FHLBANKS
A NATION OF LOCAL LENDERS

November 20, 2008

Robert E. Feldman
Executive Secretary
Attention; Comments/Legal ESS
Federal Deposit Insurance Corporation
550 Seventeenth Street, N.W.
Washington, D.C. 20429
RE: FDIC RIN# 3064-AD34 Treatment of Certain Claims On, or Guaranteed By, Fannie Mae and Freddie Mac

Office of the Comptroller of the Currency
250 E. Street S.W., Mail Stop 1-5
Washington, D.C. 20219
RE: Docket No. OCC-2008-0016

Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th. Street and Constitution Ave., N.W.
Washington, D.C. 20551
RE: Docket No. R-1335

Regulation Comments, Chief Counsel's Office
Office of Thrift Supervision
1700 G Street, N.W.
Washington, D.C. 20552
Attention: OTS-2008-0014

On behalf of the Council of Federal Home Loan Banks (Council), which includes all twelve Federal Home Loan Banks (FHLBanks), I wanted to thank you for the opportunity to comment on the federal banking agencies' proposed rule to allow a banking organization to assign a 10 percent risk weight to claims on, and portions of claims guaranteed by, Fannie Mae and Freddie Mac. Your notice of proposed rulemaking appropriately highlighted your particular interest in comments on the potential effects of this proposal on Federal Home Loan Bank debt.

The Council believes that this proposal raises significant issues for the FHLBanks and the over 8,000 financial institutions that are members of the FHLBank System. While we have no objection to reducing the capital requirement for holding obligations of Fannie Mae and Freddie Mac, we firmly believe that issuing a final rule that does not provide the same treatment for the FHLBanks would be a serious omission that could have significant unintended adverse consequences for the nation's banking system during this economic crisis.

By not including the FHLBanks the proposal implies that the United States government does not support the FHLBanks and their mission to the same degree as it supports Fannie Mae and Freddie Mac. Such a perception does not make sense for the following reasons. First, Congress created a new regulator, the Federal Housing Finance Agency, to oversee all of the housing GSEs. Second, when Fannie Mae and Freddie Mac were placed into conservatorship, Director Lockhart remarked that the FHLBanks are performing remarkably well and are well capitalized. Third, Treasury is providing the same temporary backstop funding facility to all of the housing GSEs through the GSE Credit Facility. Finally, the New York Fed is providing support for the FHLBanks, as well as Fannie Mae and Freddie Mac, by purchasing their discount notes in recent open market operations.

In spite of all of these actions, investors are demonstrating a preference for Fannie Mae and Freddie Mac obligations, as evidenced by the fact that spreads between FHLBank senior debt and comparable bonds issued by Fannie Mae and Freddie Mac have widened by 20 to 30 basis points since these entities were placed into conservatorship.

The Council is especially concerned that this proposal will result in further increases in the cost of advances available from the FHLBanks and their members. Thousands of community banks across the nation depend upon access to low-cost liquidity from the FHLBanks. In the current financial crisis, funds flowing from the FHLBanks to local banks remain a critical source of liquidity for communities throughout the country. With credit markets squeezed, banks continue to rely on the FHLBanks to finance home, agricultural and business loans. The FHLBanks have provided daily support to the housing market since the crisis began last August and continue to do so. If investors continue to believe that the obligations of the FHLBanks are somehow less creditworthy than those of Fannie Mae and Freddie Mac, they will demand higher yields to purchase FHLBank bonds, resulting in higher advance rates during a period when the banking industry is faced with the challenge of supporting housing finance and economic growth under difficult circumstances in the credit markets.

The Council strongly urges the FDIC, the Comptroller of the Currency, the Board of Governors of Federal Reserve System, and the OTS to treat debt securities of all housing GSEs as comparable with regard to risk-based capital rules. We believe this to be the course of action that achieves the most favorable outcome for all stakeholders in the housing GSEs during this extraordinary time of financial crisis.

Sincerely,

John L. von Seggern
President and CEO
Council of Federal Home Loan Banks