MEMBERS 1st
FEDERAL CREDIT UNION

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OFFICE OF GENERAL COUNSEL

November 17, 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 Members 1st FCU, I am writing to express my concerns about the notice of proposed rulemaking. While we appreciate your apparent desire to provide for a strong Federal Home Loan Bank system that supports housing, we believe the rule undermines the goal of the proposal.

The NCUA requires us to have reliable sources of contingent liquidity. For Members 1st, this has been the Federal Home Loan Bank of Pittsburg. With this rule, I'm concerned the NCUA will not consider the FHLB as a reliable liquidity source because of the immediacy of lost membership in the event we fail one or both of the tests. We are at a loss to understand what is being achieved by this.

The FHFA is not a bank regulator, but this proposed regulation imposes a significant regulatory metric that we will have to assess in the future. Have you consulted with the NCUA?

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. 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."

Congress made credit unions eligible for FHLB 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 standard. Additionally, imposing an ongoing housing assets test ignores our home mortgage lending activity in making mortgages to our customers which we then sell in the secondary market to limit concentration and improve liquidity.

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This proposed rule will diminish the value of FHLB membership, reduce borrowing from FHLBs and reduce the capacity of FHLBs to assist members in serving the housing needs of their markets. This will include a negative impact on net income for the FHLBs, which will, in turn, mean less money for affordable housing grants.

We're concerned that internal resources at FHLB Pittsburgh will have to be redeployed to monitoring membership tests and could take away from their ability to create innovative programs such as Blueprint Communities, which helps to revitalize communities, or Banking On Business, which creates and retains jobs.

By reducing flexibility for FHLB members to manage our balance sheets, this rule may present new safety and soundness challenges and have the unintended consequence of putting them in a position of conflicting regulatory burdens. For example, the NCUA says I should hold fewer long-term mortgages on my balance sheet, but this rule would encourage me to add long-term mortgages just to meet the test and retain membership.

Credit unions will get no credit for supporting housing with mortgages we originate and sell into the secondary market. If my institution were to lose membership, I would lose access to the Mortgage Partnership Finance program, which directly supports housing. This result is completely at odds with the proposal's stated intent to ensure that FHLB's are supporting their housing finance mission.

Congress has a record of expanding FHLB membership opportunities (1989, 1998, 2008) not restricting them, this proposal would severely limit credit union membership in FHLBs.

Based on our belief that the proposals could harm FHLB members and generally weaken a system that has worked well for more than 80 years, we ask that the FHFA withdraw the September 12, 2014 Notice of Proposed Rulemaking.

Respectfully,

Robert L Marquette
President/CEO
Members 1st Federal Credit Union
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Copy: Angela Meyster, Regulatory Affairs Counsel, NAFCU
Vincent D. Moye, Jr., FHLB of Pittsburg