NAVY FEDERAL Credit Union

Office of the President

January 9, 2015

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

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

Dear Mr. Pollard:

Navy Federal Credit Union appreciates the opportunity to comment on the Federal Housing Finance Agency's proposed rule RIN 2590-AA39, Members of the Federal Home Loan Banks. As a credit union member of the FHLBank-Atlanta, we appreciate FHFA's goal of ensuring members maintain an on-going commitment to housing for the communities they serve; however, we believe the proposed rule does not meet this objective and it will likely have a detrimental effect on credit unions.

By way of background, Navy Federal is the nation's largest natural person credit union with approximately \$62.5 billion in assets, over 5.2 million members, 257 branches, and a workforce of about 12,000 employees worldwide. We are committed to serving the needs and improving the financial condition of our members.

The proposed rule will reduce the availability of reliable, low-cost, term funding. This loss of funding will increase the financial risks of holding mortgages on the balance sheet. Combined, these two unintended consequences will reduce the number of credit unions able to serve their member's home financing needs; an outcome that is contrary to the objectives of the FHFA. Lastly, since Congress has historically sought to broaden access to the FHLB system, we believe any changes narrowing the scope of FHLB membership should be debated in Congress before being implemented via regulation. In the paragraphs below we expand on each of these concerns.

The proposed rule requires FHLB members to maintain a 10-percent minimum concentration of mortgages on their balance sheets to demonstrate a commitment to "making long-term home mortgage loans." We do not believe concentrations less than 10-percent unilaterally imply a lack of commitment to providing home loans, particularly for credit unions. Many credit unions have long-standing home loan programs and proven commitments to housing in their communities but they do not have enough loan demand to achieve a 10-percent concentration; nor do they have the in-house expertise to manage the financial risks of holding higher concentrations of mortgages on the balance sheet. Structurally, these credit unions need to hold a smaller percentage of mortgages. These institutions are no less committed to providing long-term home loans to their members; they simply do not have the capacity to maintain a 10-percent concentration.

PO Box 3000 Merrifield VA 22119-3000

We believe the proposed rule will also increase financial risk within the credit union industry by driving some credit unions to hold more mortgages on their balance sheet just to ensure they maintain access to the FHLBank. Faced with the possibility of either losing FHLBank membership, or accepting more risk by increasing their concentration of mortgages, many will choose to hold more mortgages. Unfortunately, these credit unions may be ill-equipped to manage the increased financial risks of higher concentrations of mortgages. Systemic risk across the industry will increase as credit unions carry more risk than they would otherwise prefer simply to meet the 10-percent threshold. Additionally, the proposed rule will adversely affect a credit union's ability to manage liquidity. Many credit unions have limited access to alternate sources of funding and have come to rely on the FHLBanks as an effective source of day-to-day liquidity risk management. Reducing access to the FHLBanks will limit credit unions' ability to manage their operational risks.

Finally, the proposed rule will fundamentally change a vital part of the U.S. housing-finance system that continues to perform well. Under the membership structure established by Congress, the FHLBanks have proven to be a safe and sound business model that reliably supplies liquidity to the financial system. In 1989, Congress enacted the Financial Institutions Reform, Recovery, and Enforcement Act, which expanded membership to credit unions and commercial banks. Since then, Congress has enacted legislation to broaden access to FHLBank funding and liquidity; not to restrict it. While Congress stipulated most members must meet certain asset-related eligibility requirements to join a FHLBank, it never sought continuous testing of such requirements to demonstrate a commitment to housing finance. The proposed rule restricts the FHLBanks' mission, an action we believe is contrary to recent Congressional action and intent. Therefore, we believe that Congress should validate this change in direction prior to any contrary regulatory action being taken.

If you have any questions, please feel free to contact Vince Pennisi, Chief Financial Officer, at (703) 255-8740.

Sincerely,

Cutler Dawson

Cutler Dawson
President & CEO