January 12, 2015

Mr. Alfred M. Pollard, General Counsel

Attention: Comments/RIN 2590-AA39

Federal Housing Finance Agency – Fourth Floor

1700 G Street, NW

Washington, D.C. 20552

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

Dear Mr. Pollard:

Pentagon Federal Credit Union is a long time member of the Atlanta Federal Home Loan Bank and has made extensive usage of its services. We have had an opportunity to review the Federal Housing Finance Agency’s proposed rule, RIN 2590-AA39 Members of the Federal Home Loan Banks, and believe that it may have unfavorable unintended consequences, particularly for smaller credit unions. We support your objective to ensure that FHLBanks remain focused on the housing portion of their mission, however, it appears that RIN 2590-AA39 does not appropriately recognize the many actions of Congress that have expanded the FHLBanks’ membership and mission, as well as access to FHLBank liquidity. As drafted the proposed rule may actually limit the FHLBanks’ ability to execute their mission. By imposing ongoing asset-based tests on institutions in order for them to maintain FHLBank membership, the proposed rule could restrict FHLBanks’ ability to serve the credit needs of its members and community.

We are concerned that the proposed rule would significantly increase FHLBank membership requirements for existing and prospective members and reduce the availability and reliability of liquidity on which we depend. The proposed rule would make it more difficult for credit unions of all sizes to deliver important credit to their communities and would discourage potential members from joining if they cannot meet the proposed asset-based tests.

FHLBank members serve the housing needs of their communities in a variety of ways. Some hold assets on their balance sheets that reflect a role in the residential housing market; others originate home mortgages and sell them into the secondary market; others may have a greater focus on serving the military community. All work together to help create the economic foundation for housing opportunity.

Ongoing compliance with membership requirements of the proposed rule would impose additional regulatory burdens on FHLBank members and add uncertainty to FHLBank membership. We believe the proposed rule will place a particularly onerous burden on smaller credit unions. As currently proposed the rule requires credit unions of all sizes to maintain 10 percent of assets in residential mortgage loans on an ongoing basis. In contrast, banks that qualify for community financial institution (CFI) status are exempt from this requirement. The cap on asset size for CFI status has increased significantly over the last 10 years, from $587 million to $1.108 billion in 2014.

While we are requesting withdrawal of the proposed rule, if the FHFA determines to move forward with the proposed rule, we request at a minimum that the asset-based exemption to the 10 percent residential mortgage test for CFIs also be applied to credit unions. Smaller credit unions and CFIs deliver similar financial services to their communities and use FHLBank advances in similar ways.

To remain a strong credit union that is able to serve our members, we must be able to manage our balance sheets and liquidity to respond to changing market conditions and changing demands from our members. Instead of operating in a way that is responsive to our members and community, we could find ourselves managing to regulations in a way that could potentially weaken or limit our financial condition. Under the membership structure established by Congress, the FHLBanks have proven to be a safe and sound business model that reliably supplies liquidity through all market cycles to a broad range of cooperative members for a variety of uses. Our membership in FHLBank Atlanta and the reliable access to liquidity it provides has helped us better serve our members and our community. FHLBank liquidity has also supported the recovery of local housing markets and economies throughout the communities we serve, especially our military members.

We respectfully encourage you to allow more public discourse and debate around the proposed rule to solicit a variety of viewpoints from diverse stakeholders that may be impacted by this wide-ranging proposal. Thank you for the opportunity to submit a comment.

Sincerely,

Roderick B. Mitchell

Executive Vice President