

January 12, 2015

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

Re. Notice of Proposed Rulemaking and Request for Comments
(Members of Federal Home Banks; RIN 2590-AA39).
79 Fed. Reg. 54848 (2014).

Dear Mr. Pollard:

This letter is a comment by Catalyst Corporate Federal Credit Union ("Catalyst") on the above-referenced Proposed Rulemaking, as published by the Federal Housing Finance Agency ("FHFA"). Catalyst appreciates the opportunity to submit its comment regarding Federal Home Loan Bank ("Bank") membership requirements.

Catalyst is a federally-chartered corporate (or, wholesale) credit union, pursuant to the regulations of the National Credit Union Administration, 12 C.F.R. Part 704 (Corporate Credit Unions). Catalyst provides liquidity, payment, correspondent, and investment services to more than 1,300 member credit unions, located in 30 states; these member credit unions own and control Catalyst.

Catalyst is a member in good standing of FHLB Dallas; FHLB Dallas is Catalyst's primary liquidity facility, and the funds are used to provide liquidity and to support payment and settlement activities for Catalyst's member credit unions.

Catalyst believes that Catalyst has over the years, in the words of the above-referenced Proposed Rulemaking, clearly "demonstrated [its] intent to significantly support the residential housing finance market", and has also "demonstrate[d] a meaningful commitment to supporting residential housing finance". 79 Fed. Reg. at 54853.

In addition to Catalyst's own activities and investments pertaining to residential housing finance, it is also worth noting that the member credit unions to which Catalyst provides its various services are themselves the makers of large numbers of residential mortgage loans. Using the results of FHFA's analysis of year-end 2013 credit union call report data, it is likely that 97% of Catalyst's member credit unions (i.e., at least 1,260 of those credit unions) are in compliance with the FHFA's "10 percent" requirement. See 79 Fed. Reg. at 54860-61

Catalyst's assessment is that if the current language of the Proposed Rule becomes a Final Rule, this could create a significant and unnecessary burden for certain Bank members who have been Bank members in good standing but have recently held less than 10% of their total

assets in residential mortgage loans. This burden will be described and illustrated hereinbelow. Catalyst's comment and request to the FHFA is that the FHFA "mitigate to a reasonable extent" such burden. See 79 Fed. Reg. at 54858.

Under the Proposed Rulemaking, new 12 C.F.R. Sections 1263.10 (Ten percent requirement, etc.) and 1263.11 (Timing, etc.) would, inter alia, impose the following requirements: (1) each Bank member that is subject to the "10 percent" requirement would have to maintain 10 percent of its total assets in residential mortgage loans; and (2) each Bank would have to use three-year averages to determine each member's ratio of residential mortgage loans to total assets, with all numbers being determined as of the end of the preceding three calendar years.

Catalyst's concern about the initial imposition of such new requirements is that certain Bank members – who have been in full compliance with all applicable membership rules – would initially fail to satisfy this eligibility requirement if their percentage of assets devoted to residential mortgage loans had been lower than 10% in recent years. A member that thus failed to satisfy this eligibility requirement would have until the end of the then-current calendar year to comply with the requirement. Further, a member that failed to satisfy this year-end eligibility requirement would then have no more than one additional year to regain membership eligibility; otherwise, its membership would be terminated.

Catalyst believes that, for certain members in certain market circumstances, the one-year transition period would not be sufficient, and such members would need to take ill-advised asset allocation actions in order to meet the "10%" requirement on the timetable that is contemplated by the Proposed Rulemaking.

As an example to illustrate Catalyst's concern about the initial transition to the new requirements, the following table assumes that the Proposed Rule becomes a Final Rule in June 2015. The table is addressed to a Bank member whose year-end ratios of residential mortgage loans to total assets have recently been 5%, 4% and 6%. Three lengths of transition period – one year, two years, and three years – are shown.

	1-year transition	2-year transition	3-year transition
2013	5%	5%	5%
2014	4%	4%	4%
2015	6%	6%	6%
2016	20%	10%	10%
2017	10%	14%	10%
2018	10%	10%	10%

The heaviest burden is imposed by a 1-year transition. If the Bank member must achieve an average year-end ratio of 10% for years 2014, 2015 and 2016, it must increase its ratio from 6% in 2015 to 20% in 2016. This would require a significant restructuring of the member's balance sheet, and in turn would materially alter the member's business and investment practices, all in order to comply with the newly-imposed requirement within a single year. Also, an unintended consequence of these actions could well be excessive concentration exposures if adverse economic and market conditions arose.

As a more reasonable alternative, a two-year transition period would allow the same member to increase its ratio by 4% in 2016 (from 6% to 10%), and then by another 4% in 2017 (from 10% to 14%).

The third alternative would be a three-year transition period, which would treat the member in good standing in a manner that is comparable to the treatment applied to a de novo insured depository institution. Cf. 12 C.F.R. §1263.15(c); 79 Fed. Reg. at 54862-63

Summary: Catalyst believes that either a two-year transition period or a three-year transition period would be a reasonable means by which the FHFA could mitigate the burden that certain Bank members would otherwise incur because of the proposed one-year transition period.

Cordially,

A handwritten signature in cursive script that reads "Bruce Fox". The signature is written in black ink and is positioned above the typed name and title.

Bruce M Fox
Executive Vice President/CIO