



C R E D I T U N I O N O F T E X A S

November 12, 2014

Alfred M. Pollard, General Counsel
Attention: Comments/ RIN2590-AA39
Federal Housing Finance Agency
400 Seventh Street SW, Eighth Floor
Washington DC 20024

Dear Mr. Pollard,

Credit Union of Texas submits the following comments in response to the Notice of Proposed Rulemaking issued by the Federal Housing Finance Agency (FHFA) for RIN 2590-AA39.

Credit Union of Texas (CUTX), chartered in 1931, is a \$1.1 billion state-chartered institution based in Dallas, Texas. We offer consumer loans, including automobile, mortgage and home equity. We do not offer business or commercial loans. CUTX has been a member of the Federal Home Loan Bank of Dallas (FHLBD) since March, 1999. Currently, CUTX has an "Advances and Security Agreement" with FHLBD whereby we have the ability to borrow funds under various repayment terms. FHLBD is the safekeeping agent for our securities and we use those securities as collateral for any borrowings we have. Currently, we are borrowing on an overnight basis and repaying the loan each day or rolling over the existing loan if necessary. FHLBD is an important source of liquidity for our lending program.

CUTX appreciates and espouses the mission of the FHLB system as advancing and supporting residential housing finance, and we greatly benefit from our membership in the FHLBD. We do not, however, fully agree with the proposed rule. The FHFA acknowledges that the proposed rulemaking addresses a "problem"¹ which is not extensive, and further acknowledges that there is not any clear legislative history or statutory language upon which to base these proposed rules. We generally oppose the rulemaking as being a systemic "answer" to what may be a minor, localized "problem." We question whether a rule imposed on the FHLB members is the only way to address a few questionable decisions by certain FHLB management, particularly when that rule could have unfortunate consequences on certain institutions (based on FHFA's own analysis), especially those which are acting in good faith vis-a-vis their arrangement with their FHLB.

Without diminishing our general opposition, CUTX does support the expanded definition of "home mortgage loan" under the rule, in the hopes that a more expansive definition will enable current or new institutions to attain compliance with the new 1% requirement. We also agree that in those instances where a FHLB cannot determine compliance with membership

¹ 79 Fed.Reg. 54853. "There have been instances in which institutions having only minimal home mortgage loan assets and no plans to originate or purchase any significant amounts of such assets have been permitted to become Bank members. Although **FHFA has found no evidence that this problem is widespread...**" (emphasis added).

requirements from the financial call report data alone, a FHLB should have the ability to accept written certification from the institution's external auditor that the institution is in compliance with such requirements.

CUTX originates first mortgage loans through a company called CU Members Mortgage (a noted partner of credit unions in the region) and a significant portion of these mortgages are then sold to the secondary market, usually to FNMA. While we do currently have a balance of approximately \$43 million in home mortgage first loans carried on our books, our internal lending policy is to originate and sell our first lien mortgages. For our business purposes, we simply do not anticipate maintaining a significant amount of mortgages on our books. Therefore, we are critically concerned with the FHFA's discussion and use of "flow" mortgage business to determine eligibility for membership in a FHLB. Currently, we have enough other qualifying loans and investments to comfortably meet the 1% and 10% requirements, but in the future, we believe that flow business will be an important part of our ongoing compliance with membership requirements.² Further, it is not difficult to see that some institutions may need to rely almost entirely on flow business to meet the membership requirements.

CUTX is very interested in what appears to be a conclusion by FHFA that enough flow business will be captured on a financial institution's year-end balance sheet to enable FHLB to determine compliance with the "makes long-term home mortgage loans" requirement and that it is therefore "not necessary" for a FHLB to take into account such flow business when determining whether an institution complies with that requirement.³ This may be true for institutions which sell some, or even a majority of their mortgage loans, but for those institutions like CUTX, where we sell nearly *all* first lien mortgages that we originate, disregarding our flow business eliminates a not-insignificant component of our means to qualify for membership. For example, in 2013, CUTX originated and sold \$23,633,882 in first lien mortgage loans. Our year-end balance sheet shows a mere \$43million in first home mortgage loans. CUTX strongly believes that any final rule should include a provision which requires a Bank to take into account such flow business in determining whether an institution complies with the "makes long-term home mortgage loans" requirement.

Flow business should be readily apparent from credit union regulatory financial reports, in the line item which reads "total amount of first mortgage liens sold in the secondary market year to date." We understand that there might not be a parallel line item on the call reports for the other regulatory entities. Even so, we would not agree that a Bank having to exert extra effort to determine flow business is any reason to discount the need to gather that information, due to its potential importance for any one institution.

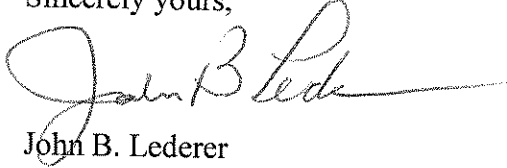
Further, we believe that a FHLB should be allowed to seek out and rely on any verifiable financial information that may help an institution comply with the membership requirements. It should not be the case that a FHLB is limited to the call reports or audited financial statements, when other reliable data may exist and can be used to help an institution reach the membership thresholds. It should certainly not be the end result that an institution that might otherwise

² As our business and investments evolve over time, CUTX foresees that some of the portfolio components which enable us to qualify for membership as calculated under the proposed 1% and the existing 10% ratios may change substantially in the future, making the flow business a greater factor for us.

³ 79 Fed.Reg. 54858 (2014).

qualify for membership ends up not meeting the membership requirements because a FHLB is not required to look at all reliable, available financial data to help the institution meet the thresholds.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "John B. Lederer". The signature is written in black ink and has a long, horizontal flourish extending to the right.

John B. Lederer
President and CEO
Credit Union of Texas