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*via Federal eRulemaking Portal and
electronic mail to:
RegComments@fhfa.gov*

Alfred M. Pollard, General Counsel
Attention: Comments/RIN 2590-AA32
Federal Housing Finance Agency
Fourth Floor
1700 G Street, NW
Washington, DC 20552

**Re: Comments on Notice of Proposed Rulemaking for Federal Home Loan Bank
Investments (RIN 2590-AA32)**

Dear Mr. Pollard:

The Federal Home Loan Bank of Dallas (the “Dallas Bank”) appreciates this opportunity to comment on the Federal Housing Finance Agency’s (“FHFA”) notice of proposed rulemaking (“NPR”) that would re-organize and re-adopt existing investment regulations for the Federal Home Loan Banks (“FHLBanks”) that were previously adopted by the Federal Housing Finance Board (“FHFB”). The FHFA is also proposing to incorporate into the new regulation limits on FHLBanks’ investment in mortgage-backed securities (“MBS”) and certain asset-backed securities. These limits are currently set forth in the FHFB’s Financial Management Policy (“FMP”).

The FHFA is seeking comments on whether it should adopt additional restrictions, or lower the overall limit, on the FHLBanks’ investment in MBS generally, and particularly in private-label MBS (“PLMBS”). The FHFA has posed four questions to the FHLBanks pertaining to this issue. We respectfully address each of these questions below for the FHFA’s consideration.

However, initially, we note the significance of the FHLBanks’ ability to invest in MBS. In section 11 of the FHLBank Act¹ (the “Act”), Congress sets forth the investment authorities of the FHLBanks. Over the years, following passage of the Act, Congress broadened the FHLBanks’ investment authority to include not only Agency obligations, but also “participations or other instruments of or

¹ 12 U.S.C. § 1431(h)

issued by” the Agencies, to allow the FHLBanks to indirectly contribute to housing finance, recognizing the FHLBanks as important investors in the secondary market.

The FHFA acknowledged this importance during the most recent credit crisis. On April 3, 2008, the FHFA issued Advisory Bulletin 2008-AB-01 (“2008-AB-01”), which temporarily increased the FHLBanks’ investment authority in MBS, permitting them to “purchase and hold MBS in an amount up to six times its capital, but all MBS purchases must be investments in Agency MBS when existing MBS investments exceed three times capital.” This temporary authority was granted until March 31, 2010. According to 2008-AB-01, by allowing the FHLBanks to purchase additional Agency MBS, “the Finance Board intends to further its statutory housing finance mission...” In addition, the FHFB stated: “[T]his action can increase the demand for Agency MBS, the added liquidity could help to restore the market for these securities and could, in turn, lead to lower liquidity premiums, lower mortgage rates, and increased home purchases.” Also in this release, former FHFB Chairman Ronald Rosenfeld stated, “The Federal Home Loan Bank System plays a vital role in helping to finance homeownership and strengthening the economy at large. Increasing the Agency MBS investment authority for the FHLBanks is another way in which the system can perform its traditional mission.” In a separate release, FHFB board member Geoff Bacino noted this quick action by the FHFB should “help alleviate the current crisis in the mortgage markets.” These various statements exemplify the reliance on and implied expectation of the FHLBanks to liquefy the secondary market through MBS investments. This is especially important in times of market disruptions.

I. Quantitative and Other Limitations on MBS

The NPR proposes to incorporate the current provision in the FHFB’s FMP section II.C.2² that limits a Bank’s level of investment in MBS and eligible ABS to 300 percent of its total capital into the final rule. We support retention of this limitation. Limits on a Bank’s MBS investment authority ensure the Bank will not over-emphasize those investments at the expense of advances and, in conjunction with other restrictions on a Bank’s MBS investments currently implemented through the FMP, impose reasonable constraints on the amount of interest rate and credit risk an FHLBank will assume through its investment portfolio. The authority to invest in appropriately conservative MBS securities can be seen as serving a Bank’s need to invest its capital and excess liquidity to generate sufficient earnings and enhance achievement of the FHLBanks’ primary mission of providing credit to member institutions. MBS investments represent a source of income that enable the FHLBanks to meet REFCORP and AHP obligations, cover operating expenses, build retained earnings, provide their members a reasonable dividend on their capital stock investment, as well as support the FHLBanks advance activity. Such investments also help provide stability of operations in the periods when a Bank’s core products’ balances are low.

We request that the 300 percent of total capital calculation be clarified and specified in terms of changes to GAAP. Specifically, the numerator should include amortized historical cost for held-to-

² A Bank may enter into agreements to purchase MBS, CMOs, REMICs, and eligible asset-backed securities so long as such purchases will not cause the aggregate book value of such securities held by the Bank to exceed 300 percent of the Bank’s capital. A Bank may not increase its holdings of such securities in any one calendar quarter by more than 50 percent of its total capital at the beginning of that quarter.

maturity and available-for-sale securities and fair value for trading securities. The denominator should include total capital as defined by FHFA regulation §1229.1³.

II. Limits or Restrictions on the Purchase of PLMBS

The Dallas Bank believes that the proposed regulation should restrict FHLBanks' investment in MBS to Agency securities. In the current environment, the risks of investing in PLMBS outweigh the benefits that might be received. To the extent that legislative or regulatory changes or market forces alter the secondary mortgage market for PLMBS so as to make investment in such securities appropriate for FHLBanks, the FHFA may at such time revisit the question of the FHLBanks' authority to invest in PLMBS.

III. Characteristics and Restrictions on Collateral of PLMBS Purchases

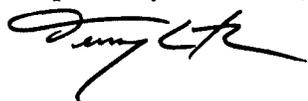
As noted above, the Dallas Bank believes that the proposed regulation should exclude the authority to purchase PLMBS.

IV. Investment Grade Ratings

We would support a requirement that all MBS purchased by a FHLBank be limited to securities with the highest investment grade rating at the time of purchase by an FHLBank in an effort to limit the potential risks to the FHLBanks from their MBS portfolios. As a practical matter, historically, the FHLBanks have operated in compliance with this standard in limiting their MBS purchases to the highest investment grade rating. Therefore, we are supportive of its incorporation into the final rule. As is currently the case, an FHLBank should not be required to divest a MBS if the investment rating of the MBS falls below the highest investment grade subsequent to its purchase by an FHLBank.

We thank the FHFA for its consideration of these comments.

Respectfully submitted,



Terry Smith
President and CEO

³ *Total capital* means the sum of the Bank's permanent capital, the amount paid-in for its Class A stock, the amount of any general allowances for losses, and the amount of any other instruments identified in a Bank's capital plan that the Director has determined to be available to absorb losses incurred by such Bank. For a Bank that has issued neither Class A nor Class B stock, the Bank's total capital shall be the measure of capital used to determine compliance with its minimum capital requirement.