FHLBank
San Francisco

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November 26, 2008

Robert E. Feldman, Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429
RE: FDIC RIN# 3064-AD34

Office of the Comptroller of the Currency
250 E. Street S.W., Mail Stop 1-5
Washington, D.C. 20219
OCC 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
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

Re: Treatment of Certain Claims On, or Guaranteed By, Fannie Mae and Freddie Mac

I am writing this comment letter on behalf of the Federal Home Loan Bank of San Francisco ("Bank") in response to the publication by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of Thrift Supervision (collectively, the "federal banking agencies") of a proposed rule to amend their respective risk-based capital rules to allow banks, bank holding companies and savings associations to assign a 10 percent risk weight to claims on, or guaranteed by, Fannie Mae and Freddie Mac. In particular, the proposed rule requests comments on the potential effects of the proposal on other banking organization claims on GSEs, such as Federal Home Loan Bank debt. Thank you for the opportunity to comment on this proposal.

The Bank has significant concerns about the proposal. We do not object to the lower risk weighting for the obligations of Fannie Mae and Freddie Mac, but we believe the same lower risk weighting should apply to FHLBank obligations, as well. Lowering the risk weighting for Fannie and Freddie obligations without affording similar treatment to FHLBank obligations creates a perception that the latter represent a higher level of risk, a perception that we believe is unwarranted and that could have unintended adverse consequences for the FHLBanks, their member financial institutions, and the housing market in general, particularly during this time of economic stress.

All of the housing GSEs have consistently shared a comparable level of support from the U.S. Government for their housing mission. Congress created the Federal Housing Finance Agency (FHFA) to ensure that all the housing GSEs are subject to the same strict safety and soundness oversight. The U.S. Treasury is providing the same temporary backstop funding facility to all the housing GSEs through the GSE Credit Facility. The New York Fed provided support for the FHLBanks, as well as Fannie Mae and Freddie Mac, by purchasing their discount notes in recent open market operations. And, while the U.S. Treasury recently offered Fannie and Freddie additional support in the form of Senior Preferred Stock Purchase Agreements ("Agreements"), that support was necessary only because both of these GSEs were placed into conservatorship. These Agreements served as an inducement to investors to continue buying Fannie and Freddie debt obligations so that they could continue to support their housing mission at this critical time. We do not believe that these Agreements were intended to create a "lower risk" GSE or to place the FHLBanks at a competitive disadvantage, but rather to bring certainty to the capital markets that Fannie and Freddie obligations represent a risk profile commensurate with their status as GSEs. The FHLBanks have not entered into a comparable agreement because there is no need for one.

Nevertheless, the FHFA's control over Fannie and Freddie in conservatorship and the existence of the Agreements have fueled a perception that the Government's backing for Fannie and Freddie is more explicit than it is for the FHLBanks. As a result, spreads between FHLBank senior debt and comparable bonds issued by Fannie and Freddie have already widened significantly. The proposed regulation will only feed the misperception that FHLBank obligations are inherently riskier and worsen this spread disparity.

Given a choice between two different risk weightings, banking organizations will likely reduce purchases of FHLBank debt obligations in favor of Fannie Mae and Freddie Mac debt. Any such shift will either put pressure on the availability of advances for our members, or require the FHLBanks to pay more to attract investors, resulting in higher advance costs. In either event, our member financial institutions will be adversely impacted at a time when they are especially dependent upon the FHLBanks as essential sources of liquidity.

To the extent that this proposal increases the cost of advances available from the FHLBanks, it is also likely to increase the cost of mortgages that are funded by such advances. Member financial institutions depend on access to low-cost liquidity from the FHLBanks to provide credit to the communities they serve for all types of loans, but particularly loans that do not meet conforming loan underwriting standards. Because the private securitization market is not presently a viable alternative for such loans, FHLB advances may be the only option available to a member that wants to use such loans to raise additional funds for lending; this means that any significant increase in the cost of Bank advances resulting from this proposal may have a disproportionately negative impact on the mortgage and housing markets in some of the most severely impacted regions of the country, furthering the downward economic spiral in these areas.

In announcing the conservatorship of Fannie Mae and Freddie Mac on September 7, FHFA Director James Lockhart acknowledged that the FHLBanks "have performed remarkably well" during the current credit crisis, due in large part to their unique business model and capital structure. At the same press conference, Treasury Secretary Paulson said that the measures being taken, including establishment of the GSE Credit Facility to which the FHLBanks have access, were intended to put *all* the GSEs in a stronger position to fund their regular business activities in the capital markets. Giving Fannie Mae and Freddie Mac obligations more favorable capital treatment will undermine this announced goal by making it more difficult and more expensive for the FHLBanks to raise debt in the capital markets.

For all of the reasons discussed above, we believe that it is important to set the risk weighting requirement for all of the housing GSEs at the same level. If, however, the federal banking agencies decide that it is not appropriate to lower the risk weighting for FHLBank System debt to 10 percent, then, in the alternative, we believe that Fannie and Freddie's risk weighting should remain at 20 percent, despite their temporary additional Government backing. This would be entirely consistent with the approach taken by the FDIC in its recently announced Temporary Liquidity Guarantee Program (TLGP). Under the TLGP, the FDIC-guaranteed debt obligations of participating insured depository institutions will be explicitly backed by the full faith and credit of the United States Government, but continue to carry a capital risk weighting of 20 percent. The FDIC explained that lowering the risk weighting for FDIC-guaranteed debt below 20 percent would be "inconsistent with the need for insured depository institutions to maintain strong capital bases" and that maintaining the 20 percent risk weighting would not have significant long term effect, given the temporary nature of the TLGP. We believe that similar considerations would support maintaining a 20 percent risk weighting for Fannie and Freddie obligations held by banking organizations.

The FHLBanks have consistently performed their statutory mission of providing low-cost liquidity to their members and have been particularly important sources of funding during the present credit crisis. By giving preferential treatment to Fannie Mae and Freddie Mac debt obligations, the proposed regulation could undermine the FHLBank System's ability to fulfill its critical role in supporting community-based lenders. I urge the federal banking agencies to reconsider their proposal and afford comparable capital risk-weight treatment to the debt securities of *all* the housing GSEs. Such parity will achieve the most favorable outcome not only for the FHLBanks but for all GSE stakeholders.

Very truly yours,

Dean Schultz
President and Chief Executive Officer