Federal Housing Finance Board
1625 Eye Street, N.W., Washington, D.C. 20006
Telephone: (202) 408-2500
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www.fhfb.gov

June 19, 2007

Mr. Terry Smith
President
Federal Home Loan Bank of Dallas
P.O. Box 619026
Dallas, TX 75261-9026

Re: Approval of New Business Activity Notice

Dear ~~Mr. Smith~~ Terry:

On May 1, 2007, the Federal Home Loan Bank of Dallas (Bank) filed with us a notice of new business activity (Notice). That Notice requested approval to accept as other real estate related collateral (ORERC) Municipal Securities guaranteed by a state or municipal government.

As described in your Notice, the Bank would accept as collateral Municipal Securities rated at least AA by a Nationally Recognized Statistical Rating Organization. Municipal Securities would be eligible as ORERC to the extent that the proceeds of the Municipal Securities (including capitalized indirect "soft costs" such as architectural, development and legal fees) have been, or will be, used directly or indirectly to finance real estate improvements. In accordance with the Finance Board's Regulatory Interpretation 2003-RI-02, the Bank shall not accept as collateral any portion of a Municipal Security for which the proceeds have been, or will be, used for purposes other than real estate improvement.

The Bank's Notice indicates that the Bank will accept either "general obligation bonds" or "revenue first [bonds] with a general obligation second." General obligation bonds are backed by the full faith and credit of state and local governments, which use taxes and other possible sources of income to meet debt payments. Revenue first bonds with a general obligation second are payable from a primary revenue source, such as revenues generated by the associated project. A second level of security is based on a full faith and credit tax levy that is available to provide payment in the event the primary revenue source is insufficient to pay the bonds. The Bank in its Notice does not request Finance Board approval for the acceptance as collateral any revenue bonds that are not backed by the full faith and credit of the issuers.

The Bank has satisfied the requirements of Section 980.3(b) of the Finance Board's New Business Activity regulation and Section 950.7(a)(4) of the Advance regulation to accept Municipal Securities as ORERC. Therefore, we approve the Notice, based on the facts, circumstances, and assurances represented to us in your Notice, which includes all accompanying materials.

If you have any questions, please contact Michael J. Powers, Portfolio Manager, at (202) 408-2534.

Sincerely,

Stephen M. Cross
Director
Office of Supervision