fourth Floor
400 Seventh Street, S.W.
Washington, DC 20024

Re: Notice of Proposed Rulemaking and Request for Comments – Members of Federal Home Loan Banks (RIN 2590–AA39)

Dear Mr. Pollard:

On behalf of Clarion Federal Credit Union, I am writing to express my concerns about the notice of proposed rulemaking. While we appreciate your desire to provide for a strong Federal Home Loan Bank System that supports housing, we believe the rule undermines the goal of the proposal. Below are some items to consider:

1. Credit unions that fail one or both of the tests face being expelled from membership in the FHLBank. I am at a loss to understand what is being achieved by this as it may be the result of a low rate cycle that inhibits the institution from keeping mortgages in their portfolio at that time.

2. A report published in the *American Banker* on September 11 entitled "FHLBank Eligibility Plan Hurts Credit Unions NCUA Official Says" appropriately states how this regulation will put credit unions between two federal regulators. One, of course, is our regulator, the NCUA. The NCUA Vice Chairman, Rick Metsger, is quoted as saying that, as a result of the proposed regulation, "all credit unions, but most particularly small credit unions, may need to consider alternatives in addition to Federal Home Loan Banks. And this would take a very, very valuable tool out of the mix." We rely on having the FHLB there for liquidity and the ability to fund loans when growth exceeds our internal funding resources.

3. I'm a credit union that meets a 1%, 2% and even the 5% tests that the proposal suggests might be imposed. How can I be sure that your agency will not increase that test beyond 5% in the future? If your stated rationale is that a mortgage asset

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test supports housing (a supposition with which I vigorously disagree), should we not assume you will increase that number in the future?

4. Congress made credit unions eligible for FHLBank membership in 1989. In so doing it applied a 10 percent asset test for membership, but no ongoing test. Applying this 10 percent test on an ongoing basis exacerbates this already stringent standard and doesn't consider rate cycles or interest rate risk management.

5. Because we don't sell mortgage loans as we are too small and market rates have been extremely low for numerous years, we have not had a run up in our first time buyer mortgage portfolio. Small financial institutions cannot absorb the significant interest rate risk by putting high volumes of long term mortgages on their balance sheets when rates are low. When this rate cycle ends and returns to more of a historical normal, small institutions will again be able to portfolio longer term mortgages. Don't penalize small institutions because of a historically long low rate environment.

I have seen a published report of comments from a member of the NCUA Board that is greatly concerned about this proposed rule. Have you consulted with the regulators of other FHLBank members? Based on our belief that the proposals could harm FHLBank members and generally weaken a system that has worked well for more than 80 years, we ask that the FHFA reconsider the September 12, 2014 Notice of Proposed Rulemaking.

Respectfully,

Mark A. Lauer

Mark A. Lauer
Chief Executive Officer
Clarion Federal Credit Union