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December 29, 2014

Knoxville TVA Employees Credit Union
Shannon K. York, CFO
P.O. Box 15994
Knoxville, TN 37901

Alfred M. Pollard, General Counsel
Attention: Comments/RIN 2590-AA39
Federal Housing Finance Agency
400 Seventh Street SW Washington, D.C. 20024

Re: Notice of Proposed Rulemaking and Request for Comments—Members of the FHLBanks
(RIN 2590-AA39)

Dear Mr. Pollard:

I am writing this letter to voice concerns with the proposed rules. Knoxville TVA Employees Credit Union (KTVACU) has been a member of the FHLBank Cincinnati in excess of 10 years. KTVACU has assets in excess of \$1.3 billion. The main relationship is funding for long-term mortgage loans allowing the Credit Union to serve members with mortgages while protecting the Credit Union against interest rate risk. The Credit Union has in excess of 100 million dollars in advances from the FHLBank which support the long term mortgages of the members of KTVACU. The Credit Union would not be able to provide these mortgages without the advances of the FHLBank.

KTVACU has the following concerns with the proposed rules:

All members must meet one or both of the following tests, on an ongoing basis:

- (1) ratio of one percent long-term home mortgage loans to total assets [‘makes’ test], or
- (2) 10 percent of mortgage assets to total assets.
- (3) FHFA reserves the right to increase the one percent test to two, or five percent.

- The proposed rule is unnecessary because the FHLBank’s existing lending model ensures housing finance is met when members pledge mission-consistent assets to borrow the FHLBank’s low-cost funds.
- Community financial institutions (CFIs) must meet the new ongoing one percent asset ratio ‘makes’ test in order to retain FHLBank membership. Currently, a one-time ratio test, without a specific threshold percentage, applies at the time of membership but is not an ongoing requirement.

Federal Housing Finance Agency

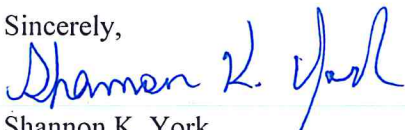
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- The ongoing asset test fails to recognize the many ways in which CFIs support housing finance including selling mortgages into the secondary market, and investing in low-income housing and community investment with the FHLBank's Affordable Housing Program or other targeted investment programs.
- Congress recognized the importance of CFIs to their communities with passage of the 1999 FHLBank System Modernization Act. CFIs were identified as FDIC-insured banking institutions with \$500 million or less in assets adjusted annually for inflation, with the current cap standing at just over \$1.1 billion. CFIs are permitted by law to pledge a wide range of assets to secure FHLBank advances, which Congress deemed important for vibrant, healthy communities. In addition to long-term mortgages, CFIs may pledge home loans with terms less than five years, and secured loans for small business, agriculture or securities representing a whole interest in such loans.
- Membership termination is too harsh a penalty for non-compliance especially when the collateral requirements are already in place to ensure secured lending and demonstrate support of housing finance.
- The required ratio of one, two or five percent of mortgage assets to total assets is arbitrary and causes uncertainty. Not only does this test impose yet another regulatory burden, but the bar can be raised significantly for no apparent safety and soundness reason.
- If a CFI institution should grow independently, or expand through merger, to exceed the \$1.1 billion asset classification, it would be subject to a 10 percent residential mortgage loan asset test. The rule is unclear how such a transition would be implemented and, on its face, appears to discourage growth.

KTVACU respectfully request the FHFA to reconsider or withdraw the proposed rules.

Sincerely,



Shannon K. York
Knoxville TVA Employees Credit Union
Chief Financial Officer