TRADITION INNOVATION

PENNSYLVANIA ASSOCIATION OF COMMUNITY BANKERS

THE VOICE FOR COMMUNITY BANKING IN PENNSYLVANIA SINCE 1876

November 17, 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

Federal banking regulators including the Federal Deposit Insurance Corporation (FDIC), the Board of Governors of the Federal Reserve System (FED), the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), and the Federal Deposit Insurance Corporation (FDIC) have issued a joint notice of proposed rulemaking (the Rule) allowing banking organizations to assign a ten percent risk weight to claims on, and portions of claims guaranteed by Fannie Mae and Freddie Mac (Enterprises). The rule specifically requests comment on the impact of such an adjustment to Federal Home Loan Bank (FHLBank) debt. This letter sets forth the comments of the Pennsylvania Association of Community Bankers, which represents 150 institutions in the Commonwealth of Pennsylvania. We appreciate the opportunity to address this important issue.

While a reduction in the risk weighting for Enterprise obligations is appropriate and welcome, the exclusion of the FHLBank obligations will have a significant negative impact on our members. This oversight may have unintended adverse consequences for the banking system during this time of economic stress.

By lowering the risk weighting on the Enterprises and not the FHLBanks, the proposal suggests that agencies of the U.S. government do not equally support the FHLBanks and their mission. This confusion is contrary to Congressional intent in the creation of the Federal Housing Finance Agency (FHFA) to oversee and support both the Enterprises and the FHLBanks on an equal basis.

Further, when the FHFA placed Fannie Mae and Freddie Mac in receivership, Director Lockhart noted that the FHLBanks were performing remarkably well and were well capitalized. The Treasury department is providing equal treatment through the same temporary backstop funding facility to all of the housing GSEs through the GSE Credit Facility. Finally, the Federal Reserve Bank of New York is providing support for the FHLBanks, as well as the Enterprises by purchasing their discount notes in recent open market operations.

Despite these obvious steps to ensure that one housing GSE is not disadvantaged over another, investors continue to treat Enterprise obligations different from FHLBank obligations. Spreads between FHLBank senior debt and comparable bonds issued by the Enterprises have widened by 20 to 30 basis points since the Enterprises were placed into conservatorship.

If investors continue to believe that the obligations of the FHLBanks are somehow less creditworthy than those of the Enterprises, they will continue to demand higher yields to purchase FHLBank bonds, resulting in higher advance rates, reduced availability of long-term funding and a diminished ability for our to serve the credit needs of their communities.

We strongly urge the FDIC, the OCC, the FED, and the OTS to treat obligations of all housing GSEs as the same with regard to risk-based capital rules. We believe this is consistent with Congressional intent and will prevent the unintended consequence of higher liquidity costs and fewer funding options for our members.

Sincerely,

Thomas Bailey

Thomas Bailey
Chairman

Cc: PACB Executive Committee
PACB Legislative Committee